The *2023 Canadian Pension Climate Report Card* analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers and three international pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. Information is current to December 31, 2023. View the full report at shiftaction.ca/reportcard2023.

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. Those pensions include the Alberta Teachers' Retirement Fund, Local Authorities Pension Plan, Public Service Pension Plan and pension funds for provincial management employees, judges, and special forces.

Assets Under Management (AUM): $164 billion (June 30, 2023)

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

OVERALL CLIMATE SCORE	D

Summary and 2023 Updates

Despite some indications in 2023 that AIMCo recognizes the severity and urgency of the climate crisis, the provincial pension manager still has not committed to aligning its portfolio with the goals of the Paris Agreement. AIMCo has not committed to achieve net-zero emissions and has set no interim emissions reduction targets. As of December 31, 2023, the investment manager had not released a climate strategy, despite saying in its *2021 Responsible Investment Report* that it was developing a climate action plan and that climate-related targets would come early in 2022 (p.33). In early 2024, AIMCo released a *Climate Approach*, but still failed to commit to net-zero emissions or set emissions reduction targets.

In 2023, AIMCO:

- Reported that the portfolio's 2022 absolute emissions and emissions intensity increased compared to 2021.
- Voted against Climate Action 100+ flagged resolutions.
- Supported management proposals on climate. However, AIMCo does not appear to have any science-aligned criteria that such proposals must meet in order to secure its support.
- Improved carbon footprint reporting, expanding asset classes covered and reporting emissions associated with sovereign debt.
- Updated reference scenarios for climate scenario analysis.
- Reported a vague link between climate and compensation for 2022.
- One member of AIMCo's Board is concurrently a director of two fossil fuel companies, an improvement from two fossil-fuel entangled directors in 2022.

What AIMCo still needs to do:

- ☐ Publicly acknowledge the consensus science, including from the Intergovernmental Panel on Climate Change and the International Energy Agency, that limiting global temperature increase to 1.5°C requires an immediate end to expansion as well as the rapid phase-out of oil, gas, coal and related infrastructure.
- ☐ Join a credible and accountable Paris-aligned investor body such as the Net Zero Asset Owner Alliance or the Paris Aligned Asset Owners.
- ☐ Communicate the urgency of the climate crisis and the necessity to act to mitigate its worst impacts.
- ☐ Acknowledge that AIMCo's investment and asset management 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).
- ☐ Build on advocacy for mandatory standardized climate risk disclosure to become a vocal proponent of stringent, ambitious, Paris-aligned climate and energy policies that provide certainty for companies and investors.
- ☐ 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; and
  - ☐ refrain from directing capital toward fossil fuel expansion.
- ☐ Place an exclusion on any new investments in coal, oil, gas and related infrastructure.
- ☐ 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 re-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.

FULL ANALYSIS	
Paris-Aligned Target	**F**

2023 updates:

- None.

On February 1, 2024, AIMCo released a *Climate Approach* that still failed to commit to net-zero by 2050.

While AIMCo recognizes the risks and opportunities associated with climate change and categorizes it as a systemic risk, the investment manager has not committed to achieving net-zero portfolio emissions. In September 2022, AIMCo rejected the idea of setting a net-zero emissions target, with CEO Evan Siddall asserting that "concentrating on a specific net-zero goal would be a distraction from what's needed to balance energy supply and emission reduction."[1]

AIMCo must commit to net-zero financed emissions by 2050 at the latest, set interim emissions reduction targets, demonstrate that it is investing in a way that will achieve real world emissions reductions, state how it is defining net-zero and how or if it will place a limit on using carbon offsets to achieve its commitment, and join a credible and accountable Paris-aligned investor body.

Interim Targets	**F**

2023 updates:

- AIMCo reported that the portfolio's 2022 absolute emissions and emissions intensity increased compared to 2021.

On February 1, 2024, AIMCo released a *Climate Approach* that still failed to commit to interim emissions reduction targets.

AIMCo remains one of the few major Canadian public pension managers without interim targets.

This year, AIMCo noted in its *2023 Climate-Related Financial Disclosures Report* that its "Total Fund carbon emissions rose relative to 2021 under both the absolute financed and financed intensity metrics" (p.12). AIMCo wrote that possible contributing factors included "pandemic reopening impacts, and changes to asset valuations, currency exchange rates, sector exposures, market values and company carbon emissions," as well as emissions accounting methodology changes (p.12).

Communication of Climate Urgency	**C-**

2023 updates:

- AIMCo acknowledged the systemic and potentially catastrophic nature of the climate crisis in its *2023 Climate-Related Financial Disclosures.*

AIMCo's public communications have started to acknowledge the urgency and gravity of the climate crisis and its risk to AIMCo's investment returns.

Sample language from AIMCo's *2023 Climate-related Financial Disclosures* (p.3):

"Climate change is one of the most pressing systemic risks of our time, with worldwide efforts accelerating to keep global warming within 1.5°C above pre-industrial levels — a threshold scientists believe is necessary to avoid even more catastrophic impacts to people, the planet and ultimately, long-term investment returns. … 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 persistent, superior risk-adjusted net total returns to our clients."

AIMCo has not clearly defined its role in addressing the systemic risks posed by climate change, and has not integrated the climate crisis as a focal point in its investment strategy.

AIMCo should build on the urgency with which it described climate change in its *2023 Climate-related Financial Disclosures* and acknowledge that its ability to generate returns depends on a stable climate, and its investment decisions affect the stability of the climate.

Climate Engagement	**D–**

2023 updates:

- Reported underwhelming results that don't align with climate science from an engagement with a Climate Engagement Canada focus company.
- Voted against Climate Action 100+ flagged resolutions.
- Provided illogical rationale for its low level of support for climate-related proposals.
- Supported management proposals on climate without setting thresholds or criteria that such proposals must meet.

Despite its 2023 track record, AIMCo's *Climate Approach*, released February 1, 2024, claimed that the investment manager will "vote against directors when climate action or disclosure is deemed insufficient for portfolio companies" (p.11).

SUMMARY

AIMCo's *Responsible Investment Engagement Guidelines* (effective February 2023) outline its process for engagement on ESG issues, up to and including exiting an investment. But AIMCo has explicitly said it will not commit itself to a Paris-aligned portfolio and has no stated time-bound Paris-aligned goals for its engagement of owned companies. This renders its climate engagement process essentially meaningless.

AIMCo must set Paris-aligned expectations for its owned companies, engage with the intention of Paris-aligned outcomes, and strengthen its proxy voting guidelines.

DETAILS

Expectations for owned companies

AIMCo's *2023 Stewardship Report* states the investment manager expects portfolio companies to adopt climate reporting protocols, have board oversight of climate and have "appropriate expertise to adequately manage climate-related risks" (p.14).

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.

In some cases, AIMCo's owned companies are expanding fossil fuel infrastructure, such as Howard Energy Partners, which is primarily an oil and gas pipeline and related infrastructure company. Ironically, AIMCo highlighted Howard Energy Partners in its *2023 GRESB (Global Real Estate Sustainability Benchmark) Report* as having shown "remarkable progress in their sustainability journey since becoming part of [the] portfolio in 2016" (p.11). Howard Energy Partners, which in December 2023 announced "$800 million in growth projects and record volumes",[2] has no science-based net-zero transition plan and has made no commitments to reduce its emissions.[3] AIMCo has not explained how the company can be profitably transitioned in line with the goals of the Paris Agreement.

Direction given to external managers

AIMCo's *2023 ESG Integration Report* states that the Responsible Investing team completes an annual ESG assessment of external managers across the categories of governance, investment process, active management and diversity, equity and inclusion (p.14). No information is provided regarding specific guidance to external managers on handling climate-related risks.

Proxy voting

AIMCo's *Proxy Voting Guidelines* (effective February 2023) state that companies should disclose how they are handling climate risk, and that investee companies should have "board oversight and appropriate expertise to adequately manage climate change-related risks" (p.14). The guidelines state that AIMCO "may vote against or withhold from relevant directors in situations 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). However, the guidelines do not define what it means to "adequately manage" climate risks or what "insufficient action" would be, nor do they specify that AIMCo will support proposals for companies to set science-based net-zero targets and define net-zero-aligned transition strategies.

In its *2023 Stewardship Report*, AIMCo notes that "average shareholder support levels fell across all environmental, social and governance shareholder proposal categories in 2023," and that "the popularity of environmental and social proposals in 2022 led to overly prescriptive or niche proposals presented in 2023, making them hard for investors to support. There has also been a shift in the type of proponent filing these proposals, with more non-profits and shareholder advocacy groups submitting E&S proposals and fewer proposals from pension fund proponents" (p.9).

AIMCo's weak justification for its low level of support for climate-related proposals is out of step with its peers, who are strengthening their climate-related proxy voting guidelines and becoming more willing to support prescriptive proposals on climate (see more in *Collaborative Engagement* below or view the guidelines and reports of the British Columbia Investment Management Corporation (BCI),[4] the Ontario Teachers' Pension Plan (OTPP),[5] or the Investment Management Corporation of Ontario (IMCO)[6]). Furthermore, AIMCo's comment regarding who files shareholder proposals is irrelevant, as AIMCo's *Proxy Voting Guidelines* do not state that the identity of the proponent is a rationale for the investment manager's voting decisions.

AIMCo stated in its *2023 Climate-related Financial Disclosures* that it voted in favour of management on 80% of Say-on-Climate proposals (p.6). However, this does not necessarily indicate climate-aligned votes, as AIMCo has not disclosed what criteria a management Say-on-Climate proposal needs to meet in order for AIMCo to support it. In contrast, IMCO reported in its 2022 ESG Report that it voted *against* 59% of climate resolutions put forward by companies, as the resolutions did not meet IMCO's rigorous criteria for science-based targets (p.31).[7] IMCO's public expectations for management proposals on climate change include TCFD (Task Force on Climate-Related Financial Disclosures) 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.[8]

Collaborative engagement

AIMCo is a member of Climate Action 100+ (CA100+) and Climate Engagement Canada (CEC).

In AIMCo's *2023 Stewardship Report*, the investment manager reported on an engagement with Methanex. (While

Methanex is a CEC focus company, AIMCo does not indicate in its *Stewardship Report* that its engagement was in collaboration with other investors.) AIMCo's engagement of Methanex appears to have resulted in a commitment that falls far short of a science-based, Paris-aligned target and demonstrates next to no progress by Methanex against CEC's Net Zero Benchmark indicators.[9]

According to its *2023 Climate-related Financial Disclosures*, AIMCo conducted nine collaborative engagements through CEC or CA100+ (p. 6). However, a snapshot of AIMCo's 2022 climate-related votes demonstrated that AIMCo is not supporting resolutions flagged by CA100+. *Investors for Paris Compliance*'s analysis of the 2022 proxy voting record of CA100+'s Canadian investor signatories highlighted that "AIMCo opposed all evaluated Canadian proposals and offered rationales for most of these votes, often with contradictory explanations."[10]

Similarly, Shift's analysis of select 2023 climate-related shareholder resolutions showed that AIMCo voted against seven out of eight. In contrast, CA100+ participants BCI and University Pension Plan voted for seven out of the same eight proposals.[11]

Policy engagement

AIMCo joined its pension peers in a joint statement expressing support for the International Sustainability Standards Board sustainability disclosure standards. But AIMCo must become vocal and assertive to help ensure that governments in Canada and around the world are developing and implementing stringent and durable laws, policies and regulations that accelerate emissions reductions in line with the Paris Agreement.

Climate Integration	D+

2023 updates:

- Improved carbon footprint reporting by expanding coverage of asset classes and reporting emissions associated with sovereign debt.
- Reported "emissions removals" metric for the first time, which distracts from AIMCo's failure to set actual emissions reduction targets.
- Updated reference scenarios for climate scenario analysis.
- Reported a vague link between climate and compensation for 2022.
- One member of AIMCo's Board is concurrently a director of two fossil fuel companies, an improvement from two fossil-fuel entangled directors in 2022.

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 some "featured investments" in its different asset classes. Its *2022 Annual Report* lists the investment manager's top five holdings in each of infrastructure, private equity, and real estate. Based on AIMCo's public reporting, it is not possible to obtain a complete list of AIMCo's assets. AIMCo has repeatedly ignored requests from beneficiaries for an inventory of its fossil fuel investments.

Transparency and disclosure of climate risk

Carbon footprint

AIMCo expanded its carbon footprint to include its Private Debt and Loan asset class (*2023 Climate-related Financial Disclosures*, p.9) and reported scope 1 and 2 emissions for 80% of the in-scope assets in its portfolio (pp.11-12). AIMCo reported its absolute financed emissions and for the first time its emissions associated with sovereign debt. AIMCo does not "consider" scope 3 emissions as "data still varies greatly per sector and data source" (p.14).

AIMCo reported year-over-year differences between its 2021 and 2022 absolute and intensity emissions (both increased in 2022). But in order for these numbers to provide a meaningful indication of how AIMCo is managing climate-related risk over time, the investment manager must set a baseline year and make near-term and mid-term commitments to achieve emission reductions, in line with a pathway to net-zero by 2050.

AIMCo's *Climate-Related Financial Disclosures* included for the first time an "emissions removals" metric, implying that the investment manager is "financing carbon removals" through investments such as timberland and agriculture (p.13). Recent efforts to establish carbon accounting standards around so-called "carbon offsets" or "emissions removals" remain controversial and problematic, particularly for forestry and agriculture investments, which fail to meet required standards for verifiability, additionality and permanence.[12] Investors should avoid financing and counting emissions removals from dubious sources unlikely to align with global standards in the medium- to long-term. While AIMCo and other funds should make a commitment to invest in clearly defined climate solutions, calculating "emissions removals" that have not been demonstrated to be permanent and additional only serves as a distraction from AIMCo's failure to commit to any reduction in its financed emissions.

Scenario analysis

In 2022, AIMCo reported conducting scenario analysis using a model that assessed physical climate risks to the portfolio to be constant at global temperature increases of 1.5°C, 2°C, and 3°C. AIMCo's *2023 Climate-Related Financial Disclosures* used different scenarios, from the Network for Greening the Financial System, and assessed impacts on the investment manager's public equities and corporate debt portfolios. While the new scenarios showed different levels of physical risk to the portfolio under different temperature increases, AIMCo concluded, as it had in 2022, that the 1.5°C scenario presented the greatest risk to the portfolio (p.17) due to the portfolio's exposure to transition risk. This finding suggests that AIMCo's portfolio is overexposed to carbon-intensive industries that lack credible net-zero transition plans. Scenario analyses by other Canadian funds lead to different conclusions than AIMCo's, 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.

AIMCo's *2023 ESG Integration Report* notes that it uses MSCI's Climate Value-at-Risk framework to assess the physical climate risks of its real estate portfolio (p.6).

Climate taxonomy

AIMCo developed a climate taxonomy in-house and shared it as part of its *Climate Approach* on February 1, 2024. The taxonomy references the Paris Agreement in its principles but fails to lay out any climate-related investment thresholds for screening new investments. The taxonomy does not set any expectations for how assets are expected to move from "grey" to "green".

Communication of climate risk

AIMCo reported that it provides client boards with quarterly learning labs on ESG including climate (*2023 Climate-Related Financial Disclosures*, pp.5-6). No details were provided.

Climate due diligence

In AIMCo's *2023 ESG Integration Report*, a case study outlined how ESG factors and climate-related risks were considered as part of due diligence before AIMCo joined with a consortium of investors that purchased AusNet Services Limited. AusNet is an Australian utility company that operates the state of Victoria's electricity transmission network, as well as one of five electricity distribution networks and one of three gas distribution networks in the state. AIMCo did not explain in the case study how investing in a gas distribution network is aligned with climate safety, or AusNet's plans for the gas pipelines.

Board climate expertise and/or fossil fuel entanglement

One AIMCo Director, or 10% of the board, is concurrently a director of fossil fuel companies as of December 2023. Lorraine Mitchelmore holds seats on the boards of Suncor and Cheniere Energy.[13] In 2022, two AIMCo directors had concurrent fossil fuel directorships.[14]

AIMCo's *Board Experience and Competencies* are published in its *2022 Annual Report*, but climate expertise is not a required Board competency (p.64). Six Board members are identified as having "ESG/Corporate Responsibility" 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 *2023 Climate-Related Financial Disclosure Report* states that "The AIMCo Board is briefed on AIMCo's ESG performance, strategy, and trends, including those related to climate change," and "The AIMCo Board Education Program shares education materials and external learning opportunities on climate change" (p.5). The *2022 Responsible Investing Report* makes no mention of Board, executive, or staff education or professional development related to climate.

Executive and staff compensation and climate

In its *2023 Climate-Related Financial Disclosures*, AIMCo states that the annual Corporate Incentive Plan includes measures related to corporate objectives. One of AIMCo's 2023 corporate objectives was: "Evolve our ESG integration by focusing on climate." This indicates that, at least for 2023, some incentive compensation was linked to a climate-related objective (p.5). However, as AIMCo has not yet committed to net-zero emissions or set interim emissions reduction targets, it is difficult to see how this compensation is linked to any real-world outcomes.

Fossil Fuel Exclusions	F

2023 updates:

- None.

AIMCo has no exclusions on investments in coal, oil, gas or related infrastructure.

In September 2022, AIMCo restated its explicit intention to increase investments in fossil fuel companies.[15] The investment manager does not impose any restrictions on new investments in coal, oil, gas, or pipelines, and it has not mandated that its existing fossil fuel investments demonstrate alignment with the objectives of the Paris Agreement.

In March 2023, AIMCo's CEO Evan Siddall said that the investment manager was building relationships with sovereign wealth funds in the United Arab Emirates. The wealth funds for oil-producing Gulf states and the investment manager for oil-producing Alberta seem to agree that oil and gas are part of the energy transition (which is by definition a transition off fossil fuels). "Divestment of oil and gas companies and abandoning the energy sector is short sighted," Siddall said. "If you think about who most needs capital, it's the companies who are either producing energy or are the heaviest emitters, and value is created by helping those companies move from gray to green."[16] Siddall also said in December 2023 that he thinks that a "no-hydrocarbon world" is a "dreamland" and insisted that AIMCo would continue investing in oil and gas.[17] AIMCo's CEO appears to mistakenly believe that coal, oil and gas companies have Paris-aligned decarbonization pathways other than phase-out, and also that providing capital to fossil fuel producers to marginally lower their scope 1 and 2 emissions makes more sense than investing capital in proven, scalable and profitable climate solutions.

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 the Paris Aligned Asset Owners was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	AIMCo has no disclosed policy requiring owned companies to respect Indigenous Peoples' right to free, prior and informed consent for projects affecting them. AIMCo's proxy voting record shows that it voted against a resolution calling on the Royal Bank of Canada to operationalize the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP), which requires obtaining the free, prior and informed consent of Indigenous peoples before implementing measures that may affect them. AIMCo is the co-owner of a 65% stake in the Coastal GasLink fracked gas pipeline,[18] the construction of which lacked the consent of the Wet'suwet'en Hereditary Chiefs and required armed police to harass, intimidate and violently remove the Wet'suwet'en from the land on which they have lived for thousands of years.[19] In 2023, AIMCo hired its first Manager of Indigenous Relations (*2022 Annual Report*, p.52).
Accountable Paris-aligned memberships	None.
Collaborations and memberships	• Canadian Coalition for Good Governance • Carbon Disclosure Project • Climate Action 100+ • Climate Engagement Canada • IFRS Sustainability Alliance • International Corporate Governance Network • Investor Leadership Network (Climate Change Advisory Committee) • Partnership for Carbon Accounting Financials • Progressive Aboriginal Relations (PAR) certification program • Task Force on Climate-Related Financial Disclosures • Principles for Responsible Investment • Responsible Investment Association • Sustainable Finance Action Council • World Benchmarking Alliance
Self-reported assets linked to climate solutions*	$16 billion, or 9.8% of AUM (December 31, 2022)**
Estimated investments in fossil fuels	At least $5.3 to $9.8 billion, or 3% to 6% of AUM.***

Notable fossil fuel holdings (not a comprehensive list)	• 87% stake in Howard Energy Partners.[20] • A joint 65% stake in the Coastal GasLink pipeline.[21] • An 85% stake in the Northern Courier pipeline.[22] • Joint ownership of TriSummit utilities, which includes subsidiaries Apex Utilities Inc. (fossil gas utility business in Alberta), Eastward Energy (fossil gas distribution utility in Nova Scotia), Pacific Northern Gas Ltd. (fossil gas distribution and transmission utility in northern British Columbia), and Enstar Natural Gas (fossil gas transmission and distribution pipeline operator Alaska Pipeline Co., with a 65% interest in Cook Inlet Natural Gas Storage Alaska).[23] • For a comprehensive list of risky investments made by AIMCo in junior and intermediate oil and gas producers in Alberta between 2016 and 2019, see *Alberta's Failed Oil and Gas Bailout.*[24]

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

** ** AIMCo did not report a climate solutions figure in 2023. However, AIMCo'c *Climate Approach*, released February 1, 2024, reported that the fund had $16 billion in "green investments" as of December 31, 2022. Green investments were defined "based on generally accepted definitions, such as the Organization for Economic Cooperation and Development's Annual Survey of Large Pension Funds and Public Pension Reserve Funds and include: 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" (p.4). This figure represents an increase of $2 billion over the number AIMCo reported in its *2022 TCFD Report* (p.2). Also in its *Climate Approach*, AIMCo announced the creation of a $1 billion "Energy Transition Opportunities Pool" that will invest in "the global energy transition" and "decarbonization sectors" (p.8).

*** AIMCo does not disclose a list of total investments in fossil fuels. This estimate is drawn from numbers provided in AIMCo's *2022 Annual Report* related to utilities, integrated utilities, energy, pipelines and midstream, as well as AIMCo's regulatory filings to September 30, 2023.[25]

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shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION (BCI)

BCI serves as the investment manager for more than 725,000 participants in public pension plans throughout British Columbia. These plans include 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, as well as pension plans for staff and faculty 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 BC.

Assets Under Management (AUM): $233.0 billion (March 31, 2023)

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

OVERALL CLIMATE SCORE	C–

Summary and 2023 Updates

While BCI has a relatively robust approach to climate engagement, the investment manager falls short of being a climate leader. BCI has not yet committed to achieve net-zero portfolio emissions and has industry-lagging and incomplete interim targets. The investment manager has not yet placed any exclusions on fossil fuels nor has it explained how its existing fossil fuel assets have credible, profitable net-zero pathways.

In 2023, BCI:

- Strengthened its proxy voting guidelines, including calling for companies to integrate climate assumptions and risk evaluations into their audited financial statements and stating that it would vote against directors for inadequate disclosure of climate-related financial risks or lacking a strategy to manage climate risks.
- Became the first large Canadian public sector pension investment manager to file a climate-related shareholder proposal. BCI proposed that Imperial Oil provide a financial assessment of the company retiring its fossil fuel assets in line with a net-zero by 2050 emissions pathway.
- Reported $4 billion in sustainable bonds, on the way to $5 billion by 2025.
- Reported a 24% reduction in the emissions intensity of the public equities portfolio.
- Increased its joint stake in National Gas, the UK's fossil gas transmission system, to 80%.

BCI discloses more information than many of its Canadian pension peers, including publishing its investment inventory, an itemized list of companies engaged on Environmental, Social, and Governance (ESG) factors and BCI's role in those engagements, and directorships/trusteeships held by directors within the last five years.

What BCI still needs to do

- Publicly acknowledge the consensus science, including from the Intergovernmental Panel on Climate Change and the International Energy Agency, that limiting global temperature increase to 1.5°C requires an immediate end to expansion as well as the rapid phase-out of oil, gas, coal and related infrastructure.
- Join a credible and accountable Paris-aligned investor body, such as the Net Zero Asset Owner Alliance or the Paris Aligned Asset Owners.
- Enhance communication of climate urgency.
- Set a Paris-aligned emissions target backed by a credible climate strategy.
- Place a strict limit on the role of carbon offsets in both its own climate action plan and the net-zero commitments of portfolio companies.
- 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; and
  - refrain from directing capital toward fossil fuel expansion.
- Provide specific direction to external managers on managing climate-related risks and aligning investments with net-zero pathways.
- Build on public advocacy for mandatory standardized climate risk disclosure and submissions in support of climate regulations to become a vocal proponent of stringent, ambitious, Paris-aligned climate and energy policies that provide certainty for companies and investors.
- Place an exclusion on any new investments in coal, oil, gas and related infrastructure.
- Commit to a time-bound and managed phaseout of existing fossil fuel assets.
- Report back on plan to decarbonize the Infrastructure & Renewable Resources portfolio and explain how assets in this portfolio have credible science-based net-zero transition plans.
- Make a commitment that all portfolio companies will have credible net-zero plans in place by 2030.
- Require climate expertise on the Board of Directors.
- Tie executive and staff compensation to the achievement of climate targets.
- Build on recognition of Indigenous rights and reconciliation in proxy voting guidelines to develop a comprehensive Indigenous rights policy aligned with the BC government's *Declaration on the Rights of Indigenous Peoples Act*.

FULL ANALYSIS	
Paris-Aligned Target	**F**

2023 updates:

- None. BCI remains one of just three pension managers analyzed in this report that has yet to commit its portfolio to net-zero emissions by 2050 or sooner.

While acknowledging that "stabilizing climate change and achieving net-zero emissions globally by 2050 must occur to mitigate its most severe physical and economic impacts," BCI has yet to commit to aligning its portfolio with the goals of the Paris Agreement (*2022 ESG Report*, p.9). BCI instead states the intention to "[use] our influence to drive actions aligned with the global goal of achieving net-zero greenhouse gas emissions by 2050" (p.9). This same wording is reiterated in BCI's *2022 Climate Action Plan* and its *2022-2023 Corporate Annual Report*.

While BCI has yet to commit its portfolio to net-zero emissions, the BCI-managed Municipal Pension Plan set a net-zero emissions by 2050 target in November 2022.[1]

Interim Targets	**D+**

2023 updates:

- BCI remains one of the few pension managers analyzed in this report that has not yet set interim emissions intensity reduction targets, beyond a target announced in 2021 to reduce the carbon intensity of its public equities portfolio.
- Reported 24% reduction in emissions intensity of public equities portfolio, below 2019 levels.
- Reported over $4 billion invested in sustainable bonds, on the way to BCI's target of $5 billion by 2025.

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 the pension manager accountable.

Emissions reduction targets

BCI has just two targets to reduce emissions: an intensity-based target in its public equities portfolio, and an absolute target in its real estate portfolio.

The investment manager committed in 2021 to reduce the emissions intensity of the public equities portfolio, representing 28.3% of AUM as of March 31, 2023, by 30% below 2019 levels by 2025. In its *2022-2023 Corporate Annual Report*, BCI reported a 24% intensity reduction in the public equities portfolio (p.86).

BCI's real estate portfolio, representing 15.5% of AUM and independently managed by BCI's real estate subsidiary QuadReal, has an interim target to reduce the absolute emissions of its global real estate holdings by 50% by 2030 on the way to net-zero by 2050.

Regarding its overall portfolio carbon footprint, BCI merely expresses an "expectation that it will decrease over time" (*2022 Climate Action Plan*, p.11).

Portfolio companies with net-zero commitments

In its *2022 Climate Action Plan*, BCI announced a weak commitment 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" (p.5). This suggests that BCI could continue investing in high-risk fossil fuel companies in 2030 and beyond, even if another seven years of engagement efforts fail to achieve climate alignment.

Sustainable bonds investment

While BCI has not yet made a commitment to a total percentage of AUM invested in climate solutions, BCI committed in 2021 to achieve $5 billion in sustainable bonds by 2025. As of the April 2023 release of its *2022 ESG Report*, BCI reported $4 billion invested (p.33).

Communication of Climate Urgency	C+

2023 updates:

- None.

BCI's *Task Force on Climate-Related Financial Disclosures (TCFD) Report* (included in BCI's *2022-2023 Corporate Annual Report*) demonstrated that the investment manager sees its role in managing climate-related risks as trying to mitigate long-term negative economic outcomes through engagement of public companies and advocacy for public policy and regulations. It also states that BCI has essentially given up on the world achieving the goal of limiting global heating to 1.5°C and is not preparing its companies for a 1.5°C future.

Sample language from BCI's *2022-2023 Corporate Annual Report* (p.79):

"Over the long term, an orderly transition to a low-carbon economy that is aligned with a net-zero (1.5°C) scenario will ultimately benefit client portfolios. However, we do not see an indication that current global government commitments will meet that goal. BCI's engagement and advocacy efforts will continue to focus on supporting public policies and regulations that enable an orderly and predictable transition and prepare companies to be resilient under any transition."

Sample language from "Our Net-Zero Statement" in BCI's *2022 Climate Action Plan*, (p.4):

"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."

While BCI is acknowledging climate change's systemic impacts and the "negative financial impacts" of "every tonne of GHG emitted", BCI fails to acknowledge that its own investment decisions and the stewardship and decarbonization of its own assets can affect the stability of the climate.

Climate Engagement	B

2023 updates:

- Strengthened *Proxy Voting Guidelines* for 2023, including a new requirement that publicly traded companies incorporate climate assumptions and risk assessments into their audited financial statements.
- Filed a shareholder proposal that called on Imperial Oil to enhance its disclosure on climate risk, including asking for an audited financial statement on the costs of retiring Imperial Oil's fossil fuel assets.
- Made a joint submission (alongside University Pension Plan, Canada Post Corporation Pension Plan and other investors) to Environment and Climate Change Canada regarding the federal oil and gas emissions cap that encouraged the government "to adopt the most practical and effective regulatory changes, in order to incentivize emission reduction innovation and implementation to further limit climate change and to reduce systemic risk in our portfolios."[2]

SUMMARY

BCI discloses more details of its climate engagements than most Canadian pension managers, and is an active participant in Climate Action 100+. However, BCI needs to strengthen expectations — including by setting its own net-zero target — that its owned companies have a credible net-zero pathway, and needs to strengthen its climate-related guidelines for external managers. BCI has opened the door to "selectively divest[ing]" in response to "critical ESG issues" or when companies respond insufficiently to material business risks, including ESG risks (*2022 ESG Report*, p.10). This appears to be a shift from BCI's previous statements that divestment is not an effective strategy.[3]

DETAILS

Expectations for owned companies

BCI's modest commitment to having 80% of its "carbon-intensive" investments either establish net-zero-aligned commitments by 2030 or become subjects of climate engagement conveys some expectations to the companies it owns. However, these expectations are relatively lenient, as companies are granted until 2030 to comply, and even then they face no consequences other than continued engagement if they fail to make progress.

In its Infrastructure & Renewable Resources portfolio, which contains fossil gas pipeline companies, oil and gas producers and fossil fuel power generation assets, BCI has not demonstrated how its ownership of and influence over private companies has led to climate alignment. In contrast, BCI's ability to exert positive ESG influence on its owned companies is in question, considering the track record of one of its private investments. The UK utility Thames Water, in which BCI holds a 9% stake, finds itself burdened with substantial debt, incapable of funding essential operations and crucial infrastructure upgrades, and faces scrutiny and fines for multiple environmental violations.[4]

Direction given to partners and external managers

BCI assesses its private equity partners and external managers on ESG, with its assessment results indicating that 57% of partners have "strong" ESG practices, and 42% have "average" practices (*2022 ESG Annual Report*, p.15). But BCI does not disclose any specifics related to how it screens these partners and managers on ESG or climate.

Proxy voting

Although BCI's *Proxy Voting Guidelines* still do not state the expectation that companies establish credible net-zero pathways, BCI took steps to enhance its guidelines in 2023. This included the introduction of a new requirement that publicly traded companies incorporate climate assumptions and risk assessments into their audited financial statements.[5]

In 2022, BCI voted for climate-related reasons against 261 directors within 197 companies, compared to 51 directors at 34 companies in 2021. These votes were driven by BCI's guideline to consider votes against directors for "a weak response to climate change risk or inadequate disclosure" (*BCI ESG Report 2022*, p.28).

An analysis by Shift of a sample of climate-related votes at Canadian companies in 2023 showed that BCI supported seven of eight shareholder proposals.[6] An analysis by Investors for Paris Compliance of BCI's 2022 climate-related proxy voting record indicated that the investment manager did not consistently vote in support of resolutions flagged by Climate Action 100+, although BCI did vote in favour of more flagged resolutions than it opposed and consistently provided rationales for its decisions.[7] When voting against a resolution, BCI generally stated that the proposal was overly prescriptive. However, BCI's proxy voting policy has allowed support for more prescriptive climate-related shareholder resolutions since 2021.[8]

Collaborative engagement

BCI's *2022 ESG Report* updated beneficiaries on the investment manager's engagements with ExxonMobil, one of the world's biggest carbon emitters, stating that its collaborative engagements since 2017 "delivered some results," but that "large gaps in climate disclosure remain a concern."

> "At ExxonMobil's 2022 Annual General Meeting (AGM), BCI supported a shareholder proposal calling for an audited report assessing how the International Energy Agency's net zero by 2050 pathway assumptions affect the underlying inputs of the company's financial statements. While the proposal passed, ExxonMobil has not provided sufficient information for shareholders to assess the financial impact of the energy transition. As a result, BCI co-filed a proposal in 2023 with two lead investors, calling on the company to report the impact of climate assumptions and net-zero scenario analysis on its financial accounting for asset retirement obligations" (p.22).

BCI filed the same proposal at Imperial Oil, Exxon Mobil's Canadian subsidiary, stating that its proposal was "the first climate-related shareholder proposal filed by a large Canadian public sector pension investment manager" to go to a vote at a Canadian company.[9]

BCI deserves recognition for filing these proposals and reporting on them publicly. In the case of Imperial Oil, it is notable that no other Canadian pension fund is applying such direct and public pressure on one of Canada's biggest climate polluters. However, Imperial Oil and other oil and gas companies continue to expand production and undermine ambitious climate policy. BCI must recognize that when it comes to companies with business models that depend on the extraction of fossil fuels, engagement is a dead end.

BCI backed the Carbon Disclosure Project's 2023 Science-Based Targets (SBT) Campaign, which calls on more than 2,100 high-emitting companies to set emissions reduction targets. While this demonstrates BCI's use of its influence to support the setting of science-based targets, BCI must demonstrate that it too will align with climate safety by making its own science-based net-zero commitment.

Other: Climate Finance Project with the University of Victoria (UVic) and the 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). BCI reported in 2023 that it used the research on industry classification standards from this project to expand its Risk and Opportunity Framework (*2022 ESG Report*, p. 13).

Climate Integration	C+

2023 updates:

- BCI named its first global head of ESG and expanded its ESG team.
- In 2022-2023, BCI continued to add fossil fuel assets to the Infrastructure and Renewable Resources portfolio but did not explain how these assets could be decarbonized, despite having committed in its *2021 ESG Report* to developing a plan to decarbonize this portfolio.
- BCI's inclusion of fossil fuel infrastructure alongside renewable investments in this portfolio obscures stakeholders' ability to determine the extent of fossil fuel assets in the portfolio.

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 disclosed both a list of its high-carbon assets and their associated value. BCI, however, does provide an annual *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 in its *2022 ESG Report* better-than-average disclosure of its public company engagements and discussion of select engagements via Climate Action 100+. The fund also posts on its website accessible and searchable disclosure of its regulatory submissions and comments.

However, BCI has at times been less than forthcoming about its acquisition of fossil fuel assets. When BCI first announced in 2022 that it would acquire a joint 60% stake in National Gas, it asserted that the investment aimed to contribute to "delivering a hydrogen 'backbone' for Britain," fostering the "decarbonization of power generation and heavy industry," and supporting the UK's commitment to achieve net-zero carbon emissions by 2050.[10] This announcement was met with criticism and disbelief by some climate experts: despite BCI's confidence in hydrogen's potential for Britain's gas pipeline network and home heating, a substantial body of evidence suggests that converting gas pipeline networks for hydrogen transport is economically unviable, impractical, and potentially hazardous.[11] Investing in a fossil gas company with ill-conceived hydrogen schemes is neither financially prudent nor aligned with climate safety. When BCI increased its joint stake in National Gas by 20% in July 2023, the investment manager did not make a public announcement.[12]

Transparency and disclosure of climate risk

While BCI highlights its investments in renewable energy, sustainable bonds and other climate solutions, the investment manager's *2022 ESG Report* contains no information on the significant fossil fuel infrastructure in BCI's Infrastructure & Renewable Resources portfolio. BCI's *2021 ESG Report* claimed that it is developing a plan to decarbonize this portfolio, but the *2022 ESG Report* provides no details beyond stating that the Infrastructure & Renewable Resources team "increased its scrutiny of climate targets [and] transition plans" (p.12) and will "continue advancing [its] decarbonization plans to mitigate risk and create value for [its] clients" (p.43).

BCI continued to provide disclosure of how it incorporates climate risk into its investment analysis through its climate-focused ESG Risk and Opportunity Framework, including incorporating research from the collaborative *Climate Finance Project* (*2022 ESG Report*, p.13, 17). BCI uses this framework to analyze climate-related physical and transition risks and stress test the portfolio using 1.5°C, 2°C and 3°C warming scenarios. According to its assessment, BCI concluded that the portfolio's "climate change risk level" has decreased: BCI estimated that in 2018 the portfolio would have experienced a -6.4% net loss based on its exposure to climate-related risks; as of 2022 BCI put this estimate at -5.2% (p.13). The investment manager's discussion of different warming scenarios, their impacts on different sectors, and the short, medium and long term physical and transition risks facing the portfolio is more detailed than what many other pension managers have disclosed (*2022-2023 Corporate Annual Report*, pp.79-81). BCI also helps its client funds understand climate-related risk by using its scenario analysis and ESG Risk and Opportunity Framework to explain the economic impacts of the climate crisis and inform Asset-Liability Modelling reviews (*2021 ESG Annual Report*, p.9).

BCI's most recent update to its *Climate Action Plan* was in November 2022, with progress reported in the investment manager's *2022 ESG Report*.

Climate risk expertise

According to BCI's *2022 ESG Report*, BCI expanded its ESG staff to 16 people, naming its first global head of ESG and hiring "additional senior ESG experts" (p.5). It is not clear what percentage of BCI's ESG team is specifically focused on climate issues.

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, although BCI has reported on climate education for Board members. The *2021 ESG Report* indicated that the Board received education on climate-specific issues, as well as a briefing of how BCI integrates climate change into its decision-making processes (p.46). No further information was provided in 2022.

None of BCI's Board members appear to have fossil fuel entanglements.

Executive compensation and climate

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 (*Public Transparency Report*, pp.36-38), but there is no specific evidence provided elsewhere detailing if and how BCI has linked its executive and staff compensation to the achievement of climate-related targets.

Fossil Fuel Exclusions	F

2023 updates:

- None.

BCI has placed no exclusions on new investments in coal, oil, gas or related infrastructure and has announced no intention to phase out fossil fuel assets.

BCI's *2022 ESG Report* states that "Technological breakthroughs and business model adaptation require capital to achieve emissions reduction. An unintended consequence of broad-based divestment is starving hard-to-abate sectors of capital, such that they are unable to transition." BCI must make a distinction between hard-to-abate sectors that do have technological pathways to transition, and fossil fuel companies, which do not.

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 the Paris Aligned Asset Owners was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	In 2023, BCI updated its *Proxy Voting Guidelines* to incorporate a section addressing Indigenous rights and reconciliation. It states, "while we evaluate proposals on a case-by-case basis, we will generally support the disclosure or adoption of policies and practices related to reconciliation and Indigenous inclusion such as Indigenous community relations, hiring and retention practices of Indigenous employees, training on Indigenous reconciliation, and procurement from Indigenous-owned businesses" (p.22). In accordance with these updated *Proxy Voting Guidelines*, BCI voted against the Chair of Imperial Oil's Board for what BCI called "a lack of oversight that led to major controversies related to tailings integrity and insufficient Indigenous engagement."[13] BCI also voted against the Chair of Imperial Oil's community collaboration and engagement committee for the same reason.[14]
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 (including 2023-2024 Science-Based Targets Campaign) • Climate Action 100+ • Coalition for Inclusive Capitalism • ESG Data Convergence Project • IFRS Sustainability Alliance • International Corporate Governance Network • Principles for Responsible Investment • Responsible Investment Association • Sustainable Finance Action Council • Task Force on Climate-Related Financial Disclosures
Self-reported assets linked to climate solutions*	$11.1 billion in "climate-related opportunity exposure" (*2022-2023 Corporate Annual Report*, p. 39).**
Estimated investments in fossil fuels	At minimum $8.1 billion.***
Notable fossil fuel holdings (not a comprehensive list)	• A 32% stake in Open Grid Europe.[15] • An undisclosed stake in Czech Gas Networks.[16] • Partial ownership of Nova Transportadora do Sudeste SA (NTS).[17] • A joint 80% stake in National Grid's gas transmission and net metering business, National Gas.[18] • A 37% stake in Cleco Corporation.[19] • An undisclosed stake in Connaught Oil and Gas.[20] • An undisclosed stake in Corex Resources.[21]

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

** According to BCI's *2022 Climate Action Plan*, investments count toward this metric, based on Sustainable Development Investments Asset Owner Platform definitions, 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" (p.10). 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.

*** BCI has not disclosed the value of its fossil fuel assets. Shift's estimate is based on regulatory filings showing $783.9 million in publicly traded fossil fuel companies as of September 30, 2023,[22] combined with media articles providing details about the value, purchase price, and selling prices for BCI's major stakes in private fossil fuel companies. However, information is not available for all holdings and this number is almost certainly an underestimate.

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BCI Reports

- 2022-2023 Corporate Annual Report (includes Task Force on Climate-related Financial Disclosures) (July 2023)
- 2022 ESG Annual Report (April 2023)
- 2021 ESG Annual Report (August 2022)
- 2021 Public Transparency Report (October 2022)

BCI Documents

- Delivering on Our Purpose. Three-Year Business Plan F2024-2026 (July 2023)
- ESG Governance Policy (April 2023)
- Proxy Voting Guidelines (March 2023)
- 2023 Investment Inventory (to March 31, 2023)
- 2022 Climate Action Plan (November 2022)
- ESG Strategy (2020)
- ESG Engagement in Public Markets. Our Priorities, Objectives & Processes (2019)

BCI Webpages and Press Releases

- BCI Files Shareholder Proposal for Climate-Related Disclosure at Imperial Oil (press release) (April 30, 2023)
- British Columbia Investment Management Corporation Sets Climate-Related Targets for Public Markets (press release) (February 19, 2021)
- Environmental, Social & Governance at BCI (webpage) (accessed November 2023)
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Other

- Shift's 2022 Canadian Pension Climate Report Card (January 2023)
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- Canadian Pensions Dashboard for Responsible Investing, 2nd Edition (March 2023)

The *2023 Canadian Pension Climate Report Card* analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers and three international pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. Information is current to December 31, 2023. View the full report at shiftaction.ca/reportcard2023.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC (CDPQ)

CDPQ is the investment manager for more than 48 client depositors, including public pension funds, insurance plans and other government funds. As of December 31, 2023, over 86% of the CDPQ's assets under management were pension funds, including the Quebec Pension Plan for 6.4 million contributors and beneficiaries.

