



OMERS

# Climate Action Plan

2023



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# Key Climate-Related Goals



## Net Zero

By 2050; portfolio and operations

Portfolio emissions intensity reduction

↓ 20%

By 2025

↓ 50%

By 2030

## Interim

Goals every five years

**\$30B**

Green investments by 2030

## Highest emitters

Top 20 WACI contributing portfolio companies expected to have credible net zero transition plans in place by 2030

# Our Progress Towards Net Zero

**\$19B**

Green investments

**\$2B**

Sustainable and green bonds

**32%**

Portfolio emissions intensity reduction since 2019

**\$3B**

Transition sleeve

**Compensation Link**

To climate change performance measures

# Our Climate Action Plan

Climate change is one of the most pressing issues of our time.

OMERS inaugural Climate Action Plan (CAP) sets out the steps on our pathway to Net Zero 2050.

The CAP lays a foundation we can build upon to achieve our climate-related ambitions and support the transition through real world decarbonization. Our approach is consistent with the global goal of limiting the Earth's temperature rise to 1.5°C.

Climate change poses risks and opportunities to investors driven by physical and transition factors. Multiple risks are present at the system, region, sector, and organizational levels. This includes the world's ability to limit global warming, the impact of climate change on financial markets, and the valuation of OMERS own assets over time. Opportunities are arising through new types of investments. Industries and technologies are emerging from the transition and adaptation to changing climatic conditions.

The CAP details our efforts to manage climate risk and opportunities at a total fund and portfolio level. It includes our latest commitments along with progress against previously disclosed goals. We will maintain a flexible approach and continue to evolve the CAP alongside scientific, regulatory and market developments and new industry practices.

We will also continue to report on our progress every year in our Annual Report, in alignment with the Task Force on Climate-Related Financial Disclosures (TCFD) and guided by the International Sustainability Standards Board (ISSB) standards.

## Net Zero and the Paris Agreement

Net zero emissions are achieved when emissions of greenhouse gases (GHGs) to the atmosphere from human activities are balanced by removals over a specified period<sup>1</sup>.

In 2016 the Paris Agreement came into effect. Almost 200 countries around the world agreed to make an urgent, science-based commitment to limit global warming to well below 2°C and pursue efforts to limit it to 1.5°C, to avert the worst impacts of climate change. To achieve this, human-caused greenhouse gas emissions must fall dramatically from 2010 levels; by about 45% by 2030 and reaching net zero by 2050.

Governments, business, civil society, and the investment community have an important and collaborative role to play in enabling and accelerating the decarbonization of the global economy to achieve this goal. This includes the encouragement and adoption of science-based emissions-reduction targets and credible transition plans.

<sup>1</sup>IPCC Special Report: Global Warming 1.5°C (2018)

# A Message from our President and CEO

**Climate change is an urgent global challenge. Its impacts, and those of the transition to a lower-carbon economy, are already affecting the outlook for many industries and sectors.**

With our long time horizon we often say that for us a quarter can be seen as 25 years rather than three months in duration. We think and plan accordingly by seeking to understand and assess systemic changes unfolding in the world around us.

Our inaugural Climate Action Plan is an important step in our journey to achieving net zero by 2050. It captures risks that may affect our investments and outlines ways we can plan for them. It also envisions new opportunities we may be uniquely positioned to take advantage of as we invest in the transition, thoughtfully and globally.

Achieving net zero has major financial, physical, and socio-economic implications. Climate change is not a risk that individual investors can avoid or ignore. Instead, it requires a cohesive and aligned approach by governments, policy makers, regulators, civil society and companies as we move through the transition together.

As acknowledged in the Paris Agreement, progress towards net zero will not be equal for all countries including those at various levels of development. With that in mind we believe the transition must strive to uphold the principles of fairness, equity, and understanding.

Further, the Canadian economy has a strong basis in natural resources. We will have our own domestic challenges and opportunities related to the low carbon transition that we can meet by working in alignment with government and in partnership with other conscientious businesses. Our transition will be unique to us and will involve careful consideration and hard work to ensure the Canadian and global economies, including the rights and livelihoods of workers and Indigenous peoples, continue to thrive in an evolving world.

In particular, Canada's economic success directly impacts not only our Plan and the local assets in our portfolio, but the health and wealth of our members, employers, sponsors, and other stakeholders. Our approach respects that reality.

**Blake Hutcheson**



# A Message from our Chief Sustainability Officer

**OMERS believes that well-managed companies perform better, particularly over the longer term.**

This includes organizations with plans to safeguard the environment, treat people with fairness and respect, act as good community members, and have high and ethical operating standards.

We integrate Environmental, Social and Governance factors, including those related to climate change, into our investment decisions. We do so across various stages of the investment lifecycle, for all asset classes. While the energy transition could significantly impact investments in the extraction and production of fossil fuels, the impacts can be much broader across many economic sectors and industries.

Investments could face several climate-related risks and opportunities: advances in low-carbon technologies, intensifying climate-related policies, shifts in consumer preferences including reputational impacts, and the physical impacts of climate change. The potential impacts will be experienced in varying degrees, across sectors, regions, timeframes, individual companies, and assets.

As we invest and administer pensions on behalf of more than half a million Ontario workers, with members ranging in age from 17 to 107, it is imperative that we take a long term view every day, in all that we do. This includes anticipating climate change impacts and working together to identify challenges and opportunities that we believe will help build a better tomorrow.

**Michael Kelly**





# A Strong Governance Model

Our climate ambition is underpinned by a strong governance model across business levels and functions. We have formally endorsed and aligned our governance with the Canadian Coalition for Good Governance (CCGG) Stewardship Principles. These principles reinforce our responsibilities to our members in areas such as proxy voting, portfolio monitoring and engaging with companies on Environmental, Social and Governance (ESG) factors.

In addition, OMERS ties incentive compensation to the effective application of our Sustainable Investing Framework. Our CEO's performance evaluation includes ESG factors. This was expanded in 2023 to include more senior leaders, who will be evaluated in part on how they are advancing our climate goals, including the progress on our CAP implementation. Our Chief Investment Officer is accountable for the execution of our Sustainable Investing Policy which outlines our approach to climate and other ESG factors through Integration, Collaboration, and Engagement.



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.



# Roles and Responsibilities

## Administration Corporation (AC) Board

Oversees OMERS approach to sustainable investing

The AC Board receives regular reporting from individual business units and at the enterprise level through its Investment Committee. Its directors receive climate change training as part of onboarding and on an ad-hoc basis. It approves our net zero goals, our **CAP**, and annually reviews and approves the **SI Policy**.

## Sustainable Investing Committee (SIC)

Provides a cross-functional forum to discuss sustainable investing issues

The SIC shares best practices to advance our knowledge and expertise. It is chaired by the Chief Sustainability Officer, reports to the Executive Leadership Team, and is accountable to the CEO. It develops our **ESG Guidelines**, **Climate Change Guidelines**, and **SI Exclusion Procedures**, annually approves our business unit **ESG Assessment Procedures**, and oversees the implementation of our **CAP**.

