Our climate strategy: good for the Plan and the planet

HOOPP
Healthcare of Ontario Pension Plan

Message from our President & Chief Executive Officer

“Our climate change strategy has been built on the belief of doing what's good for our Plan and our planet.”

At HOOPP, our commitment is to deliver on our pension promise of providing you, our members, with a secure pension for life. This promise guides everything we do. As a pension manager, we carefully and diligently invest on behalf of our members for the long term. We do this by considering many factors that may impact financial risk and return, and one of those factors is climate change.

Climate change is a serious global risk that impacts all aspects of human life and activity, including the economy, without regard for borders or geography. We recognize that climate change poses both material risks and opportunities, and managing these is important. As a pension plan, we have a fiduciary responsibility to deliver on our pension promise to Ontario healthcare workers. We consider climate risk as part of our investment management process.

We have committed to achieving net-zero emissions in our portfolio by 2050 by reducing our portfolio’s carbon footprint through real-world emissions reductions. We also intend to move our internal operations to net zero in the coming years.

We believe we can contribute to the transition to a net-zero economy through our carefully selected interim targets. To achieve these targets, we will seek to grow the percentage of our investments with credible, science-based transition plans, and increase our green investments – which should, in turn, lead to reductions in our investment portfolio’s carbon footprint.

Collective and sustained action is urgently required, and HOOPP has an important role to play. We see acting on climate change as an enormous opportunity to participate in the global transition to a cleaner, greener economy by investing in the industries, technologies and companies that will drive change today and in the future. We already seek out these investment opportunities and will continue to build upon our legacy of investing sustainably, which fully supports our pension promise.

This report summarizes our climate change strategy, including an outline of our net-zero portfolio plan and the associated actions we are taking. We make our net-zero commitment with the assumption that governments will fulfill their own promises to achieve the goals set forth in the Paris Agreement. This is a long-term plan that will evolve over time. Our climate change strategy has been built on the belief of doing what's good for our pension plan and our planet, and there is much work to be done.

Sincerely,

Jeff Wendling
President & Chief Executive Officer

Climate change and why it matters to HOOPP

Climate change is the long-term change in the global average temperature and weather patterns across the planet. In many cases, when scientists refer to climate change, they are speaking about changes in climate at the global level caused by human activity. Rising global temperatures are expected to impact all aspects of human activity, and the impacts from a changing climate, such as more frequent and intense heatwaves or rising sea levels, will increase over time.

Greenhouse gases (GHG), like carbon dioxide and methane, have been identified as the main drivers of climate change because they trap heat and prevent it from escaping the Earth's atmosphere, causing the global average temperature to gradually rise. This is known as the greenhouse effect.

Net-zero emissions means that the amount of greenhouse gases (emissions) released into the atmosphere are greatly reduced, with any remaining gases removed through technological means (such as carbon capture technology, which captures and stores carbon dioxide before it can reach the atmosphere) or reabsorbed naturally (including healthy oceans and forests).

More emissions are being released into the atmosphere than are being absorbed by carbon sinks, such as forests and other natural environments. Substantial reductions in emissions are required to achieve net zero as the current capacity of carbon sinks is not large enough to absorb the level of emissions being produced today. Emissions are released from many everyday places, like the tailpipe of your car, the smokestack of a factory or the jet engine of an airplane. The burning of fossil fuels is one of the primary sources of greenhouse gases.

Did you know?

The emissions released as a result of the actions of people, businesses and countries over the course of a year are called a carbon footprint and can be measured. It is expressed as tonnes[1] of carbon dioxide equivalent[2] (tCO_2eq). For example, Canada's per capita GHG emissions in 2019 was 19.6 tCO_2eq[3].

The effects of a changing global climate

As the climate continues to change, the effects will be widespread through more frequent or extreme weather events (floods, wildfires, droughts, etc.), impacting how we live, our quality of life and even where we choose to live. In fact, the World Health Organization (WHO) considers climate change the biggest threat to human health because it alters the social and environmental factors that impact health – clean air, safe drinking water, sufficient food and secure shelter.

