PRIMER ON CLIMATE ACTION AND THE MUNICIPAL PENSION PLAN

August 2021

UBCM
Union of BC Municipalities

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Acknowledgements

Thanks to the following organizations that identified and supplied the principal source information:

- Municipal Pension Board (MPP)
- British Columbia Investment Management Corporation (BCI)

Getting Started - Top Ten Abbreviations – More at Appendix A

MPP	Municipal Pension Plan
BCI	British Columbia Investment Management Corporation
ESG	Environmental, Social and Governance
GHG	Greenhouse Gas
SIPP	Statement of Investment Policies and Procedures
UN PRI	UN Principles of Responsible Investment
AUM	Assets Under Management
ALM	Asset Liability Modelling
SASB	Sustainability Accounting Standards Board
TCFD	Task Force on Climate-related Financial Disclosure

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MESSAGE FROM
UBCM PRESIDENT

On behalf of the Union of BC Municipalities (UBCM), I am pleased to convey this updated Primer on Climate Action and the Municipal Pension Plan (MPP).

The report has been prepared at the direction of the UBCM Executive following the referral of a resolution from the 2020 Convention. The resolution sought information on fossil fuel related investments held by the MPP and the anticipated effects of a plan to divest those assets. Our Primer goes considerably beyond the scope of the request to provide a range for the MPP's fossil fuel related investments over multiple years, as well as information on matters of governance and investment management pertaining to divestment.

This report builds on an earlier Primer that was developed and presented to our membership in 2016. As we developed the 2021 Primer, we used this opportunity to evaluate the progress made on climate related investments over the past five years. Real progress has been made and additional opportunities lie ahead.

In our last Primer, we also called for a Climate Action Plan for the Municipal Pension Plan (MPP). This has now been developed and is being implemented. However, much has changed since 2016, so in this report we will highlight UBCM's climate action leadership in conjunction with the MPP and the BC Investment Management Corporation (BCI).

The Primer provides an overview of the importance of the Municipal Pension Plan and the governance structure in place, including the fiduciary duty of the Board of Trustees. We provide an overview of the plan design and service providers. The Primer revisits the importance of investments in the pension plan, and references that about 75 cents of every pension dollar comes from investment returns.

Chapter 7 delves into the MPP’s progress as a responsible investor. I would refer your attention to Chapter 8 where the report provides a breakdown of the MPP’s energy related investments as a percentage of the total portfolio as well as a breakdown of energy investments in each asset class. Also, in Chapter 8 the Primer reaffirms the preferred approach of engagement compared to a divestment approach.

The final chapter sets out future actions for UBCM as we continue to build on the governance, policies and priorities of the Municipal Pension Plan.

I recommend the reading of the Primer to all UBCM members to further our shared understanding of the MPP and the service it provides to its 945 employers and almost 400,000 plan members.

Sincerely,

B. Frenkel

Brian Frenkel, President, Union of BC Municipalities

1.PURPOSE OF THE MUNICIPAL PENSION PLAN

As far back as 1921, legislation was put in place to provide income security in retirement for municipal employees in British Columbia. Today, over 100 years later, the Municipal Pension Plan (MPP) provides a key component of the three potential sources of retirement income: Canada Pension Plan and Old Age Security; a workplace pension; and individual savings.

The local government workplace pension is viewed as deferred employer compensation. A public policy benefit of workplace pensions is to reduce reliance in retirement on taxpayer-supported income supplements.

Trustees, who are responsible for the plan, have a fiduciary duty to act in the best financial interests of plan members who have contributed to their plan [along with their employers] so that members have a secure income in retirement. This is the “pension promise” against which any change to the governance, policy, benefits or investments must be measured.

The Municipal Pension Plan promise is comprised of:

- a basic guaranteed pension based on salary and length of service;
- sustainable indexing; and
- access to group health benefits in retirement (subject to available funds).

What is new? Effective Jan 1, 2022 there will be new rules for the MPP that improve equity for members, align benefits with how members use those benefits, maintain a strong foundation for the sustainability of the plan and stay within the current costs to run the plan. Employers will experience a modest rate reduction.

The Municipal Pension Board of Trustees (MPBT) has approved the changes. The changes also include establishing a new health benefit trust that will help fund access to group health benefits for retired members.

The plan design changes are separate considerations and are not part of this Primer. This Primer is part of the UBCM policy process.

2. PURPOSE OF THIS UPDATED AND REVISED PRIMER

At the 2015 UBCM Convention, a resolution was presented recommending that UBCM request a report on a potential divestment from fossil fuel related investments.

In keeping with previous practice, when complex issues are considered, the UBCM Resolutions Committee recommended, and the UBCM Executive agreed, that a policy paper or, in this case, a "primer", be prepared for the membership. A pension is an important component of local government employee compensation but the details of the governance and oversight of the MPP and its investments rests with the Municipal Pension Board of Trustees, not local government. Local government's main role is to enroll new hires and remit the employee and employer contributions.

A lot has happened since the 2015 resolution. While the 2015 resolution was not supported, it was the catalyst for UBCM and MPP advocacy for a Climate Action Plan – which BCI developed in 2018. BCI's Climate Action Plan sets out their approach to managing the opportunities and long-term risks presented by climate change and the transition to a lower carbon economy. Climate change is one of the most significant social and economic risks the world faces today. UBCM, MPP and BCI recognize the role institutional investors around the world play in promoting sustainable, inclusive and long-term growth.

This Updated and Revised Primer will explain the current context and the key points related to the plan and its investments. A "Key Points" summary concludes chapters 4-8 and sets the stage for chapter 9 – Primer Synthesis.

The resolution that prompted this updated and revised Primer was tabled in September 2020. In most cases there would have been little change affecting the 2020 resolution before 2021 consideration. This is not the case. Climate change, its discussions and initiatives are "daily fare" for consideration and reaction where warranted.

The goal is to provide the information to accept the updated Primer:

EB42 Re-Examining Municipal Pension Plan Divestment Vancouver

Whereas since 2016, when the UBCM report, Primer on Fossil Fuel Divestment and the Municipal Pension Plan noted that "Divestment may compromise our investment strategy, increase risks and costs, and negatively affect our clients' investment returns", there have been major shifts in global climate science and investment strategies;

And whereas evidence is growing that fossil fuel-free funds are outperforming fossil fuel investments. The 2019 return on the BC Government Employees Union's fossil fuel-free investments, for example, was 21.7 percent:

Therefore be it resolved that UBCM re-examine and update its 2016 Primer on Fossil Fuel Divestment and the Municipal Pension Plan report in light of globally changing investment and divestment strategies and inform BC Investment Management Corporation, as the provider of investment management services for BC's Municipal Pension Plan, of the concerns regarding the growing financial risks related to investing in fossil fuels and its support for a plan, built on leading practices related to fossil fuel-free investment portfolios, to fully divest Municipal Pension Plan funds from fossil fuels.

3. MUNICIPAL PENSION
PLAN IN BRIEF

The Municipal Pension Plan (MPP) is the largest pension plan in Western Canada and among the largest in the country. It began as the “municipal” plan, and over time many other sectors, including health, non-teaching school and college workers, community social services and dozens of small organizations have joined.

Here are some of the key metrics based on the 2020 MPP Annual Report:

- The total assets of the plan increased from $43.7 billion at the end of 2015 to approximately $66.5 billion by the end of 2020.
- Over this five-year period, the investment portfolio earned 8.6 per cent on an annualized basis, exceeding the benchmark of 8.2 per cent; the return also exceeded the actuarial return assumption of 6.25 per cent.
- The plan has almost 400,000 members, including more than:
  - 111,000 retired members,
  - 220,000 active members and
  - 47,000 inactive members.
- MPP is a very large multi-employer pension plan with 945 employers. This includes 195 local government employers comprising 41,600 active members. In addition to local governments, which are mandated to participate in the MPP, several other smaller organizations also participate, such as the Municipal Finance Authority, Municipal Insurance Association and UBCM itself.
- Employers and employees contribute to the pension fund; once contributions are deposited in the fund, they essentially become the beneficiaries’ assets. The plan is structured so each generation pays in advance for its own benefits.

Retirement Security for Members

Members may be on pension for decades: in 2020, the oldest retired member had been receiving a pension for 51 years!

Members can be confident their pension will be there when they retire and throughout retirement. The plan’s sustainability is monitored and managed through its valuation process. At the last valuation (December 31, 2018), the plan was fully funded on the basis that current contributions continue and had a strong rate stabilization account balance.

- The plan collected $2.4 billion in annual contributions from members and employers in 2020. This included $349 million[1] from local government employers and $306 million[2] from local government employees. These contributions are pooled and invested in a diversified portfolio that follows a disciplined long-term investment approach. About 75 cents of every pension dollar paid out comes from investment returns.

