

**BCi**

**2021**

# **ESG Annual Report**

Integral to Our Approach



# 2021 Highlights

## EARNED TOP SPOT

**in the Responsible Asset Allocator Initiative's 2021 Leaders List of the 30 Most Responsible Asset Allocators**

## CONDUCTED

**ESG reviews of BCI's private equity general partners; 98% have an official ESG policy and evidence of ESG integration, and 50% are PRI signatories<sup>1</sup>**

## PARTNERED

**with the University of Victoria and Pacific Institute for Climate Solutions to co-develop new climate finance tools over the next three years**

## RECEIVED

**the Responsible Investment Association Leadership Award for Integration and the Canadian Investment Review's Pension Leadership Award for Sustainable Investing**

## PARTICIPATED

**in 37 sustainable bond issuances valued at over \$1.7 billion, increasing total historical participation to more than \$2.5 billion**

## QUADREAL<sup>2</sup>

**successfully completed its second green bond issuance in 2021,<sup>3</sup> and third green issuance in February 2022,<sup>4</sup> for a total of nearly \$1.2 billion raised to date<sup>5</sup>**

## COMPLETED

**186 ESG assessments in public markets and 18 ESG risk reviews for private equity and infrastructure & renewable resources, integrating ESG into all investment decisions**

## INVESTED

**in the First Nations Finance Authority's new commercial paper program, bringing total historical participation to over \$750 million**

## CLIMATE-RELATED REPORTING

**BCI is committed to incorporating the Task Force on Climate-related Financial Disclosures (TCFD) recommendations into our reporting and disclosure practices**

<sup>1</sup> Based on market value and unfunded commitments as of December 31, 2021

<sup>2</sup> QuadReal Property Group (QuadReal), a company owned by BCI, actively manages our clients' real estate and real estate debt investment portfolios

<sup>3</sup> 1.056% Series 4 Senior Notes rated AA (low) with a stable trend by DBRS Limited

<sup>4</sup> 2.551% Series 5 Senior Notes rated AA (low) with a stable trend by DBRS Limited

<sup>5</sup> Issued by BCI QuadReal Realty ("BQR"), which serves as the primary issuing entity of unsecured notes for BCI's real estate program

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## ESG

Refers to any environmental, social, or governance (ESG) factor that could positively or negatively affect the risk or return of an investment, sector, or fund. These factors can be company-specific, like board independence, or systemic, like climate change. For this report, we consider ESG to be synonymous with responsible investing and sustainable investing.

### ABOUT BCI

British Columbia Investment Management Corporation (BCI) is amongst the largest institutional investors in Canada with \$211.1 billion under management, as of March 31, 2022. Based in Victoria, British Columbia, with offices in Vancouver and New York City, BCI is invested in: fixed income and private debt; public and private equity; infrastructure and renewable resources; as well as real estate equity and real estate debt through our independently operated platform company QuadReal Property Group. With our global outlook, we seek investment opportunities that convert savings into productive capital that will meet our clients' risk and return requirements over time. This compels us to integrate long-term ESG matters into all investment decisions and activities. BCI's clients include pension plans representing over 715,000 plan members, insurance funds providing more than three million Autoplan insurance policies annually, benefits coverage to more than two million workers and 225,000 companies, and special purpose funds within British Columbia's public sector. Founded in 1999, BCI is a statutory corporation created by the *Public Sector Pension Plans Act*. For more information, visit our [website](#) or follow us on [LinkedIn](#).

# From Our Board Chair

ESG considerations are integral to BCI's investment management approach.

As such, it is the board's responsibility to ensure management has the appropriate resources and procedures in place to effectively manage ESG-related risk and opportunity, approve the ESG Governance Policy, assess the impact of ESG strategies on BCI's business plan and budget, and oversee the operational implementation of these strategies.

Of the matters we regularly consider, few are evolving and expanding faster than those related to ESG. As they grow in prominence, the board maintains our longstanding support for BCI's leadership team in executing their ESG and climate-related strategies and incorporating considerations into forward-looking business plans — all with the best financial interest of our clients front of mind. Four of BCI's seven directors are members of client boards and two are representative of other clients, making us uniquely aligned to their interests.

Ensuring BCI has a robust and prudent approach to ESG starts with governance. The board has provided oversight and supported management's work to establish and refine their approach to ESG governance over many years, making sure the necessary resources, systems, processes, and lines of communication are in place. Accountability is essential, and BCI's ESG Governance Policy, approved by the board in 2020, sets out the responsibility for

implementation, monitoring, and reporting. This enables an effective approach to ESG and allows for transparency and engagement with clients and other important stakeholders. As ESG issues were magnified in recent years, we observed how these governance structures help to foster alignment between client expectations and BCI's investment processes.

BCI's approach to ESG continues to increase in sophistication. This year alone, BCI advanced the ESG tools and frameworks it uses for decision-making on asset allocation and new investments, accelerated engagement in key areas like climate change, and contributed to best practices for all capital markets participants through research and collaboration. Ensuring the board is equipped to understand these complex topics allows us to go deeper in our reviews, and ask more informed, forward-thinking questions. This is particularly important for systemic risks like climate change, a key focus for BCI, the board, and this year's report, as we find ourselves in a defining period that demands a sharp eye and critical thinking. Governance of climate-related risk and opportunity is a key pillar of BCI's commitment to reporting in alignment with the Task Force on Climate-related Financial Disclosures.

A focus on ESG is vital to delivering value for clients in the long term and central to BCI partnering with clients to meet their financial objectives. For these reasons, it will remain firmly on the board's agenda. Over the past year, we broadened our review of the ESG reporting that comes to the board, expanded our understanding of climate



action, and deepened our knowledge around Indigenous engagement and inclusion. As ESG-related matters become more pronounced, and, in many cases, more challenging to address, our commitment to effective ESG oversight only strengthens. This moment demands nothing less.

Peter Milburn  
Chair, BCI Board of Directors

# From Our CEO/CIO

The world has certainly changed in the past two years, with some shifts being only temporary, while others can be considered permanent.

Even though many of us paused daily activities, the collective urgency to address climate change continued. Recent reports from the Intergovernmental Panel on Climate Change and the UN Climate Change Conference (COP26) increased global awareness of the need for action. As climate change is one of the most pressing issues for our clients and investments, BCI joined 35 other institutional investors in advance of COP26 to sign the Canadian Investor Statement on Climate Change, making clear our expectations of the companies in which we invest and reinforcing our commitment to supporting the transition to a low-carbon economy.

Closer to home, British Columbians felt the impacts of extreme weather events as we experienced deadly wildfires, unprecedented heat, and flooding during the year. These events took lives, forever impacted communities, and resulted in major damage to infrastructure and the environment. The people of British Columbia showed their resilience as they worked together to rebuild and to collectively address and identify climate solutions.

We talk about resilience a lot at BCI. Our clients have long-term investment horizons and building a portfolio that performs through market cycles and periods of volatility is paramount to meeting their investment needs. Physical climate risk, regulatory risk, and decarbonizing the economy will impact the

portfolio, and it is our job to understand and manage these implications, relying on a combination of in-house and market-leading tools and methodologies, so that we can deliver long-term returns.

Some estimate that trillions of dollars annually are needed over several decades to address climate change. Governments will contribute, but significant investment will come from the private sector and institutional investors, like BCI. We actively look across asset classes for opportunities benefiting from, or supporting, the energy transition, while always keeping our focus on meeting return expectations.

We have made substantial progress:

- Our total participation in sustainable bonds now surpasses \$2.5 billion, with \$1.7 billion completed in 2021, bringing us more than halfway towards the \$5 billion investment expected by 2025.
- QuadReal, BCI's real estate and mortgage company, has the third-largest real estate green bond program in Canada, raising nearly \$1.2 billion since 2020. The program finances current and future projects with clear environmental benefits, and supports QuadReal's commitment to reducing its operational carbon footprint.
- In our infrastructure portfolio, in February 2022 we agreed to acquire a significant interest in Reden Solar, a leader in solar energy development with operations across Europe and Latin America.



We actively look across asset classes for opportunities benefiting from, or supporting, the energy transition, while always keeping our focus on meeting return expectations.

We are also evolving our climate strategy to remain competitive and reflect the latest science. Later this year, we will release our updated Climate Action Plan, setting out our comprehensive strategy for managing climate change across asset classes.

### THE POWER OF PARTNERSHIPS

Decarbonizing our economy is an immense challenge that requires multi-stakeholder collaboration. BCI partners locally and globally to support initiatives driving meaningful change and to advance our knowledge and influence on matters most material to our clients.

In 2021, we announced a three-year climate finance research project with the University of Victoria and the Pacific Institute for Climate Solutions. Our partnership combines BCI's climate scenario and valuation expertise with leading academic and applied research to build data and capacity in the field, and broadly share learnings with peers, academia, policymakers, and the public.

Supportive government policy is critical to accelerating the transition to a low-carbon economy and BCI actively engages with policymakers. We advocate for policies aligned with achieving the global goal of driving emissions to net zero by 2050 and support mandatory public company disclosure in line with the Task Force on Climate-related Financial Disclosures. In 2021, we were appointed to the federal government's Sustainable Finance Action Council, where we are helping to shape sustainable finance markets in Canada. At a provincial level in British Columbia, we participated on the new ESG Advisory Council, consulting with the Minister of Finance on ESG-related issues for the 2022 budget.

### INCREASING OUR EXPECTATIONS OF COMPANIES

As the private sector plays a large role in transitioning to a low-carbon economy, we increased our expectations for how companies report on and address climate change risk. Our proxy voting record in 2021 demonstrates these expectations: we supported 80 per cent of climate change shareholder proposals and voted against 51 directors at 34 companies for a lack of climate disclosure or poor performance — sharp increases in both metrics compared to the prior year. Where climate performance is not keeping pace, we engage with directors and leadership of publicly traded companies.

We also work with our privately held companies to adopt best practices in climate management and disclosure, and actively support their transition to low-carbon operations — including net-zero commitments like those made by Puget Sound Energy and Thames Water last year. At the end of the day, our portfolio companies must evolve and thrive so that they continue to generate value for our clients.

### CHAMPIONING INCLUSIVE AND SAFE WORKPLACES

The pandemic has exacerbated inequities and occupational health and safety concerns. Research demonstrates the link between financial benefits and workplaces following best practices in these areas. In the past two years, we raised our expectations of companies on gender, ethnic, and racial diversity and actively engaged on the workforce impacts of the pandemic. We also supported the development of reporting frameworks and introduced key performance indicators to effectively measure broader progress.

### SECURING FINANCIAL FUTURES

Addressing climate change and ESG issues is not only a source of potential investment opportunities, it also allows us to manage long-term financial risks.

At BCI, we are guided by our fiduciary duty to clients and our organizational purpose of helping hundreds of thousands of British Columbians secure a strong financial future. The people we are serving include our children's teachers, our health care providers, our municipal workers, and our neighbours.



Gordon J. Fyfe  
Chief Executive Officer / Chief Investment Officer



## FEATURE: CLIMATE ACTION

# Progress With Purpose

### Looking back on BCI's climate action journey

From extreme weather events to social impacts, climate change threatens long-term growth and prosperity and requires an acceleration of the transition toward a net-zero economy. Addressing climate change is aligned to acting in the best financial interests of our clients and presents both opportunity and risk for our investments.

We work to understand the implications of climate change for our portfolio over time, while recognizing the role of investors in supporting the direction, speed, and attention paid to solutions. Since the early 2000s, BCI has partnered with clients and collaborated across capital markets on climate action. We have advocated for greenhouse gas (GHG) emission reduction targets and transparency in reporting, and engaged directly with companies where climate performance is lagging.

Our **Climate Action Plan and Approach to the TCFD Recommendations**, released in 2018, positioned our clients to capitalize on opportunities arising from the transition to a low-carbon economy, while also protecting their portfolios from undue physical and transition risk. BCI continues to evolve our approach to consider the most current climate science and will release an update to our Climate Action Plan in late 2022.

# 20+ years of climate action

**Begin** developing the Broadway Tech Centre in Vancouver, British Columbia, which later achieves multiple awards including LEED Platinum

**Introduce** our first energy retrofit project: Commerce Place, a mixed-use office and retail complex in Edmonton, Alberta

**Act** as the Canadian lead for a Principles for Responsible Investment (PRI) initiative engaging 50 global companies exposed to hydraulic fracturing

**Ask** the Canadian government to support the CDP 2010 Canada Report, which they did

**Make** our first investment in global green bonds: IFC Green Bonds guaranteed by the World Bank

**Expand** green mortgages credit risk rating system to existing and new construction mortgages

**Join** global investors in a Pension Fund Statement for the 2014 UN Secretary General's Climate Summit

**Sign** the 2014 Global Investor Statement on Climate Change supporting the UN Climate Summit

2000-04

2005-09

2010-14

2015-17

**Host** the Climate Change & Responsible Investing Symposium with the B.C. Ministry of Environment and the University of Victoria

**Introduce** comprehensive environmental reporting for our Canadian real estate portfolio, annual reporting on property GHG emissions, energy, and water consumption, and measuring our carbon footprint

**Join** call to action through the Investor Statement on a Global Agreement on Climate Change

**Join** CDP, then known as the Carbon Disclosure Project, and sign its Climate Change Program and Water Disclosure Initiative

**Participate** in first pension fund collaborative research project alongside 12 peers; Mercer's Climate Change Scenarios: Implications for Strategic Asset Allocation report was published in 2010

**Provide** mortgage financing for North America's first LEED Platinum multi-family residential project: The Vento in Calgary, Alberta

**Receive** recognition from the Canadian Institute of Chartered Accountants for work with the CDP on the role of boards in the 2009 Climate Change Briefing: Questions for Directors to Ask

**Sign** a 2007 Declaration on Climate Change alongside investors participating in the UN Environment Programme

**Stand** as the only Canadian institutional investor in a group asking the U.S. Securities and Exchange Commission to enhance corporate disclosure on financial risks of climate change

**Begin** voting against public company directors for insufficient information on climate risk, and co-file our first climate-related shareholder proposal with global investors

**Declare** support for the TCFD

**Establish** proprietary ESG scoring method for all new public equities investments

**Join** Climate Action 100+ initiative, now the largest global engagement initiative on climate change; begin leading, co-leading or supporting engagement with North American companies

**Participate** in open letter to the G7 Finance Ministers alongside 120 institutional investor CEOs declaring climate change a major systemic risk

**Sign** a letter to Alberta's premier on Renewing Alberta's Climate Change Framework in support of strengthening the province's climate policy

**Sign** onto the Green Bond Principles issued by the International Capital Market Association

**Start** measuring and reporting the carbon footprint of our public equities portfolio, providing an intensity measure of GHG emissions relative to the value of our holdings

**Support** portfolio company decarbonization initiatives, including Corix's acquisition of Cleveland Thermal, where our capital infusion enabled the transition from coal to natural gas

# 20+ years of climate action

**Release** our Climate Action Plan and Approach to the TCFD Recommendations

**Begin** calculating our exposure to climate-related opportunities

**Own** 50 per cent of buildings earning initial ENERGY STAR designation for commercial buildings in Canada

2018

**Incorporate** climate change scenario analysis in asset liability modelling

**Set** target at QuadReal for 80 per cent carbon reduction in our clients' Canadian real estate portfolio by 2050

2019

**Complete** physical climate risk evaluation across all property types managed by QuadReal and start evaluating physical climate risk for all potential real estate investments

**Expand** carbon footprint measurement to include most of fixed income and real estate, in addition to public equities

**Join** institutional investors in informing 47 of the largest U.S. publicly traded corporations of expectations for corporate lobbying on climate change

**Release** our corporate-wide ESG Strategy, identifying climate change as a key priority

**Receive** approval from BCI's Board for our ESG Governance Policy

**Become** the first Canadian investor to sign Our Partnership on Sustainable Capital Markets statement advocating for sustainable growth

**Collaborate** with several Canadian pension plans to source and develop a physical climate change risk tool

2020

**Appointed** by the Government of Canada to the Sustainable Finance Action Council

**Contribute** to Canadian Bond Investor Association statement on ESG disclosure and sustainable labelled bonds, confirming investor support for SASB and TCFD reporting standards

**Establish** climate-related initiatives for public markets, covering carbon reduction for equities and participation in sustainable bonds

**Expand** carbon footprint measurement to include all asset classes, adding weighted average carbon intensity methodology for public equities

**Join** an industry-wide call to action through the Canadian Investor Statement on Climate Change

2021

**Develop** and implement in-house ESG Risk and Opportunity Framework for the total portfolio

**Internalize** climate change scenario analysis and develop in-house modelling capabilities

**Launch** the Sustainable Development Investments Asset Owner Platform (SDI AOP) with like-minded investors to enable investor alignment to the UN Sustainable Development Goals

**Establish** permanent program at QuadReal for mortgage acquisitions climate risk prescreening

**Establish** consistent approach to evaluating external managers and partners on ESG, including climate change, across asset classes

**Partner** with the University of Victoria and the Pacific Institute for Climate Solutions to advance climate finance tools over three years

**Raise** our expectations for public companies to address climate change through our updated Proxy Voting Guidelines

**Sign** the Global Investor Statement to Governments on the Climate Crisis which sets out five urgent actions for governments

**Support** portfolio companies in making net-zero commitments, including Puget Sound Energy and Thames Water Utilities Ltd.

