2019 Responsible Investing Report

We lead  We learn  We last
Evolution of responsible investing at Ontario Teachers’

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Message from the CIO

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Evolve

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Evolution of responsible investing at Ontario Teachers’

Ontario Teachers’ publishes proxy voting guidelines; commits to voting all shares

2003

Develops responsible investing principles

Co-founds the Canadian Coalition for Good Governance

2005

Implements responsible investing strategy built on awareness, knowledge and application

2010

Implements ESG due diligence tool for Private Capital

2012

Publishes first portfolio carbon footprint

2018

Launches Low Carbon Economy Transition Framework

2017

Launches climate change engagement

2015

Further enhance our understanding of the financial implications of climate change

> Increase our global engagement activity

> Continue advocating for higher levels of transparency

> Build our capabilities to assess investments relative to the Sustainable Development Goals

2020+

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Message from the Chair

Board oversight of environmental, social and governance risk and opportunity

As a long-term investor, we seek sustainable businesses to help grow our assets. We believe that how companies manage environmental, social and governance (ESG) factors is a key determinant of durable success, whether it’s about finding the right business model for the future or preserving scarce resources.

The board’s responsibilities include overseeing the processes in place to ensure that ESG factors are duly imbedded into the investment process. We play an active role in including ESG and responsible investing as regular topics of discussion with management and around the boardroom table. It also forms part of the dialogue when we go out to meet with portfolio companies, public officials and sectoral experts alongside the investment team.

Climate change

The effects of a warming planet influence every region of the world and sector of the economy, and practically every investment opportunity that Ontario Teachers’ considers. The impact on our investments today is real, but climate change’s effect on our future portfolio and where we should invest is likely to be even more profound.

There is a generational fairness aspect that is important, especially given the organization’s mission of delivering retirement security to members today and tomorrow. The decisions made today on what investments we make or don’t make will have ripple effects for future pensioners.

We spend a considerable amount of time at the board talking about climate change. It is incumbent that the board work closely with, and pose difficult questions to, management to confirm that Ontario Teachers’ long-term business strategy is resilient to the impacts of climate change and equipped to find opportunities as we transition to a low-carbon economy.

Looking ahead

Ontario Teachers’ was an early mover when it came to embracing responsible investing. In 2003, we helped found the Canadian Coalition for Good Governance, and we produced a guideline for managing climate change risk over a decade ago. Much excellent work has been done on ESG since then.

As a board, we will continue to drive management to further embed responsible investing in the DNA of the organization, particularly in investments. We believe this is essential if the pension promise made to Ontario’s teachers is to remain sustainable over the long term.

Steve McGirr
Chair
Message from the CIO

Our mission is to provide retirement security for our members across all generations. I believe that means more than only earning returns to pay their pensions. As stewards of our members’ retirement savings, we must ensure that we invest with conviction and integrity.

To do so, we hold the companies we invest in to the same high standards as we have for ourselves.

We care about how companies grow and sustain themselves. We believe that companies that are clear on their purpose, behave ethically and are mindful of their impact do more than just earn returns. They contribute to a vibrant future for themselves, for us and for many generations to come.

We report on our responsible investing activities every year so that our stakeholders can assess and understand our practices and approach to dealing with critically important issues. Although we only report annually, we dedicate time and apply our responsible investing principles on a daily basis.

Just as a company’s financial results and outlook would be areas of focus on any new investment, so are its environmental impact and how it treats its employees and other stakeholders. All these factors are equally material to a company’s prospects and to our returns.

Take climate change as an example. The risks posed by climate change are hard to overstate. As the world adapts and deals with climate change, some businesses will succeed while others fail, and the physical risks from extreme weather threaten investments like real estate or core infrastructure that are not prepared.

The world is transitioning to a lower-carbon economy. How quick and orderly that transition occurs will depend on many factors. We cannot predict the future, but we can and must prepare for the possibilities.

To that end, our approach to climate change has three main elements: assessing and managing the direct climate change risks to our investments; pursuing attractive climate-friendly opportunities; and playing a constructive role in addressing the challenge.

We know for this to take hold we need to put our money where our mouth is. That’s why we have increased the weight of our climate change objectives for Ontario Teachers’ 2020 scorecard, meaning it plays a role in compensation alongside other performance criteria.

Another area of significant focus for our organization is inclusion and diversity. Our Inclusion & Diversity Leadership Council is helping to embed this in everything we do. The council’s strategy focuses on engaging employees and enhancing learning opportunities around an inclusive culture.

Outside of Ontario Teachers’, I am co-leading the G7 Investor Leadership Network’s (ILN) Diversity in Investment initiative, which harnesses ILN members to positively influence inclusion and diversity efforts in our public and private holdings, external managers and the broader investment industry.