## Climate Action Plan Implementation Team (CAP IT)

Provides a forum to advance our climate change objectives and goals

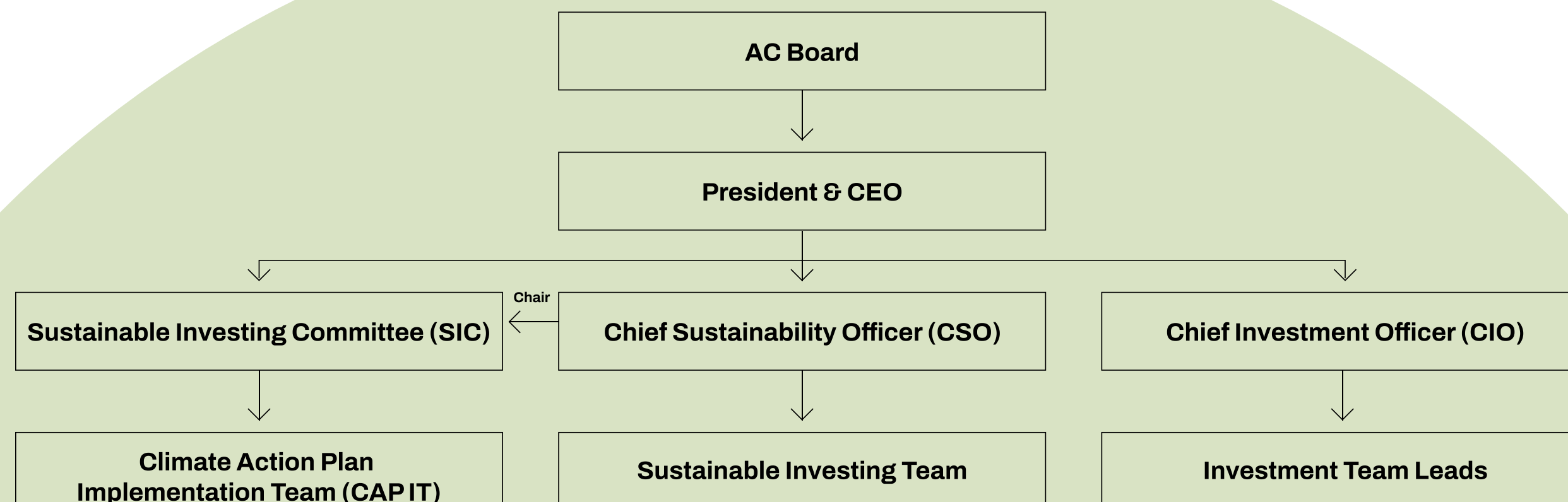
The CAP IT is a management committee of the SIC, sponsored by the Chief Risk Officer. It facilitates activities across the plan required to achieve the commitments outlined in the **CAP**.

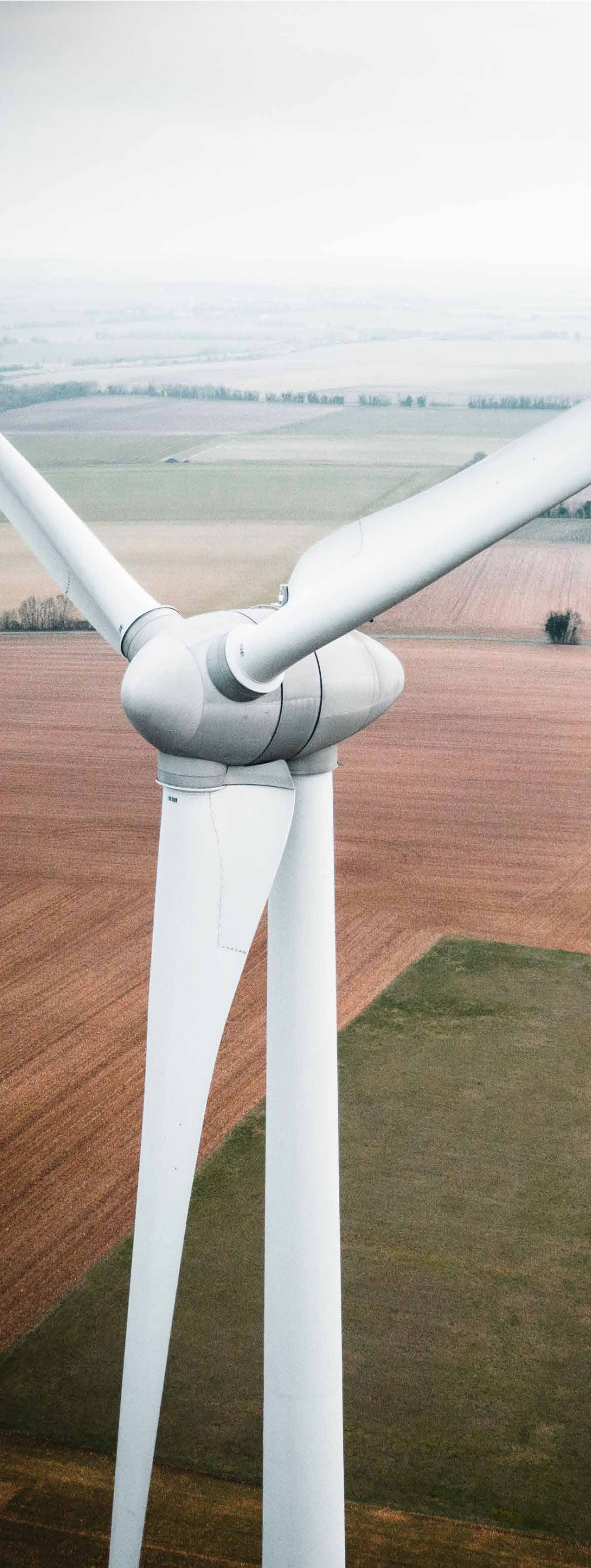
## Investment Team Leads

Lead investment and asset management teams in the implementation and execution of the **SI Framework** and the **CAP**

The Investment Team leads oversee each of our investment business units. They develop and execute the **ESG Assessment Procedures** during investment due-diligence and asset management processes, engage with portfolio companies on ESG matters, and manage portfolios in alignment with our goals and commitments. The Capital Markets team develops and executes the **Proxy Voting Guidelines**.

Sustainable Investing Governance Structure





# Investing Sustainably – Our Approach

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

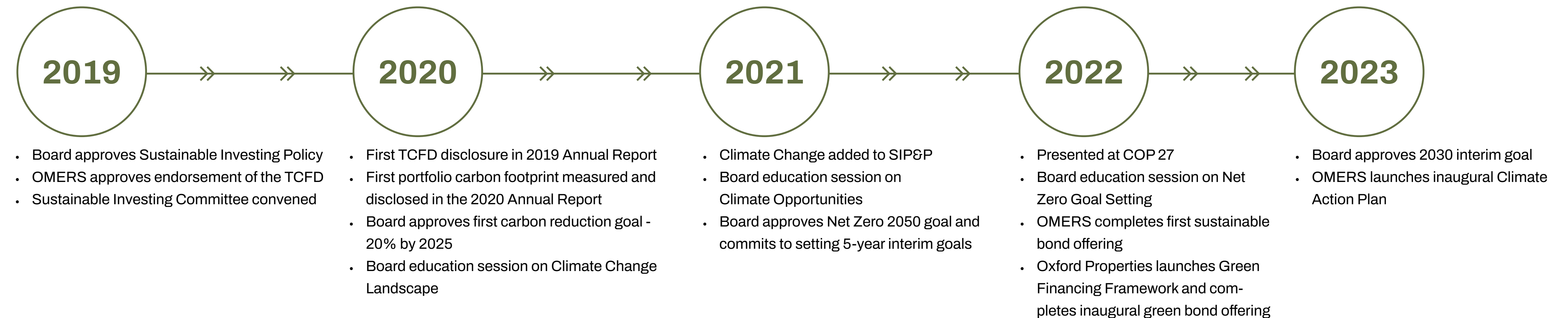
Supporting the energy transition through our investment activities includes engaging with our existing portfolio companies and assets as they look to reduce their emissions. In making new investments we are actively seeking out companies involved in innovative climate solutions. We will also invest selectively in high-carbon sectors where we are able to work with companies that have tangible and practical approaches to addressing hard-to-abate emissions.

Our climate journey began more than 20 years ago with our first sustainable energy investment and the introduction of responsible investing principles. Our efforts have continued with goal setting related to climate change accelerating significantly over the past five years.

Climate change is a critical factor in our approach to sustainable investing, which is grounded in three pillars: **Integration**, **Collaboration** and **Engagement**. Our climate approach, measurement and reporting are guided by the TCFD frameworks and the emerging guidance of the ISSB. More details are available in [OMERS SI Policy](#) and in the climate change section of our website.



## 5-year Snapshot: OMERS Climate Change Journey



# Integration

To better generate and protect value for members over the long term, we are committed to integrating climate change considerations into our investment guidance and decision making and evaluating where financial exposure to climate-related risks could be material.