Assets Under Management (AUM): $424 billion (June 30, 2023)

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

OVERALL CLIMATE SCORE	B+

Summary and 2023 Updates

CDPQ maintains its position as a climate leader among Canadian pension managers in 2023, but in 2024 must work to maintain its leadership by aligning with the recommendations of the *United Nations' High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities.*[1]

CDPQ has centered climate change in its investment strategy and demonstrated a willingness and ability to follow through on its climate commitments by:

- Completing its divestment of oil production, refining and coal mining in 2022.
- Achieving interim targets in carbon emissions intensity reduction and on track to achieve 2030 target for low-carbon investments.
- Financing and stewarding the decarbonization of carbon-intensive companies, particularly coal utilities.
- Co-filing a climate-related shareholder proposal at the annual general meeting of a large emitter (although an analysis of CDPQ's votes on select 2022 climate-related shareholder resolutions demonstrated a surprisingly low level of support).
- Enhancing its climate-related financial disclosures (although it has yet to incorporate scope 3 emissions).
- Differentiating itself from other Canadian pension managers with its new focus on restoring nature, protecting biodiversity, and improving the disclosure of nature-related financial risks.

What CDPQ still needs to do

- Publicly acknowledge the consensus science, including from the Intergovernmental Panel on Climate Change and the International Energy Agency, that limiting global temperature increase to 1.5°C requires an immediate end to expansion as well as the rapid phase-out of oil, gas, coal and related infrastructure.
- Align CDPQ's climate strategy and sustainable investing policies with the recommendations of the *United Nations' High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities'* for financial institutions.[2]
- Achieve at least a 50% absolute reduction in GHG emissions by 2030, taking into account and calculating direct and indirect emissions (scope 3).
- Adopt a policy that states that carbon offsets will not be counted toward CDPQ's net-zero commitment, interim emissions reduction targets, or the net-zero commitments and interim targets of portfolio companies.
- Disclose scope 3 emissions measurement and establish scope 3 emissions reduction targets.
- Build on public advocacy for mandatory standardized climate risk disclosure to become a vocal proponent of stringent, ambitious, Paris-aligned climate and energy policies that provide certainty for companies and investors.
- 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; and
    - 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, including in fixed income markets.
- Divest from fossil gas producers.
- Exclude any new investments in fossil gas production and fossil gas pipelines.
- Release a timeline and plan for the managed phase-out of existing oil pipeline and fossil gas assets, including a commitment, by the end of 2024, to transform Énergir's business model.
- Require climate expertise on the Board of Directors, explicitly differentiated from "Sustainable Investing/ESG" expertise.
- Avoid climate-related conflicts of interest and refrain from re-appointing directors with concurrent corporate directorships with fossil fuel companies to the Board.
- Establish minimum time that must elapse between holding a fossil fuel directorship and joining the board.
- Integrate into its pre-investment criteria the principles of the United Nations Declaration on the Rights of Indigenous Peoples and 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.
- Build on climate leadership and biodiversity efforts by developing a policy of not investing or financing businesses linked to deforestation, and of eliminating agricultural commodity-driven deforestation from CDPQ's investment and credit portfolios by 2025.

FULL ANALYSIS	
Paris-Aligned Target	**A-**

2023 updates:

- No updates.

CDPQ has committed to reach net-zero emissions by 2050, has set and achieved ambitious interim targets to reduce emissions intensity, and has demonstrated a commitment to real-world decarbonization through its $10 billion transition envelope. The investment manager is a member of the Net Zero Asset Owner Alliance (NZAOA), which will require it to limit its use of carbon offsets and account for scope 3 emissions.

While CDPQ has not yet placed a limit on the role of carbon offsets in achieving its net-zero commitment, its *2021 Sustainable Investing Report* references NZAOA's position that "efforts must be focused first on reducing GHG (greenhouse gas) emissions, while detailing measures that must also be implemented to capture already-emitted GHGs to meet the targets of the Paris Agreement" (p.27). The NZAOA states that "to align to a 1.5°C pathway (scenarios P3 and P4) ... the primary focus must remain on deep decarbonization in energy, urban, infrastructure and industrial systems, as well as reversing emissions growth from land use systems; however, investments in CDR (carbon dioxide removal) and negative emissions technologies and solutions will also be complementary and necessary to accelerate progress and keep global average warming to 1.5°C."[3] The United Nations' High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities is clear that carbon offsets should not be counted toward interim emissions reductions.[4]

CDPQ's NZAOA membership will also require the pension manager to incorporate scope 3 into its climate strategy and net-zero emissions commitment, but CDPQ has not yet done this.[5] According to its *2022 Sustainable Investing Report*, CDPQ has analyzed scope 3 emissions of portfolio companies but found inconsistencies in data quality and coverage. CDPQ states that good quality scope 3 data will be useful in risk assessment "more specifically in files associated with fossil fuels."[6]

Interim Targets	**B**

2023 updates:

- Reported a 53% reduction below 2017 levels in portfolio's carbon intensity.
- Reported low-carbon assets rising to $47 billion, en route to $54 billion by 2025.
- Concluded three transactions as part of its $10-billion "transition envelope."
- Reported nearly $37 billion invested in companies with a science-based decarbonization target.

CDPQ is progressing against its interim targets in a number of areas and has increased the ambition of some targets since they were first set. However, CDPQ has yet to commit to lowering absolute emissions in its portfolio and has not yet incorporated scope 3 emissions.

Emissions reduction

After achieving its initial 2025 portfolio emissions intensity target four years ahead of schedule, CDPQ committed to reduce its portfolio's carbon intensity by 60% below 2017 levels by 2030. As of December 31, 2022, CDPQ had achieved a 53% reduction, as reported in its *2022 Sustainable Investing Report*. The investment manager said the decrease was "largely due to our low-carbon assets, the decarbonization efforts of our portfolio companies and our exit from oil production and refining."[7] Scope 3 emissions are not yet incorporated into CDPQ's portfolio footprint and 2030 interim target and CDPQ has not disclosed a plan or timeline for incorporating scope 3. However, CDPQ's NZAOA membership will require scope 3 emissions to be incorporated.

CDPQ should strengthen its emissions reduction commitments by setting absolute emission reduction targets and fully incorporating scope 3 emissions.

Investments in low-carbon assets

CDPQ is targeting $54 billion in low-carbon assets by 2025, using Climate Bonds Initiative criteria. As of December 31, 2022, CDPQ's low-carbon assets totalled $47 billion, up $29 billion over five years (*2022 Sustainable Investing Report*).[8]

Investment in decarbonization

According to its *2022 Sustainable Investing Report*,[9] CDPQ in 2022 concluded three transactions as part of its $10-billion "transition envelope" to reduce emissions from carbon-intensive companies.

These investments were reviewed by independent external experts to validate the rigour of these assets' decarbonization plans and to ensure alignment with the Paris Agreement. The selected companies had to meet specific standards set by the Climate Bonds Initiative or the Science Based Targets initiative (SBTi), including having a proven decarbonization strategy, having an implementation plan, and disclosing their progress both internally and externally.

CDPQ's 2022 transition envelope investments were largely electric utilities that have a plan to phase out coal, ramp up renewable energy, and invest in electricity transmission and distribution. Based on these companies' decarbonization plans, CDPQ expects the carbon footprint of these three investments to decrease by almost 60% by 2030 and close to 70% by 2035.[10]

AUM covered by a science-based decarbonization target

While CDPQ's carbon intensity reduction target covers the entire portfolio, it has not yet set a target for AUM covered by a science-based decarbonization plan. However, CDPQ reported that, as of December 31, 2022, "in addition to our low-carbon assets, nearly $37 billion is invested in companies with a science-based decarbonization target certified by the SBTi" (*2022 Sustainable Investing Report*).[11] This is a small increase over the $35 billion CDPQ reported one year earlier (*2021 Sustainable Investing Report*, p.22).

Communication of Climate Urgency	A

2023 updates:

- No update.

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*:

"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" (p.3).

Sample language from the President and CEO in CDPQ's *2022 Sustainable Investing Report*:

"As a manager of public funds, building a more equitable and sustainable world is not a choice. It is a responsibility that goes with our fiduciary duty. … We acted early and decisively to address climate change, which represents a great risk to our companies."[12]

Climate Engagement	B–

2023 updates:

- Co-filed climate-related shareholder proposal at Berkshire Hathaway's AGM.
- Snapshots of CDPQ's climate-related proxy votes reflect a mixed record.

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 time-bound milestones for companies to achieve, and strengthened direction for external managers.

DETAILS

Expectations for owned companies

CDPQ's exclusion of coal miners and oil producers and its 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 does not prohibit owned companies from directing capital expenditure toward fossil fuel expansion or lobbying against climate action, nor does it set expectations for owned companies to tie executive compensation to the achievement of climate targets. CDPQ must strengthen its expectations on capital expenditure, lobbying and compensation in order to ensure its own companies are not undermining CDPQ's climate commitments.

Direction given to external managers

CDPQ's oil exclusion policy is incorporated into any new external management agreement, while the Quebec pension manager "work(s) to raise awareness" about the policy among its current external managers (*2022 Sustainable Investing Report*).[13] CDPQ also says that "ongoing dialogue and engagement with … external managers to promote ESG best practices and value creation" is a "Sustainable Investing Lever of Influence."[14] But this ongoing dialogue and engagement appears to focus largely on social issues, with just 13% of discussions in 2022 with portfolio companies and external managers focused on climate change and environmental risks.[15]

Proxy voting

CDPQ's *Policy Governing the Exercise of Voting Rights of Public Companies*, last updated in October 2020, states that CDPQ will generally support proposals that call for Task Force on Climate-Related Financial Disclosures (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" (pp.14-15).

In 2022, CDPQ voted against the re-election of Board members responsible for sustainability and climate-related issues at 10 companies to underscore their lack of ambition on decarbonization (*2022 Sustainable Investing Report*).[16] CDPQ also voted for the majority of a select number of climate-related shareholder proposals at the annual meetings of Canadian banks and pipeline companies during the 2023 AGM season, referring to key clauses in its *Policy Governing the Exercise of Voting Rights of Public Companies*.[17] However, an analysis by Investors for Paris Compliance of proxy voting patterns of Climate Action 100+ (CA 100+) signatories in 2022 shows a surprising lack of support for climate-related proposals from CDPQ. According to the analysis, of 23 select North American climate-related shareholder resolutions at the AGMs of companies in the oil and gas, finance, manufacturing and retail sectors, CDPQ voted for just one-third and against two-thirds.[18]

Collaborative engagement

CDPQ is a member of CA100+ and says that its collaborative engagement activities "are aimed at demanding the implementation of concrete plans and the adoption of decarbonization targets aligned with the Paris Agreement," (*2022 Sustainable Investing Report*).[19] However, few details of its CA100+ engagements, other than with Berkshire Hathaway (below), are provided.

Climate-related shareholder proposal at Berkshire Hathaway

CDPQ continued its engagement efforts, begun in 2020, to raise awareness at Berkshire Hathaway, an American multinational conglomerate, on climate and ESG issues. At the company's 2022 annual meeting, CDPQ co-filed a shareholder proposal requesting that Berkshire Hathaway set GHG emissions reduction targets as well as disclosure targets for climate risks for the entire conglomerate, in accordance with the TCFD framework.[20] The proposal was overwhelmingly defeated by Berkshire Hathaway shareholders.[21]

Policy engagement

CDPQ occasionally provides comments on sustainability-related public and government consultations, such as to the International Sustainability Standards Board and other bodies setting standards and policies for climate risk reporting.[22] But CDPQ must become more vocal and assertive in its advocacy to help ensure that governments in Quebec, Canada and around the world are developing and implementing stringent and durable laws, policies and regulations that accelerate emissions reductions in line with the Paris Agreement. For example, a number of Canadian investors, including the British Columbia Investment Management Corporation (BCI) and Ontario's University Pension Plan, made a joint submission in September 2022 to a Government of Canada consultation on capping oil and gas emissions, encouraging the government "to adopt the most practical and effective regulatory changes, in order to incentivize emission reduction innovation and implementation to further limit climate change and to reduce systemic risk in our portfolios."[23]

Climate Integration	B+

2023 updates:

- CDPQ's *2022 TCFD Report* provides significantly more detailed disclosure than in previous years.
- "Sustainable Investing/ESG" was added as a "specialty of expertise" on its board skills matrix, although this does not necessarily indicate climate risk expertise.
- Began integrating the restoration of nature and protection of biodiversity into investment and asset management processes.

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 *2022 TCFD Report*, included as an appendix to its *2022 Sustainable Investing Report*, provides much more detail than in previous years, including:

- Uses NZAOA methodology, as well as an internally-developed methodology inspired by the Partnership for Carbon Accounting Financials, to measure and report carbon intensity of CDPQ's portfolio, broken down by asset class, time horizon and investment universe, and including significant contextual information on the quality of the emissions data and how it was compiled.[24]
- Made an effort to measure its portfolio's scope 3 emissions, reporting that "inconsistencies in the quality and coverage of the data disclosed by our companies and data providers … limits our ability to calculate this data at the portfolio level."[25] CDPQ could set a clear expectation requiring investee companies to measure and disclose their scope 3 emissions, and advocate for faster and more stringent standards and laws requiring corporate disclosure of scope 3.
- Conducted a detailed risk and opportunity analysis for physical and transition risks of its portfolio, and described how these risks might impact portfolio companies and how risks are being managed.[26]

Scenario analysis

CDPQ has a partnership with S&P Global to use the Climanomics tool to better understand, measure and report on physical climate risks, as well as quantify transition risks, over the short, medium and long term.[27] The Climanomics tool uses Shared Socioeconomic Pathways established by the IPCC that include four scenarios, ranging from low-emissions (1.7°C of global heating by 2050) to high-emissions (2.4°C by 2050).[28] In its *2022 TCFD Report*, CDPQ provides significant details on how this scenario analysis is factored into its investment process, including validating an asset's climate risks and opportunities against CDPQ's carbon budgets and climate targets, and informing CDPQ's engagement, monitoring, disclosure and compensation practices. This process helped inform CDPQ's decision to divest oil assets, develop its transition sleeve, and prioritize engagement activities.[29]

Board climate expertise and/or fossil fuel entanglement

CDPQ added "Sustainable Investing/ESG" as a "specialty of expertise" on its board skills matrix, reporting that five of 12 directors had this expertise (*2022 Annual Report*, p.108). This does not necessarily indicate climate risk expertise, however, and conflates climate risk with other ESG issues. Seven percent of the Board (or 1 of 14 directors) has a fossil fuel entanglement: Maria S. Jelescu Dreyfus remains on the Board of Directors of Pioneer Natural Resources as well as Nabors Energy Transition Corp (*2022 Annual Report*, p.101).

Executive compensation and climate

CDPQ continues linking compensation of senior staff to carbon reduction targets, having had carbon budgets and annual carbon reduction targets for each of its portfolios in place since 2017.[30] According to CDPQ's *2022 Sustainable*

Investing Report, all portfolio managers are required to incorporate carbon budgets into their investment decisions "on equal footing with their performance objectives."[31]

In 2022, CDPQ also introduced qualitative indicators for executing the organization's climate strategy as metrics for team performance (*2022 Annual Report*, p.117). According to Bertrand Millot, CDPQ's Head of Sustainability, linking compensation to climate "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."[32]

Biodiversity

CDPQ is taking action to protect biodiversity and restore nature, joining the Taskforce on Nature-related Financial Disclosures, developing biodiversity indicators in its investment process and joining a number of different global initiatives for protecting biodiversity.[33]

Fossil Fuel Exclusions	B–

2023 updates:

- "Essentially completed" exit from the oil sector, including production and refining.
- Finalized exit from coal mining.

CDPQ excludes investment in new thermal coal projects, oil producers and oil pipelines. By the end of 2022, it finalized its exit from coal mining and "essentially completed" its exit from the oil sector. While CDPQ is a leader among Canadian funds for its fossil fuel exclusions, the fund has not yet placed a formal exclusion on new gas assets, even though many gas producers are covered by CDPQ's oil exclusion policy because they produce both oil and gas.

Oil production

CDPQ said in its *2022 Sustainable Investing Report* that "oil production is a sector that does not meet either our long-term goals or our sustainability requirements. With this in mind, we announced in 2021 our intention to divest from our assets in this sector. Our teams ensure that this commitment is fulfilled while ensuring that our depositors' returns are protected through promising investments in transition energies."[34]

The report, issued in April 2023, stated that CDPQ's "exit from the oil sector under active management is essentially completed,"[35] including all direct investments in internal management, debt and equity and any new external management agreement, as well as ongoing efforts "to raise awareness among our current external managers."[36] The report went on to note that "as at December 31, 2022, we had only $0.2 billion in assets under active management in this sector, or 0.05% of our net assets. … We only have a single investment left, which we will divest from in the course of 2023."[37] As of December 31, 2023, CDPQ did not disclose this remaining investment, or whether it was divested.

Oil refining

CDPQ also provides a passing reference to its exit from oil *refining* in both its *2022 Annual Report* (p.135) and a section of its *2022 Sustainable Investing Report* about portfolio carbon intensity reductions.[38] CDPQ's original commitment in 2021 to exit oil production did not include mention of oil refining.

Oil pipelines

CDPQ committed in its *2021 Climate Strategy* to no longer invest in the construction of oil pipelines by the end of 2022 (pp.3, 9). As of December 31, 2023, CDPQ continues to hold a 16.6% stake in the Colonial pipeline, the largest pipeline for refined oil products in the US.[39]

Coal

In its *2022 Sustainable Investing Report*, CDPQ reported that "we finalized our exit from the coal mining industry and we support our companies' transition to more sustainable energy sources."[40] As a member of the Net Zero Asset Owner Alliance, CDPQ committed in 2020 to:

- No new thermal coal projects;
- Progressive elimination of most assets fuelled by thermal coal in industrialized countries by 2030;
- An almost complete elimination of assets in this sector, worldwide, by 2040.[41]

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."[42] While its coal exclusion policy is not strong enough, CDPQ is one of five Canadian pension funds (alongside IMCO, UPP, OMERS and the Healthcare of Ontario Pension Plan) examined in this report who have placed any limits on coal investment.

CDPQ also joined the Powering Past Coal Alliance in 2021, an organization consisting of national and subnational governments, businesses and organizations working to advance the transition from coal to renewable energies.[43]

Fossil Gas

In its *2022 Sustainable Investing Report*, CDPQ notes that "we are also tracking our exposure to natural gas, an industry still necessary to meet today's energy needs. ... For now, we consider natural gas a necessary energy source for the transition and an alternative to more polluting energies, such as coal. At the same time, we continue to raise awareness among our portfolio companies, encouraging them to adopt best practices and meet our high sustainability requirements."[44]

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.[45] CDPQ also appears to ignore the fact that the lifecycle GHG emissions of fossil gas could be just as high as those of coal.[46] 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. In December 2023, CDPQ announced that it would spend $848 million to increase its stake in Transportadora Associada de Gás S.A. (TAG), which owns and manages a 4,500-km fossil gas pipeline network in Brazil, from 35% to 50%.[47]

Énergir

CDPQ is the majority shareholder (80.9% ownership stake) in Énergir, a Québec-based energy company that distributes natural gas, "renewable" natural gas and electricity.[48] CDPQ states that Énergir has made several concrete changes in recent years, including the implementation of a "detailed decarbonization plan" for 2030 and the adoption of an ESG policy, and that these changes "will enable the company to become a North American leader in sustainability and accelerate the energy transition where it operates."[49] CDPQ's Emmanuel Jaclot, Executive Vice-President and Head of Infrastructure, also claims in CDPQ's *2022 Annual Report* that half of Énergir's assets are now related to electricity, renewable energy and energy services, and that CDPQ's investment "will support the ongoing diversification and decarbonization of Énergir's activities while helping develop innovative energy projects in Québec, such as producing renewable natural gas through biomethanization" (p.75).

However, Énergir is facing criticism in Quebec for developing an emissions reduction target and implementation plan that falls short of Paris alignment, delaying the phase-out of gas appliances and heating equipment in homes and buildings, and receiving compensation from Hydro-Québec for potential revenue losses from the province's accelerating switch from gas to electricity.[50] Énergir is also the subject of a greenwashing complaint to Quebec's Consumer Protection Office related to alleged "false or misleading representations" made to gas customers about the amount of renewable natural gas Énergir is able to deliver to their homes.[51] Moving into 2024, Énergir stands accused of contradicting CDPQ's net-zero commitment over its pursuit of legal action to invalidate a municipal law that would ban gas heating in new buildings in the small city of Prévost.[52]

CDPQ is facing growing pressure within Quebec to use its ownership of Énergir to reorient the gas utility's business model towards a deep, accelerated decarbonization of the provincial economy, driven by renewable energy, efficiency and conservation, while ensuring a just transition for workers.

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 the Paris Aligned Asset Owners 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. CDPQ's *Policy Governing the Exercise of Voting Rights of Public Companies* says nothing about how the fund will vote on shareholder proposals related to Indigenous rights. CDPQ reported in 2023 that it developed a new analysis grid that "targets issues to be considered when Indigenous (First Nations and Inuit) perspectives must be taken into account." The tool was developed with Coop Nitaskinan, a worker-based Indigenous solidarity cooperative that brings together members who are committed to the socio-economic and cultural development of First Nations, driven by Indigenous vision and values.[53]
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, including 2023-2024 Science-Based Targets Campaign • Ceres Investor Network • Climate Action 100+ • Climate Bonds Initiative • ESG Data Convergence Project • Global Investors for Sustainable Development • IFRS Sustainability Alliance • International Corporate Governance Network • Investor Leadership Network • Powering Past Coal Alliance • Principles for Responsible Investment • Say on Climate • Sustainable Finance Action Council • Sustainable Markets Initiative • Task Force on Climate-Related Financial Disclosures • Taskforce on Nature-Related Financial Disclosures • Terra Carta signatory • United Nations Environment Programme - Finance Initiative

Self-reported assets linked to climate solutions*	$47 billion, or 11.7% of AUM (December 31, 2022) in "low-carbon" assets**
Estimated investments in fossil fuels	$24 billion, or 6% of AUM (December 31, 2022)***
Notable fossil fuel holdings (not a comprehensive list)	• A 35% stake in Transportadora Associada de Gás S.A.,[54] to increase to 50% in 2024.[55] • A 16.6% ownership interest in the Colonial pipeline.[56] • An 80.9% ownership stake in Énergir.[57] • A 79.9% ownership stake in Southern Star Acquisition Corporation, which owns and operates the Southern Star Central Gas Pipeline.[58]

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

** CDPQ's low-carbon assets are defined according to the Climate Bonds Initiative taxonomy and are broken down in its *2022 Sustainable Investing Report* by renewable energy, sustainable transportation, low-carbon properties and "other."[59] This amount represents an increase of $8 billion over the previous year and a $29 billion increase since 2017.[60]

*** According to CDPQ's *2022 Sustainable Investing Report*, 3% of CDPQ's holdings are invested in "energy" and 3% are invested in "non-renewable electricity," an amount equal to 6% of CDPQ's December 31, 2022, AUM of $401.9 billion.[61] An analysis of CDPQ's regulatory filings to September 30, 2023 showed CDPQ held shares valued at more than $1 billion in publicly-traded fossil fuel companies.[62]

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- 2022 Annual Report (April 2023)
- 2022 Annual Report Additional Information (April 2023)
- 2021 Annual Report (2022)
- 2021 Annual Report Additional Information (2022)
- 2021 Sustainable Investing Report (April 2022)
- Highlights - 2021 Sustainable Investing Report (2022)

CDPQ Documents

- 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 2022)
- Mandate of the Investment and Risk Management Committee (August 2022)
- Policy - Sustainable Investing (October 2021)
- Green Bond Framework (April 2021)
- Climate Strategy (2021)
- Policy Governing the Exercise of Voting Rights of Public Companies (October 2020)

CDPQ Webpages and press releases

- As at June 30, 2023, CDPQ posted an average return of 4.2% over six months and 6.0% over five years (press release) (August 16, 2023)
- CDPQ posts -7.9% six-month return and 6.1% five-year return, outperforming its benchmark portfolio over all periods (press release) (August 17, 2022)
- CDPQ posts a 13.5% return in 2021, 8.9% over five years (press release) (February 24, 2022)
- Executive Committee (webpage) (accessed September 2023)
- Board of Directors (webpage) (accessed September 2023)
- Our clients, the depositors (webpage) (accessed November 2023)
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Other

- Sortons la Caisse du carbone (S. Collard): *Analyse du Rendement du Carbone 50 de la CDPQ Entre 2011 et 2022* (May 2023)
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CANADA PENSION PLAN INVESTMENT BOARD (CPPIB, or CPP Investments)

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 working and retired Canadian citizens outside of Quebec are members of the CPP.

Assets Under Management (AUM): $576 billion (September 30, 2023)

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

OVERALL CLIMATE SCORE	C–

Summary and 2023 Updates

CPPIB is taking positive steps to assess the financial risks of climate change and navigate its portfolio through the energy transition. In 2021, CPPIB set a net-zero by 2050 emissions target which includes scopes 1, 2 and 3 emissions. The investment manager has developed a climate plan and issued several short reports on the energy transition and decarbonization. It has built specialized cross-organizational climate expertise and is using increasingly sophisticated tools and processes to generate value from the net-zero transition. CPPIB has smartly used its "Abatement Capacity Assessment Framework" to begin identifying profitable pathways for portfolio companies to decarbonize under CPPIB's "decarbonization investment approach." CPPIB is making large and growing investments in "green and transition assets," but remains a significant owner of fossil fuel assets, including those that are expanding oil and gas production.

CPPIB remains one of the only pension plans analyzed in this report that has yet to set interim portfolio emission reduction targets. CPPIB waffles on its communication of climate urgency, downplaying the systemic, existential nature of the climate crisis and the outsize role that it must play as a half-trillion dollar pension manager in keeping global temperature increases within safe limits. The national pension manager continues to make regular public statements that celebrate Canada's oil and gas industry and obfuscate the scientific imperative to rapidly phase out fossil fuels. CPPIB has repeatedly stated that it is opposed to "blanket [fossil fuel] divestment."

What CPPIB still needs to do:

- ☐ Publicly acknowledge the consensus science, including from the Intergovernmental Panel on Climate Change and the International Energy Agency, that limiting global temperature increase to 1.5°C requires an immediate end to expansion as well as the rapid phase-out of oil, gas, coal and related infrastructure.
- ☐ Join a credible and accountable Paris-aligned investor body such as the Net Zero Asset Owner Alliance or the Paris Aligned Asset Owners.
- ☐ Set credible Paris-aligned interim emissions reduction targets, including targets to reduce absolute emissions.
- ☐ Place a strict limit on the role of carbon offsets in both its own net-zero commitment and the net-zero commitments of portfolio companies.
- ☐ Build on public advocacy for mandatory standardized climate risk disclosure to become a vocal proponent of stringent, ambitious, Paris-aligned climate and energy policies that provide certainty for companies and investors.
- ☐ Engage owned companies using time-bound criteria and a process that escalates to divestment to ensure companies rapidly develop profitable and credible net-zero pathways.
- ☐ Set time-bound targets to measure the success of climate engagements and provide more detailed reporting on outcomes of specific companies.
- ☐ Strengthen *Proxy Voting Principles and Guidelines* to require companies to have science-based decarbonization plans.
- ☐ 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; and
    - ☐ refrain from directing capital toward fossil fuel expansion.
- ☐ Publish detailed case studies of companies that have undergone CPPIB's *Abatement Capacity Assessment Framework* and subject them to peer review by climate and energy experts.
- ☐ Divest from fossil fuel producers and exclude any new investments in coal, oil, gas or related infrastructure.
- ☐ Release a timeline and plan for the managed phase-out of existing fossil fuel assets.
- ☐ Require climate expertise on the Board of Directors, explicitly differentiated from "Sustainable Investing/ESG" expertise.
- ☐ Avoid climate-related conflicts of interest and refrain from re-appointing directors with concurrent 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 science-based global climate commitments.
- ☐ As a federal Crown Corporation, develop a comprehensive Indigenous rights policy that aligns with the Government of Canada's *Implementing the United Nations Declaration of the Rights of Indigenous Peoples Act*.
- ☐ 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.

FULL ANALYSIS	
Paris-Aligned Target	**C**

2023 updates:

- None.

CPPIB's net-zero emissions by 2050 target stands out among Canadian pension fund targets because it explicitly includes scope 3 emissions. CPPIB's definition of net-zero in its *Investing in the path to net-zero* document 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 (p.2). CPPIB also includes five "Climate Change Principles" that guide its commitment to net-zero (*FY 2023 Annual Report*, p.65).

CPPIB does not yet have interim targets, has not joined a credible and accountable Paris-aligned investor body, has not committed to follow the recommendations of the United Nations High Level Expert Group on Net-Zero Emissions Commitments of Non-State Entities, and has not specified the role of offsets in achieving net-zero.[1] CPPIB's position on offsets must be clarified, as the fund has made investments in carbon credits, includes the purchase of offsets as an emissions abatement option for companies in its *Abatement Capacity Assessment Framework*; and used certified offsets, allegedly generated from the avoidance of conventional logging, to claim that CPPIB's operations were carbon neutral in 2023 (*2023 Report on Sustainable Investing*, p.28, *FY 2023 Annual Report*, p.67). CPPIB's Chief Sustainability Officer (CSO) said in February 2023 that businesses should prioritize emissions reduction first and limit the role of offsets to high-integrity removal credits for hard-to-abate emissions that cannot be eliminated technologically or economically.[2]

While the CPPIB's net-zero commitment includes scope 3 emissions, currently only 6-7% of scope 3 emissions are being directly reported by CPPIB portfolio companies (*2023 Report on Sustainable Investing*, p.41).

Interim Targets	**F**

2023 updates:

- CPPIB remains one of the only Canadian pension funds analyzed in this report that does not have interim emissions reduction targets, and reported that its portfolio emissions are likely to increase in the near term.
- CPPIB increased its investments in "green and transition assets" from $66 billion in 2022 to $79 billion in 2023, although it is unclear which particular assets CPPIB classifies as "transition" and whether they are actually aligned with net-zero.

Interim emissions reduction targets

CPPIB remains one of the only Canadian pension funds analyzed in this report that has yet to set interim emissions reduction targets. In a May 2023 interview with the *Toronto Star*, CPPIB's CEO said that he believes interim targets create an incentive to sell off investments in high-emitting businesses, rather than spending the money it takes to reduce emissions.[3] While CPPIB reported a reduction in its total carbon emissions and carbon footprint for non-government holdings in fiscal year (FY) 2023, the pension fund says its carbon emissions "will fluctuate over time" and that it "will only set targets when we have the confidence that they are feasible, achievable and aligned with our investment mandate" (*Sustainable Investing: Approach*, webpage).

CPPIB's lack of interim targets is at odds with the Paris Agreement, as it neglects to account for the significant reduction in emissions that must be achieved by 2030 and makes it virtually impossible for Canadians to hold CPPIB accountable for progress toward its net-zero commitment. CPPIB says on its *Our Net-Zero Commitment* webpage that "we recognize that our portfolio's emissions are likely to increase in the near term." Temporary increases in portfolio emissions may be necessary and unavoidable, as pension funds can play a crucial role in deploying capital to help high-carbon, hard-to-abate companies and industries profitably decarbonize. Other pension funds, such as the Ontario Teachers' Pension Plan, OMERS and Caisse de dépôt et placement du Québec (CDPQ) have acknowledged this emissions reduction challenge by creating specific transition asset portfolios, the emissions of which are accounted for separately from their broader portfolio's emissions reduction targets. By doing the same, CPPIB could both enhance accountability toward achieving its net-zero commitment and enhance transparency of holdings that it considers to be "transition assets" that it is stewarding toward decarbonization.

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

Green and transition assets

CPPIB's 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, this target seems low in proportion to CPPIB's projected AUM in 2030. CPPIB's investments in green and transition assets represented 14% of AUM as of March 31, 2023. With CPPIB's AUM projected to be $991 billion in 2030 (*The Fund*, webpage), the projected $130 billion investment in green and transition assets would amount to just 13% of AUM in 2030 — lower than the current proportion.

Between FYs 2022 and 2023, CPPIB increased its investments in green and transition assets from $66 billion to $79 billion. The one-year increase came from a combination of new investments, existing assets becoming green- and transition-eligible by taking actions such as achieving Science Based Targets initiative (SBTi) certification, and increased market valuations of eligible assets (*FY 2023 Annual Report*, p.66).

CPPIB bolstered its definition of "green and transition assets" in 2023, laying out clear conditions for differentiating "green" from "transition" and using revenue thresholds, asset types and decarbonization targets validated by reputable bodies like the International Capital Markets Association, Climate Bonds Initiative and SBTi (*FY 2023 Annual Report*, p.70).

But CPPIB's incomplete reporting of these assets continues to obfuscate the extent of CPPIB's holdings in oil, gas, coal and related infrastructure that do not have a credible pathway to decarbonization other than phase-out. Despite repeated requests, CPPIB has not disclosed a list of individual assets that it considers to be "green and transition." This problem is further exemplified by CPPIB's "Sustainable Energies" portfolio, which includes renewable energy, energy efficiency and conservation, and agriculture companies, but also oil and gas producers, pipeline companies, gas-fired power producers and carbon capture utilization and storage (CCUS) infrastructure for oil and gas. This lack of transparency and obfuscation makes the CPPIB's claim of having $79 billion in "green and transition" assets impossible to verify.

Communication of Climate Urgency	C

2023 updates:

CPPIB is the only pension fund in this report to receive a lower score than last year in any category. In 2022, CPPIB received a B on Communication of Climate Urgency; in 2023, that score has been lowered to a C. While CPPIB staff sometimes indicate they understand the systemic and existential nature of the climate crisis, CPPIB executives regularly undermine the pension fund's credibility by signaling they intend to prop up the primary cause of the crisis: fossil fuels.

CPPIB frequently notes in its reporting that climate change brings significant risks and opportunities and that the fund's performance will be influenced by how well its portfolio companies and portfolios adapt "alongside the global economy on the path to net zero" (*FY 2023 Annual Report*, p.22).

Sample language from CPPIB's *Investment Beliefs:*

"Climate change may well radically change economies and capital markets. Managing the risks and opportunities created by these and other broad factors is an integral part of CPP Investments' investment processes, to ensure the Fund is structured to create value and growth that is sustainable over the long term" (*Our Investment Beliefs*, webpage).

There are also instances where CPPIB communicates the urgency and severity of the climate crisis. For example, a post by CPPIB's *Insights Institute* in November 2023 says that "the risk of foregoing short-term pain will be long-term pain — a permanent cost to business, the planet and society. No one can afford to wait" (*The profits of purpose: How can we shift from corporate commitments to concrete action on decarbonization?*).

Sample language from CPPIB's Managing Director and Head of Sustainability Integration in October 2023:

"Climate change is the greatest challenge of our lives, and there's no time to waste, especially for institutional investors like us. This is a multilateral and interdisciplinary challenge to figure out, and it's one we're running out of time to tackle. It's a business problem and it's a business opportunity. We're here to do the hard work, and we're in such a great place to do it" (*The biggest takeaways from Climate Week for investors*, website post).

But CPPIB stops short of embracing the extent of its agency when it comes to decarbonization. An investor with CPPIB's size and influence has the ability to hinder or contribute to international and domestic climate targets with its investment and asset management decisions and the signals it sends to markets and governments through its public communications. CPPIB even seems to downplay its influence and agency in accelerating emissions reductions, stating that "the financial sector cannot solve climate change alone" and "should never have been positioned that way" (*The profits of purpose: How can we shift from corporate commitments to concrete action on decarbonization?*). CPPIB does not clarify who stated that the financial sector alone could solve climate change. This spurious argument seems to attempt to shift responsibility away from the half-trillion-dollar asset manager, rather than rise to the occasion and acknowledge CPPIB's significant influence and agency.

Unlike leading Canadian pension funds, CPPIB neglects to acknowledge double materiality (meaning that the climate impacts the fund, but also that the fund's investment decisions and approaches to decarbonization impact the climate), as illustrated by this short sentence on its *Our Net-Zero Commitment* webpage: "As the world moves to net zero we are moving with it."

Sample language from CPPIB's *Road To Zero Decarbonization Investment Approach Progress Report* (p.5):

"To be clear, our net-zero commitment is made on the basis and with the expectation that the global community will continue to advance towards the goal of achieving net-zero greenhouse gas emissions by 2050. These advancements include the acceleration and fulfilment of commitments made by governments, technological progress, fulfilment of corporate targets, changes in consumer and corporate behaviours, and development of global reporting standards and carbon markets, all of which will be necessary for us to meet our commitment."

So while there are examples of CPPIB communicating the urgency of the climate crisis, these are undermined by its passive approach to the transformative changes that are required to avoid dangerous global temperature increases that could undermine CPPIB's mandate. CPPIB seems to shy away from the outsize role it must play in decarbonizing the real economy and helping Canada and the world achieve the Paris Agreement.

Propping up oil and gas is not part of CPPIB's mandate

CPPIB executives' persistent public statements on the fund's willingness to prop up and prolong the life of the fossil fuel industry have contributed to CPPIB's lower climate urgency score this year. (See *Industry Capture*? box on p.14.)

CPPIB senior staff have also peddled the dangerous myth that Canada has a reputation for "responsibly-produced energy"[4] (in the same year that Canadians learned that Imperial Oil leaked millions of litres of oil sands tailings and toxic chemicals into Alberta waterways from its Kearl oil sands project and then hid it from regulators, the public and downstream Indigenous communities for months).[5] Canada produces some of the highest emissions-intensity oil in the world, and there is no such thing as responsibly-produced oil in the midst of a worsening climate emergency.[6] CPPIB even went so far as to showcase its investments in the Alberta oil and gas industry and brag– on the same day as the opening of COP28 in Dubai– about one of its portfolio companies drilling the third most wells in Canada in the first nine months of 2023.[7]

CPPIB veers away from its mandate when it tries to justify its support for the fossil fuel industry, saying that it sees its role as:

- "avoiding sharp dislocations in specific industries and geographies" (*2023 Sustainable Investing Report*, pp.5-6);
- "addressing the energy trilemma of security, affordability and sustainability;"[8]
- preserving public support for decarbonization;[9] and
- helping oil and gas companies reduce marginal operational emissions instead of rapidly phasing out production.[10]

While the energy transition objectives stated by CPPIB staff may be worthwhile goals, they have little to do with the fund's mandate, and suggest that CPPIB may be more concerned about responding to domestic political pressures than doing what is necessary to limit the worst impacts of climate change.[11] It will be impossible for CPPIB to fulfill its mandate if the climate crisis spirals out of control, but CPPIB is neither speaking nor acting like it.

Climate Engagement	B–

2023 updates:

- CPPIB applied its Decarbonization Investment Approach to more than ten new and existing assets, and CPPIB reporting demonstrates that its Abatement Capacity Assessment Framework is achieving strategic value and emissions reductions for some portfolio companies.
- CPPIB updated and strengthened its *Proxy Voting Principles and Guidelines* in 2023 to enhance climate-related expectations of companies and lay out escalatory steps CPPIB will take for companies that aren't aligned.

SUMMARY

CPPIB's score in this category reflects the decarbonization efforts it is applying to its companies, such as through its Decarbonization Investment Approach and application of its Abatement Capacity Framework, and its strengthening of its climate-related *Proxy Voting Principles and Guidelines* in 2023.

CPPIB says that, for the year ending June 30, 2023, its engagement contributed to material commitments and improvements on climate-related disclosures and practices at 22 companies, including dedicating a board committee or director responsible for climate oversight, enhancing details of a company's decarbonization plan, or quantifying the financial impacts from climate-related risks and opportunities (*2023 Report on Sustainable Investing*, p.20).

However, CPPIB still falls short on climate engagement by:

- Failing to set its own interim emissions reduction targets, which would signal to owned companies that they must demonstrate emissions reductions in line with a net-zero pathway;
- Failing to require owned companies to have science-based net-zero targets and plans to achieve them;
- Failing to signal to its owned companies or potential investees the imperative to decrease fossil fuel production and phase out fossil fuels;
- Providing few details on how the fund escalates its engagement when companies fail to align on climate.

DETAILS

Expectations for owned companies

CPPIB expects companies to report on and disclose an appropriate governance structure for monitoring climate risks and opportunities, and have a credible transition plan to navigate them. CPPIB also says "sustainability-related factors" should be tied to company executive compensation, but stops short of setting an expectation for companies to incentivize emissions reduction through compensation (*Sustainable Investing: Expectations*, webpage).

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, and has set no interim targets itself. 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 against climate action, either individually or through industry associations.

Decarbonization Investment Approach

CPPIB has developed a smart framework under its *Decarbonization Investment Approach* to help portfolio companies identify economical pathways to reduce emissions. CPPIB reported in 2023 on having applied its decarbonization investment approach to "more than ten existing and new assets spanning the real estate, infrastructure, agriculture, energy and tourism sectors," which helped "develop transition plans that increase value in those companies and provide us with key learnings for other parts of our investment portfolio" (*CPP Investments Publishes 2023 Report on Sustainable Investing*, press release). The collective scope 1 and 2 emissions of the companies selected for the first cohort of companies under the decarbonization investment approach exceeded 3.5 million tonnes of CO_2e, approximately 16.4% of the total emissions of CPPIB's non-government holdings (*Decarbonization Investment Approach Progress Report*, p.5).

CPPIB's *Decarbonization Investment Approach Progress Report* suggests that companies should take a sequential approach to identifying emissions-reduction opportunities that can be abated today using available and proven technologies. The approach should start with efficiency measures that reduce emissions without capital outlay, followed by decarbonization levers that reduce energy demand and add investments in renewable energy supply, and then a "probable category" for emissions which would likely be economically abatable over a 10-25 year period but which would require higher capital expenditures (p.11). Companies can then move on to a strategic discussion about how to address emissions that cannot be abated, either because it is technically not possible or very uneconomic. Options might include closure or shutdown of operations, reliance on technological moonshot solutions like CCUS or green hydrogen, or purchase of high-quality carbon offsets (pp.12, 13, 15, 20).

CPPIB did not explain that the only credible "decarbonization investment approach" for oil and gas companies is to phase out production, nor has CPPIB explained how it can profitably wind down the operations of its fossil fuel holdings while generating returns for Canadians. On the contrary, CPPIB instead makes regular public statements affirming its commitment to continued oil and gas production. (See Shift's detailed analysis of CPPIB in its *2022 Canadian Pension Climate Report Card - CPPIB Analysis*, pp.8-9, and *Industry Capture*? box on p. 14 of this analysis.)

CPPIB's claims of limited influence to drive decarbonization

While CPPIB claims that it can effectively support decarbonization through its influence, active ownership, and avoidance of "blanket divestment" (*Road To Zero Decarbonization Investment Approach Progress Report*, p.5), comments from CSO Richard Manley indicate CPPIB is either taking a back seat or doesn't know how to wield influence. For example, Manley said that CPPIB is "telling companies our expectations and leaving it to them to find the best ways to decarbonize" (*The biggest takeaways from Climate Week for investors*). And in an interview with Net Zero Investor, Manley said the fund was limited in influencing decarbonization, having available only the levers of portfolio design, security selection, governance rights and sometimes contractual terms.[12]

This is a stunning admission from an influential pension manager and asset owner that repeatedly vaunts the need for engagement and active ownership while denouncing divestment and exclusions.

