FAQ: Climate Change

What are you doing to address climate change?

Climate change is the greatest challenge faced by the modern world. As a leading asset owner, we can play a critical role in addressing climate, an issue that impacts our members, employees, operations, portfolio companies and communities. This is why we are committed to achieving net-zero greenhouse gas (GHG) emissions on our investment activities by 2050.

Leading up to our net-zero commitment, we spent the last decade investing in climate-friendly opportunities, working to make our portfolio companies greener and more resilient, and advocating for industry change. Recent examples of how we allocate capital to climate are the major commitments we made to two funds that support climate solutions - the Brookfield Global Transition Fund (BGTF) and TPG Rise Climate. Both Brookfield and TPG are global leaders which, like Ontario Teachers', have made climate change a strategic priority for their firms.

What does your net-zero commitment mean?

Net-zero refers to a balance of emissions released into and removed from the atmosphere.

We've committed to having net-zero GHG emissions associated with our investment portfolio by the year 2050. Our commitment is about achieving real world emissions reductions. Thus, our approach will be about investing in green companies and pushing our portfolio companies to decarbonize rather than simply divesting.

Why did you commit to net zero?

We believe that mitigating global warming is critical for the continued growth of our pension plan. Our net-zero commitment aligns with our mission to deliver secure pensions over the long term, and purpose to shape a better future.

Have you set targets to stay on track with your commitment to achieve net zero by 2050?

Yes, we have set industry-leading targets to reduce portfolio carbon emissions intensity by 45% by 2025 and two-thirds (67%) by 2030, compared to our 2019 baseline. These targets cover all our real assets, equity and corporate credit holdings across public and private markets, including external managers.

Are your net-zero targets aligned with the Paris Agreement?

Yes, we've taken a rigorous approach to developing our targets that aligns with global efforts to limit global warming to well below 2 Celsius and striving for 1.5° C.

What are intensity-based targets?

Intensity-based targets represent the sum of the proportionate carbon emissions of companies in our portfolio based on our ownership share, divided by the size of our portfolio. In other words, they look at how much emissions we have for each dollar we invest.

Why are you using intensity-based targets (versus absolute)?

Intensity-based targets are the industry standard for investors. They allow the plan to grow our assets under management, while continually improving on emissions per dollar invested, which is key to the energy transition and appropriate for a plan that needs to meet growth objectives. They are also better aligned for investors trying to drive real world emission reductions through engagement, investments in climate solutions and Transition Assets, instead of reducing emissions through divestment.

What are transition assets?

We define Transition assets as new investments which are initially high emitters, but have an explicit decarbonization thesis as part of the value-creation plan for the investment. The key objective is to significantly reduce operational emissions.

Why aren't you divesting from fossil fuels?

Fundamentally, we believe retaining a seat at the table is better than walking away. We also feel it is our responsibility to support and improve the companies that we're invested in rather than divest from them and pass on the problem.

Divestment does not reduce emissions; it simply removes them from our portfolio. This is why we support engagement over divestment. Engagement with companies in fossil fuel sectors supports economic growth and energy security while accelerating the transition to a low-carbon world.

How does owning fossil fuel companies and/or transition assets fit with your net-zero commitment?

Long-term capital has an important role to play in an orderly and inclusive transition toward a net-zero economy. To successfully transition into companies that will thrive in a low-carbon world, today's companies need patient capital and pragmatic owners. We are willing to play this role.

We believe it is our responsibility to support the transition of businesses to a more sustainable global economy. We can help reduce emissions if we remain active and engaged investors who push our companies to set credible transition plans and demonstrate progress towards these goals. Our involvement may help accelerate a company's transition. This approach – while more challenging than divesting – lowers emissions and protects and enhances value in these companies as they shift to sustainable business models.

Will you invest in more fossil fuel companies or projects?

Although the economic relevance of fossil fuels is declining, they remain an essential part of the global economy and fulfilling the world's energy needs. The transition toward a net-zero economy - and away from fossil fuel - is under way, but it is happening at different speeds around the world.

When we invest in fossil fuels, we will invest in companies that:

- possess the capacity to decarbonize and perform well in the net-zero transition;
- have a role to play in the energy transition by offering solutions such as low/zero-emission fuels;
- understand the importance and urgency of climate change.

Any company in any sector that does not take climate change seriously will not attract our capital.

How invested are you in fossil fuel versus climate-friendly companies?

Investments in fossil fuel companies make 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 and technologies.

Do you have examples of climate-friendly investments in your portfolio?

We actively pursue attractive investment opportunities that will enable or benefit from the global shift to a net-zero economy. A few examples include:

Energy efficiency: In 2018, we invested in Techem GmbH, a global market leader in the provision of heat and water sub-metering services. 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. In fact, Techem's technology enabled customers to avoid over seven million tonnes of CO2 emissions every year.

Renewable energy generation: Cubico Sustainable Investments is a global renewable energy platform that invests in wind and solar electricity generation. It 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 alone.

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

We also recently issued our first **green bond** within the Ontario Teachers' Green Bond Framework. Proceeds from this issuance support climate-friendly opportunities.