[1] Employers’ contributions include regular plan contributions, special agreements contributions, purchases, and retired member group benefits

[2] Members’ contributions include regular plan contributions, special agreements contributions, and purchases

- The plan paid out $2.2 billion in pension and benefit payments in 2020, and the average annual pension in pay at the end of December 2020 was $18,380.
- Ninety-five per cent of the plan's 111,000 retirees live in British Columbia, spending their income and paying taxes in their local communities.
- Cost-of-living adjustments (COLAs) are granted by the board on a sustainable basis, currently capped at 2.1 per cent. Future COLAs are not guaranteed.
- Retired members have access to group coverage for extended health care (EHC) and dental benefits. EHC benefits are subsidized based on years of service.
- The plan's sustainability is monitored and managed through its valuation process. At the last valuation (December 31, 2018), the plan was fully funded on the basis that current contributions continue, and had a strong rate stabilization account balance.

4.PLAN GOVERNANCE

LEGISLATIVE FRAMEWORK

The *Public Sector Pensions Plan Act* (PSPPA) provides a unique structure that enables public sector employers and employees to take responsibility for their pension plans and share in the risks, rewards and governance of their plans. The PSPPA allowed for the development of joint trust agreements for the College, Municipal, Public Service and Teachers' pension plans.

The plan partners are the sponsors of the MPP. Together with HEABC, they are signatories to the JTA. The employer plan partner is the Province of BC and the UBCM, acting as one. The member plan partner is the MEPC.

JOINT TRUSTEESHIP

In April 2001, the MPP joint trust agreement (JTA) was signed by the provincial government, Union of BC Municipalities (UBCM), Health Employers Association of BC (HEABC) and the Municipal Employees Pension Committee (MEPC). Under the JTA, trusteeship of the MPP moved from being a sole government-appointed trustee to trustees being jointly appointed by the plan partners and key stakeholders.

The JTA includes:

- appointment of trustees;
- powers, functions and duties of the board;
- responsibilities;
- plan administration and investment;
- trustees' fiduciary responsibilities; and
- board operations, which include customized voting and quorum rules (e.g., UBCM must be present to constitute a quorum and have one of its appointed trustees support a motion for it to pass).

MUNICIPAL PENSION BOARD OF TRUSTEES

The MPP board has 16 primary and 16 alternate trustees appointed by the following groups:

Employer Appointing Authorities

- Government (2 primary and 2 alternate trustees)
- Union of BC Municipalities(2 primary and 2 alternate trustees)
- Health Employers'Association of BC (2 primary and 2 alternate trustees)
- BC Public School Employers' Association (1 primary and 1 alternate trustee)
- Plan Employer Partner (1 primary and 1 alternate trustee, who must be "excluded" plan members)

Member Appointing Authorities

- British Columbia Police Association & BC Professional Fire Fighters' Association (1 primary and 1 alternate trustee)
- BC Nurses' Union (1 primary and 1 alternate trustee)
- Hospital Employee's Union (1 primary and 1 alternate trustee)
- Health Sciences Association of BC (1 primary and 1 alternate trustee)
- Canadian Union of Public Employees, BC Division (1 primary and 1 alternate trustee)
- Council of Joint Organizations and Unions (1 primary and 1 alternate trustee)
- Plan Member Partner (2 primary and 2 alternate trustees, including 1 primary and 1 alternate who must be retired plan members)

BOARD OF TRUSTEES

The board's roles and responsibilities include:

- investing and managing pension funds prudently and in the best financial interests of plan members and beneficiaries;
- administering the plan;
- monitoring performance of the administrative and investment agents against benchmarks;
- ensuring plan rules and fund investments are in accordance with applicable laws;
- adopting the annual budget, preparing an annual report including audited financial statements; and
- obtaining an actuarial valuation every three years.

Trustees do not represent their appointing body. They have the fiduciary duty to act in the best financial interest of the plan beneficiaries. More specifically, trustees are required to set aside their own personal views and interests in favour of an undivided loyalty to the MPP's beneficiaries. Trustees' legal and fiduciary duties come from legislation, the JTA and the common law, and include:

1. Duty to be loyal to the beneficiaries: Act honestly, in good faith and in the best financial interests of all plan members, former plan members and any other person to whom a fiduciary duty is owed.
2. Duty to be careful and prudent: Exercise the care, diligence and skill that a person of ordinary prudence would exercise in dealing with the property of another.
3. Duty to deal impartially, fairly and in good faith: Treat all members fairly ("even-handed rule").
4. Duty to disclose.
5. Duty to act personally ("no delegation rule").

Plan Design

At the end of 2020, after almost a decade of negotiations, the plan partners reached agreement on a fundamental set of plan design changes.

Subsequently, the board approved rule changes to implement the agreement. The redesign ensures that the plan is more equitable and sustainable without increasing overall costs.

You can learn more about the changes on the plan's website at www.mpp.pensionsbc.ca. The changes will be implemented in 2022. They build on previous plan partner agreements that incrementally redesigned the plan, including:

- Introducing a sustainable method of granting cost-of-living adjustments to ensure they are available to current and future retirees
- Simplifying employer contribution rates and eliminating age and gender differentials
- Establishing a rate stabilization account to mitigate the risk of future contribution rate volatility for members and employers

Employer MPP Costs

Employer pension plan expenses are limited to required pension contributions.

With the changes, the gender and the age differentials for employees were eliminated. This provided more stable contribution rates for employers, supporting more accurate budgeted pension expenses.

With the 2022 plan design changes, all employers will see their contribution rates decrease.

PLANNING & POLICIES

The board has a robust planning and policy framework. Of particular interest are the board's strategic plan and the Statement of Investment Policies and Procedures (SIPP).

Strategic Plan

The Municipal Pension Plan is guided by the board's strategic plan. The board's strategic planning process ensures that every three years the board reviews its vision, mission and guiding principles, refines its long-term goals and articulates new short-term priorities. The result of the process is a new strategic plan. The plan ensures that the board remains focused on delivering on the pension promise over the long term and helps the board determine what it should do today to be ready for tomorrow.

The board's 2020–2023 strategic plan sets out the long-term direction and objectives for the plan, along with short-term priorities. The board's top pension security goals remain unchanged:

- to meet the pension promise,
- to provide sustainable cost-of-living adjustments, and
- to provide retired members with access to group benefits.

The strategic plan notes the *unparalleled risks and opportunities posed by climate change* and identifies *addressing climate risk to the investment portfolio* as one of five strategic priorities. As part of its strategic plan, the board makes a number of commitments on this priority, including:

1. Provide ongoing education to trustees regarding climate change concepts and associated investment risks and opportunities;
2. Continue as a Climate Action 100+ supporter signatory, and encourage BCI to continue its engagements with companies as a participant signatory;
3. Explore investing in a manner compatible with the Paris Agreement goal of keeping global average temperature to well below 2°C above pre-industrial levels;
4. Study potential impacts of a sudden significant policy response by governments through regulatory stress testing of the investment portfolio;
5. Ensure climate risk is addressed on an ongoing basis in key plan investment documents, including the SIPP and the Funds Investment and Management Agreement (FIMA) between MPP and BCI; and
6. Strengthen communications on the plan website regarding the board's approach to climate change, and monitor developments in voluntary and regulatory climate reporting.

Statement of Investment Policies and Procedures (SIPP)

The SIPP outlines the board's investment beliefs, goals, strategic asset allocation, and approach to responsible investment generally, and climate change specifically.

It also articulates specific delegated functions, permitted investments and limits on those functions (e.g., use of leverage, derivatives, securities lending, delegation of voting rights, etc.). The SIPP is reviewed annually as required by the Pension Benefits Standards Act.

The key investment decision of the board is setting the plan's long-term strategic asset mix, which is the most significant factor in determining investment returns. After extensive due diligence and modelling through an asset-liability review, the board approves a long-term asset mix policy with the goal of increasing the likelihood that the plan will meet its key investment objectives. The SIPP sets out the target allocations of funds to different asset classes.

The investment beliefs articulate the board's views on the most important drivers of investment returns and decisions. These beliefs serve as a lens for the board's investment agent on how to add value to and navigate the financial markets.

MPP INVESTMENT COMMITTEE

Briefly, some of the committee's over 20 specific responsibilities include:

1. Review quarterly BCI's activities and investment performance.
2. Review the SIPP and recommend amendments.
3. Monitor the implementation of investment policies and goals.
4. Coordinate periodic asset allocation studies with reference to the actuarial valuation as a basis for investment policy.
5. Fulfil the board's responsibilities as a signatory to the PRI.
6. Recommend an independent investment consultant to assist in considering investment policy matters.
7. Fulfil the board's responsibility for climate-related financial disclosure under the Taskforce on Climate-related Financial Disclosure (TCFD).

The board updated its investment beliefs in 2019. Four of the new beliefs are particularly relevant here. Section 4.4 of the SIPP reads as follows:

4.4.1 Companies and other entities in which we invest that take environmental, social and governance (ESG) matters into account have less risk and generate long-term value for investors compared to those with less robust practices.

4.4.2 Social, environmental and economic sustainability help the plan fulfill its financial obligations to members and beneficiaries. A cohesive society, healthy environment, sustainable economy and fair financial markets are necessary to generate adequate long-term returns across the portfolio.