**Update** our methodology for calculating climate-related opportunity exposure to incorporate the SDI AOP dataset

# Partnering with clients

BCI uses climate indicators and materiality assessments at every investment stage, allowing us to make informed decisions, while placing the best financial interests of our clients at the forefront. Integration starts with our clients — identifying return requirements and factoring climate change into portfolio design.

BCI's proprietary **ESG Risk and Opportunity Framework** measures how the macroeconomic environment and market dynamics, such as carbon prices, the supply and demand of fossil fuels, and greening the economic system, affect long-term investment performance. Our climate scenario analysis and modelling capabilities are used to test total portfolio and asset-specific impacts, and help clients understand climate

science and resulting impacts on the economy. Scenarios are refined as new information becomes available, and we continuously look to add new capabilities. This provides a comprehensive view of the risks and opportunities associated with different asset mixes and investments, including the impact on future performance.

We also support clients with their commitments to plan partners and beneficiaries. BCI offers climate change education, conducts research, supports stakeholder engagement, and assists with climate-related disclosure. Working in partnership is key to meeting our clients' needs and expectations.

## EXPANDING CARBON FOOTPRINT MEASUREMENT

BCI began reporting in line with the TCFD recommendations in 2018. We first measured our carbon footprint for public equities, providing an intensity measure of GHG emissions relative to the value of our holdings. We have since expanded our measurement to include all asset classes and added the weighted average carbon intensity methodology for public equities. BCI continues to evaluate the most effective methods to measure the carbon footprint of our asset classes and total portfolio.

Learn more about BCI's approach to the TCFD recommendations on [page 44](#).

## BEGIN

incorporating climate scenario analysis into asset liability modelling in 2018

## DEVELOP

ESG Risk and Opportunity Framework to measure total portfolio impacts in 2020

## DELIVER

ongoing climate scenario analysis and insight for clients, plan partners, and beneficiaries

# Driving progress in our portfolio

Ownership gives us the right to raise concerns and influence management's direction — a lever BCI has proactively and consistently used to address climate change. We engage to encourage measurement and disclosure of company-level climate risk, while seeking new climate-related investment opportunities.

BCI encourages companies to set targets aligned to the Paris Agreement, an international treaty signed in 2015 with the goal to limit warming to well below 2°C compared to pre-industrial levels. We expect a 30 per cent emission reduction in our global public equities portfolio by 2025<sup>1</sup> through gradual reduction in exposure to carbon-intensive investments and engagement with companies and regulators. We continue to update our **Proxy Voting Guidelines** to strengthen climate-related expectations for public companies, and recently refreshed our **ESG engagement key performance indicators** to emphasize climate change.

For privately owned investments, we work directly with partners, boards, and management to influence direction and priorities. This includes supporting net-zero commitments, like those made by Puget Sound Energy and **Thames Water Utilities Ltd.** in 2021. QuadReal is targeting an 80 per cent carbon reduction in its Canadian property portfolio by 2050.<sup>2</sup>

The improvements in disclosure and portfolio company commitments to low emissions or no net emissions reinforce our belief that driving meaningful change through engagement can effectively address long-term, persistent risk compared to broad exclusion or divestment. Through engagement, BCI can generate additional value for clients and support the transition to a low-carbon economy.

## INVESTING IN CLIMATE SOLUTIONS

Sustainable bonds provide our clients with investment returns and exposure to positive environmental and social outcomes, including climate-related improvements. We support issuers with strong green bond frameworks and activities that advance the goals of the Paris Agreement.

Due to its maturity and size, the Government of Ontario is a market driver for Canadian dollar-denominated green bonds. We believe the proceeds are advancing governmental climate policies, which is reinforced by international recognition and the inclusion of Ontario issuances in major green bond indices. The province also discloses strong detail on project eligibility, use of proceeds, and outcomes. As a result, BCI has participated in five green bonds issued by Ontario since the launch of its program in 2014, totalling over \$375 million in participation.

Learn more about BCI's investments in sustainable bonds on [page 34](#).

## IDENTIFY

\$2.8 billion invested in climate-related opportunities at the end of 2021<sup>3</sup>

## SUPPORT

80% of climate-related shareholder proposals in 2021, compared to 52% in 2020

## INVEST

over \$2.5 billion in sustainable bonds, with 70% directed to green bonds<sup>4</sup>

<sup>1</sup>Based on a 2019 benchmark <sup>2</sup>Compared to a 2007 baseline year <sup>3</sup>Methodology available on page 55 <sup>4</sup>Total historical participation



## GOING BEYOND NET ZERO AT PUGET SOUND ENERGY

Puget Energy's core business is Puget Sound Energy (PSE). PSE is the oldest and largest utility in Washington State, U.S., serving approximately 1.2 million electric and 900,000 natural gas customers. BCI has held an equity interest in Puget Energy within infrastructure & renewable resources since 2009, alongside other institutional investors. BCI representatives also sit on the company's board.

PSE set an aspirational target to be a "beyond net-zero carbon" energy company by 2045. BCI engaged with PSE on its target development and plan to be the clean energy provider of choice for customers — balancing climate objectives with safety, reliability, and affordability. PSE's climate commitments and aspirations include reducing electric and gas operations and electric supply emissions to net zero by 2030; reaching net-zero carbon emissions for natural gas sales by 2045 (interim target of 30 per cent reduction by 2030); and partnering with customers and others in the industry to reduce regional carbon emissions.



## MANAGING CARBON INTENSITY THROUGH PROACTIVE MEASURES AT REFRESKO

BCI and PAI Partners (PAI) acquired Refresco Group B.V. (Refresco) — the world's largest independent beverage solutions provider for retailers and branded beverage companies — in 2018. The management team is focused on sustainability and is taking steps to reduce the company's carbon intensity.

BCI and PAI have worked with Refresco on expanding ESG reporting with new indicators, including calculating the operational carbon footprint globally. This helps the company to move from measurement to management of material ESG issues and provides insight to drive risk reduction and value creation.

In 2021, PAI engaged an international climate consultancy to provide additional guidance and assurance of Refresco's carbon footprint covering Scope 1 and 2<sup>1</sup> emissions. This work will create a reliable baseline to set reduction targets and track progress. In parallel, Refresco is piloting software to improve energy and water efficiency, and is gradually transitioning to more renewable energy, for example through solar panel installations at several facilities in Europe.



## PRACTICING CLIMATE MITIGATION AND RESILIENCE AT QUADREAL

QuadReal manages a residential property with two 1974 towers (Arbour Place) and a newly built tower (Hazel) located in Burnaby, British Columbia. Hazel's development integrated climate resiliency features, while Arbour Place provided the opportunity for retrofits.

Hazel is equipped with in-suite energy recovery ventilators, additional insulation, electric vehicle chargers, and stormwater management features that reduce energy use and promote resident wellness. It is one of few air-conditioned buildings in the area and QuadReal's first purpose-built rental in British Columbia with in-suite submeters to monitor energy use.

Arbour Place is set for an investment demonstrating a scalable, low carbon, deep retrofit approach for high-rise residential buildings. Technical assessments are underway in 2022 for upgrades like replacing natural gas with electric heat pumps, replacing exterior windows and doors, installing automated and web-connected energy optimization systems, and sub-metering for electricity, thermal and water use. Once the retrofit is completed, energy use is expected to drop by 50 per cent.



Photo Sources: Puget Sound Energy, Refresco, QuadReal

<sup>1</sup> Scope 1: All direct emissions from the activities of an organization or under their control;  
Scope 2: Indirect emissions from electricity purchased and used by the organization

# Collaborating across capital markets

Climate change is a systemic risk to global markets and economies. BCI's global portfolio spans industry sectors, geographies, and private and public markets. By using our voice and expertise, we help emphasize alignment and urgency of broader climate action that will benefit all capital markets participants. This includes support for data transparency and standardization.

The **Climate Finance Project**, a collaboration with the University of Victoria and the Pacific Institute for Climate Solutions, is building on existing frameworks and research to develop new climate finance solutions and insights. These will be shared with the global investment community, academia, policymakers, and the public, and integrated into teaching at universities and colleges.

To improve the granularity of financial impact data, we worked with several Canadian pension peers to source a tool from a leading climate risk modelling company and co-create outputs used for asset-level analysis of physical risks across the total portfolio. In 2020, BCI launched the **Sustainable Development Investments Asset Owner Platform** alongside global asset owners. The platform uses artificial intelligence to help investors determine how their portfolio is aligned with the UN Sustainable Development Goals (SDGs). It also sets a global standard for classifying sustainable development investments, including for Goal 13: Climate Action, supporting climate-related decision making for investors and bridging information and knowledge gaps.

We recognize the benefit of collaborating with like-minded stakeholders, including peers, investors, academia, and government agencies, to accelerate decarbonization and amplify our influence.

## ACCELERATION THROUGH CLIMATE ACTION 100+

We joined Climate Action 100+ in 2017. In 2021, it brought together over 615 signatories, a 170 per cent increase since inception, representing US\$65 trillion in assets under management. As the world's largest investor-led engagement initiative, Climate Action 100+ has supported 167 target companies, responsible for 80 per cent of global industrial GHG emissions, to advance climate initiatives. Among these target companies:<sup>1</sup>

- > 52% have made net-zero commitments
- > 87% have board-level oversight of climate change
- > 72% align disclosures to TCFD recommendations

BCI leads or co-leads engagement with four North American companies in the oil and gas and mining industries and supports engagements with six other companies in the oil and gas industry and utilities sector. Our participation in initiatives like Climate Action 100+ help accelerate change at the company level.

Learn more about BCI's support for Climate Action 100+ on **page 25**.

## CHAMPION

international reporting and disclosure standards, such as SASB and the TCFD recommendations

## SUPPORT

calls for increased climate accountability, like the 2021 Canadian Investor Statement on Climate Change

## CONTRIBUTE

to government and industry standards through policy advocacy, including Canada's Sustainable Finance Action Council

<sup>1</sup> Climate Action 100+ 2021 Year In Review

# ESG Governance

Creating corporate-wide alignment and clear expectations for accountability

Our ESG Governance Policy, approved by the BCI Board, addresses the responsibilities for oversight, evaluation, and integration across multiple levels of the corporation.

More information about BCI's ESG governance can be found at [BCI.ca/esg](https://www.bci.ca/esg)

## POLICY SUMMARY

**ESG strategy** BCI must have a CEO/CIO-approved strategy that articulates how ESG factors are consistently implemented across our activities and all types of investments.

**Alignment and education** BCI must embed our **ESG principles** into our culture and operations, and consistently seek opportunities to share knowledge and understanding about ESG topics throughout the organization and with our clients.

**Risk management** BCI must evaluate and monitor risk in all stages of the investment process. The investment risk framework integrates responsible investing and prioritizes ESG matters based on impact on financial performance and reputation.

**Integration** BCI must integrate ESG analysis in all stages of the investment process, including for internally managed activities and through engagement with external managers.

**Stewardship** BCI must be a responsible steward of our clients' assets. This includes transparency and expectations for active management and engagement with portfolio companies alongside other participants in capital markets.

## ESG GOVERNANCE ROLES AND RESPONSIBILITIES



### BCI BOARD

Review, oversight, and management accountability



### CEO/CIO

Overall strategy and resourcing



### EXECUTIVE MANAGEMENT

Strategic direction and management



### STAFF AND CONTRACTORS

Implementation, monitoring, and reporting

# ESG Strategy

An integral part of our responsibility to grow the value of client funds

BCI's corporate-wide ESG Strategy builds on our investment beliefs and ESG principles, and ensures consistency across all asset classes in addressing the issues most material to our clients' investments. The four pillars — Integrate, Influence, Insight, and Invest — underpin our activities.

BCI's **F2023-2025 Business Plan** emphasizes partnering with our clients to secure financial futures in a changing world. Expanding our ESG activities from a predominantly risk-mitigation approach to one that includes ESG as a source of long-term value creation is a corporate priority.

More information about BCI's approach to ESG can be found at [BCI.ca/esg](https://www.bci.ca/esg)

## INFLUENCE

Through engagement and advocacy, we apply our influence on companies in which we invest, our partners, and other participants in capital markets.

## INSIGHT

We use our learnings across all ESG activities, as well as our understanding of emerging trends, to generate insights that help us continuously adapt and improve our strategies, processes, and approaches.

## INTEGRATE

We integrate ESG analysis and risk management in all investment processes, from supporting clients' asset allocation decisions to individual investment decisions within our portfolios.

## INVEST

We actively seek opportunities to invest in ESG-themed investments that contribute to improved long-term outcomes for clients and reinforce our investment beliefs.



# Integrate

ESG analysis and risk management is integrated in all our investment processes, from supporting clients' asset allocation decisions to individual investment decisions within our portfolios.

For each investment decision, we identify and evaluate material ESG factors, and their near and long-term implications for our portfolio. We have increased the sophistication and depth of ESG integration across BCI by building out our models, tools, and frameworks, and expanding our in-house capacity. Initially, we focused on individual company reviews. Today, we also consider systemic factors, such as climate change, to better understand the diversification or concentration of risk at the total portfolio level.

Featured: ESG Strategy & Risk team members

# Building on a Strong Foundation

Integrating ESG data and information throughout our investment processes ensures that all relevant opportunities and risks are considered.

Our ESG Strategy creates consistency across all asset classes and increases the depth and breadth of portfolio and investment-level analysis. In this section, we take a closer look at how BCI applies our ESG Risk and Opportunity Framework and ESG Evaluation Framework for External Managers. Beyond these case studies, key activities from the year are detailed in the following highlights.

## ESG ANALYSIS

In 2021, we completed more than 200 ESG reviews. Of the total, 186 ESG assessments were completed in public markets, including reviews of potential external managers and requests from internal active investment teams, and 18 detailed ESG risk reviews were done on direct deals in infrastructure & renewable resources and private equity.

We use the SASB industry-level materiality framework to assess company policies and performance. This framework has 26 sustainability topics, including privacy and data security, business ethics and integrity, and energy management, which each have several metrics, such as the number of security breaches or amount of GHG emissions. We collect multiple years of data to perform trend analysis and peer comparisons. The results of our reviews can lead to rejection of an investment opportunity, re-pricing, or

tailored recommendations. This provides our portfolio managers with a comprehensive assessment of the impact of ESG factors on long-term value creation and supports more informed investment decisions for the portfolio.

## NEW APPROACHES

We are evolving our approach to ESG integration to meet business needs. For example, we recently developed an ESG dashboard for the internal active emerging markets team. The dashboard aggregates ESG data from different providers to screen the investable universe and portfolio on factors like controversies, governance practices, ESG momentum, and alignment with the SDGs, to facilitate ESG analysis from both risk management and return generation perspectives. The custom dashboard empowers and builds the ESG capacity of our investment teams, while maximizing the efficiency of our dedicated ESG resources.

## RECOGNITION FOR LEADERSHIP

Our integration work was recognized in 2021 with a top spot on the Responsible Asset Allocator Initiative's **Leaders List of the 30 Most Responsible Asset Allocators**, the Responsible Investment Association (RIA) **Leadership Award for Integration**, and the Canadian Investment Review's **Pension Leadership Award for Sustainable Investing**. These awards recognize our commitment to ESG and the growing sophistication of our approach.

## ESG IN THE INVESTMENT PROCESS

1

### Pre-investment analysis

Material ESG information is factored into investment strategies, deal sourcing and market reviews. An ESG review is prepared alongside financial analysis to support due diligence.

2

### Investment decision

Every investment memo to our management investment committee includes an ESG risk summary and details of material ESG considerations.

3

### Asset management

After investments are made, we monitor and track ESG information within the portfolios and develop engagement plans to ensure ESG risks and opportunities are being managed.

# ESG Risk and Opportunity Framework

Examining our investments at a total portfolio level through our proprietary ESG Risk and Opportunity Framework allows us to identify broader ESG risks and trends that may not be obvious when looking at individual assets, portfolios, or industries. The framework enables BCI to measure and model systemic ESG risks and opportunities across BCI and client total portfolios, allowing for more informed and comprehensive investment and policy decisions. In 2021, we received the RIA **Leadership Award for Integration** for our work on the framework and it was featured as a **PRI case study** under investment tools, which provides resources to inform investors on how to incorporate ESG considerations.

