Annual Responsible Investing and Climate Change Report

Shaping a better future

ONTARIO TEACHERS' PENSION PLAN

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The Ontario Teachers' Pension Plan Board (Ontario Teachers') manages $227.7 billion in net assets as of June 30, 2021. We invest for, and administer the pensions of, more than 331,000 active and retired Ontario teachers.

Responsible investing is embedded in our strategy and throughout our organization. We believe strong environmental, social and governance (ESG) practices enable us to make good investments today, while also having a positive impact on future generations. As a long-term and global investor, we are an active steward and engaged owner of businesses – not only to earn returns, but to help shape a better future.

Integrating our ESG disclosure

This Responsible Investing and Climate Change Report consolidates previously separate reports about our responsible investing and climate change actions. Our responses to the Task Force on Climate-related Financial Disclosures (TCFD) can be found on our website.

CIO message to stakeholders

The global pandemic shook the foundations of our business, and businesses around the world. It also underlined the importance of taking a responsible approach to investing that minimizes the impact of environmental and social risks on people, communities and companies.

Active and engaged management of environmental, social and governance (ESG) issues is a fundamental element of how we invest. It is deeply embedded in what we do every day, and the global health crisis only strengthened this conviction. In fact, amid the pandemic, we intensified our focus and efforts on ESG, particularly around one of the most crucial issues of our time: climate change.

The most important milestone in our ESG journey so far

The commitment we made earlier this year to achieve net-zero greenhouse gas emissions by 2050 aligns our organization with the Paris Agreement. It also demonstrates the scale of the impact we want to have. Our plan isn't only about bringing Ontario Teachers' to net zero; it's about helping the world around us get to net zero, too.

As a leading global investor, we have an important role to play – we need to use our capital and influence to accelerate the global transition to a net-zero world. That's why we've committed to targets that will significantly reduce our emissions intensity – first, by almost half by 2025, then by two-thirds by 2030. These are ambitious and industry-leading, both in scale (across our entire portfolio of public and private assets, including those that are externally managed) and magnitude.

Investing for long-term impact

Climate change permeates the entire investing landscape. Tackling it requires significant expertise and massive amounts of capital. We are poised to significantly grow our existing $30 billion+ in green investments through opportunities that enable the net-zero transition, reduce greenhouse gases and build a sustainable economy. Our investment teams are pivoting their strategies to reflect this imperative.

Pursuing sustainable investments is only one side of the ledger. To complement our growing green investments, we believe it is our responsibility to support the transition of businesses to a more sustainable global economy. This means allocating capital to emissions-intensive businesses that, with pragmatic owners and patient capital, can be transformed to thrive in the low-carbon world. I believe this approach – while more challenging than simple divestment – will lower real-world emissions and create greater long-term value. This will be a win for the environment and our members.

Aiming for widespread prosperity

Our long-term ability to meet our financial obligations is connected to how well the world is doing. Beyond climate, social factors such as diversity, equity and inclusion play crucial roles in building widespread global prosperity.

At Ontario Teachers', we draw strength from diversity of background and thought because we believe it improves decision making and leads to better outcomes. Attracting talent from broader pools and addressing issues that matter to our

employees are ways in which we're creating a culture of belonging among employees.

Beyond our walls, we are working with our partners, peers and portfolio companies to promote diversity in the finance industry and beyond. We will continue championing diversity at our private portfolio companies, engaging with public company boards to improve their practices and exercise our influence by voting against those that do not.

Ultimately, our ability to effectively manage these and the many other ESG risks and opportunities will help determine our long-term sustainability. I am confident the actions we are taking today position us to continue delivering retirement security for our members while shaping a better future for all.

Ziad Hindo
Chief Investment Officer

Responsible investing governance

Responsible investing governance begins with our board and extends through every level of our organization.

BOARD

- Oversees the responsible investing program and climate change approach
- Reviews and approves annual objectives and scorecards, including ESG-related objectives that are used to assess performance and determine annual compensation
- Receives regular updates from management and approves ESG-related guidelines
- Constructively challenges management on ESG matters when investment transactions come to the board for approval

MANAGEMENT

- CEO, as chair of our Enterprise Risk Management (ERM) Committee, ensures processes are in place to manage material risks, including ESG risks
- CEO is the chair of the Investor Stewardship Committee and reviews and approves our responsible investing and climate change strategies
- CIO integrates ESG considerations into investment strategy and ensures processes and practices are in place to manage ESG risks for the investment portfolio
- CIO regularly provides updates on responsible investing and climate change at board Investment Committee meetings

INVESTMENT TEAMS

- Investment executives oversee the day-to-day integration of ESG and climate change considerations into investment activities
- Identify, assess and manage material ESG and climate change–related risks and opportunities for assets under their management
- Develop macro views and assess climate-related opportunities

ERM COMMITTEE

Chaired by CEO, includes executive team

- Works with the board to establish our risk appetite
- Oversees, assesses and monitors material risks to the organization

INVESTOR STEWARDSHIP COMMITTEE

Chaired by CEO, includes investment executives

- Oversees stewardship policies and activities, including:
  - Proxy voting guidelines
  - Climate change strategy
  - Corporate engagement priorities
- Establishes external position on ESG
- Directs advocacy efforts

GREEN BOND COUNCIL

Chaired by Managing Director, Treasury & Integration, includes representatives across asset classes and total fund management

- Oversees and implements Green Bond Framework
- Evaluates assets' alignment with green bond eligibility criteria
- Maintains and monitors Green Bond Register
- Monitors green bond market developments

The Responsible Investing section of our website contains detailed information on our principles (Integrate, Engage, Influence, Evolve) and practices. Our Responsible Investing Guidelines ensure we consistently identify, assess and manage ESG risks and opportunities across assets and throughout the investment lifecycle.

These principles and practices contribute to the long-term sustainability of the pension plan. We will pay pension benefits to future generations of Ontario teachers while helping to shape a better world.

We are on a path to significantly reduce our portfolio emissions intensity by 45% by 2025 and by 67% by 2030.