4.4.3 It is consistent with the Plan's fiduciary duty to act in the best financial interest of members and beneficiaries that investment decisions consider wider stakeholder views and good corporate citizenship.

4.4.4 Climate change is an investment opportunity and a long-term material systemic risk to the Plan. Although the timing and extent of the effects of climate change are uncertain, actions to reduce greenhouse gas emissions through investor stewardship, the selection of assets and advocating for appropriate public policies directly and indirectly benefit the Plan.

The SIPP also refers to the board’s support of the Principles for Responsible Investment (PRI). Other beliefs are important, too, including those that acknowledge the plan’s long-term investment horizon (4.1.3), the importance of diversification (4.3.1), and the effectiveness of engagement in seeking to change corporate behavior (13.7).

As the plan’s portfolio is almost exclusively invested in pooled funds and the board has delegated the management of investment risk and asset selection to BCI, the SIPP is the primary means of the board’s involvement in investment decisions. BCI must invest the fund in a manner consistent with the board’s policies and relevant legislation. For example, the board expects BCI to give favourable consideration to investment opportunities that exceed environmental regulations and aspire to reduce the impact on the environment.

It is important to understand that the board does not make actual “buy or sell” decisions. The board’s role, after setting the policy, is the ongoing monitoring of the investment manager and the portfolio.

These roles and responsibilities are important, but the relationship between the board and BCI is equally important and is covered more fully in chapter 7.

EDUCATION, DISCLOSURE & COLLABORATION

The board and BCI see value in trustee education, disclosure of climate-related financial information and collaboration among like-minded investors.

Trustee Education

The board views trustee education as a key tool to support the board in meeting its fiduciary duties. Investment literacy and responsible investment education are key features of the trustee education road map. As global understanding of the physical, social, economic and public policy impacts of climate change continues to evolve, the board is committed to ongoing learning in this area.

In addition to core trustee education, the board has participated in various climate education sessions designed to develop a deeper understanding of climate science, how climate change may impact the portfolio, and the relationship between fiduciary duty and climate risk. With delegated responsibility to address climate risk, the investment committee has also delved deeper with its own learning, such as considering the impact of an inevitable policy response to climate change.

Disclosure

The board completed its first-ever climate-related financial disclosure with its *2019 Annual Report*, disclosing the value of climate-related investment opportunities ($1 billion) and the plan’s carbon footprint for public equities, fixed income and domestic real estate holdings. The board noted that BCI will continue to evaluate and expand the plan’s carbon footprint of the assets as data availability and methodological issues are improved.

As a large institutional investor, the board also encourages transparency in climate-related disclosures supporting better climate-related data for asset owners and investors. The board and BCI signed the 2021 Global Investor Statement to Governments on the Climate Crisis, which includes a call for governments to commit to implementing mandatory climate risk disclosure requirements aligned with the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD)recommendations.

Collaboration

Collaboration is a powerful tool for addressing collective action challenges in financial markets. BCI has been engaging with investee companies for more than a decade on the subject of climate change. The board and BCI are signatories to Climate Action 100+, where BCI's lead in several North American engagements is helping to ensure the world's largest corporate emitters take necessary action on climate change.

The board and BCI are also signatories to the Principles for Responsible Investment (PRI), an international network of investors supported by the UN, that share the goal of incorporating ESG elements into the processes and activities of institutional investors. BCI was a founding signatory, and the board became a signatory the following year.

Leaving direct engagement with investee companies to BCI, the board is active with other asset owners. To that end, the board is an associate member of the Shareholder Association for Research and Education (SHARE), a leading not-for-profit responsible investing organization that also provides the board with independent advice. In addition, trustees participate in a number of trustee networks, including the Western North America Principles for Responsible Investing and the Committee on Workers' Capital – all with a view to advancing responsible investment principles.

As an asset owner, the board considers signing on to joint investor statements or letters where it sees benefits to the plan of collaborating with other investors to present a single voice to policy makers, industry associations, companies or wider society as a whole. For example, in 2017, the board and BCI signed the letter from global investors to governments of the G7 and G20 nations on climate action; the letter calls for the implementation of the Paris Agreement, policies to drive investment in the low-carbon transition and green investment, and implementation of the TCFD recommendations.

In summary, the board sets strategic direction, investment policy and expectations. It relies on service providers, including BCI as the board's investment agent and BC Pension Corporation as the board's administrative agent, to execute the directions. The service providers that support the board are described briefly in the next section.

KEY POINTS

- Any changes to the JTA require the agreement of all plan partners and HEABC.
- Decisions of trustees must meet voting conditions to be successful.
- Trustees have legal duties to plan members that override their personal interests or the interests of their appointing organizations.
- Investment returns are important to meeting the pension promise. Approximately 75 cents of every pension dollar paid comes from investment returns.
- There is a robust planning and policy framework regarding MPP investment, including a dedicated committee of the board.
- The board takes a long-term view to managing the plan.
- The board recognizes that climate changes results in both an investment opportunity and long-term material systemic risk to the plan, and has prioritized addressing climate risk.
- Together with BCI, the board takes a multi-pronged approach to managing the risks and opportunities of climate change and values engagement (e.g., collaboration and disclosure) and education.

5.SERVICE PROVIDERS

A principle underlying the 1999 pension governance legislative transformation was that there are economies of scale for the four public sector pension plans through the sharing of a common plan administrator and investment manager.

To realize the economies of scale, two independent entities were established:

- British Columbia Pension Corporation (BCPC)
- British Columbia Investment Management Corporation (BCI)

The board uses a number of other service providers (legal, actuarial, external audit) that are not central to this Primer other than to highlight that the plan actuary has certain interactions with BCI on forecasting assumptions for investment returns over the long term. The plan also has engaged independent investment advisors over the years, including advisors that specialize in responsible investment to support its work in this area.

BC Pension Corporation is the designated provider for administrative services. The board and the corporation have a service agreement that sets out the services and service standards—from enrolling new members to, perhaps 30 to 35 years later, beginning to pay their pension. The MPP board appoints two directors to the Pension Corporation Board of Directors.

British Columbia Investment Management Corporation (BCI) is the key service provider in the context of this Primer. Based in Victoria, BCI is one of Canada's largest institutional investors within the global capital markets. With $199.4 billion[3] of managed net assets, it invests in all major asset classes, including infrastructure and other strategic investments. BCI's 30 institutional clients include several public sector pension plans.

BCI's mandate is to invest the funds not currently required by clients to pay pensions. As an investment manager, BCI is responsible for growing long-term client wealth while also protecting the value of their funds.

MPP is BCI's largest client, with assets representing approximately a third of BCI's assets under management. Investment activities help to finance the retirement benefits of more than 675,000 pension plan members[4] including almost 400,000 MPP members.

BC's four public sector pension plans have a unique arrangement with BCI. BCI also has a role that goes beyond that of a typical fund manager, effectively functioning as the boards' internal investment staff. In addition, pursuant to the *Public Sector Pension Plans Act* (PSPPA), the boards each appoint a trustee to BCI's corporate board and receive regular reports on the investment of their fund by BCI's CEO/CIO.

[3] As at March 31, 2021

[4] Includes active, inactive and retired members

In large measure due to this special relationship, while the BC public sector pension plans are not required to use the services of BCI, all have chosen to continue with BCI since their inception. Each plan has a negotiated investment management agreement with BCI that—together with the SIPP—governs the relationship between the two organizations. It defines roles and responsibilities, specifies standards of care, and describes fee allocation and billing.

The PSPPA defines BCI's chief investment officer for day-to-day operations. The CEO/CIO is accountable to the BCI board for the efficiency and effectiveness of the corporation in carrying out its mandate. The CEO/CIO is also accountable to each client, including the MPP board, regarding its investment policy, fund performance and SIPP compliance.

In all cases, BCI and their external investment managers must comply with the board's SIPP, BCI's internal policies, and the relevant laws and regulations governing pension fund management in the respective jurisdiction.

The board is legally responsible for the management of the fund and the establishment of the investment policies. As noted in chapter 4, the board has a legal obligation to act in the best financial interest of the beneficiaries of the trust and exercise a high standard of care in protecting the fund and its assets. This must override all other considerations.

KEY POINTS

- The MPP board uses service providers rather than its own staff to support virtually all of its activities; the board has one employee.
- BCI, a large institutional investor of public sector funds, provides investment services to the board.
- The board and BCI have a unique relationship due to the governance structure and size of the plan, resulting in BCI having a role beyond that of a traditional investment manager.
- The MPP board has one seat on the BCI board, and that MPP director owes their own duty to BCI while sitting as a corporate director.
- The BCI CEO/CIO is accountable to the MPP board for investing the plan's fund and is required to report on overall performance and in relation to approved benchmarks.

