



CANADA'S PENSION FUNDS AND CLIMATE RISK: A BASELINE FOR ENGAGEMENT

BRIEFING FOR CANADIAN PENSION BENEFICIARIES

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About Shift: for Pension Wealth and Planet Health

Shift is a new initiative that works to protect pensions and the climate by bringing together beneficiaries and pension funds to engage on the climate crisis. We help Canadians understand where their retirement wealth is invested and how to engage with the people managing it. Now is the time to shift our approach and invest in a low-carbon future.

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Summary

Canada's Pension Funds are at risk from the worsening climate crisis. Canadians fortunate enough to be part of a defined pension plan increasingly want to know if their retirement savings are protected from climate disruption and are invested responsibly in providing solutions, rather than making the problem worse.

Engaging with your pension plan is an effective way to create systemic change to protect our climate and your retirement.

This briefing is intended to provide pension savers and beneficiaries with a high-level snapshot of how Canada's largest pension funds are currently approaching the climate crisis. It includes:

1. An overview of where Canada's pension funds currently stand when it comes to managing climate risk and capturing new low-carbon opportunities.
2. Guidance on the types of tools used by pension funds to reduce climate-related pension risks.
3. Recommendations on how beneficiaries can engage with their pension funds constructively in order to ensure they can enjoy a prosperous retirement on a healthy planet.

Introduction

Climate Risks for Pension Funds

In the spring of 2019, the Bank of Canada released its latest *Financial System Review*, which highlighted key risks to the Canadian financial system from climate change.

“Climate change continues to pose risks to both the economy and the financial system. (...) Climate change creates important physical risks both in Canada and globally. (...) The move to a low-carbon economy involves complex structural adjustments, creating new opportunities as well as transition risk. (...) The necessary adjustments are complex and pervasive and might lead to increased risk for the financial system.”¹

Climate risks apply to all areas of the economy, but are especially acute for diversified, medium to long-term investors like pension funds. The risks facing long-term institutional investors fit broadly into three categories:

- **Physical Risk:** The rising physical impacts of a warming world, including increased fires, floods, heatwaves, droughts, sea level rise and extreme weather, which damage the systems and infrastructures that underpin our economy. In particular, physical risks threaten the value of commercial real estate, which make up a significant portion of Canadian pension fund holdings.²
- **Transition Risk:** Failing to anticipate the rapid transition away from high-carbon sectors towards the low-carbon society that is required to address the climate crisis. In particular, growing uncertainty around future fossil fuel demand increases risks for oil & gas holdings.³
- **Legal Risk:** A growing number of legal cases are being filed against corporations in an attempt to hold them liable for damages caused by their greenhouse gas emissions.⁴⁵ Growing political, legal and regulatory risks are increasing for companies seeking to build new high carbon infrastructure projects.⁶

As awareness of these risks has grown, so too has the number of financial institutions working to understand and avoid material climate risks that threaten the long-term stability of the global financial system.⁷

Over generations, institutional investors have developed proven strategies for managing many types of risks. But when it comes to addressing climate change, effective strategies are still in their infancy. Considerable effort is underway from some companies, investors, banks, and insurers to improve the tactics they use to understand and deal with this challenge. Some have moved quickly and are starting to make progress, while others have yet to cross the starting line.⁸

There is not one single strategy that can be applied. A responsible approach to climate change starts with an acknowledgment that new risks and opportunities exist and that there are many unknowns that need to be explored and understood. Responsibly managing climate risk requires embracing uncertainty and working methodically to understand, disclose and react to these challenges over time.

Carbon Free Opportunities

The global energy transition away from fossil fuels to clean energy is rapidly accelerating and has become a critical space to make safe and profitable long-term investments.

