RESPONSIBLE INVESTING PRINCIPLES IN PRACTICE

INTEGRATING ESG

ENGAGED OWNERSHIP

COLLABORATION

SEEKING DISCLOSURE

CONTINUOUS LEARNING

Our responsible investing principles help us do what we do best: make sound investment decisions
RESPONSIBLE INVESTING AT TEACHERS’

“The key objective of our investment program is to achieve retirement security for our members. To do this, we constantly examine and balance the risks and returns of different assets. Our new responsible investing principles refine our approach and guide our professionals as they evaluate environmental, social and governance (ESG) factors alongside financial factors in the investment process.”
– Ron Mock, President and Chief Executive Officer

OUR JOURNEY

This report introduces our five responsible investing principles and shows how we are putting them into action.

Environmental, social and governance factors (ESG) can affect investment returns as well as the pension plan’s reputation. Teachers’ has always considered ESG factors when making investment decisions. In the past, different tools and processes were used by portfolio managers overseeing different types of assets, and issues were analyzed as they came up. Today, we’re making our analysis more systematic across the pension plan and we know more about the potential impact of ESG factors on financial returns.

Integrating ESG factors into our process. Being engaged owners. Evolving our practices. Seeking information from companies. Collaborating with like-minded peers. This is how we practise responsible investing.

Our approach balances risk, return and reputation, and contributes to the long-term sustainability of the Teachers’ pension plan. It’s what we do every day.

NET INVESTMENTS BY ASSET CLASS
(Canadian $ billions)

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equities</td>
<td>$68.9</td>
<td>45%</td>
</tr>
<tr>
<td>Fixed income</td>
<td>$65.6</td>
<td>43%</td>
</tr>
<tr>
<td>Natural resources</td>
<td>$11.9</td>
<td>8%</td>
</tr>
<tr>
<td>Real assets</td>
<td>$34.7</td>
<td>23%</td>
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<tr>
<td>Absolute return strategies</td>
<td>$15.8</td>
<td>10%</td>
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<tr>
<td>Money market*</td>
<td>$(44.5)</td>
<td>-29%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>$152.4</td>
<td></td>
</tr>
</tbody>
</table>

*Money market asset class provides funding for investments in other asset classes.

NET CURRENCY EXPOSURES
As at December 31, 2014 (Canadian $ billions)

TEACHERS’ IS A DIVERSIFIED GLOBAL INVESTOR

We integrate ESG analysis into the management of a sophisticated, global investment portfolio.
UNDERSTANDING ESG

As portfolio managers, we’re very good at financial analysis. It can be more complex to analyze the potential impact of environmental, social and governance factors.

ESG factors are often intertwined and can be hard to quantify. The long-term impact of some ESG issues may not be evident in companies’ quarterly or annual financial reports. And data on ESG issues may not be standard across industries or regions.

This diagram illustrates some of the ESG factors considered in our investment process and the connections between them.

CASE STUDY
ESG AT AIRPORTS

Teachers’ owns equity stakes in several airports because infrastructure investments deliver steady income over long periods.

Firefighter training is an important component of health and safety at airports, but realistic training exercises can have an environmental impact too. When Copenhagen Airport opened a new firefighting training area in 2014, measures were taken to minimize the site’s environmental impact. These measures focused on water consumption, water treatment and eliminating the use of jet fuel in the training drills.

It’s an example of how our companies balance environmental and social factors when managing their business.
PRINCIPLES IN PRACTICE

Responsible investing is the framework we use at Teachers’ to manage ESG risks and add value to investments. Our five responsible investing principles are outlined below, along with some examples of how we put them into practice on a daily basis.

We consider and evaluate ESG factors alongside other risk factors in our investment processes because we believe they can materially impact the value of our investments.

PRACTICE

ESG analysis is integrated into different stages of our investment processes. For example, this is how Thierry, a portfolio manager in the Natural Resources Group at Teachers’, integrates ESG issues into his analysis.