6. IMPORTANCE OF INVESTMENTS

As noted earlier, the MPP board approves the plan's long-term strategic asset allocation mix that it believes will best achieve its primary pension objective: to secure the basic pension for every member. The choice of investment asset mix is the largest determinant of the plan's return. The plan's portfolio is well diversified with public and private market investments in assets from around the world.

Investment portfolio
as at December 31, 2020

Holding	**Market Value** ($ millions)	**Asset Mix** (% market value)
Short-term	1,626	2.5
Mortgages	2,509	3.8
Bonds	12,531	18.9
Private Debt	2,206	3.3
Canadian Equities	3,600	5.4
Global Equities	11,375	17.1
Emerging Markets	6,513	9.8
Private Equity	8,237	12.4
Real Estate	9,967	15.0
Infrastructure and Renewable Resources	7,797	11.7
Cash and unsettled trades	66	0.1
Total Investments	**$ 66,427**	**100.0**

Taking a long-term investment perspective, the strategic asset mix includes real assets such as infrastructure and real estate. These assets are tangible physical investments that are ideally suited for the long-term financial objectives of the plan; and typically provide capital appreciation, income, and inflation protection, while reducing the short-term volatility associated with public markets. Through significant equity investments in direct portfolio holdings, BCI can secure governance positions on the boards of the companies it invests in to influence the strategic direction of these companies.

Since joint trusteeship was established in 2001, the board has experienced several market cycles and events, including the "Tech Bubble" in 2000/2001 the "Global Financial Crisis" in 2008/2009 and the "COVID-19 crisis" in 2020. Despite these periods of volatility, performance continues to exceed the target investment return of 6.5 per cent, as demonstrated in MPP's returns below. The return target is set by the MPP board in consultation with its actuary.

1 Year:	11.6%
5 Year:	8.6%
10 Year:	9.1%
15 Year:	7.7%

** Returns to December 31, 2020*

The MPP board and the Investment Committee regularly review performance at meetings. As a long term investor, the MPP board focuses on performance returns over extended time-periods rather than short-term results or market events.

Approximately every three years, the board undertakes an asset liability modelling (ALM) review and reports on the financial health of the plan. The purpose of an ALM is to determine the asset mix most likely to meet the investment objectives of the plan going forward. The review presents an opportunity for the board to understand the key drivers of a successful investment strategy: plan characteristics and circumstances, investment objectives and risks, and market expectations. There are many factors that are considered during the ALM process including climate change scenarios. The board has an opportunity to reassess the current asset mix and compare it to potential alternative asset mixes. From this process, the board, with support from the Investment Committee, chooses the long-term target allocations for each asset class that will best achieve the plan's objectives.

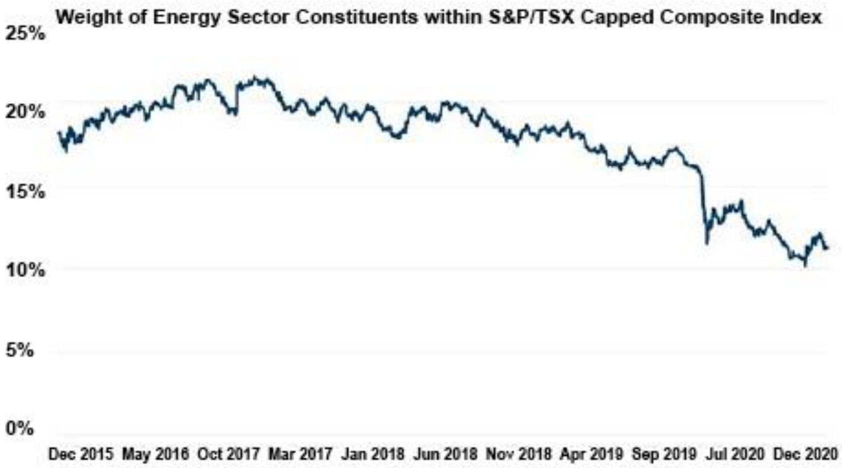
Using Climate Scenarios in Asset Liability Modelling

In 2018, the MPP board updated the long-term policy asset mix intended to support the best financial interests and the overall investment risk profile of the plan. The updated long-term policy asset mix was revised in line with the recommendation stemming from an **asset-liability modelling review** prepared by BCI for the board. This review included assessment of potential impact on long-term investment performance under multiple climate scenarios using a model based on Mercer's Climate Change Risk Assessment Research Package. This climate change work was developed based on the board's desire to undertake this work, and its endorsement to have BCI conduct climate change scenario analysis. In 2021, the board is undertaking another asset-liability review which will again use climate scenarios.

With the 2018 ALM review, the board reduced the target allocation of Canadian equities from 11% to 5%. The primary reason to reduce the allocation was to benefit from better diversification. Some of the key factors considered were 1) global and emerging market equities have higher expected returns and better sector/regional diversification, and 2) Canadian equities represent a small portion of the world equity market and are heavily weighted in just a few sectors (e.g., energy, financials, and materials). The 2018 strategic asset allocation decision resulted in a reduction in the portfolio's Energy holdings, because – as previously noted - Canadian energy equities made up a significant portion of the Canadian equity market.

Based on the most recent actuarial valuation in 2018, the plan was fully funded with a strong rate stabilization account balance.

Within index strategies, which are designed to mimic the composition and performance of indices, this asset allocation shift was further magnified by a decrease in the weight of the energy sector within the S&P/TSX composite over that time. At the time of the 2018 ALM review, energy represented approximately 19% of the S&P/TSX Composite; however, between December 2015 and December 2020, the weight of the Energy sector in the S&P/TSX Capped Composite Index declined from 18.1% to 11.3%, as shown in the chart below. Some of the decline is due to the growth in other sectors such as Information Technology which grew from 2.8% of the index in December 2016 to 10.3% in 2020.



In a pooled fund structure, the MPP board owns units in the pooled fund, not individual securities. The pooled funds in which the MPP board has approved to invest in are listed in the SIPP (available on the MPP website). Like a mutual fund, a pooled fund combines participating clients' contributions and invests in securities and other assets. Pooled portfolios reduce costs through economies of scale, allowing clients to obtain a more diversified portfolio at a lower cost than investing individually. They also ensure that the clients are treated fairly and share in the best investment opportunities.

BCI has the discretion to buy or sell securities and may invest in passively managed index funds that invest in stocks by replicating indices such as the S&P/TSX Capped Composite Index or the S&P 500. Additionally, BCI may invest in the funds of external managers who have expertise in specific geographies or sectors and therefore BCI does not own the investment decisions of which assets to own. BCI does, however, screen managers prior to selection based in part on their ESG practices.

BCI has a role that goes beyond that of a typical fund manager, effectively functioning as the board's internal investment staff. For example, the board believes that BCI is in the best position to make the decision on the weightings between active and passive strategies and has delegated this decision to BCI.

In keeping with the MPP board's fiduciary responsibilities and framework, the board believes that ESG issues affect investment performance to varying degrees across companies, sectors, regions, asset classes and through time. The board and BCI are signatories to the UN-supported Principles for Responsible Investment (PRI) and are committed to ensuring that ESG issues are incorporated into investment analysis and decision-making processes and into ownership policies and practices.

KEY POINTS

- The board establishes the target rate of return and the asset allocations that guide investment decisions.
- The board doesn't select stocks or any other specific investments.
- The board does not directly own individual securities such as publicly-traded stocks. It owns units in pooled funds. It does not tell BCI to buy or sell specific securities.
- Consistent with board direction, BCI integrates ESG analysis and risk management in all investment processes, including the use of climate change scenarios in asset liability modelling reviews.
- BCI may have passively managed or "indexed funds" that replicate the investible universe of the index and these are not screened out for individual securities.
- BCI may use external managers for certain funds to gain access to expertise in specific sectors or geographies. These managers make their own decisions on which assets to hold, but BCI does screen managers prior to selection based in part on their ESG practices.

7.RESPONSIBLE INVESTING:

BCI'S AND MPP'S PROGRESS AS A RESPONSIBLE INVESTOR

Institutional investors around the world are increasingly integrating ESG factors into investment decisions. This approach has grown significantly in recent years with assets under management (AUM) in this category now representing around a quarter of all professionally managed assets.[5] Adoption of ESG integration has been an outcome of events such as the ratification of the Paris Agreement in 2015, which resulted in governments and corporations setting climate reductions, advancement in disclosure frameworks, and increased demand from global stakeholders for accelerated action.

Large institutional investors have called on companies to publish ESG-related disclosure in line with best practice frameworks such as the Task Force on Climate-related Financial Disclosure (TCFD) and the Sustainability Accounting Standards Board (SASB).

BCI's ESG Approach

BCI always works in the best financial interests of its clients. As a long-term investor, incorporating ESG considerations into their approach is an essential part of who BCI is and what it does. With a mandate to grow the value of clients' funds, assessing and managing investment opportunity and risk, including ESG risk, is an integral part of meeting that responsibility.

