GLOBAL RISK INSTITUTE

Building Climate Resilience in Canada's Pension Funds

Katherine Monahan
Senior Fellow, Smart Prosperity Institute

Anik Islam
Research Associate, Smart Prosperity Institute

Smart Prosperity Institute
institute.smartprosperity.ca

Introduction

Canadians are directly connected to the drivers and solutions for climate change as consumers and voters, and as savers, investors, and pension holders.

Yet, many Canadians are unaware about how their pension plans are managing climate change related risks and opportunities.

With the largest Canadian pension funds managing at least $2 trillion in assets, they need to invest wisely to protect against climate related risks and seize investment opportunities.

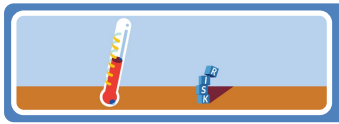
Main Question: How can Canadian pensions funds strengthen climate resilience?

Climate Change Related Risks for Pension Funds

Climate change related risks for pension funds can be divided into three types:

Physical risks – extreme temperature and weather events affect financial returns (e.g., damage to assets, supply chain or labour issues, etc.);

Transition risks – shift to a low carbon economy poses market and investment risks; and



Liability risks – accountability on climate impacts poses the risks of being legally challenged in courts.

Climate change related risks are **difficult to assess** mainly because: uncertainty in drivers and outcomes; historical trends may not provide indication of future outcomes; and the risks could interact in a different number of ways.

Informing Climate Change Related Risks

To better understand climate change related risks, Canadian pension funds need:

Advanced climate risk modelling and scenario analysis

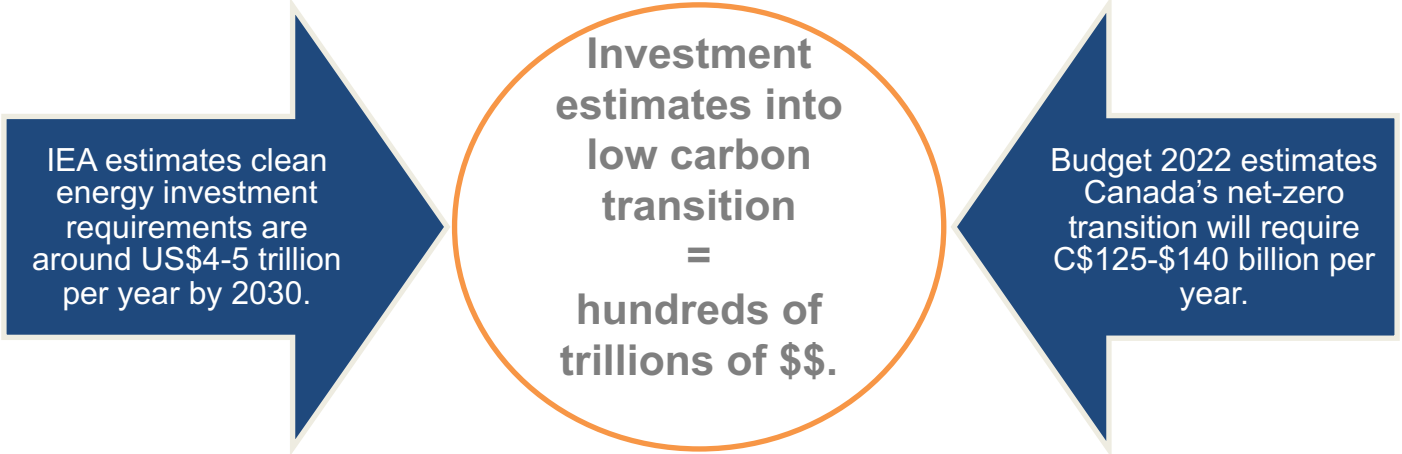
- ❑ Physical risks – localized flood mapping, weather forecasts, damage assessment, etc.
- ❑ Transition risks – macroeconomic scenario analysis of low-carbon transition.

Accurate information from portfolio companies and assets

- ❑ Example – information on full scope of GHG emissions
- ❑ Much of this information is either not available, difficult to obtain, or available only through data that is incomplete, inconsistent, and incomparable.
- ❑ Climate related disclosures are not yet mandatory in Canada.

Climate-Change Related Opportunities

As patient allocators of long-term capital, Canadian pension funds can positively contribute to the low-carbon transition through investments in green and transition assets.



Investing in the transition to low-carbon economies can provide significant returns.