In the past three years, capital investment in solar and wind exceeded all other forms of electricity generation combined.⁹ Even with this progress however, is estimated that investment in low-carbon energy must more than double if the Paris Agreement goals are to be met.¹⁰ Even assuming no additional climate policies are implemented, the International Energy Agency still expects investment in renewable electricity generation to outpace all fossil-based generation over the next 25 years.¹¹ Technological changes to power management, transmission and storage are creating significant new investment opportunities for long term investors like pension funds. The efficient electrification of transportation, including a rapid transition to electric cars, is accelerating rapidly driven by changing economics and policy.¹²

Canadian pension funds are making important impact investments in low-carbon solutions, however the relative value in their portfolios remains small. Considerable untapped opportunity exists for new investment in clean energy, efficiency, sustainable agriculture, advanced materials, water technologies and other emerging clean technology sectors.

There is no fiduciary barrier for fund managers to shift investment into profitable, low carbon investment.

What should beneficiaries expect from their pension funds?

- Clear acknowledgment that climate change poses material risks to the portfolio
- Public endorsement of the Task Force on Climate-related Financial Disclosure (TCFD) including a clear timeline for implementing its recommendations
- Commitment and strategy for ensuring transparency, including full financial disclosure of climate risk
- Targets and timelines for significantly increasing low-carbon investment and for reducing high-carbon investment
- Fund governance that integrates climate issues into decision-making throughout the organization from the top down.
- Internal policies and action to seek transparency and disclosure on climate risk from held and prospective assets to beneficiaries
- Transparent Environmental Social Governance (ESG) goals and criteria

1. Pension Fund Progress Overview

Canada's largest public pension funds are not on the same page when it comes to their approach to climate change. Some are starting to apply considerable effort in managing their climate risks, while others have yet to start this process.

Some funds are also making progress starting the transition towards low carbon investment portfolios that drive solutions to the climate crisis, however the overall percentage of low carbon holdings remains far too low.

While there has been notable effort from some funds in the last few years to significantly improve efforts to address climate risk and capture opportunity, currently, the best performing Canadian funds are still well behind international leaders¹³. Canadian pension funds have historically been well regarded for their stability and performance. However, failure to advance new efforts on climate change will carry considerable financial and reputational risk in the future.

Each fund has approached this challenge differently, so direct comparisons are a challenge. At a high level however, we see that Canada’s pension funds can be divided into four broad groupings based on their progress to date.

Methodology

In October of 2018, beneficiaries, in partnership with Shift, wrote to Canada’s 10 largest pension funds, requesting information about their plan’s current holdings (including climate-positive investments) and their approach to climate-related financial disclosure. Six out of ten pension funds responded, providing varying levels of detail. The information used to create this overview was gathered from these responses as well as publicly available information, including annual reports and responsible investment disclosures.

Table 1. A Race Toward Understanding Climate Risk and Seizing Opportunities

| Starting Line | Getting Started | Rising to the Challenge | Pulling Ahead |
|---|--|--|---|
| Ontario Municipal Employees Retirement Fund (OMERS) | British Columbia Investment Management Corp. (BCimc) | Ontario Public Service Employees Union Pension Board (OPTrust) | Caisse de dépôt et placement du Québec (CDPQ) |
| Ontario Pension Board (OPB) | Alberta Investment Management Corp. (AIMco) | Public Sector Pension Plan (PSP) | |
| Hospital Employees of Ontario Pension Plan (HOOPP) | Canada Pension Plan Investment Board (CPPIB) | Ontario Teacher’s Pension Plan (OTPP) | |

Pulling Ahead

No Canadian pension has yet to catch up to global leaders in responding to the climate crisis. A number of funds have established climate change as a top down priority in their governance structure leading to results in achieving transparency, risk management, robust engagement, and a substantial shift from high-carbon to low carbon investment.¹⁴

The fund that comes closest in Canada hails from Quebec. Clear top-down leadership from president Michael Sabia of Caisse de dépôt et placement du Québec has resulted in the most comprehensive climate change strategy to date and initial progress. If this leadership continues, CDPQ could go from pulling ahead to joining the ranks of global leaders.