BCI has incorporated responsibility for ESG oversight, evaluation, and integration into multiple levels of the corporation through their ESG Policy. In addition, BCI's corporate-wide ESG strategy provides a unified approach to guide every stage of the investment process. In practice this has led to detailed ESG risk and opportunity reviews being conducted on investments across all asset classes. The ESG strategy outlines four key components that represent all ESG activities taking place at BCI:

Intergrate

BCI integrates ESG analysis and risk management in all investment processes, from supporting clients' asset allocation decisions to individual investment decisions within its portfolios.

Influence

Through engagement and advocacy, BCI applies influence on companies in which they invest, their partners, and other participants in the capital markets.

Invest

BCI actively seeks opportunities to invest in ESG-themed investments that contribute to improved long-term outcomes for clients and reinforce its investment beliefs.

Insight

BCI uses its learnings across all ESG activities, as well as its understanding of emerging trends, to generate insights that help them continuously adapt and improve their strategies, processes, and approaches.

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[5] See: https://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum/

All aspects of the ESG Strategy are guided by BCI's investment beliefs which reference the importance ESG:

BCI's Investment Beliefs: ESG matters make a difference

- Taking environmental, social, and governance (ESG) matters into account enables investors to better understand, manage and mitigate risks and take advantage of opportunities associated with long-term investments.
- Companies that employ robust ESG practices are better positioned to generate long-term value for investors than similar companies with less favourable practices.

Improving the sustainability and integrity of global capital markets creates favorable economic conditions that benefit investors over the long term.

Case Studies: ESG Strategy in Action

Chevron:
Proxy Voting Success

In 2020, BCI supported a climate lobbying proposal at Chevron Corporation (NYSE: CVX), which asked for a report on the company's lobbying efforts and if or how they align with the Paris Agreement's goal of limiting average global warming to below 2 degrees Celsius. BCI believes that such an evaluation would help investors to assess related risks and opportunities. The proposal passed with 53.5% support.

Portfolio Carbon Exposure:
ESG Integration Success

BCI began disclosing the carbon exposure of its public equity program using the TCFD recommended Weighted Average Carbon Intensity calculation in 2020. BCI's investment strategy and focus on integrating ESG in its active investment approach has allowed BCI to reduce the carbon exposure of the public equity program by 13 per cent in 2020. The continuation of this strategy is expected to result in a 30 per cent reduction by 2025, from a 2019 baseline.

Teck Resources:
Engagement Success

BCI has jointly led the Climate Action 100+ engagement with Teck Resources, Canada's largest diversified mining company, since 2017. Through this initiative BCI has participated in meetings with the company's senior management team and independent board directors. Teck has made notable progress: committing to net-zero emission by 2050 for its operations (achieving its alternative energy target ahead of schedule) and releasing TCFD-aligned disclosure.

To learn more about BCI's ESG activities and performance visit: www.bci.ca/approach/esg/

BCI AND MPP: RESPONSIBLE INVESTING TIMELINE

For a number of years, the MPP board and BCI have been actively working to understand and manage the risks and opportunities posed by climate change. The long time horizon of pension liabilities means that trustees must also take a long-term view for investment opportunities and risks. The following timeline provides a summary of MPP's and BCI's activity in this space since 2016 and demonstrates the shared commitment to continuous advancement.

2016

The board and BCI sign the Global Statement on Investor Obligations and Duties, acknowledging that investors must pay attention to long-term investment value drivers, including ESG issues in their investment processes.

The board co-founds the Western-North America (WNA) PRI network, providing PRI signatories and other like-minded investors in British Columbia, Alberta, Saskatchewan, California and Washington with opportunities to share information and best practices about ESG integration, discuss issues of regional concern, and to move the responsible investment conversation forward.

2017

The board approves a new three-year strategic plan, including the priority to understand the issues, risks and opportunities posed by climate change – and update the SIPP as appropriate - to support informed decision-making regarding investment policy and procedures.

The board and BCI sign the Letter from Global Investors to Governments of the G7 and G20 Nations on Climate Action, calling for global leaders to continue to support and implement the Paris Agreement, align policies to drive investment in the low-carbon transition and phase-out fossil fuel subsidies, and implement climate-related financial reporting frameworks including supporting the TCFD recommendations.

The board and BCI become signatories to Climate Action 100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The MPP board and BCI continue to support the initiative's goals. BCI's does this through participation and direct engagement with focus companies individually and collectively with other signatories.

2018

BCI integrates climate scenarios in MPP's asset-liability modelling (ALM) review.

The board updates the long-term policy asset mix intended to support the best financial interest and the overall investment risk profile of the plan, following an asset-liability review that incorporated a review of the types of investment risk taken by the plan and climate change scenario analysis.

With encouragement from MPP and other clients, BCI develops and releases its first Climate Action Plan. The plan positions BCI to capitalize on investment opportunities from the long-term transition to a low carbon economy, while protecting the plan's portfolio from undue physical and transition risks. Together with the Action Plan, BCI releases its first TCFD disclosure.

2019

The board updates its investment beliefs, adopting a new investment belief related to climate change:

> *Climate change is an investment opportunity and a long-term material systemic risk to the plan. Although the timing and extent of the effects of climate change are uncertain, actions to reduce GHG emissions through investor stewardship, the selection of assets and advocating for appropriate public policies directly and indirectly benefit the plan.*

The board completes its first ever climate-related financial disclosure, in line with the TCFD recommendations, within its 2019 annual report, reporting the value of climate-related investment opportunities ($1 billion) and its carbon footprint for public equities, fixed income and domestic real estate holdings. The board noted that BCI will continue to evaluate and expand the plan's carbon footprint of the assets as data availability and methodological issues are improved.

Following the success of the WNA PRI network, the UN PRI forms the Western North America Advisory Committee, appointing the plan's executive director as co-chair. The WNA PRI network is continued under the leadership of the new advisory committee, who provide advice to the PRI executive team.

2020

The board approves a new three-year strategic plan, prioritizing addressing climate risk to the investment portfolio. More specifically, the board commits to exploring investing in a manner compatible with the Paris Agreement goal of keeping global average temperature to well below two degrees Celsius above pre-industrial levels and to study the potential impacts of a sudden significant policy response.

As part of the board's ongoing commitment to learning in the area, the board receives education sessions on the science of climate change, fiduciary duty and climate change, and the impact of climate change on plan investments.

BCI increases its cumulative historical participation in sustainable bonds to $888 million, an increase of $532 million from 2019. The continuation of BCI's fixed income strategies is expected to lead to an estimated cumulative participation of $5 billion in sustainable bonds by 2025.

BCI launches the US$1 trillion Sustainable Development Investments Asset Owner Platform (SDI-AOP) alongside three global partners to provide a globally consistent framework and standard for identifying and measuring the impact of investments on the UN Sustainable Development Goals (SDG).

QuadReal, BCI's real estate and real estate debt program manager, attains top rankings in GRESB, the Global ESG Benchmark for Real Estate Assets (see Case Study).

QuadReal releases its Green Bond Framework paving the way for investors to support solutions to further reduce energy consumption, carbon emissions, pollution, and waste at QuadReal properties. Under the framework, 100 per cent of the net green bond proceeds can be used for eligible green projects. QuadReal is one of the top three Canadian issuers of green bonds.

QuadReal achieves an 80 per cent carbon reduction from its 2007 baseline, meeting its 2050 emissions reduction target almost thirty years early. QuadReal was able to achieve this climate-related target, as it began purchasing renewable energy credits for its Alberta portfolio in 2019, and carbon offsets for all natural gas used in the Canadian portfolio in 2020.

Case Study: QuadReal

BCI's real estate and real estate debt program manager, QuadReal is committed to building stronger communities and is dedicated to integrating ESG into their core activities. QuadReal continues to champion energy efficiency and low carbon intensity within its portfolio and for all new development projects.

On average, QuadReal office buildings are using 25% less energy than a decade ago; and QuadReal is aiming for more than 25% energy savings on residential buildings this decade.

One way in which QuadReal is held accountable is through the annual GRESB assessment, an investor driven global ESG benchmark for real estate assets. GRESB was established in 2009 by pension funds that wanted to benchmark investments across portfolios to understand the opportunities and risks that need to be made as the industry transitions to a more sustainable future.

GRESB measures ESG categories, and within the social category, health and wellness is taking on an increasingly significant role. For the second year in a row, QuadReal earned top rankings in the 2020 GRESB assessment. It ranked first in both North America and Canada and second globally.

2021

BCI begins disclosing the carbon exposure of the public equity program using the TCFD recommended Weighted Average Carbon Intensity calculation. Its investment strategy and focus on integrating ESG allowed BCI to reduce the carbon exposure of the public equity program by 13 per cent in 2020. The continuation of this strategy is expected to result in a 30 per cent reduction by 2025, from the 2019 baseline.

BCI increases its cumulative historical participation in sustainable bonds to $888 million, an increase of $532 million from 2019. The continuation of BCI's fixed income strategies is expected to lead to an estimated cumulative participation of $5 billion in sustainable bonds by 2025.

BCI releases new proxy voting guidelines detailing increased expectations for climate risk management and disclosure.