According to the Paris Agreement, an international treaty on climate change signed by nearly 200 nations, we need to limit the increase in global temperature to well below 2˚ Celsius above pre-industrial levels by 2100 to avoid the worst effects of a changing global climate. Climate change is an unprecedented global crisis that requires immediate collective action.

In addition to the environmental effects, climate change will also drastically affect the global economy. According to the Bank of Canada, the world stands to lose as much as 23% of total global annual gross domestic product (GDP) per capita[4] if climate change stays on the currently anticipated trajectory.

The importance of 2050

Achieving net-zero emissions by 2050 is key to avoiding the most serious long-term and potentially irreversible impacts of climate change.

Net zero is achieved when the amount of carbon emissions produced is significantly reduced or eliminated before offsetting any leftover emissions that still exist. For example, emissions can be offset by planting trees or extracting and removing the emissions from the atmosphere through technologies like direct air capture, which removes carbon from the air. The net-zero milestone first requires drastic reductions in global emissions. Currently, the world is not on track to achieving the significant emissions reductions required by 2050.

Investing for net zero

Considering that climate change impacts every aspect of the global economy, many of the solutions need to be global in nature and scope. Transitioning to a lower carbon economy, which touches all sectors and industries such as agriculture, transportation and energy, presents exciting investment opportunities for HOOPP.

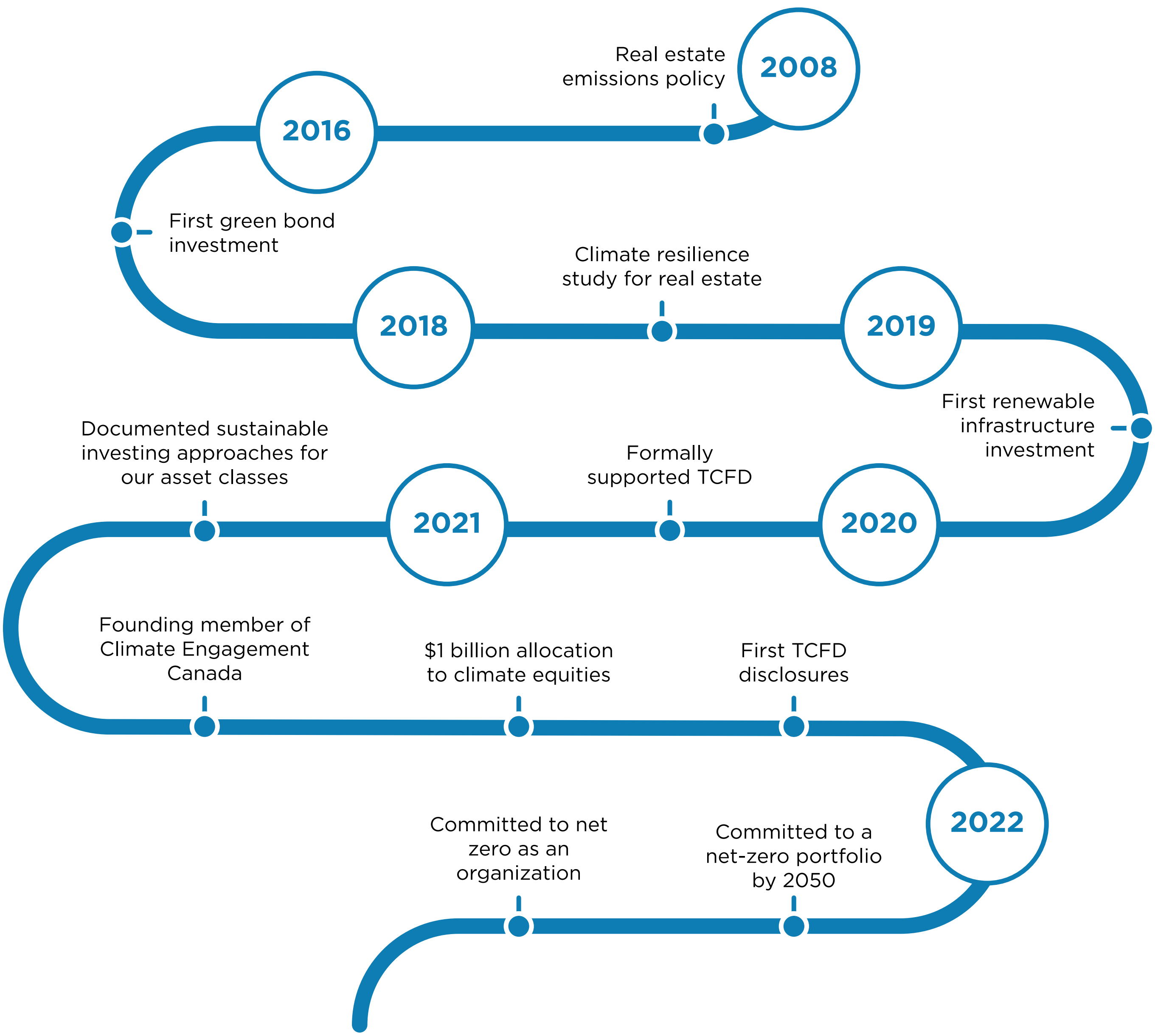
It is estimated that globally, almost USD $5 trillion in annual investment[5] will be needed to see meaningful emissions reductions. As well, by investing in high-emitting assets, we can encourage them to actively decarbonize with the aim of generating value for our members, making these assets more resilient and contributing to real-world emissions reductions.