Climate change has been the primary focus of the framework to date. Other systemic risks are being incorporated over time.

## Climate change methodology

Macroeconomic climate change scenarios from the International Energy Agency and the Network for Greening the Financial System are used as inputs into sub-industry-specific financial models, which calculate the expected change in future cash flows in each scenario. These sub-industry-specific impacts are translated into portfolio stress tests that provide information on expected gains or losses to the portfolio, relative to BCI's long-term capital market assumptions.

## Total portfolio application

By tracking the evolution and sources of climate risk in various scenarios, BCI can understand how different actions change the climate change risk exposure of the total portfolio.

We apply this information to determine how the asset mix might provide additional climate resilience and mitigate risk to the portfolio over the long term. Where material, we also use these scenarios in ESG risk reviews for individual investments to see how each investment might change the concentration of climate risk in the portfolio.

## MEASURING CLIMATE RISK OVER TIME

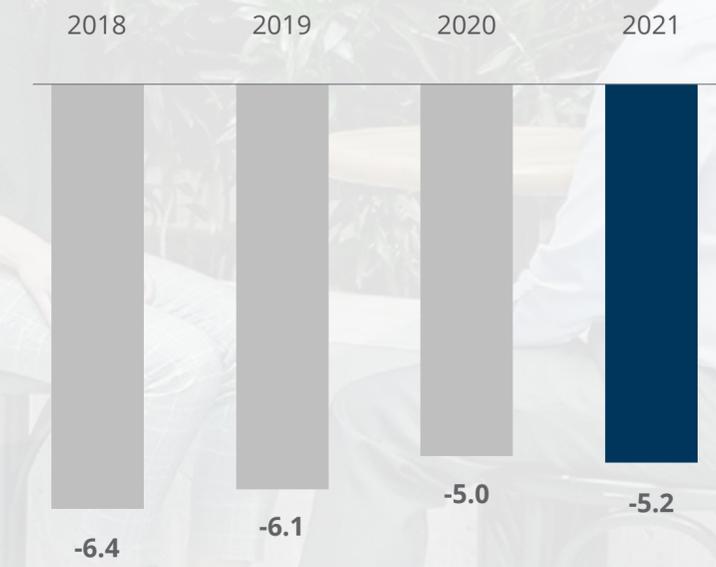
We analyze the historical portfolio weights and asset exposures to stress test the portfolio using long-term expected climate change impacts in 1.5°C, 2°C, and 3°C warming scenarios. From 2018 to 2021, we observed a reduction in the climate change transition risk in the 1.5°C and 2°C scenarios, while the 3°C scenario risk remained unchanged.

In the 2°C scenario, the reduction of climate risk over time is primarily attributed to a decrease in the portfolio weights in Canadian and global equities with high climate change transition-risk exposure. This is driven by client asset allocation decisions to reduce exposure to Canadian equities, changing valuations in the energy sector, and active investment decisions that reduced the overall portfolio exposure to more climate-sensitive assets.

BCI's ability to understand detailed climate-related risks allows us to construct resilient and opportunistic portfolios, make informed decisions about future investments, and inform engagement priorities. Understanding and factoring the financial relevance of systemic risks, and driving the companies we invest in to enact real change, is effective in addressing long-term and persistent risks, while helping move the world toward a lower-carbon future.

## Historic total-portfolio climate change risk level: long-term 2°C scenario

Net expected portfolio loss (%)



## A CLOSER LOOK

# ESG Evaluation Framework for External Managers

We continue to work closely with external managers, where appropriate, to create value for our clients by increasing access to opportunities.

We have a long history of factoring ESG into our partnerships and holding external managers accountable for their actions. BCI is expanding our methodology for evaluating the ESG practices of our external managers, while working together to advance best practices across the industry. Last year, we introduced a corporate-wide ESG Evaluation Framework for External Managers to align the evaluation process across all asset classes. The framework has five distinct, yet related, categories that enable consistent, comprehensive ESG assessments:

- > ESG policy;
- > Accountability and oversight;
- > Integration processes;
- > Resources and tools; and
- > Stewardship.

We provide the external manager with an overall assessment after reviewing their approach and, where appropriate, offer feedback on areas of improvement.

## Evaluations in private equity

By the end of 2021, we completed the review of all active private equity general partners using the ESG Evaluation Framework for External Managers. This consisted of 41 manager relationships with total exposure of \$23 billion,<sup>1</sup> as well as detailed ESG risk reviews for nine new manager relationships.

We characterize a partner's stated ESG practices as weak, average, or strong. Based on our findings, 37 per cent were rated strong; 59 per cent were average; and 4 per cent were weak.<sup>2</sup> Managers with weak ratings are primarily smaller, less mature firms that have yet to fully develop ESG policies and processes. We engage with all managers to promote continued improvement over time.

**98%**

**of private equity partners have an official ESG policy and evidence of ESG integration<sup>2</sup>**

**50%+**

**of private equity partners are PRI signatories<sup>2</sup>**

## COLLABORATING ON ESG BEST PRACTICES

BCI works with external managers and partners that are aligned with our mandate and investment beliefs. We share ESG best practices and recommend process improvements when appropriate.

### During "the deal"

In a recent private equity transaction, BCI and a strategic partner acquired a firm operating in the insurance sector. We actively worked with the partner during the diligence and onboarding phases of the investment, providing guidance on the initial ESG risk questionnaire and annual reporting of the company's ESG risk metrics. BCI and our partner shared our views with each other on climate and cybersecurity risk. The company is now developing further ESG, climate, and cybersecurity risk management practices. We expect this will add value to the company in the long run and allow us to properly monitor how the company has mitigated these business risks.

### Throughout the partnership

BCI recently engaged with another private equity strategic partner who was interested in advancing its commitment to ESG, improving processes, and further integrating sustainability into all aspects of its investment decisions. We supported the partner firm in identifying and understanding material ESG factors in its portfolio, sharing best practices, and conducting a deep-dive ESG assessment on a company operating in the transportation and logistics industry. This collaborative effort led to our strategic partner publishing its first ESG annual report.

<sup>1</sup> Includes market value and unfunded commitments as of December 31, 2021

<sup>2</sup> Based on market value and unfunded commitments as of December 31, 2021

# Integration in Practice

Additional case studies showcasing BCI's integration activities in 2021



## ASSET ALLOCATION

Helping our clients meet their long-term financial obligations and managing investments in their best financial interests drives everything we do. Asset allocation is at the core of this responsibility.

Ramy Rayes, executive vice-president, investment strategy & risk, reflects on why BCI integrates ESG and climate change into our asset allocation processes.



## INVESTMENT DECISIONS

As an active, in-house asset manager, our teams focus on effectively integrating fundamental financial and ESG analysis in all aspects of the investment process.

Last year, our due diligence reviews included two investments in our private equity and infrastructure & renewable resources portfolios, where we assessed ESG risk and opportunity and how to leverage sustainability as a competitive advantage.

**Pete and Gerry's Organics**

**Vista Hermosa Inversiones Forestales SpA**



## INTEGRATION AT QUADREAL

QuadReal is dedicated to integrating ESG in its planning, decision-making and performance evaluations. The company evaluates performance through the Global Real Estate Sustainability Benchmark (GRESB), which also provides actionable data for mitigating ESG risk and optimizing building performance.

In 2021, QuadReal continued its sector-leading performance, achieving a performance score of 91 per cent. For the third year in a row, QuadReal ranked in the top 10 per cent globally.



# Influence

Through engagement and advocacy, we influence companies in which we invest, our partners, and other participants in capital markets.

Applying influence is part of our role and responsibility as stewards of our clients' assets. As one of the largest asset managers in Canada, we can affect corporate and market behaviour. Our focus is on accelerating outcomes through direct and collaborative engagement, policy advocacy, peer collaboration, and proxy voting. These levers of influence help to advance our corporate and asset-level ESG priorities, which we determine by identifying the issues most material to our clients' investments.



Featured: Public Markets ESG team members

# Accelerating Outcomes in Our Priority Areas

We use our influence to increase transparent discussion of ESG risks, improve long-term performance, and promote the stability and integrity of capital markets.

Our ESG Strategy aligns our corporate-wide engagement priorities and expectations for investment companies. In this section, we take a closer look at our ESG engagement key performance indicators (KPIs) in public markets, activity across asset classes on our corporate-wide priority of climate change, and activity related to our Proxy Voting Guidelines. Beyond these case studies, key activities from the year are detailed in the following highlights.

## ENGAGEMENT AND COLLABORATION

BCI engages companies directly and collaboratively to drive adoption of best practices across industries. In 2021, BCI's public markets team engaged 299 companies, including through four collaborative engagement initiatives on climate change, human capital management, and gender diversity. We also participated in 20 policy consultations, roundtables, and joint statements to advance market or regulatory ESG

expectations and improve the investment landscape for our clients. Our policy advocacy work is listed in **Appendix 1** and company engagements are included in **Appendix 4**.

In private equity, BCI joined more than 100 general and limited partners in committing to the **ESG Data Convergence Initiative** — a collaboration aiming to address the lack of standardized, meaningful, and performance-based ESG data from private companies. As the initiative grows, it will help us to influence partners and portfolio companies to increase ESG transparency and improve long-term performance.

## PANDEMIC RESILIENCE

In line with our ESG priority of human capital management, we continued our work with **global institutional investors targeting 50 publicly traded companies** to improve board oversight of business continuity and employee treatment during the COVID-19 pandemic. BCI led engagement with five companies. This included UnitedHealth Group Inc. (NYSE: UNH), where our engagement resulted in the company committing to better disclosure of the executive officers' annual bonuses linked to client and employee experiences. This disclosure, which was provided in 2022, will enable

investors to see how compensation aligns with human capital management factors that drive long-term value creation.

BCI and the lead investor group shared key learnings with all companies. These included ensuring the board has a clear oversight role for worker safety, providing better disclosure of human capital management programs, and investing in employees' training, career development and well-being. We encouraged companies to incorporate these learnings for the long-term, so they are better prepared for future disruptions or pandemics and an endemic COVID-19 world.

## A SEAT AT THE TABLE

Jennifer Coulson, senior managing director of ESG in public markets, was appointed as a member of the federal government's inaugural **Sustainable Finance Action Council**, which comprises of representatives of the financial community. As an influential investor, BCI will contribute to the council by advising on the foundational market infrastructure needed for a stable and reliable sustainable finance market in Canada.

## Our Corporate ESG Influence Priorities



Climate Change



Water Management



Data Security & Privacy



Human Capital Management



Diversity & Inclusion

## A CLOSER LOOK

# Public Markets ESG Engagement KPIs

Tracking KPIs helps us to measure the long-term outcomes of ESG engagement activities and communicate them to our clients. Selecting specific KPIs is an iterative process that allows us to evaluate trends and progress and determine where to best use our time and resources.

In 2017, BCI started tracking KPIs across seven categories, which included over 40 data points, to measure progress against our engagement priorities and objectives with publicly traded companies. We pursued changes in these areas through direct and collaborative corporate engagement, policy submissions, and proxy voting.

In response to positive trends and changing corporate priorities, we reviewed and updated our KPIs in November 2021 to cover five categories and over 60 data points. After assessing many options and data sources, we determined that several original KPIs should carry forward alongside our new indicators.

Examples of new KPIs include monitoring the adoption rate of sustainability reporting by companies using the SASB framework, the prevalence of ESG metrics in executive compensation, and broadening our human rights focus to encompass human capital management.

We believe our new KPIs better capture the shift in our engagement approach to material ESG issues. We have stopped tracking adoption of KPIs like say-on-pay votes in Canada, the Sustainable Stock Exchanges Initiative, and board independence in Japan due to significant improvements in these areas.

### KPI CATEGORIES

#### Original (2017)

- > Sustainable Stock Exchanges (SSE) Initiative
- > Climate Change Disclosure
- > Water Related Disclosure
- > Human Rights in Extractive Sectors
- > Gender Diversity in Canada
- > Executive Compensation in Canada
- > Board Independence in Japan

40+ Datapoints

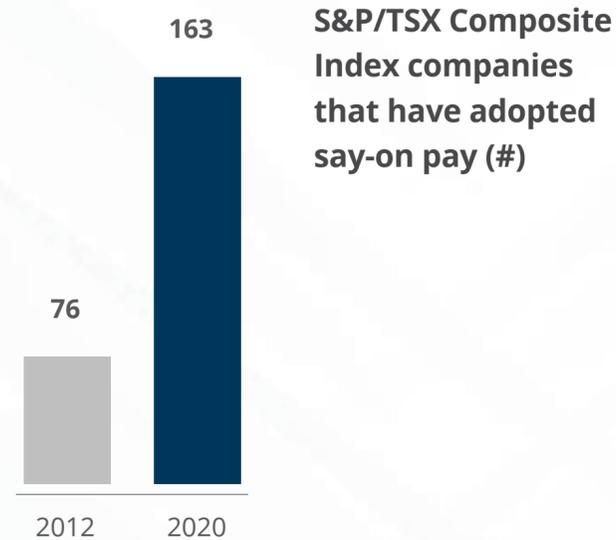
#### Revised (2021)

- > Climate Change
- > Gender Diversity
- > Executive Compensation
- > Sustainability Reporting
- > Human Capital Management

60+ Datapoints



## Examples of KPIs where engagement was successful

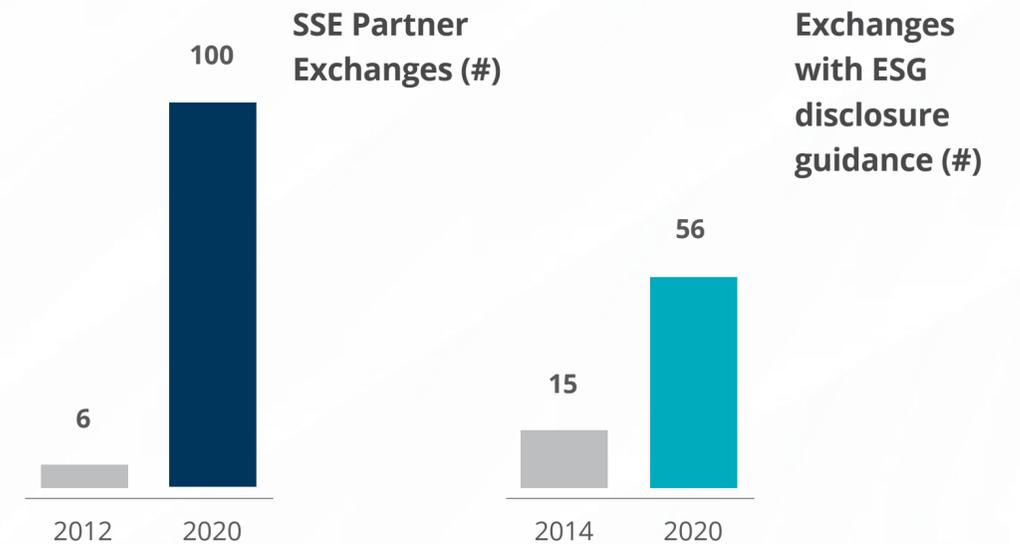


Source: Institutional Shareholder Services Inc.

**Category:** Executive Compensation in Canada

**Primary activities:** Direct and collaborative engagement with companies, policy advocacy, and proxy voting.

**Status:** During our engagement period, there was significant progress on the adoption of voluntary votes on executive compensation, and regulatory changes now require it for many companies. We are satisfied with these outcomes, and we no longer track say-on-pay as a performance indicator.