As an active member of Climate Action 100+, BCI continues to lead or co-lead engagements with four North American companies in the fossil fuel and mining sectors and supports engagement with six other companies in the oil and gas industry and utility sector. Through the global Climate Action 100+ initiative nearly half (43%) of the 167 focus companies have now set a net-zero by 2050 target or ambition.

KEY POINTS

- Responsible Investment is a shared belief of MPP and BCI.
- Both were early adopters of PRI and are active participants.
- MPP and BCI joined Climate Action 100+ the year it launched in 2017.
- Reporting on responsible investing is an MPP requirement of BCI.
- QuadReal, BCI's real estate and real estate debt manager, champions energy efficiency and low carbon intensity within its portfolio and at all new development projects.
- The continuation of BCI's public equity and fixed income strategies are expected to result in cumulative participation of $5 billion in sustainable bonds by 2025; and a 30 per cent reduction in the carbon exposure in its public equity program by 2025, from a 2019 baseline.

8. FOSSIL FUEL INVESTMENT IN THE ENERGY SECTOR

8.1 What are defines as Fossil Fuels?

BCI's investment approach is diversified across assets in fixed income, public equities, and private markets. This section identifies energy-related investments in all asset classes and provides selected case studies on investments within the sector.

	Core Fossil Fuels		
	Energy Investment Sector		
	Coal*	Oil	Gas**
exploration	x	x	x
drilling		x	x
equipment/services	x	x	x
production	x	x	x
refining/marketing	x	x	x
storage/transport	x	x	x

Source: Global Industry Classification Standard

*and combustibles
**includes natural gas
Does not include kerosene, propane; petro chemical producers; Plastics industry, other products and users

8.2 What is Divestment?

In this case, it is to sell all the assets of a company that are engaged in fossil fuel activities (see 8.1 chart)

8.3 What organizations in Canada support Divestment?

In 2016, the Primer reported that there were 16 institutional organizations. Since then there has been muted growth in numbers but not in their concerns.

The three largest groups are philanthropic, faith-based and post-secondary education. A common theme is these have smaller amount of assets under management (for instance, endowment funds under $100 million)

8.4 What is this position of the largest Pension Plans in Canada?

The eight largest Pension Plans in Canada include the Canada Pension Plan, Caisse de depot in Quebec; one each in BC and Alberta and the rest in Ontario. Together they represent $1.6 trillion assets under management.

For the 2016 Primer they all reported they were not pursuing divestment. This has not changed. Recently, they have been active in their advocacy.

In November 2020, the CEO's of AIMCo, BCI, Caisse de dépôt et placement du Québec, CPP Investments, HOOPP, OMERS, Ontario Teachers' Pension Plan, and PSP Investments released a joint statement calling on companies and investors to provide consistent and complete environmental, social, and governance (ESG) information, and further commit to strengthening ESG disclosure within their own organizations by adopting the Sustainability Accounting Standards Board (SASB) standards and the Task Force on Climate-related Financial Disclosures (TCFD) framework.

The signatories, including BCI, recognize that while companies face a myriad of disclosure frameworks and requests, it is vital that they report relevant ESG data in a standardized way to provide clarity and improve data flow.

8.5 In The Trustee's Chair

In thinking about divestment, it may be useful to put yourself in the shoes of a trustee of a small independent pension plan.

- **Divest or Engage Scenario** -Companies that are climate laggards can be divested selectively. But what about a multi-activity company? It is not uncommon for a modern energy company to produce energy from oil and gas (i.e., fossil fuels) and also increasingly from wind farms, hydro-electric and other activities (i.e., renewables.) Do you divest, because it is an all or nothing choice? Or do you engage the company around their strategic plan and ensure they are planning for a low-carbon economy? Do you consider withholding capital investment from a skilled organization that has the capability, technical knowledge and will to innovate and support the path to a low carbon economy?
- **A Divestment Scenario** - You are a new trustee, and the board is reviewing a recent decision. The board had $5 million invested in a "fossil fuel" company and decided, in keeping with its policy, to divest. The current value was $25 per share. The board tendered all its shares and successfully achieved its divestment price. Concurrently, Pension board #2 purchases the same amount of shares at $25 per share. Did the "divestment" have any impact on climate action and reducing carbon? Did the Company appreciate there was a divestment? Or do they see their market value is unchanged and so it is business as usual? Did your Pension Plan make a difference in carbon reduction?

Arguably, divestment is a blunt tool for a complex problem. It is a straight line to conclude that selective divestment makes sense for the climate laggards. But it is less clear for some of today's modern energy companies who appear to be a critical part of the solution.

8.6 What is BCI's Position on Fossil Fuel Divestment?

The MPP board and BCI are long-term investors. Buying and selling of assets is a normal process that occurs every working day for a large plan like the MPP. This may be done to optimize value or exit an underperforming asset; and takes place in the normal course of business by the investment managers within the framework of the board's approved SIPP.

Divestment is a term that refers to the selling or avoiding investment in certain companies, sectors, or countries. By definition, divestment is the action of selling assets, however, when applied in the context of ESG strategy it is often used to refer to the action to sell or avoid assets based on moral, social or political motivations.

For example, "divestment" which has often been appropriated as the term to challenge an asset owner to divest (sell) certain types of assets such as tobacco, munitions, or fossil fuels on what has been termed as a "values-based criterion". Some commentators have used the term "disinvestment" to distinguish this activity.

There have been calls to large asset owners around the world to divest from companies involved in fossil fuels (e.g. coal, oil, natural gas). Arguments in favour of fossil fuel divestment typically point to environmental concerns and an urgent need to act on the climate crisis; as well as concerns over the long-term value of such companies because of an energy transition moving away from fossil fuels.

BCI believes that divestment is not an effective strategy for addressing long-term and persistent risks to clients' portfolios. Divestment reduces an investor's ability to influence and to drive more sustainable outcomes; and does not encourage companies to amend their policies and practices. This position is in line with BCI's overall approach to long-term capital stewardship, and with the guidelines and directions provided by MPP.

Consequences of Divestment

Divesting from fossil fuel investments might limit the carbon emissions in a portfolio but it does not actually change the amount of carbon emitted into the environment, as it passes the assets from one investor to another. In BCI's view, divestment has several significant disadvantages. These include:

- Divestment eliminates rights as a shareholder to engage with management, raise awareness of long-term risks and potential opportunities, and influence change of business practices. For example, divestment reduces the ability to influence companies whose transition is central to achieving the goals of the Paris Agreement.
- While divestment may serve the purpose of reducing exposure to fossil fuels to varying degrees, it does so in a manner that does not consider the unique risk or return potential of the companies being removed.
- Divestment does not encourage companies to amend their policies and practices.
- Divestment may compromise the investment strategy, increase risks and costs, and affect clients' investment returns.
- Divestment reduces MPP's investable universe. MPP's Statement of Investment Policies and Procedures (SIPP) notes that maintaining a well-diversified portfolio is the cornerstone of the Fund's risk management program.

- Excluding fossil fuel companies would not insulate the plan from the risks associated with climate change or rapid climate action. Climate change scenario analysis shows much wider portions of the market are impacted in one way or another, and it emphasizes the need to appropriately manage these risks holistically whereas excluding a portion of the investment universe may give a false sense of heightened resilience.

Influencing Sustainable Change through Investor Engagement

The MPP board shares BCI's belief that engagement is a more effective approach than divestment to addressing climate-related risks. Therefore, engagement is the preferred approach to managing climate-related risks. Each year, BCI sets engagement priorities in consultation with the board and its other clients, and climate change is a key priority. BCI encourages transparency in climate-related disclosures, and consideration of the physical, regulatory, and transition risks related to climate risk in business strategy.

Engagement involves constructive conversations between companies and investors, where investors can share views and input on corporate governance and management practices. Engagement on ESG factors has been a focus area for BCI for many years. BCI sets corporate ESG Influence Priorities that are aligned with the issues most material to its clients to guide its engagement activities. These priorities include climate change. In conversations, BCI encourages companies to be transparent about ESG risks and to adopt good corporate governance and operational practices.

The MPP board aligns with this belief through its SIPP, which states:

> *"The board believes that in most cases engagement is a more effective tool for seeking to initiate change to and influence corporate practices than exclusion. The board expects BCI, as an active and engaged investor, to encourage the companies within its portfolio to apply good corporate governance practices, effectively manage their business relationships, and be responsible in their operations and treatment of employees. The board further expects that BCI's engagement activities are based on strategic ESG priorities and, as a result, ESG matters are addressed to the extent that they influence risk and return of the Fund."*

Climate Action 100+

In Chapter 7, we highlighted BCI and MPP's participation with Climate Action 100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. It brings together 545 signatories in 32 countries representing US$52 trillion in assets under management. Of the 167 companies engaged through the initiative, almost half the companies have now set net-zero targets, 51 per cent have short-term (2020-2025) emissions reduction targets, and 38 per cent have a medium-term (2026-2035) emissions reduction target. These public commitments reinforce BCI's belief that engagement is a more effective strategy for managing climate risk than divesting.