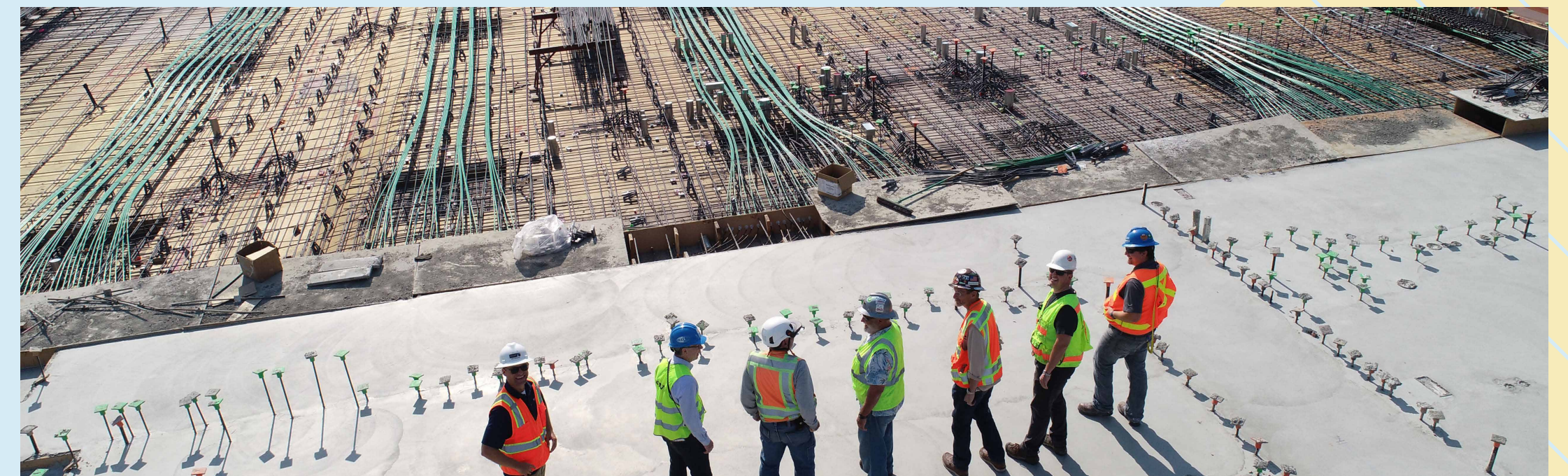
At the total portfolio level, we are advancing our portfolio construction tool to support the achievement of our emissions reduction goals. OMERS plans to incorporate Weighted Average Carbon Intensity (WACI) data into this tool – alongside expected returns, volatility, country risk, etc.

Each of our business units faces distinct challenges and opportunities unique to its investment mandate. Our degree of direct influence is dependent on our level and type of ownership. To manage these differences, each business unit has developed an ESG assessment framework and corresponding asset management practices consistent with OMERS approach and tailored to their specific asset class characteristics. Climate considerations are part of these ESG assessments.

For assets we own and hold directly (direct-drive) we integrate relevant ESG factors, including climate-related criteria, into our investment due diligence and approval processes. This includes but is not limited to GHG emissions, credible net zero transition plans, climate-related reporting aligned with TCFD recommendations, and effective oversight of climate strategy.

Post acquisition, asset management teams monitor relevant climate-related performance on an ongoing basis. We employ several tools depending on the asset that may include ESG and/or TCFD assessments, engagement with investee company management teams and boards to promote sustainable business practices; monitoring company performance; and regularly reviewing performance against asset-level ESG targets.

For assets managed externally, we work with investment managers to ensure consistency and adherence with our sustainable investing approach. We conduct ESG assessments of prospective and existing external managers and general partners based on their ability to meet our internal standards for climate integration through reviews of their policies, procedures, and reports.



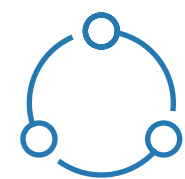
# Infrastructure

OMERS Infrastructure takes a thematic investing approach designed to anticipate and address the world's evolving need to generate, move, and store things. As we continue to advance the way we look at traditional infrastructure, our team has made significant progress in optimizing our portfolio, reducing exposure to hydrocarbons and our portfolio carbon footprint. Our strategy involves the expansion of our investment activities across five themes aligned with a rapidly-changing world, each with a strong connection to ESG factors including climate, which are illustrated below:



## Energy Transition

Low-impact, often decentralized or autonomous energy systems built predominantly on clean, renewable sources.



## Connections

A connective tissue that facilitates meaningful and friction-free connection between people, goods, and technology.



## Mobility

The seamless, accessible global and local movement of people and goods alongside the experience and design of movement.



## Community

The capacity of a city or community to maintain health or wellness, influenced by many services or related interventions.



## Natural Systems

Building secure, integrated and sustainable systems, which are resilient to external shocks, like natural disasters, population growth and climate change.

# Real Estate

Oxford and its assets have been setting sustainability-related performance improvement targets and transparently reporting on progress for the last 15 years. Recognized as an industry leader by organizations including GRESB and PERE, in 2023 Oxford launched its new ESG Framework to expand its impact and align with key trends and opportunities. Details can be found in [Oxford's Sustainability Report](#).

	Focus areas	Sub-topics
<p><b>Environment</b>  <b>Climate-proofing our portfolio</b>            Putting our assets on a net zero carbon pathway while improving their efficiency and resilience.</p>	<ul style="list-style-type: none"> <li>Net zero carbon</li> <li>Climate resilience</li> <li>Nature</li> </ul>	<ul style="list-style-type: none"> <li>Operational carbon</li> <li>Embodied carbon</li> <li>Climate risk</li> <li>Resilient design</li> <li>Circularity</li> <li>Biodiversity</li> </ul>
<p><b>Social</b>  <b>Creating meaningful impacts</b>            Creating meaningful positive improvements in the communities in which we invest and operate.</p>	<ul style="list-style-type: none"> <li>Human capital</li> <li>Community impact</li> <li>Sustainable sourcing</li> </ul>	<ul style="list-style-type: none"> <li>Employee engagement</li> <li>Inclusion and diversity</li> <li>Community wellbeing</li> <li>Local economic development</li> <li>Labour practices</li> <li>Responsible materials</li> </ul>
<p><b>Governance</b>  <b>Enhancing ESG practices</b>            Enabling best practice and embedding ESG throughout the organization.</p>	<ul style="list-style-type: none"> <li>ESG governance</li> <li>ESG toolkit</li> <li>Investment grade data</li> </ul>	<ul style="list-style-type: none"> <li>ESG leadership</li> <li>ESG risk management</li> <li>ESG Protocols</li> <li>Innovative instruments</li> <li>Data management</li> <li>ESG transparency</li> </ul>

# The Oxford Framework embeds ESG across activities, data, and assets

We are rolling out programs in recognition of the reality that the entire organization has a role to play in driving ESG progress.

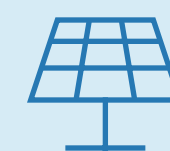
- **Integrate ESG throughout our activities** – Designing and monitoring our program to cover the full asset lifecycle across diverse investment types, including all managed and non-managed assets, and external businesses, to create impact at scale.
- **Solidify our data foundation** – Elevating data infrastructure and data capabilities to collect, analyze and assure investment grade data, and increase our ability to develop action plans based on real data.
- **Decarbonize our assets** – Defining 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.



## Scaling up EV infrastructure to achieve global decarbonization targets

Encouraging the use of electric vehicles is another way Oxford is working to electrify our properties and reduce carbon emissions.

In partnership with SSE Energy Solutions and M7 Real Estate, Oxford launched a UK-wide EV charging network to enable two million EVs to be charged annually at our UK retail sites.



## 264,431 SF of rooftop solar projects to integrate clean energy solutions

Oxford prioritizes the exploration and integration of clean energy solutions at both existing buildings and new developments. At The Stack, Canada's first commercial highrise zero carbon tower, located in Vancouver, carbon emissions are minimized in multiple ways. This includes a variety of design features and the generation of onsite renewable energy through 69 rooftop solar panels generating 26,000 kilowatt-hours annually.

# Private Equity

Already invested in many relatively low-emitting sectors, our private equity team strategically originates investment opportunities in climate solutions. These include companies that are well positioned to capitalize on transition-related opportunities through the following themes:



## Decarbonization

Investments that help facilitate the transition towards a lower carbon economy, including sustainable transport, improving energy efficiency, expanding the renewable energy value chain, modernizing grids and increasing resiliency of energy supply.