Climate ambition and targets →

Climate ambition and targets

In January 2021, Ontario Teachers' announced our commitment to achieve net-zero greenhouse gas (GHG) emissions[1] by 2050. This means we will use our scale and influence to accelerate the transition to a low-carbon economy, working with other entities to create a sustainable climate future. With the unprecedented impacts of climate change upon us, this journey isn't only about driving our portfolio to net-zero emissions; it's also about helping the world around us get to net zero.

We have an ambitious plan that will deliver a substantial decline in our portfolio carbon emissions intensity while contributing to the global economy's massive and complex process of decarbonization. This metric, portfolio carbon emissions intensity, calculates the emissions of all our portfolio assets per dollar invested.

Interim net-zero targets

To be accountable to members and stakeholders, and to act immediately, we established ambitious near- and medium-term targets.

We are on a path to significantly reduce our portfolio carbon emissions intensity by 45% by 2025, compared to the 2019 baseline. In other words, we will nearly halve our carbon emissions intensity in less than five years.

Looking out further, we plan to decrease our portfolio carbon emissions intensity by two-thirds by 2030, from 2019 levels.

Target	2025	2030
Carbon emissions intensity reduction against 2019 baseline *(tCO_2e/C$ millions)* **Scope 1 and 2 emissions[2]** **Real assets, private and public equity, and corporate fixed income**	↓**45%**	↓**67%**

We selected an emissions intensity reduction target over an absolute emissions reduction target. Our investment portfolio is set to grow significantly over the next 10 years, with a goal of reaching $300 billion by 2030. An intensity target allows for such growth and encourages us to seek investments in climate solutions, and work with companies to transition away from fossil fuel use – actions that make a real difference.

Nonetheless, our absolute portfolio emissions will decrease markedly over these interim time frames, and we will continue to report them when disclosing our portfolio carbon footprint.

Refer to the Portfolio Carbon Footprint section, on page 13, for our latest disclosure.

Our targets are bold and cover a significant majority of our portfolio: not only our public equity and credit investments, but our private equity, real estate, infrastructure and natural resources investments as well, including externally managed assets.

1 Since we convert all greenhouse gases to tonnes of carbon equivalent (tCO_2e) in our calculations, the terms "greenhouse gas" or "GHG" and "carbon emissions" are used interchangeably in this report.

2 Scope 1 GHG emissions are direct emissions from a company we invest in, such as from fuel consumption within the company's operations. Scope 2 are indirect GHG emissions from purchased energy, such as electricity, steam, heating and cooling.

Our plan to reduce our portfolio carbon footprint is founded on two core components:

1.

Significantly increasing investment in companies that generate clean energy, reduce demand for fossil fuels and build a sustainable economy ("green investments"). We will achieve this by:

- **a.** Making direct green investments
- **b.** Building on our capabilities to successfully deploy capital in emerging climate sectors
- **c.** Partnering with like-minded investors
- **d.** Using green bonds

2.

Helping portfolio companies in the transition to net zero. We will achieve this through:

- **a.** Active management – aligning companies to net zero by 2050
- **b.** Supporting the transition of high emitters
- **c.** Broader engagement

"Our net-zero commitment is rooted in our goal of making a real-world impact to reduce global greenhouse gas emissions while continuing to achieve our investment return objectives."

JO TAYLOR, President and CEO

Significantly increasing green investments

Long-term capital has an important role to play in an orderly and inclusive transition to a low-carbon economy. We have over $30 billion in green investments, and we will accelerate our investment in areas such as renewable energy, electrification, energy efficiency, green buildings and the circular economy.

Here are the ways we will achieve this.

Making direct green investments

We have been steadily growing our green asset exposures over the years. Since we announced our net-zero commitment in January 2021, we've boosted our green investments: we've deployed more than $2 billion and committed $3 billion to green investments. Some examples include new investments, such as Vayda (see case study on page 17) and Equis (case study to the right) as well as additional commitments to existing portfolio companies, such as Cubico Sustainable Investments (our renewable power platform).

Building on our capabilities to deploy capital in emerging climate sectors

In 2020, we established an internal cross-asset-class group and refocused one of our private equity teams to target investment opportunities in the energy transition. These two groups are in addition to our greenfield and renewables team, which we created in 2016.

Virtual Energy & Renewables Team (VERT):

- Composed of senior professionals, VERT takes a total-fund approach to investing in climate-smart assets, sustainability and the energy transition across all asset classes.
- Brings together and builds on asset-class resources, sector and strategy expertise to increase climate-themed investments.

Sustainable Energy Transition Team:

- Our private capital energy team, which used to pursue oil and gas investments, pivoted to focus on energy transition.
- Investment opportunities include sustainable fuels, conversion of waste to new products, and commercial and industrial decarbonization through electrification – equipment and services that enable a sustainable transition.

Case study

Expanding renewable investments in Asia

In late 2020, we partnered with a wholly owned subsidiary of the Abu Dhabi Investment Authority and experienced infrastructure fund managers to invest in Equis Development Pte Ltd. (Equis), a new renewable energy platform in the Asia-Pacific region. Equis, based in Singapore, will develop, build, own and operate renewable energy, biomass and waste infrastructure assets. The company is active throughout the lifecycle of an asset, including originating, financing, constructing and operating assets within the targeted sectors. In other words – it is building these greenfield assets from the ground up.

Equis is focused on Australia, Japan and South Korea, and will help us establish a foothold in renewables in Asia. It complements our four-gigawatt-and-growing renewable energy portfolio across Europe and the Americas.

Partnering with like-minded investors

Ontario Teachers' is an anchor investor in two new funds focused on climate solutions and the net-zero transition. These strategic partnerships complement our direct investing activities, position us to collaborate with investors that share our commitment to climate action, and bring further insights to our teams.

Brookfield Global Transition Fund

We made a major commitment of capital and are strategically investing alongside the Brookfield Global Transition Fund. With an initial capital raise of US$7 billion, the fund can grow to as much as US$12.5 billion, making it the largest fund dedicated to accelerating the transition to a net-zero economy to date.

Brookfield plans to scale up clean energy, invest capital to catalyze the transformation of carbon-intensive businesses and support sustainable solutions to align with the objectives of the Paris Agreement.

TPG Rise Climate

We made a strategic allocation to TPG Rise Climate, the climate investing strategy of TPG's US$11 billion global impact investing platform TPG Rise (in which we have also invested). It brings together a blend of capital from some of the world's largest institutional investors and more than 20 leading companies to invest in the entrepreneurs and businesses building climate solutions around the world.