Caisse de dépôt et placement du Québec (CDPQ)

Has the most comprehensive climate strategy of any Canadian Pension Fund, utilizing a variety of tools. It is the only fund that has set targets for increasing low carbon investments (by 50% from 2017, representing more than \$8 billion in new investment by 2020), while reducing the carbon

intensity of its entire portfolio (by 25% by 2025). Has taken the crucial step of linking executive compensation with performance in achieving these goals. Following through on these targets is the next crucial step.¹⁵

Rising to the Challenge

These funds acknowledge that climate change poses a considerable risk to their long-term financial performance. They have established goals for understanding the material climate risk in their portfolios. They are taking initial steps to manage these risks through ESG integration, investor engagement and scenario analysis. They are setting goals for increasing low-carbon investment in their portfolios. And they are providing bare-minimum level disclosure for all of these efforts to their beneficiaries. Compared with global leaders, all these funds still have a long way to go to fully understand and manage the risks and opportunities the climate crisis presents, but they are making early progress.

Ontario Public Service Employees Union Trust (OPTrust)

Was one of the first funds in Canada to implement TCFD reporting and reported for the first time in 2018. Has developed a new climate action plan. Is piloting new scenario analysis tools to better understand its portfolio risks and low carbon opportunities. The fund reports a comparatively higher amount of low carbon investment over many of its peers.²⁰

Public Sector Pension Investment Board (PSP)

Has made considerable progress in applying the TCFD recommendations. Has a small but growing list of low carbon impact investments. Is undertaking a portfolio-wide climate risk assessment and deploying a variety of recommended tools. Further progress on disclosure is needed to understand the results of this work.

International Leadership

Fjärde AP-Fonden (AP4)

AP4, which is part of Sweden's national pension system, manages the equivalent of approximately \$50 billions (CAD) in assets. The fund ranked 1st in the 2018 Asset Owners Disclosure Project (AOPD) Global Climate Index (2018).¹⁶

AP4 has identified climate change as one of the greatest systemic risks for long-term asset values. The fund has cut its exposure to climate related risks by implementing the TCFD recommendations and developing internal criteria for reducing climate change risks while working to address the crisis. AP4 has disclosed transparent ESG criteria, while effectively using carbon footprinting, engagement, divestment, scenario analysis, and green bonds to decrease climate risk. It has measurably reduced its high-carbon investments while increasing low-carbon holdings over the past decade. Since 2013, AP4's total carbon footprint from its share of owned companies dropped by 26%, while carbon intensity per share of owned company market capitalization fell by 42%.¹⁷

Swedish pension funds, including AP4, formed a Council on Ethics to guide strategy and investment decisions.¹⁸ As part of that process, AP4 established transparent guidelines for screening new investments from its portfolio, excluding companies that develop or invest in high-carbon thermal coal or oil sands (along with other exclusions such as weapons and tobacco). The company also has a list of company specific exclusions.¹⁹

Sweden's legal framework for pension funds was updated in January of 2019 to increase ambition for sustainability and responsible ownership, which is expected to further drive progress in addressing climate risk.

Ontario Teacher's Pension Plan (OTPP)

Holds 'most improved' status amongst Canadian pension funds. Has undertaken a number of initiatives to implement TCFD recommendations and understand its portfolio risk. Has initiated new low-carbon investments and is establishing criteria for reducing risk in investments. Following through on early progress and increased transparency will preserve momentum.

Getting Started

These funds are still on the ground floor of understanding their climate risk. They are just starting to scale up the resources required but have taken important early steps to understand on how best to manage this challenge. This group has made high-level commitments to implement the TCFD recommendations, using ESG analysis, engagement, and scenario analysis, but have yet to set clear goals, rules and timelines for doing so, and are lacking in the quality and quantity of disclosure to plan members and beneficiaries.