We have more work to do on these fronts, and many other areas that are mentioned in this report. Standards, practices and expectations of how businesses behave are changing rapidly, so we must be nimble, constantly adapting and improving our own processes as the world evolves and new risks and opportunities arise.

Ziad Hindo
Executive Managing Director and Chief Investment Officer
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WE LEAD
Our reputation for taking a balanced and responsible approach to investing makes us a first call for strategic partnerships with like-minded investors, companies and governments.

WE LEARN
The environment and society are in a state of continual flux. Our learning culture leads us to evolve our internal processes and tools to keep up with rapid changes.

WE LAST
Our responsible investing practices are integrated into investment decisions and ongoing engagement with portfolio companies to contribute to the plan’s sustainability.

Shaping a better future
Our actions have the potential to create a lasting, positive impact around the world. We believe our investments can earn returns to pay our members’ pensions, while also benefitting society and the environment.
Our approach to responsible investing

Responsible investing at Ontario Teachers’ is simply how we invest. Companies that manage their environmental and social impacts well make good investments today, while also having a positive impact on future generations. We use our position as a leading investor to drive improvements in environmental, social and governance (ESG) standards and processes, not only in the companies we invest in, but in the industry and markets around the globe.

We start with the context in which a company operates – for example, its geography and industry – and evaluate how it interacts with its physical and social surroundings. This helps us identify the ESG factors that are likely to affect the company’s strategy, growth and value over time.

SOME EXAMPLES OF ESG FACTORS INCLUDE:

**ENVIRONMENTAL**
Factors related to a company’s interaction with the physical world
- Weather events
- Water scarcity
- Carbon emissions

**SOCIAL**
Factors that arise from the relationship between a company and its employees, consumers, suppliers and communities
- Diversity and inclusion
- Health and safety
- Consumer protection

**GOVERNANCE**
Factors related to the structures a company has to ensure effective direction and control
- Clear roles for board of directors, management and shareholders
- Executive compensation plans
- Board independence

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Investing today for a sustainable future

Our four responsible investing principles support long-term plan sustainability, so we can pay pension benefits to future generations of Ontario teachers, while helping to shape a better world.

INTEGRATE

We integrate ESG considerations into our investment process to manage risk and add value.

Our investment teams across asset classes evaluate ESG risks and opportunities to help make more informed investment decisions. They work with a central responsible investing team, which provides subject matter expertise and integration tools and frameworks.

ENGAGE

We engage with the companies we invest in to promote change and nurture success.

We build relationships with our portfolio companies through ongoing dialogue with boards and management. We guide and oversee our private companies through seats on company boards, and we hold public companies and boards to account by voting our shares.

INFLUENCE

We use our influence as a global investor to create a supportive and sustainable business environment.

We lead or participate in global organizations and initiatives to shape ESG standards and undertake research on common challenges. This way, we can address a far greater number of companies and issues than we could on our own.

EVOLVE

We evolve to build our institutional knowledge and to keep ahead of the curve.

We stay abreast of emerging issues, seek new tools and approaches, and share our learnings across our organization to continually improve our ability to recognize, evaluate and act upon ESG opportunities and risks.

RESPONSIBLE INVESTING GOVERNANCE

Governance begins with our board and extends through every level of our organization.

BOARD MEMBERS

Oversee responsible investing, receive regular reports on our progress across the four principles and approve ESG-related guidelines, among other functions.

CEO

Approves and oversees our responsible investing strategy and annual public company engagement plan.

Chairs our Investor Stewardship Committee.

INVESTMENTS LEADERSHIP TEAM

Implements the responsible investing strategy, sets frameworks and oversees the integration of ESG in the investment process.

INVESTMENT TEAMS

Identify, assess and manage portfolio companies’ ESG risks and opportunities.
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**WHEN LOOKING AT INVESTMENT OPPORTUNITIES**
We anticipate ESG factors arising from emerging trends and disruptive business models. This helps identify investments with high growth potential that also align with our long-term objectives.

**WHEN MAKING OUR INITIAL INVESTMENT IN A COMPANY OR PARTNER**
We conduct extensive due diligence on potential direct investments. This includes identifying material ESG factors, looking at governance and past performance and discussing ESG details with company management, external managers or third-party experts.

**WHEN MANAGING OUR INVESTMENT**
We work with portfolio company boards and management teams to protect and create value, monitor ESG performance and share good ESG practices. We review the policies and ESG practices of our external managers annually.