## Technology Adoption

Investments that enhance the use of systems, technology, data and analytics in industrial, commercial and healthcare settings to drive efficiencies, resulting in more sustainable supply chains and service models.



## Cleantech & Sustainability

Investments that help facilitate the transition to circular materials, sustainable food chains and platforms that enable conservation of resources and reduction of waste and pollution.



## Investing in the Transition

One of the most daunting challenges to achieving net zero involves how the world will collectively work towards a fair and equitable transition. Some of the attendant critical societal issues include how the costs and benefits of climate action will be shared among sectors, industries, and countries, as well as the creation of affordable energy solutions, meaningful work for decent pay, and ensuring that no one gets left behind.

The investment community will play a vital role in the energy transition. OMERS is actively evaluating how we are supporting real-world emissions reductions. This includes working with portfolio companies on their decarbonization plans and making investments in transition-enabling companies. We are researching and implementing climate solution strategies tailored to the investment mandates of each business unit. Our focus areas include energy transition, renewable energy, cleantech, green buildings and decarbonization technologies.

We expect our green investments will grow to **\$30 billion by 2030, from \$19 billion as at December 31, 2022**. 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.

We expect our green investments will grow to \$30 billion by 2030, from \$19 billion as at December 31, 2022.

At the total plan level, OMERS continues to consider climate change as part of its asset liability modeling and portfolio strategy. As part of this work, ad hoc thematic research projects are conducted on topics that may have a broad impact on the portfolio, including those that build on our knowledge and understanding of the impacts of climate change. A recent example is our comprehensive research on water scarcity as a growing concern. While demand for fresh water is outpacing sustainable supply, water management could create potential investment opportunities in industries that are early adopters of water efficient technology.

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In 2023, we announced our \$3B transition sleeve for new investments that are critical to real world decarbonization but whose emissions trajectory does not align with our interim goals. The sleeve will include assets that are:

- (1) high carbon;
- (2) pursuing decarbonization; and
- (3) aligned to a net zero 2050 pathway.

These transition assets will be tracked separately and not included in OMERS carbon footprint.



## Investing in the Transition



### Nextbridge

Reliable clean power to Northwestern Ontario

About: Built and oversees a Northwestern Ontario electricity transmission line

Impact: Long-term economic opportunities, affordable clean power, Indigenous equity participation



### Leeward Renewable Energy

Bringing renewable energy to millions of homes

About: A portfolio of U.S. renewable energy facilities

Impact: Clean power to +7 million homes, more than 7 million metric tons of avoided CO2 emissions



### Bruce Power

Reliable, emission-free electricity powering Ontario

About: The world's largest operating nuclear power facility

Impact: Provides emission-free, low-cost, reliable electricity to one in three homes, hospitals, schools and businesses in the province of Ontario



### Puget Sound Energy

Decarbonization in a high-emitting sector

About: Electricity and natural gas provider, with wind and hydropower assets

Impact: 100% carbon-free electricity by 2045, coal-free electricity by 2025

## Investing in the Transition



### Northvolt

Sustainable batteries are cutting CO2 emissions

About: Supplies sustainable high-quality battery cells and systems

Impact: 90% reduction in carbon footprint compared to an industry reference cell by 2030



### Group14

The electrification of everything

About: Focused on electrification and bringing new capabilities to lithium-silicon batteries

Impact: Helping the transition to electric vehicles by enabling their batteries to charge faster and last longer



### Kenter and Groendus

A European sustainable energy partnership

About: Two companies, in the Netherlands and Belgium, providing sustainable energy solutions

Impact: To offer existing and new customers holistic, integrated energy solutions that support decarbonization of their operations and help them reach their net zero goals



### Deep Sky

Bold endeavors to solve the crisis

About: A very early stage business aiming to build direct air and seawater carbon capture infrastructure and sequestration at massive scale

Impact: If it succeeds, it will remove gigatons of CO2 from the atmosphere at an unprecedented rate

# Investing in the Transition



## St. James's Market Phase II

A redevelopment with low carbon material and design features

About: A 200,000 square foot, office-led mixed-use six building scheme in London's West End

Impact: Reducing embodied carbon and mitigating future emissions through a progressive approach to sustainability



## Investa

Modelling the potential future impacts of climate change

About: Oxford's Australian platform for real estate development and management

Impact: Strengthening resilience through climate risk assessments and scenario analysis

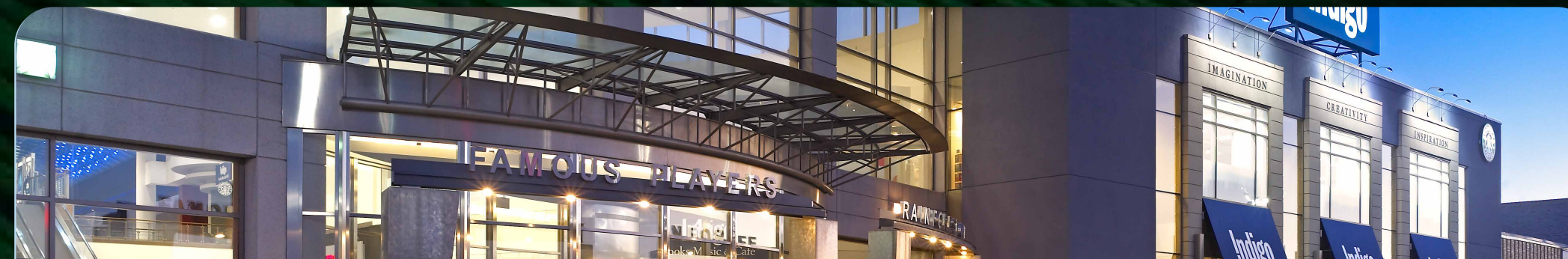


## The Stack

Canada's first zero carbon office tower

About: Commercial high-rise in Vancouver with a world-class design

Impact: The first commercial high-rise tower to receive the Canada Green Building Council Zero Carbon Building certification



## Yorkdale's Elevated Eats

A rooftop garden creates community and circular sustainability

About: One of the world's most successful shopping centres, located in Toronto

Impact: Transformation of an underutilized space into a vibrant education-focused community hub and pollinator habitat

## Supporting Sustainable Finance

OMERS continues to play an important role in enhancing the global market for sustainable finance. To complement our investment activities, OMERS Finance Trust (OFT) issues debt and in 2022 developed a [Sustainable Bond Framework](#) that aligns with OMERS Sustainable Investing Policy. This Framework guides our issuance and subsequent use of proceeds of green, social, and sustainable bonds. Eligible green asset activities include renewable energy, energy efficiency, green buildings, clean transportation, sustainable water and wastewater management, and pollution prevention and control.

Oxford also launched its Green Financing Framework in 2022, enabling OMERS real estate arm to finance sustainable investments and expenditure that support and drive the transition to a low-carbon economy.

OMERS and Oxford have collectively raised approximately \$2B in sustainable and green bonds under these frameworks. The proceeds will be allocated to finance investments in renewable energy, green buildings, and access to affordable basic infrastructure. A [Sustainable Bond Report](#) detailing the allocation and impact of these funds is produced annually, and can be found on our website.

# Collaboration

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

Strong climate guidelines, standards, and policies instituted by standard-setting organizations and government bodies lay the foundation to create systemic change. Working with industry groups and other investors is also crucial to advancing our mutual climate-related engagement ambitions.

We collaborate on multiple efforts believing our collective voices can drive change, achieve greater influence with companies, and help inspire meaningful progress towards a lower-carbon economy.

For example, as a founding member of Climate Engagement Canada (CEC) and Chair of its Industry Leaders Advisory Panel, OMERS engages in collaborative dialogue with prioritized Canadian public companies on their transition to net zero by 2050.

Some of our other, recent efforts include advocating for enhanced public policy measures focused on improved climate disclosures and practices, advancing regulatory measures, reducing systemic risk, and driving the convergence of climate data globally.