Why climate change matters to HOOPP

We recognize that climate change presents material risks and opportunities that we need to take into account in order to continue delivering on our pension promise. As a large global investor, HOOPP is well positioned to participate and contribute now and over the coming decades by investing in climate-related companies and technologies, such as clean energy and zero-emissions vehicles and equipment. Investing in these companies can lead to lower emissions while supporting our ability to pay pensions. Coordinated global action to achieve a smooth global transition to net zero can create a more stable global economy that benefits long-term investors, like HOOPP.

Building on our climate change journey

At HOOPP, climate change has long been a consideration in how we invest, and our net-zero commitment expands on our climate change journey. Learn more about our climate work, including how we manage climate risk, on hoopp.com.



Charting our path towards net zero

Our commitment to achieving net-zero portfolio emissions by 2050 is a long-term, multi-decade goal that operates jointly with a global transition to a net-zero economy. HOOPP's portfolio investments, held directly or indirectly (through external asset managers), include companies, buildings and other investments that emit greenhouse gases. Our share of those emissions is proportional to our investment in that asset.

Our net-zero portfolio plan seeks to lower our carbon footprint through real-world emissions reductions. Our portfolio's emissions could be reduced by simply selling a high-emitting investment to another investor, who may not be concerned about carbon emissions. Our portfolio emissions would decrease, but the real-world emissions would not: the high-emitting investment would continue to produce emissions.

We believe a better approach is to seek to use our influence, as a large global investor, to help companies make decisions that can lower their carbon footprints. Our approach puts emphasis on making real-world change, not just selling assets and making this challenge someone else's problem to solve.

We're focused on being net zero by 2050 and we have a well-researched, science-based and achievable plan to do it. The goal of our plan is to allow us to continue to provide retirement security to our members while doing what's right for the global environment.

Focusing on our interim targets

We have thoughtfully and purposefully designed our interim targets below because they are intended to work in tandem, with each reinforcing the other. For example, our 2025 targets lay the foundation for us to achieve our targets in 2030 and beyond. Having targets helps us align the shorter- to mid-term actions we propose to take with a long-term pathway to achieving net zero by 2050.