TPG Rise Climate plans to build a portfolio of companies that avert carbon emissions in a quantifiable way. It will focus on clean energy, enabling solutions, decarbonizing transport, greening industrials, and agriculture and natural solutions.

Using green bonds

Our wholly owned subsidiary, Ontario Teachers' Finance Trust (OTFT), issues benchmark bonds in various currencies. By tapping into the green bond market, we can broaden and diversify the sources of funds for our investment strategies. OTFT's first green bond issuance took place in 2020.

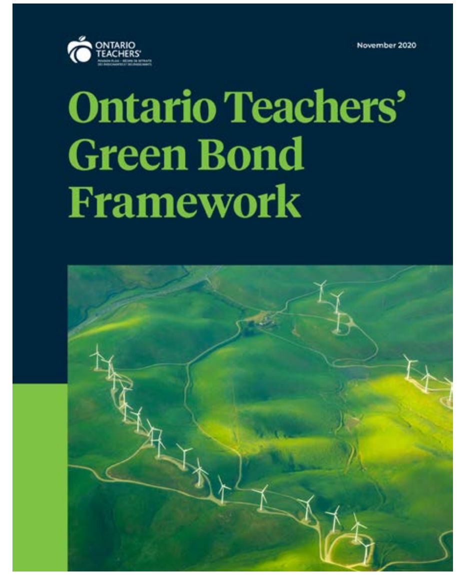
We asked Audrey Gaspar and Deborah Ng to discuss the role and use of green bonds. Audrey leads our Treasury & Integration team and chairs our Green Bond Council. Deborah leads responsible investing and is vice chair of the Green Bond Council.

Q: What are green bonds?
Audrey: Green bonds are a way for debt issuers to raise money for specific projects or types of investments, such as products or services that replace direct fossil-fuel use, help society adapt to climate change impacts, and support the transition to a low-carbon economy. They also provide investors an opportunity to invest in green assets and projects that follow transparent and market-accepted standards and reporting.

Q: Why issue green bonds?
Audrey: Green bonds help investors access capital for the purpose of investing in sustainable companies and climate-smart technology. OTFT's first issuance met with high demand, gave us access to new investors seeking to fund green investments, and reflected our strong credit ratings and reputation in the capital markets.

Q: How will proceeds be used?
Deborah: Ontario Teachers' Green Bond Framework describes our green investment principles and the intended use of proceeds. A few examples of eligible assets include renewable energy generation, transmission and storage, electrification of vehicles and green buildings. They also include products or services that remove or store carbon, preserve or conserve scarce resources such as water, prevent and control pollution and waste, and others.

Q: How can stakeholders be confident that the proceeds actually deliver benefits?
Deborah: All eligible green assets are reviewed by our Green Bond Council for consistency with Ontario Teachers' Green Investment Principles and eligibility criteria, as per our Framework. As long as there are outstanding green bonds, annual reports will be issued providing detailed information on the use and allocation of proceeds, and their associated impact. Both the Green Bond Framework and the Green Bond Report, along with impact metrics, are independently reviewed by leading providers of second-party opinions.



Learn more about OTFT's Green Bond offering on our website.

Helping portfolio companies in the transition to net zero

Just as important as investing in green assets is the transformation of existing businesses across economic sectors. As active, engaged investors, we use our influence and experience to help companies plan and execute their transition to a net-zero future. Selling high-carbon-emitting assets does not significantly reduce emissions or demand for fossil fuels. It simply shifts the responsibility to reduce emissions to another owner.

Here are the ways we'll effect change.

Active management – aligning companies to net zero by 2050

We can't get companies to manage emissions and set targets if they are not measuring them. In our direct private portfolio, where we can influence actions through ownership, we've been able to boost the reporting of carbon emissions to 56% in 2020, from 37% in 2019. This reduces estimation of carbon emissions and increases the accuracy of our portfolio carbon footprint. In 2021, we've produced resources like fact sheets and webinars to support our teams and portfolio companies in measuring carbon emissions. We also added a new element to our scorecard: **our investment teams have a target to further increase reported vs. estimated emissions by 20% in 2021 in our direct private portfolios.**

Once emissions are calculated, the portfolio company can define a baseline for setting targets and create a net-zero transition plan. We have set a net-zero transition portfolio coverage target for the companies in which we have significant stakes (minority or control). **We expect two-thirds of the portfolio's carbon emissions to be covered by a credible net-zero transition plan and target[1]. By 2030, our target coverage is 90%.** Currently, about 6% of this portfolio's carbon emissions are covered by a credible net-zero plan. There is work to do, and we want to drive positive change. See Cadillac Fairview's case study on the next page.

Supporting the transition of high emitters

We work with companies that have high emissions to help accelerate their transition to a net-zero world. As we deploy this strategy, we may see annual fluctuations in our portfolio carbon footprint as we help companies decarbonize their operations. Our interim targets will keep us accountable over the long term while we prove our investment and decarbonization thesis. Refer to SGN's case study on the next page.

Broader engagement

We continue to engage directly, with peers and through industry initiatives, to encourage companies to report their carbon footprints and set emission reduction targets. For publicly traded companies, we vote against boards that fail to demonstrate meaningful progress on a net-zero ambition.

We also participate in industry initiatives and engage with policymakers to help promote a financial ecosystem and standardized climate change reporting requirements and regulations in line with a net zero by 2050 world.

Find out more in our engagement and influence sections.

Target

Net-zero transition portfolio coverage (% of portfolio's emissions aligned to net zero by 2050) Applicable to companies in which we have significant stakes.	2020	2025	2030
	6%	**67%**	**90%**

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

Active management – aligning companies to net zero by 2050

Case study

Partnering to cut emissions: Cadillac Fairview and Enwave Energy

We invest in core real estate properties through our wholly owned subsidiary Cadillac Fairview (CF). Sustainability has long been at the heart of our relationship with CF. Since 2008, CF has reduced carbon emissions by 42% and water use by 54%, and in 2020 it diverted 80% of its waste from landfills. This has been reflected on CF's top scores since it started reporting to GRESB[1] in 2016. CF ranked 1st in the 2021 GRESB North America Diversified Office/Retail category and achieved a Green Star ranking, a designation given to real estate organizations that demonstrate leadership in ESG practices and performance.