While improved climate disclosure allows investors to make better capital allocation decisions, it can place an increased burden on companies. As such, we advocate for harmonized standards around globally-recognized frameworks such as those developed by the TCFD and ISSB.

**Our notable collaborations with industry groups include:**



# Engagement

Engagement with investee companies is a hallmark of our stewardship of the OMERS plan assets. Through our engagement activities, including our proxy voting program, we seek to encourage actions by company boards and management teams that will enhance long-term shareholder value.

We actively engage with companies to promote sustainable business practices and long-term thinking while addressing material ESG factors in their strategies and operational practices. For example, engagement on climate change and company net zero pathways is a priority for high emitting sectors. Our engagement approach will depend upon OMERS level of control and influence with the investee company and the associated investment strategy.

Our preferred approach is active engagement rather than divestment. However, OMERS may assess specific industries or sectors against ESG factors to determine whether to exclude them from our investment portfolios.

We are exploring new tools to allow us to better monitor our portfolio alignment with net zero and the recommendations of the TCFD. This new portfolio alignment metric will allow us to evaluate the percentage of our holdings with declared net zero and Paris-aligned targets. This will also help inform our engagement strategy.

## Portfolio Alignment Goal

Top 20 WACI contributing portfolio companies expected to have credible net zero transition plans in place by 2030

In our private markets investments where we hold direct ownership, OMERS engages with investee companies in various ways. For example, when we have a significant ownership stake, we typically have governance rights, which may include active board participation of our own employees or external director nominees.

We engage with investee boards and/or management on material climate matters such as net zero goals, GHG emissions accounting and reporting, to ensure the information is complete, accurate, and comparable over time. We communicate with our investee companies to adequately address any climate-related risks or strategic opportunities and drive successful outcomes. As climate trajectories and implications unfold, OMERS will continue to advance our engagement techniques to address the evolving risks and opportunities for our portfolio companies.

For investments within our public markets portfolio, our Capital Markets team exercises stewardship through multiple channels, including direct engagement, proxy voting, and where appropriate, alongside other institutional investors. We engage on several climate-related topics, including climate-linked compensation, net zero target setting and transition plans, as well as GHG emissions accounting and reductions.

## Broadening Engagement

We are expanding our reach and depth of company engagement on climate by formalizing engagement strategies for high-emitting assets and participating in the IIGCC and Climate Action 100+.

# Proxy Voting

Proxy voting is a powerful tool and a key component of our Capital Markets team’s engagement with investee companies on climate-related matters. Our proxy voting guidelines address climate change specifically and provide direction on OMERS approach to voting on climate change and GHG emissions-related proposals.

**We support proposals that**

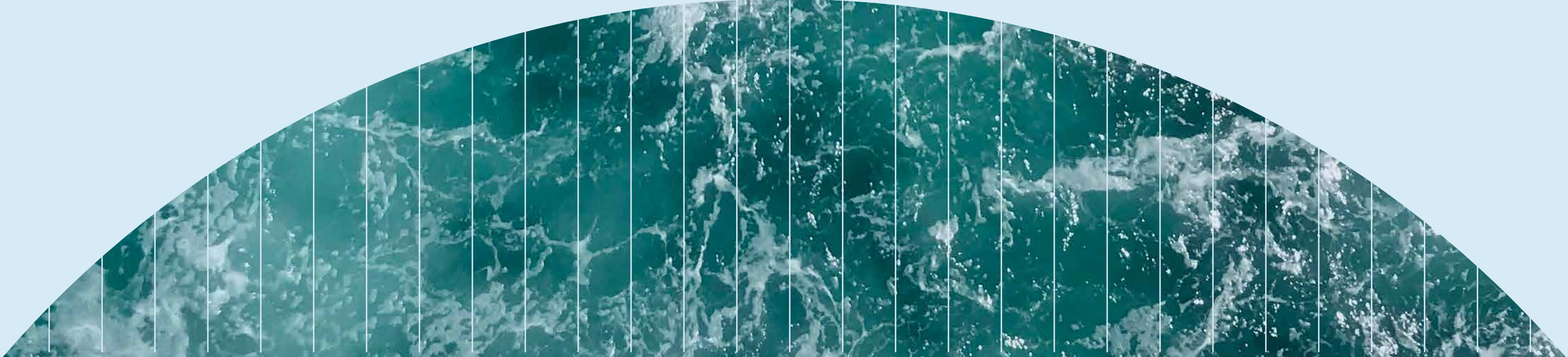
- request disclosure of climate change impacts on operations and associated policies to address risks and opportunities

**We do not support proposals that**

- are overly prescriptive, duplicate existing practices or disclosure, or detract from shareholder value

**We consider withholding votes from the Chair or relevant committee if**

- we believe the company is not taking appropriate steps to mitigate climate-related risks; or
- the company is not disclosing information required for investors to make this assessment





## Fossil Fuel Investments

We recognize the role that the combustion of fossil fuels plays in contributing to climate change and the necessity to move away from fossil fuel dependency in the energy supply. This requires acknowledging the balance between reducing fossil fuel supply and addressing society's demand for affordable, sustainable, and secure energy. We believe there is a vital role for responsible, long-term investors such as OMERS to provide leadership on the cleaner and safer production and transportation of traditional energy. Today, these assets make up a limited and selective portion of our total portfolio.

Divesting completely would mean that we lose our voice and influence in what remains, for the time being, a sizable portion of the energy market. Investors alone cannot solve the transition challenge; systemic changes on the policy side are needed to deliver demand reductions and increase low carbon energy supply through mechanisms such as carbon pricing and clean energy incentives. Where engagement does not yield the expected progress over a reasonable timeframe, we will take this into account when we make our investment decision. The formalizing of our expectations will be part of the enhancement of our engagement framework for public investments.

We have taken the step to formally prohibit direct investments in companies with material revenue<sup>1</sup> from thermal coal. We use a credible third-party source to identify the companies for exclusion. We have not historically invested meaningfully in this sector, nor is it part of our forward-looking strategy.

<sup>1</sup> "Material" is defined as more than 25% of aggregate revenues. We will review this threshold annually but it will not exceed 25%. This would not prohibit investments in assets with thermal coal revenues that have decarbonization plans that qualify for the transition sleeve.

We will use our transition sleeve to advance decarbonization of fossil fuel-dependent and other high-emitting sectors. Fossil fuel-based feedstocks and materials will also be needed to manufacture components required to advance the transition until commercially viable alternatives are developed. We are committed to using our influence as investors to help ensure that the traditional energy companies we have ownership positions in adopt a proactive approach to creating long term, effective, relevant, and transparent decarbonization strategies.

## Carbon Offsets and Credits

We recognize that high quality carbon offsets and credits will play a role in achieving net zero, especially for addressing the decarbonization challenge in hard-to-abate industries and dealing with residual emissions. Offsets are however not without challenges, ranging from the credibility of carbon credit programs to the permanence of removed emissions. Our strategy remains prioritizing efforts that lead to direct decarbonization of our portfolio, by supporting companies across all sectors in their emissions and reduction efforts.

In line with established standards, carbon offsets and credits will not count towards the achievement of our interim portfolio reduction goals. As guidance and standards evolve around the use of carbon offsets and credits, we plan to align with best practice. We continue to advocate for standards that will enable stakeholders to assess the credibility and consistency of corporate transition plans including the role of carbon offsets and credits in achieving net zero.

An aerial photograph of a large concrete dam structure, likely a hydroelectric dam, situated in a lush green forest. The dam has several spillways and is surrounded by dense trees. The water is visible on the left side of the dam.

# Risk Management

OMERS integrates climate risks into Plan-level risk management processes, policies, and approaches. This supports our identification, assessment, and management of both physical and transition climate-related risks. We accept that there will always be some exposure to long-term climate risk. As a globally diversified investor, the specific transition or physical risks will differ depending on the sectors and regions in which we invest.



## **Evolving our Risk Management Capabilities**

We are refining our approach to climate change within the Risk team to mature climate risk management capabilities.

This will see us take a two-pronged approach to managing climate risk, recognizing it as both a standalone risk, and a factor with potential impacts on market, credit, liquidity, operational, legal, and reputational risks.

