

An aerial photograph of a lush green forest. In the foreground, several rows of blue solar panels are visible, arranged in a grid pattern. The forest extends into the background, with some trees showing signs of autumn. The overall scene is bright and clear, suggesting a sunny day.

OMERS Climate Taxonomy

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Introduction

With our long-term orientation, we often say that for OMERS a quarter can be viewed as 25 years rather than three months. We think and plan accordingly by seeking to understand and assess systemic changes unfolding in the world around us, including climate change. Climate change poses risks to investors through physical and transition factors. At the same time, a set of investment opportunities is emerging through new climate-related industries and technologies. Institutional investors such as OMERS have an important role to play as the global economy decarbonizes. This requires a deeper and more nuanced understanding of a portfolio's climate-related attributes.

In September 2023, OMERS released its inaugural Climate Action Plan (CAP). It sets out our approach and the clear commitments we have made towards our ambition to reach net zero by 2050, in alignment with the Paris Agreement and the latest climate science.

Our commitments are grounded and measured around three categories of metrics – taxonomy, emissions and alignment. We use these three metrics to set corresponding goals for the climate-relevant attributes of our portfolio; business activities, emissions, and forward-looking alignment to net zero. These attributes provide a comprehensive view of an investment's climate profile. Although they may at times be correlated, they are fundamentally distinct.

Transition Risk

Risks associated with transitioning to a lower-carbon economy, which may entail policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change.

Physical Risk

Risk resulting from the impact of gradual global warming and higher frequency and severity of extreme weather events.

OMERS Climate Attributes

Categories

Related Goals

Taxonomy

Sector-based classification system from a climate lens

\$30 billion of green investments by 2030

Emissions

Measures greenhouse gases (GHGs) in carbon equivalent terms

Net zero 2050
20% WACI¹ reduction by 2025
50% WACI reduction by 2030

Net Zero Alignment

Tracks the net zero commitments made by portfolio companies

Top 20 emitters have a credible net zero 2050 goal by 2030

¹Weighted Average Carbon Intensity (WACI)

Applying a climate lens to our portfolio

One of the commitments outlined in the CAP is to increase our green investments to \$30 billion by 2030. When we made this commitment, we noted our intention to continue to review the market's evolving definition of 'green' as sustainable finance taxonomies are defined. Taxonomies remain fragmented globally and have been slow to develop, particularly in the area of transitioning assets. As a result, we developed our own bespoke climate taxonomy that is informed by external standards where relevant and takes into consideration the different types of investments in the OMERS portfolio.

OMERS began reporting on its green investments in 2021. We used the globally recognized [International Capital Market Associations \(ICMA\) Green Bond Principles](#) to define which investments qualified as green. These Principles also informed [OMERS Sustainable Bond Framework](#) and [Oxford's Green Financing Framework](#). This was the first step in our journey to formally applying a climate lens to classify our investments, but it provided a limited context of how our overall portfolio was positioned across the spectrum of climate characteristics.

Bridging the gap

Green, Climate, and Sustainable Finance Taxonomies in the market today are not entirely well suited for application to an investment portfolio. For example, most existing taxonomies are focused on green projects and activities and not necessarily the full spectrum of sectors in the economy. This leaves a gap when it comes to assessing the majority of investments that make up our portfolio, particularly from a transition feasibility perspective.

In order to address this gap, OMERS has developed a climate taxonomy to assess our portfolio exposure to climate-related **attributes and dominant business activities of an investment**. This allows us to take a look-through approach across our portfolio based on sector classifications such as the [Global Industry Classification Standard \(GICS\)](#) or where GICS is limited, we apply a bespoke assessment if clear and reliable data is available. In determining our approach, we leveraged:

- External taxonomies and standards such as the ICMA Green Bond Principles, Climate Bonds Initiative Taxonomy, Independent Science Based Taxonomy (ISBT), and the Bank of Canada's Climate Relevant Sectors
- Investor developed taxonomies, notably those from Canadian pension peers; and
- Country or region focused taxonomies such as those from the European Union, and emerging guidance from Canada, and Australia.

What is a taxonomy?

A taxonomy provides a standard way to classify the underlying characteristics of an investment's business activities and group similar activities together.

They are used to set standards for classifying climate-related financial instruments (e.g., green bonds) and are increasingly being used in climate risk management, net-zero transition planning and climate disclosures.

Introducing OMERS Climate Taxonomy

OMERS Climate Taxonomy helps us to understand industries and sectors across our portfolio using a broader lens beyond emission data. Our Taxonomy looks at the characteristics of underlying business activities of our investments. This complements emission and alignment related data without being duplicative.