British Columbia Investment Management Corporation (BCIMC)

Had a promising start in integrating climate into its risk management practices but has stalled in implementation. Additional action to implement TCFD recommendations and transparency are required.

Alberta Investment Management Corporation (AIMCo)

Has made considerable progress in integrating climate risk into its investment strategy and is using a variety of tools. It has established momentum for continual improvement. The fund needs to set measurable goals for transitioning its portfolio towards low carbon investment.

Canadian Pension Plan Investment Board (CPPIB)

Has established a base on which to address a climate change risk and opportunity through a permanent internal climate change committee. There remains a lack of clarity on long-term goals and the process for ensuring climate change is integrated into governance.

At the Starting Line

These funds are providing little public acknowledgement that climate change is a factor in how they manage their assets. If they are meaningfully taking climate risk into account in their investment decision making, they are not providing adequate transparency for beneficiaries to explain how they are doing so.

Ontario Municipal Employees Retirement System (OMERS)

Has supported TCFD but has yet to disclose any strategy or progress for implementation. Does not publish ESG criteria. Has made important initial low carbon investments, but with no stated goals.

Ontario Pension Board (OPB)

Supports climate-related shareholder resolutions, but otherwise has not released information on climate risks or investment strategy. Has not supported the TCFD. Did not respond to letter from beneficiaries requesting information.

Healthcare of Ontario Pension Plan (HOOPP)

Its latest Responsible Investing Policy does not include mention of climate change. Has not signed TCFD. Has undertaken a climate change risk and resilience assessment on its real estate assets. Did not respond to letter from beneficiaries requesting information.

2. Understanding the Tools

The Tools

To better understand how Canada's leading pension funds are managing climate risk, it is important to understand some of the key tools currently being used. The following are some of the most common tools currently being employed in various stages and to varying degrees by Canadian pension funds

TCFD (Task Force on Climate-related Disclosures)

In 2015, former Bank of Canada Governor Mark Carney, then Chair of the Financial Stability Board, an entity established by G20 countries in response to the global financial crisis in 2008, created the TCFD to develop a common strategy for companies and the wider financial sector to understand and disclose climate risks. The TCFD's Final Report outlines a detailed framework for understanding and disclosing climate risk.²¹ By encouraging voluntary, high-quality climate risk disclosures from companies throughout the financial system, the TCFD makes it possible for banks, institutions and investors to have the information they need to understand and avoid climate risks. All companies, institutions and governments were invited to endorse the TCFD recommendations, with signatories to the United Nations Principles for Responsible Investment (UNPRI) required to have implemented them by 2020. Many, but not all, of Canada's largest pension funds have committed to implementing the TCFD recommendations. Of those that have committed, none appear to have fully completed the process.

The TCFD recommendations cover four main areas of action:

Governance: Disclose the organization's governance around climate-related risks and opportunities.

Strategy: Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning where such information is material.

Risk Management: Disclose how the organization identifies, assesses and manages climate-related risks.

Metrics and Targets: Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

"As the risks related to climate change come further into focus, investors are increasingly asking how those risks will impact financial performance – for better or for worse – over the long run. One of the primary functions of the TCFD is to help answer those questions for all stakeholders in the global financial system."

-Michael Bloomberg (2018)

For resources to understand and implement TCFD recommendations, check out [tcfhub.org](https://www.tcfhub.org)

A number of the climate risk tools employed by Canadian pension funds listed here fall within the TCFD recommendations:

Low-Carbon Investment

The TCFD states that the expected transition to a low-carbon economy is estimated to require around \$4.7 trillion (CAD) globally in new investment opportunities, most of which will be within the

energy sector.²² One of the three core priorities of the Paris Agreement, the global agreement to address climate change signed by 195 countries, was "making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."²³ Meeting this goal requires that governments, finance institutions, investors and companies work actively towards increasing low carbon investments while shifting exposure away from high-carbon investments. New and profitable investments in the energy transition are not only essential to ensure a livable climate in the future, but also for building wealth in the fastest growing sectors of the global economy.