CF is always eager to find innovative ways to further reduce building emissions. It was one of the first companies to adopt Deep Lake Water Cooling technology, which circulates cold water from the bottom of Lake Ontario throughout buildings in downtown Toronto to cool them and reduce energy consumption.

The technology has been used for well over a decade, starting with offices in the Toronto-Dominion Centre complex and covering many other properties. In 2019, its use was expanded to four additional CF properties, including the CF Toronto Eaton Centre complex. As a result, the downtown Toronto marquee retail centre and the office attached to it are cooled by this sustainable cooling source all year round.

This innovative technology is made possible by Enwave Energy, a district energy business that provides sustainable district cooling and heating solutions to municipalities, communities and campuses. Enwave's Toronto district energy system displaces 55 megawatts of energy annually from the city's grid – enough to power eight hospitals. Enwave is jointly owned by Ontario Teachers' and a partner. The company is pursuing expansion, with plans to scale its low-carbon solutions in existing and new markets in the United States and Canada.

1 GRESB BV is the industry standard for assessing and benchmarking the sustainability performance of real assets.

Supporting the transition of high emitters

Case study

Pursuing clean gas at SGN

Our portfolio company SGN, the natural gas operator in the south of England and across Scotland and Northern Ireland, is starting a pilot project to explore hydrogen as a home energy source. SGN received approval in 2020 for its H100 Fife project: a 100% hydrogen demonstration network in Levenmouth, Fife, that will bring carbon-free heating and cooking to 300 homes. The gas will be produced by a dedicated electrolysis plant powered by a nearby offshore wind turbine. Visit the SGN website for more details.

SGN is also reducing the environmental impact from its own operations and is targeting a net-zero GHG footprint by 2045. Key initiatives include reducing gas leakage, using 100% renewable energy and rolling out zero-emission fleet vehicles.

Portfolio carbon footprint

Our portfolio carbon footprint is a snapshot of the carbon emissions from our investments.

In 2020, we increased the assets covered by our footprint by including corporate fixed income (corporate bonds, external credit funds and credit derivatives). To do that, we've had to change how we attribute a company's emissions among investors.

To maintain transparency, we report on both our former (equity ownership) and current (enterprise value ownership) methodologies, and both set of values were externally assured by Deloitte for the 2019 and 2020 year-ends. Going forward, we plan to report emissions using an enterprise value-based allocation. **Please refer to Appendix A for further details on our methodology and Appendix B for Deloitte's assurance statement.**

Equity ownership method

This method is based on the sum of the equity ownership only of each portfolio company's greenhouse gas emissions, resulting in our equity portfolio's exposure to greenhouse gas emissions. As explained above, we do not intend to continue using this method and the table below is included in this report for transparency purposes.

	2020			2019		
Portfolio carbon footprint	Public Equities	Private Assets	Total	Public Equities	Private Assets	Total
Market exposure of holdings (C$ millions)	39,742	97,389	137,131	28,703	94,030	122,733
Carbon footprint (tCO_2e/C$ millions)	115	37	59	203	41	79
Total carbon emissions (tCO_2e)	4,574,237	3,555,246	8,129,483	5,826,709	3,855,230	9,681,939

Enterprise value ownership method

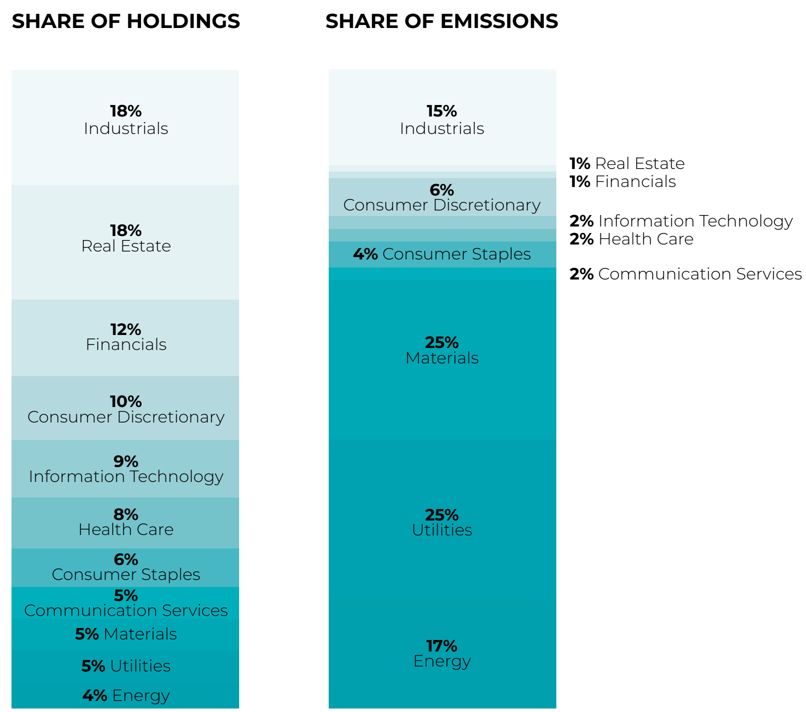
This method allows for the inclusion of both equity and corporate fixed income holdings. It was recommended by external experts, including consultants and nonprofit organizations. It is also recommended by one of the only standards available for portfolio carbon footprint accounting – the Partnership for Carbon Accounting Financials. **2019 marks the baseline of our 2025 and 2030 interim targets.**

	2020				2019			
Portfolio carbon footprint	Public Equities	Private Assets	Corp. Fixed Income	Total	Public Equities	Private Assets	Corp. Fixed Income	Total
Value of holdings (C$ millions)	39,742	97,389	17,907	155,038	28,703	94,030	12,073	134,806
Carbon footprint (tCO_2e/C$ millions)	62	20	117	42	103	24	88	47
Total carbon emissions (tCO_2e)	2,454,422	1,973,834	2,090,743	6,518,999	2,970,201	2,300,473	1,057,184	6,327,858

Highlights of the 2020 carbon footprint and main changes in relation to 2019 include the following:

- By expanding our portfolio carbon footprint to include all the ways we finance companies, we are now allocating carbon emissions across equity and debt investors. This is in line with leading practices for carbon accounting and reporting. As a result, our share of portfolio companies' emissions is lower than if we shared only across equity investors. The same is true for our portfolio carbon footprint emissions intensity.
- The decrease in public equities carbon intensity is mainly due to a reduction in our passive portfolio and an increase in our active stock-picking strategies.
- The increase in credit emissions was driven by two main factors: 1) on an absolute basis, we increased our credit allocation; and 2) on a carbon intensity basis, we allocated funds to passive credit indices which had higher carbon intensity than our active credit programs.