Direction given to partners and 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 a sustainability-related due diligence questionnaire completed by General Partners and external managers which includes questions related to climate change (*2023 Report on Sustainable Investing*, p.13; *2022 Report on Sustainable Investing*, p.5; *2021 Report on Sustainable Investing*, p.16). But no information is provided regarding what these questions are or what guidance CPPIB subsequently provides to these partners.

Proxy voting

CPPIB updated its *Proxy Voting Principles and Guidelines* in February 2023 and transparently posts its individual proxy vote decisions in advance of companies' annual meetings (S*ustainable Investing: Proxy Voting*, webpage). The updated principles and guidelines (p.11) include the consideration of business' dependency on natural systems through specific commodities or operation locations and the potential impacts on companies' long-term performance, an encouraging nod to the importance of biodiversity and nature protection (*2023 Report on Sustainable Investing*, p.14).

CPPIB says it generally supports shareholder proposals that "improve practices and disclosure on governance, strategy, risk management, performance metrics, and targets and opportunities related to climate change" (*Proxy Voting Principles and Guidelines*, p.12). CPPIB also affirms that "we expect boards and executives to integrate climate risks and opportunities into their strategy, operations and where material, disclosure" (p.21).

CPPIB's *Proxy Voting Principles and Guidelines* now state that in some instances ("For companies that contribute the largest climate change risks in our public equities portfolio"), the fund will vote against accountable board members "where boards have failed to demonstrate adequate consideration and assessment of physical and transition-related impacts from climate change" (p.21-22). Based on the guidelines' wording, however, CPPIB could still consider boards to have demonstrated "adequate consideration and assessment" without the company having a credible net-zero transition plan. CPPIB says that it will "consider" escalating its voting practice "in future years," making it unclear how long CPPIB will allow companies to inadequately manage climate risks (p.21-22).

CPPIB also defers to company boards and management and generally opposes shareholder proposals that it deems to be overly prescriptive, even if the company's climate plan lacks credibility, stating, "We respect that companies we invest in determine their own specific climate-related transition strategies" (p.21).

With the number of caveats in CPPIB's *Proxy Voting Principles and Guidelines* and its position on "overly prescriptive" shareholder proposals, it is difficult to predict how CPPIB will vote on climate-related shareholder resolutions, or what it would take for CPPIB to consider a company uninvestable due to inadequate management of climate risks. In light of the climate crisis, CPPIB must set the expectation that companies commit to credible climate plans within a specified timeframe, and promptly vote against directors when this expectation is not met. CPPIB must also convey the expectation that its capital will no longer remain available to (i.e. that it will divest from) companies that fail to develop credible climate plans.

CPPIB reported that for the year ending June 30, 2023, it voted for climate-related reasons against the reappointment of the chair of the risk committee (or an appropriate equivalent committee) at 24 companies, resulting in votes against 70 directors. (For comparison, the British Columbia Investment Management Corporation (BCI) reported that in 2022, it voted for climate-related reasons against 261 directors within 197 companies, driven by BCI's guideline to consider votes against directors for "a weak response to climate change risk or inadequate disclosure").[13] CPPIB also voted for 26 climate-related shareholder proposals that sought deeper disclosures on topics such as climate accountability, operational emissions management, asset portfolio resilience and public policy (*2023 Report on Sustainable Investing*, p.20).

When it comes to climate engagement of oil and gas companies in particular, there is little evidence that these companies are properly managing climate risks, or that CPPIB is withholding its support for directors. For example, an analysis of CPPIB's 2023 proxy voting records shows that the pension manager voted to elect 95% of directors of major oil sands companies,[14] even as they expand oil and gas production, lobby against climate policies and refuse to allocate capex to climate solutions.[15]

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 Initiative, Investor Leadership Network), it is not clear if CPPIB is collaborating with other institutional investors on targeted climate-related engagement of owned companies.

Policy engagement

CPPIB regularly provides comments on sustainability-related public and government consultations, such as to the U.S. Securities and Exchange Commission, International Sustainability Standards Board (ISSB) and other bodies setting standards and policies for climate risk reporting (*Sustainable Investing: Influence*, webpage). But CPPIB must become more vocal and assertive in its advocacy to help ensure that governments in Canada and around the world are developing and implementing stringent and durable laws, policies and regulations that accelerate emissions reductions in line with the Paris Agreement.

Climate Integration	C+

2023 updates:

- CPPIB released an actuarial report by Canada's Office of the Superintendent of Financial Institutions (OSFI) that included a climate scenario analysis of the impact of three different scenarios on the CPP.
- CPPIB created a new framework to assess physical and transition impacts on its private real estate holdings in 2023.

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.[16] CDPQ and BCI are the only other pension managers with investment disclosure that approaches that of CPPIB.

Transparency and disclosure of climate risk

When asked by beneficiaries in a formal letter in 2021, CPPIB did not provide a list of high-carbon assets or assets that are aligned with 1.5°C.[17] CPPIB continues not to disclose a list of assets it considers to be aligned with climate safety despite multiple repeated requests from contributors and beneficiaries in 2022 and 2023.

CPPIB's reporting of its asset classes in its *FY 2023 Annual Report* makes it virtually impossible to determine how exposed the fund is to fossil fuels. "Sector Diversification" reporting of CPPIB's Active Equities (p.55), Credit Investments (p.57) and Private Equity (p.59) includes no breakdown by "energy" or "oil and gas," but only an "Other" category that could include significant fossil fuel holdings (p.55). CPPIB's reporting of its "Real Assets" portfolio includes a "Sector Diversification" breakdown that includes "Power Generation," "Utilities and Other Infrastructure," and "Energy and Resources," but it is unclear where oil, gas and related infrastructure fall within these reporting categories (pp.61-62). As discussed above, CPPIB has not disclosed which of its assets it considers to be "green" and "transition", while its "Sustainable Energies" portfolio appears to include fossil fuel companies.

In its *2023 Report on Sustainable Investing*, CPPIB reports that approximately 51% of the fund's total emissions are directly reported by portfolio companies. CPPIB expects this percentage to increase as climate-related reporting disclosures improve. CPPIB also reported that only 6-7% of the fund's scope 3 emissions are directly reported by portfolio companies, so scope 3 emissions are not included in its portfolio emissions reporting (p.41). Considering that CPPIB's net-zero commitment explicitly includes scope 3, it is concerning that the CPPIB has not yet reported a scope 3 emissions figure and that such a small fraction of scope 3 emissions are directly reported to the fund by portfolio companies.

Scenario Analysis

While CPPIB's *2022 TCFD* 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). Similarly, CPPIB's *FY 2023 Annual Report* includes reporting on scenario analysis that concluded that a business-as-usual scenario where decarbonization efforts are less successful could lead to a potential annual impact to the fund's market value by up to 13% in the next 30 years, largely driven by physical climate risks. In a scenario where climate policy actions are more heavily concentrated in years after 2030 through abrupt adoption of stricter mitigation efforts to limit warming to no more than 2°C, CPPIB forecasts that its market value could be negatively impacted by up to 11% per year in the next 10 years, largely driven by transition risks associated with the sharp fall in GDP and knock-on consequences for consumer demand (*FY 2023 Annual Report*, p.66). And a November 2022 actuarial report from the Office of the Superintendent of Financial Institutions (OSFI), which CPPIB released with its annual report in May 2023, included an analysis of how three different climate scenarios might impact global GDP growth and the CPP, including an "orderly transition," "disorderly/delayed transition," and "failed transition" scenario. OSFI's scenario analysis showed that minimum contribution rates to the CPP would be significantly higher by 2034 in a failed transition scenario compared to an orderly transition.[18]

With this information in hand, which clearly shows that delayed action on climate will be detrimental to the fund, it is astounding that CPPIB continues to invest in fossil fuel expansion. Every action CPPIB and its portfolio companies take to expand and prolong the use of oil and gas brings a delayed or disorderly transition closer to fruition, increasing the likelihood of double-digit losses to the fund.

CPPIB has also implemented a "Climate Change Strategy Security Selection Framework" which considers "high-physical-risk scenarios" (more than 4°C of global temperature increase) and "high-transition-risk scenarios" (less than 2°C of warming) (*FY 2023 Annual Report*, p.21). CPPIB reports that it is supplementing its Climate Change Security Selection Framework with a proprietary net-zero scenario framework (*2023 Report on Sustainable Investing*, p.11).

Finally, CPPIB created a new framework to assess physical and transition impacts on its private real estate holdings in 2023, in order to assess risks, identify for further engagement those assets most exposed, and inform future investment decisions (*2023 Report on Sustainable Investing*, p.12).

Climate risk expertise

In August 2023, CPPIB's CEO told *Responsible Investor* that the fund's sustainable investing group included 22 staff members, but his goal was to ensure the entire organization has "the relevant fluency in sustainability to integrate it where material across investment lifecycles." The sustainable investment group arranges secondments in order to bring their sustainability expertise to other departments.[19] CPPIB also strengthened its climate-related governance in 2023, including enhancing the accountabilities of the CSO and making the Sustainable Investing Committee into a senior management sub-committee of its Investment Strategy and Risk Committee (*2023 Report on Sustainable Investing*, p.9). CPPIB sent a delegation of five staff to NYC Climate Week in September 2023 (*The biggest takeaways from Climate Week for investors*) and organized a Sustainable Energies Group Leaders Summit in fall 2023 that brought together executives from CPPIB portfolio companies with energy sector leaders (*Sustainable Energies Group Leaders Summit*).

Board climate expertise and/or fossil fuel entanglement

No directors on the CPPIB board are identified as having climate expertise. CPPIB's "Board composition matrix" does not include climate risk expertise in its key areas of skills and experience. Board professional development topics included climate change reporting in FY 2023 (*FY 2023 Annual Report*, p.82).

As of December 31, 2023, four of 12 CPPIB Board members, or one-third of the board, have current ties to fossil fuel companies.

- Judith Athaide sits on the board of directors of Kiwetinohk Energy,[20] which produces and processes fossil gas in the Montney and Duvernay formations in Alberta and B.C.[21] and operates gas-fired power generation and renewable energy projects in Alberta.[22]
- Ashleigh Everett is the current President, Corporate Secretary and Director of Royal Canadian Securities Ltd., which owns Domo Gasoline Corp,[23] a gasoline retailer with over 90 stations throughout Central and Western Canada.[24]
- Sylvia Chrominska sits on the board of directors of Wajax Corp,[25] an industrial supplier of equipment for mining and oil extraction, among other industries.[26]
- Barry Perry sits on the board of Capital Power.[27] Capital Power owns and operates two coal plants and 12 fossil gas power plants, as well as a growing portfolio of wind and solar projects, is planning to expand and build gas plants in Ontario,[28] and agreed to buy two new gas plants in the United States in November 2023.[29] Mr. Perry also serves on the board of Royal Bank of Canada,[30] which was the largest financier of fossil fuels in the world in 2022.[31]

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 *2023 Report on Sustainable Investing* states that "Sustainability-related considerations are incorporated into employee objectives and compensation structures across the Fund" (p.9). Here CPPIB falls behind not only CDPQ and Ontario Teachers', which are climate leaders among Canadian pension funds, but also behind OMERS and the Healthcare of Ontario Pension Plan, both of which did not release climate plans until 2023, and OPTrust, which released an updated climate strategy in 2022. These five funds have all specified a link between climate targets and compensation.

Fossil Fuel Exclusions	F

2023 updates:

- The CPPIB has not yet acknowledged the imperative to phase out fossil fuels, nor has it placed limits on fossil fuel investment.
- On the contrary, in 2023 CPPIB financed fossil fuel *expansion* and increased its exposure to the oil and gas sector by buying a 49% stake in California's second largest oil producer, while its portfolio companies continued to build new gas plants[32] and acquire new fossil fuel production assets[33] and its investment in a private equity fund financed new LNG export terminals.[34]

No exclusions.

CPPIB is lagging behind other institutional investors in recognizing the risks that fossil fuel investments pose to its portfolio. Investors with nearly US$42 trillion in AUM, including several other Canadian pension funds, have at least a partial exclusion on fossil fuels, with new divestment commitments announced regularly.[35] CPPIB must get over what appears to be an ideological commitment to fossil fuel investment and protect the retirement savings and climate future of Canadians by placing an immediate exclusion on new investments and releasing a timeline and plan for the managed phase-out of its existing fossil fuel assets.

CPPIB's *2023 Sustainable Investing Report* and accompanying documents and webpages rejected fossil fuel divestment 11 separate times, and no CPPIB documents contain any sort of exclusion on new investment in coal, oil, gas or related infrastructure. CPPIB's "Climate Change Principles" also explicitly reject "blanket divestment" (*Policy on Sustainable Investing*, p.4). CPPIB's ongoing support for the fossil fuel industry even raises concerns that the fund intends to *grow* its investments in oil and gas. For example, CPPIB CEO John Graham told a Calgary audience in November 2023 that the fund "will continue to look for additional investment opportunities in Alberta, in both traditional and renewable energy".[36] In 2023 CPPIB financed fossil fuel *expansion* and bought a 49% stake in California's second largest oil producer.[37]

CPPIB's CSO claims that "consensus has consolidated around the belief that the financial system should be empowered to finance the transition to a low-carbon future rather than mobilized to pursue a divestment agenda" (*2023 Sustainable Investing Report*, p.5). This is a false binary, as divestment and exclusions are simply part of a robust program of active ownership, engagement and climate risk management.

While CPPIB publicly commits to continue investing in fossil fuels, its *Sustainable Investing Policy* states that the fund may "choose not to pursue or maintain investments" (i.e. exclude or divest) for reasons including sustainability-related issues undermining long-term competitiveness, brand and reputation considerations from sustainability-related factors, and legal considerations" (p.6). Fossil fuel companies meet all three criteria, as other investors have concluded.

Yet while the *Sustainable Investing Policy* clearly articulates exclusion or divestment criteria, CPPIB continues to forswear divestment, as in its *2023 Sustainable Investing Report*: "While we may choose not to invest in particular companies on a case-by-case basis reflecting their fundamental investment case, we will not engage in blanket divestment that excludes investment in entire sectors of the economy" (p.10).

CPPIB's unwillingness to institute fossil fuel exclusions or phase-out commitments appears to be ideological. It is certainly not supported by science, which shows that fossil fuel production must be rapidly phased down to limit global temperature increase to 1.5°C.[38] Nor is it consistent with CPPIB's mandate to achieve a maximum rate of return without undue risk of loss. CPPIB's rejection of divestment seems to be more about palliative care for an industry in terminal decline than about fulfilling its mandate, as exemplified by statements such as, "the optimal green transition is one that removes the most GHG emissions from operations, while pursuing opportunities that create value for businesses and stakeholders and avoiding sharp dislocations in specific industries and geographies" (*Letter from the Chief Sustainability Officer, 2023 Sustainable Investing Report 2023*, p.6).

Industry Capture? CPPIB is not shy about spouting oil industry talking points.

CPPIB continues a troubling pattern, which we first documented in the *2022 Canadian Pension Climate Report Card*, of making public statements that:

1. signal that CPPIB will continue to prolong and prop up the fossil fuel industry;
2. paint the industry as a critical part of the energy transition (when in fact the industry must be phased out in order to limit global heating to 1.5°C);
3. confuse mitigation with transition, indicating a preference to incrementally reduce scope 1 and 2 emissions from oil and gas operations instead of making the required transition away from fossil fuels; and
4. amplify and repeat oil and gas industry propaganda that is demonstrably false.

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1. Signalling that CPPIB will continue to prop up the fossil fuel industry

"We've been able to take the energy leadership from here in Alberta and showcase it around the world — through forums like today and our CEO Global Energy Summit held last month. Alberta is uniquely positioned globally within the energy value chain. Canada has the potential to continue to be a global leader through innovation in traditional energy production with initiatives like the Pathways Alliance and significant potential to deliver LNG to global markets."

- CPPIB CEO John Graham, November 2023, *CPPIB Insights Institute*[39]

"Canada Pension Plan Investments (CPP) is on the hunt to buy utility and oil and gas assets unloved by competitors seeking to unload polluting assets, then profit from reducing greenhouse gas emissions and put them back on the market, Chief Sustainability Officer Richard Manley said on Thursday."

- October 2023, *Reuters*[40]

"We've been very transparent about how we think about investing in the transition and very transparent that we will continue to invest in the oil and gas sector."

- CPPIB CEO John Graham, February 2023, *ARC Energy Ideas podcast*[41]

"'On the international stage, CPP Investments and I have been a vocal advocate for a non-divestment approach to decarbonization. We were one of the first global investors to state publicly that divesting of conventional energy investments is counter-productive to global decarbonization goals,' [said CPPIB CEO John Graham]. The global investment community has also changed its tune when it comes to fossil fuel divestment, he added. Its perspective shifted after Russia's invasion of Ukraine shocked global energy markets and led to skyrocketing energy prices in Europe, which scrambled to end its reliance on Moscow fuels."

- November 2023, *The Globe and Mail*[42]

Why it's problematic:

Achieving a maximum rate of return without undue risk of loss in the long-run requires reducing the fund's exposure to high-risk sectors facing rapid, structural decline. It is not part of CPPIB's mandate to assure the oil and gas industry that CPPIB will remain a steadfast investor. Nor is it in the best long-term interest of CPPIB contributors and beneficiaries to signal to markets that fossil fuels will be around for many more decades or to undermine or criticize the decisions of investors or governments that have clearly articulated a call to phase out fossil fuels. CPPIB must publicly acknowledge the scientific consensus that phasing out fossil fuel finance is necessary in order to prevent catastrophic global heating outcomes that undermine the retirement security of Canada Pension Plan members.[43]

2. Framing the fossil fuel industry as a critical part of the energy transition

"Oil and gas has a critical role to play in the energy transition."

- CPPIB CEO John Graham, February 2023, *ARC Energy Ideas podcast*[44]

"The latter, like us, see far more scope for positive impacts, including very lucrative and sustained returns, by investing in the energy transition but, [sic] not forsaking oil and gas in its entirety. Unlocking value here will require decarbonization of high-emitting industries and, [sic] investments in solar and wind power, as well as innovations in carbon capture and sequestration, very distinct approaches, but ones that will collectively contribute toward a lower-carbon future."

- June 2023, *CPPIB Insights Institute*[45]

"We've long been of the view that to talk about the transition is too simplistic, and that the debate has to be about how we deliver the optimal transition — one that removes the most emissions from the economy with the least damage to the economy and one that is inclusive and sustainable of all stakeholders in the economy."

- CPPIB CSO Richard Manley, September 2023, *Net Zero Investor*[46]

"The Head of [Sustainable Energies Group], Bill Rogers, rallied everyone around a shared objective: delivering excellent risk-adjusted returns while addressing the energy trilemma of security, affordability and sustainability."

- October 2023, *CPPIB Insights Institute*[47]

Why it's problematic:

It is not a part of CPPIB's mandate to help oil and gas companies incrementally reduce emissions in order to prolong the production and use of fossil fuels. Nor is it part of CPPIB's mandate to falsely imply that ensuring energy security requires further fossil fuel expansion. Rather, prudent investment in the energy transition helps reduce costs and improve energy security for society, while accelerating the phase-out of climate-damaging fossil fuels. It is bizarre that CPPIB regularly communicates to companies and stakeholders that oil and gas are crucial to the energy transition, yet is silent when it comes to the scientific consensus that fossil fuels must be rapidly phased out in order to prevent catastrophic climate outcomes.

3. Confusing mitigation with transition

"Aera Energy is California's second largest oil and gas producer, accounting for nearly a quarter of the state's production. We're looking to pursue strong investment returns by helping Aera balance its energy transition efforts with the need to continue meeting California's energy demands by investing in renewable energy to power existing operations."

- May 2023, *CPP Investments FY2023 Results* (video)[48]

"We know that conventional energy will remain a critical component of primary energy supply for decades to come. The opportunity is to ensure that hydrocarbons that can't be substituted in the near-term are delivered to the market with the smallest possible emissions footprint by stopping fugitive methane release and taking scope 1 and 2 CO2 emissions to zero. Oil and gas producers could deliver a much cleaner molecule to market by comprehensively decarbonizing the production, processing and transmission processes in the value chain. If the oil and gas industry can do this, the airline or gas-fired power plant will only incur emissions associated with combustion, not the whole value chain. This is a real opportunity for the industry to dramatically slow global warming from continued hydrocarbon consumption until long-term substitutes are developed and deployed at scale".

- CPPIB CSO Richard Manley, September 2023, *Net Zero Investor*[49]

Why it's problematic:

There is a crucial difference between the concepts of *mitigation* and *transition*. For the oil and gas industry, mitigation refers to marginally reducing the carbon intensity of a barrel of oil to reduce upstream emissions, for example through measures like reducing methane leakage or powering operations with renewable energy. While mitigation is critical in the short-term, it cannot come at the expense of the required long-term transition, which by definition requires *transitioning* away from fossil fuels to zero-carbon sources of energy. Yet CPPIB spokespersons regularly make statements that seem to confuse mitigation with transition, undermining the fact that CPPIB's mandate could become impossible to fulfill if the world fails to phase out fossil fuels in line with 1.5°C emissions pathways.

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4. Repeating and amplifying false oil and gas industry propaganda

"There is very much a recognition around the world of the quality of Canada's traditional energy producers. And Canada does produce some of the most responsibly-produced hydrocarbons in the world and does have amazing technical talent."

- CPPIB CEO John Graham, February 2023, *ARC Energy Ideas* podcast[50]

"'Our upstream portfolio is increasingly focused on being lower carbon production. … It plays to building blocks we're doing elsewhere; increasingly responsible, energy efficient and green production of steam and what's required for oil production and carbon capture,' [said CPPIB Senior Principal and Head of Renewables and Power Bruce Hogg]. Hogg outlined the process envisaged, which will play into California's clean energy goals, which aims for 100 percent zero-carbon electricity and net-zero greenhouse gas emissions by 2045. 'In the near term, it provides accessible oil to meet energy supply and security needs for California but the plan over time is to decarbonise the supply of oil and ultimately turn this into a green business and asset,' explained Hogg."

- March 2023, *Infrastructure Investor*[51]

"We hosted the gathering in Alberta — not only because it is home to one of the world's most beautiful natural landscapes, but also because it has a reputation for responsibly-produced energy and skilled talent that can help advance the energy transition."

- October 2023, *CPPIB Insights Institute.*[52]

Why it's problematic:

Perhaps the most alarming example of CPPIB's fealty to the oil and gas industry is seeing CPPIB spokespeople regularly repeat industry propaganda that is demonstrably untrue. The most egregious example of this came in November 2023, when CPPIB President and CEO John Graham gave a speech before the Calgary Chamber of Commerce that highlighted CPPIB's investments in Alberta's oil and gas industry; falsely called Western Canada home to "some of the most responsibly produced conventional energy in the world," "something every Canadian should be proud of"; and called for Canada "to be a global leader through innovation in traditional energy production with initiatives like the Pathways Alliance and significant potential to deliver LNG to global markets."[53] CPPIB then chose to amplify this speech on the opening day of COP28, a conference at which the key measure of success was for the international community to agree to phase out fossil fuels.[54]

It should be obvious that achieving CPPIB's mandate is dependent on stabilizing global temperatures at relatively safe levels, while avoiding exposure of the fund to stranded assets. Canadians require a livable planet on which to retire, and climate scientists and energy modellers are clear that limiting global temperature increase to 1.5°C and avoiding catastrophic impacts to our ecosystems, economy and financial system requires fossil fuels to be rapidly phased out. By publicly pledging to grow its portfolio of oil and gas assets, CPPIB is making an alarming bet on the world failing to limit global heating to safe levels, putting the CPP at risk from an accelerating energy transition and Canadians' retirement security at risk from catastrophic climate change. Meanwhile, Graham's assertion that Canada is a "responsible energy producer" is a fictitious claim that's commonly made by the oil and gas industry, but shouldn't come from a prudent pension manager.[55] Amidst a worsening climate strategy, there is no such thing as "energy efficient" or "responsibly-produced" oil and gas.

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 the Paris Aligned Investment Initiative was considered when assigning scores.	
United Nations Declaration on the Rights of Indigenous Peoples	CPPIB has no disclosed policy requiring owned companies to respect Indigenous Peoples' right to free, prior and informed consent for projects affecting them. CPPIB's Proxy Voting Principles and Guidelines say nothing about how the fund will vote on shareholder proposals related to Indigenous rights.
Accountable Paris-aligned memberships	None.
Collaborations and memberships	• Carbon Disclosure Project • Canadian Coalition for Good Governance • ESG Data Convergence Initiative (co-chaired by CPPIB's CSO) • His Majesty's Treasury's Transition Plan Taskforce (UK) • Institute for Sustainable Finance • International Corporate Governance Network • Investor Leadership Network • International Sustainability Standards Board (Investor Advisory Group chaired by CPPIB's CSO) • Principles for Responsible Investment • IFRS Sustainability Alliance • 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*	$79 billion or 14% of AUM (March 31, 2023)**
Estimated investments in fossil fuels	Between $21.72 billion (4% of AUM) (September 30, 2022)*** and $63.35 billion (11% of AUM) (September 30, 2023)****
Notable fossil fuel holdings (not a comprehensive list)	• 18% stake in Civitas Resources.[56] • 99% ownership of Wolf Infrastructure (Wolf Midstream and Wolf Carbon Solutions).[57] • 13.4% stake in Calpine.[58] • 90% stake in Teine Energy.[59] • 12% ownership stake in Nedgia.[60] • 49.9% stake in Transportadora de Gas del Perú S.A.[61] • 43.5% stake in Nephin Energy / Corrib fossil gas field off the coast of Ireland.[62] • 98% in Encino Acquisition Partners (Encino Energy).[63] • 35% ownership of Williams Ohio Valley Midstream JV.[64]

Notable fossil fuel holdings (not a comprehensive list)	• 49% stake in Aera Energy.[65] • 72% stake in LongPoint Minerals, LLC and 44% stake in LongPoint Minerals II, LLC.[66]

* 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 as:

Green Assets

An asset is considered to be "green" when a substantial majority of its revenue can be classified as being derived from green sources or activities. Green Assets represent the total AUM of companies where:

- At least 95% of a firm's revenue is derived from International Capital Market Association (ICMA) Eligible Green Project sectors and/or subsectors identified as green; or
- The asset type is conditionally green according to the Climate Bonds Initiatives Taxonomy Paris Agreement Compliant criteria, and the relevant Screening Indicator is met; or
- If the above criteria are not clearly applicable, however the firm has a reasonable case to qualify, the Risk department will work with the applicable investment department to apply a bespoke assessment.

Transition Assets

Transition Assets represent the total AUM of companies that are actively contributing to the transition to a low carbon economy and can be categorized into two groups:

High emission companies with decarbonization plans

Companies are considered Transition Assets if they meet all of the following criteria:

- Have adopted decarbonization targets and are committed to transitioning towards a net-zero emissions economy by 2050.
- Have interim targets and track their progress with a specific business plan on how they will be achieved.
- Both targets and continued progress are validated by a credible third-party (such as SBTi).
- The allocation of capital can lead to substantial decarbonization opportunities, defined by operation in a high emissions sector.

Companies approaching Green Asset status

Companies which have substantial green revenues that currently fall short of the Green Asset threshold (95% minimum) may also be considered for inclusion, provided there is a credible plan to grow their green revenue share over time. This categorization may be applied when evaluating companies Green Asset eligibility, based on assessment by investment departments and the Risk department.

- *2023 Annual Report* (p.70)

*** CPPIB does not disclose a list of total investments in fossil fuels, and it is not possible to determine CPPIB's exposure to fossil fuels using publicly available information. CPPIB has refused to disclose its fossil fuel exposure and a list of fossil fuel investments when repeatedly asked by contributors and beneficiaries. Frank Switzer, the managing director of investor relations at CPP Investments, said in a July 2022 media article that CPPIB had $21.72 billion invested in "fossil fuel producers."[67] Using this number to estimate CPPIB's total fossil fuel investments likely provides an underestimate, as this figure does not include fossil fuel-related infrastructure.

**** CPPIB's President and CEO John Graham said in a speech at the Calgary Chamber of Commerce in November 2023 that 11% of the fund's assets were invested in "energy" globally, without differentiating between renewable energy, gas and electric utilities, and fossil fuels.[68] Using this number to estimate CPPIB's total fossil fuel investments likely provides an overestimate, as this figure may include CPPIB's investments in electricity infrastructure and renewable energy.

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- Press Release - CPP Investments Partners with IKAV to Acquire Aera Energy (February 28, 2023)
- Press release - CPP Investments Net Assets Total $570 Billion at 2023 Fiscal Year End (May 24, 2023)
- Press Release - CPP Investments Net Assets Total $575 Billion at First Quarter Fiscal 2024 (August 10, 2023)
- Press release - CPP Investments Commits up to US$30 Million to The Amazon Restoration Fund Managed by Mombak (August 22, 2023)
- Press release - CPP Investments Publishes 2023 Report on Sustainable Investing (October 19, 2023)
- Sustainable Investing (webpage) (accessed October 2023)
- Sustainable Investing - Approach (webpage) (accessed December 3, 2023)
- Sustainable Investing - Influence (accessed December 3, 2023)
- Sustainable Investing - Expectations (webpage) (accessed December 3, 2023)

- Sustainable Investing - Proxy Voting (webpage) (accessed December 3, 2023)
- Our Net-Zero Commitment (webpage) (accessed December 3, 2023)
- CPP Investments approach to sustainable investing (video) (October 2023)
- Takeaways from our 2023 Report on Sustainable Investing (video) (October 26, 2023)
- Our Investment Beliefs (webpage) (accessed December 3, 2023)
- Investing in the path to net-zero (webpage) (accessed December 3, 2023)
- Board of Directors (webpage) (accessed December 3, 2023)
- Sustainable Investing (webpage) (accessed November 2023)
- Holdings and Relationships (webpage) (accessed November 2023)
- Real Assets Investments (webpage) (accessed November 2023)
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- The Fund (webpage) (accessed November 30, 2023)

Other

- Shift's 2022 Canadian Pension Climate Report Card (2023)
- Shift's 2022 Canadian Pension Climate Report Card - CPPIB Analysis (2023)
- Shift's 2022 Canadian Pension Climate Report Card - Greenwashing Awards (2023)
- Shift's Analysis of CPPIB's regulatory filings to September 30, 2023 (2023)

The *2023 Canadian Pension Climate Report Card* analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers and three international pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. Information is current to December 31, 2023. View the full report at shiftaction.ca/reportcard2023.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

HEALTHCARE OF ONTARIO PENSION PLAN (HOOPP)

HOOPP is a defined benefit pension plan for 450,000 Ontario healthcare sector workers and retirees, with over 630 participating employers including hospitals, family health teams, foundations, community health centres and other organizations and service providers.

Assets Under Management (AUM): $103.7 billion (December 31, 2022)

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

Most improved: HOOPP was one of two funds to improve its overall score by an entire letter grade between the *2022* and *2023 Report Cards*.

OVERALL CLIMATE SCORE	C

Summary and 2023 Updates

After an overall score of D in last year's *Report Card*, HOOPP took a significant step in 2023 by releasing its inaugural *Climate Strategy* and having the fund's Board share steps it is taking to improve governance of climate risks.

With the *Climate Strategy*, HOOPP for the first time frankly addressed its members regarding the seriousness of the climate crisis. The strategy included commitments for the year 2030 to put $23 billion toward green investments and reduce emissions intensity by approximately 30% below 2021 levels. However, short-term (2025) emissions reduction targets were not included. The plan also included some process goals, such as improving data accuracy and initiating scope 3 data collection by 2025.

HOOPP's commitment to have just 50% of the private equity and infrastructure portfolios covered by credible transition plans as late as 2030 is deeply concerning. Additionally, the fund announced that it would place a limited exclusion on some fossil fuel investments — but not until 2025.

While 2023 was a foundational year for HOOPP's approach to climate change, its climate strategy includes commitments which fall short of net-zero alignment. The fund still has considerable work to do to implement and embed the strategy in its operations and disclosure.

What HOOPP still needs to do

- [ ] Publicly acknowledge the consensus science, including from the Intergovernmental Panel on Climate Change and the International Energy Agency, that limiting global temperature increase to 1.5°C requires an immediate end to expansion as well as the rapid phase-out of oil, gas, coal and related infrastructure.
- [ ] Join a credible and accountable Paris-aligned investor body, such as the Net Zero Asset Owner Alliance or the Paris Aligned Asset Owners.
- [ ] Improve transparency and disclosure of approach to climate risks and investments.
- [ ] Complete total portfolio carbon footprint. Improve granularity of disclosure and obtain limited third party assurance.
- [ ] Complete 1.5°C scenario analysis and disclose results.
- [ ] Make an interim commitment to reduce portfolio emissions intensity before 2030.
- [ ] Strengthen 2030 emissions reduction targets to be science-aligned.
- [ ] Commit to all portfolio companies having credible net-zero plans in place by 2030.
- [ ] Develop an escalatory and timebound climate engagement strategy. Set targets to measure the success of climate engagements. Disclose progress and escalation.
- [ ] Strengthen Proxy Voting Guidelines to require companies to have science-based decarbonization plans.
- [ ] Begin disclosing proxy voting record in real-time, with rationale for votes.
- [ ] 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; and
  - [ ] refrain from directing capital toward fossil fuel expansion.
- [ ] 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.
- [ ] Place an immediate exclusion on any new investments in coal, oil, gas and pipelines, including in the public equities portfolio.
- [ ] Commit to a time-bound and managed phaseout of existing fossil fuel assets.
- [ ] Provide specific direction to external managers on handling climate-related risks and aligning investments with net-zero emissions pathways.
- [ ] Develop a Board competencies framework and include climate expertise as a required competency.
- [ ] Avoid conflicts of interest and refrain from re-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.
- [ ] Disclose the weighting of climate targets in compensation.
- [ ] Become a vocal proponent of stringent, ambitious, Paris-aligned climate and energy policies that provide certainty for companies and investments.

FULL ANALYSIS	
Paris-Aligned Target	**B-**

2023 updates:

- Released inaugural *Climate Strategy*.
- Defined net-zero.
- Set interim 2030 targets.

HOOPP made some progress toward implementing its net-zero emissions by 2050 commitment by setting a weak 2030 emissions intensity target (see *Interim Targets* section) and by defining net-zero. The fund has not yet defined the role, if any, that offsets will play in achieving its goal and has not accounted for scope 3 emissions, although it commits to "having initiated" scope 3 data collection by 2025 (*Climate Strategy*, p.11).

In a number of places, HOOPP's *Climate Strategy* makes reference to "real-world" emission reductions, usually as justification for not selling high-carbon assets. However, the fund's engagement approach and targets requiring companies to have credible transition plans (see *Climate Engagement* and *Interim Targets* sections below) are not yet strong enough to either put HOOPP's portfolio on a Paris-aligned emissions pathway or make fast enough progress on real-world decarbonization. HOOPP must revisit its interim emissions reduction targets and engagement approach and strengthen them to align with the ambition of the Paris Agreement.

HOOPP is not yet a member of any internationally recognized Paris-aligned or net-zero body, e.g. the Paris Aligned Asset Owners or the Net Zero Asset Owners Alliance, nor has the fund committed to follow the recommendations of the United Nations Secretary-General's High Level Expert Group on Net-Zero Emissions Commitments of Non-State Entities.[1]

Interim Targets	C+

2023 updates:

- Commitment to reduce emissions intensity by 30% below 2021 levels by 2030; applies to public equities, real estate, private equity and infrastructure.
- Commitment for 50% of infrastructure and private equity AUM to be covered by a credible transition plan by 2030.
- Commitment for $23 billion in green investments by 2030 (Climate Bonds Initiative taxonomy).

HOOPP's *Climate Strategy* included emissions reduction targets for 2030, but not for 2025, and the fund has not yet committed to setting five-year targets from 2030 onward. HOOPP's climate-related commitments vary in stringency. The fund made a commitment to invest $23 billion in green assets by 2030, and already had a science-based 50% *absolute* emissions reduction target in the real estate portfolio. However, HOOPP's 2030 portfolio emissions intensity reduction target (30% below 2021 levels by 2030, with four asset classes included) falls short of what science demands. By 2030, when the world needs absolute emissions cut by about half in order to remain on track for 1.5°C,[2] HOOPP expects just 50% of its private equity and infrastructure portfolios to be covered by credible transition plans.

HOOPP should strengthen its targets, following examples such as the Investment Management Corporation of Ontario, which has committed to 20% of AUM invested in climate solutions by 2030;[3] the University Pension Plan, which has committed to reduce the emissions intensity of the total portfolio by 16.5% below 2021 levels by 2025, and 60% by 2030;[4] and the Ontario Teachers' Pension Plan, which has committed to have two-thirds of its portfolio's carbon emissions covered by credible, science-based net-zero plans and targets (including scope 3 when material) by 2025, and 90% by 2030.[5]

HOOPP's commitment to achieve 80% of assets directly reporting scope 1 and 2 emissions by 2025 is a necessary but insufficient step toward understanding the portfolio's carbon emissions and its decarbonization challenge. The fund will not even "initiate" scope 3 data collection until 2025 (*Climate Strategy*, p.11).

Communication of Climate Urgency	C+

2023 updates:

- Released inaugural *Climate Strategy*.

In its *Climate Strategy*, HOOPP for the first time addressed plan members frankly about the seriousness of the climate crisis. HOOPP's *2022 Annual Report* also included discussion of climate change in the message from the Board and the President & CEO.

Sample language from HOOPP's *Climate Strategy* (p.5):

"Climate change is a serious global risk," and "Collective and sustained action is urgently required, and HOOPP has an important role to play" (p.2). "Coordinated global action to achieve a smooth global transition to net zero can create a more stable global economy that benefits long-term investors, like HOOPP" (p.5).

While this communication is a step forward, the fund still must acknowledge that its investment decisions and decarbonization approach can influence the trajectory of the climate crisis, and must recognize that the climate crisis poses an existential risk that could threaten the fund's ability to achieve its mandate.

Climate Engagement	D

2023 updates:

- Uses Climate Engagement Canada expectations when engaging collaboratively.
- Disclosed "following up" with companies when voting against a director and "reach[ing] out to over 50 companies to communicate our climate change expectations".
- Still no disclosure of individual proxy votes, but disclosed in aggregate that in 2022 the fund supported 51% of climate-related shareholder proposals.

SUMMARY

HOOPP states it uses Climate Engagement Canada's (CEC) expectations when engaging collaboratively. CEC sets strong expectations for climate-alignment, but unfortunately CEC participants do not commit to engaging according to a time-bound and escalatory process.[6]

While HOOPP also engages directly, HOOPP's stated climate expectations (*Proxy Voting Guidelines*) are less ambitious than CEC's, consisting of the bare minimum of "reasonable policies, practices and disclosure related to material environmental and social issues" (p.12).

HOOPP does not disclose its individual proxy votes to the public nor to its members. The fund has no disclosed climate engagement and escalation process, and its engagement approach does not appear to distinguish between 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 credible technological net-zero pathways).

For privately owned companies, HOOPP has set a low bar, with a commitment that just 50% of AUM in its private equity and infrastructure portfolio be covered by a credible transition plan as late as 2030. This commitment is too little, too late to lead to science-aligned decarbonization.

DETAILS

Expectations for owned companies

- For externally managed assets: see *Direction given to external managers*.
- For public companies: see *Proxy voting*.
- For public companies when engaging as part of CEC: see *Collaborative engagement*.
- For private equity and infrastructure: commitment that just 50% of AUM be covered by a credible transition plan as late as 2030.

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 2022 disclosure on its alignment with the *Task Force on Climate-related Financial Disclosures (TCFD)* mentioned that "For externally managed funds, we review and evaluate the external manager's approach to assessing and managing climate risk in their investment process." No further details were provided. HOOPP's *Sustainable Investing Policy* (effective May 24, 2023) states that "For externally managed assets, HOOPP examines the investment fund manager's approach to ESG integration, including relevant policies, practices and resources" (p.3).

Proxy voting

HOOPP must strengthen its *Proxy Voting Guideline*s on climate and provide disclosure of its proxy voting record and rationales for how it votes.

HOOPP's *Proxy Voting Guidelines* (effective January 1, 2024) mention climate change in passing as an ESG factor and include a section on Say on Climate proposals (HOOPP will generally vote against these proposals). 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 a company's relevant committee Chair/members if a company is "not adequately managing the risks of material environmental and social issues in a way that has had a meaningful impact on stock price performance", which is a backward-looking metric; or if the company is not providing "adequate disclosure" regarding risk management or not following TCFD recommendations (p.12).

HOOPP should strengthen its voting guidelines on climate as other pension funds have done. For example, the British Columbia Investment Management Corporation has considered voting for more prescriptive climate proposals since 2021,[7] has escalated its votes against directors for climate-related reasons,[8] and now requires publicly traded companies to incorporate climate assumptions and risk assessments into their audited financial statements;[9] the Investment Management Corporation of Ontario's guidelines spell out specific net-zero-aligned requirements for management-sponsored proposals on climate change;[10] OPTrust's guidelines encourage companies to have "climate-competent boards";[11] the Ontario Teachers' Pension Plan's guidelines state it expects companies to provide short-, medium-, and long-term greenhouse gas emissions reduction targets and report their progress towards those targets;[12] and the University Pension Plan has committed to a year-over-year strengthening of its climate-related proxy voting guidelines.[13]

Of all pension funds analysed in this report, HOOPP provides the least disclosure regarding its proxy votes. 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 except as an aggregate total, making it impossible for beneficiaries and stakeholders to ascertain how HOOPP voted on climate-related shareholder resolutions, or why it voted as it did.

HOOPP's *2022 Annual Report* disclosed that the fund "follow[ed] up" with companies after voting against a director, and "reached out to over 50 companies to communicate [its] climate change expectations for public companies." No examples of successful climate-related engagement were provided.

Collaborative engagement

HOOPP is a founding participant of CEC; however, it is unclear how many CEC engagements HOOPP leads or supports or what stage these engagements are at.

When engaging collaboratively, HOOPP uses CEC's expectations, which include that companies should implement comprehensive Paris-aligned strategies, set relevant targets, and align advocacy activities with the goals of the Paris Agreement.[14] Unfortunately, while the CEC initiative sets strong expectations, it does not require CEC participants to engage according to a time-bound and escalatory engagement process.

Policy engagement

HOOPP's stated efforts to contribute to "real-world emissions reductions" (e.g. *Climate Strategy*, p.7) could be strengthened by becoming vocal and assertive in its advocacy to help ensure that governments in Canada and around the world are developing and implementing stringent and durable laws, policies and regulations that provide certainty for businesses and accelerate emissions reductions in line with the Paris Agreement.

Other: real estate

HOOPP's efforts at engagement and decarbonization in its real estate portfolio (*2022 Real Estate Sustainability Report*) are worth mentioning, with projects or pilots such as radiant healing/cooling systems using heated or chilled water, waste heat recovery, and tenant engagement. However, HOOPP's real estate sustainability metrics mostly held steady in 2022; it is unclear if HOOPP is on track to achieve its real estate emissions reduction commitment. Further, HOOPP has not disclosed what portion of its carbon footprint is represented by its real estate portfolio.