Many Canadian pension funds are adding profitable low carbon investments to their portfolios, but the only fund that has established a clear timeline for increasing these investments is the Caisse de Dépôt et Placement du Québec (CDPQ), which promised to increase its low carbon investments by 50%, representing more than \$8 billion in new investment by 2020, while reducing the carbon intensity of its entire portfolio by 25% by 2025.²⁴

Because Canada's largest pension funds manage over \$1.5 trillion (CAD), the shift towards low carbon investments will have a major impact on how successful we will be in addressing the climate crisis, as well as the health of our economy in a warming world.

For more information on low carbon investing: [UNPRI.org](https://www.unpri.org)

Disclosure

Disclosure is the cornerstone of managing risk for institutional investors. Large, international, sophisticated investors need to understand their investments, and cannot gather the required data and analysis on their own. Every part of the financial system, including companies, insurers, banks and investors, must understand their own risks and have a plan for addressing them. Pension funds must require assets they own and manage to disclose climate related risks of all types on a regular basis, while constantly seeking improvements in how those risks are measured. To make this possible, funds need a policy of deep engagement with assets to ensure disclosure is reliable and accurate. They can also seek regulatory improvements to improve reporting.

Likewise, pension funds must also proactively disclose their own internal assessment of climate risk to beneficiaries and stakeholders to ensure accountability.

ESG Integration

Environmental, Social, and Governance (ESG) criteria is a fast-growing concept gaining widespread use. When used by pension funds, ESG describes internal standards for screening and managing responsible investments.²⁵ A pension plan applying ESG principles to investment decisions should take into account the environmental, social and governance risks associated with a company. For example, a company that dumps toxic pollutants into a river, uses unsafe labour standards, or bribes government officials should be assigned a low ESG score. ESG can be applied as a screen on new investments, but it can also be applied to existing investments, inform long-term investing strategies, drive engagement with owned companies, or even lead to a decision to divest.

As a tool, ESG suffers from a key limitation: It has no fixed definition. It can be a black box with little practical value unless it is defined by a clear set of rules and standards. It is not enough to simply state that ESG principles are being applied without providing clear definitions of how they will be applied. The majority of major pension funds in Canada report they are using ESG in some form or another, but the real-world value of this tool for addressing climate risk varies widely depending on how clearly a fund defines its ESG standards.

Mapping Material Risk

In financial circles, 'material risk' or 'materiality' are important, legally defined terms which refer to the ability of a given factor to meaningfully impact financial returns. Financial regulators, particularly those overseeing public markets, require companies to fully disclose any material financial risks they face to investors. As climate-related risks gain more attention, both regulators and investors are calling on companies to fully disclose the financial risks to their business model from physical climate risks such as wildfires, regulatory or policy risks such as carbon prices, or transition risks such as a required drop in demand for fossil fuels.

Some Canadian pension funds are mapping the material risks to their portfolios, using tools such as those created by the Sustainability Accounting Standards Board.²⁶ This process can provide a high-level view of where the largest material risks are their portfolio, which makes it easier to zero-in on particularly problematic areas for further research.

A number of Canadian pension funds have, as equity owners, supported shareholder resolutions calling on high-risk companies to disclose material climate risks.

Scenario Analysis

Scenario Analysis is a particularly valuable tool for medium to long-term investors such as pension funds working to manage the many risks and opportunities presented by climate change.

No one can predict exactly how the future will unfold. Rather than betting on one prediction of the future, asset managers and companies can instead try to prepare their portfolio for a wide range of possible future outcomes. To do this, asset managers choose several different possible future scenarios and analyze them to test how their portfolio would fare in each.