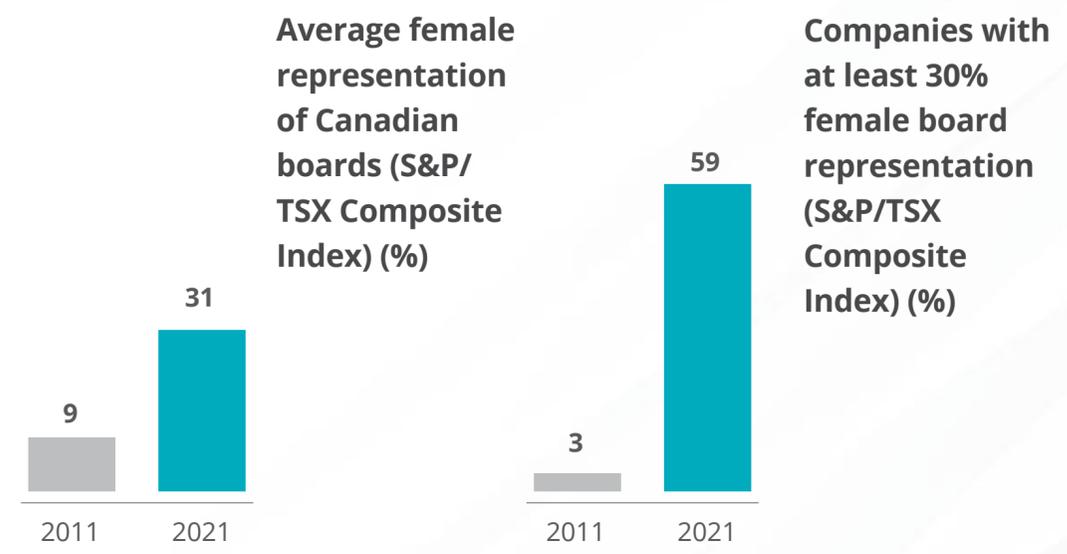
Source: Sustainable Stock Exchanges Initiative

**Category:** Sustainable Stock Exchanges (SSE) Initiative

**Primary activities:** Co-chair SASB stock exchanges working group, led engagement with TMX Group, policy advocacy, and collaborative work with PRI signatories, Canadian peers, and the Asian Corporate Governance Association (ACGA).

**Status:** During our engagement period, 100 stock exchanges partnered with the SSE Initiative and 56 developed ESG disclosure guidance. We are satisfied with these outcomes, and we no longer track the SSE Initiative as a performance indicator.

## Examples of improving KPIs where engagement continues

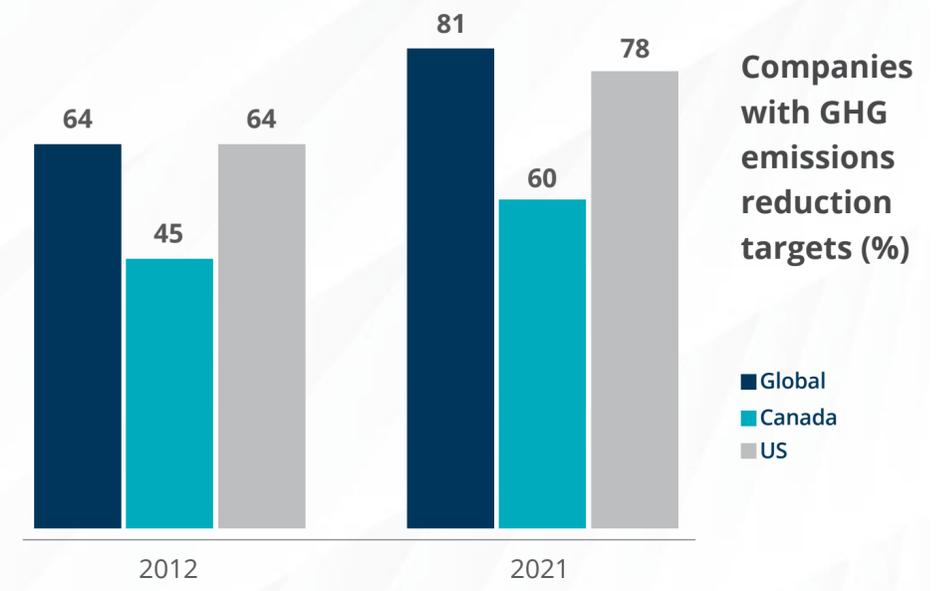


Source: Institutional Shareholder Services Inc.

**Category:** Gender Diversity

**Primary activities:** Chair of the investor group for the 30% Club of Canada, direct and collaborative engagement with companies, policy advocacy, and proxy voting.

**Status:** During our engagement period, there has been progress on gender diversity on boards at Canadian S&P/TSX Composite Index companies. This indicator remains on our list. We will continue to track these KPIs based on our increased expectations for female representation on boards and continued need for engagement.



Source: CDP

**Category:** Climate Change

**Primary activities:** Work with Climate Action 100+, direct and collaborative engagement, policy advocacy, and proxy voting.

**Status:** During our engagement period, Canadian, U.S. and global companies reporting to CDP that they have a GHG emissions-reduction target have plateaued over the last three years. We will continue to track these KPIs based on the limited progress and continued need for engagement.



## A CLOSER LOOK

# Climate Change

### Climate Action 100+

Climate Action 100+ is the largest investor-led engagement initiative on climate change. It engages with 167 companies representing more than 80 per cent of global industrial GHG emissions.

BCI leads or co-leads engagements with four North American companies in the oil and gas and mining industries, and supports engagements with six other target companies. These companies are: Canadian Natural Resources Limited (TSX: CNQ); Imperial Oil Limited (TSX: IMO); Suncor Energy Inc. (TSX: SU); Teck Resources Limited (TSX: TECK.B); American Electric Power Company (NASDAQ: AEP); Chevron Corporation (NYSE: CVX); Duke Energy Corporation (NYSE: DUK); Exxon Mobil Corporation (NYSE: XOM); Marathon Petroleum Corporation (NYSE: MPC); and The Southern Company (NYSE: SO).

### MARATHON PETROLEUM CORPORATION

BCI has co-led the engagement with Marathon Petroleum Corporation (NYSE: MPC) since the launch of Climate Action 100+ in 2017. Marathon operates the largest refinery network in the United States with 13 refineries, as well as midstream (processing) and downstream (retail) operations, making climate change transition risk a concern for shareholders.

We have led multiple interactions with the company. Our objectives included emissions reduction targets, a clear transition plan for the long-term health of the company, and alignment of lobbying activity with the goals of the Paris Agreement.

Marathon has taken the following actions aligned to our engagement objectives:

- > Announced GHG emission-reduction targets for 2030;
- > Set a methane emissions-intensity reduction target of 50 per cent by 2025;
- > Incorporated emissions targets into compensation programs for all employees;
- > Planned conversion of three refineries to renewable diesel plants;
- > Planned to idle high-cost, low-efficiency facilities to reduce absolute emissions;
- > Increased transparency around trade association participation and alignment with the Paris Agreement;
- > Set expectation for over 40 per cent of growth capital to be directed at lower-carbon products; and
- > Started reporting Scope 3<sup>1</sup> emissions and third-party verification of these numbers.

Marathon announced in February 2022 an absolute reduction target of Scope 3 emissions of 15 per cent by 2030, using a 2019 baseline, demonstrating a meaningful commitment to absolute reductions and real-world outcomes.

### CANADIAN NATURAL RESOURCES LIMITED

During our time co-leading engagement with Canadian Natural Resources Limited (TSX: CNQ) since 2017, we have observed a lack of progress on setting GHG emission-reduction targets.

We escalated our engagement in 2021 by seeking broader investor support for enhanced climate and emissions-related disclosure. In February 2022, the company announced it will report on all value chain emissions and seek third-party assurance on its Scope 1 and 2 emissions, including methane, and limited assurance on its Scope 3 emissions.<sup>1</sup>

External assurance is commonly used to ensure quality sustainability reporting. Climate-related metrics and risk considerations should be an essential part of the audit process. Seeking assurance will further anchor the company's current and future emission-reduction targets, as well as carbon capture and storage ambitions. The disclosure of certain estimated Scope 3 emissions provides investors with visibility over the carbon footprint of products sold. With global energy demands changing, this information will allow investors to weigh the potential sources of transition-related risks and climate impact, while bringing the corporation's disclosure in line with peers.

BCI will continue engaging with senior management and board directors on the objectives of our engagement, which are to outline pathways to lower emissions, invest in methane detection, and set mid-term emission-reduction targets. This includes the company creating incentives for its executives and employees to achieve targets in the short, mid, and long term, while committing the corporation to net-zero GHG emissions beyond its oil sands operations.

<sup>1</sup> Scope 1: All direct emissions from the activities of an organization or under their control; Scope 2: Indirect emissions from electricity purchased and used by the organization; Scope 3: All other indirect emissions that occur in a company's value chain



# Thames Water's 2030 net zero commitment

Thames Water Utilities Ltd. (Thames Water) is the U.K.'s largest wholesale water and wastewater services provider, serving 15 million customers across the City of London and the Thames Valley. More than seven billion litres of water and wastewater is moved every day.

BCI has been directly invested in Thames Water since 2006 as part of the infrastructure & renewable resources program. BCI, with our partners, has worked closely with the company's management in pursuit of ambitious ESG goals. To help protect its customers' water supply and contribute to the global effort to combat climate change, Thames Water has pledged to reach net-zero carbon emissions by 2030 — 20 years ahead of the U.K. government's target — and aims to go further than that by 2040, through evaluation and support for opportunities that reduce emissions beyond its operations.

To reach net zero, Thames Water is taking the following steps:

- > Harnessing solar power to cut emissions;
- > Using sludge, a by-product of sewage waste treatment, to generate renewable heat and power;
- > Testing electric vehicles for company fleets;
- > Finding ways to make operations more energy efficient; and
- > Engaging with supply-chain partners to collaborate on carbon-reduction efforts.

## Harnessing the power of waste

One of the unique, and promising, areas of innovation is Thames Water's work to recover heat from sewage. This includes developing inventive new ways to capture and convert heat from waste treatment processes, which aligns with a circular approach to waste management. For the time being, Thames Water has put into effect practices in which biogas is produced and used at work sites during peak consumption hours. This lowers stress on the power grid, reducing the use of fossil fuels and cutting the company's operating expenses. As an owner, BCI supports Thames Water's efforts to help make the U.K.'s electricity supply cleaner, greener, and more resilient.



BCI supports Thames Water's commitment to net zero. Moving water is an energy-intensive process, so this is not only good for the environment, it also reduces the company's reliance on purchased power and fuels.

**CHRISTY PHAM**  
Senior Principal, Infrastructure & Renewable Resources



Photo Source: Thames Water



## Canadian Investor Statement on Climate Change

BCI and 35 other institutional investors managing \$5.5 trillion signed the **Canadian Investor Statement on Climate Change** in October 2021. The signatories called on companies to act on material climate risks. The signatories also commit to disclosing their financed emissions and setting the expectation that investment companies will establish emissions targets and report on progress.

Canadian investors sent an unequivocal message to companies and governments that disclosure is key to maintaining and growing private investment in the low-carbon transition of our industries.

“ The Canadian Investor Statement on Climate Change represents another important step in making clear our expectations of the companies in which we invest, while reinforcing our commitment to supporting the transition to a lower-carbon economy.

**GORDON J. FYFE**  
CEO/CIO

## Investor Call For Methane Regulation

BCI and other global financial institutions, representing \$5.4 trillion in assets under management, called on the U.S. government in May 2021 to rapidly advance methane regulations for the U.S. oil and gas industry to help meet the goals of the Paris Agreement.

At the United Nations Climate Change Conference (COP26) in Glasgow, the U.S. government announced a methane reduction plan to cut oil and gas industry methane emissions by 75 per cent. Additional goals were announced for other sectors, including landfills, orphaned oil and gas wells and mines, and agricultural methane emissions.

Methane, the main component of natural gas, is a potent greenhouse gas 84 times more powerful than carbon dioxide in its first two decades after release. Researchers estimate that methane from human sources is responsible for at least a quarter of today's climate warming. Any credible pathway for the use of natural gas in a Paris Agreement-aligned future must address methane.

Signatories to the **Investor Call for Ambitious Methane Regulation for the Oil and Gas Industry** believe virtually eliminating methane emissions as part of a low-carbon transition can support the financial goals of both companies and investors.

## Global Sustainability Reporting Standards

In response to a lack of global standards for company sustainability reporting, the International Financial Reporting Standards (IFRS) Foundation, which oversees global accounting via the International Accounting Standards Board (IASB), created a new **International Sustainability Standards Board (ISSB)** under the IFRS umbrella in 2021. BCI has long been concerned about the lack of quality and comparability of corporate sustainability reporting, and supports the creation of this new global body. The work of both SASB and TCFD will be considered for the new ISSB reporting standard.

BCI was a founding member of the Investor Advisory Group of SASB<sup>1</sup> in 2016, which provides rigorously developed industry-level standards on material sustainability factors, to contribute to improved reporting. We also endorsed the TCFD as a key step in improving disclosures that investors use to determine risks and opportunities associated with climate change. BCI sees the creation of ISSB as a major advance in standardizing high-quality, comparable sustainability information deemed financially impactful on companies.

<sup>1</sup> SASB merged with the International Integrated Reporting Council to become the Value Reporting Foundation, which will be consolidated into the IFRS Foundation in summer 2022.



# Championing green disclosure

Leading the way on green disclosure is about more than QuadReal's own data transparency — it is also about influencing peers to do the same. In 2021, QuadReal supported four new companies to join the five inaugural participants in the Canada Green Building Council Disclosure Challenge.

New participants mean more data, enriching the depth and breadth of information available. When collected and shared, data on building performance can help to enable significant emissions reductions, energy efficiency improvements, and cost savings for building owners. These improvements are only made possible when owners, occupants, and legislators all have access to reliable building performance data.

## **Building a more transparent market**

QuadReal helped to create the Disclosure Challenge in 2018 to promote sustainability-driven data transparency in the Canadian real estate market. It brings together some of Canada's largest real estate owners and managers. Participation involves full disclosure of energy, water, and carbon data. Organizations that sign on to the Disclosure Challenge pledge to be transparent with their building data and commit to responsible management of their assets going forward.

Publicly sharing portfolio-wide information helps to set benchmarks, which leads to easier identification of buildings that are suitable for sustainability upgrades. Greater access to data, particularly regarding carbon reduction, helps building owners make informed choices about where to invest in retrofitting, and guides policy makers to develop programs with the greatest environmental impact.

Photo Source: QuadReal, 777 Hornby, Vancouver, Canada

A CLOSER LOOK 

# Proxy Voting

Proxy voting is a key shareholder right that BCI uses to influence public companies and encourage improvements in ESG disclosure and performance. Our **Proxy Voting Guidelines** outline our expectations of companies and provide a framework for decision-making. The guidelines are based on best practices and updated every two years.

In 2021, we published our 10th edition of the guidelines, which put greater emphasis on gender, racial and ethnic diversity, and climate change — expanding our efforts to hold directors accountable. The following are examples of our activities based on our strengthened expectations.

**We expect women directors to comprise at least 30 per cent of a company's board of directors, an increase from 25 per cent under the previous guidelines.**

**ACTIVITY** Voted against 624 directors at 521 companies for insufficient gender diversity versus 423 directors at 355 companies in 2020.

**Where disclosure is available, we also take into consideration racial and ethnic diversity, expecting at least one diverse board member.**

**ACTIVITY** Voted against 12 directors at 11 companies for boards lacking any racially or ethnically diverse directors and against 32 directors at 24 companies for lack of gender diversity, as well as racial and ethnic diversity.

**We support more prescriptive shareholder proposals on climate change to publicly signal our expectations that companies must act quickly to address this systemic risk.**

**ACTIVITY** Supported 80 per cent of climate change proposals versus 52 per cent in 2020. More shareholder support for such proposals is leading to record numbers of proposals being filed, doubling year over year from 21 to 44.

**We will consider votes against directors for weak responses to climate change risk.**

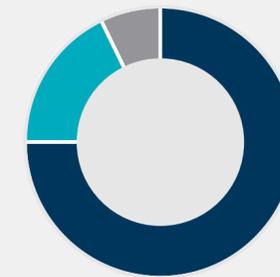
**ACTIVITY** Voted against 51 directors at 34 companies.

**We vote against company directors for compensation practices that are not aligned to shareholder interests or company performance, and we conduct a holistic review of compensation plans that considers the impact of the COVID-19 pandemic.**

**ACTIVITY** Voted against 34.5 per cent of compensation plans, up from 31.1 per cent in 2020. Voted against 422 directors for unsatisfactory compensation practices, up from 141 in 2020.

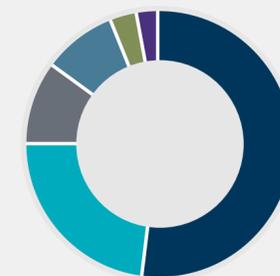
BCI voted against compensation at two companies in Canada due to excessive use of discretion causing a disconnect between pay and performance: Bank of Nova Scotia (TSX: BNS) and Air Canada (TSX: AC). The companies received 38.2 per cent and 28.7 per cent of votes against, respectively.