Sector-based carbon footprint contribution (2020)



Engaging for positive, long-term change is a significant part of our strategy.

Responsible investing in practice →

Responsible investing in practice

Integration of ESG factors

Ontario Teachers' integrates ESG considerations into our investment process to manage risk and add value. We consider material ESG factors throughout the entire investment lifecycle: when looking at investment opportunities; when making our initial investment; and when managing our assets.

As of 2020, our Responsible Investing and Corporate Governance teams are part of the Total Fund Management department, which is part of the Investment Division. Making this move better allows the integration of ESG in our investment strategy and planning processes.

In 2020, the Responsible Investing team was involved in and reviewed over 70 potential and realized transactions valued at more than C$25 billion across asset classes.

The Responsible Investing and Corporate Governance teams are centres of excellence that help our investment teams evaluate ESG risks and opportunities and make more informed investment decisions. This includes identifying material ESG factors, looking at past performance and discussing ESG details with company management, external managers or third-party experts. If the investment involves partners, we review the partners' policies, practices and track record to make sure they are aligned with our own.

The most frequent factors assessed include:

Environmental	Social	Governance
Climate change	Labour practices	Environmental and social policies
Energy management	Employee health and safety	Data privacy management
Waste and hazardous materials management	Customer welfare	Governance structure and rights

Case study

Integrating new technology and techniques to yield better farm soils

Ontario Teachers' is nurturing more sustainable ways of farming by incorporating a variety of ESG considerations in a new venture. Alongside some of our long-standing operating partners in the agriculture sector and our technology incubator, Koru, we launched a new entity called Vayda that draws on our collective farming, investment and start-up expertise. We aim to build an institutional-scale regenerative farming platform in the United States and help farmers make the shift to "regen" agriculture.

Regen farming refers to a range of practices, such as minimal or no tilling, cover cropping and increasing crop diversity, that help increase soil health and allow more diverse and natural ecosystems to flourish. It stands in contrast to conventional row-crop farming practices that favour synthetic inputs, monocrops, and heavy plowing, which erode soil and release carbon into the atmosphere.

By integrating new technology, farmers can significantly improve agricultural operations, environmental outcomes and the quality of food produced.

In some ways, this is a return to old-fashioned practices. By planting cover crops and using natural inputs (manure instead of fertilizer and pesticides), soils retain more water and more easily withstand severe weather and pests. They are less prone to erosion, more biodiverse, and better able to sequester carbon – all of which promotes increased organic matter in soil. Land farmed using regenerative practices can "capture" between two and three tonnes of carbon dioxide per acre.

Regen farming has a modern twist, too. By integrating new technology – such as sensors, imaging, variable irrigation, precision spraying and data analytics – farmers can significantly improve agricultural operations, environmental outcomes and the quality of food produced.

By growing more nutrient-dense foods at a lower cost, we all benefit: nature, farmers, consumers and investors.

Positive impact through engagement and voting

Our engagement program is led by the Responsible Investing and Corporate Governance teams in collaboration with our equity teams, and overseen by our Investor Stewardship Committee, whose members include our CEO, CIO and senior members of the Investments, Risk and Corporate Affairs departments.

We have three main drivers for engagement with companies:

1. **Theme-oriented**
   We engage on ESG topics that are aligned with our corporate priorities or are foundational – e.g., climate change, diversity and disclosure.
2. **Company-oriented**
   We build long-term relationships with strategic companies with the aim to protect and create value.
3. **Event-triggered**
   Through our asset management process, an ESG-related incident may arise that prompts a discussion with the company. We may also engage in situations where poor decision making by companies is uncovered during the proxy voting process.

We approach companies with a partnership mindset, seeking confidential, pragmatic and constructive dialogue.

Owning shares in public companies around the world 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.