“My group invests directly in private resource assets. At the due diligence stage, we want to identify risks. So when considering potential investments in the agricultural sector, we inquire about health and safety and consider issues such as changing weather patterns, water availability and consumers’ changing food choices. We pay attention to potential reputational issues. Other important business factors include the management team’s experience and attitude toward risks. They all play a role in our decision to invest or not.”

ESG INTEGRATION AT DIFFERENT STAGES OF INVESTING

DILIGENCE

Hundreds of factors are analyzed in this pre-investment phase and red flags can pop up.

For example, Teachers’ considered investing in a U.S. healthcare provider. During the due diligence phase, we learned the quality of care and internal controls were below what we considered to be industry standard.

We chose not to invest. We felt the risks from ESG factors were greater than the potential financial return.

OWNERSHIP

As engaged owners, we manage and monitor ESG factors alongside other factors.

GCT GLOBAL CONTAINER TERMINALS, one of our infrastructure companies, is a member of Green Marine, a certification program for the maritime industry. Participants commit to reducing their environmental footprint each year. GCT’s board, including directors from Teachers’, encouraged the company to join the program. GCT has invested in energy-efficient equipment and taken steps to reduce truck idling times at its facilities.

EXIT

ESG considerations can raise the price at which we sell an investment.

While Teachers’ was a shareholder in HITACHI, we became concerned about governance and operational issues at the company and proposed improvements.

Hitachi acted on our proposals and took additional steps to improve performance.

We recognized gains when we sold the shares, and have since reinvested in the company because we believe it’s a good long-term investment.
We are engaged owners and take a responsible approach in our asset management practices. We believe that good governance is fundamental to effective responsible investing.

PRACTICE
Governance is the structure a company puts in place to ensure it is well-run. We have long believed that good governance is good business. We also think it is a precursor to good management of environmental and social risks.

Strong governance and effective board oversight are important in all of our investments. Our ability to promote good governance and raise ESG issues directly with companies varies, depending on the size and type of our investment, as shown here.

As a public company shareholder:
• We’re generally not majority shareholders
• We generally don’t have direct access to the board of directors
• We use tools of engagement and proxy voting to instill good governance practices

As a private company investor:
• We can take large or small ownership stakes, depending on the opportunity
• We may have seats on the board of directors
• We can directly influence or implement good governance practices, where we have a large ownership

Our Corporate Governance Principles and Proxy Voting Guidelines articulate our views on such issues as board independence, executive compensation and shareholder rights. We vote 100% of the shares we own, which meant voting at nearly 2,000 company meetings in 2014.

CASE STUDY
SCOTIA GAS NETWORKS
Scotia Gas Networks (SGN) operates gas mains and services across Scotland and southern England. As a large shareholder in this U.K. regulated utility, Teachers’ has representatives on the SGN board of directors.

An important topic for the board is ensuring a future role for gas in the U.K. heating mix, while addressing government carbon reduction targets and keeping gas affordable for customers.

To balance these demands, the board endorsed a strategy involving the development of biomethane injection that reduces overall greenhouse gas emissions. SGN currently supplies over 50,000 customers with “green” gas and is targeting 250,000 by 2021.

SGN was a partner in the U.K.’s first biomethane injection production project and first commercial scale plant. Additional biomethane projects are being developed to help make gas an affordable, green choice for customers.
We continue to expand our knowledge, deepen our understanding and evolve our practices by continually assessing current and emerging ESG risks. We share experiences across the pension plan by fostering a culture of thought leadership and collaboration.

**PRACTICE**
We have an in-house education series featuring international subject-matter experts and interactive sessions to help our investment professionals stay current on ESG concepts and management. Our Responsible Investment Committee acts as an internal resource to share knowledge, and our teams attend industry events and review research findings.

We seek clear and relevant disclosure of information that may assist us in making investment decisions.

**PRACTICE**
When possible and appropriate, we ask our portfolio companies directly for information. We schedule calls and meetings with management teams to better understand operations, ESG risks and opportunities. We may use expert consultants and databases to advise us of potential ESG factors. And we support industry initiatives calling for better disclosure, such as the Carbon Disclosure Project and its water program, and the Extractive Industries Transparency Initiative.