Climate Integration	C

2023 updates:

- Released inaugural *Climate Strategy*.
- Separated climate change from ESG at governance level.
- Secured external board advisor on climate governance.
- Disclosed board education on fiduciary duties regarding climate.
- Designated a day for the Board to discuss climate change between meeting cycles.
- Stated some staff compensation is linked to climate, but details are unclear; commissioned research on incorporating climate objectives into incentive compensation.
- Expanded portfolio footprint coverage.

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 list its direct investments, external managers or investment managers on its website or in its Annual Report. It is difficult to find basic information about HOOPP's investments, such as the composition of its portfolio by asset class.

Transparency and disclosure of climate risk

HOOPP has not disclosed insights gained or actions taken as a result of climate scenario analysis and makes no statements about how the fund would be affected under different climate scenarios.

HOOPP's TCFD consists of a webpage which is updated annually; prior years' TCFDs are not publicly posted. The fund's carbon footprint disclosure (on the fund's webpage, *TCFD Disclosures*) improved marginally in 2023, with the inclusion of four asset classes (public equity, real estate, private equity and infrastructure) and the addition of a data quality score. However, HOOPP still does not disclose any footprint information at the level of the asset class (real estate excepted) or report the percentage of AUM covered by its footprint. The fund's 2022 carbon footprint was not accompanied by third party limited assurance. HOOPP is targeting 80% of assets providing scope 1 and 2 reported emissions by 2025 to improve emissions data accuracy, and anticipates "having initiated" scope 3 data collection by 2025 (*Climate Strategy*, p.11).

HOOPP has made no statements on how it assesses, calculates or manages climate risk in its bonds portfolio. As of the end of 2022, 54% of the portfolio was in bonds.[15]

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. However, HOOPP's *Climate Strategy* noted that the Board has held "multiple special sessions related to [climate change] and will continue to do so" (p.12). HOOPP's Board Chair disclosed in September 2023 that the Board had secured an external advisor on climate governance, had separated climate change from ESG at the governance level, had received education on fiduciary duties and climate, and that some board members had taken the Institute of Corporate Directors' Governance of Climate Change course.[16]

One HOOPP board member has a current fossil fuel entanglement: Trustee Nicholas Zelenczuk simultaneously sits on the Board of Directors of Teine Energy,[17] which drilled the third most oil wells in Canada in the first nine months of 2023.[18]

Executive compensation and climate

It is unclear what climate-related targets are considered in compensation, or how. According to the fund's *Climate Strategy*, "Investment management performance objectives also have a climate-related component that is linked to compensation" (p.12). HOOPP's *2022 TCFD* similarly states, "On an annual basis, climate-related objectives are included in the Investment Management divisional performance scorecard, which factor into compensation." A September 2023 opinion piece by HOOPP's board co-chair stated that the Board had commissioned research on incorporating climate objectives into incentive compensation.[19]

Fossil Fuel Exclusions	D

2023 updates:

- Committed to implement, beginning in 2025, an exclusion on new direct private investment in thermal coal and oil exploration and production companies.

With the release of its *Climate Strategy*, HOOPP announced a limited fossil fuel exclusion. But HOOPP missed an opportunity to be a climate leader by saying it would wait until 2025 to implement the exclusion, when the exclusion could have been put in place immediately. HOOPP has not yet made a commitment to phase out existing fossil fuel investments and its promised exclusion applies only to direct investments in its private equity and infrastructure portfolios. HOOPP has never disclosed which assets in these portfolios are fossil fuels, or their value.

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 the Paris Aligned Asset Owners was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	HOOPP has no disclosed 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 • ESG Data Convergence Project • IFRS Sustainability Alliance • Principles for Responsible Investment • Sustainable Finance Action Council • Task Force on Climate-Related Financial Disclosure
Self-reported assets linked to climate solutions*	Not disclosed in 2023.**
Estimated investments in fossil fuels	Nearly $2.1 billion (2% of AUM) in HOOPP's public equities portfolio, but lack of disclosure makes a complete estimate impossible.***
Notable fossil fuel holdings (not a comprehensive list)	Regulatory filings to September 30, 2023 show that HOOPP holds at minimum $2.1 billion in shares in publicly-traded fossil fuel companies including Canadian Natural Resources, Cenovus, Chevron, ExxonMobil, Suncor and others.[20]

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

** In 2022, HOOPP's *Climate Change* webpage cited $2.4 billion invested in climate solutions. The current version of the webpage (accessed December 21, 2023) provides no climate solutions figure. HOOPP's *2022 TCFD*, *2022 Annual Report*, and *Climate Strategy* did not provide a figure for current investments in climate solutions. The *Canadian Pensions Dashboard for Responsible Investing, 2nd edition*, reported in 2023 that HOOPP disclosed via direct correspondence $7.7 billion invested in "sustainable solutions," with no concrete definition provided. The *Dashboard* noted that HOOPP was one of only two funds examined whose exposure to sustainable solutions had declined between the first and second edition of the Dashboard.[21]

*** HOOPP provides no disclosure of its fossil fuel investments, although regulatory filings provide some insight into HOOPP's public equities.[22] HOOPP provides little disclosure of its private investments; the fund has committed to implement an exclusion on new direct private investment in thermal coal and oil exploration and production beginning in 2025.

ENDNOTES

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- 2022 Real Estate Sustainability Report (May 2023)

HOOPP Documents

- Our climate strategy: good for the Plan and the planet (March 2023)
- Proxy Voting Guidelines (effective January 1, 2024)
- Proxy Voting Guidelines (effective January 1, 2022) - no longer available online
- Statement of Investment Policies and Procedures (effective March 31, 2023)
- Sustainable Investing Policy (effective May 24, 2023)

HOOPP Webpages and Press Releases

- 2022 TCFD Disclosures (webpage) (accessed November 2023)

Other

- Shift's 2022 Canadian Pension Climate Report Card (January 2023)
- Shift's 2022 Canadian Pension Climate Report Card - Analysis for HOOPP (January 2023)

The *2023 Canadian Pension Climate Report Card* analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers and three international pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. Information is current to December 31, 2023. View the full report at shiftaction.ca/reportcard2023.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

OPTrust

OPTrust is the OPSEU Pension Plan for over 106,000 active and retired Ontario public servants. Most OPTrust members work for the Ontario Public Service, municipal governments and service providers and Ontario's public college system; members also include OPSEU members who work for private companies or organizations 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): $24.6 billion (December 31, 2022)

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

OVERALL CLIMATE SCORE	C–

Summary and 2023 Updates

OPTrust's December 2023 *Our Climate Change Strategy in Action* and *2022-2023 Task Force on Climate-Related Financial Disclosures (TCFD)* documents show the fund continues to integrate climate considerations into its operations, but OPTrust has set few quantitative targets and is still in the early stages of developing metrics and gathering data to determine how well the fund is managing climate-related risks.

In 2023, OPTrust:

- Set an interim target to reduce emissions intensity.
- Completed a portfolio footprint for scope 1 and 2 emissions, with 40% of AUM in scope.
- Committed to aligning its investment strategy with the Net Zero Investment Framework.
- Developed a climate metrics framework and shared a related "How-to" toolkit for other asset owners.
- Reported that 25% of its external managers and funds have net-zero emissions by 2050 commitments.
- Disclosed a link between climate performance objectives and compensation.

What OPTrust still needs to do:

- Publicly acknowledge the consensus science, including from the Intergovernmental Panel on Climate Change and the International Energy Agency, that limiting global temperature increase to 1.5°C requires an immediate end to expansion as well as the rapid phase-out of oil, gas, coal and related infrastructure.
- Join a credible and accountable Paris-aligned investor body such as the Net Zero Asset Owner Alliance or the Paris Aligned Asset Owners.
- Become a vocal proponent of stringent, ambitious, Paris-aligned climate and energy policies that provide certainty for companies and investments.
- Improve disclosure of investments and high-risk, high-carbon assets.
- Continue to improve emissions reporting and release a comprehensive total portfolio footprint.
- Strengthen ambition of 2030 target to reduce emissions intensity.
- Pair target to reduce emissions intensity with target to reduce absolute emissions.
- Commit to setting interim 5-year emissions reduction targets.
- Place a strict limit on the use of carbon offsets.
- Set targets for investments in climate solutions.
- Set targets for the proportion of AUM covered by a credible net-zero plan or managed by a manager with a net-zero commitment.
- Engage owned companies using time-bound criteria and a process that escalates to divestment to ensure companies 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; and
  - refrain from directing capital toward fossil fuel expansion.
- Strengthen *Proxy Voting Guidelines* to require companies to have science-based decarbonization plans.
- Provide specific direction to external managers on managing climate-related risks and aligning investments with net-zero emissions pathways.
- Place an exclusion on any new investments in coal, oil, gas and related infrastructure.
- Commit to a time-bound and managed phase-out of existing fossil fuel assets.
- Require climate expertise on the Board of Directors.
- Disclose how executive and staff compensation is tied to the achievement of climate targets.

FULL ANALYSIS	
Paris-Aligned Target	**B–**

2023 updates:

- Committed to align its strategy with the Net-Zero Investor Framework.

OPTrust committed in its October 2022 *Aligning our portfolio with the global path to net zero: Climate Change Strategy* ("*Climate Change Strategy*") to achieve net-zero emissions by 2050 (p.3). In 2023, OPTrust announced a 2030 emissions intensity reduction target.

OPTrust is not a member of a credible and accountable Paris-aligned investor body, nor has it committed to follow the recommendations of the United Nations Secretary-General's High Level Expert Group on Net-Zero Emissions Commitments of Non-State Entities.[1] OPTrust committed in 2023 to align its strategy with the Net-Zero Investor Framework– "which is the preferred approach of the Paris Aligned Asset Owners initiative" (*Our Climate Change Strategy in Action FAQ*, p.2)—but fell short of joining an investor body that will help hold it publicly accountable for its net-zero commitment.

OPTrust has not yet reported scope 3 emissions.

OPTrust states that while it has used carbon offsets in the past to offset its operational footprint, "With respect to our portfolio footprint, however, OPTrust's focus is on the management of climate risk and opportunity, which offsets do not address" (*Our Climate Change Strategy in Action FAQ*, p.2).

Interim Targets	**C–**

2023 updates:

- Committed to reduce the emissions intensity of the portfolio by 30% below 2022 levels by 2030.

OPTrust's *Our Climate Change Strategy in Action*, released in December 2023, identified that the pension manager would track metrics in five categories: carbon exposure, climate exposure, stewardship, solutions and process (pp.16-17). Some associated climate-related targets were announced, which are discussed below.

Emissions reductions

OPTrust committed to reduce the portfolio's emissions intensity (scope 1 and 2) by 30% below 2022 levels by 2030 (p.19). This commitment is less ambitious than that of both its smaller and larger peers, such as the University Pension Plan and the Investment Management Corporation of Ontario.

The role of interim targets is to drive investment-making decisions today toward alignment to net-zero. A weak commitment for 2030 is unlikely to be a significant driver of OPTrust's investment and stewardship decisions in the near-term and is insufficient to accelerate climate action in line with the Paris Agreement, which requires global emissions to be cut in half by 2030.

Other targets

Other commitments outlined in OPTrust's *Our Climate Change Strategy in Action* included completing climate evaluations on investment partners, engaging with partners and assets to improve emissions data, and implementing climate due diligence on new direct investments and external partner commitments, all by 2025 (p.19). These commitments are described further in the *Climate Integration* section of this analysis.

Communication of Climate Urgency	C+

2023 updates:

- None.

OPTrust acknowledges the existential risks of the climate crisis, the risks and opportunities that the crisis poses to the plan, and that the pension manager has a role in addressing it. OPTrust communicates that the plan must position itself to adapt to different climate trajectories, but does not acknowledge that OPTrust's investment decisions have the potential to affect climate trajectories.

Sample language from OPTrust's *2022 Funded Status Report* (p.39):

"As stewards of our members' capital, our role is to look far ahead at challenges and opportunities that could affect members' retirement security across multiple generations. Chief among these is climate change. A defining issue of our time, it presents a real, measurable risk to our members that cannot be ignored in our investment approach."

Sample language from OPTrust's *Our Climate Change Strategy in Action* (p.5):

"As the global economy transitions to net zero, integrating climate considerations into our investment and risk-management approach across all asset classes will be integral to delivering the returns necessary to preserve plan sustainability."

Climate Engagement	D+

2023 updates:

- Created a framework for ESG data and shared framework creation process with peers.
- Reported supporting climate-related engagements with 287 companies in 2022.

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. In OPTrust's *2022 Climate Change Strategy*, the fund stated that 2022-2023 priorities included implementing stewardship plans for high-risk assets (p.9), but no details or progress were reported on this priority in 2023's *Our Climate Change Strategy in Action*.

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.

Direction given to external managers

OPTrust said in its *2021 Responsible Investing Report* that the fund's Responsible Investing Partner Evaluation was being used to assess third-party managers on information, including the manager's approach to climate change (pp.6, 10). While OPTrust's *Our Climate Change Strategy in Action* update did not provide an update on this evaluation, it did report that OPTrust used its new COMPAS (Capturing OPTrust's Management and Progress Around Sustainability) framework to identify that a quarter of its external managers and funds have net-zero by 2050 commitments (p.18).

Proxy voting

OPTrust has some climate-related details in its *Proxy Voting Guidelines* (effective December 8, 2023). In general the fund supports TCFD disclosure, will encourage "climate-competent boards" and "may support" asking companies to set Paris-aligned targets (pp.22-23). Where climate change presents a "material impact", OPTrust expects TCFD disclosure to be incorporated in the company's annual filings, and will vote against annual reports and/or the Audit Committee Chair if there is no disclosure or if disclosure does not demonstrate an "appropriate climate risk evaluation" (p.8-9).

OPTrust's proxy votes are not posted publicly, making it challenging for members and stakeholders to assess its voting record. However, OPTrust has a relatively small allocation to public equities (11.8% of the portfolio as of December 31, 2022, as per OPTrust's *2022 Funded Status Report*, p.31).

In its *2022 Responsible Investing Report*, OPTrust reported voting in support of 28 proposals to improve climate risk management at portfolio companies. The pension manager did not report any climate-related votes against directors (p.6).

Collaborative engagement

OPTrust is an "investor supporter" of Climate Action 100+. According to Climate Action 100+, an investor supporter is a signatory to the engagement initiative and supports the initiatives' goals, but does not participate directly in engagements with focus companies.[2]

OPTrust listed one example of a climate-related engagement in its *2022 Funded Status Report*. Following OPTrust's engagement with Waste Connections in 2022, the company committed to reduce its absolute scope 1 and 2 emissions by 15%, with no baseline or timeline provided (p.41). While OPTrust reported this as a successful climate-related engagement, the target does not seem to have been particularly ambitious– Waste Connections reported nearly achieving this target the same year that it was set, reducing its scope 1 and 2 emissions by 14% in 2022.[3] The Investment Management Corporation of Ontario (IMCO) reported in its *2022 ESG Report* that in collaboration with Climate Engagement Canada it engaged Waste Connections to "set more rigorous interim emission reduction targets" and subsequently welcomed the company's commitment to set a science-based target.[4]

OPTrust also reported in March 2023 on its engagement with mining conglomerate BHP, which purportedly led to BHP launching "a 2030 objective to create nature positive outcomes by having at least 30 percent of its land footprint under nature positive management" (*2022 Funded Status Report*, p.41).

OPTrust reported supporting climate-related engagements, through its external engagement partner, with 287 companies in 2022, and an additional 181 as of Q2 2023 (*Our Climate Change Strategy in Action FAQ*, p.1). Minimal details are provided regarding what "supporting" an engagement entails.

OPTrust's engagement credibility would be strengthened by aligning its intended engagement outcomes with the goals of the Paris Agreement and disclosing time-bound expectations and an escalation process for engagements.

Policy engagement

Given that OPTrust recognizes that "addressing plan sustainability requires addressing climate sustainability" (*Our Climate Change Strategy in Action*, p.5), the fund should also work to ensure, through vocal and assertive advocacy, that governments in Canada and around the world are developing and implementing stringent and durable laws, policies and regulations that provide certainty for businesses and accelerate emissions reductions in line with the Paris Agreement.

Other: engagement with peers

OPTrust has made efforts to share with peer asset owners the fund's process for integrating climate considerations, for example with its *Designing a Climate Metrics Framework for Investment Portfolios - A Toolkit for Asset Owners* in 2023, and its *Preparing our Portfolio for the Future: Integrating Climate Scenarios into Asset-Liability Management* case study in 2022.

Climate Integration	C

2023 updates:

- Completed first portfolio footprint, with 40% of AUM in-scope.
- Disclosed a vague link between staff compensation and climate objectives.
- Made commitments to conduct climate assessments for core investment partners, increase total reported emissions data, and implement enhanced climate due diligence on new direct investments and external investment partner commitments.

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 *2022-2023 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. OPTrust has not yet disclosed the percent of the portfolio allocated to high-carbon assets or its total investments in sustainable solutions. While OPTrust highlights its growing investments in renewable energy and other climate solutions, its *Our Climate Change Strategy in Action* update does not mention that in 2023 OPTrust increased its joint stake in fossil gas infrastructure company Superior Pipeline (now known as Superior Midstream) from 50% to 100%.[5]

Disclosure of carbon footprint

OPTrust reported its portfolio carbon footprint for the first time in its *2022-2023 TCFD Report*, including public markets assets and direct investments in private equity, infrastructure and real estate. The value of in-scope assets was $9.9 billion, or around 40% of OPTrust's $25 billion in AUM (p.14). OPTrust states it plans to incorporate scope 3 emissions as data availability and quality improve (p.13); anticipates increased direct reporting of emissions (p.16); plans to report emissions associated with sovereign bonds by 2024 (p.16); and intends to obtain independent third-party assurance over its carbon footprint "in the future" (p.16).

Scenario analysis

In 2021 OPTrust undertook climate scenario analysis, including orderly and disorderly transition pathways that assume 1.5°C and 4°C of global warming, respectively. 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* (pp.7-9).

Contemporaneity of climate plan

OPTrust's 2018 climate plan was updated in 2022 with a commitment to achieve net-zero emissions by 2050. In 2023, OPTrust's *Our Climate Change Strategy in Action* added an interim emissions reduction target and further details, such as a climate-compensation link, an initial carbon footprint, and a framework for climate metrics. The document also included commitments to:

- conduct climate assessments on core, strategic investment partners by 2025;
- engage with 100% of core, strategic investment partners and higher-risk, directly-owned assets to promote the collection and reporting of emissions data by 2025; and
- implement "enhanced climate due diligence" on 100% of new direct investments and external investment partner commitments by 2025 (p.19).

Board climate expertise and/or fossil fuel entanglement

OPTrust does not identify any board members as having climate expertise, although board members' bios on OPTrust's website show that the Board Chair has a degree in Environmental Engineering and works at Ontario's Ministry of the Environment; two board members have completed the Institute of Corporate Directors' Board Oversight of Climate Change Program; and another Board member "regularly attends education and training sessions on emerging issues such as climate change oversight, AI, risk management, and cybersecurity."[6]

OPTrust stated in its *2022-2023 Task Force on Climate Related Financial Disclosures* that the Board Investment Committee "monitors the implementation of OPTrust's enhanced climate change strategy which was approved by the Board in October 2022, and receives regular reporting on: (1) new initiatives or analyses underway; (2) insights from research that have implications for how we invest; (3) progress against the strategy and metrics and (4) regulatory or policy changes and annual Fund disclosures" (p.5).

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

Executive and staff compensation and climate

OPTrust's *Our Climate Change Strategy in Action* report states that, "since 2022, we've formally integrated climate change considerations into OPTrust's corporate strategy and the annual qualitative performance objectives of every department. Achievement of performance objectives is ultimately tied to compensation. This formal integration ensures that we consider climate in all material parts of what we do and how we invest" (p.21). OPTrust does not give specifics on how compensation is linked to climate.

Fossil Fuel Exclusions	F

2023 updates:

- None.

OPTrust has no exclusions on investments in coal, oil, gas or related infrastructure.

OPTrust's *Statement of Responsible Investing Principles* states that, "we may choose to exclude, based on [responsible investing] 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 the Paris Aligned Asset Owners 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 the United Nations Declaration of the Rights of Indigenous Peoples 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). In July 2022, OPTrust partnered with the Squamish Nation to invest in Sen'ákw, a purpose-built, multi-family rental project in Vancouver, British Columbia, which OPTrust says is "the largest non-resource private partnership with a First Nation," and "will help further reconciliation in Canada and generate economic and social benefits for the Squamish Nation" (*2022 Funded Status Report*, p.33).
Accountable Paris-aligned memberships	None
Collaborations and memberships	• Canadian Coalition for Good Governance • Carbon Disclosure Project (including 2023 Science-Based Targets Campaign) • Ceres • Climate Action 100+ (investor supporter) • The Institutional Investors Group on Climate Change • Principles for Responsible Investment • The Transition Pathway Initiative • Thinking Ahead Institute • Task Force on Climate-Related Financial Disclosures • ESG Data Convergence Project (limited partner)
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.[7] • OPTrust is a private co-owner of Zenith Energy.[8] • OPTrust is the 100% joint owner of Superior Midstream.[9]

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

ENDNOTES

1 United Nations' High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities. (2022, November). *Integrity Matters: Net Zero Commitments by Businesses, Financial Institutions, Cities and Regions: Report from the United Nations' High-Level Expert Group on the Net Zero Emissions Commitments of Non-State Entities.* https://www.un.org/sites/un2.un.org/files/high-level_expert_group_n7b.pdf.

2 Climate Action 100+. (2023). *Investors.* Webpage. Retrieved December 14, 2023 from https://www.climateaction100.org/whos-involved/investors/.

3 Waste Connections. (2023, October 24). *Waste Connections Reports Achievement of Emissions Reduction Target And Expands Commitment In 2023 Sustainability Update.* Press release. https://investors.wasteconnections.com/2023-10-24-Waste-Connections-Reports-Achievement-Of-Emissions-Reduction-Target-And-Expands-Commitment-In-2023-Sustainability-Update.

4 Investment Management Corporation of Ontario. (2023). *IMCO 2022 ESG Report.* P.19. https://www.imcoinvest.com/pdf/imco-esg-report-2022.pdf.

5 Business Wire. (2023, June 26). *Superior Pipeline Company Announces Name Change.* https://www.businesswire.com/news/home/20230626289800/en/%C2%A0Superior-Pipeline-Company-Announces-Name-Change.

6 OPTrust. (2023). *Board of Trustees.* Webpage. Retrieved December 6, 2023 from https://www.optrust.com/aboutoptrust/Board-of-Trustees.asp.

7 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-futurealberta-stranded-assets/.

8 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-everyones-happy-20200513-p54skg.

9 SP Investor Holdings LLC. (2023, June 26). *Superior Pipeline Company Announces Name Change.* https://www.businesswire.com/news/home/20230626289800/en/%C2%A0Superior-Pipeline-Company-Announces-Name-Change.

REFERENCES

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

OPTrust Reports

- Our Climate Change Strategy in Action (December 2023)
- 2022-2023 Task Force on Climate-Related Financial Disclosures (December 2023)
- Our Climate Change Strategy in Action FAQ (December 2023)
- Asset Owners Toolkit (Designing a Climate Metrics Framework for Investment Portfolios) (December 2023)
- 2022 Funded Status Report (March 2023)
- 2022 Responsible Investing Report (March 2023)
- 2021 Task Force on Climate-Related Financial Disclosures Report (2022)
- 2021 Responsible Investing Report (2022)

OPTrust Documents

- Our Climate Change Strategy in Action FAQ (December 2023)
- Our Climate Change Strategy in Action (December 2023)
- 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 December 9, 2022)
- Statement of Responsible Investing Principles (effective December 9, 2022)
- Proxy Voting Guidelines (effective December 8, 2023)
- Proxy Voting Guidelines (effective December 9, 2022) - no longer posted online
- Climate Change Action Plan. A Thousand Mile Journey (2018)

OPTrust Webpages and Press Releases

- OPTrust bolsters climate change strategy with new targets and climate data program (press release) (December 5, 2023)
- Responsible Investing at OPTrust (webpage) (accessed November 2023)
- Climate Change (webpage) (accessed November 2023)
- Board of Trustees (webpage) (accessed November 2023)

Other

- Shift's 2022 Canadian Pension Climate Report Card (January 2023)
- Shift's 2022 Canadian Pension Climate Report Card - OPTrust Analysis (January 2023)
- Canadian Pensions Dashboard for Responsible Investing, 2nd Edition (March 2023)

ONTARIO MUNICIPAL EMPLOYEES RETIREMENT SYSTEM (OMERS)

OMERS is the investment manager for the pension fund of Ontario's municipal workers, with 559,000 members and over 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.

Assets Under Management (AUM): $127.4 billion (June 30, 2023)

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

Most improved: OMERS was one of two funds to improve its overall score by an entire letter grade between the *2022* and *2023 Report Cards.*

OVERALL CLIMATE SCORE	C+

Summary and 2023 Updates

OMERS made significant climate progress in 2023 with the release of its inaugural *Climate Action Plan*, although a close look at many of the fund's commitments — as detailed throughout this analysis — reveals that more work is required to strengthen ambition and close loopholes.

In 2023, OMERS made new commitments, including:

- A 2030 intensity-based emissions reduction target (having already surpassed its 2025 commitment).
- Creation of a $3 billion "transition sleeve" to support decarbonization of high-carbon assets.
- That it would require credible net-zero plans by 2030 from the 20 biggest contributors to the portfolio's carbon footprint.
- $30 billion in green investments by 2030.

Additionally, OMERS:

- Placed a limited exclusion on investments in thermal coal.
- Improved its portfolio footprinting metrics.
- Announced a climate-compensation link for certain team members.

OMERS' climate engagement processes need strengthening, although the fund made some positive moves by joining Climate Action 100+, commencing engagements with "several" Climate Engagement Canada focus companies, and hinting at forthcoming "formalized engagement strategies."

What OMERS still needs to do:

- Publicly acknowledge the consensus science, including from the Intergovernmental Panel on Climate Change and the International Energy Agency, that limiting global temperature increase to 1.5°C requires an immediate end to expansion as well as the rapid phase-out of oil, gas, coal and related infrastructure.
- Join a credible and accountable Paris-aligned investor body such as the Net Zero Asset Owner Alliance or the Paris Aligned Asset Owners.
- Pair emissions intensity reduction targets with absolute emission targets.
- Make a commitment that all portfolio companies will have credible net-zero plans in place by 2030.
- Enhance scenario analysis disclosure by explaining the implications for the portfolio and how insights are informing portfolio construction.
- 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; and
    - refrain from directing capital toward fossil fuel expansion.
- Strengthen proxy voting guidelines to require companies to have science-based decarbonization plans.
- Disclose proxy votes in real-time and with rationale.
- 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.
- Strengthen coal exclusion policy.
- Place an exclusion on any new investments in 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 (re-)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.
- Become vocal proponents of stringent, ambitious, Paris-aligned climate and energy policies that provide certainty for companies and investments.

FULL ANALYSIS	
Paris-Aligned Target	**B+**

2023 updates:

- Defined net-zero.
- Acknowledged credibility challenges with offsets and committed that offsets would not contribute toward OMERS' interim emissions reduction targets.
- Began to track, but not report, scope 3 emissions.

OMERS committed in November 2021 to achieve net-zero emissions by 2050. OMERS has committed to setting interim five-year targets, with 2025 and 2030 targets already in place to reduce the portfolio's emissions intensity. In 2023, the total portfolio carbon footprint did not include scope 3 emissions, although OMERS began tracking scope 3 and said it will "continue to update our portfolio footprinting and reporting as methodologies evolve and scope 3 emissions data become more readily available" (*Climate Action Plan*, p.28).

OMERS' *Climate Action Plan* defined net-zero and acknowledged that carbon offsets present challenges of credibility and permanence. OMERS stated that carbon offsets and credits would not count toward achieving interim portfolio reduction targets, and that the fund would prioritize direct decarbonization efforts (p.24).

OMERS is not yet a member of an accountable Paris-aligned body such as the Net Zero Asset Owner Alliance or the Paris Aligned Asset Owners, nor has it committed to follow the recommendations of the United Nations Secretary-General's High Level Expert Group on Net-Zero Emissions Commitments of Non-State Entities.[1]

Interim Targets	**B-**

2023 updates:

- Exceeded 2025 commitment to reduce portfolio's emissions intensity.
- Committed to reduce portfolio emissions intensity 50% below 2019 levels by 2030.
- Announced $3 billion "transition sleeve."
- Committed to $30 billion in green investments by 2030.
- Committed that the 20 companies which contribute most to OMERS' financed emissions intensity will have credible net-zero transition plans in place by 2030.

Emissions reduction

OMERS reported that it had achieved a 32% reduction (from 2019 levels) in portfolio emissions intensity as of December 31, 2022. This was "attributed both to portfolio transition from higher to lower emitting assets and to intensity reductions across several significant assets" (*2022 Annual Report*, p.68). The fund subsequently committed to achieve by 2030 a 50% reduction from 2019 levels in emissions intensity. OMERS has committed to setting interim targets every five years.

In 2023, the fund had not yet set absolute emissions reduction targets and had not incorporated scope 3 emissions into its footprint. It is noteworthy that OMERS' real estate arm, Oxford Properties, reported that by the end of 2022 it had achieved a 19% emissions intensity (per square foot) reduction and a 20% *absolute* reduction from 2019 levels.

Investments in climate solutions

OMERS committed in its *Climate Action Plan* to reach $30 billion invested in green assets by 2030, and reported that these investments stood at $19 billion as of December 31, 2022. Given expected appreciation of assets, it is unclear if this commitment means increased allocation to climate solutions in the coming years. A commitment expressed in terms of increased percentage of AUM would demonstrate a new allocation.

It is also less than clear what threshold OMERS has used to define its green assets. OMERS *2022 Annual Report* says that $19 billion was identified using International Capital Market Association (ICMA) Green Bond Principles, including "green buildings, renewable and low-carbon energy, and energy efficiency assets." But according to the glossary in OMERS' *Climate Action Plan*, "Green Investments, assets or 'Climate solutions' refer to investments in companies where *some, or all*, economic activities are in alignment with green or low carbon taxonomies such as the ICMA (International Capital Market Association) Green Bond Principles and Climate Bond Initiative Taxonomy" (p.36, italics added). The *Climate Action Plan* states that "While the definition of green investments today does not capture the full spectrum of corporate activities that support climate solutions, we will continue to review the market's evolving sustainable finance taxonomies to support our assessment of assets invested within our portfolio" (p.16).

OMERS, as of 2023, seems to have mostly avoided investments in distractions such as "hydrogen-ready" gas infrastructure and carbon capture and storage, opting instead for investment in wind, solar, energy storage and energy efficiency.

Engagement targets / AUM covered by science-based targets

OMERS' *Climate Action Plan* committed that the 20 companies which contribute most to the portfolio's carbon emissions would have credible net-zero transition plans in place by 2030. While this target is necessary, it is far from sufficient: OMERS' own *Climate Action Plan* says that "To achieve [the goals of the Paris Agreement], human-caused greenhouse gas emissions must fall dramatically from 2010 levels; by about 45% by 2030" (p.4). OMERS must require *all* portfolio companies to align with a credible net-zero trajectory by 2030.

The *Climate Action Plan* notes that OMERS is exploring a new "portfolio alignment metric" that will enable the fund to "evaluate the percentage of our holdings with declared net zero and Paris-aligned targets" (p.22).

Transition sleeve

OMERS committed in its *2022 Annual Report* to a $3 billion transition sleeve "for assets playing a key role in the global transition toward a lower-carbon economy" (p.67). The emissions of these assets will be tracked separately and not included in OMERS' carbon footprint.

It is concerning that in a dedicated section on Fossil Fuel Investments (p.24), the *Climate Action Plan* does not rule out using the transition sleeve to fund fossil fuel exploration and production companies. Transition finance must not include activities that serve only to mitigate emissions (e.g. carbon capture to reduce scope 1 and 2 emissions of fossil fuel companies) while prolonging the fossil fuel industry. The energy transition is, by definition, a transition off fossil fuels, which must play a quickly diminishing role in any Paris-aligned emissions scenario. Net-zero by 2050 emissions pathways are clear that fossil fuel expansion must halt immediately, with significant known reserves of oil, gas and coal left in the ground.[2] Lowering the emissions intensity of fossil fuels is not "transition," and should not qualify for transition sleeve funding. There is no credible decarbonization pathway for fossil fuel producers other than phasing out production.

Investments made to mitigate emissions from existing fossil fuel production are at a high risk of stranding as the energy transition accelerates. OMERS states that transition sleeve investments must meet the criteria of being high-carbon, pursuing decarbonization, and aligned to a net-zero 2050 pathway (*Climate Action Plan*, p.16). Based on these criteria, fossil fuel companies must be excluded from receiving transition sleeve financing.

Communication of Climate Urgency	C+

2023 updates:

- Despite the release of a *Climate Action Plan* in 2023, OMERS has not strengthened its statements on climate urgency.

OMERS acknowledges that the climate crisis presents risks and opportunities to its portfolio, and states that investors have a role to play in addressing the climate crisis. However, OMERS stops short of saying that its ability to pay pensions depends on a stable climate, nor does the fund acknowledge that its investment decisions and approach to decarbonization can affect the trajectory of the climate crisis.

OMERS comes close to acknowledging these truths, though, in its *Climate Action Plan*.

Samples of language from OMERS' 2023 *Climate Action Plan*:

"Climate change poses risks … [including] the impact of climate change on financial markets, and the valuation of OMERS own assets over time" (p.4).

"The long-term health and sustainability of financial, environmental and social systems can impact the delivery of the pension promise" (p.21).

"As a large institutional investor, we understand that we play an important role as the global economy decarbonizes in line with the Paris Agreement" (p.9).

Climate Engagement	C–

2023 updates:

- OMERS heightened expectations for its portfolio companies with a commitment that the top 20 contributors to portfolio emissions intensity must have net-zero transition plans in place by 2030.
- OMERS joined Climate Action 100+ as an investor supporter, and commenced engagements with "several" Climate Engagement Canada focus companies.
- The appalling track record of OMERS portfolio company Thames Water raised flags about OMERS' ESG oversight.

SUMMARY

OMERS raised expectations with its commitment that at least some portfolio companies will have credible net-zero transition plans in place by 2030, but its expectations are still not strong enough. OMERS' proxy voting guidelines and voting disclosure also need to be strengthened. While OMERS commenced engagements with Climate Engagement Canada focus companies and joined Climate Action 100+, the fund has yet to provide meaningful examples of successful climate engagement with public companies. OMERS' *2022 Annual Report* provided examples of what ESG integration looked like in different parts of the portfolio, although no credible climate examples were provided under "Achievements and Outcomes." One of the examples was that of a company buying carbon offsets to claim carbon neutrality rather than having a net-zero transition plan (p.63).

DETAILS

Expectations for owned companies

OMERS made a commitment in 2023 that the top 20 contributors to its portfolio's weighted average carbon intensity (WACI) will have credible net-zero transition plans in place by 2030. No detail is provided for interim milestones or escalation between now and 2030, nor does the commitment cover all companies in OMERS' portfolio.

OMERS states that climate factors are incorporated into its investment due diligence, ESG assessments and the setting and monitoring of ESG targets (*Climate Action Plan*, p.11). The fund's approach to engagement depends on its level of control and influence with the investee company (p.22). The *Climate Action Plan* provides some evidence that transition pathways are being mapped out across different business units. The Private Equity team has been searching for climate solutions investments under the themes of decarbonization, technology adoption, and cleantech and sustainability (p.15), and the Infrastructure team has invested across five themes, two of which are energy transition and natural systems (p.12). OMERS' real estate arm, Oxford Properties, states that it will "Defin[e] a path to net zero for our assets and businesses by performing carbon audits, preparing stranding analyses using Carbon Risk Real Estate Monitor (CRREM) and developing asset-level plans" (p.14).

However, OMERS' hope that due diligence, ESG assessments, and influence (e.g. through governance) are sufficient to ensure net-zero alignment ring hollow in a year when one of OMERS' privately-owned companies has been the poster child of an ESG debacle. Thames Water, in which OMERS is the biggest shareholder with a 32% stake, was saddled with debt in 2023, unable to pay for its operations and infrastructure upgrades, and under fire for environmental lapses. The U.K. utility was leaking water equivalent to 250 Olympic size pools daily and was fined millions for releasing raw sewage into rivers and beaches. In July 2023, shareholders including OMERS injected £750 million to keep the company afloat. Another £2.5 billion is expected to be required from shareholders between 2025 and 2030 to upgrade the utility's infrastructure and services. In September 2023, the UK's water regulator ordered Thames Water to rebate over £100 million to customers after failing to meet standards for fixing pipe leakages, sewage overflows and environmental protection. One UK news outlet asked if Thames Water is "the worst company in Britain."[3] At the end of 2023, Thames Water scrapped its net-zero by 2030 commitment, saying it must prioritize its sewage pollution performance.[4]

Given the example of Thames Water, OMERS' existing ESG processes appear inadequate. OMERS must explain to stakeholders how it will remedy its ESG oversight in the case of Thames Water, and strengthen its processes to ensure companies in its portfolio will align with OMERS' climate commitments.

Direction given to external managers

OMERS' *Sustainable Investing Policy* (effective January 1, 2023) notes that the majority of its investments are managed via an internal investment team rather than external managers (p.3). For those assets managed externally, OMERS performs ESG assessments with new investment and asset managers "with the objective of avoiding inconsistency with OMERS' approach to sustainable investing" (p.3). OMERS' *Climate Action Plan* says that such assessments are based on the external managers' "ability to meet our internal standards for climate integration" (p.11). However, it is unclear what if any direction OMERS gives to external managers regarding handling of climate-related risk.

Proxy voting

OMERS' *Proxy Voting Guidelines* (effective March 1, 2022) should be strengthened to express stronger expectations for net-zero alignment. Additionally, OMERS should begin transparently disclosing its proxy votes, along with rationale, in real-time.

OMERS' *Proxy Voting Guidelines* are comparatively weak on climate, setting an expectation for disclosure of climate-related risks but failing to specify an expectation that owned companies demonstrate credible net-zero, Paris-aligned pathways (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 greenhouse gas emissions.

OMERS should strengthen its guidelines on climate as other pension funds have done. For example, the British Columbia Investment Management Corporation has considered voting for more prescriptive climate proposals since 2021,[5] has escalated its votes against directors for climate-related reasons,[6] and now requires publicly traded companies to incorporate climate assumptions and risk assessments into their audited financial statements;[7] the Investment Management Corporation of Ontario's guidelines spell out specific net-zero-aligned requirements for management-sponsored proposals on climate change;[8] OPTrust's guidelines encourage companies to have "climate-competent boards";[9] the Ontario Teachers' Pension Plan's guidelines state it expects companies to provide short-, medium-, and long-term greenhouse gas emissions reduction targets and report their progress towards those targets;[10] and the University Pension Plan has committed to a year-over-year strengthening of its climate-related proxy voting guidelines.[11]

In 2022, of 14 votes flagged by Climate Action 100+ at companies in which OMERS had ownership, the fund voted in favour of just two proposals. In September 2023, an OMERS executive stated that the fund had voted in favour of 25% of climate-related proposals so far that year.[12] OMERS must improve its proxy voting disclosure so that stakeholders can evaluate the fund's rationale for votes against climate-related proposals.

Collaborative engagement

OMERS is a member of Climate Engagement Canada (CEC), and in 2023 joined Climate Action 100+ as an investor supporter. While no details are provided, OMERS' *2022 Annual Report* states that in 2022 "OMERS commenced engagements with several of the companies on the [CEC] Focus List" (p.59).

Policy engagement

OMERS' ability to achieve real-world emissions reductions would be strengthened by the fund becoming vocal and assertive in its advocacy to help ensure that governments in Canada and around the world are developing and implementing stringent and durable laws, policies and regulations that enhance investment certainty and accelerate emissions reductions in line with the Paris Agreement.

Climate Integration	C+

2023 updates:

- Released inaugural *Climate Action Plan*.
- Improved carbon footprinting metrics.
- Began implementing risk analysis tools.
- Stated that climate training is part of board onboarding.
- One OMERS Board director simultaneously serves on the board of a fossil fuel company.
- Formalized climate-compensation link.

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 releases.

Transparency and disclosure of climate risk

In 2022, OMERS enhanced disclosure of its portfolio footprint metrics, adding new metrics including absolute financed emissions, percentage of reported versus estimated emissions, and a breakdown of emissions by asset group (*2022 Annual Report*, p.68). OMERS has not yet incorporated scope 3 emissions into its carbon footprint, but in 2022 began tracking reported scope 3 emissions.

The fund's *Climate Action Plan* provided specific details of which scenarios were used in its climate scenario analysis, which included two 1.5°C-aligned scenarios. However, OMERS provided little disclosure of the results of the scenario analysis (p.31).

The *Climate Action Plan* provided further details as to how OMERS is attempting to understand physical climate risks, noting that the Risk team is building a physical risk heatmap to identify acute and chronic physical climate risk impacts by region and sector. Additionally, the Oxford and Infrastructure teams are "implementing a third-party physical risk analysis tool, which will take a location-specific approach to evaluate each individual asset exposure to seven categories of extreme weather events and five transition risks" (p.28).

The Risk team is also evolving its understanding of climate risk, stating it will recognize it "as both a standalone risk, and a factor with potential impacts on market, credit, liquidity, operational, legal, and reputational risks" (p.25).

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 Administration Corporation Board and Director Competencies*, effective January 1, 2022, p.3.). OMERS does not identify any Board members as having climate expertise, although Board member Yung Wu is a former member of Canada's Net-Zero Advisory Body.[13] The 2023 *Canadian Pensions Dashboard for Responsible Investing* identified that 20% of OMERS' Board had "ESG competency," although climate competency was not specified (p.75).

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: pp.29, 52; 2021: pp.28, 53). OMERS' *2022 Annual Report* does not mention further Board education related to climate, but states that the Board "turned its attention in 2022 to working on a 2030 interim carbon reduction goal" (p.32). The *Climate Action Plan* states that climate training is part of board onboarding (p.8).

As of Shift's *2022 Canadian Pension Climate Report Card*, no members of OMERS' Board of Directors had fossil fuel entanglements. But since then, Board member Diane A. Kazarian was nominated to the board by the Ontario Association of Children's Aid Societies, effective January 1, 2023. Ms. Kazarian is simultaneously a director at fossil fuel company Gibson Energy.[14]

The short-term profit interests of expansionist fossil fuel companies are not aligned with the long-term interests of pension fund beneficiaries. OMERS should require climate expertise in its *Board Competencies* and establish a minimum amount of time that must elapse between serving as a fossil fuel director and joining the OMERS board.

Executive and staff compensation and climate

OMERS' *Climate Action Plan* states that "From 2023, ESG and climate change performance measures linked to incentive compensation have been formalized and mandated for relevant Executive Leadership Team members and all Investment Team Leads" (p.7).

Discussions in both the *2021* and *2022 Annual Reports* regarding the achievements that contributed to OMERS CEO Blake Hutcheson's variable compensation include climate-related achievements (in 2021: OMERS setting its net-zero by 2050 commitment (pp.91-92); in 2022: decreasing OMERS' portfolio carbon intensity by 30% since 2019, issuing OMERS' first Sustainable Bond and Green Bond, and conducting a comprehensive review of OMERS' Sustainable Investing Policy (p.133)).