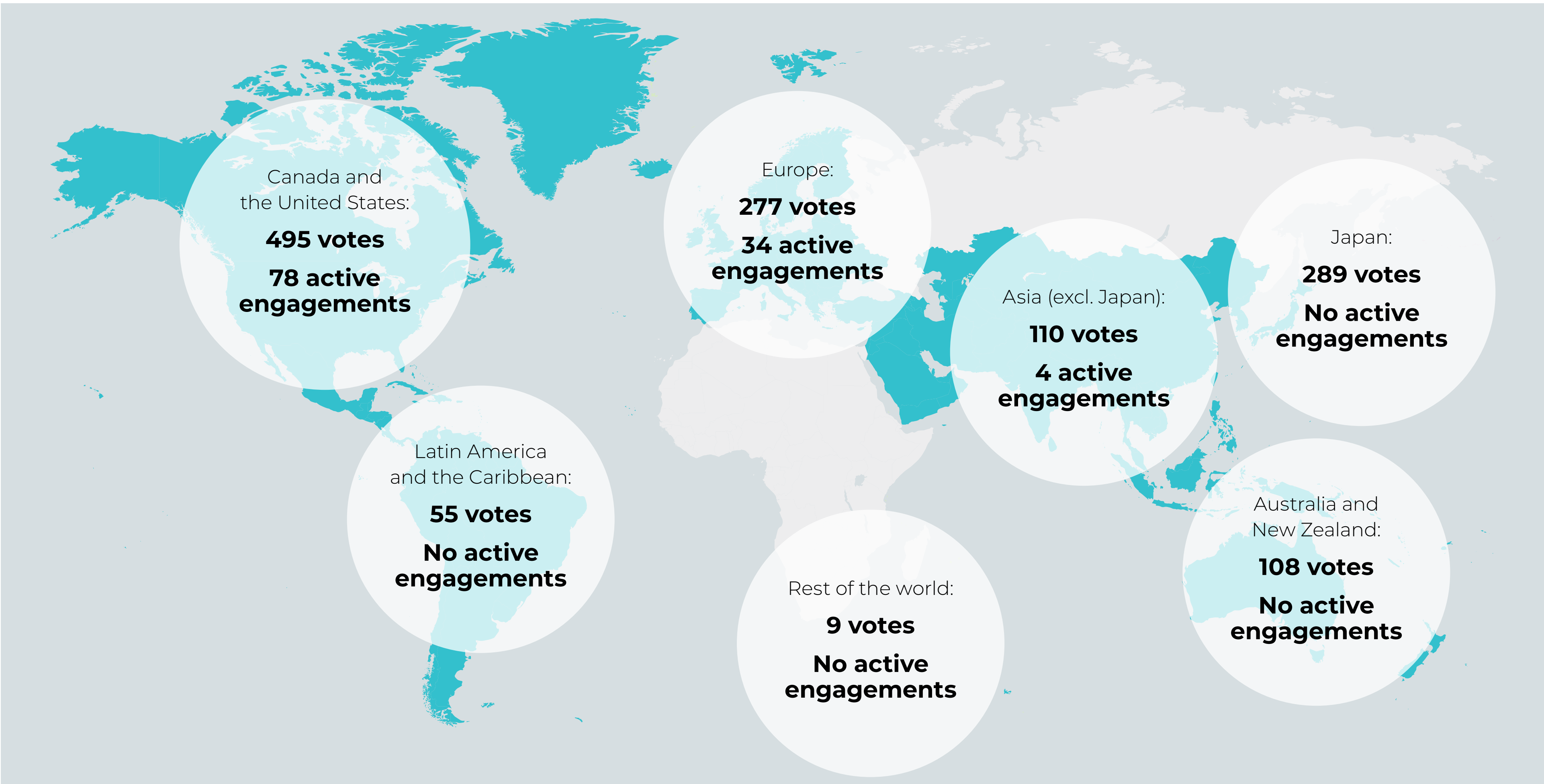
For transparency, Ontario Teachers' publishes our voting decisions online before each shareholder meeting. See our voting record here.

2020 proxy voting and engagement results

In 2020, we voted on 16,045 resolutions at 1,343 meetings in 36 countries. We also engaged with 116 public companies to create change and nurture success.

Breakdown of engagements by topic

Climate change	**16**
Event-driven	**18**
Diversity	**22**
Proxy vote follow-up	**17**
Sustainability disclosures	**43**



Engaging on climate change

As part of our net zero by 2050 commitment, we are asking our portfolio companies to align with our 2050 target. This means building on past engagements and initiatives as well as initiating new ones in the coming months and years.

We are a member of Climate Action 100+, a group of more than 500 investors that engages with the largest global corporate emitters. Climate Action 100+ worked with 160 focus companies in 2019 and 2020.

2020 Climate Action 100+ achievements:

35 companies
committed to enhance their climate change practices

26
made commitments on net-zero targets

Case study

Downstream energy company results

In 2019, we began a discussion with a large downstream energy company. Our initial focus was on improving the quality and completeness of the company's climate change reporting.

After a series of constructive conversations over the past two years, management made the following improvements:

- Adopted 2025 and 2035 scope 1 and scope 2 GHG emissions reduction targets, supported by board-approved projects and carbon capture and storage projects currently underway;
- Obtained independent GHG emissions verification;
- Adopted the SASB standards and TCFD reporting framework.

The company has committed to further strengthen its approach to climate change. Our focus in the upcoming interactions is for the company to align its targets with the Paris Agreement and include scope 3 emissions.

Proxy voting and climate change

In the 2021 update to our Corporate Governance Principles and Proxy Voting Guidelines, we reiterated the importance of climate risk oversight by the entire board, along with our expectation that companies report on their management of climate risks and opportunities based on the TCFD recommendations. When assessing a company's climate scenario analysis, we look for credible scenario sources, assumptions, and inclusion of a net-zero scenario. These disclosures allow us to understand a company's rigour of analysis and the resiliency of its business model.

We will consider **not supporting** individual directors, including the chair, or board committee members when we determine that a board has not taken appropriate action to effectively oversee a company's relevant climate change–related risks.

In 2020 and 2021, we withdrew support from the directors of three companies as a result of their inaction on climate change.

Diversity

Engaging for positive, long-term change from our portfolio companies is a significant part of our strategy. We encourage diversity on corporate boards and ask senior leaders of our companies to think holistically about inclusion and diversity.

For many years, Ontario Teachers' has called for corporate boards to include at least three women, because studies have shown that is the critical mass needed for diversity to result in greater board effectiveness.

In 2020, we engaged with 22 public companies that had fewer than 30% women on their boards.

We voted against 220 of 8,920 directors for diversity issues. Among them, we voted against several chairs of nominating/governance committees for having female board representation below the thresholds in our proxy voting guidelines.

Making portfolio company boards more diverse

While we use the tools of voting and engaging with public companies to improve gender diversity on boards, we also want to have a positive impact at our private portfolio companies.

Ontario Teachers' approach is to set timebound targets for increasing female nominees to portfolio company boards of directors. We have found that trying to increase diversity without specific targets and deadlines decreases chances of success. Since we began setting targets in 2017, the numbers of female board directors have gone up steadily.

We apply various strategies to develop a broad and diverse pool of candidates. For example, using a professional search firm helps to avoid relying on a board's existing networks, which may not be diverse. We also encourage our companies to expand diversity at the management level to build the pipeline for future director candidates.

Learn more about our actions under the Plans for Tomorrow section of this report.

Shareholder proposals

We analyze shareholder proposals on a case-by-case basis before voting. We support 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 2020, we voted on 378 shareholder proposals related to ESG matters.