Adoption of credible transition plans

We can promote decarbonization through engagement and by helping to influence and encourage the adoption of credible transition plans. A credible transition plan combines having an ambitious climate target and a plan that can be fully and effectively implemented. Based on external frameworks[6], we employ a list of criteria to assess the credibility of the transition plans of our portfolio companies and those of our external asset managers. These criteria include having near-term targets that are based on science, and a plan that applies across the company's main business activities and major sources of emissions, and reporting on progress at least annually.

Credible transition plans are critical to real-world decarbonization because they directly reduce the greenhouse gases that enter the atmosphere. For this target, we are initially focusing on the two asset classes – infrastructure and private equity – where we typically have a larger ownership stake or tend to hold for longer periods of time, and where we can strive to use our influence. We can also encourage the adoption of transition plans through collaboration with like-minded peers. As our portfolio companies and external asset managers transition to a model that aligns with a net-zero world, this should contribute to lowering our portfolio's emissions.

Transition plan adoption targets:

By 2030, we expect 50% of our infrastructure and private equity assets under management to have credible transition plans.

Actions we are taking to achieve this target include:

- Investing in entities with credible transition plans.
- Engaging with portfolio companies and external managers to adopt and make progress on credible transition plans.

Increasing our green investments

Addressing climate change requires one of the greatest deployments of investment capital in recent history. Decarbonization on a global scale will require trillions of dollars of investments per year from now until 2050[7]. The potential opportunities for an investor like HOOPP are compelling.

Green investments extend beyond wind turbines and solar panels. They encompass opportunities spanning many sectors, geographies and asset classes. We will seek to identify and invest in attractive green investment opportunities, including continuing to invest in green bonds that provide funding for clean energy and technology, energy efficiency and conservation, and more. These investments should support our net-zero commitment and help us deliver on our pension promise. In the future, new companies, new technologies, and in some cases entire new industries, may create investment opportunities for us that do not even exist today.

To define green investments, we reference the Climate Bonds Initiative (CBI) taxonomy, a set of criteria used globally by investors, issuers and governments, and financial markets to prioritize investments which genuinely contribute to addressing climate change.

Green investments targets:

By 2030, we expect to deploy $23 billion in capital for green investments.

The actions that will help us achieve this target include:

- Exploring additional investments in climate change equity indices, building on our initial $1 billion allocation to clean energy and carbon-efficient indices made in 2021.
- Continuing to invest in green bonds, net zero-aligned infrastructure, and carbon-efficient buildings.
- Building capabilities and partnerships in emerging climate solutions.

Portfolio emissions reductions

To achieve a net-zero portfolio by 2050, our portfolio emissions must decrease. Making progress on our first two targets – credible transition plans and green investments – contributes to the success of this third target: portfolio emissions reductions. We are focused on the quality of these portfolio emissions reductions, prioritizing reductions achieved through real-world emissions reductions over selling assets that may reduce our carbon footprint but not the world's footprint.

Our reduction target is currently focused on the Scope 1 and 2 emissions of our portfolio's investments, and we have also set a goal of initiating Scope 3 emissions measurement by 2025.

Portfolio emissions reduction targets: *By 2030, we expect to have a portfolio carbon footprint of 28 tCO_2eq/$M (relative to a 2021 baseline) and a 50% emissions reduction on an absolute basis for our owned real estate properties (relative to a 2019 baseline).*

In addition to working with portfolio companies and management teams to implement credible transition plans and increasing our green investments, we will also take the following actions to achieve our 2030 target:

- By 2025, exclusions on new direct private thermal coal and oil exploration and production investments. We have not historically focused on these sectors, nor is it part of our future investment strategy. However, we may make exceptions for high-emitting assets with credible and fully costed decarbonization plans.
- Engaging with high-emitting companies through coalitions with collaborative engagement groups, including Climate Engagement Canada (CEC), that help companies strengthen the resilience of their business models to threats like climate change while lowering their emissions profile.

