Climate Change

Q: What are you doing to address climate change?

Ontario Teachers' has been focused on climate change for over a decade.

We know as a large institutional investor that we have a role in facing the challenge. Our goal with respect to climate change is to successfully manage the pension plan through the transition to a low-carbon future, while ensuring the plan remains sustainable for current and future generations of our members.

Our approach to climate change has three main elements: assessing and managing the direct climate change risks to our investments; pursuing attractive climate-friendly opportunities; and playing a constructive role in addressing the challenge.

We've had climate considerations in our corporate scorecard for a number of years. Climate change is an important part of the scorecard, which in turn, impacts compensation. This year, climate change objectives were given added weight on the scorecard, meaning they will have a greater impact on determining employee compensation in 2020.

As we refresh our corporate objectives and strategy, we will be better placed to understand how our climate change-related objectives help us achieve this. To support this, we are working towards establishing our climate change management plan for 2021 and beyond.

We recognize that the fight against climate change will not be won overnight. It takes a long-term commitment from multiple actors including countries, companies, investors and society. It also requires the flexibility to continually refine your approach over time.

The world will not be the same after the COVID-19 pandemic, which has underlined the importance of managing environmental, social and governance (ESG) factors well. While we are dealing with the economic, social and human impacts of COVID-19, we remain committed to responsible investing and climate change. Climate change poses another existential risk and we need to keep it front and centre for us, our companies and the broader investment community.

As the timeline below demonstrates, we have continued to enhance our climate change-related activities, tools and capabilities over the last decade.

Climate change milestones at Ontario Teachers'

2007

- Climate change is formally identified as a systemic risk in our Enterprise Risk Management system, which is overseen by our board

- First Climate Change Working Group (CCWG) formed to exchange perspectives on climate change, consider how the organization could begin to approach climate change challenges, and champion climate change thinking throughout Ontario Teachers'
- Produced guidelines for managing climate change in our investments

2010

2011

- Joined Global Real Estate Sustainability Benchmark (GRESB), which evaluates how ESG factors are managed in real estate assets
- As part of GRESB's Benchmark Committee, we played a role in advising on the development of GRESB's Climate Resilience Module

- Hired first full-time climate change expert
- Became a signatory to the Principles for Responsible Investment, joining other investors in publicly demonstrating our commitment to integrating ESG in our investment processes

2012

- Began encouraging companies to report on climate change and carbon management approach to CDP (formerly Carbon Disclosure Project)
- Travelled to Calgary for engagements with oil and gas companies; follow-up trips in 2016 and 2018
- Co-founded the GRESB Infrastructure Asset Assessment, focused on assessing sustainability of infrastructure assets

2015

- Began developing a cohesive set of climate scenarios to inform our investment decision-making process
- Published guidance on sustainability disclosures to share and communicate our expectations to oil and gas companies as a follow-up to our engagements
- Founded a Greenfield Investments & Renewables team to focus on investing in and developing climate-friendly opportunities

2016

- Endorsed the Financial Stability Board's Recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), thereby committing to adopt these recommendations in our engagements with companies, as well as in our own reporting
- Launched our Low Carbon Economy Transition Framework to help assess climate change implications in our investments
- Published our first Responsible Investing Report, which included climate change considerations

2017

- Published our first portfolio carbon footprint
- Joined Climate Action 100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change

2018

- Published first standalone TCFD-aligned Climate Change Report, which provided detailed information about our approach to managing the risks and opportunities related to climate change
- Began developing meaningful physical and transition risk measures that enhance opportunity and risk management

2019

- Launched a strategic initiative with Wellington Management and Woods Hole Research Center to advance integration of climate science into investment valuations
- Our carbon footprint and supporting private asset carbon models were independently verified providing us greater confidence in our calculation

2020

Q: Why do you invest in fossil fuels, particularly considering the poor performance of the sector in recent years?

There are several reasons why we invest in fossil fuels:

To diversify our portfolio: Diversification is a powerful tool for managing overall risk. It allows us to spread risk across key factors such as time periods, asset classes, geography and economic outcomes, which reduces volatility and the adverse impact of any one investment loss on the fund overall. This has contributed to our ability to earn an average total-fund net return of 9.7% every year since 1990.

To protect the plan from inflation risk: The inflation sensitive asset class includes natural resources (oil and gas, timberland, agriculture and aquaculture, and mining), commodities and inflation hedge. These types of assets have been grouped together due to the positive relationship they exhibit with inflation fluctuations: they can provide stable risk-adjusted returns, diversification and protection against unexpectedly high inflation, which in turn can have negative impacts on fixed income and equity markets. This is also important because, when the plan is fully funded, members' pension benefits increase with inflation.

Fossil fuels remain integral to the global economy: The transition to a low-carbon economy is happening, but the pace is variable across geographies and regions. For the time being, fossil fuels are core to fulfilling the world's energy demands, particularly in developing economies where energy use is growing fastest in order to keep up with increases in population and prosperity. Given this dynamic, we look for well-managed, lower-carbon opportunities that we expect will be more resilient and perform well during the transition. This means we steer away from coal and high-intensity oil toward transition fuels and cleaner alternatives. We also strive to encourage the adoption of cleaner technologies in developed and developing markets.

We believe positive engagement and influence is preferable to divestment: Active, engaged ownership leads to positive change. Years of engagement with oil and gas companies has led to changes in corporate behaviour like enhanced governance practices, improved disclosures, emissions reductions and strategies to transition away from fossil fuel reliance. Selling our shares has no impact on global emissions and leaves us without a seat at the table and unable to push for positive changes.

Q: Are you investing in climate-friendly companies?