The most recurring topics of shareholder proposals

11%
Environmental

- Greenhouse gas reduction and reporting
- Disclosure of sustainability information

28%
Social

- Political donations reporting
- Compliance with international human rights standards

61%
Governance

- Board structure (e.g., separation of Chair and CEO)
- Ability to act by written consent

Positive impact through influence

We use our influence, alone or with peers, to promote a financial ecosystem that supports sustainable practices and our ability to earn risk-adjusted returns for our members. Some of our recent advocacy work included the following:

- Participated in a peer collaborative engagement with the Capital Markets Modernization Taskforce and the Ontario Ministry of Finance regarding ESG and climate-related corporate disclosures, diversity targets, and other governance-related matters.
- Commented on the International Financial Reporting Standards (IFRS) Consultation Paper on Sustainability Reporting. In our letter, we noted the need for internationally recognized sustainability reporting standards and encouraged the IFRS Foundation to build on existing standards and frameworks.
- Participated in Canada's bid to host the global headquarters for the new International Sustainability Standards Board being established by the IFRS. Canada's bid was facilitated by CPA Canada.
- Acted as a member of the technical steering committee for the Canadian Standards Association task force on a Canadian Transition Finance Taxonomy, which is developing a national standard for projects and activities that would qualify for transition finance.
- Co-led the Investor Leadership Network (ILN) Climate Change Advisory Committee, which published a new report in September 2020 (Climate Change Mitigation and Your Portfolio: Practical Tools for Investors).
- Led a group through the Accounting for Sustainability (A4S) CFO Leadership Network (Canadian Chapter) that produced its Essential Guide to Valuations and Climate Change in 2020 to help professionals assess the financial impact of climate change factors.
- Joined Canada's Sustainable Finance Action Council, a group of financial experts aiming to address barriers to increasing sustainable finance flows.
- Signed the June 2021 Global Investor Statement to Governments on the Climate Crisis, which urged a global "race to the top" on climate policy.

Canadian pension funds urge adoption of TCFD/SASB

Ontario Teachers' CEO Jo Taylor and the CEOs of seven large Canadian pension plan investment managers issued a statement in November 2020 noting their joint commitment to sustainable and inclusive growth. The eight investment managers, representing approximately $1.6 trillion in assets under management, also stated that it is vital for companies to report relevant ESG data in a standardized way.

Collectively, we asked that companies measure and disclose their performance on material, industry-relevant ESG factors by leveraging the SASB standards and the TCFD framework because "both are useful to investors and informative to companies working to frame their ESG reporting."

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

Plans for tomorrow →

Plans for tomorrow

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. Some areas of work at Ontario Teachers' are described below.

1. Enhance our climate change accounting

Achieving a net-zero economy and understanding emerging risks and opportunities demands ongoing research into the multiple dimensions of climate change.

We will continue helping our portfolio companies align to net zero by 2050. We are developing **decarbonization playbooks** for strategic, relatively high-emitting sectors. This will provide step-by-step guidance to our investment teams and portfolio companies in:

- Identifying decarbonization levers and assessing their respective impact and costs;
- Setting science-based targets and defining decarbonization pathways.

We are developing a more complete accounting of financed emissions, including:

- **Sovereign debt emissions.** We are working with industry and peers to help develop and shape standards and baseline calculations.
- **Scope 3 emissions**, which are those produced throughout a company's value chain, are important in getting a complete picture of transition risk and climate impact of companies. While the disclosure standards for companies are relatively well developed, implementation and data quality is extremely variable. We are starting to track and develop approaches to manage scope 3 emissions from our portfolio company operations as part of our decarbonization playbooks. We are starting with sectors that have high scope 3 emissions, such as consumer goods, oil and gas, and transport.

We are developing additional metrics to monitor the composition of assets within our portfolios (such as those that will benefit the most from the transition to a net-zero economy and those in traditional sectors that may face the greatest transition risks).

2. Improve our diversity, equity and inclusion approach

We are working with peers and industry to find a common approach to engaging on dimensions of diversity beyond gender. It is a challenging topic to measure because it requires self-identification within a company and a willingness to disclose this externally.

We believe companies and boards should be proactive in addressing their diversity beyond gender. As part of this, we will ask for:

- Diversity policies that outline how a board and company will address diversity beyond gender;
- Companies to disclose their workforce diversity either through reporting that already exists (e.g., EEO-1 reporting requirement in the U.S.) or through internally generated reporting.

3. Identify additional impact areas

To date, our "impact" efforts – those areas where we focus resources to make positive change – have concentrated on climate change and diversity and inclusion. We will identify additional investment areas where our efforts and resources catalyze a material positive impact.

As we encourage portfolio companies to disclose their approach to climate change management, we also provide transparency on our approach.

Appendices →

Appendix A – Portfolio carbon footprint methodology

Methodology

In 2020, we increased the assets covered by our footprint by including corporate fixed income. To do that, we've had to change how we attribute a company's emissions among investors. Our previous methodology (market value-based) and current (enterprise value-based[1]) are calculated as:

Market value-based methodology

Ontario Teachers' share of emissions:

$$= \sum_{i=0}^{n} \frac{\textit{OTPP Equity in Issuer}_i}{\textit{Market Cap of Equity}_i} * \textit{Scope 1 and 2 emissions}_i$$

Enterprise value-based methodology

Ontario Teachers' share of emissions:

$$= \sum_{i=0}^{n} \frac{\textit{OTPP Equity} + \textit{Debt in Issuer}_i}{\textit{Enterprise Value}_i} * \textit{Scope 1 and 2 emissions}_i$$

Scope

We assess our shares held in public companies and derivative positions in our public equity strategies.

We calculate the portfolio carbon footprints of the following:

- Shares held in public companies and derivative positions in our public equity strategies;
- Private assets, including internally and externally managed private equities, infrastructure assets, real estate and natural resources;
- Corporate fixed income, including corporate bonds, external credit funds, credit derivatives and credit inflation-linked securities.

Combined, the portfolios (as defined above) represent over 70% of our net assets as of December 31, 2020. Most of the remainder comes from sovereign debt, primarily Government of Canada bonds. Globally accepted standards and methodologies for considering emissions associated with sovereign debt are still being developed.

Limitations

At the portfolio level, a carbon footprint is not a direct measure of portfolio risk. The implications of higher footprints vary, depending on sector and geography, and companies' supply chain and competitive risks are not captured. All assets face additional risks relating to climate change, not just risks relating to emissions. At the company level, the data do not capture forward-looking dynamics, such as corporate decisions that may reduce future emissions. Many companies still do not report their carbon footprints, necessitating estimation, thus reducing accuracy and making carbon footprints less useful as the basis for engagement or targeting reductions. In addition, because of different reporting timelines and delays in data availability, companies may provide carbon footprint data one to two years after their financial data.