The three scopes of emissions

Because human activity has a carbon footprint, it is helpful to group and categorize these emissions. The concept of "scopes" of emissions is used to describe the three main sources of a company's carbon footprint.

Scope one

These are emissions directly emitted from the company – for example, from the fossil fuels burned in its furnaces or boilers.

Scope two

These are emissions generated from the purchased electricity or heat which the company uses to power its operations.

Scope three

These emissions are not in the direct control of the company and arise from the activities of its suppliers or customers.

Decarbonization through engagement

Decarbonization of the economy is necessary to halt any further damage to the global climate and will be driven by government policies and pressure from consumers and investors like HOOPP. We believe that engagement with high-emitting companies can lead to better outcomes when compared to walking away or divesting ownership of these companies without first seeking to use our influence as an investor.

HOOPP conducts engagements both directly with companies and through involvement with external initiatives, such as CEC, of which HOOPP is a founding member. CEC is a finance-led initiative that drives dialogue between the financial community and corporate issuers to promote a just transition to a net-zero economy. Depending on the company, engagements can be conducted over varying periods of time.

When we collectively engage with companies, we follow CEC's five key expectations:

1. Companies should implement a strong governance framework that clearly defines board and senior leadership accountabilities, and oversight of climate change risks and opportunities.
2. Companies should develop and implement a comprehensive strategy to reduce GHG emissions and build climate resiliency across the value chain, consistent with the goals of the Paris Agreement. This should include:
   - Strategies to reflect Canada's evolving economic context, including "just transition" goals in the context of each company's unique trajectory and impacts (e.g., impacted employee groups, land use, biodiversity).
   - An enhanced Oil & Natural Gas industry-wide commitment to responsible production and adequate GHG emission transparency.
   - An ambition to achieve net-zero GHG emissions by 2050.
3. Companies should set measurable, sector-relevant targets.
4. Companies should disclose in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).
5. Companies should align their advocacy activities with the goals of the Paris Agreement, whether internally or in partnership with external groups or trade associations.

Important milestones

By 2025, we target:

80%

of our assets providing reported emissions[8] for more accurate measurement.

having initiated Scope 3 portfolio emissions measurement.

excluding new direct investments in private thermal coal and oil exploration and production companies[9].

By 2030, we anticipate being well on our way to achieving net zero by 2050, and expect to have:

28
tCO_2eq/$M

reduced our portfolio's carbon footprint to 28 tCO_2eq/$M, compared to our baseline of 41 tCO_2eq/$M at the end of 2021.

reduced our real estate portfolio's emissions[8] by **50%** on an absolute basis through direct decarbonization efforts at our owned properties under our operational control.

$23B
green investments

committed over $23 billion towards green investments.

50%
transition plans

50% of our infrastructure and private equity portfolios covered by credible transition plans.

We will continually monitor, review and adjust our plan for changes in external factors, which can include regulatory changes. As we approach 2030, we will assess our progress against our 2030 targets as part of our preparation for the next five- and ten-year periods of 2035 and 2040. Our performance against the interim targets will give us visibility on how we are tracking towards our 2050 commitment.

Governance and oversight

Climate change is a key priority and is overseen by the HOOPP Board of Trustees (Board) as a whole, which has collaborated with management in developing the climate change strategy, including a credible plan to move to a net-zero portfolio. Each of the Governance, Asset-Liability Management (ALM) and Audit and Finance (A&F) Committees play a key role in HOOPP's climate change governance and the Board's oversight of the ongoing development and execution of the strategy. These committees report to the Board and make recommendations regarding their areas of oversight. At the Board level, climate change is a standing item of discussion at regular quarterly Board meetings. The Board has also held multiple special sessions related to the topic and will continue to do so. The Board is also in the process of retaining an external climate change advisor to support its governance oversight of HOOPP's climate-related work.