**Integrate**
We integrate ESG considerations into our investment process to manage risk and add value.
We consider material ESG factors alongside other factors through the entire investment lifecycle.
Cubico Sustainable Investments – Growing globally while improving ESG practices

Cubico Sustainable Investments (Cubico) is a global renewable energy infrastructure company with investments in onshore wind and solar power electricity generation. Cubico is co-owned by Ontario Teachers’ and an investor partner, and has grown substantially under our joint ownership. Since 2015, when it had 19 assets located in seven countries, the company has expanded to 87 assets in different stages of development located in 12 countries in the Americas, Europe and Australia.

Making our initial investment in Cubico

While the environmental benefits of a renewable energy platform over traditional fossil fuel–based systems were clear, ESG risks still needed to be considered. As with all our direct investments, due diligence was conducted. This was a complex exercise, with multiple operating assets and several construction projects in different countries.

The ESG due diligence included a focus on regulations and laws; analyses of meteorological, climate and radiation data; environmental permitting; and community engagement, among other factors.

Ultimately, it took more than 10 months of diligence work and strong collaboration between several internal teams, including investments, tax, responsible investing, legal and compliance.

We also benefitted from working with our like-minded investment partner, producing a more holistic analysis, as we shared views and insights.

Looking at the Cubico investment opportunity

As the world transitions to a low-carbon economy, the renewables sector requires significant amounts of investment. Renewables are typically not large, centralized power generation projects, but consist of many smaller assets spread out over a larger territory. With smaller projects, it’s challenging for a pension fund the size of Ontario Teachers’ to achieve meaningful scale and earn the investment returns we seek.

Cubico’s previous owners had invested in renewable energy projects prior to construction, then typically sold them to different buyers once they were operational. We saw an opportunity to acquire all the projects at once and build a world-class company focused exclusively on renewables.

The renewable energy generated by Cubico in 2019 is equivalent to taking 782,000 cars off the road for one year.

“The bold decision to create a new company in this sector has paid off: Cubico is now one of the largest privately owned global renewable energy firms, generating over four times more renewable power today than five years ago.”

– Chris Ireland, Managing Director, Greenfield Investments and Renewables
Managing our investment in Cubico

Under the ownership of Ontario Teachers’, technical and operations teams were insourced, which involved opening offices in six countries and establishing support functions such as finance, legal, human resources and IT. Today, Cubico has over 200 employees in roles as diverse as wind forecasting, procurement, engineering and construction management.

Health and safety focus

From the outset there was a view that health and safety (H&S) management and practices needed to be standardized across locations to create a global safety culture that helps protect the H&S and security of the workforce, and keeps the business operating efficiently. Wind and solar farms are industrial facilities. Wind turbines require technicians to climb more than 50 metres high and handle heavy parts. Solar farms are extremely large and can be remote. Both involve high-voltage electrical equipment that can be fatal if handled incorrectly or carelessly.

That prompted the development of a global H&S strategy, providing operations at the site and country levels with autonomy to make decisions and tailor procedures to local needs, while being supported by an overarching structure. The Cubico board established an H&S committee and Ontario Teachers’ Maria Morsillo, Managing Director, Value Creation & Analytics, was named committee chair.

With guidance from the H&S committee, Cubico has moved the needle on H&S by:

• Providing H&S training to all employees, management and the board;
• Bringing leading practices from other industries to the renewable energy sector;
• Sharing leading practices and internal learnings across the organization through global workshops;
• Including H&S performance indicators on the scorecards of management and employees;
• Providing adaptable personal protection equipment to ensure the best physical fit for each individual worker, resulting in greater safety.

Today, Cubico is going beyond physical safety and security – it is now devoting significant resources to tackling employee mental health. The travel security system is also being improved so that employees who work remotely can be located in real time in case of an emergency.

Health & Safety metrics:

In 2019 alone:

• Lost Time Injury Frequency Rate has improved 80% in relation to 2018;
• 66 H&S audits were conducted across Cubico’s operations.

Employee engagement top scores:

In October 2019, a Safety Culture Survey asked Cubico staff about their perception of H&S at the company:

• Results put Cubico in the 95th percentile of the benchmark group of 130 companies;
• Over 90% of the respondents strongly agree that Cubico as a company is committed to H&S.

“Embedding a safety culture globally, and across all levels of the organization, has helped reduce the number of injuries and increase employee engagement, leading to better results and higher returns for Ontario Teachers.”

— Maria Morsillo, Managing Director, Value Creation & Analytics, Infrastructure & Natural Resources
ESG Maturity Framework

We developed the first prototype of our ESG Maturity Framework in 2018 and we continue to develop new versions for different industry sectors. The framework is a proprietary tool that helps us assess companies based on a set of levels and expectations for ESG practices and performance. Its objective is to develop a systematic framework for assessing ESG management, and identify industry-specific practices and performance reference points that:

- inform our investment analysis, due diligence and asset management activities;
- uncover potential engagement opportunities;
- compare companies’ ESG maturity to a relevant benchmark.