Building Resilience: Net-Zero Commitments and Plans

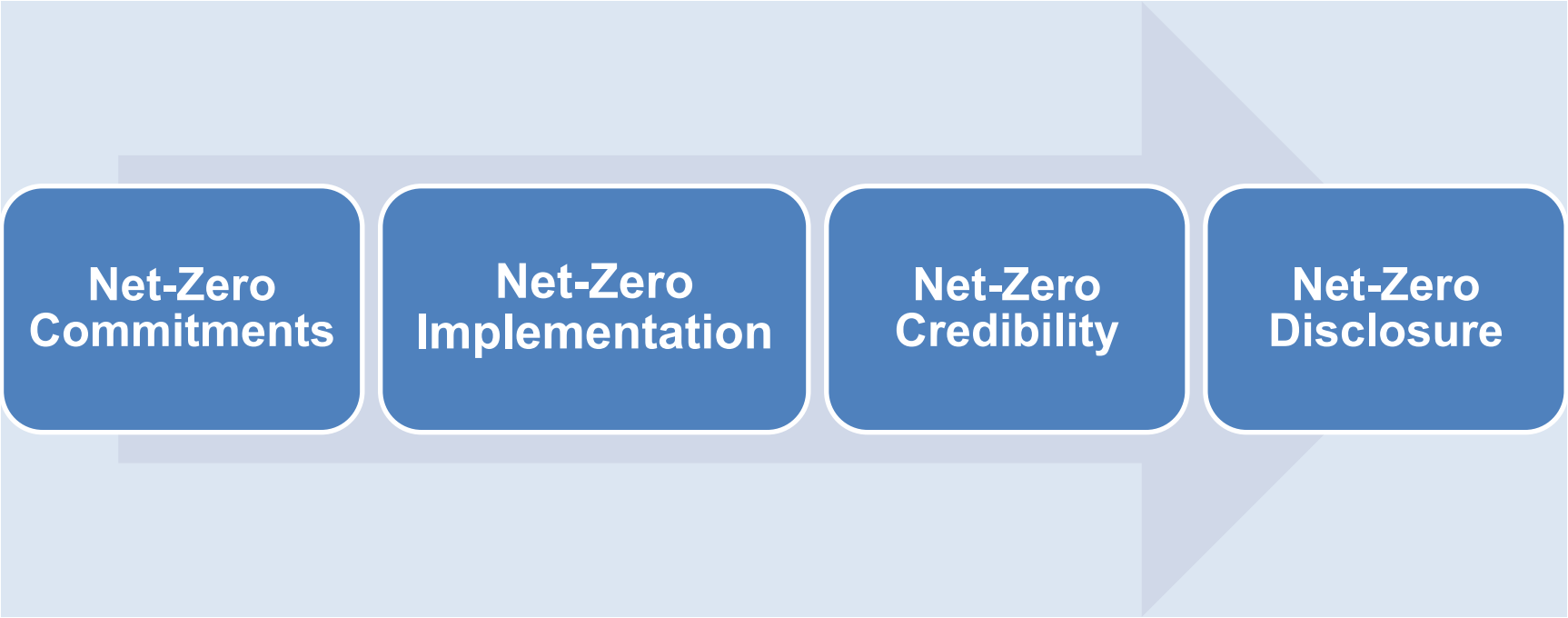
In order to build climate resilience, **eight of the largest Canadian pension funds have committed to net-zero emissions by 2050 or sooner**, with plans to bolster investments in climate solutions.

These net-zero commitments and plans **vary across the funds** reflecting differences in mandates, portfolios & investment strategies, and information availability.

The **dimensions for comparison** include:

- **Boundary of the targets:** target coverage, scope of emission covered;
- **Time frame:** short vs. long term, inclusion of interims targets;
- **Mitigation strategies:** Ranges from divestment to active engagement for high-carbon companies; and
- **Climate solution financing:** Targets for investing in green and transition assets.

Building Climate Resilience: What Can Pension Funds Do?



Net-Zero Commitments

Strengthen and expand net-zero commitments	This will match the pace of change committed by Canada and many other global governments – aligned to IPCC – guarding against climate related risks associated with the low-carbon transition.
Set interim short- and mid-term emission targets	Interim targets (e.g., for 2025 or 2030) set more immediate guardrails for a realistic pathways to net zero emissions.
Reassess starting point for commitments	Continually improve measurement of the full scope of greenhouse gas emissions (Scope 1-3).
Set additional targets for climate solutions and physical risk	Align strategies to emerging opportunities and build knowledge on physical risks.

Net-Zero Implementation

Invest in climate resilient areas

- Assets that are already aligned or consistent with net-zero pathways.
- Assets with a credible plan for reaching net zero.

For new investments …

- No new investment in climate risky areas.
- Make credible, time bound, net-zero and interim plans a requirement for new lending or equity positions.

For existing investments …

- Active management of existing risks.
- Divest from climate risky assets (set concrete deadlines).
- Require, and assist in development of, net zero plans.
- Continue to engage in dialogue with companies' boards and management; exercise shareholder ownership rights by voting proxies or other resolutions.

Continue to invest in climate solutions as committed

- e.g., renewable energy generation, green certified buildings, electric vehicle infrastructure, etc.

Net-Zero Credibility

Pension funds' net zero and interim plans should be cyclically updated

Regular communications to demonstrate progress on key metrics through robust reporting

External third-party verification of plan, progress, and vetting underlying portfolio assets

Existing initiatives include the Science-Based Target Initiative (SBTi); forthcoming UN-backed standards; emerging regulation

Net-Zero Disclosure

Align climate-related financial disclosure to best practices (TCFD, SASB)

Require this best-practice disclosure from portfolio assets

- Pension funds have jointly called for TCFD aligned voluntary climate-risk disclosure from their portfolio companies.