As part of Climate Action 100+, 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 companies in the oil and gas industry and utilities sector.

In 2020, the Climate Action 100+ initiative developed the Net-Zero Company Benchmark. It is designed to clarify specific disclosures and targets for companies and be a useful tool for investors to assess and compare company performance. Disclosure indicators include:

- ➢ Net-zero by 2050 ambition
- ➢ Targets and goals for GHG emissions reduction in the short, medium, and long term and whether targets align with 1.5 degrees Celsius climate scenario

- Decarbonization strategy
- Capital allocation alignment
- Climate policy engagement
- Governance, including executive remuneration linked to climate targets
- Just transition (impacts on workers and communities)
- TCFD reporting, including scenario analysis

The first company scorecards were released in 2021.

Maple 8

In November 2020, BCI joined seven of the largest pension investment managers, colloquially referred to as the 'Maple 8', to issue a joint statement calling for companies to put sustainability and inclusive growth at the centre of the economic recovery from the COVID-19 pandemic. The Maple 8 asked that companies measure and disclose their performance on material, industry-relevant ESG factors by leveraging the Sustainability Accounting Standards Board (SASB) standards and the Task Force on Climate-related Financial Disclosures (TCFD) framework to further standardize ESG-related reporting.

Increasing transparency on ESG issues, especially climate-related issues, enables targeted engagement on specific issues, facilitating our engagement with companies. Standardization would be a strong step forward in reducing the barriers to deepening the integration of ESG issues into investment decision making.

Shareholder Voting

As an active owner, BCI uses proxy voting as another form of engagement. MPP delegates its voting rights to BCI and instructs BCI to act in the best financial interests of the Plan. BCI provides the board with copies of its voting guidelines and at least once a year the board reviews BCI's voting record.

BCI updated its Proxy Voting Guidelines in 2021 to raise its expectations on climate change risk disclosure and strategies. BCI believes companies that do not carefully consider issues of environmental and social responsibility risk failing to create shareholder value. Updated every two years, the guidelines advise public companies of their expectations related to ESG matters.

BCI will consider supporting more prescriptive shareholder proposals on climate change to publicly signal their expectation that companies must act immediately and will escalate the targeting of directors for weak responses to climate change risk. BCI has supported an average of 55 per cent of all ESG-related shareholder proposals over the past five years. Generally, proposals that seek enhanced disclosure of climate-related information are supported. BCI has a policy to vote against appropriate board directors at companies that fail to disclose adequate climate-related data.

Further information on BCI's proxy voting can be found at: www.bci.ca/approach/esg/proxy-voting/

BCI also advocates for policy changes that will improve the investing environment for long-term investors. Since 2014, BCI has submitted at least 18 climate-related policy submissions or statements to provincial, federal, and international regulators and policymakers.

For additional information and transparency, BCI publishes an annual report of portfolio holdings. For a full list of BCI's positions at March 31, 2020, please refer to **BCI's Investment Inventory List** at **www.bci.ca/publications**.

8.7 What is MPP's exposure to Fossil Fuels?

As of December 31, 2020, MPP's energy-related investments were approximately 2.2% of the total portfolio.

MPP's portfolio has evolved since the publication of the 2016 Primer as a result of normal course investment decisions and outcomes of the 2018 ALM review. From December 31, 2015 to December 31, 2020, the plan's total assets increased by $22.8 billion, from $43.7 billion to approximately $66.5 billion. As MPP's portfolio grew during this time, the asset allocation shifted toward a more diversified, global portfolio.

At December 31, 2020 the plan had exposure to $1.2 billion in climate-related opportunities, including investments such as, green bonds, private market renewable energy assets, and exposure to companies that generate revenue that contribute to the UN's Sustainable Development Goals, as defined by the SDI-AOP classifications.

PUBLIC EQUITIES

The public equities portfolio is BCI's second largest asset class and contains thousands of publicly traded companies in Canada and around the world. As at December 31, 2020, MPP had $21.5 billion in public equities.

MPP is invested in energy through Canadian, global and emerging market public equities. Between 2010 and 2015, MPP's public equities energy holdings ranged from approximately 3.8% to 7.3% of total plan investments. In the period since the publication of the 2016 Primer, MPP's public equity energy holdings declined from approximately 5.1% of total plan assets in 2016 to approximately 1.3% in 2020, based on values at each calendar year end. To provide context, the roughly 1.3% energy exposure across the Canadian, global and emerging equities portfolios combined is only 0.4% more than the per cent invested in the top five Canadian banks. As mentioned in Section 6, Canadian equities now account for only 5.4% of the portfolio.

Additionally, the Global Quantitative ESG Equity Fund was 1.4% of total portfolio holdings at December 31, 2020. Launched in November 2019, the Fund holds a diversified portfolio of stocks with exposure to desirable ESG characteristics.

Over the past six years, BCI has focused on bringing the investment decisions for public equities in-house, reducing the reliance on indexing strategies for the Canadian, global, and emerging markets, while redeploying its clients' capital into active mandates. Unlike indexing, active mandates enable the integration of ESG considerations throughout the investment process and allows BCI to have more discretion over which companies to include in the portfolios, as well as having the ability to overweight companies with favourable ESG characteristics while underweighting companies that present additional risk to clients.

Top 25 MPP Public Equity Investments

MPP provides a list of its Top 25 public equity holdings in its annual report. Consistent with what was shared in the 2016 Primer, the table for 2020 is included.

MMP’s Top 25 Public Equity Investments

Rank	Long Company Name	% of portfolio	% of public equities	Total exposure ($M)
1	Taiwan Semiconductor Manufacturing Co Ltd	0.7%	2.1%	442.9
2	Samsung Electronics Co Ltd	0.6%	1.8%	382.4
3	Apple Inc	0.5%	1.7%	357.5
4	Tencent Holdings Ltd	0.5%	1.6%	335.5
5	Microsoft Corp	0.5%	1.4%	305.5
6	Alibaba Group Holding Ltd	0.4%	1.4%	294.8
7	Amazon.com Inc	0.4%	1.1%	246.1
8	Royal Bank of Canada	0.4%	1.1%	235.3
9	Alphabet Inc	0.3%	1.0%	208.8
10	Shopify Inc	0.3%	0.9%	185.0
11	Toronto-Dominion Bank/The	0.3%	0.8%	182.2
12	Brookfield Asset Management Inc	0.2%	0.7%	141.0
13	Fraport AG Frankfurt Airport Services Worldwide	0.2%	0.6%	137.2
14	Canadian Pacific Railway Ltd	0.2%	0.6%	124.8
15	Mastercard Inc	0.2%	0.6%	121.2
16	UnitedHealth Group Inc	0.2%	0.5%	117.4
17	Facebook Inc	0.2%	0.5%	114.4
18	Ping An Insurance Group Co of China Ltd	0.2%	0.5%	112.1
19	Canadian National Railway Co	0.2%	0.5%	108.6
20	Housing Development Finance Corp Ltd	0.1%	0.4%	95.3
21	Kweichow Moutai Co Ltd	0.1%	0.4%	90.8
22	Visa Inc	0.1%	0.4%	87.5
23	TC Energy Corp	0.1%	0.4%	85.0
24	Tesla Inc	0.1%	0.4%	83.1
25	Constellation Software Inc/Canada	0.1%	0.4%	82.7

*client specific values are approximate and unaudited

The 2016 Primer reported that four energy holdings, representing 1.1% of MPP’s total portfolio, were included in the Top 25 as at December 31, 2015. This declined to only one energy-related company in the Top 25 at December 31, 2020 - TC Energy, which represented 0.1% of MPP’s portfolio. The tables below outline a comparison of the two reported time periods.

December 31, 2015			
Company	**Rank in Top 25**	**% of MPP’s Portfolio**	**Total Exposure ($millions)**
Suncor Energy Inc.	7	0.4	171
Enbridge Inc.	19	0.3	115
Exxon Mobil	21	0.2	103
Canadian Natural Resources Ltd.	22	0.2	101

December 31, 2020			
Company	**Rank in Top 25**	**% of MPP's Portfolio**	**Total Exposure ($millions)**
TC Energy	23	0.1	85

Top 25 Energy Holdings	December 31, 2015		December 31, 2020	
	% of MPP's Portfolio	**Total Exposure ($millions)**	**% of MPP's Portfolio**	**Total Exposure ($millions)**
Total (MPP's Portfolio)	1.1	490	0.1	85
Total Public Equities	2.3	21,276	0.4	21,488
Total Investment Portfolio		43,540		66,427

client specific values are approximate and unaudited

Looking specifically at the energy related holdings in public equities, the table below shows the Top 10, based on investment value as at December 31, 2020. These investments collectively represented approximately 0.6% of MPP's total portfolio and 1.9% of MPP's public equities portfolio.