For example, common climate-related scenarios might help to answer questions like: What if countries take strong action on climate change and fossil fuel demand starts to fall? What if action is not taken and the global economy is damaged by dangerous runaway climate warming? Ensuring an investment portfolio performs well in both scenarios requires a detailed understanding of the range of possibilities. Gaining insight into these questions is extremely valuable, which is why scenario analysis is a core recommendation of the TCFD. Investors and companies are advised not only to stress test against a range of possible futures but are encouraged to choose a range of scenarios which could be genuinely stressful to ensure capital can be allocated in a way that best avoids risk and maximizes opportunity.²⁷

Through engagement, asset managers can also request the results of scenario analysis from owned companies directly or through shareholder resolutions. As with all of these tools, details and transparency matter. The scenarios chosen for analysis are of vital importance.

Carbon Footprinting

Assessing a carbon footprint is a nascent practice for Canadian funds and is used to assess climate risks through measuring GHG emissions. International standards have established reporting standards for different types of emissions that companies should track and disclose. These are defined as Scope 1, 2, and 3 emissions. Scope 1 emissions are released directly by the company through combustion and other process emissions (ie. operating a furnace on site). Scope 2 are external emissions which a direct result of activities of the company (ie. emissions from generating purchased electricity). Scope 3 emissions are indirect greenhouse gas emissions resulting from the

organization's operations and products (i.e. emissions from refining or burning crude oil sold to customers).²⁸

Pension funds can engage with owned assets to require disclosure of emissions, which allows pension funds to make active management decisions on GHG emissions, as well as set targets to reduce the GHG intensity of their investments over time.

Several Canadian pension funds are beginning to use carbon footprinting, but most have started only with the small public equity percentage of their portfolios. Pensions must understand the carbon footprint of their entire portfolios in order to understand risks from regulation or carbon pricing, as well as to minimize climate pollution.

Use of this tool should be undertaken as part of transparent strategy for reducing emissions over time in line with the goals of the Paris Agreement.

There are data limitations and potential for error in carbon footprinting and benchmarking. For this reason, some pension funds have chosen to use other analytical frameworks for understanding carbon risk.

Engagement

As an essential tool for ensuring held assets meet risk and ESG goals, engagement comes in a variety of forms. For pension funds, engagement occurs during interactions between fund managers and the companies in which the fund holds equity. Basic engagement might involve fund managers requesting information, meeting with company executives, or writing letters to management. More active engagement might include direct involvement in corporate governance including board participation, supporting shareholder resolutions, and collaboration with other shareholders to achieve a desired outcome. Large pension funds sometimes hold majority or total ownership of companies, giving them significant latitude to engage in corporate governance to achieve desired outcomes. For example, as part of its leadership in the Climate Action 100+ group of institutional investors, the Church of England has announced it will divest from fossil fuel companies that have not responded to its engagement efforts requiring meaningful reporting on their climate change strategy by 2023²⁹.

Nearly all of the tools employed by pension funds to address climate risks and other ESG issues involve some element of engagement with held assets. Effective engagement strategies should include the possibility for escalation should the initial outreach not result in the desired outcomes.

Screening and Divestment

Applying updated internal ESG criteria to assets will often require limiting new investment in specific asset classes or requiring divestment of assets already held. These tools remain controversial with some institutional investors, particularly with respect to climate change. However, both screening and divestment have been used to wind down investment positions by some major Canadian pension funds for asset classes such as tobacco products or cluster munitions.

Some pension funds go out of their way to explain why they reject screening and divestment in favour of engagement strategies to achieve their ESG goals, noting that their power to influence decisions is tied to ownership. The two strategies are not however, mutually exclusive. There are

sometimes limitations in using engagement to achieve the desired outcome. Additional actions may sometimes be required to ensure a portfolio aligns with a pension fund's investment criteria.

Internationally, a growing number of institutional investors, including pension funds, are using screening or divestment to limit exposure risks to the risks of high-carbon sectors or to achieve alignment with environmental goals, alongside robust engagement strategies.