Proposals voted by geography (%)



- 75 International
- 18 United States
- 7 Canada

Proposals voted by category (%)



- 52 Board of Directors / Director-Related
- 23 Shareholder Rights & Routine Items
- 10 Compensation
- 9 Capitalization
- 3 Reorganization & Mergers
- 3 Shareholder Proposals

**4,085** MEETINGS VOTED

IN **62** COUNTRIES

**5.5%** INCREASE in meetings

**44,390** AGENDA ITEMS ASSESSED

**OF WHICH WE VOTED**

MANAGEMENT PROPOSALS  
**26%** AGAINST  
Total proposals 43,270

DIRECTOR NOMINEE PROPOSALS  
**35%** AGAINST / WITHHELD  
Assessed 18,413

SAY-ON-PAY / REMUNERATION  
**33%** AGAINST  
Assessed 1,869

SHAREHOLDER PROPOSALS  
**64%** SUPPORTED  
Total proposals 1,120

**E**

**47%**  
total 109

**S**

**74%**  
total 116

**G**

**65%**  
total 895

## Proxy Voting Highlights

Our voting guidelines are available on our website and advise investee companies of our expectations related to ESG matters. We have disclosed our proxy votes ahead of a publicly traded company's annual general meeting for more than six years.

A **searchable database** on our website provides an account of our voting, including our rationale when we vote against a management proposal and when we vote on shareholder proposals.

### CLIMATE CHANGE: EXXONMOBIL

Investor concerns over ExxonMobil's (NYSE: XOM) lack of action on climate change resulted in a new investment firm, Engine No.1, putting forward four board candidates with energy transition expertise at the 2021 annual meeting. BCI assessed the candidates' backgrounds and met with ExxonMobil representatives. The failure of the ExxonMobil board to meet with the dissident nominees, combined with the lack of progress on engagement, unresponsiveness to shareholders, and poor financial performance, resulted in BCI supporting all four dissident candidates. Three were elected to the board.

BCI also supported a shareholder proposal asking for a report to assess if climate lobbying activities by the company were aligned with the Paris Agreement. The proposal passed with 64 per cent support, and we expect to see greater transparency on those activities.

ExxonMobil has announced several climate-related targets since the meeting, including net zero by 2050 for operational emissions.<sup>2</sup> While this is only an initial step, it demonstrates that persistent engagement can positively influence one of the largest GHG emitters in the world.

### INDIGENOUS RECONCILIATION: TMX

BCI and other shareholders of TMX Group Limited (TSX: X) overwhelmingly supported a historic shareholder proposal asking the company to report on its policies and work related to Indigenous reconciliation and inclusion. Through constructive engagement, the proponent, the Shareholder Association for Research and Education, reached an agreement with TMX's board of directors to endorse the proposal asking the company to report on its efforts related to diversity, equity, and inclusion and Indigenous employees, communities, and businesses.

The proposal received 98 per cent support. In 2022, the company followed through on the proposal and disclosed the first steps it has taken to fulfill its reconciliation and inclusion commitments. This is an example of progress achieved through engagement by the proponent and proxy voting.

### RACIAL AND EQUITY AUDITS: JPMORGAN CHASE

BCI voted on nine shareholder proposals asking U.S. companies to conduct and report on racial and equity audits. BCI supported five of the nine after assessing each company's efforts at diversity, equity, and inclusion. While none of the proposals passed, two that BCI voted for received over 30 per cent support, including one at JPMorgan Chase & Co. (NYSE: JPM) with 40 per cent in favour. Based on this strong support, BCI anticipates a continued focus and activity on this topic.

### ALIGNING PROPOSALS TO CLIMATE ACTION 100+

Climate Action 100+ flagged 18 proposals that were aligned to the initiatives' objectives. BCI supported all proposals we were able to vote on, including the vote on dissident directors at ExxonMobil. Voting in line with our collaborative engagement objectives demonstrates consistency and our ability to advance progress from multiple perspectives.

<sup>2</sup> ExxonMobil: Advancing Climate Solutions 2022 Progress Report

# Influence in Practice

Additional case studies showcasing BCI's influence activities in 2021



## 15 YEARS AS A PRI SIGNATORY

BCI was a founding signatory of the Principles for Responsible Investment (PRI) in 2006. The investor initiative has since grown into the world's leading proponent of responsible investment.

Over the past 15 years, we have actively participated in discussions, contributed to over 70 investor collaborations, and joined numerous advisory committees and working groups administered by PRI. Our work with other signatories allows us to influence positive change on topics like corporate reporting, credit ratings, human rights, methane emissions, and sustainable stock exchanges.



## HUMAN CAPITAL MANAGEMENT

Human capital management is one of our corporate priorities. BCI encourages policies and procedures that ensure worker health and safety, the protection of human rights, and alignment with labour standards.

We collaborated with global investors to engage companies on board oversight, advocated for improved health and safety performance, and contributed to the development of new corporate standards.

### Amazon Health and Safety

### SASB Human Capital Survey



## DIVERSITY & INCLUSION

Diversity and inclusion is one of our corporate priorities. We encourage best practices to ensure fair treatment and equal access to opportunity, and to improve diversity on corporate boards and in senior management.

Alongside proxy voting and engagement with publicly traded companies, we encourage and support QuadReal and our private portfolio companies to advance initiatives related to diversity and inclusion.

### Indigenous Relations at Mosaic Forest Management

### Accessibility at QuadReal Properties in Canada



# Invest

BCI actively seeks opportunities to invest in ESG-themed investments that provide long-term returns for clients and reinforce our investment beliefs.

Our clients' financial best interests are the focus of every investment decision. While BCI incorporates ESG into all aspects of asset allocation and our investment processes, we also pursue opportunities that will counteract, diversify, or mitigate ESG risk – and create value. ESG-focused investments are a growth area in both public and private markets, creating more options and enabling BCI to capture opportunities presented by the market.



Featured: ESG Strategy & Risk team members

# Evaluating Opportunities Across All Asset Classes

BCI is increasing our corporate-wide focus on ESG as a source of value creation.

Our ESG Strategy ensures we keep pace with the rapidly evolving investment landscape and evaluate opportunities across all asset classes. In this section, we take a closer look at our growing participation in sustainable bonds, investment in the First Nations Finance Authority commercial paper program, and our joint work on the Sustainable Development Investments Asset Owner Platform (SDI AOP). Beyond these case studies, key activities from the year are detailed in the following highlights.

## EXISTING STRATEGIES

We continue to build on existing ESG strategies in public markets. Our Global Quantitative ESG Equity Fund, launched in 2019, holds a diversified portfolio of stocks with exposure to desirable ESG characteristics. Assets under management in the fund nearly doubled to \$6.0 billion at December 31, 2021, from \$3.1 billion a year earlier. Assets in our Thematic Public Equity Fund, a concentrated portfolio with an energy efficiency component, increased from \$4.7 billion at December 31, 2020 to \$6.4 billion at December 31, 2021. The growth in both funds is the result of positive returns and intentional increases in allocation to these mandates.

## NEW COMMITMENTS

Our absolute return investments are held by the Global Partnership Fund within public markets. This fund gives our clients an option to access return-enhancing, value-added strategies designed to perform well across all market conditions, with lower correlations to traditional asset classes. It is well positioned to participate in alternative investments that meet the risk and return targets of our clients and advance our ESG priorities.

Through the Global Partnership Fund, we have committed to several sustainability-focused investments that will create long-term value for our clients. In 2021, this included Cowen Sustainable Investments Offshore I LP, a fund that provides tailored financing to companies that are accelerating the transition to an environmentally sustainable economy, and PIMCO's California Carbon Access Master Fund, LP, which is focused on acquiring California Carbon Allowances (CCAs). We also laid the groundwork to make fund commitments to ECP Capital LP and ECP Opportunity Fund II LLC (Series 2) in early 2022. These fund investments give BCI exposure to environmental commodity markets, including tradable assets like CCAs.

## FINANCING GREEN CONSTRUCTION

First established in 2020, QuadReal's **Green Bond Framework** paves the way for investors to support solutions that reduce energy consumption, carbon emissions, pollution, and waste at QuadReal properties. The framework supports innovation in green buildings, renewable energy, resource and energy efficiency, pollution prevention, clean transportation, and climate change adaptation.

Nearly \$1.2 billion in green bonds have been issued<sup>1</sup> over three separate offerings, including a \$400 million issuance in March 2021<sup>2</sup> and, most recently, a \$400 million issuance in February 2022.<sup>3</sup> QuadReal's net proceeds from its three issuances to date have been fully allocated to qualifying green projects, including eligible costs related to mixed-use developments such as The Post and Oakridge in Vancouver, British Columbia.

<sup>1</sup> Issued by BCI QuadReal Realty ("BQR"), which serves as the primary issuing entity of unsecured notes for BCI's real estate program

<sup>2</sup> 1.056% Series 4 Senior Notes rated AA (low) with a stable trend by DBRS Limited

<sup>3</sup> 2.551% Series 5 Senior Notes rated AA (low) with a stable trend by DBRS Limited



## A CLOSER LOOK

# Investing in Sustainable Bonds

BCI looks for opportunities to invest in the fast-growing market for sustainable bonds. These bonds — labelled green, social, sustainability, or sustainability-linked — provide our clients with investment returns and exposure to positive environmental and social outcomes, including climate mitigation strategies.

BCI's strategies in fixed income will lead to an estimated cumulative participation of \$5 billion in sustainable bonds by 2025. We support market growth by encouraging qualified issuers to consider these financing mechanisms as part of their sustainability strategies. Our investments through primary market participation support issuers who are leading the way in creating tangible environmental and social outcomes.

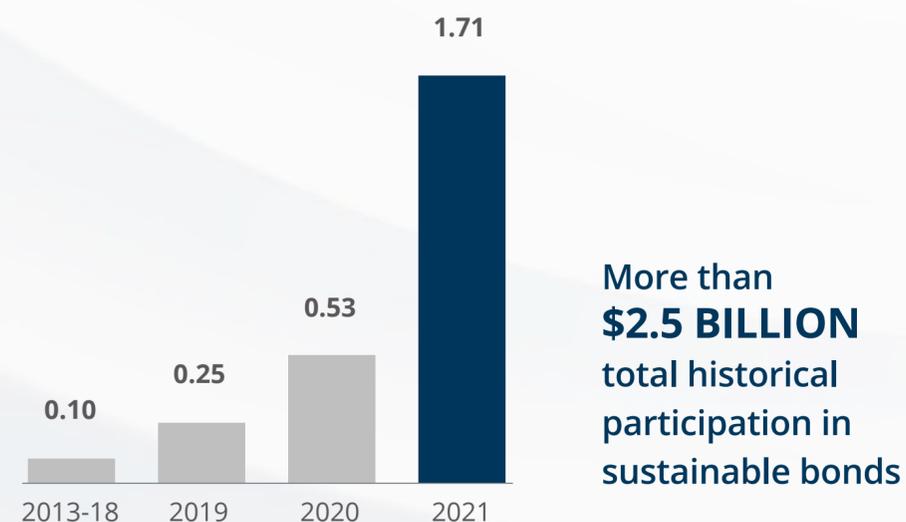
At the end of 2021, BCI's total historical participation in sustainable bonds had reached more than \$2.5 billion, supporting 48 issuing companies through 63 new issues. With strong supply, BCI invested in 37 new issues valued at over \$1.7 billion during the calendar year alone.

In 2021, BCI was a member of the International Capital Market Association (ICMA) Green Bond Principles and Social Bond Principles Sustainability-linked Bond working group, and a member of the Canadian Bond Investor Association

(CBIA) ESG committee. We contributed to the CBIA statement on ESG disclosure and sustainable labelled bonds, which confirms investor support for SASB and TCFD reporting standards, high standards for sustainable bond labels, and rigorously structured sustainability-linked bond instruments.

We help develop best practices by participating in public panels and discussions with the banks leading the structuring and marketing of sustainable bonds.

**Annual participation in sustainable bonds (\$ billion)**



The growth of the sustainable bond market and the strong demand for labelled bonds demonstrates that ESG-focused investments are becoming a long-term, mainstream trend.

BCI's fixed income strategies allowed us to surpass 50 per cent of the \$5 billion in investments we expect to reach by 2025. This acceleration supports our clients' return objectives and provides positive outcomes through use of proceeds.

**DANIEL GARANT**  
Executive Vice President & Global Head, Public Markets

## PARTICIPATION ACROSS ISSUERS AND INDUSTRIES

BCI invests in a diverse universe of issuers to gain exposure to financial returns and sustainability outcomes. This includes supranational, sovereign, and agency (SSA) issuers, such as provinces and municipalities, and corporate investment grade and high-yield issuers, which have varying use-of-proceeds.

Canadian-dollar denominated SSA bonds represent about 25 per cent of our historical participation in sustainable bonds, with issuances by international development banks reflecting over 10 per cent of total participation. 2021 examples include:

- > \$125 million+ split between a gender-themed bond and a green bond from the Asian Development Bank; and
- > \$75 million+ invested through two sustainability bonds from the International Bank for Reconstruction and Development.

Canadian corporate issuance represents more than 40 per cent of our historical participation, including 15 per cent from real estate green bonds, 15 per cent from electric utilities green bonds and 10 per cent from financial institutions. 2021 examples include:

- > \$150 million+ invested through Canadian real estate investment trust issuers; and
- > \$225 million+ invested through Canadian banks and financial institutions.

U.S. corporate issuance represents just over 30 per cent of our historical participation, including 15 per cent from financial institutions and 10 per cent from industrials. 2021 examples include:

- > \$225 million+ invested through banks and financial institutions; and
- > \$150 million+ invested through industrial companies.

**Historical participation by issuer type (%)**  
at December 31, 2021



**2021 participation by issuer sub-type (%)**

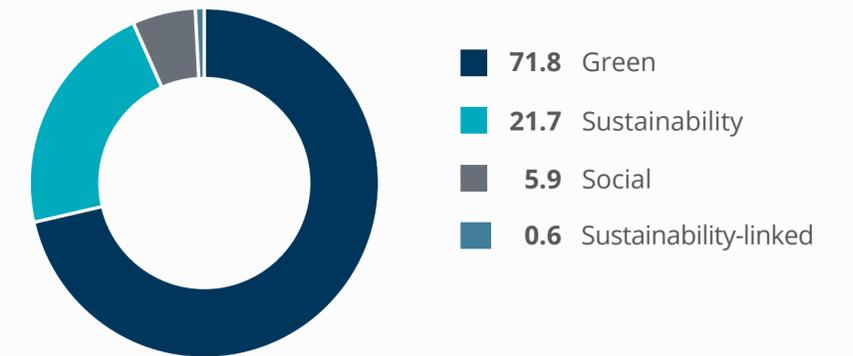


## USE OF PROCEEDS

Historically, BCI has subscribed to 63 sustainable bonds, representing over \$2.5 billion in initial participation in support of 48 issuing entities at December 31, 2021. Some examples of our investments are below.

TYPE OF BOND	REGION	ISSUER	ISSUER TYPE	ISSUANCE VALUE	YEAR	USE-OF-PROCEEDS DESCRIPTION
Sustainability	Canada	Bank of Montreal	Corporate	\$750 million	2021	Finance women-owned micro-, small-, and medium-sized enterprises (SME).
Social & Green	U.S.	JP Morgan Chase & Co.	Corporate	US\$1 billion (social) US\$1.25 billion (green)	2021	Social: employment generation, SME financing and microfinance, affordable housing, and access to essential services. Green: green buildings and renewable energy projects.
Green	U.S.	Verizon Communications	Corporate	US\$1 billion (2020) US\$1 billion (2022)	2020 2022	Renewable energy, supporting the company's strategy to become operational net zero by 2035.
Green	U.S.	Atlantica Sustainable Infrastructure	Corporate	US\$400 million	2021	Renewable energy, such as solar, wind and small-scale hydro projects, and transmission lines dedicated to bringing renewable energy to the grid.
Green	Canada (Ontario)	Government of Ontario	Provincial Government	\$1.25 billion (reopening - 2021) \$4.5 billion (2021) \$1.75 billion (reopening - 2022)	2021, 2022	Finance eligible environmental projects and infrastructure across Ontario to mitigate or adapt to the effects of climate change; includes clean transportation, energy efficiency and conservation projects.
Green & Social	International (Asia)	Asian Development Bank	Supranational Development Bank	\$1.25 billion (green - 2021) \$750 million (social - 2022)	2021 2022	Green: climate mitigation and adaptation objectives. Social: promotion of gender equality and empowerment of women in member countries.

Historical participation by sustainability label (%) at December 31, 2021



### TYPES OF BONDS

#### Green Bonds

Raise capital for projects with environmental benefits.

#### Social Bonds

Fund projects with positive social outcomes.

#### Sustainability Bonds

Proceeds applied to a combination of both green and social projects.

#### Sustainability-linked Bonds

General purpose use of proceeds with financial or structural components tied to the achievement of material, pre-determined ESG targets.

## A CLOSER LOOK

# Improving Market Access to the First Nations Finance Authority

BCI is one of the largest supporters of the First Nations Finance Authority (FNFA) commercial paper program, with participation in all eight tranches up to December 31, 2021. We have also participated in seven FNFA bond issuances since the program's inception in 2014. Our total fixed income participation in both programs has been more than \$750 million.