As we embarked on this work, our focus was on **simplicity and utility** – creating a taxonomy that captured the spectrum of climate attributes associated with the underlying business activity of our investments. The five categories in our Taxonomy provide a comprehensive view of the business activities we invest in and where they fall on the climate spectrum. Please see the Appendix for additional examples of sectors and activities mapped to our Taxonomy categories.

It is important to note that a well diversified portfolio should have exposure to a spectrum of assets across varying business activities and across all taxonomy categories. We do not interpret Grey and Hard to Abate as categories that should be avoided; rather we seek to optimize the overall risk-return profile of the portfolio, recognizing that the Taxonomy is one input to understand the climate attribute of our investments. We see value creation opportunities across all categories of our Taxonomy.

OMERS Climate Taxonomy

Category	Definition	Examples
Green	Investments that derive revenues from business activities that are in alignment with green taxonomies such as the ICMA Green Bond Principles.	Renewable Energy Green Buildings
Enabling	Investments whose business activities indirectly contribute to environmental objectives or can enable energy transition related activities.	Electricity Transmission and Distribution (T&D) Lithium and Copper Mining
Low Climate Impact	Investments whose business activities do not have a direct material climate impact as well as other financial instruments.	IT Consulting and Related Services Health Care Services
Grey	Investments whose activities have a direct material climate impact and where transition options are increasingly feasible.	Fossil Fuel Based Utilities Automobile Manufacturers
Hard to Abate	Investments whose business activities have a direct material climate impact and where transition options are not currently feasible.	Steel Manufacturing Oil and Gas Exploration and Production

OMERS Taxonomy also acknowledges that feasible transition options can vary across sectors and activities at any given time. As part of our Taxonomy, we have further refined our approach to distinguish between sectors where feasible transition options are increasingly available (Grey) compared to where they are not (Hard to Abate).

There is no global definition that distinguishes between Grey and Hard to Abate sectors. The latter generally includes those sectors that rely on fossil fuels, either for energy or for chemical feedstocks, typically representing industrial sectors such as steel, petrochemicals and cement. Today, these activities cannot be feasibly decarbonized either due to technological, commercial or economic viability. We have leveraged insights from external organizations such as the International Energy Agency (IEA) to inform our assessment of transition options for various sectors and business activities. Over time, we expect some investments will change categories as they transition their business models or as emissions reduction options become available and economical.

Case Study - Electricity (T&D)

There is growing recognition of the critical role of T&D systems in enabling the energy transition. This has been recognized by institutions such as the IEA. Currently, industry classification systems, such as GICS, generally bundle T&D companies within the broader utilities sector, often defaulting them to Grey or a similar category when applying a climate lens. This makes it challenging to capture the unique value proposition of these key infrastructure assets.

As part of OMERS Taxonomy, we have separated out T&D activities from the Utilities sector to recognize their importance in enabling the transition to net zero by adding green electrons to the grid.



Conclusion

Investing on behalf of multiple generations of Ontario workers makes it imperative that we take a long-term view every day, in all that we do. Our approach to investing includes understanding and assessing systemic changes unfolding in the world around us. This includes considering the impacts of climate change and the energy transition to our portfolio companies. OMERS Climate Taxonomy will enable this assessment and advances the execution of our Climate Action Plan. We recognize that global sustainable finance taxonomies continue to evolve and we will continue to review our approach to reflect leading market practices.

Appendix – Representative Sectors/Activities

The sectors and activities under each category are a combination of various industry classification systems as well as those identified in external taxonomies such as ICMA Green Bond Principles and peer taxonomies. We will also use investment-specific information where available and material to inform our classification. These illustrate representative sectors and activities and are not an exhaustive list.

Green	Renewable Electricity • Green Buildings • Nuclear Power • Energy Efficiency • Clean Transportation • Pollution Prevention & Control • Climate Change Adaptation • Sustainable Water & Waste Management • Environmentally Sustainable Management of Living Natural Resources & Land Use
Enabling	Electricity Transmission & Distribution • Transition Metals Mining • Rail Transportation
Low Climate Impact	Software & Services • IT Consulting & Related Services • Health Care Services • Financial Instruments (FX Forwards, Cash, Government Bonds) • Financial Services • Professional Services
Grey	Fossil Fuel Based Utilities • Buildings • Automobile Manufacturers
Hard to Abate	Cement • Steel • Aluminum • Mining • Aviation • Chemicals • Oil & Gas

Resources

