



Ontario Teachers' Finance Trust

External Review of 2022 Green Bond Reporting

April 11, 2022

CICERO Green has reviewed Ontario Teachers' Finance Trust's (OTFT) 2022 Green Bond Report. This is OTFT's second Green Bond Report. Ontario Teachers' Pension Plan (OTPP) guarantees OTFT's issuances, and OTFT has adopted OTPP's Green Bond Framework. We review assets added to OTFT's portfolio of Eligible Green Assets within its Green Bond Register (Portfolio) since its last Green Bond Report (2021) against OTPP's Green Bond Framework criteria, and impact metrics for relevance and transparency.

CICERO Green considers that there are no discrepancies with assets added to OTFT's Portfolio since its last Green Bond Report (2021) against OTPP's Green Bond Framework criteria. Metrics are relevant and transparent, and we also consider that the Green Bond Report aligns with the ICMA Handbook, Harmonized Framework for Impact Reporting.

Asset allocation

OTFT has issued two green bonds under OTPP's Green Bond Framework: the first, issued in November 2020, has a value of €750,000,000 (CAD 1,162,125,000); the second, issued in November 2021, has a value of €500,000,000 (CAD 709,625,000).¹ Use of proceeds are reported as of December 31, 2021, and OTFT states that Eligible Green Assets have been fully allocated to cover an amount equal to the net proceeds of the green bonds.

In its Green Bond Framework, OTPP commits to disclosing on the Portfolio, including (1) assets by ICMA Green Bond Principles category, (2) assets by geography where feasible, (3) case studies on assets that are being financed. OTFT's Green Bond Report satisfies these commitments.

We assigned an overall shading of Dark Green to OTPP's Green Bond Framework in our Second Opinion dated November 6, 2020.² Investments financed under OTPP's Green Bond Framework could encompass all Shades of Green (please see the full Second Opinion for a detailed review). Overall, OTFT has allocated green bond proceeds to:

- Six Eligible Green Assets in the Dark Green renewable energy category (investment in (i) two electricity transmission and/or distribution companies, (ii) a renewable energy producer, and (iii) two energy storage companies, as well as the purchase of renewable energy assets),
- One Eligible Green Asset in the Medium Green energy efficiency category (investment in a smart metering and environmental efficiency consulting company),
- One Eligible Green Asset in the Dark Green climate change adaptation category (investment in a desalination plant), and
- One Eligible Green Asset in the Dark Green natural resources and land use category (investment in a natural climate solutions (forestry) company).

The Eligible Green Assets added to OTFT's Portfolio since its last Green Bond Report (2021) are one electricity transmission company, a portfolio of renewable energy assets, and one natural climate solutions (forestry) company. We find no discrepancies between these investments and OTPP's Green Bond Framework. For a

¹ Calculated at the foreign exchange rate at the relevant trade date.

² OTPP - SPO



detailed review of these Eligible Green Assets, see Table 1. For a detailed review of Eligible Green Assets included in the Portfolio at the time of the last Green Bond Report (2021), including in respect of one minor inconsistency, see our external review of that Green Bond Report.³

Under OTPP's Green Bond Framework, Eligible Green Assets were defined as investments in businesses that align with OTPP's Green Investment Principles and derive all, or substantially all, of their revenue from eligible activities. Only one investment was considered by OTFT to have less than 100% of revenues from Eligible Green Assets (where around 5% of revenues derive from activities that are not eligible under - but do not contravene – OTPP's Green Bond Framework).

OTFT has confirmed that the selection process for allocations of proceeds from the green bond was undertaken as described in OTPP's Green Bond Framework.

Impact metrics

OTFT's Green Bond Report reports impacts calculated for the year 2021 on an asset category level. The report shows impacts reflecting OTPP's ownership as of December 31, 2021. OTFT also pro-rates impact figures according to the proportion of investments derived from the green bond issuances, thereby giving the impacts attributable to green bond investors.

Impact reporting for all asset categories includes at least one relevant indicator. OTFT notes in its Green Bond Report that not all companies within an asset category report on all indicators included for that asset category. Each company, however, reports on at least one indicator.

Core indicators in the ICMA Handbook, Harmonized Framework for Impact Reporting (the Handbook) are included.⁴ Investors should note that the Handbook does not cover forestry, so does not provide guidance on metrics, however in our opinion the metrics for forestry are nonetheless relevant. The inclusion of metrics commonly used for green bond reporting allows investors to better compare across issuances in the same sectors. Investors should, however, use caution when making these comparisons as methodologies, assumptions and baselines are typically not uniform.

OTFT includes certain relevant information on the methodologies and metrics applied, and provides transparency on its use of a combination of ex post and ex ante calculations. Investors should note, however, that each portfolio company undertakes its own calculations and uniformity of measurement or methodology cannot therefore be guaranteed.

OTFT has confirmed that no investments have been removed from the Portfolio.

Principles for impact reporting

CICERO Green reviews the impact report against the Handbook. To the extent the Handbook can be applied to equity investments, we find OTFT's Green Bond Report to follow its recommendations.