The FNFA is a non-profit organization that assists First Nations governments in accessing low-rate loans, investment options, and capital planning advice for the social and economic benefit of community members. To date, the FNFA has loaned over \$1.5 billion to different First Nations' projects, supporting the creation of over 16,000 jobs. Long-term loans to First Nations governments support social projects, infrastructure, housing, local businesses, and power projects.

The FNFA was created by First Nations Chiefs and Councillors to establish borrowing capacity for member First Nations, and to allow each community to access loans when needed. With an A+ credit rating from S&P, FNFA allows First Nations community members to have equal access to affordable financing on similar terms to that for municipalities. FNFA's operating policies are set by its board of directors (elected

annually from membership). British Columbia has the largest number of members and communities with loans in place.

ESG-related fixed income investments, such as those offered by FNFA, offer our clients investment returns and exposure to positive social outcomes. BCI is proud to support improving market access for FNFA and its members.

“ BCI has supported market access to the FNFA since the beginning of its funding programs. Our financing translates into tangible economic and social outcomes for many First Nations in British Columbia and across the country.

**CHRIS BEAUCHEMIN**  
Senior Managing Director, Fixed Income  
and Foreign Exchange

### **BUILDING THE SONGHEES WELLNESS CENTRE**

The \$25 million Songhees Wellness Centre in Victoria, British Columbia, was financed and funded by the Songhees Nation apart from \$1 million in federal funding. Financing was provided by Vancity and the FNFA.

Photo Source: Songhees Nation, Songhees Wellness Centre, Victoria, Canada

## A CLOSER LOOK

# SDI AOP

In 2020, BCI and our partners, APG (Netherlands), AustralianSuper (Australia) and Stichting Pensioenfonds Zorg en Welzijn (PGGM, Netherlands), with combined assets under management of US \$1 trillion, established the **Sustainable Development Investments Asset Owner Platform (SDI AOP)**.

It uses artificial intelligence to set a global standard for classifying sustainable development investments. Through a standard definition, taxonomy and data source, investors can use data to identify public companies that derive revenues from products and services that contribute positively to achieving the UN Sustainable Development Goals (SDGs).

The current classifications identify almost 2,000 equity and bond issuers from a universe of 8,700 as either “Majority SDI,”

where more than 50 per cent of revenues are derived from products and services aligned with the SDGs, or “Decisive SDI,” where 10 per cent to 50 per cent of revenues are aligned.

Partners and subscribers to the platform are using the data in various ways: to build indices (iSTOXX PPF Responsible SDG Index), as an input into their ESG integration processes, to inform asset allocation decisions, and to accelerate SDG-aligned investments. BCI is using SDI AOP data to strengthen our detailed ESG assessments in public markets by considering the degree to which a particular company or issuer contributes to the SDGs. We also use the data to monitor and calculate our exposure to climate-related opportunities across BCI’s entire portfolio.

### DECISIVE SDI ENTITIES



Source: SDI AOP Classification as of December 1, 2021

### MAJORITY SDI ENTITIES



### WHAT ARE THE SDGS?

The United Nations (UN) **Sustainable Development Goals (SDGs)** are a collection of 17 global goals covering a broad range of social and development issues including energy, sanitation, social justice, and climate change. Together, the SDGs and their 169 underlying targets constitute a framework for sustainable development that all 193 UN member states have agreed on.



# Insight

We use our learnings across all ESG activities, and our understanding of emerging trends to generate and communicate insights that help us adapt and improve strategies, processes, and approaches.

ESG is a deeply complex and rapidly evolving area of expertise. Managing risk and opportunity in the best interests of our clients requires our ESG professionals, investment staff, and broader workforce to understand and account for material ESG matters across all asset classes.



Featured: Public Markets ESG team members

# Prioritizing Learning, Research, and Collaboration

Each year, we work to deepen ESG knowledge at every level of the corporation and with clients.

We are intentional and proactive about building a culture that is focused on ESG and staying ahead of trends. In this section, we take a closer look at our work to research and define ESG as a source of value creation and a collaborative project with academia in the fast-evolving field of climate finance. Beyond these case studies, key activities from the year are detailed in the following highlights.

## CORPORATE KNOWLEDGE SHARING

Our corporate ESG Working Group is an interdisciplinary team of investment and risk professionals. It oversees and steers the implementation of the ESG Strategy and works on emerging issues, risks, opportunities, and trends. The group provides a forum for sharing knowledge, experiences, insights, and new ideas. The ESG Working Group met monthly throughout 2021 and guided our continued work to prioritize ESG as a source of value creation.

## CAPACITY BUILDING

BCI delivers an ESG overview at our quarterly new employee orientation sessions, introducing our ESG principles and investment beliefs. While all employees are expected to incorporate ESG considerations into their work, our ESG staff and investment professionals require additional expertise to engage across asset classes and participate on the boards of private markets portfolio companies. We continued to build our in-house ESG capacity through education and development opportunities. In 2021, members of our team strengthened their ESG-related expertise through programs, including the fundamentals of climate governance module, co-hosted by the Institute of Corporate Directors and Chapter Zero Canada, and the Competent Boards™ ESG designation and climate certificate programs.

Education and training opportunities on key ESG topics like climate change, Indigenous reconciliation, and labour relations were provided to BCI staff, clients, and board members.

## BCI's ESG Working Group

### CHAIR



**Jennifer Coulson**  
Senior Managing  
Director, ESG  
**Public Markets**



**Rob Blazey**  
Director, Macro  
Investment Research  
**Investment Strategy & Risk**



**Amy Chang**  
Director, Active Global  
Fundamental  
**Public Markets**



**Blake Fizzard**  
Senior Managing  
Director  
**Private Equity**



**Adam Goehner**  
Director,  
ESG Strategy & Risk  
**Investment Strategy & Risk**



**Susan Golyak**  
Senior  
Manager, ESG  
**Public Markets**



**Evan Mitchell**  
Associate Portfolio Manager,  
Investment Grade  
**Public Markets**



**Christy Pham**  
Senior Principal  
**Infrastructure &  
Renewable Resources**



**Alex Reid**  
Principal,  
**Private Equity**



**Steve Turner**  
Managing Director  
**Infrastructure &  
Renewable Resources**

## A CLOSER LOOK

# Researching ESG as a Source of Value Creation

In 2021, we sought ways to add value in our existing assets through ESG-related activities, as well as new investments that capitalize on opportunities created by long-term factors like climate change. BCI's ESG Working Group researched emerging approaches and trends that will inform how we leverage ESG as a source of value creation.

BCI defines ESG value creation as the use of ESG insight to identify new investment opportunities or specific ESG actions companies or investors can take to improve financial performance over time. It is divided into two sub-components:

- > ESG value preservation and creation; and
- > ESG investment opportunities.

The ESG Working Group developed climate-specific ESG value creation concepts that are being tested on portfolio companies. These ideas are under evaluation and have the potential to be adapted into models that could work for ESG factors beyond climate change.

### **ESG value preservation and creation**

This is the direct and intentional influence of portfolio companies to make ESG and sustainability improvements within their operations and strategic plans that will provide financial benefits over the life of the investment.

This form of value creation will primarily focus on our direct private market positions, while also being used to guide ESG engagement efforts in public markets. We are seeing companies across all sectors experience tangible positive outcomes and increased value from improved sustainability performance. These improvements are specific to industry, region, or business model and require tailored asset management plans.

### **ESG investment opportunities**

This includes taking advantage of the investment opportunities created by long-term systemic ESG factors, and/or acting to mitigate systemic ESG risks elsewhere in BCI's portfolio. The unique risk and return profiles of ESG investments can overlap traditional asset classes, creating opportunities for our specialized investment teams to collaborate.



Featured: ESG Strategy & Risk team members

## A CLOSER LOOK

# Leveraging the Best of Industry and Academia

BCI is collaborating with the University of Victoria and the Pacific Institute for Climate Solutions on an innovative three-year research project. The **Climate Finance Project** aims to develop decision-making tools and frameworks for integrating climate change risk evaluation and climate mitigation opportunities into clients' investment portfolios. The work builds on BCI's existing climate scenario analysis and valuation framework. It will incorporate the best available academic and applied research to improve portfolio resilience to climate change while supporting the transition to a low-carbon economy.

The research and lessons will be shared with the investment community, academics, policymakers, and the public, and integrated into teaching at universities and colleges.

### PROGRESS UPDATE

The initial research focus is on climate transition risk scenarios.<sup>1</sup> A key challenge for scenario users is translating the macroeconomic outputs of these scenarios into relevant inputs for valuation and risk models, and industry best practices

are still developing in this area. Climate scenarios also do not describe the full range of variables of interest to an asset owner. There are often data gaps, making it hard to merge top-down and bottom-up analyses for portfolio decisions.

The team analyzed 22 scenarios from the International Energy Agency (IEA) and the Network for Greening the Financial System (NGFS). Key findings include a deep understanding of scenario narratives and underlying assumptions; sensitivity and reliance of IEA and NGFS scenarios on different models and scenario outputs; and the value in combining data from different models to assess the range of outcomes for a given variable and scenario.

The team developed a dashboard that provides immediate comparison of outputs from different models and scenarios to better inform input data choices and allow for more accurate analysis. A methodology to fill data gaps while respecting the data consistency of a given scenario was also created.



“Collaborating with BCI is allowing us to gain invaluable practical insights as we address existing knowledge gaps in the field of climate-related financial risks and opportunities.”

**BASMA MAJERBI**  
Associate Professor of Finance,  
Gustavson School of Business, University of Victoria

<sup>1</sup> Transition risks arise from changes in policy, technology, consumer preferences and other factors that could result in a costly adjustment to a new low-carbon future with potential severe financial impacts on portfolios.

# Insight in Practice

Additional case studies showcasing BCI's activities in 2021



## CLIENT ENGAGEMENT

BCI actively engages and consults with clients on our ESG activities, while supporting clients' overall awareness and understanding of key ESG issues.

This takes many forms, including regular communication about ESG matters at client meetings and in client reports, and through ESG-focused education sessions and special events. We developed a dedicated section on our client portal, The Exchange, to support awareness and understanding.



## PARTNERING ON HEALTHY SPACES

QuadReal shares insight and best practices with Fitwel®, an international building certification system that uses research and evidence-based strategies to improve building health and wellness.

In partnership with Fitwel, QuadReal released a joint report outlining strategies for industrial sites, achieved the global standard in viral health and safety for its Canadian managed office portfolio, and benchmarked 60 projects to better understand tenant and resident experience.



## STAYING AHEAD OF TRENDS

We evaluate ESG trends to identify potential research areas and new opportunities to get ahead of emerging issues. An example of staying ahead of trends at QuadReal is anticipating the growing use of electric vehicles.

QuadReal expects that tenants, residents, and shoppers will shift over time to electric vehicles. It is investing in electric vehicle charging infrastructure by retrofitting existing buildings' parking facilities and integrating charging units in new developments.



# BCI's Approach to the TCFD Recommendations

BCI believes that meaningful disclosure of ESG risks, strategies, practices, and performance helps institutional investors make the best decisions for their clients.

We collaborate with like-minded investors and organizations to raise awareness of the need for reliable and consistent disclosure, and we are committed to incorporating the Task Force on Climate-related Financial Disclosures (TCFD) recommendations into our reporting and disclosure practices.



Featured: Public Markets ESG team members

## Aligning with the TCFD recommendations

The Financial Stability Board (FSB) established the TCFD in 2015 to develop recommendations for more effective climate-related disclosures that could promote informed investment, credit, and insurance underwriting decisions. BCI commented on the draft recommendations and officially signed a statement supporting the work of the TCFD in 2017.

Along with encouraging other companies to follow the TCFD's recommendations, BCI is committed to incorporation into our own reporting and disclosure practices. Our responses align with the broader guidelines set out by the TCFD, as well as their supplemental guidance for asset managers.

### CORE ELEMENTS OF TCFD RECOMMENDED CLIMATE-RELATED FINANCIAL DISCLOSURES



#### Governance

BCI's governance around climate-related risks and opportunities



#### Strategy

The actual and potential impacts of climate-related opportunities and risks on BCI's operations, strategy, and financial planning



#### Risk Management

BCI's processes for identifying, assessing, and managing climate-related risks



#### Metrics & Targets

The metrics and targets BCI uses to assess and manage relevant climate-risks and opportunities

## GOVERNANCE

### BCI'S GOVERNANCE AROUND CLIMATE-RELATED OPPORTUNITIES AND RISKS

BCI operates under a dual accountability model as set out in the *Public Sector Pension Plans Act*, which provides the legislated accountability we have to our clients and the BCI Board of Directors. Our clients set out their investment policies and management frameworks and the chief investment officer (CIO) is accountable to each client for their investment returns and the management of their funds.

BCI's Board of Directors are appointed by our clients and British Columbia's Minister of Finance. The board is accountable for overseeing BCI's operations and ensuring proper reporting and accountability to our clients.

**TCFD Recommendation:** Describe the board and management's oversight and role for managing climate-related risks and opportunities.

**BCI's Alignment:** BCI's Board is not involved in making investment decisions, but is actively involved in ensuring that all key operational risks and investment risks are analyzed by BCI and reported to clients. The board approved the **ESG Governance Policy** in 2020, which establishes the governance framework and articulates the general approach and related roles and responsibilities at BCI regarding ESG. The policy applies to all ESG issues, including climate change which is specifically addressed by the BCI Board and BCI executive committees.

In 2021, for example, the BCI Board was briefed on the ways that BCI integrated climate change into our investment decision-making processes, including a detailed overview of the ESG Risk and Opportunity Framework. The board reviewed portfolio climate change stress test results and an example of how the framework was used to inform an investment decision at BCI. We provide status updates pertaining to changes to climate change risks, the effectiveness of our risk mitigation procedures, and the integrity of our risk management systems. We regularly report on our climate strategy and risk assessment, as well as inform the board of revisions to our overall approach and specific actions we are taking to address climate change.

**TCFD Recommendation:** Describe management's role in assessing and managing climate-related risks and opportunities.

**BCI's Alignment:** BCI's CEO/CIO reviews and approves our climate strategy and climate-related risk management approach, as part of the same senior management committees that assess recommendations on all investment strategies and investment risk frameworks. With BCI's updated approach to climate strategy and risk management, the committees will oversee the state of climate-related risks on an ongoing basis within existing investment risk reporting and investment decision making. The management investment committee receives climate-related risk and opportunity analysis as part of every investment risk review, where material. Climate-related investment opportunities may also be presented and approved at the CEO/CIO level where authority has not been delegated to other senior executives within the corporation.

## STRATEGY

### THE ACTUAL AND POTENTIAL IMPACTS OF CLIMATE-RELATED OPPORTUNITIES AND RISKS ON BCI'S OPERATIONS, STRATEGY, AND FINANCIAL PLANNING

**TCFD Recommendation:** Describe the climate-related opportunities and risks over the short, medium, and long term.

**BCI's Alignment:** Climate change continues to present opportunities and risks across all timeframes and is a key systemic risk that is expected to continue impacting all markets and investments that BCI makes on behalf of our clients.

#### Short term

**Transition risks:** Policy and legal risks related to climate change continue to increase in many jurisdictions globally as governments are not creating a clear signal to investors and companies on the degree to which the policy ambition will be matched with concrete regulatory certainty. The outcomes of the United Nations Climate Change Conference (COP26) continued to advance the level of ambition most governments are communicating around setting clear goals to achieve net zero, but more concrete action is needed by policymakers to help clarify how investors and companies will need to adapt to short-term transition risks. Additional

commitments from both companies and governments to invest in low-carbon infrastructure and technology is creating a signal that supports opportunities for investing in products and services that align with achieving low-carbon outcomes. The short-term impacts of these commitments along with continued uncertainty around the specific regulatory mechanisms that will be used to achieve these commitments is a key risk that may prevent the rapid and substantial investment required in the short-term for companies and investors to adopt low-carbon business models. Companies and sectors that enable emissions reductions through energy efficiency, renewable energy, and sustainable business practices stand to benefit in the short term. The private sector and investors are continuing to take a more prominent role mobilizing support for climate action and supporting the continued adoption of greater climate disclosure and action by all market participants.

**Physical risks:** In the short term, physical risks to our investments are expected to materialize in isolated incidents across the portfolio. These short-term physical risks are actively evaluated and considered across investments at BCI using specialized climate risk modelling tools. Thorough due diligence is conducted where material physical risks have been identified. Mitigation measures, such as purchasing adequate insurance and creating climate change adaptation plans, are included where relevant.

