Our responses to the Task Force on Climate-related Financial Disclosures

Ontario Teachers' supports the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This document contains information on our activities in response to the TCFD recommendations and should be read along with our Annual Responsible Investing and Climate Change Report.

Governance

Describe the board's oversight of climate-related risks and opportunities.

Ontario Teachers' board members oversee the management of climate-related risks and opportunities; review Ontario Teachers' climate change strategy annually; review and approve annual objectives and scorecards, which include climate-related objectives; and constructively challenge management on ESG matters, including climate-related topics.

Describe management's role in assessing and managing risks and opportunities.

Ontario Teachers' Chief Executive Officer (CEO), as chair of the Enterprise Risk Management Committee, ensures processes are in place to manage material risks. The CEO, as chair of the Investor Stewardship Committee, reviews and approves our climate change strategy, including voting and engagement practices.

Ontario Teachers' Chief Investment Officer (CIO) integrates climate change considerations into our investment strategy and is accountable for ensuring processes and practices are in place to manage climate change risk for the investment portfolio. The CIO also updates the board at every meeting about the progress the Investment Division is making on climate change initiatives.

Investment executives oversee the day-to-day integration of climate change considerations in our investment activities.

Strategy

Describe the climate-related risks and opportunities the organization has identified over the short, medium and long term.

The transition to a low-carbon economy presents opportunities in growth areas such as resource efficiency, clean energy, products and services, new markets, and improving resilience of companies and assets. Ontario Teachers' has made significant investments in renewable energy, electricity transmission, distribution and storage, district heating and alternative proteins. Refer to our case studies on Equis, Vayda and TPG Rise Climate in our Annual Responsible Investing and Climate Change Report as well as OTFT's Green Bond Report.

Climate change also presents risks both from a transition and physical standpoint. Transition risks can come in many forms, including value loss due to policy, technological disruption and market shifts. We use our capital and influence to support assets that are transitioning from fossil fuels. Climate challenges such as these can be viewed as opportunities to make positive change. Refer to our case studies on investments in SGN and the Brookfield Global Transition Fund in our Annual Responsible Investing and Climate Change Report.

Physical risks from climate change are also varied: they include direct value loss from more frequent and severe events as well as asset impairment or obsolescence, business disruptions, and business implications from longer-term shifts in climate patterns on the labour force, productivity and supply chains.

In our 2018 Climate Change Report, we outlined transition scenarios and catalysts in our Low Carbon Economy (LCE) Transition Framework. We identified specific climate-related risks and opportunities for the short, medium and long term across different transition pathways, and discussed impacts for companies in general and for Ontario Teachers' in particular.

Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.

Committing to a net-zero greenhouse gas emissions portfolio by 2050 aligns with our mission to deliver secure pensions to our members, and our purpose to shape a better future. Green investing, direct emissions elimination and avoidance, and reducing portfolio emissions are key aspects of our commitment. In addition, we are:

- Integrating climate change considerations in investments, where relevant. This shapes the opportunities we look for, our investment decision-making processes, and how we manage assets we own.
- Engaging with portfolio companies to manage their emissions and align to net zero by 2050.
- Evolving our expertise and growing our investments in climate solutions.

Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

The organization's objective is to achieve a net-zero emissions portfolio by 2050, following a trajectory aligned with a 2°C or lower pathway.

We are looking at ways to track the progress of both the fund and the global economy toward net zero. This will necessitate tracking local, national and international developments, and looking beyond emissions alone to understand if the economy has the capacity to decarbonize in a just and equitable way.

Regardless of the scenario, over the near and long term (three to 10 years), expected physical climate risks are largely "known," as the impact of our past emissions has a lagged effect. We have made strides to manage physical risks to our portfolios through, among other efforts, our work with Wellington Management and Woodwell Climate Research Center.

We view the bigger risk to the resilience of our strategy as a scenario in which the world takes a divergent pathway – one that is not moving toward net zero.

Risk management

Describe the organization's processes for identifying and assessing climate-related risks.

Ontario Teachers' considers material climate-related factors alongside other factors through the entire investment lifecycle to manage risk and add value. We do that initially based on an analysis of the sector(s) and geographies in which companies operate, and our own professional expertise. We also use external resources, such as the Value Reporting Foundation's Sustainability Accounting Standards Board (SASB) materiality map, to help identify and assess climate-related risks to a business.

To identify physical risks (which are mainly location-based), we analyze factors such as exposure to extreme heat, extreme weather, flooding, wildfires, drought and others. We leverage advanced mapping tools that include current state and future projections of climate hazards. Where warranted, local studies and supplemental analysis are used as well.

To assess transition risks, we analyze new and emerging policies and legislation; technological shifts; changes in consumer preferences and habits; and human capital impacts.

Describe the organization's processes for managing climate-related risks.

We integrate climate risk analysis into our due diligence, engagement and asset management practices. We also ensure that we have a well-diversified portfolio spanning, among other things, different jurisdictions, sectors and technologies. Where possible, risks are quantified and integrated into sensitivity analysis, stress testing and asset valuations.

We support our direct portfolio companies that are developing climate transition strategies, investing to be resilient to climate change impacts and creating resource efficiencies. We engage with companies (directly through discussions and proxy voting activities, and indirectly through industry initiatives) to encourage proactive disclosure and management of climate-related risks.

Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organization's overall risk management.

Ontario Teachers' enterprise risk management (ERM) program gives management insight into important enterprise risks and how these risks are being managed. Climate change is an enterprise risk within our ERM framework, where it is defined as a systemic risk that can impact investment returns through physical, transition and/or reputation risks.

Metrics and targets

Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.

We track several metrics, including our portfolio carbon footprint – in absolute terms, as well as per dollar of assets under management – and the number of portfolio companies that have established what we consider to be credible net-zero plans and targets[1]. We are starting to track the relevant scope 3 emissions of our portfolio companies. Through OTFT's Green Bond Report, we are tracking the amount of new capital deployed to green assets, along with relevant impact metrics, such as renewable energy produced and greenhouse gas emissions avoided.

Disclose scope 1, scope 2 and, if appropriate, scope 3 greenhouse gas emissions, and the related risks.

See pages 13 and 14 and Appendix A of our Annual Responsible Investing and Climate Change Report for information on our portfolio carbon footprint. Refer to the Plans for Tomorrow section for the work being developed around scope 3 emissions.

Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets.

See pages 6 to 12 of our Annual Responsible Investing and Climate Change Report for our net-zero greenhouse gas emissions by 2050 commitment and our interim reduction targets for 2025 and 2030.

Climate change actions are linked to compensation for all employees at Ontario Teachers'. Each year, management prepares a scorecard containing goals and metrics in key areas. The scorecard is used to measure performance and factors into compensation for employees. Board members review and approve the annual objectives and scorecard, which includes climate-related objectives along with other performance criteria. In 2021, climate change objectives continued to be part of the Ontario Teachers' corporate scorecard.

1 A transition plan and target will be considered "credible" if aligned with a science-based methodology.