3. Tips for Pension Fund Engagement

Pension fund managers are accountable to beneficiaries for responsibly and transparently managing their retirement savings. Beneficiaries are within their rights to seek information and to engage around how their savings are invested. The following are basic tips for engaging positively with your pension fund on climate change.

1. Begin and end with disclosure

Transparency is essential to addressing the risks of climate change for everyone in the financial sector. Asset owners cannot understand or manage their climate risks without having adequate disclosure on their investment decisions. Neither can beneficiaries have confidence that their fund managers have a handle on climate risk without full disclosure of holdings, strategies and tools.

Asking clear, direct questions about your pension's holdings and approach to managing risk signals that this issue is important, while generating a response that can be a starting point for further engagement.

If engagement is successful in shifting pension funds to adopt new strategies or change their holdings in response to climate change, this should not happen behind closed doors. A new round of disclosure on these changes should result, ensuring ongoing transparency and accountability.

2. Know the governance structure

Each of Canada's major pension plans has a different structure for governance and accountability. Beneficiaries should understand this structure and have a clear sense of their pension plan's sponsors and governance model. Beneficiaries should engage with all relevant points of contact, for example a union pension representative or a government appointed pension trustee.

3. Engage constructively

Assume good intentions from your fund's leaders and asset managers. The job of investing billions of dollars of retirement wealth is not one that is taken lightly by professional fund managers. There are many stresses and factors at play beyond climate change. Fund managers ultimately work for you, so starting the conversation by acknowledging the challenges they face on your behalf is a good way to start on the right foot.

4. Clarify Goals

Demonstrate how the goal of reducing climate risk and increasing low-carbon investment fits within existing fund priorities. It is not enough for pension plans to claim to use various tools such as ESG - they need to articulate clear goals and a plan for achieving them. Be clear about your own goals for engaging with your pension.

5. Understand Best Practices

Present concrete examples where other large institutional investors have made progress in addressing climate change. Best practices are changing rapidly when it comes to shifting financial flows to meet climate targets. Pension funds will want to ensure they are keeping up with their peers in using the best industry tools to do their job well.

6. Communicate Regularly

Engagement is an ongoing process of discussion, action, and disclosure. Improvement will come over time as this cycle is repeated. Finding regular opportunities to engage and assess progress will ensure fund managers plan their daily work around regular accountability to beneficiaries.

7. Build Support

Working together with beneficiaries from your own pension plan, with your own representatives in the governance process, or even with members of other pension plans, can help to build power, credibility and momentum in seeking improvement. Many pension beneficiaries are not aware of climate risks and opportunities and may value a chance to join in engaging as well. There is strength in numbers.

Conclusion

Based on their public disclosures, it is clear that Canada's pension funds are not adequately managing the risks and seizing the low-carbon opportunities presented by the climate crisis. Those that are taking action are just getting started. We also see that Canadian pension funds are already investing in climate solutions, but at levels that are far too low relative to the potential for profitable growth, consistent with levels required to solve this challenge.

For Canada's pension funds to be successful in the face of climate change, the tone of leadership needs to be set from the top. To achieve what is needed, climate change strategy and expertise must become part of the core governance and leadership structure.

There are no good excuses for falling behind. While a perfect set of rules has yet to emerge, best practices have been developed and implemented by leading funds internationally. Integration of sustainability and climate change into fund management is fast becoming mainstream. Rather than acting as a barrier, the fiduciary responsibility held by asset managers to manage funds responsibly actually requires that robust plans be put in place to better manage climate risks and opportunities.

It has also been shown that pension fund beneficiaries prefer their pension savings to be invested in a sustainable and transparent manner³⁰. Funds should not shy away from being pro-active in their disclosure and outreach around how they are stepping up to face this critical challenge.

For more information and ideas on how to engage with your pension plan to tackle climate change:

Info@ShiftAction.ca
ShiftAction.ca



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