At the committee level, the Board's oversight is as follows:

- The Governance Committee oversees HOOPP's climate change strategy to ensure it aligns with HOOPP's strategic objectives. It oversees reporting on the progress HOOPP is making on the strategy. The Governance Committee also maintains an awareness of governance-related environment, social and governance (ESG) issues and trends.
- The A&F Committee oversees the Management's Discussion & Analysis section of the *Annual Report*, which includes climate-related financial disclosures, and reviews management reports related to HOOPP's climate change strategy, including reviewing metrics and progress against milestones. The A&F Committee also maintains an awareness of audit and finance-related ESG issues and trends.
- The ALM Committee oversees key investment policies and frameworks that relate to sustainable investing, including the *Sustainable Investing Policy*, *Statement of Investment Policies & Procedures* and *Statement of Guidelines and Procedures on Proxy Voting*. The ALM Committee reviews advocacy initiatives and investment management reports from HOOPP staff and discusses concerns with the Chief Risk Officer (CRO) relating to investment activities, all of which may relate to HOOPP's sustainable investing activities. The ALM Committee also maintains an awareness of ESG issues and trends.

Our net-zero portfolio plan is a key component of HOOPP's overall climate change strategy. HOOPP's management team is responsible for the implementation of the net-zero portfolio plan, and for providing regular updates directly to HOOPP's Board, including the reporting mentioned above. The Investment Risk Committee (IRC), chaired by the CEO, is responsible for reviewing and approving investments (which must include a review of how applicable climate change risk factors have been addressed). The IRC Sustainable Investing Sub-Committee, which includes the Chief Investment Officer and CRO, oversees the development of ESG-related policies, strategies, and frameworks, and provides updates to and seeks approval from the IRC. Investment management performance objectives also have a climate-related component that is linked to compensation.

Reporting on our progress

HOOPP reports on climate change progress in our *Annual Report*, which is published annually and covers our accomplishments and financial results from the previous year. Our Task Force on Climate-related Financial Disclosures (TCFD) reporting, which provides further information on how we manage climate risk and invest in climate-related opportunities, can be found on hoopp.com.

Looking ahead

Our climate change strategy, which includes our commitment to net zero in our portfolio, is long term in nature. Our targets of driving the adoption of credible transition plans, increasing our green investments and reducing our portfolio emissions provides us with a clear path to net zero by 2050. We have confidence in our plan and the ability of our targets to support our pension promise while producing real-world benefits. We are starting from a strong position and believe that we can harness our influence to encourage and help companies decarbonize and lower their emissions.

We expect the external landscape to evolve, as current uncertainties about technology, policy and other factors change over time, and our plan will evolve as well. Achieving our climate change strategy, and specifically net zero, fully supports our ability to deliver on our pension promise and do what’s good for our Plan and our planet.

[1] One tonne=1,000 kg

[2] Carbon dioxide equivalent (or CO_2eq) is a measure that converts the various greenhouse gas emissions into their carbon dioxide equivalents so they can be compared based on their global warming potential.

[3] Source: Government of Canada: https://www.canada.ca/en/environment-climate-change/services/environmental-indicators/global-greenhouse-gas-emissions.html

[4] Source: Bank of Canada: https://www.bankofcanada.ca/2019/11/researching-economic-impacts-climate-change/

[5] Source: International Energy Agency, “Net zero by 2050: A Roadmap for the Global Energy Sector” October 2021, p. 81

[6] External frameworks referenced: Science Based Targets Initiative, United Nations Environment Program, IGCC Corporate Climate Transition Plans: A guide to investor expectations, TCFD Guidance on Metrics, Targets and Transition Plans, Climate Policy Initiative Credible Transition Plans.

[7] McKinsey Global Institute

[8] Scope 1 and scope 2

[9] We may make exceptions for high-emitting assets with credible and fully costed decarbonization plans.

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