#### Medium term

**Transition risks:** Transition risks are expected to continue to present both risk and opportunity for long-term investors as companies will undergo varying degrees of climate-related business transformation. In some industries, this transformation is expected to be severe and may reduce demand for products that have negative climate change impacts. Assets that cannot be repurposed to operate with low emissions may be stranded. In the medium term, we expect far greater likelihood of increased policy changes over time to mitigate climate change than steps to repeal measures already in place. This will create risks and opportunities for the portfolio as markets continue to re-price climate risk into valuations with each incremental policy announcement. We expect our assets will be able to grow in the medium term and enable the transition through investments in regulated electric transmission, distribution, and integrated utilities, which will become an enabler of a low-carbon electricity grid in many regions globally.

**Physical risks:** Physical risks from climate change will increase in likelihood and severity under all scenarios and have the potential to impact real assets and supply chains. We continue to use specialized physical risk tools and data to evaluate how damages associated with the increasing severity and likelihood of physical risks could impact asset values across all time frames.

## Long term

**Transition risks:** Over the long term, an orderly transition to a low-carbon economy that is aligned with a net-zero (1.5°C) scenario will ultimately benefit our clients and beneficiaries more than all other scenarios that we have evaluated. BCI's use of influence as a large institutional investor to help avoid the negative long-term economic outcomes that may result from climate change is important in meeting the needs of our clients who have a long-term investment horizon. BCI relies on well-functioning and sustainable economic systems to support the financial needs of our clients and their beneficiaries. We will continue to focus on integrating climate change risk assessments into investment reviews and portfolio monitoring.

**Physical risks:** In the long term, a high warming outcome is expected to result in negative impacts across the portfolio as physical impacts negatively affect asset valuations.

**TCFD Recommendation:** Describe the impact of climate-related risks and opportunities on operations, strategy, and financial planning.

**BCI's Alignment:** BCI has created a Climate Action Plan to identify and manage the climate-related risks and opportunities across all aspects of our investment activity. The plan is comprised of four parts: Manage Risks; Integrate; Seek Opportunities; and Engage & Advocate. Climate-related risks and opportunities are factored into each asset class and investment strategy in a consistent manner while adapting the specific approach to the asset class context.

BCI believes the most effective way to manage climate investment impacts is to integrate climate-related considerations into our investment decision-making processes. BCI employs the following tools to identify and assess climate-related risks:

- > ESG company reviews and due diligence that includes analysis of greenhouse gas (GHG) emissions, decarbonization commitments, energy efficiency policies, and consideration of climate change in business strategies

- > Data compiled by the Sustainable Development Investments Asset Owner Platform (SDI AOP) to measure our exposure to companies providing products and services that contribute positively to UN Sustainable Development Goals (SDGs) related to climate change
- > Climate change scenario analysis to help prioritize areas of the portfolio that require further analysis or management
- > Asset-specific sensitivity analysis for active investments in industries highly susceptible to climate change policy changes
- > Physical climate risk assessment to quantify the physical risks of climate change on direct physical assets
- > External manager surveys that include climate strategy in the due diligence and monitoring processes

Each asset class will have a different exposure to climate change risks and opportunities, and we measure the

exposure over time using our ESG Risk and Opportunity Framework. This measurement provides quantitative outputs that can be used to evaluate how different underlying exposures in the portfolio may be impacted under each climate change scenario.

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

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**BCI's Alignment:** BCI has developed internal scenarios based on information from both the International Energy Agency and the Network for Greening the Financial System (NGFS). These scenarios provide insight into direct transition impacts to the energy system and overall economic damages to form an in-house GDP Damages scenario. This provides an estimate of net economic impacts to growth sensitive industries and to direct impacts to the energy and utilities sectors. These scenarios help guide the understanding of potential impacts from climate change across all asset types. The continued implementation of the Climate Action Plan puts specific action in place to manage these potential impacts and improve the resilience of our investment strategies. BCI is updating our Climate Action Plan in 2022 as part of our regular review and adaptation schedule.

**1.5°C scenario:** We tested a 1.5°C or net-zero aligned scenario this past year. This scenario assumes deep decarbonization across all industries and requires a rapid and extensive shift in many sectors of the economy. This scenario has the most pronounced short-term transition impacts, which are not expected to be orderly in all jurisdictions and industries. The direct impacts to the energy sector will be distinct as demand for high-carbon energy is rapidly displaced by low-carbon energy. There are substantial opportunities for low-carbon energy infrastructure in this scenario, which would create substantial growth opportunities for electric utilities, transmission and distribution, and renewable energy. The need for carbon-negative solutions and carbon offsets to achieve the climate outcomes in this scenario also creates new revenue opportunities for some portfolio companies. This scenario is the best long-term outcome for the global economy.

**2°C scenario:** Similar to the 1.5°C scenario, the 2°C scenario reduces some of the more significant long-term physical impacts from climate change and has the potential to provide substantial investment opportunity for low-carbon infrastructure. The direct impacts of transitioning the energy and utilities sectors will support broader decarbonization of the economy. Industries with high emissions are impacted in the short term as increasing regulatory pressure to reduce emissions results in increasing costs. Over the long term, negative impacts to utilities reverse and result in positive overall performance as these assets grow and enable a transition to low-carbon energy sources.

**3°C scenario:** This scenario creates a trajectory where immediate impacts to the energy system are less severe relative to the 2°C scenario, but transition impacts still materialize. Negative impacts result as we see transition risks occurring alongside more pronounced impacts from physical risks. In the medium and long term, increases in severity and frequency of physical damages are anticipated to impact asset valuations and decrease economic growth potential. Supply chain disruption and damages to food and agriculture systems create chronic impacts over the long term in this scenario.

**4°C scenario:** This scenario remains the most negative over the long term as economic damages from climate change occur from direct physical damages and economic disruption across most asset types. This scenario is becoming more unlikely as governments, companies, investors, and low-carbon solutions continue to shift the trajectory of global emissions over time. We are using specialized climate change physical risk modelling tools across the portfolio to evaluate the location-specific physical hazard risk to asset types.

## RISK MANAGEMENT

### BCI'S PROCESS FOR IDENTIFYING, ASSESSING, AND MANAGING CLIMATE-RELATED RISKS

**TCFD Recommendation:** Describe the process for identifying and assessing climate-related risks.

**BCI's Alignment:** BCI is currently using climate change scenario analysis to identify macroeconomic climate-related risks and opportunities that could impact our clients' investment returns. The scenarios provide a directional indication to understand how the portfolios may be impacted under various scenarios and identify areas of the portfolio that may require more detailed assessment. We use climate change scenario stress tests to assess the size of potential financial impact to the portfolio under each scenario. These results are used to target further analysis for existing investment, as well as new deals. Each asset class identifies, analyses, and monitors material climate change risks and opportunities for new and existing investments. Climate risks are assessed during due diligence, and throughout the investment life cycle to ensure climate change is an ongoing consideration in the investment decision, asset management, and stewardship activities.

### Engagement Activity

Climate change has been a top engagement priority for BCI for more than a decade. We engage with company management, regulators, and standard-setting bodies through four main activities:

- > **Proxy Voting:** we strengthened expectations of companies with regard to disclosure and performance, supporting 80 per cent of all climate-related shareholder proposals in 2021, compared to 52 per cent in 2020
- > **Direct Engagement:** we focus on improving climate change performance and achieving better disclosure from invested companies
- > **Collaborative Engagement:** we work with our peers globally to improve practices related to climate change, as well as ask companies to take action to reduce GHG emissions
- > **Policy Advocacy:** we advocate for policy changes that will improve the investing environment for long-term investors, including more than 18 climate-related policy submissions with provincial, federal, and international policymakers over the past five years

This strategy promotes stable, transparent, and, ultimately, an improved investment environment. We continue to expand our efforts across all investments and asset classes to ensure our climate-related engagement influences all areas of the investment universe.

### Updated Proxy Voting Guidelines

BCI is now supporting more prescriptive shareholder proposals on climate change to publicly signal our expectation that companies must act quickly to address this systemic risk. We vote against directors for weak responses to climate change risk.

### 2021 Update: Collaborative Engagement with Climate Action 100+

BCI has been actively involved in Climate Action 100+ since 2017 and participates in efforts to encourage the world's largest GHG emitters to meet the objectives of the Paris Agreement. An update on the specific engagements and outcomes of this activity is outlined on **pages 12** and **25** of this report. In addition to Climate Action 100+, BCI carries out its own direct engagement with companies on climate-related topics. For public markets engagement activity, please see **Appendix 4**.

**TCFD Recommendation:** Describe the process for managing climate-related risks.

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**BCI's Alignment:** Managing climate-related risks starts with ensuring that a detailed evaluation of the risks is incorporated into each investment decision. Dedicated teams across the organization provide analysis and insight to investment decisions to ensure climate-related risks are managed throughout the investment lifecycle. Outputs from climate change scenario analyses and measurements of carbon exposure and carbon footprinting are provided to our clients, portfolio managers, the executive management team, and BCI's Board.

In our public markets investments, climate change indicators are integrated in internally managed, fundamental active equity mandates based on the Sustainability Accounting Standards Board (SASB) framework. We also encourage fixed income credit rating agencies to incorporate climate analysis.

In our private market investments, we commission and review reports on legal, environmental, regulatory, and other climate factors in direct private asset due diligence. BCI has developed a climate materiality assessment for private markets based on SASB. We also conduct physical climate change risk assessments for all direct private investments, where material.

**TCFD Recommendation:** Describe how processes for identifying, assessing, and managing climate-related risks are integrated into overall risk management.

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**BCI's Alignment:** Climate-related risk management at the total portfolio level occurs within the investment strategy and risk department and climate change scenarios are used to create portfolio stress tests. Individual investments that receive investment risk reviews are assessed for material climate change risks and, where material, are factored into the ESG risk assessment that is delivered to the investment committee. Climate risk is considered alongside all other investment risks and impacts are integrated into all existing applicable investment risk processes. As per other investment risks, it is part of the ongoing investment risk monitoring discussed at the senior management committee level and with BCI's clients.

## METRICS AND TARGETS

### THE METRICS AND TARGETS BCI USES TO ASSESS AND MANAGE RELEVANT CLIMATE-RELATED OPPORTUNITIES AND RISKS.

**TCFD Recommendation:** Describe the metrics used to assess climate-related opportunities and risks in line with strategy and risk management process.

**BCI's Alignment:** The climate-related metrics currently measured and monitored are:

- > Relative impact of climate scenarios on total expected returns
- > Portfolio carbon footprint
- > Weighted average carbon intensity (WACI) for public equities
- > Capital invested in climate-related opportunities
- > BCI's operational carbon footprint

Climate change signposts including:

- > Coverage of carbon emissions with pricing and regulation
- > Global energy supply and demand mix
- > Cost of energy from various sources (coal, natural gas, wind, solar, etc.) across global markets
- > Commercialization rates of disruptive technologies
- > Nationally determined contribution alignment with Paris Agreement goals

<sup>1</sup> More information on the SDGs can be found at: [sdgs.un.org/goals](https://sdgs.un.org/goals)

<sup>2</sup> In July 2020, BCI, partnered with APG (Netherlands), Aussie Super (Australia) and PGGM (Netherlands) to establish the SDI AOP to set a global standard for the classification of sustainable development investments that enables investors to assess companies on their contributions to the SDGs. Further information can be found at [SDI-AOP.org](https://SDI-AOP.org)

### Climate-related Opportunity Exposure

BCI calculated our exposure to climate-related opportunities to align with definitions consistent to the climate-related SDGs.<sup>1</sup> We updated our methodology to calculate the climate-related opportunity exposure of the portfolio using the SDI AOP,<sup>2</sup> which provides consistent and accurate measurement of climate-related opportunity investments. We mapped our portfolio to the SDI AOP definitions for companies with products and services that contribute to Goal 7: Affordable and Clean Energy and Goal 13: Climate Action.

Our climate opportunity exposure was approximately \$2.8 billion at December 31, 2021, compared to \$3 billion at the end of 2020. The climate related exposure decreased due to the methodology changes noted above, as well as valuation changes and some decreased exposure to renewable energy in externally managed funds.

**TCFD Recommendation:** Disclose the level of greenhouse gas (GHG) emissions and related risks.

**BCI's Alignment:** BCI measures and reports our operational emissions as well as our investment-related carbon footprint separately each year. We continue to evolve with industry best practices to ensure we use and report the most appropriate metrics.

### BCI Operational GHG Emissions

Due to travel restrictions and our employees working from home during the COVID-19 pandemic, our operational GHG emissions remained low in 2021 relative to historic emissions prior to the pandemic. We expect our operational emissions to grow in 2022 as travel increases. Emissions related to employees working from home have been excluded. We will continue to offset all operational emissions.

BCI OPERATIONAL GHG EMISSIONS	2020 (tCO <sub>2</sub> e)	2021 (tCO <sub>2</sub> e)
Scope 1: Direct emissions <sup>1</sup>	27	45
Scope 2: Indirect emissions	20	21
Scope 3: All other indirect emissions	461	319
<b>Total emissions generated</b>	<b>508</b>	<b>385</b>
<b>Total offsets purchased</b>	<b>508</b>	<b>385</b>

<sup>1</sup> Natural gas emissions were underreported last year and have been updated in this table above.

**BCI's direct CO<sub>2</sub> emissions:** In 2021, the increased use of BCI's additional office location in Vancouver led to an increase in our facility-related emissions including our direct Scope 1 emissions.

**BCI's carbon offset purchases:** We purchased voluntary carbon credits to offset all of BCI's operational CO<sub>2</sub> emissions across all scopes.

### BCI's Investment-related Carbon Footprint

BCI continues to adapt our approach to calculating our portfolio carbon footprint, based on evolving industry guidance and standards. We continue to report our emissions using a market value-based approach for all asset classes. We are also measuring the weighted average carbon intensity (WACI) in our public equities portfolio.

#### BCI Portfolio Carbon Footprint — March 31, 2021

Asset class	2019 Carbon footprint (tCO <sub>2</sub> e/\$M invested)	2020 Carbon footprint (tCO <sub>2</sub> e/\$M invested)	2021 Carbon footprint (tCO <sub>2</sub> e/\$M invested)
Public equities	117	111	88
Public equities benchmark	131	132	47
Fixed income	78	66	47
Fixed income benchmark	74	68	79
Real estate	10	7	7
Private markets	–	380	227

BCI began calculating our portfolio carbon footprint in 2017 and we are committed to disclosing our carbon footprint annually in line with the Montreal Carbon Pledge. The carbon footprint results for 2021 are lower than previous years due to several factors, including growth in market capitalization significantly outpacing changes in carbon emissions. Additional information on the methodology used to calculate the portfolio carbon footprint is included on [page 55](#).

### Portfolio Carbon Exposure: WACI

In 2020, BCI began disclosing the carbon exposure of the public equities program using the TCFD-recommended WACI calculation. This metric describes the portfolio exposure to carbon intensive companies expressed in tonnes of CO<sub>2</sub>e per \$M in revenue to obtain the carbon intensity of the holding relative to the value of the investment in the portfolio. Our investment strategy and focus on integrating ESG into our active investment approach will continue to allow BCI to manage the reduction of the carbon exposure of the public equities program over time. There was an increase in the carbon intensity of the public equities program in 2021 relative to 2020 due to several factors, including slow revenue growth in the energy and material sectors, which have a large influence on the carbon intensity of the portfolio, but it remains below the 2019 carbon intensity measure over time. This is an overall reduction of 5 per cent between 2019 and 2021.

#### Public Equities WACI — March 31, 2021

Asset class	2019 WACI (tCO <sub>2</sub> e/\$M revenue)	2020 WACI (tCO <sub>2</sub> e/\$M revenue)	2021 WACI (tCO <sub>2</sub> e/\$M revenue)
Public equities	173	151	164
Public equities benchmark	197	171	91

We believe the continued execution of our strategy, including encouraging carbon-intensive companies to adapt to the low-carbon economy as part of our engagement program, will lead to an overall decrease in carbon exposure for our public equities portfolio of 30 per cent by 2025 using 2019 as the baseline.

**TCFD Recommendation:** Describe the targets used to manage climate-related risks and opportunities and performance against targets.