In 2019, we deployed the ESG Maturity Framework for the oil and gas sector. We also finalized the framework for the mining sector and started developing our healthcare maturity framework. We’re now integrating the tool into Ontario Teachers’ existing systems to facilitate real-time analysis of our holdings and portfolios. This will help provide us with a variety of insights, such as: a comparison of a company against industry or market index benchmarks; identification of specific areas of leadership or improvement opportunities; as well as identification of potential engagement targets.

We’ve also finalized and mapped all our private equity funds into a slightly modified version of the framework, adapted to external fund managers.
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Engage
We engage with the companies we invest in to promote change and nurture success.
Engagement drives positive change by improving corporate behaviour, while voting our shares in public companies drives positive change by demanding accountability. Ultimately, our actions are aimed at creating a more supportive and sustainable environment for our investments.

ENGAGEMENT CATALYSTS
Proxy vote–driven engagements take place when we’re deciding how to vote our shares at public company meetings, or as follow-up to a vote.

Theme-driven engagements address material areas of risk that are prominent across the portfolio. The Investor Stewardship Committee approves the themes selected.

Event-driven engagements may be sparked by an ESG-related incident or corporate transaction; typically, these arise on short notice and aren’t necessarily related to a thematic focus area.

HOW WE ENGAGE
Our engagement activities are either collaborative (conducted in conjunction with a select group of peer investors) or direct (conducted directly between Ontario Teachers’ and a company).
Proxy voting: A powerful tool for change

We own shares in public companies around the world, which typically gives us voting rights. Electing directors, appointing auditors and having a say on executive compensation are examples of how we hold companies accountable for governance practices.

In 2019, we voted on 25,510 resolutions at 2,203 meetings in 48 countries. The map below illustrates the geographical distribution of meeting votes:

- 27% Canada and the United States
- 22% Europe
- 18% Asia (excl. Japan)
- 14% Japan
- 11% Latin America and the Caribbean
- 6% Australia and New Zealand
- 2% rest of world
Votes on shareholder proposals

We also vote on shareholder proposals, which tend to seek a specific outcome such as creating a sustainability report, achieving pay equity or disclosing lobbying and political expenditures.

We analyze each shareholder proposal on a case-by-case basis. We support those proposals where the issue is material to the company, the company’s current actions are not addressing the issue, and shareholders would benefit should the proposal be enacted.

In 2019, we voted on 419 shareholder proposals related to ESG matters. We identify below the most common themes under the ESG category.

The main changes we saw in 2019 relate to human rights reporting, which is gaining more interest and has been an area of focus for us. As well, shareholders started to use the shareholder proposal process to recommend individuals to the board, demonstrating discontent with the ability of some boards to nominate directors.

Since 2001, all our voting decisions are made public on our website.

57% Governance
- Board structure (e.g., separation of Chair and CEO)

15% Environmental
- Greenhouse gas reduction and reporting
- Disclosure of sustainability information

28% Social
- Political donations reporting
- Compliance with international human rights standards
Thematic focus area: Diversity

Since 2013, we have encouraged companies to increase the number of women on their boards to at least three, or 30% representation.

Where companies haven’t met these requirements, we have encouraged the board to adopt an approach with a timebound commitment to achieving these minimal levels of diversity. We are members of the 30% Club Canada and have aligned our efforts to its goal of achieving a minimum of 30% women on boards and at the executive management level by 2022.

According to Osler’s 2019 study (2019 Diversity Disclosure Practices, Osler, Hoskin & Harcourt), women now hold over 18% of board seats among companies disclosing the number of women on their boards, a 50% increase compared to 2015. Encouragingly, over 50% of S&P/TSX 60 companies have adopted a target for the proportion of female directors on the board, compared to 22.5% of Canadian companies overall.

Making a case for board gender diversity

After we communicated our expectations in the prior year, in 2019, Ontario Teachers’ voted against the chair of the nomination committee at a technology company for having only one woman on the board. Furthermore, the company didn’t disclose information that supported a definitive approach to addressing board gender diversity.

We spoke with the company’s board chair and head of human resources to share our rationale for the vote decision and our views on diversity. We commended them for adding another woman to the board post-vote and asked about their plans to reach a minimum of three or 30% female directors. The development of a formal board policy was discussed, along with potential improvements to the nomination committee terms of reference. We offered support by providing sample policies outlining core elements we would like to see.

New for 2020 proxy voting guidelines: Board gender diversity

The pace of addressing gender diversity at publicly listed companies has been uneven across markets. To support our commitment to promoting greater gender balance on boards, we’re expanding our voting action to include all markets globally and will vote against directors when we determine gender diversity is not being sufficiently addressed.