## Integration of Climate into OMERS Risk Framework and Policy

Climate change is embedded into the risk frameworks and statements that help guide our investment strategy and support our overall approach to Plan risk management.

We take a comprehensive approach to measuring risks from climate change, including potential negative impacts on our asset values or performance. In line with our carbon reduction goals, our tolerance for systemic climate risks that will impact our portfolio is likely to be reduced over time.

We will also update our comprehensive portfolio emissions forecasting tool, detailed on pages 29-30, on an annual basis to support the development of capital allocation plans, business unit level reduction goals, and our interim targets.

In partnership with our Risk team, OMERS business units are responsible for determining climate change risk controls and responsibilities related to their investment activities. Oversight and guidance are included in our Investment Risk Policy, which sets out the details for managing and monitoring investment risk throughout the Plan. The risk representatives of each business unit will report at least annually to the Sustainable Investing team on the climate metrics of their respective portfolios, which are then aggregated to form a total plan level view.



# Assessing Climate Risk

As an asset owner, measuring our portfolio carbon footprint is the first step we have taken to assess climate-related portfolio risks. This analysis also provides a baseline for measuring progress and setting interim targets. In addition to this baseline, we continue to enhance our capabilities in regard to forward-looking metrics and tools including portfolio alignment to net zero and climate scenario analysis.

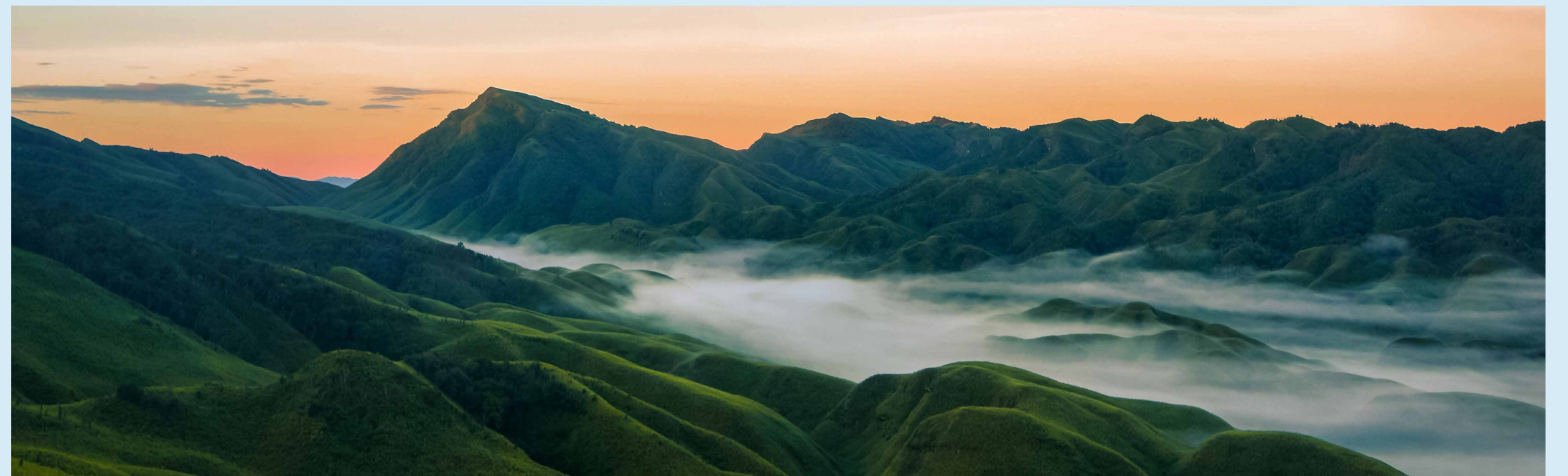
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## Transition Risk

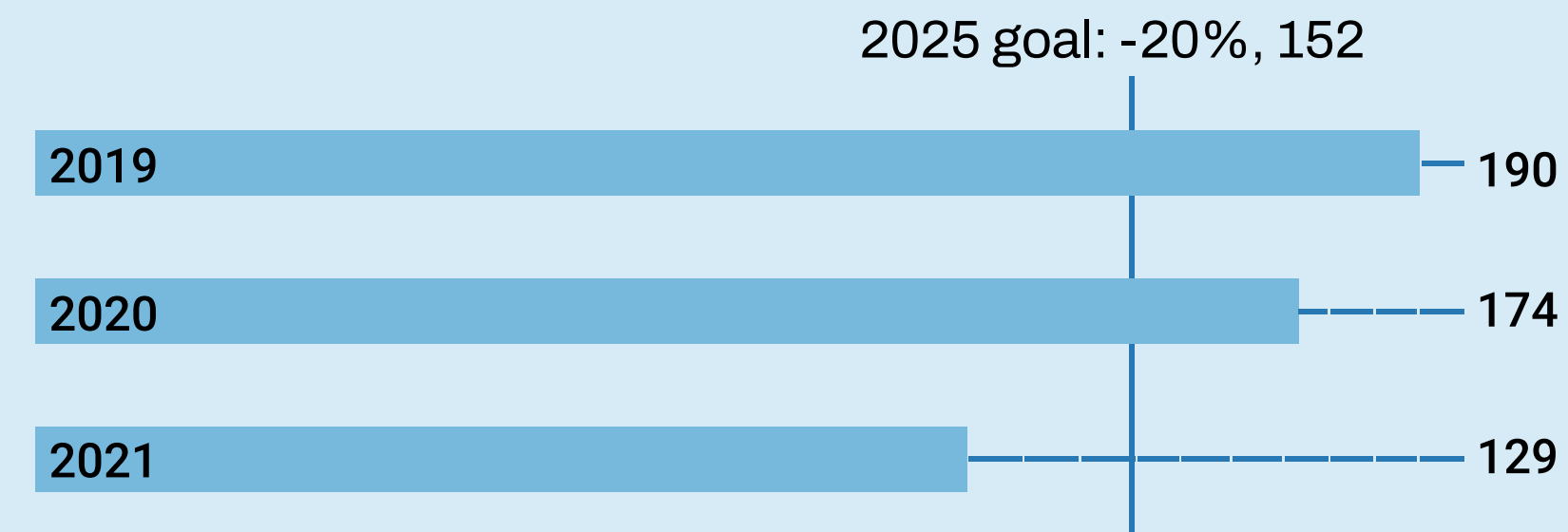
Transition risks relate to the risks associated with transitioning to a lower-carbon economy, which may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change. Understanding the carbon emissions and intensity profile of an asset and portfolio is the starting point for assessing whether and how climate change may pose a material investment risk. It helps investors identify current or potential risks related to issues including asset impairment, cost implications from government policies such as carbon pricing, and revenue impacts due to shifts in market demand. Depending on the metrics used to assess carbon emissions, this type of analysis can also provide a view on the carbon efficiency of investments as well as the portfolio's contribution to global GHG emissions.

OMERS primary measure of portfolio emissions is WACI, which is expressed as the sum of each asset's scope 1 and 2 carbon intensity (metric tonnes CO<sub>2</sub>e/\$M revenue) multiplied by the % weight of the asset in the portfolio. This is the metric recommended by the TCFD for asset owners. Our WACI is reported to the Investment Committee of the Board and Senior Management in the quarterly Investment Risk Report to ensure effective risk oversight and inform key strategic decisions. WACI is the metric used to set and measure progress against our interim reduction goals of 20% by 2025 and 50% by 2030. For more information on how we set our 2030 goal, please see the case study on pages 29-30.

We complement this metric by also measuring and disclosing the total absolute financed emissions (tCO<sub>2</sub>e) and the carbon footprint (tCO<sub>2</sub>e/\$M Invested) of the portfolio. The total absolute financed emissions measure the total emissions of the holdings in the portfolio that are attributable to OMERS based on our ownership share in a company or asset. Carbon footprint is expressed as the total absolute financed emissions normalized by the total value of the portfolio. The full suite of our carbon footprint metrics can be found in our [Annual Report](#).