Terms

CICERO Shades of Green provides a review of OTFT's annual reporting based on documentation provided by OTFT and OTPP and information gathered during teleconferences and e-mail correspondence with OTFT and

³ OTFT - External Review 2021

⁴ ICMA Handbook, Harmonized Framework for Impact Reporting



OTPP. OTFT and OTPP are solely responsible for providing accurate information. All financial aspects of the sustainable finance reporting - including the financial performance of the bond and the value of any investments in the bond - are outside of our scope, as are general governance issues such as corruption and misuse of funds. CICERO Shades of Green does not validate nor certify the existence of investments and does not validate nor certify the climate effects of investments. Our objective has been to provide an assessment of the extent to which the bond has met the allocation and reporting criteria established in OTPP's Green Bond framework. The review is intended to inform OTFT and OTPP management, investors and other interested stakeholders in the OTFT green bond and has been made based on the information provided to us. CICERO Shades of Green cannot be held liable if estimates, findings, opinions or conclusions are incorrect. Our review does not follow verification or assurance standards and we can therefore not provide assurance that the information presented does not contain material discrepancies.



Detailed review of Eligible Green Assets included in the Portfolio since OTFT’s Green Bond Report (2021)

| Category | Description | Review against framework criteria | Impact Metrics | Relevance of metrics | Transparency considerations |
|------------------|--|---|---|--|--|
| Renewable Energy | <p>1) Investment in electricity transmission company</p> <p>2) Purchase of renewable energy assets</p> | <p>No discrepancies identified</p> <p><u>1) Electricity transmission company</u></p> <ul style="list-style-type: none"> OTFT considers 100% of revenues to derive from eligible activities. A well-functioning grid network is a prerequisite for increased electrification. OTFT demonstrated consideration of physical climate risk and local environmental issues during the selection process, including interference with indigenous rights and reforestation. OTFT demonstrated consideration of grid emissions factor (average <100gCO₂/kWh over a five-year period) in selection process. <p><u>2) Renewable energy assets</u></p> <ul style="list-style-type: none"> OTFT considers 100% of revenues to derive from eligible activities. The portfolio consists of wind assets and solar photovoltaic facilities. Some of the solar photovoltaic facilities have battery storage. | <ul style="list-style-type: none"> GWh of renewable energy generated and/or transmitted per annum. MWh total battery usable energy generation capacity. | <ul style="list-style-type: none"> ✓ Metrics provide a good indication of investment impact. ✓ GWh of renewable energy generated and/or transmitted per annum is used in green bond reporting and in line with core indicators in the ICMA Handbook. | <ul style="list-style-type: none"> ✓ Both ex ante and ex post impacts reported. ✓ Where ex ante impacts are used, OTFT could consider an ex post verification of this estimate. ✓ Each portfolio company undertakes its own calculations. |



- OTFT demonstrated consideration of environmental impacts in the selection process (such as biodiversity, water, and supply chain / end of life in the selection process). The importance of end-of-life considerations is becoming clearer and more pressing – OTFT’s consideration of this is therefore a welcome step.

Natural resources and land use

Investment in a natural climate solutions (forestry) company

No discrepancies identified

- The company acquires and invests in industrial timberlands in Canada with the goal to become a premier source of high-integrity carbon offsets.
- The company’s property is certified by the Sustainable Forestry Initiative (SFI). The SFI is a certification listed in OTTPP’s Green Bond Framework. In our SPO we noted that the Program for the Endorsement of Forest Certification (PEFC), the umbrella organization that includes SFI, does not cover all aspects of sustainable forestry.
- OTFT demonstrated consideration of additional environmental issues in the selection process (such as climate adaptation, water impacts, biodiversity). OTFT also demonstrated consideration of important issues in respect of offsetting, for example early

- Total surface financed and certified (hectares)
- tCO₂e removed annually

- ✓ Metrics provide a good indication of asset impact.
- ✓ ICMA Handbook does not consider this area in detail, however the metrics are in our opinion relevant and are used in the market.

- ✓ Ex ante and ex post impacts reported.
- ✓ Each portfolio company undertakes its own calculations.
- ✓ OTFT confirmed that no offsets have yet been sold. Once they have, OTFT confirmed that it envisages reporting on the volume of offsets sold, however it will not report tonnes removed in respect of these offsets. This will provide additional transparency and can mitigate the risk of double counting impacts.



logging, forest management protocols,
and reserving.



Appendix 1: About CICERO Shades of Green

CICERO Green is a subsidiary of the climate research institute CICERO. CICERO is Norway's foremost institute for interdisciplinary climate research. We deliver new insight that helps solve the climate challenge and strengthen international cooperation. CICERO has garnered attention for its work on the effects of manmade emissions on the climate and has played an active role in the UN's IPCC since 1995. CICERO staff provide quality control and methodological development for CICERO Green.

CICERO Green provides second opinions on institutions' frameworks and guidance for assessing and selecting eligible projects for green bond investments. CICERO Green is internationally recognized as a leading provider of independent reviews of green bonds, since the market's inception in 2008. CICERO Green is independent of the entity issuing the bond, its directors, senior management and advisers, and is remunerated in a way that prevents any conflicts of interests arising as a result of the fee structure. CICERO Green operates independently from the financial sector and other stakeholders to preserve the unbiased nature and high quality of second opinions.

We work with both international and domestic issuers, drawing on the global expertise of the Expert Network on Second Opinions (ENSO). Led by CICERO Green, ENSO contributes expertise to the second opinions, and is comprised of a network of trusted, independent research institutions and reputable experts on climate change and other environmental issues, including the Basque Center for Climate Change (BC3), the Stockholm Environment Institute, the Institute of Energy, Environment and Economy at Tsinghua University, the International Institute for Sustainable Development (IISD) and the School for Environment and Sustainability (SEAS) at the University of Michigan.