Learn more in our 2020 Corporate Governance Principles and Proxy Voting Guidelines.

Visit the Investor Leadership Network website for more information on the efforts related to the Diversity in Investment initiative being co-led by our Chief Investment Officer, Ziad Hindo.
Thematic focus area: Climate Change

We seek to grow investments that are aligned with a low-carbon economy transition, integrating climate change considerations in our investment process and engaging with companies to encourage proactive disclosure and management of climate-related risks.

Climate Action 100+ is an investor-led initiative to push the world's largest corporate greenhouse gas emitters to take action on climate change. As part of this initiative, Ontario Teachers’ encouraged companies to commit to a timeline for adoption of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in their public annual financial filings.

Through our participation in Climate Action 100+ so far, 12 companies made public commitments on climate change.

In parallel, we engaged with additional portfolio companies with elevated exposure to climate change–related risks. Through the adoption of the TCFD recommendations, we want companies to:

- Have effective board oversight of climate change;
- Disclose how climate change is addressed in corporate strategy;
- Provide clear and specific information on climate change–related risk management practices;
- Set appropriate targets on key metrics, such as energy use, emissions and water use.

New for 2020 proxy voting guidelines: Oversight of climate change risk

At companies where climate change risks are material, we hold the view that the board is responsible for the oversight of these risks. Effective oversight is demonstrated through practices such as assigning an ongoing review of climate change risk to a board committee, incorporating climate change–related metrics into compensation programs and adopting the TCFD framework.

We’ll consider not supporting individual directors, chairs or committees when we determine that a board hasn’t taken appropriate action to effectively oversee a company’s climate change–related risks.

Learn more in our 2020 Corporate Governance Principles and Proxy Voting Guidelines.

OUR PARTICIPATION IN THE CLIMATE ACTION 100+ IN 2019

- **12** committed to adopt TCFD
- **9** adopted carbon reduction targets
- **2** aligned corporate strategy with the Paris Agreement goals

TCFD developed recommendations for voluntary climate-related financial disclosures that are consistent, comparable, reliable, clear and efficient, and provide decision-useful information to lenders, insurers and investors. Ontario Teachers’ has been a supporter since 2017 and we publish our own disclosures in our Climate Change Report.
Event-driven engagement

In our fundamental public equity investments, investment teams identify and assess ESG factors, including events such as ESG-related incidents or corporate transactions, as part of their investment process.

The responsible investing and corporate governance teams monitor the public equity portfolio to uncover potential risks or red flags. With more than 10,000 companies to monitor, we leverage third-party ESG research as a first screen, and then augment that analysis with our in-house analysis.

Depending on the nature of the event, we may then engage with a company to obtain more information, to better understand how the company is managing a risk, or ask the company to take specific actions.

Putting monitoring into action: Supply chain and human rights

During our portfolio monitoring process, sexual harassment issues in the supply chain of a global consumer staples company were uncovered and we proceeded with engaging the company. Following our conversations, the company committed to take action. It launched an investigation to assess the issue, has initiated a process to improve its supplier evaluation program and is developing an action plan designed to better understand how suppliers are managing human rights, which includes sexual harassment.

We view this as a step in the right direction. If implemented successfully, the measures are expected to create a safer working environment for employees at supply chain companies and reduce potential damage to the company’s brand. We are monitoring the company’s progress.

EXECUTIVE COMPENSATION: A DISCRETIONARY COMPENSATION REVIEW

In 2019, Ontario Teachers’ corporate governance team updated and released a five-year review of discretionary compensation for executives working for public companies. Discretionary compensation refers to board-approved payments to executives that are outside of the executives’ regular employment contract. By raising awareness of this issue, we hope boards will carefully consider compensation practices and use discretionary awards only in exceptional circumstances.

Click here to see the report.
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Influence
We use our influence as a global investor to create a supportive and sustainable business environment.

We lead or participate in global organizations and initiatives to shape ESG standards and undertake research on common challenges. This way, we can address a far greater number of companies and issues than we could on our own.

We actively work with leading organizations, like-minded peers, market regulators, thought leaders and researchers around the world to advance the practice of responsible investing and improve regulations.

We join organizations and support initiatives that help us achieve our long-term objectives and are aligned with our values. We look to identify and cultivate relationships with like-minded partners globally to broaden our influence and investment reach.
Organizations and initiatives

Responsible investing is moving the world toward a future that’s beneficial for both our investments and our members. Our voice supports global advancements in the investing landscape and we use it strategically. See examples of how we did that in 2019 below, and the full list of initiatives in which we play an active role and are participants on our corporate website.