Continually improve on metrics and measurements

- Full GHG scope, emissions trends and projections, details around any use of carbon offsets, physical risk plan, climate risk governance and oversight, any upside climate investments; risks under scenario analysis.

Disclose complete and disaggregated information on green and transition assets, where relevant

- Clearly define taxonomy or methodology being used.
- Disclose metrics across all asset classes (e.g., incl. private equity).

Support international and domestic movement towards mandatory disclosure

Main Takeaways

- Canadians are increasingly interested in climate risks
- Governments are increasingly interested in climate risks
- Climate resilience means preparing for the inevitable
- Reaching net-zero targets will require assets to be climate-aligned
- Commitments around green or transition investments, while valuable in their own right, cannot compensate for assets that do not meet this climate resilience test
- Pledges will ring hollow without credible, verified, and updated plans disclosed along with related metrics to track progress

Thank You!

Contact Information
Katherine Monahan: katherine@smartprosperity.ca
Anik Islam: anik@smartprosperity.ca

Annex

Climate Disclosure Landscape

Canadian governments and international financial bodies have a role to play in mandating climate reporting obligations to disclose metrics needed to track progress on all climate commitments.

On climate-related financial disclosures, recent global developments which will influence Canada include:

- **US Securities & Exchange Commission (SEC**) - Enhancement and Standardization of Climate-Related Disclosures for Investors
- **International Sustainability Standards Board (ISSB)**
  - IFRS S1: General Requirements for Disclosure of Sustainability-related Financial Information
  - IFRS S2: Climate-related Disclosures

Climate Disclosure Landscape

In Canada,

- **Canadian Securities Administrators (CSA)** - National Instrument 51-107 Disclosure of Climate-related Matters.
- **Office of the Superintendent of Financial Institutes (OSFI)** – (Draft) Guidelines B-15: Climate Risk Management for Federally Regulated Financial Institutions (FRFIs).
- **Budget 2021** mandates climate disclosures from larger Crown Corporations from 2022, while **Budget 2022** states to adopt a phased in approach for climate disclosure across FRFIs.
- **Sustainable Finance Action Council (SFAC)** has been mandated to provide "*advice on the most effective ways to implement the Government's commitment towards applying mandatory climate disclosures across a broad spectrum of the Canadian economy*" by the end of 2022.

Building Resilience: Emission Reduction Plans

CDPQ

- Achieve net-zero emissions in portfolio by 2050.
- Reduce total portfolio carbon emissions intensity by 60% by 2030 (compared to 2017 levels).

CPP Investments

- Achieve net-zero emissions in portfolio across all scopes by 2050 (no interim targets yet).
- Reach carbon neutrality for internal operations across all scope by fiscal year 2023.

HOOPP

- Achieve net-zero emissions across portfolio by 2050 (no interim targets yet).

IMCO

- Achieve net-zero portfolio emissions by 2050 or sooner (no interim targets yet).
- Target to be achieved as signatory with Paris Aligned Investment Initiative on Climate Change (PAII).

OMERS

- Achieve net-zero emissions across portfolio by 2050.
- Reduce portfolio carbon emissions intensity by 20% by 2025.

OTPP

- Achieve net-zero emissions across portfolio by 2050.
- Reduce portfolio carbon emissions intensity by 45% by 2025, 67% by 2030 (compared to 2019 levels).

PSP Investments

- **No formal (contribute towards) net-zero target by 2050**
- Reduce portfolio carbon emissions intensity by 20-25% by 2026 (relative to a September 2021 baseline).

UPP

- Achieve net-zero emissions by 2040 or sooner.
- Reduce portfolio's carbon emissions intensity by 16.5% by 2025 and 60% by 2030 (from a 2021 baseline).

Building Resilience: Green & Transition Investment Targets

CDPQ

- Invest $54 billion in green assets by 2025.
- $10 billion transition envelop for heavy emitting sectors.
- Exit from oil production by 2022.

CPP Investments

- Combined green and transition asset target from $67 billion to at least $130 billion by 2030.

HOOPP

- Investments in climate-resilient and clean energy infrastructure ($398 million invested in 2021).
- Active energy transition strategy within public equities portfolio ($450 million invested in 2021).

IMCO

- No investment targets in climate solutions YET, establish by end of 2022.

OMERS

- No green or transition investment targets.
- As of November 2021, more than $18 billion in green assets (based on ICMA Green Bond Principles).

OTPP

- Till January 2021, $30 billion in green investments.
- Invested or committed additional $5 billion in green or transitional assets in 2021.

PSP Investments

- Increase investments in green assets to $70 billion by 2026 from a $40.3 billion baseline in 2021.
- Increase investments in transition assets to $7.5 billion by 2026 from a C$5.1 billion baseline in 2021.

UPP

- Not investment targets in climate solutions YET, will set a target for based on new climate transition investment framework.