1 Enterprise value = market cap of equity + book value of long-term debt and current portion of long-term debt. Cash is not deducted.

Emissions data

Public equities: Emissions data was taken from Trucost[1], part of S&P Global. Trucost applies the following approach for estimating emissions:

1. Company-reported emissions
2. Estimate based on company-specific factors
3. Proprietary sector-based model

Any public equity or credit holdings not covered by the Trucost database are estimated by proxy using Global Industry Classification Standard (GICS) sub-industry average emissions calculated from Trucost's database.

Private assets: Carbon emissions were assessed using the following approach, which is similar to Trucost's, in preferential order:

1. Company-reported emissions
2. Estimate based on company-specific factors
3. Estimate based on similar publicly listed companies
4. Proxy based on sub-industry average emissions

The following table breaks down the estimation methods used by number of companies and percentage of holdings:

	Public Equity and Corporate Fixed Income		Private Assets and Corporate Fixed Income		Total	
Methodology/Data Sources	Count	% of Holdings	Count	% of Holdings	Count	% of Holdings
1. Company-reported emissions	1,221	42%	31	46%	1,252	45%
2. Estimated based on company-specific factors	1,185	19%	17	7%	1,202	11%
3. Proxy based on custom peer group	–	–	27	18%	27	11%
4. Proxy based on GICS sub-industry average emissions	2,548	22%	1,356	29%	3,904	27%
5. Trucost models	4,280	17%	–	–	4,280	6%
Total	**9,234**	**100%**	**1,431**	**100%**	**10,665**	**100%**

1 Source: ©2021 S&P Trucost Limited (Trucost), an affiliate of S&P Global Market Intelligence. All rights in the Trucost data and reports vest in Trucost and/or its licensors. Neither Trucost, nor its affiliates, nor its licensors accept any liability for any errors, omissions or interruptions in the Trucost data and/or reports. No further distribution of the data and/or reports is permitted without Trucost's express written consent.

Appendix B – Independent limited assurance report

To: The Administrators of Ontario Teachers' Pension Plan

What we looked at: scope of our work

We have reviewed the portfolio carbon footprint in the Annual Responsible Investing and Climate Change Report (the "Report") of Ontario Teachers' Pension Plan Board ("Ontario Teachers'") for the year ended December 31, 2020. Management is responsible for the determination and presentation of the portfolio carbon footprint and information set out in the Report. Based on our review, we are providing our opinion on the portfolio carbon footprint listed below. This review does not constitute an audit.

Portfolio carbon footprint

We reviewed Ontario Teachers' portfolio carbon footprint presented on pages 13 and 14 of the Report, that are determined using:

- equity ownership method for the year ended December 31, 2020
- enterprise value ownership method for the years ended December 31, 2019 and December 31, 2020

We reviewed the portfolio carbon footprint, using the World Resources Institute ("WRI") and the World Business Council for Sustainable Development ("WBCSD") Greenhouse Gas ("GHG") Protocol, Task Force on Climate-related Financial Disclosures ("TCFD"), Partnership for Carbon Accounting Financials ("PCAF")[1], and the definitions by Ontario Teachers' as stated in the Report. The GHG Protocol, TCFD, and PCAF definitions can be found at http://ghgprotocol.org/, https://www.fsb-tcfd.org/, and https://carbonaccountingfinancials.com/ respectively.

Responsibilities

Management is responsible for determining the portfolio carbon footprint, including the scope and its presentation in the Report. We reviewed only the narrative sections and footnotes in the Report where the portfolio carbon footprint is incorporated or referenced. Our responsibility is to express an independent conclusion on whether anything has come to our attention that causes us to believe that the portfolio carbon footprint is not presented fairly, in all material respects, in accordance with the GHG Protocol, TCFD, PCAF, and Ontario Teachers' definitions described in the Report.

Our independence and quality control

We have complied with the relevant rules of professional conduct/code of ethics applicable to the practice of public accounting as related to assurance engagements, issued by various professional accounting bodies, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

We apply the International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

1 PCAF is only applicable to the portfolio carbon footprint determined using the enterprise value ownership method.

What we did: assurance standards and key assurance procedures

We conducted our work in accordance with the *International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board. As such, we planned and performed our work in order to provide limited assurance with respect to the portfolio carbon footprint. Environmental and energy use data are subject to inherent limitations of accuracy given the nature and methods used for determining such data. The selection of different acceptable measurement techniques can result in materially different measurements. The precision of different measurement techniques may also vary.

Considering these inherent limitations, to perform a limited assurance engagement, we obtained and evaluated evidence using a variety of procedures including:

- Performing risk assessment procedures to identify the public equities, private assets and corporate fixed income that present the greatest risk of material misstatement to the Report;
- Interviewing relevant management and staff responsible for data collection and reporting to understand the process used to calculate the portfolio carbon footprint;
- Obtaining an understanding of the management systems, processes and the relevant controls used to generate, aggregate, and report the data;
- Reviewing relevant documents and records to reconcile the carbon footprints and market values of sampled public equities, private assets and corporate fixed income;
- Re-calculating and reconciling market exposure and carbon intensity data to confirm portfolio carbon footprint calculations; and
- Assessing the overall portfolio carbon footprint data for consistency with our knowledge of Ontario Teachers' operations.

Our assurance criteria is comprised of the GHG Protocol, TCFD, PCAF, and Ontario Teachers' definitions as described in the Report. Our engagement team included individuals with environmental and assurance experience.

What we found: limited assurance conclusion

Based on our work as described in this report, nothing has come to our attention that causes us to believe that the portfolio carbon footprint is not, in all material respects, presented fairly using the WRI and WBCSD GHG Protocol, TCFD, PCAF, and Ontario Teachers' definitions.

Restricted use

This report is intended solely for the information and use of Ontario Teachers' management. Deloitte's engagement was not planned or conducted in contemplation of, or for the purpose of reliance by any third party (other than the Administrators of Ontario Teachers' Pension Plan to whom Deloitte's limited assurance report is addressed).

Deloitte LLP

Chartered Professional Accountants
Toronto, Ontario, Canada
October 5, 2021

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