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<tr>
<td>ACCOUNTING FOR SUSTAINABILITY CFO LEADERSHIP NETWORK (CANADIAN CHAPTER)</td>
<td>A network of Chief Financial Officers (CFOs) and their teams across Canada that is working to advance understanding of sustainability, commercially viable business models and how the finance industry can contribute.</td>
<td>Our CFO, David McGraw, is a member and convened a working group to help guide valuation professionals in their assessment of the financial impact of climate change factors. As markets start considering the financial impacts of climate change, there’s a need for consistency in how those impacts are priced in. And that is one of the core objectives of the working group, which is composed of members from Ontario Teachers’ and two other Canadian pension plans, a leading real asset company and experts from accounting and valuation bodies.</td>
</tr>
<tr>
<td>ASIAN CORPORATE GOVERNANCE ASSOCIATION (ACGA)</td>
<td>Seeks to make improvements to the corporate governance landscape in Asia, through continual research, advocacy and education. It engages in dialogue with regulators, institutional investors, public companies and auditors on key corporate governance issues.</td>
<td>As a member of the ACGA for more than 10 years, we are part of delegations that meet with Asian regulators and public companies every year to discuss and promote leading corporate governance and, increasingly, ESG issues alongside other institutional investors. This is increasingly important as we expand our exposure to Asian markets.</td>
</tr>
<tr>
<td>CANADIAN STANDARDS ASSOCIATION (CSA) GROUP ON GREEN AND TRANSITION FINANCE</td>
<td>Supports the CSA in developing a Canadian Transition Finance Taxonomy to define activities that significantly reduce greenhouse gas emissions and enable the transition to a low-carbon economy. A transition taxonomy is a way to unlock investment towards projects that help get Canada onto a pathway to achieve net zero greenhouse gas emissions by 2050.</td>
<td>We’re a founding sponsor of the CSA Group on Green and Transition Finance. We’re a member of the governance advisory committee, providing input and acting as a sounding board to the executives of the CSA technical committee. We also participate in the technical committee, which is developing the principles for the taxonomy.</td>
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Our ambitions
Reducing raw material use and diverting waste from landfills – Interview with the CEO of The AZEK Company

The AZEK Company is a leading manufacturer in the fast-growing “outdoor living” market. It develops composite products such as decking, rail and trim for the residential building market.

AZEK is benefitting from a growing trend toward sustainable, low-maintenance engineered building materials that use a blend of recycled materials, such as scrap wood and plastic waste, to produce highly durable products. Composite products reduce the need to harvest trees for lumber.

Ontario Teachers’ first invested in the company in 2013, when it was known as CPG International. We were attracted by the company’s long-term growth prospects.

Since then, Chicago-based AZEK has made significant investments in its U.S. recycling capabilities, while reducing costs. Deborah Ng, Ontario Teachers’ Head of Responsible Investing, asked AZEK Chief Executive Officer Jesse Singh to talk about sustainability throughout the company’s value chain.

“...are estimated to have been saved through our customers choosing composite decking products over wood alternatives

290 million pounds of waste and scrap were diverted from landfills in 2019 through our recycling program

96% of water used is recycled annually in our closed-loop water filtration systems at our largest facilities

98% of scrap that we generate is reused internally, and most of our products are also recyclable at the end of their useful lives

1+ million trees are estimated to have been saved through our customers choosing composite decking products over wood alternatives

“We have a proven track record of developing innovative and sustainable new products that accelerate the conversion away from traditional wood, increase the use of recycled materials and expand our markets.”

– Jesse Singh, Chief Executive Officer, The AZEK Company
Q&A with Jesse Singh

DEBORAH NG: WHAT DOES SUSTAINABILITY MEAN AT AZEK?

Jesse Singh: The building products industry hasn’t always been a leader in sustainability, but things are changing. At AZEK, it’s really at the core of our business. We focus on sustainability by recycling plastic waste and other scrap materials and by using equipment and processes that reduce energy and water consumption.

We’ve developed materials that offer our customers beautiful, low-maintenance decking, rail and trim, while also diverting millions of pounds of plastic, wood waste and tires from landfills and conserving trees.

DN: HOW MUCH RECYCLED CONTENT IS IN YOUR PRODUCTS?

JS: Our TimberTech PRO and EDGE decking lines offer high-quality products made from approximately 80% recycled material, while AZEK pavers are made from approximately 95% recycled material.

What’s more, we reuse about 98% of the scrap we generate ourselves, and the majority of our TimberTech, AZEK Exteriors and Versatex products are recyclable at the end of their useful lives.