Fossil Fuel Exclusions	D

2023 updates:

- OMERS placed an exclusion on direct investments in companies generating more than 25% of their revenue from thermal coal.

OMERS instituted a weak thermal coal exclusion in 2023. The fund will exclude direct investments in companies generating more than 25% of their revenue from thermal coal (*Climate Action Plan*, p.24). It is unclear if these companies could receive investment under OMERS' transition sleeve, which does not explicitly exclude fossil fuel investments (see *Interim Targets*, above). To strengthen its coal policy, OMERS could look to the *Coal Policy Tracker*, which tracks financial institutions' coal exclusion policies, to highlight best practices and shed light on loopholes.[15]

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).

OMERS has opened the door to divestment as an option "when there exists a material misalignment with OMERS' approach to sustainability and engagement has proven unsuccessful following an appropriate escalation process" (*Sustainable Investing Policy*, effective January 1, 2023, p.4). Divestment of high carbon assets in 2022 seems to have been a significant contributor to OMERS' surpassing its 2025 carbon intensity reduction target. OMERS' *2022 Annual Report* noted that the Infrastructure team "made significant progress in optimizing its portfolio, reducing exposure to hydrocarbons, and reducing the portfolio Weighted Average Carbon Intensity" (p.64).

OMERS beneficiaries had noted at the end of 2021 and during 2022 a series of divestitures of OMERS' stakes in fossil gas assets, leading some to speculate that OMERS was quietly reducing its exposure to risky fossil fuels, absent a formal fossil fuel exclusion policy.[16]

While OMERS rightly recognizes the "necessity to move away from fossil fuel dependency" in its *Climate Action Plan* (p.24), the fund makes a questionable claim that it must acknowledge a "balance between reducing fossil fuel supply and addressing society's demand for affordable, sustainable, and secure energy." It is not in OMERS' mandate to falsely imply that ensuring energy security and affordability requires slowing the energy transition. Rather, prudent investment in the energy transition helps reduce costs and improve energy security for society, while accelerating the phase-out of climate-damaging fossil fuels.

Climate scientists and energy modellers are clear that limiting global temperature increase to 1.5°C and avoiding catastrophic impacts to our ecosystems, economy and financial system requires fossil fuels to be rapidly phased out.[17] The international community agreed in December 2023 at COP28 to transition off fossil fuels.[18] OMERS must place an immediate exclusion on any investment in new fossil fuel development, and either divest of or provide profitable phase-out plans for its existing fossil fuel assets.

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 the Paris Aligned Asset Owners 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. OMERS' *Proxy Voting Guidelines* (effective March 1, 2022) encourage "development of policies and practices on... the impact of the corporation's strategies and decisions on the communities, including indigenous peoples and other constituencies, directly affected by its products and operations."
Accountable Paris-aligned memberships	None
Collaborations and memberships	• Accounting for Sustainability - CFO Leadership Network • Canadian Coalition for Good Governance • Carbon Disclosure Project • Climate Action 100+ (investor supporter) • Climate Engagement Canada • ESG Data Convergence Project • IFRS Sustainability Alliance • International Corporate Governance Network • Institutional Investors Group on Climate Change • Investor Leadership Network • Sustainable Finance Action Council • Task Force on Climate-Related Financial Disclosures • Urban Land Institute
Self-reported assets linked to climate solutions*	$19 billion or 15% of AUM (December 31, 2022)**
Estimated investments in fossil fuels	Minimum $3.8 billion or 3% AUM (December 31, 2022)***
Notable fossil fuel holdings (not a comprehensive list)	• A 50% stake in BridgeTex, a Texas-based pipeline company that transports 440,000 barrels per day of crude oil.[19] • A 25% stake in Exolum, a Spanish oil pipeline and storage operator.[20]

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

** As reported in OMERS' *2022 Annual Report* (p.69). Assets identified by OMERS using the International Capital Market Association's (ICMA) Green Bond Principles, including "green buildings, renewable and low-carbon energy, and energy efficiency assets." OMERS' *Climate Action Plan* has a slightly different definition, stating that "Green Investments, assets or 'Climate solutions' refer to investments in companies where *some, or all*, economic activities are in alignment with green or low carbon taxonomies such as the ICMA (International Capital Market Association) Green Bond Principles and Climate Bond Initiative Taxonomy" (italics added) (p.36).

*** OMERS reported in its *2022 Annual Report* that, as of December 31, 2022, 3% of its AUM was in "Energy." This amount does not take into account fossil fuel-linked utilities (utilities account for 11% of AUM).

ENDNOTES

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See also OMERS Infrastructure. (2022). *BridgeTex*. Webpage. Retrieved November 1, 2023 from https://www.omersinfrastructure.com/portfolios/bridgetex/.

20 Exolum has made a net-zero by 2040 commitment, although in December 2022 Reuters reported that OMERS reversed its decision to sell its stake after potential buyers' concerns about Exolum's ability to navigate the zero-carbon transition led to low bids.

See:

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OMERS Reports and Climate Plans

- Climate Action Plan (September 2023)
- 2022 Annual Report (2023)
- 2021 Annual Report (2022)
- Oxford 2023 Global Sustainability Report (2023)

OMERS Documents

- Mid-Year Investment Update 2023 (Aug 16 2023)
- Statement of Investment Policies and Procedures (SIP&P) - Primary Plan (effective January 1, 2023)
- Sustainable Investing Policy (effective January 1, 2023)
- Board and Director Competencies. Governance Manual (effective January 1, 2023)
- Statement of Investment Beliefs (effective January 1, 2023)
- Proxy Voting Guidelines (effective March 1, 2022)
- Sustainable Bond Framework (March 2022)
- Oxford - Green Financing Framework (2022)

OMERS Webpages and Press Releases

- Proxy Voting Record (webpage) (accessed November 1, 2023)

Other

- Investor Leadership Network -- Transition and the Enabling Role of Taxonomies and Frameworks (October 2023)
- Investor Leadership Network -- Investing for the Low Carbon Transition - Turning Portfolio Targets into Action (August 2023)
- OMERS' Presentation to City of Toronto Infrastructure and Environment Committee (September 20, 2023).
- Shift's 2022 Canadian Pension Climate Report Card (January 2023)
- Shift's 2022 Canadian Pension Climate Report Card - Analysis of OMERS (January 2023)

INVESTMENT MANAGEMENT CORPORATION OF ONTARIO (IMCO)

IMCO is the investment manager for the Ontario Pension Board (OPB), the administrator of Ontario's $31 billion Public Service Pension Plan (PSPP). The PSPP is the pension fund for over 93,000 active, retired and former members of the Ontario public service. IMCO's Ontario public sector clients also include the Provincial Judges' Pension Board, Wise Trust (the administrator of the Ontario's Workplace Safety and Insurance Board (WSIB) Employees' Pension Plan) and the insurance and benefit funds of Ontario's WSIB. It was announced in December 2023 that IMCO will add four new clients in 2024.[1]

Assets Under Management (AUM): $73.3 billion (December 31, 2022)

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

OVERALL CLIMATE SCORE	B–

Summary and 2023 Updates

IMCO set its climate ambition high with its Paris Aligned Asset Owner commitment. The investment manager has committed to reduce the emissions intensity of its portfolio by 50% below 2019 levels by 2030 and is the only Canadian fund examined in this report to have made a climate solutions commitment expressed in terms of proportion of AUM. IMCO's *Proxy Voting Guideline* sets strong expectations for companies to achieve net-zero alignment, and IMCO is beginning to enforce "climate guardrails," such as placing exclusions on investments in thermal coal mining and Arctic oil and gas production.

In 2023, IMCO:

- Generally voted in line with its guidelines on climate (based on a snapshot of votes).
- Disclosed some details of its collaborative engagements.
- Supported the 2023-2024 Carbon Disclosure Project's (CDP) Science-Based Targets Campaign.
- Updated and clarified exclusions on thermal coal and Arctic oil and gas.
- Disclosed 11% AUM invested in climate solutions, en route to 20% by 2030.
- Improved reporting of its climate metrics, including reporting scope 3 emissions and the emissions associated with sovereign bonds.
- Reduced clarity about its fossil fuel exposure by reporting a combined investment figure for "Energy and Utilities".
- Achieved a 40% reduction in the portfolio's emissions intensity (below 2019 levels).
- Reported testing the portfolio against four different climate scenarios, including a net-zero by 2050, 1.5°C-aligned scenario.
- No members of IMCO's Board of Directors simultaneously hold directorships at fossil fuel companies, compared to one Director in 2022.

What IMCO still needs to do

- ☐ Publicly acknowledge the consensus science, including from the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency, that limiting global temperature increase to 1.5°C requires an immediate end to expansion as well as the rapid phase-out of oil, gas, coal and related infrastructure.
- ☐ Pair its emissions intensity reduction targets with absolute emissions targets for 2030.
- ☐ Establish Scope 3 emissions reduction targets.
- ☐ Commit to all portfolio companies having credible net-zero plans in place by 2030.
- ☐ 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; and
    - ☐ refrain from directing capital toward fossil fuel expansion.
- ☐ 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.
- ☐ Commit to exclude any new investments in coal, oil, gas and pipelines.
- ☐ Commit to a time-bound and 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.
- ☐ Build on public advocacy for mandatory standardized climate risk disclosure to become a vocal proponent of stringent, ambitious, Paris-aligned climate and energy policies that provide certainty for companies and investments.

FULL ANALYSIS	
Paris-Aligned Target	**A–**

2023 updates:

- Reported the portfolio's scope 3 emissions for the first time.

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. In 2022, IMCO had not indicated how it would account for scope 3 emissions, but its *2022 ESG Report*, released in 2023, reported the scope 3 emissions of the portfolio.

IMCO's commitment as a Paris Aligned Asset Owner (PAAO) signals that additional elements of a Paris-aligned target are forthcoming, including limiting the role of carbon offsets and navigating the portfolio to net-zero emissions while bringing down emissions in the real economy. IMCO noted throughout its 2022 reports the ways in which its investments should lead to real-world decarbonization. For example, its investment in utility-scale batteries with Pulse Clean Energy should help support decarbonization of the U.K. power grid (*2022 Annual Report*, p.31).

Interim Targets	**B–**

2023 updates:

- 40% reduction in portfolio emissions intensity.
- Emissions intensity reduction targets being set by each asset class.
- 11% of AUM invested in climate solutions.

Emissions reduction

In November 2022, IMCO committed to reduce the emissions intensity of its portfolio by 50% below 2019 levels by 2030. In its *2022 ESG Report*, IMCO reported a 40% reduction in the portfolio's emissions intensity compared to the 2019 baseline. IMCO attributed this to "several factors, including a shift in our selection of securities toward assets with lower emissions intensity" (p.20), and noted that each asset class is setting its own emissions intensity reduction target (p.14).

IMCO should pair its intensity-based commitment with a 2030 commitment to achieve absolute emissions reductions.

Investment in climate solutions

IMCO has committed to invest 20% of AUM in climate solutions by 2030, and had 11% of AUM invested at the end of 2022 (*2022 ESG Report*, p.4). IMCO's *2022 ESG Report* defined climate solutions as investments in companies where at least 50% of the business is derived from climate solutions activities in line with International Capital Markets Association Green Bond Principles (p.35).

IMCO is the only investment manager examined in this report that has set a climate solutions target as a percentage of AUM.

AUM covered by a science-based decarbonization target

Some investment managers have made commitments such as the percentage of portfolio companies that will have credible decarbonization plans in place by 2025 or 2030, or the percentage of AUM that will be covered by a science-based decarbonization plan by a target date. IMCO could strengthen its climate strategy by adding similar commitments.

Communication of Climate Urgency	**B+**

2023 updates:

- IMCO's *2023 World View* included a section on ESG and Climate Change, discussing climate change's physical, geopolitical and economic impacts, potential climate policy responses, potential stranded assets, required capital assets for a successful energy transition, and unintended ESG risk exposure in passive index investing.

- IMCO client OPB states that it "believes that we have a responsibility to operate and invest in a way that minimizes the negative impact of ESG issues, consistent with fulfilling our pension obligation to our members" (*Environment, Social and Governance - OPB 2022 Year in Review*).

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 from IMCO's *2022 ESG Report* (p.16):

"The climate crisis poses an urgent, systemic and unprecedented risk to the global economy. … Climate-related risks have the potential to diminish our assets and returns, while climate-related opportunities have the potential to help our assets and returns grow."

Sample language from *OPB and IMCO's commitment to ESG and Climate Risk* blog post (December 22, 2021):

"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	B–

2023 updates:

- A snapshot of IMCO's climate-related proxy votes indicates that the investment manager's voting record aligns with its published voting guidelines.
- 44% of IMCO's externally managed assets are managed by external managers and general partners with net zero commitments.
- Disclosed details of engagements through Climate Action 100+ and Climate Engagement Canada.
- Supporter of 2023-2024 CDP Science-Based Targets Campaign.

SUMMARY

IMCO has science-aligned climate expectations for its owned companies and states similar expectations for public companies through its *Proxy Voting Guideline*. The fund manager prioritizes investing with external managers with net-zero commitments. IMCO collaborates on climate with other investors through CDP's Science-Based Targets Campaign, Climate Action 100+ and Climate Engagement Canada (CEC).

IMCO's proxy voting record indicates it is voting in line with its climate guidelines and is willing to vote against directors. IMCO's largest client, the OPB, says that it expects IMCO "to consider divesting from investments where insufficient action, such as unsuccessful engagement, is taken to address those [ESG] issues" (OPB *2022 Annual Report*, p.22). 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).

As IMCO's engagement strategy matures it needs to be strengthened with:

- a time-bound and escalatory engagement process;
- 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 credible and profitable net-zero pathway; and
- public advocacy to help ensure that governments in Canada and around the world are developing and implementing stringent and durable laws, policies and regulations that provide greater investment certainty and accelerate emissions reductions in line with the Paris Agreement.

DETAILS

Expectations for owned companies

IMCO sets clear climate-related expectations for 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).

IMCO's *2022 Annual Report* says that the investment manager engages with portfolio companies "to establish Paris-aligned plans, report on and reduce emissions" (p.39). IMCO provides the example of engaging its portfolio company euNetworks, a bandwidth infrastructure provider, to commit to net-zero by 2040 with a science-based target across scopes 1, 2 and 3 (p.31).

Direction given to external managers

IMCO stands out among its peers in its statements about aligning on climate with external managers. IMCO states it will "prioritize partnerships with external managers that have made, or plan to make, net zero commitments and increase investment in companies with net zero commitments" (*2022 Annual Report*, p.39). It also expects external managers to provide TCFD-aligned disclosure (*2022 ESG Report*, p.51). IMCO reported in 2023 that 44% of its externally managed assets were managed by external managers and general partners with net zero commitments (*2022 ESG Report*, p.5).

IMCO's *2021 ESG Report* provided above-average detail 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.

IMCO's requirements of external managers would be strengthened with a time-bound commitment to reach 100% of externally managed assets overseen by a net-zero aligned manager.

Proxy voting

IMCO's *Proxy Voting Guideline* (effective August 2021) 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 greenhouse gas 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 a company's Chair or the relevant committee, committee members or Board Chair.

IMCO should strengthen its *Proxy Voting Guideline* by expressing expectations that companies tie compensation to the achievement of climate targets, not lobby against climate policy, and not direct capital expenditure to fossil fuel expansion.

Snapshots of IMCO's climate-related proxy voting record indicate that the investment manager is voting in line with its own guidelines.[2] According to IMCO's *2022 ESG Report*, IMCO supported 78% of shareholder proposals calling for "say-on-climate" votes and improved climate-related disclosures. IMCO also reported that it voted against 59% of climate resolutions put forward by companies, as the resolutions did not meet IMCO's criteria (p.31).

The investment manager makes its voting intentions public ahead of annual meetings and provides rationale when voting against management proposals and for all shareholder proposals (*2022 ESG Report*, p.31).

According to IMCO's *Climate Action Plan*, the investment manager "may consider" co-filing of climate resolutions (p.7). IMCO should leverage its relatively strong guidelines and voting record to take a leadership role in filing such resolutions and publicly highlighting climate resolutions or climate-related votes against directors, for example through news releases and public letters to companies.

Collaborative engagement

IMCO is a supporter of CDP's Science-Based Targets Campaign, having participated in 2022-2023 and supporting the 2023-2024 campaign. The 2023-2024 campaign sends letters on behalf of its supporters (financial institutions and multinational corporations) to "over 2,100 high-impact companies asking them to commit to and set 1.5°C-aligned Science-Based Targets."[3]

IMCO is also a member of Climate Engagement Canada (CEC) and Climate Action 100+. In 2023, the investment manager reported back on collaborative engagements under both initiatives.

Through CEC, IMCO engaged with Waste Connections on climate disclosures and setting more ambitious interim emissions reduction targets. IMCO reported that Waste Connections has now issued its first TCFD-aligned report and "committed to seeking Science Based Targets initiative's approval on its emission reduction targets" (*2022 ESG Report*, p.19).

With other Climate Action 100+ investors, IMCO collaboratively engaged with Enbridge to set absolute emission reduction targets and strengthen its 2030 intensity target.[4] IMCO "encouraged" disclosure of how Enbridge's capital expenditure and lobbying align with the goals of the Paris Agreement (*2022 ESG Report*, p.19). While IMCO's clients should welcome IMCO's disclosure of this engagement, Enbridge's track record suggests that the company has no intention of aligning with the goals of the Paris Agreement — goals that IMCO is "proud to embrace" (*Climate Action* webpage).

In 2023, Enbridge used misleading information to try to justify a multi-billion-dollar expansion of its gas network in Ontario,[5] and the company went to court to prolong the operation of and replace its Line 5 oil pipeline against the wishes of impacted Indigenous nations.[6] Enbridge's targets to reduce the relatively insignificant emissions intensity of its own operations[7] stand in stark contrast to the company's ten different proposed projects to prolong and expand the use of gas.[8] Enbridge also advocates for government support for expanding oil and gas in Canada and the United States, opposes the phase-out of fossil gas, has funded astroturf groups in New York to oppose the state's decarbonization policies, and falsely claims that expanding Canadian oil and gas production would reduce global emissions.[9] Enbridge is now under investigation by the Competition Bureau of Canada for allegedly misleading its customers with false claims that fossil gas is "clean energy" and "low carbon" and that fossil gas is the most cost effective way for Ontarians to heat their homes, when heat pumps are in fact the least expensive option.[10]

IMCO should take note of Enbridge's actions to obstruct or delay the transition off of fossil fuels, and must keep in mind its own commitment that "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" (*Climate Action Plan*, p.7). Considering the litany of actions taken by Enbridge to undermine Paris-aligned climate action, including efforts to keep the Ontario Public Service Pension Plan's own members to continue using fossil gas, it is clear that investor engagement has not proved successful. While IMCO has not stated that it has divested, Enbridge does not appear as a holding in any of IMCO's 2023 13F-HR regulatory filings with the U.S. Securities and Exchange Commission.[11]

Policy engagement

IMCO provides comments on sustainability-related public and government consultations, such as to the U.S. Securities and Exchange Commission, International Sustainability Standards Board and other bodies setting standards and policies for climate risk reporting (*2022 ESG Report*, p.34). IMCO's engagement would be strengthened by being vocal and assertive in its advocacy to help ensure that governments in Canada and around the world are developing and implementing stringent and durable laws, policies and regulations that accelerate emissions reductions in line with the Paris Agreement.

Other: passive investments and ESG

IMCO has made plans to ensure ESG priorities are also implemented in its passive investments. The *Five Year Strategic Plan* for 2023-2027 states, "We will ensure that our passive investments, particularly in Emerging Markets, are managed in a way that is consistent with our ESG priorities" (p.5). This statement aligns with notes in IMCO's 2023 *World View* that "Index investing's growing popularity among retail and institutional investors masks the growing risks associated with these passive exposures," and lists "high greenhouse gas emitting industries" among its examples (p.21).

Climate Integration	B–

2023 updates:

- Took a step backward on disclosure by disclosing "Energy and Utilities" AUM as a combined investment figure.
- Provided increased but incomplete disclosure of recent green investments.
- Improved carbon footprinting by reporting the portfolio's scope 3 emissions and emissions associated with sovereign bonds.
- Disclosed testing the portfolio performance against four scenarios including a net-zero by 2050, 1.5°C-aligned scenario.
- Reduced concurrent fossil fuel entanglements on its Board: as of Shift's 2022 analysis, IMCO's Board Chair was simultaneously a director at a fossil fuel company; he was no longer listed as a director at this company as of this analysis.
- OPB reported that its Board and Investment Committee receive continuing education on climate risk.

Accountable Paris-aligned membership

IMCO is a member of the Paris Aligned Asset Owners (PAAO), formerly the Paris Aligned Investment Initiative.

Transparency and disclosure of holdings

IMCO does not provide a list of its investments or their valuations. Its *2022 Annual Report* highlighted a number of new green investments, although the investment manager took a step backward on disclosure by reporting Energy and Utilities (8% of AUM as of December 31, 2022) as one sector and thus obfuscating the fund's exposure to fossil fuel investments. In its *2021 Annual Report*, IMCO had reported 4% of AUM in Energy and 3% in Utilities (p.10).

Transparency and disclosure of climate risk

IMCO improved its climate risk disclosure in 2023 with its first formal TCFD response (*2022 ESG Report*, p.51), reporting the portfolio's scope 3 emissions and reporting emissions for sovereign bonds. IMCO's portfolio footprint covered 91% of AUM as of December 31, 2022. IMCO disclosed an emissions breakdown by sector, reported scope 3 separately, and provided a data quality breakdown. IMCO's disclosed metrics included its total financed emissions and financed emissions intensity.

IMCO's *2022 ESG Report* stated that, "We estimate the resilience of our portfolio to climate risks in time horizons of 2050 and 2100 under four different temperature and policy scenarios, which were those used in the Scenario Analysis Pilot conducted in 2022 by the Bank of Canada and Office of the Superintendent of Financial Institutions" (p.22). Scenarios included a net-zero by 2050, 1.5°C-aligned scenario. 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.

In 2021, 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 climate-related financial risks, and OPB and IMCO's joint response in full.[12]

Board climate expertise and/or fossil fuel entanglement

IMCO does not identify any Board members as having climate expertise. IMCO's Board skills matrix (*2022 Annual Report*, p.62) identified three directors as having the "core skill" of "ESG management," but climate-related expertise is not specified. IMCO's *2022 ESG Report* noted guest speakers had presented to the Board on topics including "ESG and sustainability" (p.63). OPB's *2022 Annual Report* said that its Board and Investment Committee receive "continuing education and information on ESG and climate risk" (p.22).

None of IMCO's ten directors appear to have current fossil fuel entanglements. In 2022, Shift noted that IMCO Board Chair Brian Gibson was concurrently listed as a director at Precision Drilling. Mr. Gibson was no longer listed as a director at this company as of December 31, 2023. IMCO should continue to enhance the integrity of its board and avoid potential conflicts of interest by placing a minimum time that must elapse between holding a directorship at a fossil fuel company and serving as a director on IMCO's board.

Executive 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. IMCO's *2022 ESG Report* provided no new information on a climate-compensation link.

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	C–

2023 updates:

- Attempted but failed to clarify its confusing fossil fuel phase-out commitment.
- Clarified exclusions on thermal coal mining and Arctic oil and gas production.

While IMCO placed some limits on investments in coal and Arctic drilling, the investment manager's climate guardrails are confusing and unclear.

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

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

New unabated fossil fuel assets

In a footnote in its *2022 ESG Report*, IMCO added an explanatory footnote to a version of "1." (above), as follows: "Assets without interventions such as carbon capture and storage (CCS) or carbon capture, utilization and storage (CCUS) or equivalent technologies that substantially reduce the amount of emissions throughout the life cycle" (p.23).

However, this paragraph of the *2022 ESG Report* and the accompanying footnote do not specify that the phase-out commitment refers to fossil fuel investments at all, leaving the commitment unclear.

Shift's working assumption is that IMCO intends to phase out new investment commitments in fossil fuel assets, but has left itself leeway to invest in fossil fuel assets that use CCS or CCUS and midstream fossil fuels and infrastructure. This approach is inconsistent with investing in line with "appropriate global, science-based scenarios." The vast majority of the life cycle emissions of fossil fuels are released when the oil and gas are burned (for example in a car's gas tank or home's furnace), which CCS and CCUS do nothing to prevent. Existing carbon capture projects have put more greenhouse gas emissions into the atmosphere than they have removed, as 80% of captured carbon is being used for enhanced oil recovery, thereby increasing production.[13] According to the IPCC, CCS and CCUS are the most expensive and least effective of available carbon mitigation options.[14] An analysis of IMCO's fossil fuel holdings shows a number of oil and gas producers whose emissions are almost completely unabated by CCS or CCUS technologies.[15]

IMCO cites credible, global, science-based net-zero scenarios in its *Climate Plan* (p.12), all of which are unambiguous about ending fossil fuel expansion, as the basis for its climate guardrails. IMCO should place an immediate exclusion on *any* new investment in fossil fuel assets and make a clear and time-bound commitment to phase out existing investments.

Thermal coal mining and Arctic drilling

IMCO's *ESG Screening Guideline*, undated but updated since 2022, clarifies the screens on thermal coal mining and Arctic drilling. IMCO will exclude investments in companies where over 10% of revenue is derived from thermal coal mining or Arctic oil and gas production (p.2).[16]

The *Screening Guideline* explains that IMCO singles out these two categories because coal has been the single largest source of global temperature increase since pre-industrial levels, and Arctic oil and gas production risks more spills that are more challenging to clean up and produces black carbon pollution which accelerates the melting of snow and ice.

While these are valid reasons for limiting investments in thermal coal and Arctic drilling, IMCO fails to explain why it invests in *any* oil, gas and coal production. Credible net-zero emissions pathways, including those cited by IMCO itself, are clear and unambiguous that limiting global temperature increase to 1.5°C requires the rapid phase-out of almost all fossil fuel production.[17] It is inconsistent for IMCO to reference these net-zero pathways but exclude just two sub-sectors of fossil fuel investment.

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 the Paris Aligned Asset Owners (formerly 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. However, IMCO's *2022 ESG Report* stated that the investment manager supported 94% of shareholder proposals "requesting that our portfolio companies conduct human rights risk assessments, improve human rights standards or policies, and conduct racial equity and/or civil rights audits" (p.31). IMCO's main client, the OPB, stated 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" (p.23).
Accountable Paris-aligned memberships	Paris Aligned Asset Owners (formerly 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 (including Science-Based Targets Campaign) • Ceres Investor Network • Climate Action 100+ • Climate Engagement Canada • ESG Data Convergence Project • International Corporate Governance Network • Principles for Responsible Investment • Responsible Investment Association • Task Force on Climate-Related Financial Disclosures
Self-reported assets linked to climate solutions*	11% AUM, or $8 billion, as of December 31, 2022**
Estimated investments in fossil fuels	4% of AUM, or $3 billion, invested in "Energy" as of December 31, 2021. This number does not account for fossil-fuel linked utilities.***
Notable fossil fuel holdings (not a comprehensive list)	• 5% co-ownership interest in Compaña Logistica de Hidrocarburos (mentioned in OPB's *2018 Annual Report* but not reported on since then).[18] • Co-ownership of Calon Energy (mentioned in OPB's *2018* and *2019 Annual Reports* but not reported on since then).[19]

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

** IMCO has committed to invest 20% of AUM in climate solutions by 2030, with 11% AUM invested at the end of 2022 (*2022 ESG Report*, p.4). IMCO defines climate solutions as investments in companies where at least 50% of the business is derived from climate solutions activities in line with International Capital Markets Association Green Bond Principles (p.35).

*** IMCO did not report separate numbers for Energy and Utilities in 2022, so the most current disclosed figure for energy investments comes from IMCO's *2021 Annual Report* (p.10). Regulatory filings to September 30, 2023 show IMCO holding $58 million in shares of publicly traded fossil fuel companies.[20]

ENDNOTES

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- 2022 ESG Report (2023)
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OPB

- 2022 Annual Report (2023)

Documents

IMCO

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- Environment, Social and Governance Screening Guideline (undated, accessed November 7, 2023)
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- Stewardship Guideline (undated, accessed November 7, 2023)
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OPB

- Ontario Pension Board Statement of Investment Policies and Procedures for the Ontario Pension Board as Administrator of the Public Service Pension Plan (effective December 2, 2021)

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IMCO

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OPB

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- Environment - Ontario Pension Board (webpage) (accessed November 7, 2023)
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- Proxy Voting - Ontario Pension Board (webpage) (accessed November 7, 2023)
- Exclusions - Ontario Pension Board (webpage) (accessed November 7, 2023)
- OPB and IMCO's commitment to ESG and Climate Risk (blog post) (December 22, 2021)

Other

- Shift's *2022 Canadian Pension Climate Report Card* (January 2023)
- Shift's *2022 Canadian Pension Climate Report Card - IMCO Analysis* (January 2023)

The *2023 Canadian Pension Climate Report Card* analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers and three international pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. Information is current to December 31, 2023. View the full report at shiftaction.ca/reportcard2023.

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 336,000 active and retired teachers across 170 organizations including public school boards and private schools throughout Ontario.

Assets Under Management (AUM): $249.8 billion (June 30, 2023)

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

OVERALL CLIMATE SCORE	B

Summary and 2023 Updates

While the OTPP remains a climate leader among Canadian pension funds, there is little to report in 2023 on the OTPP's progress toward its net-zero commitment. OTPP is aligning its climate strategy reporting with its annual reporting process, and therefore did not release a Responsible Investing Report or Climate Strategy Update in 2023.

In 2023, the OTPP:

- Reported reducing the portfolio's emissions intensity by 32% below 2019 levels (en route to a 45% by 2025 reduction target and a 67% by 2030 reduction target).
- Increased green investments to $34 billion.
- Updated and strengthened its climate-related *Proxy Voting Guidelines*, although a snapshot of climate-related votes raises questions about how OTPP is following its own guidelines.
- Added a Board Director who simultaneously sits on the boards of four fossil fuel companies.
- Published briefings/whitepapers on its renewable energy, sustainable buildings and electricity infrastructure assets, but reported virtually nothing about its significant fossil fuel assets.
- Did not report on any allocation of its $5 billion for decarbonizing "High Carbon Transition Assets".

The OTPP's interim emissions intensity reduction targets are ambitious, although the fund is planning to align its portfolio with a "2°C or lower pathway" emissions trajectory (*2022 TCFD Report*, p.3) rather than 1.5°C. The OTPP reported in 2023 that it had increased the proportion of assets that are reporting emissions, but it has not yet started reporting the portfolio's scope 3 emissions. Despite the worsening climate emergency, the OTPP has not excluded new investment in fossil fuels and falsely claims that fossil gas is a "transition fuel."

We look forward to the OTPP providing a comprehensive update to its Climate Strategy in 2024.

What OTPP still needs to do

- Publicly acknowledge the consensus science, including from the Intergovernmental Panel on Climate Change and the International Energy Agency, that limiting global temperature increase to 1.5°C requires an immediate end to expansion as well as the rapid phase-out of oil, gas, coal and related infrastructure.
- Join a credible and accountable Paris-aligned investor body such as the Net Zero Asset Owner Alliance or the Paris Aligned Asset Owners.
- Pair interim targets to reduce emissions intensity with targets to reduce absolute emissions.
- Disclose scope 3 emissions measurement and establish scope 3 emissions reduction targets.
- Place a strict limit on the role of carbon offsets in both its own net-zero commitment and the net-zero commitments of portfolio companies.
- Disclose investments in high-risk, high-carbon assets, including "High Carbon Transition Assets."
- Build on public advocacy for mandatory standardized climate risk disclosure to become a vocal proponent of stringent, ambitious, Paris-aligned climate and energy policies that provide certainty for companies and investments.
- Make public a climate engagement and escalation process specifically for fossil fuel assets, including a timeline for phase-out 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; and
  - refrain from directing capital toward fossil fuel expansion.
- Put in place an exclusion on investments in coal, oil, gas and related infrastructure.
- Commit to a time-bound and managed phaseout of existing fossil fuel assets.
- Provide specific direction to external managers on handling climate-related risks and aligning investments with net-zero pathways.
- Avoid climate-related conflicts of interest and refrain from re-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.
- Incorporate the best international standards of respect for biodiversity into its investment choices by the end of 2024.
- Integrate into its pre-investment criteria the principles of the United Nations Declaration on the Rights of Indigenous Peoples and 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.

FULL ANALYSIS	
Paris-Aligned Target	**A–**

2023 updates:

- None.

The OTPP set a target in January 2021 for net-zero portfolio emissions by 2050 and announced ambitious emissions intensity reduction targets in September 2021. The OTPP defines net-zero as "a balance of emissions released into and removed from the atmosphere" (*Climate Change FAQ*, p.1) and states in its *2022 TCFD Report* that its objective is to "achieve a net-zero emissions portfolio by 2050, following a trajectory aligned with a 2°C or lower pathway" (p.3). This falls short of an objective to align its portfolio with 1.5°C, which would mean lower climate-related risks for the pension fund and a more stable world for plan members.[1]

The OTPP's climate strategy is "deeply rooted in driving real-world emissions reductions," according to an undated interview with OTPP's former Chief Investment Officer on OTPP's website (*Q&A with our CIO Ziad Hindo*).[2] The fund has not formally stated what role, if any, carbon offsets would play in achieving its net-zero target and real-world emissions reduction objectives.

But the OTPP's Senior Managing Director of Natural Resources told *AgriInvestor* in September 2023 that:

"We strongly believe that companies should follow the mitigation hierarchy and prioritize abatement opportunities within their own operations and supply chains. Having said that, we do see an important role for high-quality carbon credits to bridge the gap to a lower emissions pathway while governments and industry make concerted effort and meaningful investment towards this objective. Over the long term, high-quality carbon credits will be critical to neutralizing residual, hard-to-abate emissions from certain sectors."[3] The OTPP should place a strict limit on the role of carbon offsets in both its own net-zero commitment and the net-zero commitments of portfolio companies.

The OTPP has not joined an accountable and credible Paris-aligned investor body such as the Net Zero Asset Owner Alliance or the Paris Aligned Asset Owners, nor has it committed to follow the recommendations of the United Nations Secretary-General's High Level Expert Group on Net-Zero Emissions Commitments of Non-State Entities.[4] The OTPP's net-zero commitment does not specifically account for its portfolio's scope 3 emissions, unlike that of some of its peers, such as the Canada Pension Plan Investment Board.

Interim Targets	**B**

2023 updates:

- Reduced portfolio emissions intensity by 32% below a 2019 baseline (as of December 31, 2022).
- Increased green investments to $34 billion (as of December 31, 2022), on the way to a goal of $50 billion by an unspecified date.
- Increased the proportion of direct private portfolio that is covered by emissions reporting to 88% (as of December 31, 2022), up from 37% in 2019.

The OTPP (along with the 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

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

As of December 31, 2022, the OTPP reduced portfolio emissions intensity by 32% below a 2019 baseline, unchanged from 2021 "due to an increase in both market value and absolute emissions of its portfolio carbon footprint" (*2022 Annual Report*, p.73). The OTPP also reported that it reduced its portfolio's absolute emissions by 3% since 2019 (*2022 Annual Report*, p.73), but has not yet set short-, medium-, or long-term targets for absolute emissions reductions.

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

Commitment: ensure 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 (*2022 Annual Responsible Investing and Climate Strategy Report*, p.15).

The OTPP said that a company's transition plan and target will be considered "credible" if it's "aligned with a science-based methodology" (*2022 TCFD Report*, p.4), but did not provide an update on progress toward this target in 2023.

Green investments

Commitment: increase "green investments" to $50 billion, although the OTPP has not provided a target date (*2022 Annual Responsible Investing and Climate Strategy Report*, p.4).

The OTPP reported in 2023 that its green assets reached $34 billion as of December 31, 2022 (*2022 Annual Report*, p.40).

Decarbonizing high carbon transition assets

Commitment: invest $5 billion in "high carbon transition assets" (HCTAs), 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 (*2022 Annual Responsible Investing and Climate Strategy Report*, p.16). HCTAs will not be covered by OTPP's interim emissions reduction targets, but will be accounted for under the fund's commitment to net-zero by 2050 (*2022 Annual Report*, p.40). The OTPP did not report on any allocation to HCTAs in 2023.

Communication of Climate Urgency	A

2023 updates:

- None.

The OTPP continues to acknowledge 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. The OTPP even acknowledges, on its webpage *Four takeaways from our 2023 Portfolio Company Leaders Conference*, that the world is experiencing rapid changes, including "the end of the stable climate regime that lasted 100,000 years."

Sample language from OTPP's CEO, April 2023 AGM (p.5):

"We see [our commitment to climate] as a strategic imperative to delivering pensions over the long term. The plan has a multi-faceted climate strategy that is rooted in driving tangible emission reductions."

Sample language from OTPP's CEO, *2022 Annual Report* (p.13):

"As an active and engaged investor, we have an opportunity to play a role in addressing some of the biggest environmental and social challenges of today to deliver value over the long term. In that regard, we are making significant efforts to help tackle climate change and aid the transition to a low-carbon economy. We have a multi-faceted strategy that involves investing in green and transition assets, helping our portfolio companies decarbonize, issuing green bonds to support their funding and more."

Climate Engagement	B+

2023 updates:

- An analysis of select OTPP climate-related votes raised questions about how it is applying its own Proxy Voting Guidelines.
- The OTPP did not release a Responsible Investing Report or Climate Change Strategy Update in 2023; related updates are expected to be included in the OTPP's annual report in 2024.

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 2030. The fund specifies that targets should include scope 3 emissions when material (*2022 Responsible Investing and Climate Strategy Report*, p.15) and that it is developing a more complete accounting of portfolio company scope 3 emissions (*2022 Annual Report*, p.41). The OTPP improved the accuracy of its reported emissions by increasing emissions reporting (rather than estimating) from its direct private portfolio, going from 37% reported emissions in 2019 to 88% in 2022 (p.32).

The OTPP's reports and guidelines show that the fund has an engagement process supported by tools and resources for portfolio companies, and that the OTPP is willing to escalate if companies are unresponsive. The fund's *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 in which it has "significant stakes (minority or control)" to develop a "Paris Aligned Reduction Target" (PART) with a credible plan to achieve net-zero by 2050. The PART and decarbonization playbook, described in the *2022 Responsible Investing and Climate Strategy Report* (p.15) and the OTPP's *2022 Annual Report* (p.39), 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 OTPP investments without Paris-aligned 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 OTPP does not say what consequences a company faces if the company does not set a target within this window. But 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 would be stronger if the fund was more willing to publicly use its significant clout. The OTPP'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). To Shift's knowledge, the OTPP has not yet used this tactic to drive company action on climate change.

DETAILS

Expectations for owned companies

As per the fund's interim targets, the OTPP expects a growing number of portfolio companies to have credible net-zero plans. Companies in which the OTPP has significant stakes may be provided with resources (e.g. decarbonization playbook, HCTA 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).

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. 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 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). The OTPP's *2022 Annual Report* and *2022 TCFD Report* provided no updates on the fund's climate-related expectations of external managers.

Proxy voting

The OTPP's approaches, expectations and guidelines related to climate change are the same in its *2023 Proxy Voting Guidelines* as they were the previous year. The guidelines specify that the OTPP expects companies to:

- report based on recommendations made by the International Sustainability Standards Board (ISSB) and the TCFD;
- include the metrics being tracked, targets associated with those metrics and the performance against those targets;
- disclose their carbon footprint and explain how they are calculating their footprint;
- conduct scenario analysis, including a net-zero scenario; and
- provide short-, medium-, and long-term carbon/greenhouse gas emissions reduction targets and their progress towards those targets (pp.11-12).

The OTPP's 2023 *Proxy Voting Guidelines* say that the OTPP will "consider" not supporting individual directors, chairs or committees when it determines that a board is not effectively overseeing climate-related risks. The *Guidelines* specify that company boards should have a "readily evident and easily understood" role in oversight of climate risk (p.11). The pension manager expects climate-related disclosure aligned with the TCFD (including metrics, targets, and performance) and credible scenario analysis (including a net-zero aligned scenario) (p.11). According to the guidelines, the OTPP will "typically support shareholder proposals that we believe strengthen the company's climate change-related practices" (p.32).

Climate-related shareholder proposals the OTPP "will typically" support include:

- improving climate change governance practices and board oversight;
- the completion of a materiality assessment regarding company's climate exposure with the intention of having the company better understand its climate risks;

- the stronger disclosure of decision-useful climate related information;
- the monitoring and management of climate change related risks and opportunities;
- additional action by the company to better align its business with the transition to a low-carbon economy aligned with the Paris Agreement, including net-zero initiatives; and
- the alignment of reporting with the recommendations of the ISSB and TCFD (p.32).

It is notable that the OTPP's *Proxy Voting Guidelines* address corporate political activities, expenditures and trade associations. This sets the expectation that companies' public statements be aligned with their actions, and that political activities, expenditures and trade associations "enhance long-term value for shareholders and stakeholders." Otherwise, the OTPP "expect(s) a cogent explanation as to why the misalignment exists and the plan for remedying the contradiction."

The OTPP says it will "typically support proposals seeking to establish or improve oversight from the board on political expenditures (quantum) and activities, including policy and procedural reviews, and taking industry and peer comparisons into consideration. We also expect companies to provide regular disclosure on political expenditures, rationales for political expenditure, dues to trade associations, and rationale for association dues paid" (p.33).

However, the OTPP's guidelines should go further by expressing an expectation that companies must not lobby against climate policies and must depart from industry associations that oppose climate action. The OTPP should be ready to bring forward shareholder resolutions, vote against directors or divest if these expectations are not met.

While the OTPP's *Proxy Voting Guidelines* appear relatively strong, an analysis by Investors for Paris Compliance of the 2022 proxy voting patterns of Climate Action 100+ signatories raises questions about whether the OTPP is voting in line with its own guidelines. The OTPP voted in favour of climate-related shareholder resolutions less than one-third of the time in the study of 23 North American resolutions.[5] Similarly, Shift's analysis of select climate-related proposals at bank and oil company AGMs found that the OTPP voted against three proposals at the Royal Bank of Canada, calling them "duplicative" or "overly prescriptive."[6]

Collaborative engagement

The OTPP is a member of Climate Action 100+ and stated in its *2021 Responsible Investing and Climate Change Report* that its 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). The OTPP's *2022 Annual Report* and *2022 TCFD Report* provided no updates on the fund's Climate Action 100+ engagements.

Policy engagement

The OTPP occasionally provides comments on sustainability-related public and government consultations, such as to the ISSB and other bodies setting standards and policies for climate risk reporting.[7] But the OTPP must become more vocal and assertive in its advocacy to help ensure that governments in Ontario, Canada and around the world are developing and implementing stringent and durable laws, policies and regulations that accelerate emissions reductions in line with the Paris Agreement.

Climate Integration	B–

2023 updates:

- The OTPP did not release a Responsible Investing Report or Climate Strategy Update in 2023.
- While the OTPP issued reports and updates about its investments in renewable energy, sustainable buildings and electricity infrastructure assets, Shift identified no substantive reporting in 2023 regarding the fund's significant fossil fuel assets. The OTPP has not disclosed an inventory of its fossil fuel assets despite repeated requests from plan members.
- A Director who joined the OTPP Board in 2023 concurrently serves on the boards of four fossil fuel companies.