Absolutely – We pursue attractive investment opportunities that will enable or benefit from the global shift to a low-carbon economy, as well as resilient assets that can withstand the effects of a warming world. We strive to identify trends that will affect existing assets or result in new opportunities.

Generally, these opportunities may include energy storage, energy efficiency, renewable power, green buildings, industrial/commercial redesign and retrofit projects, electrification across sectors, sustainable agriculture, recycling, water distribution, treatment, desalination and water efficiency.

Examples in our portfolio include:

Energy efficiency: In 2018, we invested in Techem GmbH, a global market leader in the provision of heat and water sub-metering services. Techem is based in Germany and has more than 50 million devices installed in more than 20 countries. According to the most recent data compiled by the World Resources Institute, buildings account for 17.5% of emissions worldwide. By providing building occupants transparency and more control over their energy and water use, Techem reduces the overall energy system's environmental footprint, including carbon emissions. For example, using its products and services, Techem customers avoid over 7 million tonnes of CO2 emissions per year

Renewable energy generation: Cubico Sustainable Investments is a global renewable energy platform that invests in wind and solar electricity generation. Since Ontario Teachers' first invested in Cubico in 2015, the company has grown from 19 facilities located in seven countries to 87 assets in different stages of development in 12 countries in the Americas, Europe and Australia. Cubico is one of the largest privately-owned renewable companies in the world. The renewable energy generated by Cubico enabled the avoidance of over 3,5 million tonnes of CO2 emissions in 2019.

Water desalination: Sydney Desalination Plant uses the process of reverse osmosis to desalinate seawater and produce high-quality drinking water. The plant can supply about 15% of Sydney, Australia's total drinking water requirements and is powered by 100% renewable energy. Desalination helps address the impacts of drought, population growth and the effects of climate change.

Broader sustainability: In addition, we work hard with the companies already in our portfolio to constantly improve their performance on sustainability. We often sit on the boards of these companies, so we're actively involved in overseeing their long-term strategic planning and risk management practices. At least one of the directors we put on the board is accountable for reporting on ESG issues like climate change.

An example of a portfolio company that has made impressive strides on sustainability is our real estate subsidiary Cadillac Fairview. Since 2008 they have reduced energy consumption by 32% and emissions by 39%. This reduction in emissions from their operations is the equivalent of removing 15,600 cars from the road for a full year. Cadillac Fairview was recognized as one of Canada's Greenest Employers in 2019.

Q: How much do you invest in fossil fuel companies versus how much you invest in climate-friendly companies?

Investments in fossil fuel companies makes up a significantly smaller proportion of our portfolio when compared to "climate-friendly" investments, which include green buildings, sustainable agriculture and forestry, renewable energy and a variety of climate-smart solutions/technologies.

We believe the transition to a low-carbon economy requires immense system changes that address both the demand for carbon-intensive products and services, and the supply of low- and zero-carbon alternatives. This brings a host of climate-friendly opportunities across and within multiple sectors of the economy. Focusing on one or two sectors misses essential parts of the solution.

A core part of the CCWG's work this year will be to determine a measure or measures of "climate-friendly" investments.

Q: How do you approach climate change disclosure?

Having accurate and timely information from companies about how climate change impacts their business is essential. We strongly encourage effective reporting from the companies we invest in and work with leading organizations and market regulators to advance reporting and improve regulations. We believe that measuring and reporting is a precursor to managing. As such, we believe it is important for us to live up to the standards we ask by publishing our own detailed Climate Change Report. We published our first climate change report in 2019 and are currently working on the next one, to be released soon.

Our Climate Change Report provides detailed information about our approach to managing the risks and opportunities related to climate change and was written in accordance with the recommendations made by the TCFD.

Q: Why is engagement effective and what impact has your engagement had on fossil fuel companies?

We engage with the companies we invest in to promote positive change and nurture success, and to encourage proactive disclosure and management of climate-related risks.

We continue to engage with public companies on how they disclose and manage climate change risks, both independently and collaboratively with like-minded peers, to improve the overall quantity and quality of data available. With many companies still not reporting, disclosure remains a prime focus, but we believe that you can't manage what you don't measure, so compelling companies to provide information on their resource use and emissions will lead to management of these factors. Management of resources and emissions is an increasing focus of our dialogue with companies.

While it may be frustrating to observers, engagement does not usually deliver quick results. In fact, it can take years of dialogue to see positive change. We use a milestone-based system to track our engagement progress and success. The companies in our engagement program are at various stages.

At the end of 2019, we were in active discussions with 15 companies. In addition, six companies have agreed to review and consider enhancing their disclosure through frameworks, such as the recommendations from TCFD and the Sustainability Accounting Standards Board (SASB); and four made commitments towards improved disclosure in line with these frameworks.

In 2015, a team from Ontario Teachers' initiated the first of several ESG and climate-focused road trips to Calgary to discuss companies' disclosures, sustainability and climate change practices and alignment with a low-carbon transition. We developed a sustainability disclosure guide in response to company requests following our first trip. Since then, as disclosure framework such as SASB and TCFD have emerged, we have had success with a number of Canadian companies, many of which have improved their disclosures and practices. Notably, three major Canadian companies representing over C$45 billion in market capitalization have recently announced commitments toward net zero emissions by 2050.

In terms of collaborative engagements, we are part of the Climate Action 100+, which is an investor-led initiative to push the world's largest corporate greenhouse gas emitters to act on climate change. As part of this initiative, Ontario Teachers' encourages companies to commit to a timeline for adoption of the TCFD recommendations in their public annual financial filings. Through collective efforts, since the initiative started in 2018, 48 companies publicly committed to supporting the TCFD recommendations and 112 companies have set long term quantitative targets for reducing greenhouse gas emissions.