### Weighted Average Carbon Intensity (tCO<sub>2</sub>e/\$M Revenue):



While the reduction in the carbon intensity of our portfolio has surpassed our 20% reduction goal for 2025, it is important to note that it is a point-in-time measurement and it can move up or down in any given year depending on many factors, including business revenues. Therefore, we cannot assume that the WACI trajectory will be linear over time. Carbon footprinting has its limitations, it is backward-looking and does not encompass all climate-related risks and opportunities each company faces. Portfolio carbon accounting continues to evolve and iterate to address concerns related to completeness and timeliness of measurement.

While our portfolio emissions reporting covers scope 1 and 2 emissions, we are beginning to track scope 3 emissions. Currently this is challenging due to limited disclosure, with only 25% of the companies in our in-scope portfolio by market value disclosing this information. This limited disclosure is indicative of the wider challenge of scope 3 emission measurement which itself is divided into 15 different categories covering both the upstream and downstream value chain of a company.

As an investor, we continue to advocate that companies disclose scope 3 emissions where material. We will also continue to update our portfolio footprinting and reporting as methodologies evolve and scope 3 emissions data become more readily available.

Portfolio carbon footprinting is one measure but does not fully capture the transition risk across the portfolio. This is why we are expanding our approach to incorporate more forward-looking measures and evolving our approach to defining climate risk.

### Physical Risk

The physical impacts of climate change are apparent, as extreme weather events increase in severity and frequency around the world. We are deepening our understanding of the physical risks of portfolio holdings and the methods we can implement to mitigate and adapt accordingly. We are developing asset and portfolio level capabilities to evaluate, track and manage physical climate risk.

At the portfolio level, the Risk team has begun building a physical risk heatmap that will provide us with a total Plan level understanding of acute and chronic physical climate risk impacts broadly by region and sector.

#### Physical Risk Assessments

We are developing a standardized bottom-up approach to support business units in incorporating physical risks into their investment and asset management procedures. 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.



## OMERS Goal Setting Measured and Measurable

OMERS has developed a tool that enables us to take a rigorous approach to setting our net zero interim targets. By combining climate science with financial modeling, we aim to take as much guesswork as possible out of the process for setting current and future goals. Katharine Preston and Caroline Kidnie share more about our process and why it matters:

### Why is it so important for institutional investors to have net zero goals?

**KP** If the world does not act on the climate crisis, the impacts will be irreversible. This is relevant on every level, from what happens in our own homes to the actions of the world's biggest companies and countries. Net zero is a science-based and globally consistent common goal.

Investors have a multi-faceted opportunity. We can put our money into companies that are working on innovative technologies in areas including renewable energy and green building construction. We can also invest in companies with tangible plans to reduce their carbon emissions. We influence, support and learn from companies we invest in. We will continue to execute on our own operational commitment which involves elements such as how we manage our business travel and our physical spaces.

#### **Katharine Preston**

Vice President, Sustainable Investing

#### **Caroline Kidnie**

Director, Investment Risk Management

**The global agreement is to reach net zero carbon emissions by 2050.**

**What are interim targets and why are they necessary?**

**KP** The Paris Agreement came into effect in 2016. It aims to limit global warming to 2°C and pursue efforts to limit it to 1.5°C. It's an immense and urgent global undertaking, and many of the initiatives we start now will take years to execute and create real-world impact. Setting targets in stages holds us all accountable for doing our part and not kicking the can down the road. It also helps us make informed projections and develop incremental initiatives that are more manageable to execute.

**Why do you believe the way you have set your target for 2030 is unique?**

**CK** I think it's a bit like solving a complex math problem. We have managed not only to come to an answer, we can also show the work we did to get here. This gives us the confidence that we can execute our 2030 goal and set credible interim targets after that as well.

It sounds simple conceptually, but is quite complex in execution. In partnership with an advisory firm we developed a methodology aligned with globally-recognized net zero frameworks for asset owners and managers. While consistent with industry standards it is also unique to us; allowing us to account for differences across our investment businesses and to incorporate emissions profiles at a sector and regional level.

In addition, we can isolate and develop assumptions for the key drivers that impact our future portfolio carbon footprint. Then we can choose how aggressive or conservative we want to be with each of our assumptions when we determine our final interim goal.

**Can you describe the more granular aspects of your methodology?**

**CK** The process itself took place in three steps:

1. We developed business-as-usual emissions projections using different capital allocation scenarios for each business unit but assuming that real world intensities remain constant at 2020 levels. This gave us insight as to how existing operating plans may impact our future total plan carbon intensity.
2. Next, we layered in potential decarbonization by looking at plans within our portfolio companies where available, and at the sector and regional level based on credible publicly-available climate scenarios.
3. To bring it all together we layered in different capital allocation plans with various carbon reduction scenarios. By analyzing the ways our total plan carbon intensity may evolve through 2030 we were able to set a goal within the range that is ambitious - but we also know how we could get there.

**What happens next?**

**KP** We will continue to track actual emissions against the projections provided by the tool, to help iteratively evaluate the decarbonization progress of OMERS portfolio. We are excited that this methodology, which we developed with a great deal of care and thoughtfulness, provides us with a blueprint that we will use to set our path towards the future.



## Scenario Analysis

The TCFD recommends using climate scenario analysis as a tool to help organizations better understand their resilience under various climate pathways. We have explored a number of climate scenarios corresponding closely with certain Intergovernmental Panel on Climate Change (IPCC) scenarios. Our analysis considers the risks and opportunities of macroeconomic factors such as long-term GDP growth and inflation, climate-related government policies as well as transition and physical risks.

Through the analysis, we discovered that the potential impacts to our portfolio are highly dependent on the scenario that unfolds and the sectors and regions in which we invest, and will impact all asset classes, sectors, or geographies in diverse ways.

The findings from our climate scenario analysis exercises highlight areas of both risk and opportunity and emphasize the importance of our integrated decision-making process, which includes considering climate-related scenario analysis at the total portfolio level. We continue to run these scenarios and assess the results in the context of our asset liability studies.

## Climate Scenario Pathways

### **Net Zero** **+1.5° C**

By 2100

IPCC Scenario: SSP1-RCP1.9

Tests exposure to the risks/opportunities from the systemic drivers of an **orderly transition** and locked-in physical risk.

### **Net Zero Financial Crisis** **+1.5° C**

By 2100

IPCC Scenario: SSP1-RCP1.9

Shows the resilience of the portfolio to **sudden repricing**, triggering a market dislocation centred on high-emitting stocks.

### **Limited Action** **+2.8° C**

By 2100

IPCC Scenario: SSP2-RCP4.5

Highlights how **scaled-down transition policy** leads to larger physical risk and material transition risk for portfolios.

### **High Warming** **+4.2° C**

By 2100

IPCC Scenario: SSP3-RCP7.0

The **focus of this pathway is physical risk**, results show the exposure to plausible, severe climate change impacts.



# OMERS Own Operations

While the main focus of our CAP is our investment portfolio, we also employ more than 3,000 people located around the world, and we are looking at ways to reduce our impact from our own operations. Key areas of focus in achieving this outcome include reducing emissions from the buildings we occupy, our business travel, and our purchased goods and services. OMERS already measures some of these components of our operational footprint and will have a detailed picture aided by a third party firm by year end 2023. In line with our reporting on our portfolio commitments and as part of the work of the CAP IT we will also report on our progress annually.

Much of the office space we occupy is owned and managed by Oxford Properties. Oxford, OMERS real estate investing arm and a leader in ESG, is playing an important role in our carbon intensity reduction commitments. With Oxford being OMERS primary landlord, its targets will help OMERS achieve net zero emissions in our own operations. For four consecutive years it has been named by Fast Company as one of the World's Most Innovative Companies for its approach to ESG, in addition to being recognized by Private Equity Real Estate as 2022 Global ESG Firm of the Year for its decarbonization successes, and receiving a 5-star rating from GRESB.

OMERS and Oxford's head offices in Toronto's EY Tower achieved LEED® for Commercial Interiors Gold certification (for design and construction of their space). The building incorporates smart sustainability practices – such as an ultra-high efficiency central boiler plant, Enwave Deep Lake Cooling, full building LED lighting, daylight and motion sensors, solar shading through exterior fins, and real-time air quality monitoring.

OMERS is committed to lowering our own environmental impact, and to our operations becoming net zero by 2050 or sooner.