**BCI's Alignment:** BCI uses the following targets relating to our engagement activities.

> Within our public markets department, BCI is committed to increasing the following key performance indicators (KPIs) for the Canadian, U.S., and global markets:

- **CDP-related KPIs:**

- Percentage of respondents that have adopted an internal price on carbon
- Percentage of respondents that received the highest CDP score placing them on the A-list
- Percentage of respondents with any type of climate target

- **Target adoption across Climate Action 100+ companies:**

- Percentage of companies with net-zero target
- Percentage of companies with a net zero target covering Scope 3 emissions
- Percentage of companies with a long-term climate target
- Percentage of companies with a medium-term climate target
- Percentage of companies with a short-term climate target

- **Tracking adoption of net zero and science-based targets across select indexes and high emitters in BCI's portfolio:**

- Percentage of index or portfolio emissions linked to net zero targets for Scope 1 and Scope 2 emissions
- Percentage of index or portfolio emissions linked to science-based targets
- Number and percentage of companies with net zero targets
- Number and percentage of companies with science-based targets

<sup>1</sup> Scope 1: All direct emissions from the activities of an organization or under their control; Scope 2: Indirect emissions from electricity purchased and used by the organization; Scope 3: All other indirect emissions that occur in a company's value chain.

## METHODOLOGY

# Portfolio Carbon Footprint

BCI's carbon footprint methodology continues to evolve and new standards and guidance from the TCFD and the Partnership for Carbon Accounting Financials (PCAF) are reviewed and incorporated into our carbon footprinting calculations each year where possible. The methodology applied this year is largely consistent with previous year calculations. We anticipate our methodology will evolve in future years alongside best practices.

The metric used for all portfolios is portfolio carbon footprint. This is a measure of the total carbon emissions of the portfolio normalized by the market value of the portfolio. The portfolio carbon footprint includes Scope 1 and Scope 2 GHG emissions for our public equity, corporate bond holdings, and private market portfolios.

- > Scope 1: All direct emissions from the activities of an organization or under their control
- > Scope 2: All the indirect emissions from energy purchased and used by an organization

**Public markets:** BCI used data provided by ISS ESG, the responsible investment arm of ISS, which provides climate data, analytics, and advisory services to financial market participants. ISS ESG provides carbon and climate data on a universe of more than 25,000 companies and more than 80,000 securities across asset classes. Its database of GHG emissions includes both reported emissions data and modelled estimations for non-disclosed emissions, or those who report with a low trust metric, according to internal analysis. ISS ESG utilizes a sophisticated, proprietary approximation system to estimate emissions, which includes over 800 climate-relevant sector and subsector-specific models.

For our public equities portfolio, we have also calculated the weighted average carbon intensity (WACI), which measures the portfolio exposure to carbon intensive holdings. WACI is one of the metrics recommended within the TCFD framework.

For our government bond holdings, ISS ESG Sovereign climate data is used to calculate the carbon footprint of these holdings. Production emissions and government emissions are used as inputs to the calculation.

**Private markets:** The carbon footprints for BCI's private market portfolios were improved this year to include additional directly disclosed company data and estimates of company emissions. A data hierarchy was established to consistently conduct emissions estimations across the private market portfolio. The estimation approach for each investment was determined based on the data availability for each underlying investment. The current estimation data hierarchy methodology is as follows:

1. Company reported emissions
2. Estimated emissions based on company-specific emission factors
3. Estimated emission factors based on GICS sub-industry revenue-based intensities
4. Estimated emission factors based on GICS sub-industry market cap-weighted intensities

These approaches allowed for greater coverage across the private market portfolios than previous years, but where data was not available to apply these estimation methodologies, investments were excluded from the calculation.

BCI recognizes the limitations and uncertainties that are inherent in estimation methodologies in use today. This includes the impact of unrelated market conditions such as market valuation and revenue impacts, the influence of exchange rates, incomplete reporting from issuers and fund managers, the frequency at which emissions data is updated, and BCI's point-in time approach, which may not accurately reflect our portfolio exposure over the course of the year.

## SCOPE

The following are the asset classes and instrument types included in BCI's portfolio carbon footprint metrics at March 31, 2021.

### Public Equities

**Included:** All public equity positions, externally managed investments, and exchange traded funds (ETFs) where the ETF represents more than 20 per cent of a portfolio.

**Excluded:** ETFs that represent less than 20 per cent of a portfolio and derivatives.

### Fixed Income

**Included:** All corporate and government bonds.

**Excluded:** New client assets that have not been fully integrated into BCI pool funds, cash, money market instruments and private debt.

### Real Estate

**Included:** Domestic real estate portfolio.

**Excluded:** International real estate and mortgages portfolio.

### Private Assets

**Included:** Majority of direct and fund investments in infrastructure and renewable resources and private equity.

**Excluded:** Newly added investments that did not have sufficient financial data available at time of calculations and investments with limited data availability that made estimates impractical.



# Appendices

# Policy Advocacy

BCI selectively seeks opportunities to engage at the policy or market level. We support public policy and regulatory changes that make material ESG factors part of the regulatory framework and improve the investment environment for our clients.

More information about BCI's policy advocacy work can be found at [BCI.ca/policy-advocacy](https://www.bci.ca/policy-advocacy)

## Corporate governance

- > Responded to the Institutional Shareholder Services (ISS) global survey on proposed policy revisions
- > Responded to the ISS climate survey on its U.S. benchmark and specialty climate policies
- > Participated in an ISS policy roundtable discussion on proposed changes to its Canadian benchmark voting policy
- > Participated in an ISS policy roundtable discussion on proposed changes to environmental and social factors in its U.S. benchmark policy

## Reporting and disclosure

- > Responded to the International Financial Reporting Standards (IFRS) Foundation board of trustees' consultation on proposed amendments to the IFRS Foundation constitution
- > Responded to the Securities and Exchange Commission's consultation on climate disclosure
- > Responded to the Climate Action 100+ benchmark survey on how to enhance assessments of target companies' climate-related disclosures and performance
- > Supported the Canadian Bond Investors' Association's statement on ESG disclosure and sustainable labelled bonds
- > Supported the Mining Association of Canada's new Climate Change Protocol designed to minimize the mining sector's carbon footprint, enhance disclosure, and strengthen the sector's ability to adapt to climate change
- > Supported the Minerals Council of Australia's adoption of the Mining Association of Canada's Towards Sustainable Mining program
- > Participated on a panel to brief British Columbia's Responsible Mining Advisory Committee on environmental and social considerations

## ESG within the investment industry

- > Signed the Canadian Investor Statement on Climate Change
- > Signed the 2021 Global Investor Statement to Governments on the Climate Crisis
- > Signed the Investor Call for Ambitious Methane Regulation for the Oil and Gas Industry
- > Responded to the International Capital Market Association Green Bond Principles/Social Bond Principles' annual consultation
- > Responded to the MSCI consultation on investors' ESG data needs
- > Responded to the PRI's survey assessing credit risk analysis using climate-related information provided by companies
- > Responded to the SASB consultation on human capital management best practices
- > Participated in a roundtable convened by British Columbia's Minister of Finance on ESG factors impacting the provincial economy
- > Participated in a workshop convened by the Government of Alberta's ESG Secretariat on scenario planning to understand the potential impacts of ESG trends on the provincial economy

# Collaboration

BCI works with like-minded investors and organizations to strengthen our collective influence. Our employees also voluntarily take on leadership roles to support these collaborative efforts.



- Member since 2016
- Member of the steering committee and chair of investor committee
- Advocate for companies to enhance gender diversity



- Member since 2005
- Contribute to and support regulatory affairs



- Founding member in 2011
- Member of the member services committee
- Member of the ESG committee



- Former member of the CDP Canada advisory council
- Signatory to climate change program since 2006
- Signatory to water program since 2009
- Investor signatory since 2016
- Signatory to forests program since 2020



- Signatory to the Climate Action 100+ Sign-on Statement in 2017
- More than 600 investors are signatories
- Actively support encouraging the world's largest corporate GHG emitters to act against climate change
- Lead, co-lead, or support engagement with 10 North American companies



- Associate member since 2017



- Member since 2017



- Member since 2015
- Member of the sustainability-linked bond working group



- Member since 2005



- Member since 2002



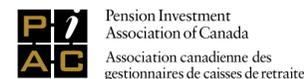
- Research partner since 2017



- Board member since 2020



- Member since 2016



- Board member since 2019
- Chair of investment practices committee
- Chair of investment stewardship committee
- Member of risk management committee



- Founding signatory in 2006
- Active member of advisory committees and working groups
- Current Western North America advisory committee member



- Member since 2007



- Launched in 2020 by BCI, APG, AustralianSuper and PGGM
- Member of the design authority board



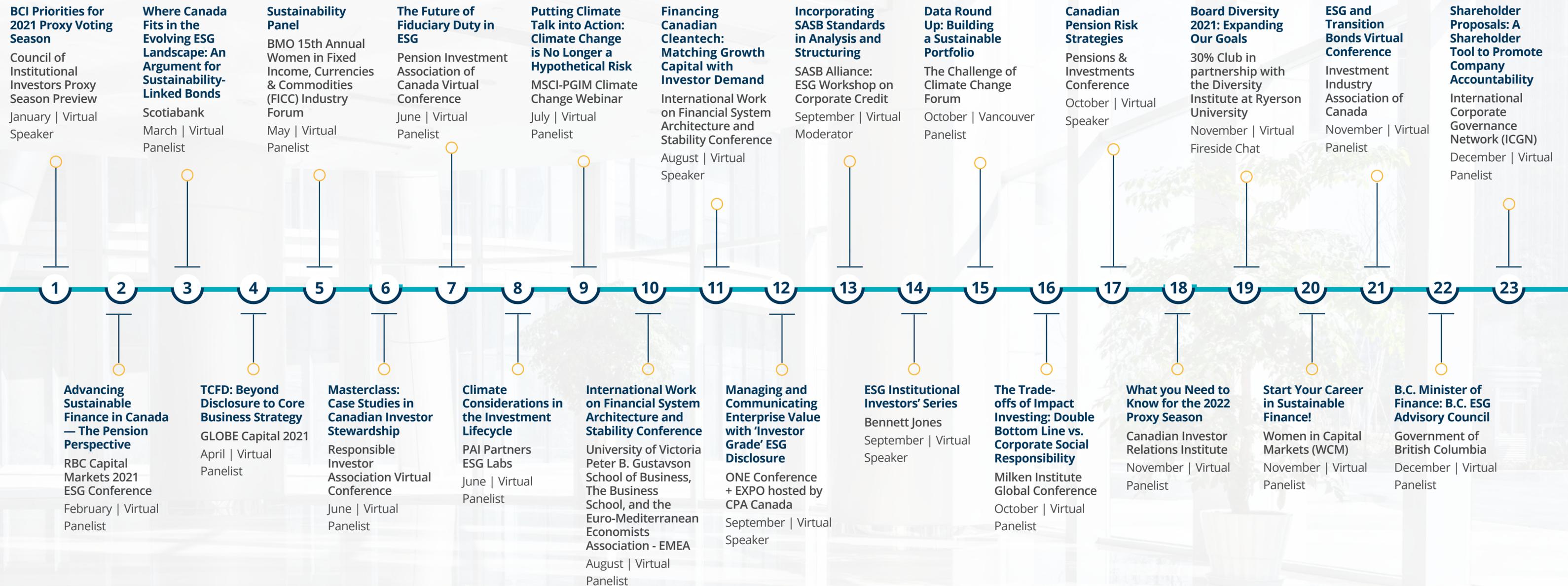
- Member since council was formed in 2021



- Founding member of the SASB investor advisory group in 2016
- Joined the SASB Alliance in 2018, which merged into the IFRS Sustainability Alliance in 2022

# Event Highlights

We promote responsible investing within the industry by organizing, participating in, speaking, or moderating at events. Examples of our 2021 activities are included below:



# Company Engagements

## JANUARY 1 TO DECEMBER 31, 2021

**C = COMPREHENSIVE (DIRECT)** We undertook engagement independently and had either multiple points of contact with the target company or the engagement was elevated to the board level.

**B = BASIC (DIRECT)** We had one-off interactions with the company and did not plan for additional follow up unless our holdings justified it.

**L = LEADING ROLE (COLLABORATIVE)** We led or co-led on the engagement, acting as the main conduit between the company and other collaborating investors.

**S = SUPPORTING ROLE (COLLABORATIVE)** We may have attended engagement meetings arranged by the lead investor and/or provided additional research to support the engagement.

In cases where we have also engaged directly with the company to reinforce the collaboration's goal, we would categorize this as a combination of collaborative (S or L) and direct (C or B).

GICS SECTOR / COMPANY	COUNTRY	E	S	G
<b>COMMUNICATION SERVICES</b>				
BCE Inc.**	Canada	B	B	
Cable One, Inc	U.S.			B
Charter Communications, Inc.	U.S.	B		B
TELUS Corporation**	Canada	B	B	
Verizon Communications Inc.**	U.S.	B	B	
<b>CONSUMER DISCRETIONARY</b>				
Amazon.com, Inc.	U.S.	C	C	
Booking Holdings Inc.	U.S.	B		
Cogeco Communications Inc.	Canada			B
Dollarama Inc.	Canada			B
S&P Global Inc.	U.S.	B		
The Home Depot, Inc.	U.S.			B
The Walt Disney Co.	U.S.			B
Whirlpool Corporation	U.S.	B	B	
<b>CONSUMER STAPLES</b>				
Nestle S.A.	Switzerland	C		
Unilever PLC	U.K.	B		
<b>ENERGY</b>				
Canadian Natural Resources Limited	Canada	L+C		L+C
Cenovus Energy Inc.	Canada	B		
Chevron Corporation	U.S.	S		S
Enbridge Inc.**	Canada	C	B	

\*\*Fixed income engagement

GICS SECTOR / COMPANY	COUNTRY	E	S	G
Enerplus Corporation	Canada			C
Exxon Mobil Corporation	U.S.	S		S+B
Imperial Oil Limited	Canada	S + C		S+C
Keyera Corp.	Canada			B
Kinder Morgan, Inc.	U.S.	B		B
Marathon Petroleum Corporation	U.S.	L		L
Parex Resources Inc.	Canada			B
Phillips 66	U.S.	B		B
Royal Dutch Petroleum Co.	Netherlands	B		
Suncor Energy Inc.	Canada	L + C	B	L + C
Vermilion Energy Inc.	Canada			B
Whitecap Resources Inc.	Canada	B		L
<b>FINANCIALS</b>				
Bank of America Corporation	U.S.			B
The Bank of Nova Scotia	Canada			C
Berkshire Hathaway Inc.	U.S.	B		B
Brookfield Asset Management Inc.**	Canada	B		
Canadian Imperial Bank of Commerce	Canada			B
JPMorgan Chase & Co.	U.S.			B
Royal Bank of Canada	Canada	B		B
The Toronto-Dominion Bank	Canada	C	C	C
<b>HEALTH CARE</b>				
Chartwell Retirement Residences	Canada		B	B
LHC Group, Inc.	U.S.			B

GICS SECTOR / COMPANY	COUNTRY	E	S	G
Merck & Co., Inc.**	U.S.	B	B	
Thermo Fisher Scientific Inc.	U.S.			B
UnitedHealth Group Incorporated	U.S.		L+C	C
<b>INDUSTRIALS</b>				
Air Canada	Canada			B
Boyd Group Services, Inc.	Canada			B
CCR SA	Brazil			S
Canadian National Railway Company	Canada	B		
Canadian Pacific Railway Limited	Canada	C		
Caterpillar Inc.	U.S.	B		B
Kadant Inc.	U.S.			B
PACCAR Inc	U.S.	B		B
Toromont Industries Ltd.	Canada			B
Union Pacific Corporation	U.S.	B		B
<b>INFORMATION TECHNOLOGY</b>				
Adobe, Inc.	U.S.			B
Alphabet Inc.	U.S.			B
ANSYS, Inc.	U.S.			B
Fiserv, Inc.	U.S.			B
IPG Photonics Corporation	U.S.			B
Kinaxis, Inc.	Canada			B
<b>MATERIALS</b>				
Agnico Eagle Mines Ltd.	Canada	C	C	B
Barrick Gold Corporation	Canada		C	L+C

<b>GICS SECTOR / COMPANY</b>	<b>COUNTRY</b>	<b>E</b>	<b>S</b>	<b>G</b>
First Quantum Minerals Ltd.	Canada			B
FMC Corporation	U.S.	B	B	B
International Flavors & Fragrances Inc.	U.S.			B
Richards Packaging Income Fund	Canada			B
Teck Resources Limited	Canada	L+C	C	L+B
Wheaton Precious Metals Corp.	Canada			B
<b>REAL ESTATE</b>				
Colliers International Group Inc.	Canada			B
RioCan Real Estate Investment Trust	Canada			B
Weyerhaeuser Company	U.S.	B		B
<b>UTILITIES</b>				
American Electric Power Company, Inc.	U.S.	S		S
Bruce Power Limited Partnership**	Canada	B		
Duke Energy Corporation	U.S.	S		S
Hydro One Limited**	Canada	B	B	
Iberdrola SA	Spain	B		
Northland Power Inc.	Canada	B		
The Southern Company	U.S.	S		S

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