We opened a new 100,000 square foot polyethylene recycling facility in December 2018. Polyethylene is one of the most common plastics in the world, and our facility uses advanced technologies to transform this plastic into material used in manufacturing our products. Through the recent acquisition of Return Polymers we now also have in-house capabilities to recycle PVC, another widely used type of plastic that we use in our products.

Of course, this has both financial and environmental benefits.

DN: WHAT IS THE FINANCIAL IMPACT?

JS: Using recycled content in our products improves our operating margins. Flexibility in our raw material sourcing allows us to lower input costs, reducing our reliance on more costly virgin raw materials while helping to protect us from potential supply chain disruptions.

We are still in the early stages of material substitution across our manufacturing network. We believe we will see additional cost savings as we ramp up internal processing of recycled materials.

DN: ARE THERE OTHER WAYS AZEK INCORPORATES SUSTAINABILITY INTO THE BUSINESS?

JS: Our facilities in Ohio and Pennsylvania use closed-loop water filtration systems that recycle approximately 96% of water used. Our polyethylene recycling facility uses energy-efficient systems for power, heating, water, cooling and lighting.

For over 30 years, our research and development team has built up expertise in material science and production process technologies. The R&D team is constantly striving to incorporate more hard-to-recycle materials into our manufacturing process and introduce products with longer life spans than the materials they replace, such as exotic hardwoods cut from rainforests.

Q: WHAT’S THE MARKET OPPORTUNITY FOR AZEK?

JS: We think the transition away from traditional wood materials in decking and exteriors is at an inflection point. Consumers are increasingly environmentally conscious in their purchasing decisions. At the same time, homeowners are gravitating to larger decks, patios and outdoor amenities for leisure and entertaining.

So the market is growing, and we aim to increase our slice of this growing pie.
Evolve

We evolve to build our institutional knowledge and to keep ahead of the curve.

The world is constantly changing and we need to always be learning and developing our understanding of ESG topics and trends. We stay abreast of emerging issues, seek new tools and approaches, and share our learnings across our organization to continually improve our ability to recognize, evaluate and act upon ESG opportunities and risks.

We also continue to evolve our responsible investing practices and approach, emphasizing total-fund and value-added returns and volatility management.
Walking the talk with carbon footprints

In requesting more transparency and disclosure on climate change from our portfolio companies, we believe it’s just as important for us to disclose our own. And like so much in responsible investing, carbon footprint calculations continue to evolve.

In 2017, we started by disclosing the carbon footprint of our public equity portfolio. In 2018, we expanded our carbon footprint reporting to include our private holdings. Carbon data was embedded in our information systems so anyone in the organization could view carbon emissions by holding, and analyze the carbon intensities of companies, sectors, portfolios or even the total fund.

Today, we use companies’ carbon footprints to establish benchmarks and leverage that in our ESG Maturity Framework, and to identify potential candidates for engagement. In addition, by asking private companies for this information, we are also encouraging them to measure and manage their own carbon footprint.

We’re looking at supplementary metrics to help us continue to understand our portfolio’s carbon footprint. Our 2019 Climate Change Report, which will be published later this year, will provide an update on our climate change approach.

Carbon data can provide insights on whether a company is reducing emissions year over year, how a company’s emissions compare to another or in identifying sectors more exposed to carbon pricing, among others. The carbon footprint tool provides investment teams with an easy-to-use and flexible interface to gather insights.
Contributing to the UN Sustainable Development Goals

The United Nations–backed Sustainable Development Goals (SDGs) define key elements for inclusive economic growth to 2030, and consider inputs from governments, businesses, academia and non-profit organizations globally. The SDGs comprise 17 goals, with 169 underlying targets, which have been agreed to by all 193 United Nations member states.

In addition to outlining where investment is required, the SDGs call to action all stakeholders to play an active role in helping shape the course of sustainable development.

Because they are focused on addressing areas of need to achieve a vibrant and thriving global community, we believe that the SDGs present attractive opportunities for us to meet our return objectives. However, like many in our industry, understanding is nascent. In 2019, we assembled a cross-departmental, interdisciplinary team to build our capabilities to assess SDG-related investments. Some of our areas of activity in 2020 include:

- Mapping our investments to the SDGs to understand where we are currently exposed to companies that contribute to one or more of the SDGs;
- Undertaking research to understand how we can assess SDG-related investments and/or their impact;
- Focusing our efforts in areas where we think we can have a meaningful impact, both financially and societally.

We’re excited to embark on this multi-year journey to understand how we can contribute meaningfully towards the achievement of this aspirational agenda. The work we complete in 2020 will lay the foundation for achieving our financial objectives while contributing to a better world.
Contributing to the UN SDGs (continued)

As we began to learn more about the SDGs, we realized that Ontario Teachers’ already has a number of direct investments that contribute to the SDGs, underlining our conviction that we can achieve good returns and have positive impact.