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 website also lists all investments in which the OTPP holds a position of $200 million or more.

Transparency and disclosure of climate risk

Despite being asked repeatedly by beneficiaries over a number of years, the OTPP has still not provided an inventory of its fossil fuel investments. The OTPP's two most recent Annual Reports categorize investments as "energy," "energy and power" and "power generation" without distinguishing between fossil fuels and renewables. This makes it impossible to quantify the OTPP's fossil fuel investments, or compare these investments with previous years, when the OTPP broke down portfolios by sectors that included "oil and gas" and "gas transmission and distribution."

The OTPP has recently published three special reports: *Investing in Sustainable Buildings*, *Power Shift* (focused on electricity transmission and distribution infrastructure) and *A Renewed Energy* (focused on renewable energy). The fund's annual and sustainable investing reports also feature glossy case studies of investments in climate solutions. But in 2023 the OTPP was silent on its significant fossil fuel assets and how it proposes they fit with the fund's net-zero commitment. This silence is especially concerning given that these assets face outsize transition risk and pose risks to the stability of the climate and therefore OTPP members' retirement security.

Carbon emissions reporting

The OTPP increased the proportion of its direct private portfolio that is covered by emissions reporting to 88% by the end of 2022, up from 37% in 2019 (*2022 Annual Report*, p.8).

Scenario analysis

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, stating that "The organization's objective is to achieve a net-zero emissions portfolio by 2050, following a trajectory aligned with a 2°C or lower pathway." The report says that the OTPP expects to have to manage physical climate risks in the near and long term, but 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 is the only fund examined in this report that specifically identifies board members with climate-related experience, qualifications or expertise. Four Board members are identified as such in the OTPP's *2022 Annual Report*'s

Board Skills Matrix (p.49). Board member Monika Federau previously sat on the Advisory Board of the Intact Centre for Climate Adaptation.[8] Board member Cindy Forbes "laid the foundation for meaningful advances in sustainability reporting and carbon reduction targets" at a large life insurance company.[9] It is unclear from their OTPP biographies what climate-related experience or qualifications Board members Gene Lewis and George Lewis bring to their roles.[10]

The *2022 Annual Report* also notes that "the importance of mitigating climate change and the impact our investments and operations have on the environment remained an area of focus on every board meeting agenda" (p.11).

One member of the OTPP's 11-person Board is concurrently a director at four fossil fuel companies. Deborah Stein, whose OTPP term began on January 1, 2023, serves as a Director of Parkland Corporation, NuVista Energy and Trican Well Service.[11] Ms. Stein is also listed as a Director at Washington Gas.[12] According to her OTPP bio, Ms. Stein was formerly CFO of AltaGas and previously worked at TC Energy. Following the announcement of Ms. Stein's appointment in September 2022, a group of working and retired teachers called for the retraction of the appointment over potential conflicts of interest between Ms. Stein's oversight of climate risk for the OTPP and concurrent legal obligations to fossil fuel companies.[13]

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 OTPP employees (p.4). The OTPP's *2022 Annual Report* also says that annual outcomes, including those related to climate change, are part of a "balanced approach to rewarding employees in areas over which they have most control" (p.83). The OTPP should clarify how exactly OTPP staff and executives are incentivized to reduce emissions or achieve climate targets via compensation structure.

Fossil Fuel Exclusions	F

2023 updates:

- OTPP's CEO falsely referred to fossil gas as an "important transition fuel".

OTPP has no exclusions on fossil fuel investments.

Despite the International Energy Agency (IEA) having said as early as 2021 that a global net-zero by 2050 pathway required no new investment in coal, oil or gas development, the OTPP has placed no exclusions on new investments in fossil fuels.[14]

The OTPP has not provided disclosure of how it profitably plans to phase out its estimated $7.4 billion - $10.1 billion in fossil fuel assets, and remains insistent that it does not plan to divest them. At the pension fund's AGM in April 2023, the OTPP's CEO said, "we view natural gas as an important transition fuel" (*2023 AGM Transcript*, p.5). However, a growing body of evidence shows that the lifecycle emissions of gas make the fuel just as damaging to the climate as coal.[15] The IEA said in its 2023 World Energy Outlook that global gas demand will decline this decade, possibly as soon as 2023, even without any new climate policies.[16]

The OTPP's *Green Bond Framework* already excludes investments that would increase the use of fossil fuels (p.5), although it includes carbon sequestration technologies or products (p.7), leaving the door open to financing of fossil fuel companies relying on this false climate solution.

In order to align its investment policies with climate science, which clearly states that climate safety means a phase-out of fossil fuels, the OTPP must institute an immediate exclusion on new investment in fossil fuels and disclose how it will profitably phase out its own fossil fuel assets.

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 the Paris Aligned Asset Owners was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	The OTPP has no disclosed 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*	$34 billion or 15% of AUM (December 31, 2022 AUM)**
Estimated investments in fossil fuels	Between $7.4 billion (3% of AUM)*** and $10.1 billion (4.3% of AUM)**** (December 31, 2022)
Notable fossil fuel holdings (not a comprehensive list)	• At least $200 million in Aethon Energy.[17] • At least $200 million in Aspenleaf Energy.[18] • At least $200 million in the state-owned Abu Dhabi National Oil Company's fossil gas pipelines.[19] • A 37.5% stake in SGN (Scotia Gas Networks).[20] • 100% ownership of HRG Royalty.[21] • A joint 69.4% stake in Società Gasdotti Italia S.p.A (SGI).[22] • Ownership of GRP Energy Capital.[23]

* 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 April 2023, OTPP's CEO told members at the pension fund's AGM that its "direct oil and gas assets represent around 3% of (its) portfolio" (*2023 Annual General Meeting*, transcript, p.5), or $7.4 billion (calculated using the OTPP's AUM as of December 31, 2023). The OTPP's *2022 Annual Report* does not distinguish between fossil fuels, renewable energy and electricity infrastructure in its reporting on "energy" investments.

**** The $10.1 billion figure is an estimate based on calculating the sum of "energy" in the OTPP's public equity portfolio ($657 million, p.63), "energy and power" in its private equity portfolio ($4.66 billion, p.64), and "energy" in its inflation sensitive portfolio ($4.78 billion, p.68). The "energy infrastructure" in OTPP's infrastructure portfolio is not included in this calculation because of the likelihood that this is largely comprised of electricity transmission and distribution assets, although there may be significant gas infrastructure in this portfolio as well.

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- 2022 Annual Report - Investing to make a mark (March 14, 2023)
- 2021 Annual Report (2022)
- Our responses to the Task Force on Climate-related Financial Disclosures (2022)
- Annual Responsible Investing and Climate Strategy Report (2022)
- Annual Responsible Investing and Climate Change Report (2021)
- 2019 Climate Change Report (2020)
- 2023 Ontario Teachers' Finance Trust Green Bond Report (2023)
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OTPP Documents

- A Renewed Energy - The Momentum Behind Investing in Renewables (July 2023)
- Investing in Sustainable Buildings (April 2023)
- Ontario Teachers' 2023 Annual General Meeting (transcript) (April 2023)
- Good Governance is Good Business - 2023 Proxy Voting Guidelines (January 2023)
- Power Shift. Investing in electric grids to accelerate the energy transition (2022)
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OTPP Webpages and Press Releases

- Our leadership (webpage) (accessed November 2023)
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- Sustainable Investing (webpage) (accessed November 2023)
- A Conversation with Anna Murray (accessed November 2023)
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- Investing to shape a better future for our planet (accessed November 2023)
- 2022 Annual Report (webpage) (accessed November 2023)
- Major investments (webpage) (accessed November 2023)
- Four takeaways from our 2023 Portfolio Company Leaders Conference (webpage) (accessed November 2023)
- Press release - Ontario Teachers' delivers positive return in first half of 2023 (August 15, 2023)
- Press release - Ontario Teachers' delivers solid investment performance in 2022 (March 14, 2023)
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Other

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- Shift's 2022 Canadian Pension Climate Report Card - OTPP Analysis (2023)
- Shift's 2022 Canadian Pension Climate Report Card - Greenwashing Awards (2023)

The *2023 Canadian Pension Climate Report Card* analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers and three international pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. Information is current to December 31, 2023. View the full report at shiftaction.ca/reportcard2023.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

PUBLIC SECTOR PENSION INVESTMENT BOARD (PSPIB, or PSP Investments)

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 (PSP) is a Crown corporation sponsored by the Government of Canada.

Assets Under Management (AUM): $243.7 billion (March 31, 2023)

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

OVERALL CLIMATE SCORE	C

Summary and 2023 Updates

PSP is demonstrating an increasingly sophisticated approach to measuring, reporting and managing climate-related financial risks and encouraging portfolio companies to develop credible climate plans, while growing investments in climate solutions. But PSP is not yet treating what it calls "systemic climate change risk" (*Sustainable Investment Policy*, p.3) like a global emergency that could make it impossible for PSP to fulfill its mandate.

The pension manager has a relatively strong short-term emissions intensity reduction target, despite having made no Paris-aligned commitment to achieving net-zero financed emissions by 2050 or sooner. PSP also has 2026 targets for increasing investments in green and transition assets, reducing exposure to "carbon-intensive assets," obtaining greenhouse gas (GHG) data for 80% of its portfolio, financing sustainable bonds, and increasing the proportion of its portfolio covered by a mature, science-based climate transition plan. PSP reports that it is making progress toward these 2026 commitments.

PSP plans to engage owned companies to develop science-based transition plans and has created a "watchlist" of high-carbon companies and hard-to-abate assets without transition plans. PSP has signaled a willingness to "consider" divesting from high-carbon assets without transition plans, but has no fossil fuel investment exclusions in place.

What PSP still needs to do

- ☐ Publicly acknowledge the consensus science, including from the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency, that limiting global temperature increase to 1.5°C requires an immediate end to expansion as well as the rapid phase-out of oil, gas, coal and related infrastructure.
- ☐ Join a credible and accountable Paris-aligned investor body such as the Net Zero Asset Owner Alliance or the Paris Aligned Asset Owners.
- ☐ Set a medium-term emissions intensity reduction target (2030 or beyond).
- ☐ Pair interim emissions intensity targets with absolute emissions reduction targets.
- ☐ Continue efforts to measure and disclose scope 3 emissions data.
- ☐ Build on public advocacy for mandatory standardized climate risk disclosure to become a vocal proponent of stringent, ambitious, Paris-aligned climate and energy policies that provide certainty for companies and investments.
- ☐ To ensure companies are rapidly developing and implementing profitable and credible climate plans, clarify PSP's *Sustainable Investment Policy*, *Corporate Governance and Proxy Voting Principles*, and *Climate Strategy Roadmap* by clarifying how long PSP will continue to engage companies and what thresholds those investments need to cross to constitute "material reputational and/or financial risks" necessitating divestment.
- ☐ Make public PSP's engagement "watchlist" of high-carbon, hard-to-abate companies/assets.
- ☐ 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; and
  - ☐ 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.
- ☐ Disclose in advance how PSP will vote on shareholder resolutions and publish proxy votes in real-time.
- ☐ Place an exclusion on any new investments in coal, oil, gas and related infrastructure.
- ☐ Commit to a time-bound and managed phaseout of existing fossil fuel assets.
- ☐ Require climate expertise on the Board of Directors, explicitly differentiated from "Sustainable Investing / Environmental, Social, and Governance (ESG)" expertise.
- ☐ Avoid climate-related conflicts of interest and refrain from re-appointing directors with concurrent 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.

FULL ANALYSIS	
Paris-Aligned Target	F

2023 updates:

- None.

PSP Investments continues to state that its long-term objective is to "use our capital and influence to support the transition to global net-zero emissions by 2050" (*2023 Task Force on Climate-Related Financial Disclosures (TCFD) Report*, p.4). But it remains one of the few pension funds analyzed in this report that has yet to commit its portfolio to net-zero emissions by 2050 or sooner.

Considering how sophisticated other elements of PSP's climate strategy are, it is surprising that PSP still has not taken this necessary step. If PSP's objective is to "support the transition to global net-zero emissions by 2050," it must demonstrate leadership and accountability by setting its own Paris-aligned target. There is no way to track progress against a long-term net-zero target if the target itself does not exist.

Interim Targets	**B–**

2023 updates:

- PSP reduced its absolute financed emissions by 22% between Fiscal Year (FY) 2022 and FY 2023.
- While PSP has made significant progress toward achieving its 2026 target to reduce emissions intensity, the fund still has not set medium-term targets beyond 2026.
- Significantly increased investment in green assets.
- Reached and exceeded target to increase investment in "transition assets" three years ahead of schedule.
- Made moderate progress in obtaining scope 1 and 2 emissions data for portfolio assets.
- Slightly reduced exposure to "carbon-intensive" assets.

PSP's interim emissions reduction targets are relatively strong, although weaker than Canadian leaders. The fund's 2026 targets would be strengthened if they were accompanied by medium-term targets and 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, are:

Emissions reduction

Reduce portfolio GHG emissions intensity by 20-25% by 2026, from a 2021 baseline, expressed as tonnes of CO2e per $m revenue (*2022 Annual Report*, p.27). PSP has not set a target for absolute emissions reduction.

PSP reported in 2023 that it had reduced its absolute financed emissions by 22% between FYs 2022 and 2023, using a Partnership for Carbon Accounting Financials (PCAF) approach. And the fund reduced the carbon intensity of its portfolio by 11% since last year, using a Weighted Average Carbon Intensity metric (*2023 TCFD Report*, pp.11-12).

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

PSP committed to ensure that 50% of its portfolio's carbon footprint is covered by a mature science-based transition plan by 2026 (*Climate Strategy Roadmap*, p.8). PSP did not report on its whole portfolio's progress toward this commitment in 2023. However, its Natural Resources group carried out asset-level GHG data collection with portfolio companies to establish a portfolio-wide baseline for scope 1 and 2 GHG emissions and to develop science-based decarbonization plans for the companies (*2023 Sustainable Investment Report*, p.11).

Investment in green assets

In 2022, PSP committed to increase investment in "green assets" from $40.3 billion in 2021 to $70 billion in 2026 (*Climate Strategy Roadmap*, p.8). These are defined as "investments in low carbon activities that lead to positive environmental impacts," including "dark green," "light green" and "enabling." In September 2023, PSP reported $48.9 billion in green assets as of the end of FY 2023 (*2023 Sustainable Investment Report*, pp.8,14).

Investment in transition assets

PSP set a target in 2022 to increase investment in "transition assets" from $5.1 billion in 2021 to $7.5 billion by 2026 (*Climate Strategy Roadmap*, p.8). PSP surpassed this target in FY 2023, reaching $7.8 billion in transition assets, three years ahead of schedule (*2023 Sustainable Investment Report*, p.14). PSP explains that in FY 2023 it "reclassified a large individual asset from carbon-intensive to transition asset based on its newly established asset-level targets" (p.14). It also identified more eligible transition assets in its portfolio than anticipated when it first implemented its Green Asset Taxonomy, the scope of which was expanded to include listed corporate bonds (*2023 TCFD Report*, p.17). However, it is unclear which individual holdings PSP considers to be "transition assets", making it impossible to verify if those assets have credible climate targets and transition plans.

Reduce high-carbon exposure

PSP set a target in 2022 to halve its exposure to "carbon-intensive assets" from a $7.8 billion exposure in 2021 to a $3.9 billion exposure in 2026 (*Climate Strategy Roadmap*, p.14). These are defined as "investments in sensitive high-carbon sectors or that fail to show quantifiable low emission performance," including "High Carbon" and "Hard to Abate" assets. After rising to $13.1 billion in FY 2022, PSP's exposure to carbon-intensive assets decreased slightly to $12.7 billion in FY 2023. The fund reports this is "primarily due to more intensive asset-level data collection and improved methodology, and as a result, being able to map more AUM against the Green Asset Taxonomy", as well as reclassifying a material number of positions from "no data" to "carbon-intensive" on the basis of asset-level data collection efforts (*2023 TCFD Report*, p.14).

Other targets

- PSP set a target in 2022 to obtain scope 1 and 2 emissions data for 80% of in-scope portfolio assets by 2026, up from 56% in 2021 (*Climate Strategy Roadmap*, p.9).[1] PSP reported emissions data for 54% of in-scope assets in FY 2023 (*2023 Sustainable Investing Report*, p.8).
- PSP plans to steer at least 10% of long-term debt financing toward Sustainable Bonds by 2026 (*2023 Sustainable Investment Report*, p.12).

PSP's *Climate Strategy Roadmap* also 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).

Communication of Climate Urgency	B+

2023 updates:

- None. PSP publicly acknowledges the systemic nature of climate change and its impacts, but does not indicate that its mandate could become impossible to fulfill if the worst impacts of climate change are not averted.

While PSP demonstrates that climate risks and opportunities are considered throughout its asset management and investing processes, the fund is not communicating that climate change is an existential emergency. In some instances, PSP comes close to communicating climate urgency, acknowledging "systemic climate risk" as one of the most significant drivers of change today, along with other ESG factors (*2023 Annual Report*, p.14). The fund also cites in its *2023 TCFD Report* the alarming conclusions of the IPCC, such as that human-caused climate change is already causing extreme impacts around the world, that government action to limit warming below 2°C is insufficient, and that financial flows needed to meet climate goals are falling short (p.5).

Despite acknowledging that climate impacts are worsening, that extreme weather events will create economic costs for its assets, and that carbon-intensive assets may see lower valuations with forthcoming regulations, PSP itself has not made a commitment to net-zero financed emissions. Instead, it commits only to "support global net-zero 2050 and decarbonization efforts."

Sample language from PSP's *2023 TCFD Report* (pp.3-4):

"PSP Investments recognizes that climate change is a long-term systemic risk, as supported by scientific evidence from the Intergovernmental Panel on Climate Change (IPCC). As a long-term investor, we recognize the importance of integrating material climate change considerations into our investment process. This approach supports our goal of aiming for better returns and minimizing possible risks across our total fund, while supporting global net-zero 2050 and decarbonization efforts... We seek to use our capital and influence to support Paris-aligned decarbonization across our investment portfolio."

Climate Engagement	C+

2023 updates:

- Updated and strengthened *Sustainable Investment Policy* and *Corporate Governance and Proxy Voting Principles*.
- Instituted a "watchlist" of high-carbon companies, although details are not disclosed.
- Joined Climate Engagement Canada.

SUMMARY

PSP strengthened its approach to climate engagement in 2023. The fund set new climate expectations for companies, began using credible benchmarks to assess companies' climate plans, updated and improved its *Sustainable Investment Policy* and *Corporate Governance and Proxy Voting Principles*, created a "watchlist" of companies for focused engagement, and indicated instances where PSP "may" refrain from investing or decide not to maintain investment, including after consecutive engagement activities are unsuccessful. However, PSP's approaches to engagement and proxy voting are filled with loopholes and leave plenty of wiggle room for PSP to continue investing in — and voting for corporate directors at — companies whose business model is inconsistent with a safe climate. PSP could enhance transparency by disclosing which companies are on its "watchlist" and disclosing in advance how PSP will vote on shareholder resolutions and publishing proxy votes in real-time.

DETAILS

Expectations for owned companies

PSP tailors its engagement approach to investment type, exposure, investment time horizon, objectives sought and likelihood of success. For public markets, companies are selected based on the size of PSP's holding, the prospects of success and the materiality of sustainability-related issues (*2023 Sustainable Investment Report*, p.26).

PSP states 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, "ensuring companies have a business model consistent with net-zero emissions and an effective transition plan to achieve this by 2050" (p.8).

PSP references credible organizations in assessing whether its assessments are climate-aligned: "In considering whether investments support the long-term goals of the Paris Agreement, we seek to evaluate whether our investments demonstrate alignment with sector-specific emissions reductions trajectories as outlined in the International Energy Agency's (IEA) Net-Zero Scenario, guidance from the Science-Based Targets Initiative (SBTi), the Investor Leadership Network (ILN) sector decarbonization pathways, or other credible modeling sources in alignment with a 1.5-degree climate scenario" (*2023 TCFD Report*, p.9).

PSP demonstrated in its 2022 *Climate Strategy Roadmap* that it has a willingness to escalate its engagement, up to and including divestment, if decarbonization progress is not made (p.9). While PSP committed in 2022 to develop a climate escalation policy in 2023 that can be applied to public issuers and private portfolio companies (p.8), the pension manager's updated 2023 policies set strong climate-related expectations for companies, but contain loopholes (see "Proxy Voting" section below).

Direction given to external managers

PSP's *Sustainable Investing* webpage says that the pension manager uses an in-house framework to assess the ESG practices of external managers and ensure that their approach is aligned with PSP's *Sustainable Investment Policy*, which includes using its influence to achieve global net-zero.[2] It is not clear how PSP evaluates climate risk in this assessment. PSP's *2023 Sustainable Investment Report* describes a "sustainability assessment framework" for external managers that includes climate change strategy or guiding principles, systematic identification of risks and opportunities related to climate change, tracking of portfolio carbon footprint, and disclosures aligned with TCFD recommendations (p.31).

In FY 2023, PSP found that 84% of its exposure to externally managed investments is managed by external managers or general partners with "active" or "leading" approaches to sustainability-related factors. However, only 36% of these partners were TCFD supporters and just over two-thirds had dedicated ESG staff (p.10).

Proxy voting

PSP published new *Corporate Governance and Proxy Voting Principles* in February 2023 that include a new stand-alone section, "Taking Action on Climate Change" (p.16). The *Principles* state that PSP "will generally support shareholder proposals seeking enhanced climate-related disclosures," and "expect(s) companies to have a sound climate-related governance structure, accountability for oversight of climate commitments, a transition plan aligned with climate science, and enhanced disclosure of decision-useful information."

PSP "*may consider*, in light of value and portfolio risk considerations, voting against directors to hold them accountable" (italics added). The weak "may consider" language in PSP's climate-related proxy voting guidelines stands in contrast to other Canadian pension managers, such as the Canada Pension Plan Investment Board (CPPIB) and Investment Management Corporation of Ontario (IMCO), that have indicated they *will* vote against accountable corporate directors.

The updated principles say that PSP "discourage(s) companies from making political contributions, in order to prevent the appearance of a quid pro quo and possible scandal if politicians or governments adopt policies favourable to the company. If companies choose to make political contributions or engage in direct or indirect political activities, they should be fully transparent about their actions" (*Corporate Governance and Proxy Voting Principles*, p.16). This falls short of PSP setting an expectation that companies and their industry associations stop lobbying or engaging in political activities that undermine climate action.

PSP also put in place a "watchlist" of "companies with the greatest impact on our public equities portfolio's carbon footprint — those classified as high-carbon and hard-to-abate assets without transition plans." The fund "may consider" voting against director nominations for those companies as a way to hold them accountable.

PSP gives the example of a waste management company on its watchlist for which it had "identified issues with the board's approach to setting targets and articulating its outlook on future climate strategy-related plans." That resulted in a vote against a director at the company's AGM (*2023 Sustainable Investment Report*, pp.18, 29).

If PSP wants its engagement efforts to be effective and transparent to plan members, it must start naming the companies on its “watchlist” and confirm that it will vote against directors if companies do not have science-based targets backed by credible climate plans.

PSP’s *Corporate Governance and Proxy Voting Principles* are an improvement over the previous year, but still leave wiggle room for PSP to allow companies to continue to expand fossil fuel infrastructure and lobby against climate action. For example, PSP says that it “may consider, in light of value and portfolio risk considerations, voting against directors to hold them accountable” (*Corporate Governance and Proxy Voting Principles*, p.16). This language is a far cry from PSP’s claim that it is “seized with the potential to use our capital and influence to support the transition to global net-zero emissions by 2050” (p.16).

PSP lags behind its peers in the Canadian pension sector in its approach to proxy voting because it does not announce how it will be voting on shareholder resolutions ahead of companies’ annual meetings and delays the reporting of its proxy votes by up to three months after a meeting. In a limited analysis of pension fund proxy votes at shareholder resolutions at annual meetings in spring 2023, PSP voted against six of eight climate-related shareholder proposals, including a resolution asking Royal Bank of Canada to respect Indigenous rights.[3]

According to PSP’s *2023 Sustainable Investment Report*, the investment manager had 1,058 engagements on climate change in FY 2023, a dramatic increase over the 346 climate-related engagements with public companies that PSP reported for FY 2022 (*2022 Annual Report*, p.33). Of those 1,058 engagements in FY 2023, PSP says that 255 of them resulted in “confirmed progress” (*2023 Sustainable Investment Report*, p.28).

Collaborative engagement

PSP does not provide examples of collaborative engagement on climate, although according to its *Investing Responsibly* webpage the investment manager participates in collaborative engagements with peers. Companies are selected for engagement based on the ability to create shareholder value, the prospects for successful engagement and the relevance of ESG issues. Engagements have clear objectives aimed at driving behavioral change and can involve multiple meetings and last several months or years.[4] PSP is not a member of Climate Action 100+, but joined Climate Engagement Canada in 2023.

Policy engagement

PSP participates in the Sustainable Finance Action Council and supported the Bank of Canada in its ongoing assessment of the systemic implications of climate transition risk to the Canadian financial system (*2023 TCFD Report*, p.8). PSP also publicly supported mandatory, International Sustainability Standards Board climate risk disclosure, jointly with other pension funds.[5] However, beyond this PSP does not appear to be involved in advocacy activities that are critical to limiting global temperature increase to safe levels, such as making climate-aligned submissions to policy and regulatory processes or publicly supporting and advocating for ambitious climate policy that creates certainty for climate-aligned investments.

Climate Integration	C+

2023 updates:

- Still no disclosure of either a comprehensive inventory of PSP's assets or its fossil fuel exposure.
- Improved emissions accounting and scenario analysis.
- PSP is unique among Canadian pension funds for its measurement of its portfolio's biogenic emissions, meaning those that result from biological sources, such as livestock digestion, manure management and the decomposition of organic materials. This likely reflects PSP's relatively large portfolio of agriculture assets.

Accountable Paris-aligned membership

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

Transparency and disclosure of holdings

PSP has a series of webpages with information about its portfolio broken down by asset class, along with a few sample investments, breakdowns by economic sector, and geographic distribution. But PSP does not disclose a comprehensive list of its investments and their valuations, unlike its Canadian peers such as the CPPIB, Caisse de dépôt et placement du Québec (CDPQ) and British Columbia Investment Management Corporation (BCI).

Transparency and disclosure of climate risk

After nearly three years of beneficiaries persistently asking PSP to fully disclose a list of assets allocated towards companies involved in fossil fuel exploration, extraction, transportation, refining and combustion, PSP again did not do so in 2023. 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.

Scenario analysis

PSP's *2023 TCFD Report* indicates that PSP conducts regular climate scenario analysis and stress-testing of its portfolio, partnering with Ortec Finance to consider three plausible climate pathways and their potential impacts to its portfolio, capturing both direct and indirect impacts of the scenarios employed. One of the scenarios employed by Ortec is a "failed transition scenario" using an average temperature increase of 4.3°C by 2100. The analysis finds that under the failed transition scenario PSP is expected to generate lower returns relative to an orderly net-zero transition scenario, with the most material impact stemming from increased physical risks. In an orderly or disorderly net-zero transition, the portfolio will face moderate physical risks and moderate transition risks (p.6). As in PSP's *2022 TCFD Report* (p.7), the pension manager's casual response in 2023 to a 4.3°C warming scenario is alarming. A 4.3°C scenario represents catastrophic risk to the financial system and human society, including PSP's members. PSP should be taking all measures possible to avoid this failed transition scenario for its portfolio and its members.[6]

PSP also uses S&P's Global Climanomics tool to evaluate the impacts of climate change on its portfolio. PSP says the relative risk associated with climate-related hazards increases at a relatively linear pace through the 2050s under all emissions pathways. The fund concludes that its "active management approach, dynamic portfolio construction and climate aware investment choices lead to better positioning of the policy portfolio from a risk and return perspective … under all climate scenarios considered." Again, PSP's strange assumption that everything will be fine under extreme warming scenarios is cause for concern, especially considering the devastating impacts that Canadians already experienced at less than 1.5°C of warming in 2023.

Emissions accounting

PSP's *2023 TCFD Report* showed progress in the fund's disclosure of GHG metrics, improving coverage of its portfolio from 66% in 2022 to 68% in 2023 and pledging to use market-leading carbon accounting and methodology practices and uphold a high degree of transparency (pp.10-11). 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 set a target in 2022 to obtain scope 1 and 2 emissions data for 80% of in-scope portfolio assets by 2026, up from 56% in 2021 (*Climate Strategy Roadmap*, p.9).[7] The pension manager reported emissions data for 54% of in-scope assets in FY 2023 (*2023 Sustainable Investing Report*, p.8).

PSP noted in its *Climate Strategy Roadmap* in 2022 that it intends to add portfolio companies' scope 3 data to its methodology (p.12). As of its *2023 TCFD Report*, PSP's investee companies' scope 3 emissions are still excluded because the comparability, coverage, transparency and reliability of scope 3 data is generally insufficient in the marketplace (p.14). PSP says "we intend to include more scope 3 data as it becomes more widely available and reliable." Nonetheless, PSP makes a good-faith effort to be transparent about the methodology and quality of its GHG emissions accounting (pp.14-15).

Comprehensive climate plan

PSP published its *Climate Strategy Roadmap* in April 2022, and reported on progress on the *Roadmap* in both fall 2022 and fall 2023.

Climate expertise

Starting in 2022, PSP had a cross-asset class Climate Investing Workgroup that collaborated on climate investing opportunities, built knowledge on key climate investing themes and supported the execution of identified climate priorities. In FY 2023, the workgroup was integrated into the Sustainability and Climate Innovation group and rebranded as the "Climate Innovation Summit," described as "a transversal group focused on advancing our climate strategy and knowledge-building across asset classes" (*2023 Sustainable Investment Report*, pp.7, 10, 15).

Board climate expertise and/or fossil fuel entanglement

In its *2023 Annual Report*, PSP includes a board competencies breakdown that identifies five directors as having a "Sustainable Investment" competency (p.64). This is similar to PSP's *2022 Annual Report*, which also identified five directors as having a "Corporate social responsibility / sustainability" competency (pp.89-94). Neither of these are an indication that any PSP directors specifically have climate risk expertise.

One of 12 Directors, or 8% of PSP's Board, has a current fossil fuel entanglement. Miranda C. Hubbs is a Director of Imperial Oil.[8] In August 2023, a group of working and retired federal public servants sent a letter to Cabinet asking them to remove Ms. Hubbs from PSP's board with cause, citing her role as a Director of Imperial Oil and Chair of the company's Community Collaboration and Engagement Committee. News had recently broken that the oil and gas company leaked millions of litres of oil sands tailings and toxic chemicals into Alberta waterways from its Kearl facility and then hid it from regulators, the public and downstream Indigenous communities for months.[9] A PSP spokesperson defended Ms. Hubbs' "experience, dedication, honesty and integrity," saying that there is no conflict of interest arising from the "mere fact" that Hubbs is a director of both the pension fund and Imperial Oil.[10]

Another PSP Director, Helen Mallavoy Hicks, is concurrently a Director of Northland Power. While Northland Power mostly owns and operates wind, solar, storage and electricity transmission assets, the company also owns four gas-fired power plants in Ontario and Saskatchewan.[11] Northland also proposed to build a new gas plant in Thorold, Ontario in 2023, but its proposal was rejected by the municipal council over climate and health concerns.[12] The rest of Northland Power's projects that are proposed or under development are wind, solar and storage.[13] We do not consider Ms. Mallavoy Hicks to have a potential conflict of interest due to her position on the board of Northland. While the company's attempt to build a new gas plant in 2023 is concerning, power generation utilities have a credible, profitable pathway to decarbonization by phasing out fossil-fired power and building out renewables. Oil and gas *producers* like Imperial Oil, on the other hand, have no credible pathway other than phase-out.

Executive and staff compensation and climate

For FY 2023, PSP reports that "the President and CEO's personal objectives as well as those of her leadership team were aligned with PSP Investments' strategy, mission and values, including advancing our climate capabilities while leveraging improved ESG data and reporting" (*2023 Annual Report*, p.74.) This was the first time that PSP has mentioned climate targets in the context of executive or staff compensation. But there is no reporting to indicate if PSP staff are incentivized to reduce emissions or whether they are compensated for doing so.

Fossil Fuel Exclusions	F

2023 updates:

- None.

PSP has no exclusions on fossil fuel investments.

PSP's 2022 *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). It also states that if "[decarbonization] progress is not made, we will escalate our engagement and consider divestment if progress remains unsatisfactory" (p.9).

In its February 2023 *Sustainable Investment Policy*, PSP affirms that it believes that engagement is "usually preferable to exclusion or divestment." But it clarifies that there are instances where PSP Investments "may refrain from investing or decide not to maintain investment, including where there are material reputational and/or financial risks relating to:

- material ESG factors that do not align with our investment beliefs and the meeting of our mandate;
- the potential for investments to cause or contribute significantly to negative societal outcomes, for example environmental harm or human rights abuses;
- material concern about a company's long-term social license to operate;
- the lack of engagement or strategy by the board of directors or management to prevent or mitigate material ESG issues;
- structurally unsuccessful engagement activities (by PSP Investments or collective efforts)" (p.3).

Many of these risks already apply to fossil fuel production companies, yet PSP has placed no exclusion on new or continued investment in fossil fuels.

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

PSP committed in 2022 to halving its $7.8 billion exposure to "carbon-intensive assets without credible transition plans" by 2026. As of FY 2023, PSP reported $12.6 billion in exposure to carbon-intensive assets (*2023 Sustainable Investment Report*, p.14). Reducing PSP's exposure to $3.9 billion by 2026 will almost certainly require PSP to divest carbon-intensive assets.

PSP and the Canada Growth Fund: An opportunity to accelerate decarbonization, or a slush fund for oil and gas?

The Government of Canada mandated PSP in 2023 to manage the $15-billion Canada Growth Fund (CGF), an innovative public finance tool to leverage private capital for decarbonization and climate-aligned investment in Canada.[14] Unfortunately, the CGF's scope and strategic objectives have left the door open for the fund to finance dangerous distractions that subsidize fossil fuel companies, like carbon capture, utilization and storage (CCUS) and "low-carbon" hydrogen.[15]

As of December 31, 2023, the CGF had announced its first two investments. The first investment, announced in October, smartly provided a modest $90 million in financing for Eavor Technologies, a Calgary-based geothermal energy company that uses an innovative closed-loop system to generate zero-carbon baseload heat and power.[16] Then in December the CGF announced it would invest up to $1 billion in an oil and gas company's risky, unnecessary and likely ineffective CCUS schemes. The investment included $200 million in debt financing for Entropy, a subsidiary of Calgary-based oil and gas producer Advantage Energy, to help equip a fossil gas power plant in Alberta with unproven CCUS technology. It also included a "carbon credit offtake agreement," valued at up to $800 million, that commits the CGF to buy carbon credits from Entropy for any "emissions reductions" the company achieves over the next 15 years from its risky CCUS schemes at a price of $86.50 per tonne of CO2e.[17]

While the CGF is to be "separate from and managed independently of the pension assets of PSP Investments,"[18] the Entropy investment announcement noted that PSP holds a 1% stake in Entropy through its participation in the Brookfield Global Transition Fund, which provided the company with $300 million in financing in 2022.[19]

Prior to the CGF's announcement regarding Entropy, Shift had voiced concerns that the CGF could be used to finance dangerous distractions that prolong the use of fossil fuels instead of de-risking, deploying and scaling up well-established climate solutions.[20] This concern was heightened with the government's 2023 Fall Economic Statement, which announced that the CGF will be the principal federal entity issuing all carbon contracts for difference (CCfDs).[21] The Pathways Alliance of oil sands companies issued a statement in response to the Fall Economic Statement suggesting that its CCUS projects are eligible for CGF investment.[22]

It should be concerning for PSP beneficiaries and stakeholders that the pension fund manager, which has a mandate to invest in their best long-term interests— which include a safe and stable climate in their retirement— is also managing a fund subsidizing CCUS, which will likely prolong the production and combustion of oil and gas and therefore contribute to worsening climate breakdown. CGF officials suggested that the Entropy investment sets a benchmark that could see the CGF invest additional public money in CCUS projects for oil and gas.[23]

Shift will continue to monitor the CGF and advocate for investment in climate solutions such as offshore wind, solar energy, electric vehicle battery production, sustainable agriculture, energy efficiency and conservation, rather than unproven, uneconomical, unscalable, ineffective CCUS and fossil hydrogen fantasies that subsidize oil and gas companies.

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 the Paris Aligned Asset Owners was considered when assigning scores.	
United Nations Declaration on the Rights of Indigenous Peoples	PSP's *2022 Annual Report* says 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). But PSP's *Corporate Governance and Proxy Voting Principles*, updated in February 2023, appear to only partially fulfill this commitment. The *Principles* say that PSP "encourage[s] companies to adopt appropriate standards and as a minimum to support labour standards and human rights in all their operations. … Companies should strive to ensure that they maintain their long-term 'social license to operate,' gaining the support of communities who may be affected by their activities. This *may include, where appropriate*, the free, prior, and informed consent of indigenous peoples" (p.15, emphasis added). PSP's *Principles* do not specifically indicate how the fund will vote on shareholder resolutions related to labour standards, human rights, or Indigenous consent, or how it may escalate its engagement with companies that don't meet "appropriate standards." PSP also says in its *2022 Green Bond Impact Report* that an unspecified part of its timber, aquaculture and agriculture assets are certified by the Canadian Council for Aboriginal Business (CCAB) Progressive Aboriginal Relations certification program (p.5).
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 • Climate Engagement Canada • Coalition for Inclusive Capitalism • ESG Integrated Disclosure Project • ESG Data Convergence Initiative • International Corporate Governance Network • Investor Leadership Network • Principles for Responsible Investment • IFRS Sustainability Alliance • Sustainable Finance Action Council • Task Force on Climate-Related Financial Disclosures • Taskforce on Nature-related Financial Disclosures
Self-reported assets linked to climate solutions*	$48.9 billion in green assets, or 16.2% of AUM (March 31, 2023)**

Estimated investments in fossil fuels	Between $4.8 billion (2% of AUM)*** and $12.7 billion (5% of AUM)**** (March 31, 2023)
Notable fossil fuel holdings (not a comprehensive list)	• Joint ownership of TriSummit Utilities, which includes subsidiaries Apex Utilities Inc. (fossil gas utility business in Alberta), Eastward Energy (fossil gas distribution utility in Nova Scotia), Pacific Northern Gas Ltd. (fossil gas distribution and transmission utility in northern British Columbia), and Enstar Natural Gas (fossil gas transmission and distribution pipeline operator Alaska Pipeline Co., with a 65% interest in Cook Inlet Natural Gas Storage Alaska).[24]

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

** PSP's *2023 Sustainable Investment Report* defines green assets as "investments in low-carbon activities that lead to positive environmental impacts" (p.8). PSP also considers $7.8 billion of its portfolio to be "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" (p.8). PSP does not disclose a list of "transition assets."

*** PSP does not disclose a list of total investments in fossil fuels, and its *2023 Annual Report* generally does not distinguish between fossil fuels, renewable energy, and gas and electric utilities in its reporting on its investments in "energy." The $4.8 billion figure is an estimate based on calculating the sum of "energy" in PSP's Public Market Equities portfolio ($3.15 billion, pp.34-35), "energy" in its Credit Investments portfolio ($365.4 million, pp.39-40), "energy" in its Infrastructure portfolio ($1.08 billion, p.43-44), and "oil and gas" in its Natural Resources portfolio ($184.5 million, p.45). This estimate does not include investments in utilities, infrastructure or "other," all of which may include significant fossil fuel assets, and is therefore likely an underestimate.

**** PSP's *2023 Sustainable Investment Report* disclosed that PSP has $12.7 billion in "carbon intensive assets" (p.14). "Carbon-intensive assets" are defined in PSP's *Green Asset Taxonomy Whitepaper* as "high carbon or hard to abate assets with no evidence of a transition plan" (p.10). PSP Investments does not disclose a list of individual "carbon-intensive assets," so we cannot confirm if this classification is solely comprised of fossil fuels.

ENDNOTES

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PSP Reports

- 2023 Annual Report (May 16 2023)
- 2023 Sustainable Investment Report (September 14, 2023)
- 2023 TCFD Report (September 14, 2023)
- 2022 Green Bond Impact Report (covering January 1, 2022 to December 31, 2022)
- 2022 Annual Report (2022)
- 2021 Annual Report (2021)
- 2022 TCFD Report (2022)
- 2022 Responsible Investment Report (2022)
- 2021 Responsible Investment Report (2021)

PSP Documents

- Corporate Governance and Proxy Voting Principles (February 10, 2023)
- Sustainable Investment Policy (February 10, 2023)
- 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)

PSP Webpages and Press Releases

- Board of Directors (webpage) (accessed November 2023)
- Sustainable Investing (webpage) (accessed November 2023)
- Press release - PSP Investments posts 4.4% return in fiscal year 2023, demonstrating resilience and outperforming market in a challenging environment (June 7, 2023)
- Press release - PSP Investments' 2023 Sustainable Investment Report outlines progress on top sustainability priorities (September 14, 2023)
- 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)

Other

- Shift's 2022 Canadian Pension Climate Report Card (2023)
- Shift's 2022 Canadian Pension Climate Report Card - PSP Analysis (2023)
- Shift's 2022 Canadian Pension Climate Report Card - Greenwashing Awards (2023)

The *2023 Canadian Pension Climate Report Card* analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers and three international pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. Information is current to December 31, 2023. View the full report at shiftaction.ca/reportcard2023.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

UNIVERSITY PENSION PLAN (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 University, University of Toronto and University of Guelph, with Trent University added later) into a multi-university jointly sponsored pension plan. As of December 31, 2023, UPP had 16 participating organizations and over 39,000 members.

Assets Under Management (AUM): $10.8 billion (December 31, 2022)

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

OVERALL CLIMATE SCORE	B+

Summary and 2023 Updates

UPP continues to be a climate leader among Canadian pension funds and has demonstrated above-average transparency in disclosing to beneficiaries how it is managing climate-related risks. The fund has committed to net-zero by 2040, is a member of the Net Zero Asset Owner Alliance, and publicly and repeatedly acknowledges that its ability to generate returns depends on a stable climate and that its investments impact the climate. However, UPP has thus far failed to place exclusions on fossil fuel investments, with the exception of a weak coal exclusion policy.

In 2023, UPP:

- Released its *Climate Transition Investment Framework*, outlining thresholds that must be met before UPP makes new investments and presenting a framework for tracking the climate-alignment of new and existing funds and assets.
- Committed to invest $1.2 billion in climate solutions by 2030.
- Released its *Climate Stewardship Plan* for 2023-2025, which articulates Paris-alignment as the goal of its climate engagements; commits to focus engagement on banks, high-emitting Canadian companies and oil companies with a significant impact on the fund's carbon footprint; outlines how the fund will strengthen and amplify its proxy voting activity; and commits to advocate for Paris-aligned policy and regulations, including mandatory climate transition plans.
- Launched a real-time proxy voting database, including rationale for votes.
- Improved carbon footprinting data, including scope 3 and sovereign bond data.

In early 2024, UPP updated its *Proxy Voting Guidelines* to specify that the fund would vote in favour of proposals calling for policies or disclosures related to the United Nations Declaration on the Rights of Indigenous Peoples.