**FOCUS ON CLIMATE CHANGE RISKS AND INVESTMENTS**

**DIVESTMENT**
Some educators want large investors to divest their fossil fuel investments in the belief that this would reduce greenhouse gas emissions and stop climate change. By divesting, we would diminish our voice as shareholders and reduce our influence with companies. We acknowledge that climate change risks to our portfolio are real, but in our view, the implications go beyond a single sector or industry. That’s why we consider every investment on a case-by-case basis.

**ENGAGEMENT**
We believe climate solutions will involve companies as well as governments and consumers. We work with peers and our portfolio companies to promote sustainability, risk management and mitigation of climate change risks. Engaging with energy companies directly is more effective than divestment because it can lead to actual changes in corporate practices. Engagement is more constructive because it opens a dialogue.

**CLEAN ENERGY INVESTMENTS**
We see great potential for new technologies, but these will not replace fossil fuels overnight. Retooling various industries will take years. Teachers’ has invested in **BLUEARTH RENEWABLES**, a Calgary-based company that builds and operates wind, hydro and solar energy projects across Canada, and we recently announced our partnership in a company with over 20 wind and solar energy projects. We plan to expand investments in this sector. We consider clean energy investments in the same way we consider all potential investments: we will invest if they’re good long-term opportunities that meet the overall needs of the pension plan.
We collaborate with like-minded investors to more effectively execute these principles.

**PRACTICE**

We work with a select group of peers and international organizations to stay abreast of responsible investment developments.

As a contributor to committees and research initiatives, we exchange information about ever-changing best practices.

For example, Teachers' is a signatory to the Principles for Responsible Investment (PRI), a network of global investors working to understand the implications of sustainability and to incorporate ESG issues into investment practices. The principles are voluntary: the PRI does not require exclusion of particular industries or assets from investment portfolios. Rather, it encourages signatories to give appropriate consideration to ESG risks and opportunities.

Learn more at [www.unpri.org](http://www.unpri.org).

**STRENGTH IN NUMBERS**

Teachers' is a member of the following groups, which work to promote good governance, disclosure and responsible investing through education and advocacy.

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**CASE STUDY**

**PRIVATE EQUITY COLLABORATION**

Teachers’ is a direct investor in private companies. We also make investments in private equity funds through fund managers. Until recently, there was little information available to help investors and fund managers communicate about ESG issues. Teachers’ Private Capital worked with more than 40 other experts to make ESG issues more transparent in the private equity industry. The group agreed to a disclosure framework that has improved ESG information flow and discussions throughout the industry.
Q&A

Q. Is your approach to responsible investing different from other pension plans?
A. Responsible investing interpretations and practices can differ. At Teachers’, our five principles (see inside pages) guide our actions. Our integrated approach considers all material factors that could affect the investment risks we take, the returns we earn, and the good reputation we’ve built over 25 years. We are also committed to continuous learning about ESG risks and opportunities.

Q. Can you screen out, or exclude, a group of investments based solely on environmental or social factors?
A. No. We have a duty to consider a range of investments and carefully weigh material risks against potential returns. Our investment decisions are rarely made on the basis of a single factor, financial or non-financial. We consider every investment on a case-by-case basis and make decisions based on a range of factors, including ESG risks.

Q. I’m a member and I object to some investments in the pension fund. What are my options?
A. Our mandate is to provide retirement security for all members and we invest with that goal in mind. With roughly 10,000 investments and more than 300,000 members, it’s inevitable that some members will object to choices we make. Members can express their views to Ontario Teachers’ Federation (OTF), which co-sponsors the Teachers’ pension plan along with the Ontario government. OTF contact information is available at www.otffeo.on.ca.

MORE QUESTIONS?
Please contact us at Communications@otpp.com

THE 3 Rs
Our responsible investing approach balances risk, return and the pension plan’s reputation. Our five responsible investing principles help us make sound investment decisions, which support plan sustainability and retirement security for our members – today and tomorrow.