- **Universal and equitable access to safe and affordable drinking water for all**
  
  Ontario Teachers’ investment in Chilean water utilities has enabled the provision of safe, sufficient and affordable drinking water for Chileans. Our water utilities meet or exceed the World Health Organization’s water guidelines for drinking water quality. Between 2008 and 2017, our local water utilities Esval, Aguas del Valle, Essbio and Nuevosur have invested more than US$1.4 billion (combined) in the expansion and modernization of operations, delivering improved service to over 1.9 million clients.

- **Access of small-scale enterprises to financial services, particularly in developing countries**
  
  In 2017, Ontario Teachers’ invested in Spandana Sphoorty Financial Ltd., a microfinance institution that provides small unsecured loans to women, primarily in rural India. Spandana is one of the largest and most seasoned microfinance institutions in India and has provided loans to almost 1.6 million people (2018 figures).

- **Strengthen resilience and adaptive capacity to climate-related hazards and natural disasters**
  
  Sydney’s Desalination Plant (SDP) is one effective way of securing Sydney’s water supply against the effects of climate change, population growth and drought. Currently, SDP can supply water to up to 1.5 million people and is powered by 100% renewable energy. Under its operating licence, SDP is able to supply about 15% of Sydney’s total drinking water requirements (when necessary).
Our ambitions

We’ve been active in responsible investing and corporate governance for years. So at the dawn of a new decade, we’re thinking of new ways to develop and extend our responsible investing practices to earn returns to pay our members’ pensions for generations to come, and to help companies and markets shape a better future.

Here are just a few of the ways that We will lead, We will learn, and We will last.

Digging deeper into climate change risks and opportunities

**CLIMATE CHANGE COLLABORATION**

Ontario Teachers’ will collaborate with Wellington Management Company LLP, one of the world’s largest independent investment management firms, and Woods Hole Research Center, the world’s leading independent climate research institute, on the development of knowledge and tools to further understand the financial implications of climate change.

**CLIMATE CHANGE DASHBOARD**

Climate change considerations are important not only when evaluating individual transactions or monitoring companies, but at the total portfolio level. To complement company and sector level efforts, we are developing a more holistic view of climate change risk from a total-fund perspective. We are exploring various ways to better assess our portfolio climate change risk and seek alternative or additional metrics to our portfolio carbon footprint. Better data and communication tools, through a climate change dashboard, will let us efficiently share findings among our internal teams.

**Teaming up with a new engagement partner**

We’ll embark on a program with expert provider Hermes Engagement Ownership Services for engagements with large-capitalization companies in our equity index investments. Hermes is a dedicated engagement company with a global reach and local expertise. It works on behalf of pension funds and other longer-term institutional investors to engage with companies on ESG issues and business strategy to promote long-term corporate value. This program will complement the direct and collaborative engagements we already have on the go. It’s an effective way for us to convey our views to the boards and management teams of large companies around the world.

**Raising the volume on sustainability disclosure**

In 2020, through our engagement program, we will encourage companies with a combined market capitalization of over $4 trillion to adopt the Sustainability Accounting Standards Board (SASB) disclosure framework.

SASB sets sustainability disclosure standards that are industry-specific and based on materiality, guiding companies to report ESG information in a way that’s meaningful and helping investors like ourselves assess risk and enhance our decision-making process when allocating capital.

Learn more in our 2019 Climate Change Report, coming out soon.
Evolution of responsible investing at Ontario Teachers’ Pension Plan
Message from the Chair
Message from the CIO
Shaping a better future
Our approach to responsible investing
Investing today for a sustainable future
Integrate
Cubico Sustainable Investments
ESG Maturity Framework
Engage
Proxy voting: A powerful tool for change
Votes on shareholder proposals
Thematic focus areas
Event-driven engagement
Influence
Organizations and initiatives
Interview with the CEO of AZEK
Evolve
Walking the talk with carbon footprints
Contributing to the UN Sustainable Development Goals
Our ambitions

Ontario Teachers’ Pension Plan
5650 Yonge Street
Toronto, Ontario M2M 4H5
+1 416-228-5900
communications@otpp.com

Ontario Teachers’ Pension Plan
10 Portman Square
London W1H 6AZ
+44 20 7659 4450
contact_london@otpp.com

Ontario Teachers’ Pension Plan (Asia) Limited
Suite 2801, 2805-2810, Alexandra House
18 Chater Road, Central Hong Kong
+852 2230 4500
inquiry_asia@otpp.com

We can be reached at
responsible_investing@otpp.com

WWW.OTPP.COM