What UPP still needs to do:

- ☐ Publicly acknowledge the consensus science, including from the Intergovernmental Panel on Climate Change and the International Energy Agency, that limiting global temperature increase to 1.5°C requires an immediate end to expansion as well as the rapid phase-out of oil, gas, coal and related infrastructure.
- ☐ Pair emissions intensity targets with interim targets to reduce absolute emissions.
- ☐ Set short- and mid-term targets for proportion of AUM / portfolio emissions covered by a credible net-zero plan.
- ☐ Strengthen Paris-aligned, outcomes-based engagement to include time-bound criteria and a process that escalates to divestment to ensure companies rapidly develop profitable and credible net-zero pathways.
- ☐ Build on identified success measures for climate engagement by adding specific and timebound targets.
- ☐ Set an expectation that owned companies:
  - ☐ tie executive compensation to the achievement of climate targets; and
  - ☐ refrain from directing capital toward fossil fuel expansion.
- ☐ Continue strengthening climate-focused direction given to external managers and monitor managers' follow-through.
- ☐ Divest from fossil fuel producers.
- ☐ Place an exclusion on any new investments in oil, gas and pipelines.
- ☐ Strengthen coal exclusion policy.
- ☐ Require climate expertise on the Board of Trustees.
- ☐ Tie executive and staff compensation to the achievement of climate targets.
- ☐ Continue and expand public advocacy for mandatory standardized climate risk disclosure and transition plans, and stringent, ambitious, Paris-aligned climate and energy policies that provide certainty for companies and investments.

FULL ANALYSIS	
Paris-Aligned Target	**A**

2023 updates:

- Began reporting scope 3 emissions for oil, gas and mining in its 2022 reporting, and for the whole portfolio in its 2023 reporting.
- Remarks from UPP's Senior Managing Director, Responsible Investing, indicated that the fund is unlikely to use carbon offsets. UPP should state its position on if and how it will limit the use of offsets in achieving its net-zero commitment.

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 interim targets for reducing scope 1 and 2 emissions. Beginning in 2022, the fund reported scope 3 emissions for oil, gas and mining. In 2023, the fund reported scope 3 emissions across the portfolio.

UPP is a member of a credible and accountable Paris-aligned investor body, the Net Zero Asset Owner Alliance (NZAOA). UPP's NZAOA membership makes it unlikely that the fund would use offsets to achieve its net-zero commitment, but UPP should publicly state if or how it will limit the use of offsets. In a July 2023 *CFA Institute interview*, UPP's Senior Managing Director, Responsible Investing, said that the world must drive down emissions as quickly as possible, that carbon removal would be needed in some hard-to-abate sectors, and that the pension fund was "very unlikely to be in the business of buying [carbon offset] credits and retiring them."[1]

Interim Targets	**B**

2023 updates:

- Reported a 4% reduction in portfolio emissions intensity.
- Committed to invest $1.2 billion in climate solutions by 2030.

Emissions reduction targets

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). The baseline was restated in 2022 and scope 3 emissions were also reported (*2022 Annual Report*, p.40). UPP reported a 4% reduction in portfolio carbon intensity at the end of 2022 (p.40).

UPP could strengthen its existing targets by adding targets to reduce absolute emissions.

Climate solutions targets

UPP committed in December 2023 to invest "at least" $1.2 billion in climate solutions by 2030, using transparent definitions for climate mitigation assets, climate adaptation assets and climate solutions funds (*Climate Transition Investment Framework*, p.6). However, this target does not appear to match the scale required to decarbonize the economy or the ambition of some of UPP's pension peers. Based on typical annual rates of return, this allocation would fall well below 10% of UPP's expected AUM in 2030. In comparison, the Investment Management Corporation of Ontario has pledged to allocate 20% of its assets to climate solutions by 2030.

UPP references the EU Taxonomy and Climate Bonds Initiative Standard, providing welcome transparency for how the fund defines climate solutions. But the definitions appear to leave the door open for UPP to invest in dangerous distractions that could expand and prolong the use of fossil fuels, such as carbon capture, utilization and storage.[2]

Engagement targets

UPP will engage with 27 companies on climate in 2023-2025. While the fund's *Climate Stewardship Plan*, released in November 2023, articulates the indicators that will be used to assess the success of its engagements, UPP has not yet paired these indicators with time-bound targets to achieve Paris alignment (pp.2-3). Similarly, UPP's *Climate Transition Investment Framework*, released in December 2023, outlines how UPP will assess the progress of its investments in aligning to net-zero, but does not yet set timelines for investments to achieve alignment.

Communication of Climate Urgency	A

2023 updates:

- Throughout 2023, interviews and public remarks from UPP staff repeatedly stated that the fund's ability to generate returns depends on a stable climate, and that the way the pension fund invests affects the stability of the climate.[3]

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 from *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	A–

2023 updates:

- Committed in *Climate Stewardship Plan* to advocate for Paris-aligned policy and regulations, including mandatory climate and transition plans.
- The *Climate Stewardship Plan* additionally included:
  - A statement that the intended outcome of engagement activities is alignment with the goals of the Paris Agreement;
  - An engagement focus on 1) banks; 2) high-emitting Canadian companies; and 3) oil companies contributing to UPP's carbon footprint;

- A plan to strengthen proxy voting guidelines and communicate votes to issuers.
- Set climate-related thresholds for new investments and developed criteria to assess and monitor net-zero alignment of new and existing investments (*Climate Transition Investment Framework*).
- Launched a real-time proxy voting database, including voting rationale.
- A snapshot of UPP's climate-related proxy votes indicates that the fund's voting record aligns with its published voting guidelines.

SUMMARY

UPP's net-zero emissions by 2040 commitment and *Climate Stewardship Plan* together set strong expectations for focus companies to set targets and define and implement a credible transition strategy for 1.5°C alignment. The *Climate Stewardship Plan* also outlines UPP's timeline for considering revisions to strengthen climate-related proxy voting guidelines and a plan to amplify the impact of its votes through communication with companies and external managers. UPP's *Climate Transition Investment Framework* will be used to screen new investments and assess and monitor climate-alignment of the portfolio.

UPP's engagement approach differentiates between high-emitting companies generally and oil companies specifically. This is a crucial distinction as fossil fuel companies do not have a credible and profitable pathway to net-zero other than phase-out. However, UPP has not yet committed to excluding investments in fossil fuel companies or set a date by which these risky investments will be phased out of the portfolio.

UPP also engages collaboratively, for example through Climate Engagement Canada, and engages with its external managers on climate.

Notably, UPP has committed to advocate for Paris-aligned policy and regulations and set an expectation that oil companies align their policy advocacy with the goals of the Paris Agreement (*Climate Stewardship Plan*, pp.4, 6).

Going forward, UPP must articulate time-bound net-zero-aligned expectations of companies, with consequences if they are not met, and follow through on the considered strengthening of its proxy voting guidelines. UPP can also leverage its relatively strong guidelines and voting record to take a leadership role in filing climate-related shareholder resolutions and publicly highlighting climate resolutions or climate-related votes against directors.

DETAILS

Expectations for new investments

UPP is the only fund included in this analysis that has shared with beneficiaries a detailed outline of the climate-related thresholds it will use for new investments. (The Ontario Teachers' Pension Plan comes close, having stated that new investments without science-based emissions reduction targets must set such targets within two years).[4] UPP's *Climate Transition Investment Framework*, released in December 2023, is intended to support UPP's efforts to "invest only in new mandates and assets that align with the transition to a net-zero world" (p.2). The Framework sets thresholds that must be met before UPP makes new investment commitments and outlines how UPP will assess the "transition alignment and readiness" of current and new investments (p.2).

Investment thresholds differ for fund commitments versus co-investments or direct investments. Any new fund commitment must be to a fund that discloses scope 1 and 2 emissions and "where possible" scope 3 or to a fund that commits to net-zero emissions by 2050 *or* commits to an interim science-based target (p.4).

Co-investments and direct investments are broken down into different categories, each of which have their own investment thresholds. Any new co-investment or direct investment must disclose scope 1 and 2 emissions and scope 3 "where possible" (p.5). Additionally, "high-impact" categories of new co-investments or direct investments must meet thresholds as follows:

- high-impact sectors with high scope 1 and 2 (and possibly 3) emissions must commit to develop a net-zero by 2050 target or an interim science-based target, and must commit to develop a plan to achieve the targets;
- high-impact sectors with only high scope 3 emissions are required to develop a climate transition plan (p.5).

UPP's transparency and initiative in setting climate-related investment thresholds is laudable, but UPP is drawing a false equivalency by considering oil and gas production companies in the same category as other "high-impact sectors", such as steel and cement, that have credible, profitable pathways to transition. Investments in oil and gas carry significant, unique, system-level financial risks for investors and distinct, disproportionate harms for the climate and UPP members. UPP's investment thresholds should be strengthened to include an exclusion screen for any investment in new fossil fuel development and an acknowledgment that the only 1.5°C-aligned pathway for fossil fuel companies is phasing out production.

Expectations for owned companies

UPP's *Climate Stewardship Plan* outlines that the fund's climate engagement activities aim to achieve one goal: a company's alignment with limiting global heating to 1.5°C. Specifically, UPP outlines how it will engage on Paris-alignment with 27 companies (not named) across three categories: banks, "as allocators of capital that shape climate transition;" high-emitting Canadian companies; and oil companies with an outsized impact on UPP's carbon footprint (p.3). UPP can improve transparency and accountability to its members by naming these 27 companies and regularly reporting on progress.

UPP will engage banks to disclose 1.5°C-aligned interim and long-term targets for financed and facilitated emissions, disclose exposure to high-emitting sectors, and set targets to scale up finance to climate solutions and 1.5°C-aligned assets (p.3).

UPP will engage high-emitting Canadian companies and oil companies in its portfolio to disclose 1.5°C-aligned interim and long-term targets (including material scope 3 emissions) and a decarbonization strategy to achieve the targets (p.4).

UPP is also asking oil companies to commit to aligning their policy advocacy with the goals of the Paris Agreement and to support this alignment with disclosure (p.4). Oil companies have a track record of lobbying against climate policy individually and through trade associations.[5]

UPP notably distinguishes "oil companies with an outsized impact on UPP's carbon footprint" from other "high-emitting Canadian companies" in its *Climate Stewardship Plan* (p.3). But while UPP plans to assess whether or not oil companies are aligned with net-zero benchmarks, it is difficult to imagine why the fund believes its assessment will demonstrate anything other than the fact that a managed decline of production is required for oil companies to align with 1.5°C. Without a credible pathway for net-zero alignment, these oil investments must be phased out of UPP's portfolio rather than shortlisted for a futile engagement process that should result in divestment when UPP's assessment inevitably finds that oil companies have no credible plans to align with climate safety.

UPP's *Investment Exclusion Policy* (January 1, 2023) states that "Selling or excluding investments is appropriate when engagement, or other activity, has not, or is unlikely to, provide remedies." Rather than a misguided focus on engagement, UPP should manage the unique risks of this sector by divesting its oil assets and redirecting its efforts toward strongly and publicly supporting laws, regulations and policies that require the phase-out of fossil fuels.

While the *Climate Stewardship Plan* provides excellent clarity on UPP's goals and strategy for engagement for 2023-2025, it is unclear by when UPP expects companies to align with its expectations, or what will happen if they don't. See below in the *Proxy voting* section for indications of how UPP might escalate its climate expectations with public companies.

Direction given to external managers

UPP appears to be giving its external managers more education and expectations on their management of climate-related risks than other funds. The direction UPP gives to external managers on climate is crucial, with UPP's *2021* and *2022 Annual Reports* noting that the majority of the fund's assets are externally managed.

According to UPP's *2022 Annual Report*, the fund hosted a webinar to introduce UPP's *Climate Action Plan* to external managers and to "discuss the critical role of our external managers and other investment partners in achieving our climate goals" (p.38). The fund said it will prioritize partnerships with entities that have made, or plan to make, net-zero emissions commitments.

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). UPP's *Climate Stewardship Plan* included commitments to share updated proxy voting guidelines with external managers in 2024, and "systematically highlight our climate-related vote guidelines to external managers" in 2025 (p.5). In order to gauge the success of its *Climate Stewardship Plan*, UPP will examine outcomes including that "UPP's external managers exercise proxy voting, company engagement, or advocacy in support of climate transition, following our dialogue with them" (p.2). UPP's Fund Assessment Criteria (*Climate Transition Investment Framework*, p.8) will be used to assess the climate-alignment of externally managed funds.

While UPP has sent strong signals to its external managers, the fund must now demonstrate it is following through and ensuring external managers are supporting the fund in achieving its net-zero commitment and engaging companies on decarbonization. UPP could also improve transparency and accountability to members by reporting the progress externally managed funds are making toward Paris alignment.

Proxy voting

In 2023, UPP began to provide a real-time database of its proxy voting record on its website, along with voting rationale, increasing transparency for its members. Snapshots of UPP's climate-related proxy voting record indicate that the fund has generally been voting in line with its own guidelines.[6]

UPP's *Proxy Voting Policy* (January 1, 2023) 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 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 policy is stronger than that of most funds, which, if they mention voting against directors at all, usually mention it in a "may consider" capacity rather than "will not support." UPP reported in its *Climate Stewardship Plan* that its 2023 voting focus included voting against "all incumbent directors where there appears to be little to no board oversight of climate-related issues" (p.5). In a website post at the end of 2023, UPP reported that it had voted against directors at 30 companies in 2023 for an absence of board climate oversight.[7]

The *Climate Stewardship Plan* states that UPP will consider revisions to its voting guidelines for 2024 and 2025, with items under consideration including voting against directors based on insufficient climate action, and instituting climate-related expectations related to auditor appointment, advisory votes on compensation and corporate transactions. The *Climate Stewardship Plan* also articulated how UPP intends to amplify its votes by communicating in writing with companies when UPP votes against management for climate-related reasons, and by pre-declaring votes for at least one climate-related ballot item in 2025 (p.5).

UPP's *Proxy Voting Policy* section on lobbying calls only for disclosure of political contributions and lobbying activities (p.10). While this section still needs to be strengthened to ensure that companies do not lobby against Paris-aligned climate policy, UPP articulated in its *Climate Stewardship Plan* that it expects oil companies to align their lobbying activities with the goals of the Paris Agreement (p.5). UPP must also express an expectation in engagements and in its voting guidelines that companies tie compensation to the achievement of climate targets and do not direct capital expenditure to fossil fuel expansion.

In August 2023, the fund added its voice to a call for proxy service provider ISS to call for improved resources on climate-related votes and better integration of climate into the ISS Benchmark Policy.[8]

UPP has an opportunity to leverage its relatively strong guidelines and voting record to take a leadership role in filing climate-related shareholder resolutions and publicly highlighting climate resolutions or climate-related votes against directors, for example through news releases and public letters to companies.

Collaborative engagement

UPP is a founding member of Climate Engagement Canada (CEC). In its *2022 Annual Report*, UPP reported that it had begun CEC engagement with three companies and provided an example of its engagement with fuel retailer and roadside convenience company Couche-Tard: "We outlined our goals for the company to disclose emissions in line with [the Task Force on Climate-Related Financial Disclosures] TCFD and adopt comprehensive strategies to achieve net-zero greenhouse gas emissions by 2050, including measurable sector-relevant targets" (p.38). UPP can strengthen its engagement by laying out time-bound milestones that Couche-Tard must meet and escalatory actions UPP will take if these milestones are not met.

UPP 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.

UPP is also a supporter of CDP's 2023-2024 Science-Based Targets Campaign, which in 2023 sent letters on behalf of its supporters (financial institutions and multinational corporations) to "over 2,100 high-impact companies asking them to commit to and set 1.5°C-aligned Science-Based Targets."[9]

Policy engagement

UPP took a leading position on policy advocacy in its *Climate Stewardship Plan*, stating that it aims to "[c]ontribute to establishment of mandatory standardized, economy-wide disclosure of scope 1, 2 and material scope 3 emissions, and transition plans from all medium and large enterprises," and to "[s]upport policy advancing the alignment of activity in the real economy with a 1.5 degrees scenario" (p.6). While other funds analyzed in this report have indicated they support standardized climate risk disclosure regulations, UPP goes further by committing to advocate for regulation that requires transition plans from all medium and large enterprises.

Importantly, UPP considers its policy advocacy to be part of fulfilling its duty to UPP members, stating, "We believe that UPP has a duty to advocate for effective rules and regulations on behalf of our members for the good of the fund and for the good of the economic, social, and environmental systems on which long-term fund performance relies" (p.6).

UPP, along with other financial institutions, including pension manager British Columbia Investment Management Corporation, demonstrated its advocacy efforts with a joint submission to a Government of Canada consultation on capping oil and gas emissions. The submission encouraged the government "to adopt the most practical and effective regulatory changes, in order to incentivize emission reduction innovation and implementation to further limit climate change and to reduce systemic risk in our portfolios."[10]

Climate Integration	B+

2023 updates:

- Established climate-related investment thresholds and criteria for assessing and monitoring the net-zero alignment progress of both the current portfolio and new investments (*Climate Transition Investment Framework*).
- Strengthened climate risk disclosure by reporting scope 3 emissions data and emissions associated with sovereign debt.
- Participated in a climate scenario analysis conducted by the Bank of Canada, but did not disclose results.
- While compensation at UPP is tied to an organizational scorecard which likely includes climate-related targets, UPP could provide better disclosure of how climate is factored into compensation.

Accountable Paris-aligned membership

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

Transparency and disclosure of holdings

As in 2021, UPP's *2022 Annual Report* provided a list of external managers with $50 million or more under management (for those managers that consented to disclosure) (p.115). 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

Portfolio transition readiness

UPP's *Climate Stewardship Plan* provides stakeholders with information on how UPP intends to steward its assets (see *Climate Engagement* section above). In tandem, UPP's *Climate Transition Investment Framework* sets climate-related investment thresholds (also described in the *Climate Engagement* section above) and explains how the fund will assess and monitor net-zero transition alignment across its existing portfolio and new investments. The *Framework* outlines criteria that investments must meet to move through UPP's assessment categories of "Acknowledgment [of climate risk/opportunity]," "Committed to align [with net-zero];" "Aligning;" and "Aligned." Criteria are somewhat different for funds versus assets, but generally categorize an investment's progress from emissions disclosure through to commitment to a net-zero by 2050 target, an interim science-based target, a plan to achieve targets, and finally to progress toward emissions reduction targets and execution of a climate action plan (pp.8-9). The criteria appear to include just one time-bound requirement: that assets must develop a climate transition plan by 2025 to be considered "Committed to align" (p.9). But it is not clear what, if any, steps UPP will take if assets do not meet this requirement.

UPP's *Climate Transition Investment Framework* assessment criteria put UPP in a strong position to transparently disclose to stakeholders the portfolio's alignment with a net-zero pathway. UPP's next steps must be to disclose its alignment assessment of current investments, and to set time-bound requirements for alignment and consequences for non-alignment.

Carbon footprint

UPP's *2022 Annual Report* contained its first TCFD report. Scope 1 and 2 emissions were reported for ~70% of the portfolio, with separate disclosures for the portfolio's scope 3 emissions; scope 3 emissions specific to oil, gas and mining; and scope 1 and 2 emissions associated with sovereign debt. The carbon footprint was presented alongside financial statements in the annual report, and the footprint for public equity had limited assurance conducted by a third party (pp.109-114).

Scenario analysis

UPP reported that in 2023 it participated in a Bank of Canada project that provided an analysis of risk exposure in four climate scenarios (*Progress on UPP's Climate Action Plan in 2023*). UPP's disclosure of its exposure to climate-related financial risks will remain incomplete without reporting the results and conclusions of climate scenario analysis, including for an emissions pathway aligned with 1.5°C.

Board climate expertise and/or fossil fuel entanglement

No UPP Board members are identified by the fund as having climate expertise, and a Board competency framework is not publicly available. UPP's *2022 Annual Report* notes that each Trustee self-assesses against a matrix of skills to inform education, committee composition and the need for independent advice. One of the self-assessment skills is "climate/sustainability and social responsibility" (p.63).

Trustee Kathy Bardswick is Chair of the Sustainable Finance Action Council and past President of the Canadian Institute for Climate Choices.

No trustees appear to have fossil fuel entanglements.

Executive and staff compensation and climate

Discussion of compensation in UPP's *2022 Annual Report* references an annual scorecard which corresponds to organizational strategy and informs compensation (pp.68-71). As climate commitments are built into UPP's strategy, it would be reasonable to assume that there is some link between compensation and UPP's progress on its climate commitments, but no specific link is reported. As a pension fund with a reputation for climate leadership, UPP should provide specific disclosure of how climate and compensation are linked.

Fossil Fuel Exclusions	D+

2023 updates:

- Failed to implement fossil fuel exclusions in its *Climate Transition Investment Framework*.
- Committed that after it evaluates oil companies' alignment with net-zero benchmarks, the fund will "refine" its position on ongoing investments.

UPP has excluded some investments in coal, but the threshold for exclusion is not strict enough (*Investment Exclusion List – General Parameters*, p.1). European sustainable finance NGO 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.[11]

According to the fund's online *Frequently Asked Questions*, when it comes to fossil fuels, UPP "will not apply a pre-emptive, blanket policy of divestment," but acknowledges the necessity of "targeted exclusions." The fund 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." Similarly, UPP's *Investment Exclusion Policy* states that UPP believes that "selling or excluding investments is appropriate when engagement, or other activity, has not, or is unlikely to, provide remedies" (p.4) and notes that its exclusion list is informed by considerations which include the Paris Agreement (p.5).

UPP's *Climate Stewardship Plan* states that the fund will "refine UPP's position on ongoing investment in [oil] companies" after assessing information as to whether the companies are aligned with net-zero benchmarks. The fund's *Climate Transition Investment Framework* failed to place an exclusion on new fossil fuel investment.

After years of investor engagement, fossil fuel companies walked back their climate ambitions in 2023.[12] Analysis from

Climate Action 100+'s *Net Zero Benchmark* and CDP and the World Benchmarking Alliance have demonstrated that no fossil fuel companies are aligned with the goals of the Paris Agreement.[13] Climate Action 100+'s lead investor engaging Shell has announced it will no longer try to engage oil and gas companies and will divest from fossil fuels.[14] There is ample evidence of the oil and gas industry's intransigence when it comes to doing what's necessary to align with climate safety. It is difficult to imagine how UPP will arrive at a different conclusion after making its assessment. UPP should not remain under the delusion that engagement with fossil fuel companies will produce Paris-aligned results, and should re-focus its efforts on policy advocacy and robust climate and energy laws and regulations.

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 Asset Owners was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	In early 2024, UPP updated its *Proxy Voting Policy* to specify that the fund "will support proposals calling for policies or disclosures related to Indigenous rights and reconciliation, and, in particular the UN Declaration on the Rights of Indigenous Peoples and the Canadian Truth and Reconciliation Commission Call to Action 92" (p.10). UPP's *Frequently Asked Questions* webpage (*How is UPP considering the human rights of Indigenous peoples?*) states that "companies in UPP's investment portfolio are being engaged in outcome-focused dialogues to make tangible commitments to reconciliation, including the adaption (sic) of Indigenous rights policies, employment targets and procurement from Indigenous-owned businesses." UPP has instituted an *Equity, Diversity, Inclusion and Reconciliation Policy (EDI&R Policy)* that defines reconciliation as: "Commitment to meaningful consultation with Indigenous people, where required, building respectful relationships between Indigenous & non-Indigenous people, and *obtaining the free, prior, and informed consent of Indigenous peoples on matters pertaining to them*. At UPP, reconciliation also signifies the organization's commitment to honouring the Truth and Reconciliation Commission's Call to Action #92 [which calls on the corporate sector to adopt the United Nations Declaration on the Rights of Indigenous Peoples as a reconciliation framework]" (p.3, italics added).[15]
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 (including Science-Based Targets Campaign) • Ceres Investor Network • Climate Action 100+ (investor supporter) • Climate Engagement Canada • ESG Data Convergence Project • IFRS Sustainability Alliance • 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 • 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 $105 million - $235 million in fossil fuel public equities as of December 31, 2022.*** This number reflects an increase from an estimated $40 million - $85 million in fossil fuel public equities as of December 31, 2021.
Notable fossil fuel holdings (not a comprehensive list)	Public equity holdings as of December 31, 2022 include Canadian Natural Resources Ltd, Chevron, ExxonMobil, Shell, Suncor, BP, Cenovus, Enbridge, Equinor, Kinder Morgan, Marathon Petroleum, Pembina Pipeline, Petroleo Brasileiro S.A, TC Energy, Tidewater Inc and Tourmaline Oil.

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

** UPP committed in 2023 to invest at least $1.2 billion in climate solutions by 2030 (*Climate Transition Investment Framework*, p.6). To date, the fund has not reported a current number for climate solutions investment, but in October 2023 reported committing €150 million to Copenhagen Infrastructure Partners (renewable energy projects) (*UPP invests in global leader in renewable energy development*).

*** Along with its *2022 Annual Report*, UPP reported the value, as of December 31, 2022, of the *Top Single Name Public Equity Holdings* in its portfolio and the range of its investment in each ($10-$25 million; $5-$10 million) (pp.1-4). Based on this list, the UPP would have had $105 million - $235 million invested in fossil fuels in its public equities portfolio alone as of December 31, 2022.

ENDNOTES

1 CFA Institute. (2023, July 19). *Brian Minns, CFA: Guiding the Path to Net Zero Emissions*. Minute 21:00. Youtube. https://www.youtube.com/watch?v=7-T3CjWy7xs.

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UPP Reports

- 2022 Annual Report (2023)
- 2021 Annual Report (2022)

UPP Documents

- Climate Stewardship Plan (November 2023)
- Climate Transition Investment Framework (December 2023)
- Climate Action Plan (June 2022)
- Statement of Investment Policies and Procedures (January 1, 2023)
- Responsible Investing Policy (January 1, 2023)
- Proxy Voting Policy (January 1, 2024)
- Proxy Voting Policy (January 1, 2023) - *no longer available online*
- Investment Exclusion Policy (January 1, 2023)
- Investment Exclusion List - General Parameters (2022)
- Equity, Diversity, Inclusion and Reconciliation Policy (January 1, 2023)
- Top single name public equity holdings (2023)
- Top single name public equity holdings (2022)
- Quick Guide to Responsible Investing (2022)

UPP Webpages and Press Releases

- Progress on UPP's Climate Action Plan in 2023 (website post) (December 14, 2023)
- UPP publishes Climate Transition Investment Framework, introduces a climate solutions investment target (press release) (December 13, 2023)
- UPP launches Climate Stewardship Plan – a roadmap for climate engagement, proxy voting and advocacy (press release) (November 23, 2023)
- UPP invests in global leader in renewable energy development (press release) (October 3, 2023)
- UPP achieves growth milestones, maintains healthy funded and liquidity status in 2022 (press release) (June 12, 2023)
- Frequently Asked Questions - MyUPP (webpage) (accessed November 13, 2023)
  - See: Will you divest from fossil fuels?
  - See: How is UPP considering the human rights of Indigenous peoples?
- Strategy – My UPP (webpage) (accessed November 13, 2023)
- Statements and Submissions - My UPP (webpage) (accessed November 30, 2023)

Other

- Shift's 2022 Canadian Pension Climate Report Card (January 2023)
- Shift's 2022 Canadian Pension Climate Report Card - Analysis of UPP (January 2023)

The *2023 Canadian Pension Climate Report Card* analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers and three international pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. Information is current to December 31, 2023. View the full report at shiftaction.ca/reportcard2023.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

STICHTING PENSIOENFONDS ABP (ABP)

ABP is a pension fund for government and education employees in the Netherlands, and is among the five largest pension funds in the world. Around one in six people in the Netherlands currently receive or will receive a pension from ABP. ABP's benefit administration and asset management operations are outsourced to APG Asset Management NV and APG DWS en Fondsenbedrijf NV, which provide executive consultancy, asset management, pension administration, pension communication and employer services. The administration of the pension scheme is placed with APG Groep NV, in which ABP holds 92.16% of shares. ABP's assets represent 85% of APG AM's assets under management.

Assets under management (AUM) by APG: €521 billion (December 31, 2022)[1]

ABP's total assets: €459 billion (December 31, 2022)[2]

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

OVERALL CLIMATE SCORE	A–

Summary

ABP pledges to act in line with the Paris Agreement and clearly acknowledges that its investment decisions can have a positive or negative impact on the world's ability to meet Paris Agreement goals. After setting earlier intensity-based targets, ABP committed to reduce absolute CO2 emissions in all asset classes by 50% below 2019 levels by 2030, including scopes 1, 2 and 3. It has also committed to invest €15 billion in clean and affordable energy by 2025 and €30 billion in the climate transition by 2030, including €10 billion in impact investments.

The fund's *Climate Policy* sets high expectations for owned companies, stating that ABP will "only invest in companies that do not make products or provide services that are inextricably linked to climate damage," and will require companies with a large climate impact to have Paris-aligned targets.

As of October 2021, ABP's investments exclude companies that derive more than 1% of revenue from coal mines or oil or gas extraction. The majority of these companies were divested from ABP's portfolio as of the first quarter of 2023.

FULL ANALYSIS	
Paris-Aligned Target	**A–**

ABP has committed to achieve "net zero greenhouse gas emissions by 2050" related to all ABP investments and including scope 3 emissions (*Climate Policy ABP 2022-2030*, pp.4, 9).

ABP explicitly states: "We base the goals for our climate policy on the principle of a sustainable economy. We want to act in line with the Paris Agreement, which means committing ourselves to limiting the global temperature rise to below 2 degrees Celsius, and preferably to 1.5 degrees Celsius" (*Climate Policy ABP 222-2030*, p.9).

While ABP does not have an explicit limit on the role of offsets, it states that "Where we say 'reduction' of CO2 (and other greenhouse gases), we mean real reduction, not CO2 compensation" (*Climate Policy ABP 2022-2030*, p.7).

ABP is a member of the Paris Aligned Asset Owners initiative[3], while its asset manager APG is a member of the Net Zero Asset Managers initiative.[4]

Interim Targets	**A**

ABP

Absolute emissions reduction including scopes 1, 2 and 3

ABP has committed to reduce absolute CO2 emissions related to its investments in "all asset classes, not just our equity portfolios" by 50% by 2030, from a 2019 baseline, including scopes 1, 2 and 3 and across the entire value chain (*Climate Policy ABP 2022-2030*, p.4).

ABP also has a near-term commitment to reduce the carbon intensity of its equity investments by 40% below 2015 levels by 2025 (*Sustainable and responsible investing policy 2020-2025*, p.4).

Climate solutions

ABP has committed to invest €15 billion in clean and affordable energy by 2025 (*Sustainable and responsible investing policy 2020-2025*, p.4) and to invest €30 billion in the climate transition by 2030. This amount includes €10 billion for "impact investments," defined as investments that "demonstrably make a difference." ABP actively seeks climate transition opportunities in the Netherlands (*Climate Policy ABP 2022-2030*, p.4).

The pension fund also committed in 2020 to double its investments in projects with green building certification and to strengthen its criteria to better assess companies with regard to climate change by 2025 (*Sustainable and responsible investing policy 2020-2025*, p.4).

APG (APB's asset manager)

APG is a member of the Net Zero Asset Managers (NZAM) initiative, which requires it to set interim targets to achieve a net-zero portfolio by 2050.

APG is also a signatory to the Climate Commitment of the Financial Sector, through which APG pledges to measure and report on the CO2 impact of its relevant financing and investment activities and to develop action plans to contribute to the goals set out in the Dutch Climate Agreement and the Paris Agreement, including 2030 targets (*APG Annual Report*, p.48).[5]

Absolute emissions reduction targets

APG aims to reduce the absolute CO2 footprint of its listed equity (32% of AUM) and credit (13% AUM) portfolios by 50% by 2030 compared to 2019, including scopes 1 and 2 emissions, but not yet scope 3 (*APG Climate Action Plan 2022*, p.5). For equity investments, ABP aims for a 40% reduction by 2025, relative to 2015 (*Our policy for 2020 – 2025 Sustainable and responsible investing*, p.2).

As of December 31, 2022, ABP had achieved a total reduction of 57.6% relative to the 2015 baseline (*ABP Annual Report 2022*, p.234).

Real estate

APG uses the Carbon Risk Real Estate Monitor (CRREM) tool to measure climate risk in the real estate portfolio, which represents 8% of APG's AUM. This method has been adopted worldwide to determine whether a building meets the objectives of the Paris Agreement. ABP also aims to have CO2 data for 100% of its real estate assets by 2030 and to require 100% of real estate assets to be aligned with CRREM pathways or have a plan to become more sustainable (*APG Climate Action Plan 2022*, p.7).

Communication of Climate Urgency	A

ABP acknowledges double materiality: that the climate crisis poses risks to and opportunities for its portfolio and that "ABP's investments have an impact on our society, on a world in transition" (*Climate Policy ABP 2022-2030*, p.8). ABP also states that despite climate agreements, little global progress has been made, and that "we will not limit global warming to below 1.5 degrees or even 2 degrees Celsius from pre-industrial levels, but we are currently heading for a temperature increase of at least 2.5 degrees Celsius, which is a disastrous scenario" (*Climate Policy ABP 2022-2030*, p.3).

Given that climate change is a "social, political, and economic problem," ABP also acknowledges that it has a role as a "societal financial institution" in addressing the climate crisis and to "invest pension contributions of participants in a sustainable and responsible manner" (*Climate Policy ABP 2022-2030*, p.3).

Sample quotes

"ABP's investments have an impact on our society, on a world in transition. Simultaneously, the world has an impact on ABP's investments. This is why we want to increase the positive impact of our investments and limit the negative impact" (*Climate Policy ABP 2022-2030*, p.8).

"Principles:

- ABP invests the pension contributions of 3.1 million Dutch people. We do this to ensure a good pension in a livable world for our participants now and in the future, at the lowest possible premium. A sustainable economy is a prerequisite for a livable world. This is why a sustainable economy is the guiding principle in our sustainable and responsible investment policy.
- As a pension fund built on the foundations of solidarity and collectivity, we occupy a central position in society. These values make us who we are. They also help define our responsibility which is expressed in our sustainable and responsible investment policy and in this climate policy. In every investment decision, we not only pay attention to return, risk and costs, but also to sustainability performance.
- ABP is a long-term investor. This means that we only invest in activities which fit in with the concept of a long-term sustainable economy. We make conscious choices as to what we want to invest in. We do not have to invest in everything to make a good pension a reality.

- We are aware that our investments have an impact on the world and that the world has an impact on our investments. We want to make a positive impact with our investments and limit negative impact and risks" (*Climate Policy ABP 2022-2030*, p.6.).

Climate Engagement	B

SUMMARY

ABP has strong expectations for investee companies to align with the goals of the Paris Agreement and participate in the climate transition. The fund has committed to using its voting power through APG (ABP's asset manager) to influence owned companies and drive them toward net-zero alignment. While ABP and APG have escalatory processes, these aren't timebound, and there is no mention of performance targets and measurements for climate engagements. The fund could provide more disclosure on how it evaluates and drives improvement of external managers on climate-related criteria.

DETAILS

Expectations for owned companies

In its *Climate Policy ABP 2022-2030*, ABP states it will:

- "Only invest in companies that do not make products or provide services that are inextricably linked to climate damage;
- Invest in sectors that offer long-term opportunities, in companies that can and want to make the climate transition;
- Require companies with a large climate impact to provide a Paris-aligned climate plan (including):
  - Targets in line with net zero in 2050;
  - Obligation to report on emissions" (p.4).

Through its membership in the Paris Aligned Asset Owners (PAAO) and application of the NZIF (Net Zero Investment Framework), ABP provides some signals to owned companies regarding the pension fund's climate-related expectations. In its climate action plan, APG states that "If a company does not meet ESG criteria, we can only invest if we believe we can encourage it to improve its sustainability performance" (p.5).

Proxy voting

ABP stated in its *Climate Policy 2022-2030* that "if companies are not taking sufficient action to make the transition, we escalate our dialogue and use our vote at shareholders' meetings" (p.11).

APG supports climate-related shareholder resolutions, unless there are legal reasons not to do so. If companies put their climate strategy to a shareholder vote, APG will support the strategy if it includes a net-zero ambition, mid-term targets, and a strategy aligned with the goal of limiting global warming to 1.5°C (*ABP Implements Stricter Climate Voting Policy*, p.1).

APG also expects companies in high-impact sectors (which ABP defines as large-scale energy consumers and companies with a major impact, including utilities, transport, iron, steel, cement, chemicals and finance) to have a governance structure that supports their climate strategy, to be transparent about their climate impact and to set clear, science-based targets for reducing scope 1, 2 and 3 emissions. If a company fails to meet one or more of these expectations, APG will vote against reappointment of the Chair of the company's Board. APG also votes against remuneration proposals at companies in high-impact sectors that do not contain clear and relevant sustainability-linked performance targets, including climate targets (*APG Climate Action Plan 2022*, p.6, 11).

Collaborative engagement

ABP will generally vote in favour of climate-related proposals brought forward by shareholders (*ABP Implements Stricter Climate Voting Policy*, p.1).

ABP is an investor supporter of Climate Action 100+, and its asset manager APG is an investor participant.[6]

Climate Integration	B

Accountable Paris-aligned membership

ABP is a member of the Paris Aligned Asset Owners initiative[7] and has signed the Net Zero Asset Owner Commitment.[8] ABP's asset manager APG is a member of the Net Zero Asset Managers initiative[9] and the International Investors Group on Climate Change.[10]

Transparency and disclosure of holdings and climate risk

ABP reports using the Task Force on Climate-related Financial Disclosures (TCFD) and publishes an overview of listed investments twice yearly (*Overview listed investments of ABP*). It also implements measures to control climate risks in portfolios, distinguishing between physical risks and transition risks. For example, ABP uses ND-GAIN indicators to determine a country's physical climate risk and provide an indication of how vulnerable the country is to the consequences of climate change. Thus, ABP can assess which part of their government bond portfolio is invested in countries with a high climate risk.

ABP states that it: "monitors the climate risks by means of a dashboard that uses short-term, medium-term and long-term data and scenarios. There is no standardized method just yet for measuring climate risks, but ABP has developed its own method in consultation with APG, with input from external consultants and our investment experts. The dashboard helps us keep track of these crucial risks, both to society and to our investment portfolio, and take targeted action where required." However, no transparency and disclosures are made on precise data quantifying the climate risk of the ABP and APG portfolios (*ABP Annual Report*, p.59).

Scenario analysis

ABP reports that its ambition to reduce absolute emissions by 50% by 2030 is "in line with what is needed, according to the IPCC report, to limit warming to 1.5 degrees Celsius," but does not include further information about scenario analysis (*Climate Policy ABP 2022-2030*). Similarly, APG states that it has "used the 1.5°C scenarios (with limited or no overshoot) developed by the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency (IEA) to determine the reduction target for the listed equity and credits portfolios" (*APG Climate Action Plan 2022*, p.5). APG also performs climate stress tests to evaluate the potential effects and implications of strategic asset allocation, using a business-as-usual scenario (IEA Stated Policies Scenario, 3°C) and two climate scenarios with different levels of ambition (IEA Sustainable Development Scenario, 1.65°C, and IEA Net Zero Scenario, 1.5°C) (*APG Summary of climate risk policy, carbon measurement and carbon reduction*, p.5).

Carbon footprinting

ABP is "working toward mapping the footprint of all its investments" (*Climate Policy ABP 2022-2030*, p.12). It has so far mainly targeted reducing the CO2 footprint of its equity portfolio, has "a rougher idea" of the CO2 footprint of some other asset classes, and will map the other ones "as soon as possible" (*Climate Policy ABP 2022-2030*, p.12).

The emissions scopes covered vary from one asset class to another. The CO2 footprint of ABP's equities portfolio, for example, is reported annually for scope 1 and 2, but corporate bonds are reported on a yearly basis for scope 1 and 2 with the commitment to expand to scope 3 (*Climate Policy ABP 2022-2030*, p.13).

Meanwhile, APG has been measuring the carbon footprint of its listed equity portfolio (32% AUM at December 31, 2021) annually since 2013. APG's carbon footprint now includes real estate, credits and private equity, and the asset manager is working towards measuring the carbon footprint of all relevant investments using the Partnership for Carbon Accounting Financials (PCAF) standard (*APG Summary of climate risk policy, carbon measurement and carbon reduction*, p.6).

Board climate expertise and/or fossil fuel entanglement

ABP does not appear to have a public board competency framework and has not identified any Board members as having climate expertise. No climate-specific staff or board training is mentioned.

ABP's board members do not appear to have any fossil fuel entanglements.

Executive and staff compensation and climate

In April 2022 (*Press release: ABP Implements Stricter Climate Voting Policy*) the pension fund stated that "ABP will only agree to remuneration proposals if achieving sustainable targets is part of the process of determining remuneration." But ABP does not appear to have a compensation policy that incentivizes climate targets or emissions reduction for its own staff.

Fossil Fuel Exclusions	A–

SUMMARY

Companies that derive more than 1% of revenues from coal mines or oil or gas extraction

These companies were excluded as of October 2021 and were mostly divested by the first quarter of 2023.

Thermal coal

These companies will be excluded by 2030 in OECD countries without CO2 capture.

DETAILS

ABP announced in October 2021:

"Pension fund ABP will stop investing in producers of fossil fuels (oil, gas and coal). Reasons for this decision are recently published reports by the International Energy Agency (IEA) and the UN Climate Panel (IPCC). Groups of ABP pension participants and employers have shown broad support for this decision. ABP will divest from the fossil fuel producers in phases; the majority of which is expected to be sold by the first quarter of 2023. This concerns more than 15 billion euros in assets, almost 3% of ABP's total assets . The fund does not expect this decision to have a negative impact on long-term returns" (*ABP stops investing in fossil fuel producers*).

As of June 2021, ABP had already divested of companies that derive more than 30% of revenue from coal mines and companies that derive more than 20% of revenue from oil sands. In October 2021, the policy was strengthened to exclude and divest producers of fossil fuels that generate more than 1% of their revenue from coal mines, oil extraction, and/or gas extraction (*ABP stops investing in fossil fuel producers - facts & figures*, p.1.)

ABP also asks coal power companies to stop the expansion of coal-fired power plants and to develop a strategy for a transition to sustainable energy, but it has so far only sold a few of such companies. The fund will not invest in thermal coal without CO2 capture in OECD countries by 2030, but this is only a partial coal phase-out (*ABP Sustainable and responsible investing policy 2020-2025*, p.4).

ABP's fossil fuel exclusion covers both conventional and unconventional oil and gas, but remains limited to the upstream part of the value chain and allows exceptions for companies "deemed aligned on a 1.5°C pathway." The

Dutch asset owner should address more firmly the issue of expansion in oil and gas activities by stopping new bond purchases from companies with midstream expansion plans, and engaging the companies remaining in the portfolio so that they stop developing new oil and gas midstream projects.

In 2022, ABP implemented its decision to sell investments in producers of oil, gas and coal. At year-end 2021, ABP's investments in equities and bonds of companies in the fossil fuel industry totaled €8.5 billion. By year-end 2022, that figure had decreased to €0.9 billion. The remaining investments are illiquid because APG collectively invests on behalf of several pension funds in investment pools. At the end of 2022, APG still had €5.6 billion in illiquid investments in the fossil fuel industry that cannot be sold as quickly as equities and bonds. By April 2023, all liquid developed market investments had been sold in emerging markets. APG has committed to gradually phase out all fossil fuel investments in illiquid markets (*ABP Annual Report 2022*, p.59).