**Purpose@Work** is an OMERS and Oxford program that focuses on our employees. Extending beyond our investment activities, it supports and brings together our efforts to make a positive impact on the communities where we live and work. This includes creating responsible workplaces around the world that look to reduce our impact on the environment.



# Uncertainties and Challenges

To achieve the target of net zero emissions, large-scale systemic changes and collective action from a broad range of influential actors is needed. Sustainable finance, technical innovation, policy instruments, governance, and institutional action, along with changes in human behaviors and lifestyle, are all essential to limiting global warming. We all have a vital role to play.

Our CAP has been developed based on several foundational assumptions, including that the commitments of governments and companies are enacted, and achieved. There will be uncertainties and challenges as we work together to help manage and address these issues.

## Evolution of Climate Data

Currently, there is limited availability of credible, comparable, and forward-looking climate data. This makes it difficult to precisely calculate our current portfolio emissions and accurately forecast our portfolio emissions trajectory. While our team continues to use proxies to construct a robust understanding of our portfolio emissions and exposure to climate risk, there is an industry-wide need for enhanced transparency and accessibility to climate data. Further, carbon accounting methodologies continue to evolve, specifically to provide guidance on emissions calculations for financial institutions. Therefore, the reporting of our portfolio emissions and targets may require adjustments over time.

Over the coming years, it is anticipated that GHG emissions accounting and reporting of scope 1 and 2 emissions will significantly improve among corporates. These changes may result in the restatement of reported emissions among our portfolio holdings, and in turn will potentially impact our reported portfolio emissions and progress towards our interim emissions reduction targets. Further, as scope 3 emissions within corporate value chains become much more frequently measured and reported, there is a concern that emissions may be subject to multiple counting due to the layers of supplier-customer corporate relationships within a globally diversified investment portfolio. At the time of this publication, methodologies remain unclear for addressing these issues across investors' portfolios. OMERS will take the necessary steps to address these challenges as industry guidance evolves.

## Factors Beyond our Control

Our ability to achieve our net zero by 2050 commitment, as well as our associated interim targets, is partially dependent on successful global decarbonization efforts and the investible universe. Sectors, activities, and value chains will need to evolve to scale the development and deployment of decarbonization technology, products and services needed to achieve net zero targets. Furthermore, success in achieving global decarbonization is dependent on the ability of many actors to address ongoing economic, political, social, and technological disruptions. If these disruptions are unable to be solved or mitigated, achieving real economy decarbonization will be increasingly challenging. If future real-world outcomes diverge from net zero pathways, OMERS may need to consider different investment approaches, including climate mitigation and adaptation-enabling investments at both the portfolio and individual holdings levels.

## Fluctuations in portfolio emissions

As a diversified global investor, with portfolio holdings across different sectors and geographies, OMERS portfolio emissions are closely associated with economy-wide emissions and macroeconomic factors. Therefore, if a large-scale global event or trend triggers a broad shift towards increased or decreased emissions across the global economy, OMERS portfolio emissions will also reflect such a change. Thus, our net zero pathway will likely follow a non-linear decline in emissions. This is also the case as we continue to engage with high-emitting assets to support their decarbonization journey.

# Conclusion

OMERS has a long track record of investing sustainably. We have made a commitment to reaching net zero carbon emissions in our portfolio and our operations by 2050. This is aligned with the Paris Agreement, and its objective of averting the worst impacts of climate change before it is too late. Our CAP is another meaningful step forward on our pathway to achieving this goal.

Executing a robust and proactive sustainable investing program is complex. Our foremost job is to ensure our members have a secure retirement in an increasingly volatile economic environment. We must manage climate risk across our investment portfolio and continue to implement climate and sustainability reporting standards. We believe that some of the best investment opportunities will involve companies with their sights set on the future; those developing new products and services, and with strong ESG practices.

OMERS portfolio includes billions of dollars of green investments, and we are actively seeking out new opportunities. We have created a transition sleeve for assets that are playing a key role in the low-carbon transition but may have higher emissions in the near term. We have also raised sustainable and green bonds, with proceeds earmarked for investments in areas including renewable energy, green buildings, and access to affordable basic infrastructure.

The entire investment community has an important role to play in achieving net zero. OMERS will continue to partner on significant industry initiatives including advocacy for harmonized ESG reporting standards.

As a pension plan, with our long-term horizons, we often refer to our goal setting as being part of a journey. In the case of climate change we have a limited amount of time and many roads still to be mapped. Our CAP serves as a guide as we deepen our capabilities, set new goals, and make progress against our existing objectives.



# Glossary

**Business Unit:** Refers to the investment teams at OMERS including Infrastructure, Real Estate (Oxford), Private Equity and Capital Markets.

**Carbon:** In this document, Carbon refers to Carbon Dioxide Equivalent CO<sub>2</sub>e and is used interchangeably with GHG throughout the document. It is a metric used to compare the emissions from various greenhouse gases (GHGs) on the basis of their global-warming potential (GWP), by converting amounts of other gases to the equivalent amount of carbon dioxide with the same GWP.

**Carbon footprint:** At a corporate level, Carbon Footprint is the amount of GHG emissions associated with a company's actions and/or generated from its operations. At a portfolio level, it measures the total carbon emissions for a portfolio normalized by the market value of the portfolio expressed in metric tons of CO<sub>2</sub>e/CAD\$M invested.

**Climate Data:** Climate data are records of observed climate conditions taken at specific sites and times with instruments under a set of standard procedures. In this document, climate data also includes company GHG emissions and related information.

**Energy transition:** Energy transition refers to the global energy sector's shift from fossil-based systems of energy production and consumption — including oil, natural gas and coal — to renewable energy sources.

**GHG emissions accounting:** Refers to reporting and tracking of company-related GHG emissions in a transparent, credible, and decision-useful manner. Our approach to GHG emissions accounting is in line with the GHG Protocol and informed by guidance from Partnership for Carbon Accounting Financials (PCAF).

**Greenhouse Gases:** Greenhouse gases (GHG) are gaseous constituents of the atmosphere, both natural and anthropogenic, that absorb and emit radiation at specific wavelengths within the spectrum of infrared radiation emitted by the Earth's surface, the atmosphere, and clouds. In this document, GHG refers specifically to human-caused emissions from the following gases: Carbon dioxide (CO<sub>2</sub>), Methane (CH<sub>4</sub>), Nitrous oxide (N<sub>2</sub>O) and Fluorinated gases. CO<sub>2</sub> constitutes about 80% of GHGs in the atmosphere. GHG emissions is used interchangeably with carbon emissions throughout the document.

**Green Investments:** 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.

**High Carbon or High-emitting assets:** Defined by OMERS as companies with emissions intensity greater than 1,500 tCO<sub>2</sub>e/\$M revenue (i.e., 10x OMERS portfolio asset average in 2021). These assets are typically, but may not be restricted to, companies within the Energy, Utilities, Industrials, and Materials sectors.

**Net Zero Pathways:** Net zero pathways refer to scientifically proven, clearly defined actions aimed at steering industries, sectors, and the global economy to meet the 2050 net zero target in line with the Paris Agreement. These pathways inform the overall emissions reduction or convergence intensity that must be reached to be consistent with net zero at the global or sector level.

**Real Economy Decarbonization:** Efforts geared towards absolute emissions reduction in the real economy, before considering the use and impact of carbon offsets and/or credits.

**Sinks:** Sinks are carbon storage pools that absorb more carbon than they emit. Some of the largest carbon sinks in the world include the oceans, forests, and soil.

**WACI:** Weighted Average Carbon Intensity (WACI) measures the portfolio's exposure to carbon-intensive companies, expressed as the sum of each asset's carbon intensity multiplied by the % weight of the asset in the portfolio (metric tons CO<sub>2</sub>e/CAD \$M revenue).

# List of Resources

[OMERS Annual Report](#)

[OMERS Sustainable Bond Framework](#)

[OMERS Sustainable Bond Report](#)

[Oxford Green Financing Framework](#)

[Oxford Sustainability Report](#)

[Proxy voting guidelines](#)

[SI Policy](#)

[SIP&P](#)