ABP's assets represent 85% of APG's AUM. There are some minor differences in ABP's and APG's fossil fuel exclusion and climate investing policy. Thus, the Dutch pension fund and its asset manager have additional work to do to harmonize their fossil fuel exclusion policies, and complement them with impactful measures targeting the fossil fuels downstream value chain.

ENDNOTES

1 APG. (2023). *Annual Report 2022*. P.41. https://apg.nl/media/uqkdel01/annual-report-2022.pdf.

2 ABP. (2023). *Annual review ABP 2022*. P.1. https://www.abp.nl/content/dam/abp/common/documents/Annualreview-ABP-%202022-DEF.pdf.

3 Paris Aligned Asset Owners. (2023). *Signatory Disclosure – ABP*. Retrieved November 29, 2023. https://www.parisalignedassetowners.org/signatories/abp/.

4 The Net Zero Asset Managers Initiative. (2023). *Signatory Disclosure – APG*. Retrieved November 29, 2023. https://www.netzeroassetmanagers.org/signatories/apg-asset-management/.

5 The Dutch Climate Agreement legislates the Dutch government to reduce the Netherlands' greenhouse gas emissions by 49% below 1990 levels by 2030 and 95% by 2050. These goals are laid down in the Climate Act on May 28, 2019, while the Netherlands' Climate Plan, National Energy and Climate Plan (NECP) and National Climate Agreement contain the policy and measures to achieve these climate goals. See:

-Government of the Netherlands (accessed December 2023). *Climate Policy.* https://www.government.nl/topics/climate-change/climate-policy.

6 Climate Action 100+. (2023). *Investors.* Retrieved December 8, 2023. https://www.climateaction100.org/whos-involved/investors/.

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9 The Net Zero Asset Managers Initiative. (2023). *Signatory Disclosure – APG*. Retrieved November 29, 2023. https://www.netzeroassetmanagers.org/signatories/apg-asset-management/.

10 International Investors Group on Climate Change. (2023). *Our members*. Retrieved November 29, 2023. https://www.iigcc.org/our-members.

REFERENCES

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

ABP Reports

- ABP annual report 2022 (2023)
- APG Annual Report 2022 (March 2023)

ABP Documents

- Overview listed investments of ABP (as per June 30, 2023)
- APG Statement on principal adverse impacts of investment decisions on sustainability factors (June 2023)
- APG Climate Action Plan 2022 (December 2022)
- APG Summary of Climate risk policy, Carbon measurement and Carbon reduction (December 30, 2022)
- Climate Policy ABP 2022 – 2030: Accelerating our efforts with investments that make a difference (December 15, 2022)
- ABP Sustainable and responsible investing – Our policy for 2020 – 2025 (December 2021)
- ABP stops investing in fossil fuel producers – Facts & Figures (October 26, 2021)
- ABP's Sustainable and Responsible Investment Policy (2020-2025) (Summary 30 January 2020) (January 2020)

ABP Webpages and Press Releases

- ABP Proxy Voting Dashboard (webpage) (accessed November 29, 2023)
- ABP stops investing in fossil fuel producers (press release) (October 26, 2021)
- Annual review ABP 2022 (press release) (January 26, 2023)
- ABP implements Stricter Climate Voting Policy (press release) (April 22, 2022)

IRCANTEC

Based in Angers, France, Ircantec is a supplementary public pension for non-tenured employees of the French state and local authorities. The fund provides pension benefits to the managers, non-executive staff and part-time staff of France's departments (which are like states or provinces) and municipalities.

Assets under management (AUM): €11.6 billion (December 31, 2022)

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

OVERALL CLIMATE SCORE	A–

Summary

Ircantec clearly states the urgency of aligning its portfolio with a 1.5°C emissions reduction scenario and underscores the need to stop expanding fossil fuel supply to achieve this climate target. To do so, Ircantec aims to reduce its portfolio emissions intensity, including scope 3 emissions by 2026, by 7% per year on average until 2050, while committing 20% of its assets to finance the "energy and ecological transition."

Ircantec sets strong climate-expectations for companies to develop and implement climate plans aligned with a 1.5°C emissions reduction scenario, including a transition plan for activities and employees at coal companies. These expectations are backed by strong proxy voting guidelines, which Ircantec appears to be following through on. Ircantec also provides detailed reporting on which of its asset classes are aligned with safe global heating scenarios and which aren't.

Ircantec has developed a strategy for phasing out fossil fuels from its portfolio by 2030, starting with thermal coal in 2022 and by 2024 excluding oil and gas companies developing upstream and midstream expansion projects. Ircantec has a possible exception for fossil fuel companies with credible transition plans aligned with a 1.5°C pathway, but does not provide an example of any companies that warrant this exception.

FULL ANALYSIS	
Paris-Aligned Target	**A**

Ircantec has committed to align its portfolio with an emissions reduction pathway in line with a 1.5°C scenario (*Sustainability Report 2022*, p.11). This commitment is in keeping with recent forecasts made by the Intergovernmental Panel on Climate Change (IPCC), which stressed the urgent need to significantly and sustainably reduce greenhouse gas (GHG) emissions to limit global warming, and the International Energy Agency (IEA) which underlined the need to stop expanding fossil fuel supply in order to achieve the 1.5°C scenario (*SRI Charter Annex*, p.3). Ircantec's net-zero commitment includes scope 3 emissions for the energy and mining sectors as of 2022, and will integrate scope 3 emissions in the transport, construction, materials and industrial sectors by 2024, and all sectors by 2026 (*SRI Charter Annex*, p.4). Ircantec's net-zero commitment and climate policy does not mention potential use of or limitations on carbon offsets.

Interim Targets	**B+**

Emissions reduction

Ircantec has an objective to reduce its portfolio emissions intensity (including scope 1, 2 and 3 emissions) by 7% per year on average until 2050 (*Sustainability Report 2022*, p.6). The *Sustainability Report 2022* states that Ircantec will progressively integrate scope 3 by targeting first the energy and mining sectors, then focus on integration of scope 3 for the transport, construction, materials and industrial sectors in 2024, and then integration of scope 3 for all sectors by 2026 (*Sustainability Report 2022*, p.4).

Ircantec has not set any targets to reduce absolute emissions.

Climate solutions

Ircantec has also committed to use 20% of assets to finance the energy and ecological transition by 2024, and reported in December 2022 that 16.5% of reserves were already dedicated to this goal (*Sustainability Report 2022*, p.6). Ircantec states that "in order to assist companies with their energy transition, and in accordance with the Paris-aligned Benchmark, the exposure of Ircantec's portfolio to high climate impact sectors must at least match the corresponding level set out in its benchmark index." Ircantec defines high impact sectors using Europe's NACE classification of economic activities and includes: "Agriculture, Forestry and fishing, Mining and quarrying, Manufacturing, Electricity, gas, steam and air-conditioning supply, Water supply, Sewerage, Waste treatment and remediation, Construction, Wholesale and retail trade, Repair of motor vehicles and motorcycles, Transporting and storage, Real estate activities" (*SRI Annex Charter*, p.4).

Ircantec owns almost 4,168 hectares of forest land in France and has targets to: ensure 100% of sites are planted with at least two species by 2026, certify 100% of forest assets using the Program for the Endorsement of Forest Certification, inventory 100% of assets under the Index of Biodiversity Potential by 2026, and assess 100% of land areas protect soils and prevent erosion by 2026 (*Sustainability Report 2022*, p.38).

AUM covered by a science-based decarbonization target

Some investment managers have made commitments such as targets for successful climate engagement, the percentage of portfolio companies that will have credible decarbonization plans in place by 2025 or 2030, the percentage of AUM that will be covered by a science-based decarbonization plan by a target date, or the percentage of externally managed AUM that will be covered by net-zero commitments. Ircantec could strengthen its climate strategy by adding similar commitments.

Communication of Climate Urgency	A

Ircantec wants to "integrate and reinforce the issues of tomorrow: strengthen our efforts by adopting an investment strategy that is compatible with a 1.5°C scenario given the climate emergency" (*Sustainability Report 2022*, p.11). The fund also acknowledges that "It is the role of investors to identify and measure [climate risks] to ensure the proper management of reserves." Ircantec recognizes its role in fighting climate change as "reducing [the] portfolio's exposure to fossil fuels and climate risk management, shareholder dialogue in favor of the climate, or financing transitional assets" (*Sustainability Report 2022*, p.15).

Sample language from *SRI Charter Annex: Ircantec's Climate Policy* (p.3):

"Ircantec's climate action falls within its intergenerational solidarity values, the aim being to preserve the environment for present and future generations while helping to support the energy and ecological transition (EET), and by accompanying job creation in the 'green economy' sector. … In light of the climate emergency, Ircantec is stepping up its commitments to assign its reserves to the emission reduction pathway in line with a 1.5°C scenario, in keeping with recent forecasts made by the Intergovernmental Panel on Climate Change (IPCC) (August 2021 report), which stressed the urgent need to significantly and sustainably reduce greenhouse gas emissions to limit global warming; and the International Energy Agency (IEA) which underlined the need to cease developing the exploitation of fossil fuels in order to achieve the 1.5°C scenario."

Climate Engagement	A–

Expectations for owned companies

As a shareholder, Ircantec expects from its owned companies:

- A strategy aligned with achieving the Paris goal of limiting global heating to 1.5°C or aligned with an annual decarbonisation trajectory of an average 7% reduction in GHG emissions intensity;
- The implementation of quantitative CO2 emissions reduction targets for all scopes for companies in high climate impact sectors;
- Intermediate targets aligned with a 1.5°C global warming scenario;
- For companies involved in the extraction, production and exploitation of coal, a commitment to implement a coal phase out plan by 2030, plus a transition plan for activities and employees (*Voting Policy 2022*, p.5).

Proxy voting

Since 2016, Ircantec has taken companies' climate strategies into account when exercising voting rights. Ircantec's support for the energy and ecological transition (EET) has an impact on how it votes on four categories of shareholder resolutions:

- The approval of a company's financial accounts at AGMs;
- The distribution of dividends;
- Executive compensation;
- Executive re-election (vote against the re-election of the Chairman of the Board and/or the Chief Executive Officer) if the company's energy and ecological transition strategy and implementation are not adequately aligned with Ircantec's expectations (*Voting Policy 2022*, p.10).

Ircantec undertook specific monitoring of companies in its portfolio on climate. Initially it looked at the 30 largest companies by market value, then evolved its focus list to include its 20 largest holdings, the five largest emitters, and the five companies with the biggest potential for stranded assets. From 2022, the list included the main holdings in financial institutions involved in financing and underwriting controversial practices such as thermal coal or unconventional energies and which do not have a credible exit plan. Ircantec's engagement of these companies are intended to replace the fossil fuel companies that were removed from its portfolio with the implementation of its climate policy (*Voting Policy*, p.5).

Ircantec appears to be following through on its specific monitoring of polluting companies and financial institutions by voting against key climate-related shareholder resolutions. For example, in 2022, Ircantec voted against a "Say on Climate" proposal at Barclays after the bank failed to commit to exclude financing of new oil and gas projects or set scope 3 emissions reduction targets in absolute terms, rather than emissions intensity (*Rapport d'activité 2022*, p.48; *Voting Policy 2022*, p.11).

Similarly, for Engie, even though the utility company was willing to reduce GHG emissions and to achieve net-zero by 2045, Ircantec voted against the company's strategy in a "Say on Climate" shareholder vote because the strategy was not in line with Ircantec's climate policy of alignment with the Paris agreement and because of Ircantec's concerns regarding Engie's definition of "low-carbon" gasses and increased use of LNG from shale gas (*Voting Policy 2022*, p.11).

Collaborative engagement

Ircantec is a member of Climate Action 100+.

Policy engagement

Ircantec has signed the Global Investor Statement to Governments on Climate Change, asking governments to reiterate their commitment to pursue the objectives of the Paris Agreement and to support private investments towards the low-carbon transition, as well as an investor Principles of Responsible Investment (PRI) statement ahead of COP15 on Biodiversity in 2022 to establish a global framework to halt and reverse biodiversity loss (*Sustainability Report 2022*, p.60).

Direction given to external managers

Ircantec maintains ongoing, regular dialogue with external asset managers to ensure that Ircantec's SRI constraints are respected at all times and to discuss the management and control of sustainability risks, including climate change (*Sustainability Report 2022*, p.15).

Climate Integration	B

Accountable Paris-aligned membership

Ircantec is not a member of a Paris-aligned investor body such as the Net Zero Asset Owners Alliance or the Paris Aligned Asset Owners initiative.

Transparency and disclosure of holdings and climate risk

Ircantec committed to publish all portfolio securities held by dedicated funds on its website on an annual basis (*Sustainability Report 2022*, p.12). Ircantec also discloses a weight in the portfolio of the main contributors to turnover derived from fossil fuels (*Sustainability Report 2022*, p.22 table).

Ircantec has adopted the Trucost methodology recommended by the SBTi (Science-Based Targets Initiative) using a sectoral approach and economic approach (Greenhouse Gas Emissions per unit of value added) (*Sustainability Report 2022*, p.42). To measure climate transition risk, Ircantec has used carbon pricing, using Trucost to compile a data set of possible future carbon prices to test each issuer's current ability to absorb future costs (*Sustainability Report 2022*, p.17).

Ircantec disclosed the carbon budget for its global listed portfolio, which is lower than what the budget would need to be to ensure alignment with a 2°C warming scenario (*Sustainability Report 2022*, p.42). Ircantec's listed assets are aligned on an average temperature trajectory of 1.5°C to 2°C by 2030. Ircantec's credit portfolio is also aligned with the objectives of the Paris Agreement (below 1.75°C). However, Ircantec's equity portfolio includes investments in the consumer discretionary and energy sectors that are on a warming trajectory of 3-4°C and greater than 5°C, respectively (*Sustainability Report 2022*, p.43).

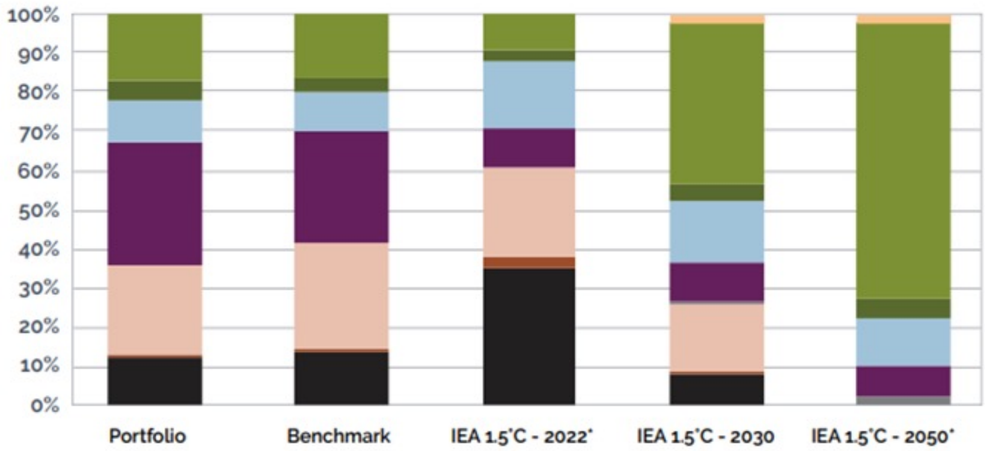
Equivalent portfolio temperature per sector of activity

		Ircantec Global portfolio	
Method	**Sector**	**Contribution 1.5°C (tCO2e)**	**Trajectory (°C)**
SDA	Electricity production	39,075	1.5-2°C
	Cement	68,944	>2.7°C
	Steel	0	
	Air transport	24,323	2-2.7°C
	Aluminum	4,004	2-2.7°C
GEVA	Communications services	21,344	2-3°C
	Consumer Discretionary	72,980	3-4°C
	Consumer staples	98,084	2-3°C
	Energy	27,692	>5°C
	Finance	4,404	1.5-2°C
	Health	16,730	1.5-2°C
	Industry	150,918	1.5-2°C
	Information Technology	20,239	1.5-2°C
	Materials	436,589	2-3°C
	Real estate	6,839	1.5-2°C
	Utilities	108,770	1.5-2°C

***Table:** Sustainability Report, p.43.*

Ircantec has also carried out climate studies on its sovereign portfolio, showing that the portfolio is less exposed to coal and natural gas than its benchmark. However, the presence of natural gas remains very strong because of the fact "that most States use it in contribution to the energy transition" (*Sustainability Report 2022*, p.43).

Analysis of energy mixes of sovereign portfolio



	Portfolio	Benchmark	IEA 1.5˚C - 2022*	IEA 1.5˚C - 2030	IEA 1.5˚C - 2050*
Other Sources	0%	0%	0%	2%	2%
Other Renewables	17%	17%	9%	42%	71%
Biomass	4%	4%	3%	4%	5%
Hydroelectric	11%	10%	17%	16%	12%
Nuclear	31%	28%	10%	10%	8%
Fossil energy with CCS	0%	0%	0%	1%	2%
Natural Gas	23%	27%	23%	17%	0%
Oil	1%	1%	3%	1%	0%
Coal	13%	14%	35%	8%	0%

Table: *Sustainability Report, p.44.*

Board climate expertise and/or fossil fuel entanglement

No Board members appear to have fossil fuel entanglements (*Rapport d'activité 2022*, p.4).

Ircantec has not identified any Board members as having climate expertise. New trustees received training about integration of SRI and Climate dimensions given by the management team of the Caisse des Dépôts et consignations, a public sector financial institution that acts as a long-term investor serving the public interest. The training also included support for understanding the impact of regulatory changes on financial and non-financial management of Ircantec (*Sustainability Report 2022*, p.12).

Executive and staff compensation and climate

Staff and executives at Ircantec do not receive any compensation aligned with sustainability risks. However, the *Sustainability Report 2022* (p.12) stated that "discussions were initiated" on how sustainability risks could be better integrated into the compensation components of other stakeholders. Furthermore, French asset managers are covered by the European Union's *Sustainable Finance Disclosure Regulation*, which requires companies and financial institutions to disclose information on how remuneration policies are consistent with the integration of sustainability risks.[1] Ircantec is working to adopt a policy for staff compensation regarding sustainability objectives (*Sustainability Report 2022*, p.12).

Fossil Fuel Exclusions	A

Ircantec has developed a strategy for phasing out fossil fuels from its portfolio by 2030 (*SRI Charter Annex*, p.3).

Thermal coal

Ircantec has committed to divest from :

- companies planning new coal mines/plants/infrastructure projects;
- companies whose thermal coal activity represents more than 5% of turnover; and
- any company producing more than 10 million tonnes of thermal coal per year or having a coal-fired power generation capacity exceeding 5 gigawatts (*SRI Charter Annex*, p.5).

Ircantec's coal exclusion policy has an exception for companies that have adopted a credible coal exit plan by 2030, as well as for green bonds issued by companies covered by this exclusion policy if they committed to phase out thermal coal by 2030 worldwide. The goal of Ircantec is to achieve zero thermal coal exposure by 2030.

Oil and gas

By the end of 2024 Ircantec will exclude companies that develop oil and gas upstream and midstream projects (*SRI Charter Annex*, p.6).

Ircantec is also applying Paris-aligned exclusion thresholds for European stock market indices using the Paris Aligned Benchmark (PAB) (*SRI Charter Annex*, p.6). Through PAB, Ircantec has committed to exclude all companies for which oil represents more than 10% of gross revenue and for which fossil gas represents more than 50% of gross revenue.

Ircantec will also exclude :

- all companies initiating new conventional projects (exploration, production, transport) or contributing (equipment, services) to the development of new oil and gas projects; and
- any company whose production is linked to shale oil and gas, extra heavy oil, coal gas, oil sands, deposits in the Arctic or in deep waters, and which has not committed to a credible exit plan (*Sustainability Report 2022*, p.17).

Exclusions will not be applied to companies that have adopted a credible plan to reduce their emissions in line with 1.5°C. The goal of Ircantec is to achieve zero exposure by 2030 to any company in the oil and gas sector that has not adopted a credible emissions reduction plan that is compatible with a 1.5°C scenario.

Because of the growth of the unconventional energy sector, which tends to have particularly high carbon intensity, Ircantec tightened its divestment policy with new exclusion thresholds newly applied from the first half of 2022. This new policy excludes companies that develop new projects in unconventional energy resources or that increase their production capacity, companies whose production is related to shale oil and gas, extra-heavy oil, coal gas, oil sands, etc., and companies in which more than 30% of production is linked to an unconventional activity. Ircantec makes exceptions for companies that have a credible plan to exit unconventional energy by 2030, but does not provide an example of any company that has received an exception.

The possible exemption for companies with credible transition plans aligned with a 1.5°C pathway will need to be closely monitored, particularly in regards to future oil and gas expansion plans. Still, Ircantec's exclusion policy is one of the most robust among international asset owners and should be an example to follow.

ENDNOTES

1 Doyle, David Henry. (2021, April 1). *What is the Impact of the EU Sustainable Finance Disclosure Regulation (SFDR)?* S&P Global Market Intelligence. https://www.spglobal.com/marketintelligence/en/news-insights/blog/what-is-the-impact-of-the-eu-sustainable-finance-disclosure-regulation-sfdr.

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Ircantec Reports

- Sustainability Report 2022 (2023)
- Rapport d'activité 2022 (June 2023)

Ircantec Documents

- Responsible Voting Policy: 2022 voting report on AGM (December 2022)
- SRI Charter Annex : Ircantec's Climate Policy (January 2023)

New York City Public Pensions / New York City Comptroller

The New York City Comptroller (or "NYC Comptroller") is the custodian for five New York City Public Pension Funds, three of which — New York Employees' Retirement System (NYCERS), New York City Board of Education Retirement System (BERS), and New York City Teachers' Retirement System (TRS) — have committed to achieve net-zero portfolio emissions by 2040.

NYC Comptroller Assets Under Management (AUM): US$242 billion (October 31, 2023)

Combined AUM for TRS, NYCERS, and BERS: US$176 billion (October 31, 2023)

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

OVERALL CLIMATE SCORE	A–

Summary

The NYC Comptroller has taken a leadership role among investors, championing the need for investor action on climate and in many cases leading by example. The Comptroller reports details on expectations-based engagements with focus companies, brings forward shareholder resolutions, and advocates for climate-aligned policy.

The NYC Comptroller's transparency is notable: the public can access dashboards to view investments across the pension systems and to view progress against different climate targets.

Three New York City pensions (NYCERS, TRS, and BERS) have committed to achieve net-zero portfolio emissions by 2040, and are on track to meet their interim 2025 and 2030 targets. NYCERS, TRS, and BERS have divested US$3.8 billion from fossil fuel reserve owners. The funds now must enact their recently adopted *Net Zero Implementation Plans*, and must also incorporate scope 3 emissions and define targets for absolute emissions reductions. The NYC Comptroller must work to align the Police and Fire Department pension funds to credible net-zero goals.

FULL ANALYSIS

Paris-Aligned Target	A

The three NYC pensions have committed to achieve net-zero emissions in their portfolios by 2040, a decade earlier than most investors' net-zero goals, and including scope 1, 2 and 3 emissions. While so far the funds' interim targets include just scope 1 and 2, they have committed to set Scope 3 targets starting in 2025. The pensions place a clear emphasis on prioritizing real-world emissions reductions:

> "[We] will seek to support real economy emissions reductions by increasing the alignment of our investments with science-based pathways to limit global warming to 1.5°C. … To be clear, we seek real world decarbonization, not just portfolio decarbonization, and we will not rely on the sleight of hand of poor-quality carbon offsets to appear to lower our carbon footprint" (*NYCERS/TRS/BERS Net Zero Implementation Plans*, pp.10, 12.)

Each pension has published a detailed implementation plan, laying out climate disclosures, investment strategies and specific time-bound targets requiring portfolio companies to have science-based targets.

NYCERS, BERS and TRS are members of the Paris Aligned Asset Owners.

Interim Targets	B+

Emissions reduction

The NYC pensions have each set 2025 and 2030 interim portfolio emissions reduction targets for public equities and corporate bonds, inclusive of scope 1 and 2 emissions, using a 2019 baseline (*NYCERS/TRS/BERS Net Zero Implementation Plans*, p.8). Public equities and corporate bonds amount to 70%-78% of each pensions' AUM as of November 2023 (*Pension/Investment Management: Assets Under Management*, NYC Comptroller webpage).

NYCERS and TRS have each committed to a 32% reduction in portfolio emissions intensity by 2025 and a 59% reduction by 2030. BERS has committed to a 22% reduction in portfolio emissions intensity by 2025 and a 49% reduction by 2030.

The funds intend to develop interim targets for private markets and other asset classes and plan to begin including scope 3 emissions in the coming years, although a timeline is not provided (*NYCERS/TRS/BERS Net Zero Implementation Plans*, pp.8-9).

The portfolio targets are intensity targets, using a metric of "emissions/$million invested based on Enterprise Value Including Cash (EVIC)." In the *Net Zero Implementation Plans*, the funds commit to reporting changes against absolute emissions and weighted average carbon intensity (p.9).

The NYC pensions have not yet made any absolute emissions reduction commitments.

Companies with science-based targets

The funds have set interim targets, which they plan to advance through their engagement strategies, for real economy decarbonization plans, requiring companies representing 70% of scope 1 and 2 emissions in their public equity and corporate bonds portfolios to have science-based targets by 2025, and 90% by 2030 (*NYCERS/TRS/BERS Net Zero Implementation Plans*, p.10).

Climate solutions

On behalf of the pension funds it manages, the Comptroller has also set 2025 and 2035 targets to increase investments in climate solutions (defined as including renewable energy, energy efficiency, sustainable water and pollution prevention) to US$50 billion by 2035. US$37.8 billion of this amount will be invested by the three funds that have adopted climate commitments (*NYCERS/TRS/BERS Net Zero Implementation Plans*, p.11). As of the end of June 2023, climate solutions investments across the five NYC funds totalled US$10.5 billion (*NYC Comptroller Lander and Pension Trustees Announce 24.7% Increase in Climate Solutions Investments and Commitments*, NYC Comptroller press release).

Communication of Climate Urgency	A

The NYC Comptroller recognizes the urgency of the climate crisis and the risks it poses to individual companies and to overall portfolio performance, saying climate change poses "systemic and material risks to the global economy … and to the investment portfolios of the New York City Retirement system" (*Confronting the Climate Crisis: Climate Transition*, NYC Comptroller webpage).

The Comptroller clearly states that its net-zero goal is designed to "mitigate the systemic risks of climate change to our investments and the real economy" (*NYCERS/BERS Net Zero Implementation Plans*, p.13; *TRS Net Zero Implementation Plans*, p.14).

The Comptroller also recognizes that investors, including the NYC pension funds, have a role to play in mitigating these risks: "How investors finance climate transition now will substantially determine how many lives and dollars we protect in the decades to come. … New York City pension funds have recognized a fiduciary duty to mitigate the systemic and company-specific risks that climate change poses to our portfolio" (*Confronting the Climate Crisis: Climate Transition*, NYC Comptroller webpage).

Climate Engagement	A–

Summary

The NYC Comptroller has taken a leadership role in addressing climate change throughout its investment and stewardship processes. In addition to adopting a plan to divest from fossil fuel reserve owners, it has set expectations that portfolio companies have science-based climate targets, conducts credible and expectations-based engagement, files climate-related shareholder resolutions and publicly advocates for them, and has taken a vocal public stance on the need for investors, including fund managers, to advance climate objectives.

Expectations for owned companies

The NYC pensions' *Implementation Plans* provide signals to owned companies about the pensions' expectations for climate targets: by 2025, companies representing 70% of the public equities and corporate bonds portfolios' scope 1 and 2 emissions should have science-based targets approved by credible third parties (e.g. Science-Based Targets Initiative); by 2030, that expectation expands to 90% of companies (p.10). While science-based targets provide an easily measurable metric, it is worth noting that having a set target and implementing that target are two different matters.

Escalatory framework for engagement

The NYC Comptroller has already adopted a divestment strategy for fossil fuels (see section on Fossil Fuel Exclusions below). Its *Confronting the Climate Crisis: Climate Transition* webpage also signals that divestment from companies in other sectors may be part of its engagement strategy: "If companies or managers demonstrate implacable opposition to taking substantive steps to reduce their GHG emissions consistent with the goal of limiting global warming to 1.5C, then the Bureau of Asset Management may recommend divestment to the trustee boards."[1]

Proxy voting and shareholder resolutions

New York City pension funds' *Corporate Governance Principles and Proxy Voting Guidelines* outline how the Retirement Systems intend to vote, which implicitly sets out expectations for portfolio companies. In loose terms, the guidelines indicate that "The Systems support companies that proactively develop policies, initiatives, and objectives to mitigate risks related to climate change" (p.30), including supporting climate-related disclosure and oversight and supporting measures calling for the establishment of emissions reduction targets (p.30).

On board composition and competency, the guidelines note that "Boards should be composed of directors who, collectively, are best equipped to effectively oversee the company's strategy for creating and protecting firm value," including strategies related to overseeing climate-related and environmental risk (p.11). In 2023, when NYC funds prioritized engagement with banks, the three NYC pensions voted against directors responsible for climate risk oversight at major US banks including JPMorgan Chase, Wells Fargo, Bank of America, and Goldman Sachs (*Responsible Investing*, NYC Comptroller webpage).

Also in 2023, the NYC Retirement Systems brought forward resolutions calling on financial institutions JP Morgan Chase, Goldman Sachs, Morgan Stanley, and Royal Bank of Canada to set and report on absolute financed emissions targets for the energy and utilities sectors (*NYC Comptroller Lander and City Pension Funds' 2023 Shareowner Initiatives Postseason Report Highlights Leadership on Responsible Investment*, NYC Comptroller press release).

Collaborative engagement

The NYC Comptroller is a member of Climate Action 100+ (CA100+), and leads engagements at Ford, General Motors and General Electric, co-leads engagements at truck-maker Paccar, and participates in substantive engagements with Duke Energy, Dominion Energy and Toyota (among others) (*Confronting the Climate Crisis: Climate Transition*, NYC Comptroller webpage, and *New York City Retirement Systems 2022 Shareholder Initiatives*, p.15). For the 2022 proxy season, the Systems provided detailed reports of climate engagements, for example urging automakers to align lobbying with the goals of the Paris Agreement, pressuring a truck-maker on its market growth plans for zero emissions vehicles, filing shareholder resolutions at utilities seeking disclosure of how the companies will align their capital expenditures with emissions reduction targets, and requesting disclosure of a Board's climate-related competencies (*New York City Retirement Systems 2022 Shareholder Initiatives*, pp.14-17).

The Comptroller's Office engages companies to align with the goals of the Paris Agreement, including by "implementing strategies and practices consistent with the decarbonization goals they have adopted. The Systems seek to improve climate-related corporate governance, curb GHG emissions, align business practices (e.g., lobbying and capital expenditures) with the goals of the Paris Climate Agreement, and strengthen climate-related financial disclosures" (*New York City Retirement Systems 2022 Shareholder Initiatives*, p.14).

The NYC pensions have also been leading on engagements with banks that have adopted net-zero targets but continue to provide financial services (including lending and underwriting) to fossil fuel companies engaging in new project expansion. In 2023, the NYC Comptroller filed shareholder resolutions at four North American banks calling on them to set absolute emissions reduction targets for financed emissions of energy and utility sector clients. This was a priority area for engagement in 2023 (*NYC Comptroller Lander and City Pension Funds Call on Major U.S. and Canadian Banks to Set Absolute GHG Emissions Targets for High Emitting Sectors*, NYC Comptroller press release).

The NYC Comptroller participated in CDP's 2022 campaigns on corporate disclosure and science-based targets (*New York City Retirement Systems 2022 Shareholder Initiatives*, pp.17-18). The Comptroller is again supporting CDP's 2023-2024 Science-Based Targets Campaign, which in 2023 sent letters on behalf of its supporters (financial institutions and multinational corporations) to "over 2,100 high-impact companies asking them to commit to and set 1.5°C-aligned Science-Based Targets."[2]

The Comptroller has called on other investors to join together in a "high ambition" group to set standards, share data, and align action on "serious net-zero plans" along the model called for by the United Nations High Level Expert Group on Net Zero Emissions Commitments of Non-State Entities (*Confronting the Climate Crisis: Climate Transition*, NYC Comptroller webpage).

Direction given to external managers

The NYC Comptroller recognizes that the actions of one investor are not sufficient to manage and mitigate climate risks, writing, "[we] cannot achieve our net-zero goals unless our investment managers, in both public and private markets, actively collaborate in this effort" (*NYCERS/BERS/TRS Net Zero Implementation Plans*, p.28). Consequently, the funds have outlined expectations for and are undertaking engagements with the funds' public asset managers and private markets managers. The pensions have set a goal that all managers "have a net-zero goal or science-based targets and implementation plan covering, at a minimum, assets managed for the System, by June 30, 2025."[3] The pensions set an expectation that asset managers' targets should cover scope 1, 2 and material scope 3 emissions.

As part of its engagement strategy, the NYC Comptroller has publicly engaged BlackRock over concern that its investment strategy does not align with its climate commitments. The Comptroller's letter calls on BlackRock to improve its climate strategy by publishing an implementation plan; outlining an approach to "kee[p] fossil fuel reserves in the ground and phas[e] out high-emitting assets;" and incorporating calls for the adoption of science-based targets and disclosure of climate lobbying as part of BlackRock's corporate engagement efforts.[4]

Policy engagement

The NYC Comptroller has a history of engaging regulators and policymakers on a range of climate and environmental issues. For example, the Comptroller has been an active supporter of the US Security and Exchange Commission's (SEC) proposed climate-disclosure rulemaking, *The Enhancement and Standardization of Climate-Related Disclosures for Investors*. The Comptroller has submitted comment letters to the SEC and spoken out publicly in support of the proposed rule, including support of scope 3 emissions disclosures (*New York City Retirement Systems 2022 Shareholder Initiatives*, p.18).[5]

In addition, the Comptroller has engaged policymakers on issues relevant to their corporate engagements with portfolio companies. For example, in 2022 the Comptroller's office engaged with the Office of Management and Budget, the US Environmental Protection Agency, and the National Highway Traffic Safety Administration on vehicle emission standards (*New York City Retirement Systems 2022 Shareholder Initiatives*, p.18).

Climate Integration	B

Accountable Paris-aligned membership

NYCERS, BERS and TRS are members of the Paris Aligned Asset Owners.

Transparency and disclosure of holdings and climate risk

The NYC Comptroller provides monthly disclosures of its AUM, which is searchable in an online interactive dashboard (*Pension/Investment Management: Assets Under Management*, NYC Comptroller webpage). Holdings are updated within 60 days of the end of each month.

The Comptroller also reports progress toward its goals of fossil fuel divestment and investment in clean energy solutions, including a list of assets that were targeted for divestment, although this list appears not to have been updated since 2021 (*NYC Climate Dashboard: Climate Finance*, NYC Comptroller webpage; *Fossil Fuel Divestment List*).

Transparency and disclosure of climate risk

The New York City Comptroller discloses its total emissions (scopes 1, 2 and 3) by pension system on its public-facing climate dashboard (*NYC Climate Dashboard: Climate Finance*, NYC Comptroller webpage). As of April 2023, the NYC pension systems were on track for their interim financed emissions reduction targets (*Comptroller Publishes Pension Emissions Data and Updates Dashboard on Progress Toward Climate Goals*, NYC Comptroller press release).

The Comptroller's Bureau of Asset Management is undertaking efforts "for evaluating climate risks to the portfolio more comprehensively," including scenario analysis and identifying ways to determine alignment with 1.5°C pathways and net-zero goals (*NYCERS/BERS Net Zero Implementation Plans*, p.15; *TRS Net Zero Implementation Plans*, p. 16).

Three of NYC's pensions have an active climate plan and each has adopted a detailed Implementation Plan that addresses each of the Comptroller's climate transition strategies: setting and disclosing interim targets; engaging asset managers and portfolio companies; investing in climate solutions; and divesting from fossil fuel companies (*Confronting the Climate Crisis: Climate Transition*, NYC Comptroller webpage).

Board climate expertise and/or fossil fuel entanglement

NYCERS, TRS and BERS each have a Board of Trustees, which are largely composed of current or former public employees (webpages: *Board of Education Retirement System: Board of Trustees; NYC Employees' Retirement System: Board of Trustees;* and *Teachers' Retirement System of the City of New York*). Based on a review of public biographies, none are identified as having either climate expertise or fossil fuel entanglements.

The Comptroller's office has two roles explicitly targeting oversight of climate and ESG risks: a Chief ESG Officer and a Chief Climate Officer (*Leadership Team*, NYC Comptroller webpage). None of the Comptroller's Bureau of Asset Management "Leadership Team" are identified as having expertise in climate science. However, several have backgrounds working in environmental, climate and/or related political work. The City Comptroller is not identified as having climate expertise.

Executive and staff compensation and climate

Shift's analysis did not find any disclosure indicating that the New York City Comptrollers' office ties executive or staff compensation to the achievement of climate targets.

Fossil Fuel Exclusions	A

In 2018, NYCERS, BERS and TRS announced their intention to divest from fossil fuel companies, consistent with fiduciary duty. New York City was the first major American city to announce a full fossil fuel divestment commitment (*Comptroller Stringer and Trustees Announce Successful $3 Billion Divestment from Fossil Fuels*, NYC Comptroller press release).

According to the Comptroller's *NYC Climate Dashboard: Climate Finance*, the funds have since divested US$3.8 billion from fossil fuel companies. The NYC Comptroller provides on its website a list of divested companies, although the list appears to date from 2021 (*Fossil Fuel Divestment List*).

A December 2021 press release on fossil fuel divestment progress outlined the process the Comptroller and Trustees followed to ensure divestment was consistent with fiduciary duty, including retaining Blackrock and Meketa to produce independent investment analyses which demonstrated "the risks posed by fossil fuel companies and the prudent nature of the divestment actions adopted by the Boards" (*Comptroller Stringer and Trustees Announce Successful $3 Billion Divestment from Fossil Fuels*).[6]

New York City has also announced plans to exclude fossil fuels in any new private equity fund commitments.[7] The *Net Zero Implementation Plans* commit the three NYC funds to "ask private managers to exclude investments in the production, exploration, or extraction of fossil fuels" (*NYCERS/BERS/TRS Net Zero Implementation Plans*, p.7). If the manager does not comply, the Board may not approve investment (*NYCERS/BERS/TRS Net Zero Implementation Plans*, pp.11-12).

"A low-carbon transition of the economy in line with science and 1.5°C pathways requires greatly increasing financing of climate change solutions, significantly reducing fossil fuel investments and ceasing investments in new fossil fuel supply projects in accordance with established net-zero scenarios, and engaging companies, managers, and policymakers to ensure net-zero alignment" (*NYCERS/BERS/TRS Net Zero Implementation Plans*, pp.14-16).

ENDNOTES

1 Most of the Comptroller's strategy on "divest to reduce risk" is focused on divestment from fossil fuel owners. This sentence and the previous one, which discusses engaging "companies and the financial community," suggests that divestment from recalcitrant companies in non-fossil fuel sectors following periods of engagement may also be part of the Comptroller's net-zero strategy.

2 CDP. (2023). *CDP Science-Based Targets Campaign*. Retrieved November 9, 2023 from https://www.cdp.net/en/investor/engage-with-companies/cdp-science-based-targets-campaign.

3 The TRS pension outlines a different timeline: public asset managers have expectations for adopting net-zero goals by June 2025; private market managers have expectations to achieve that benchmark by June 2026.

4 New York City Comptroller. (2022, September 22). *Comptroller Lander Sends Letter to BlackRock CEO Larry Fink Demanding Stronger Action Toward Net Zero Emissions Reduction Across Portfolio* [Press release]. https://comptroller.nyc.gov/newsroom/comptroller-lander-sends-letter-to-blackrock-ceo-larry-fink-demanding-stronger-action-toward-net-zero-emissions-reduction-across-portfolio/.

5 New York City Comptroller. (2022, March 21). *Statement from NYC Comptroller Lander on Proposed SEC Climate Disclosure Rule*. https://comptroller.nyc.gov/newsroom/statement-from-nyc-comptroller-lander-on-proposed-sec-climate-disclosure-rule/.

-See also Lander, Brad. (2022, June 15). *Investors Deserve to Know the Climate Risks Their Assets Face*. The New York Times. https://www.nytimes.com/2022/06/15/opinion/climate-investments-sec.html.

-See also NYC Comptroller. (2022, June 17). *Comment Letter on File No. S7-10-22*. https://www.sec.gov/comments/s7-10-22/s71022-20132248-302689.pdf.

6 Find links to the draft reports from Blackrock and Meketa in this coverage: Sanzillo, T. (2021, March 22). *Major investment advisors BlackRock and Meketa provide a fiduciary path through the energy transition. Institute for Energy Economics and Financial Analysis*. https://ieefa.org/resources/major-investment-advisors-blackrock-and-meketa-provide-fiduciary-path-through-energy.

7 Burke, L. (2023, April 6). *New York City Pensions to Divest Future Private Equity Holdings From Fossil Fuels*. https://nysfocus.com/2023/04/06/brad-lander-pension-fund-private-equity-fossil-fuels-divestment.

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- NYC Comptroller: Shareholder Initiatives Postseason Report (2022)

NYC Documents

- NYCERS Net Zero Implementation Plan (adopted February 15, 2023)
- TRS Net Zero Implementation Plan (adopted April 4, 2023)
- BERS Net Zero Implementation Plan (adopted April 18, 2023)
- NYC Comptroller: Fossil Fuel Divestment List (accessed December 20, 2023)
- NYC Comptroller: New York City Retirement Systems 2022 Shareholder Initiatives (December 2022)
- NYC Comptroller: New York City Pension Funds 2021 Shareowner Initiatives (2021)
- NYC Comptroller: Corporate Governance Principles and Proxy Voting Guidelines (February 2019)

NYC Webpage and Press Releases

- NYC Comptroller: NYC Comptroller Lander and City Pension Funds' 2023 Shareowner Initiatives Postseason Report Highlights Leadership on Responsible Investment (press release) (December 27, 2023)
- NYC Comptroller: New York City Comptroller. (2023, December 19). NYC Comptroller Lander and Pension Trustees Announce 24.7% Increase in Climate Solutions Investments and Commitments (press release) (December 19, 2023)
- NYC Comptroller: Comptroller Publishes Pension Emissions Data and Updates Dashboard on Progress Toward Climate Goals (press release) (April 19, 2023)
- NYC Comptroller: NYC Comptroller Lander and City Pension Funds Call on Major U.S. and Canadian Banks to Set Absolute GHG Emissions Targets for High Emitting Sectors (press release) (January 24, 2023)
- NYC Comptroller: Comptroller Stringer and Trustees Announce Successful $3 Billion Divestment from Fossil Fuels (press release) (December 22, 2021)
- NYC Comptroller: Confronting the Climate Crisis: Climate Transition (webpage) (accessed December 5, 2023)

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- Teachers' Retirement System of the City of New York: Our Retirement Board (webpage) (accessed December 19, 2023)