Top 10 Public Equity Energy Investments (as at December 31, 2020)

Company	Total Exposure ($ millions)	% of MPP's Public Equities Portfolio
TC Energy Corp	85.0	0.4
Reliance Industries Ltd	60.2	0.3
Enbridge Inc	56.1	0.3
Canadian Natural Resources Ltd	44.2	0.2
Suncor Energy Inc	41.3	0.2
Lukoil PJSC	28.3	0.1
Petroleo Brasileiro SA	27.2	0.1
Parkland Corp/Canada	26.3	0.1
Exxon Mobil Corp	25.4	0.1
Chevron	23.0	0.1

client specific values are approximate and unaudited

Featured Public Equity Investments

Below are descriptions of fossil fuel related companies held in MPP's public equity portfolio.

TC Energy

TC Energy is a leading energy infrastructure company with natural gas and liquids pipelines, power generation and natural gas storage facilities. They are committed to responsible and sustainable development. Headquartered in Calgary, Alberta, the company operates in Canada, the United States and Mexico.

To learn more about TC Energy visit: www.tcenergy.com

Teck Resources

Teck is a diversified resource company committed to responsible mining and mineral development with business units focused on copper, zinc, steelmaking coal, and energy. Headquartered in Vancouver, Teck owns or has an interest in 13 mines across Canada, the United States, Chile and Peru, as well as one large metallurgical complex in Canada. Teck's major operations in British Columbia are: Highland Valley Copper, steelmaking coal in the Elk Valley and Trail's zinc operations plus the SunMine solar panel farm in Kimberley. Teck has committed to net-zero emissions by 2050 in its operations.

To learn more about Teck Resources visit: www.teck.com

Canadian Natural Resources

Canadian Natural Resources is one of the largest independent crude oil and natural gas producers in the world. The company has a diversified portfolio of assets in North America, the UK North Sea and offshore Africa. Canadian Natural Resources uses a multi-disciplinary risk management process, which considers climate change risks and opportunities as part of their business evaluation. The company has a GHG reduction program which includes innovation, emissions reduction, and CO2 capture, storage, and utilization.

To learn more about Canadian Natural Resources visit: www.cnrl.com

Suncor

Suncor is a leading Canadian energy company with integrated operations including hydrocarbon production, refineries, retail and renewable energy. Suncor aims to reduce GHG emissions by 30 per cent by 2030 through harnessing technology and innovation and has committed to net-zero by 2050. Suncor publicly declared support for TCFD in 2018.

To learn more about Suncor visit: www.suncor.com

FIXED INCOME

BCI's fixed income program invests in public and private market debt including government and corporate bonds and private credit. As at December 31, 2020, MPP had $25.1 billion in fixed income investments. The fixed income portfolio's energy holdings totaled approximately $648 million at year end 2020.

MPP's Top 25 Fixed Income Investments

Rank	Issuer	% of portfolio	% of fixed income	Total exposure ($M)
1	Canadian Government	3.6	9.7	2,424.5
2	Province of Ontario Canada	2.1	5.6	1,403.4
3	Province of Quebec Canada	1.4	3.7	920.7
4	Canada Housing Trust No 1	0.6	1.6	401.3
5	United States Treasury	0.4	1.0	255.5
6	Royal Bank of Canada	0.3	0.9	214.0
7	Province of Manitoba Canada	0.3	0.8	188.9
8	Province of British Columbia Canada	0.3	0.7	179.3
9	Bell Canada	0.2	0.6	157.0
10	Parkland Corp/Canada	0.2	0.6	144.4
11	TELUS Corp	0.2	0.5	131.3
12	Hydro Quebec	0.2	0.5	126.0
13	Toronto-Dominion Bank/The	0.2	0.5	125.9
14	Bank of Montreal	0.2	0.5	120.6
15	Videotron Ltd	0.2	0.5	115.6
16	T-Mobile USA Inc	0.2	0.5	115.0
17	Level 3 Financing Inc	0.2	0.4	106.6
18	Province of Saskatchewan Canada	0.2	0.4	105.6
19	Canadian Pacific Railway Co	0.1	0.4	97.9
20	CCO Holdings LLC / CCO Holdings Capital Corp	0.1	0.4	94.0
21	Nasdaq Inc	0.1	0.4	92.4
22	Michaels Stores Inc	0.1	0.4	91.5
23	XHR LP	0.1	0.4	91.1
24	Morgan Stanley	0.1	0.4	90.5
25	Walt Disney Co/The	0.1	0.3	81.3

**client specific values are approximate and unaudited*

The Top 10 energy-related fixed income holdings, as at December 31, 2020, are shown in the table below. These investments collectively represented approximately 0.7% of MPP's total portfolio and 1.9% of MPP's fixed income portfolio. Of these holdings, there is only one energy-related holding with a market value over $100 million.

Top 10 Fixed Income Energy Holdings (as at December 1, 2020)

Company	MPP's Investment ($ millions)	% of MPP's Fixed Income Portfolio
Parkland Corp/Canada	144.4	0.6
TransCanada PipeLines Ltd	58.5	0.2
North West Redwater Partnership / NWR Financing Co Ltd	53.7	0.2
Teine Energy Ltd	46.7	0.2
Transocean Phoenix 2 Ltd.	41.6	0.2
Precision Drilling Corp	28.1	0.1
Ontario Power Generation Inc.	26.8	0.1
Cheniere Energy Partners LP	25.2	0.1
Transocean Proteus Ltd.	24.0	0.1
Vermillion Energy Inc.	19.2	0.1

**client specific values are approximate and unaudited*

Featured Fixed Income Investments

Below are descriptions of fossil fuel related companies held in MPP's fixed income portfolio.

Enbridge

Enbridge is a leading energy delivery company with a network of crude oil and natural gas pipelines and storage facilities across North America. It also invests in renewable energy with a growing offshore wind portfolio. Enbridge has a 2030 target to reduce GHG emission intensity from operations by 35% and to achieve net zero emissions by 2050. Their pathway to achieving the goal is through innovation, emissions intensity reductions, investing in renewables and lower carbon energy, and purchase of carbon credits and offsets.

To learn more about Enbridge visit: www.enbridge.com

Parkland

Parkland is a Canadian supplier and marketer of fuel and petroleum products with a network of 1,860 retail gas stations in Canada. Their 19 subsidiary brands operate across North and South America. The Burnaby Refinery was acquired by Parkland in 2017. Parkland intends to measure and report progress on Scope 1 and 2 GHG emissions routinely in future Sustainability Reports, having released their inaugural report in Fall 2020. Climate Change is one of Parkland's 5 Key Strategic ESG Issues for 2019.

To learn more about Parkland visit: www.parkland.ca

Within the fixed income program, sustainable bonds provide clients with further opportunities to generate returns aligned with their investment requirements by financing fixed-income instruments that have positive environmental and social benefits. Sustainable bonds include green, social, sustainable, and sustainability-linked bonds. Green bonds are earmarked to raise capital for new and existing projects with environmental benefits.

BCI has historically subscribed to 26 sustainable bonds, representing $888 million in initial participation in support of 20 issuing entities (as at Dec. 31, 2020). As BCI is actively sourcing new opportunities in this space, continuation of these strategies is expected to lead to $5 billion in cumulative historical participation in sustainable bonds by 2025.

Translink's Green Bond which was issued in 2019 is one example of a green bond BCI is invested in.

Translink Green Bond (2019)

TransLink's Green Bond Program helps finance capital spending with a focus on clean transportation, energy efficiency and conservation, and renewable energy. Capital raised has been used to fund portions of the Millennium Line Evergreen extension, SkyTrain station, and rail network upgrades, new higher-capacity rail cars, new battery electric buses, and more.

To learn more about Translink visit: www.translink.ca

PRIVATE MARKETS

BCI's private market programs include infrastructure and renewable resources, private equity, real estate and real estate debt. Since the 2016 Primer, BCI has increased its focus on private market investments. Direct ownership allows BCI to use its position as a shareholder to influence a company's strategic direction, appoint executive management, and align operations and practices with its expectations and interests. Many of BCI's direct investments also bring governance rights and a board seat that allow BCI to actively manage investments through board representation. At December 31, 2020, MPP had $30.7 billion in private markets assets.

As part of BCI's ESG Framework all direct investments undergo an environmental risk and stakeholder impact assessment and ESG key performance indicators are monitored. When looking at new investments, BCI engages ESG and climate change advisors. Additionally, the ALM review has been customized for private market investments to better reflect the unique geographic and sector exposures of those portfolios.

Private Equity

MPP's Private Equity portfolio was valued at $8.2 billion at December 31, 2020, representing 12.4% of the total portfolio. Of this, approximately only $110 million, or 1.4% of the portfolio would be classified as energy or utilities.

Featured Private Equity Investments

Below is a description for a fossil fuel related company held in MPP's private equity portfolio.

Pilot Freight Services

In 2016, BCI invested in Pilot Freight Services (Pilot), a global third-party logistics provider and freight forwarding business. Based in Pennsylvania, Pilot serves customers through a network of over 75 locations in North America and Western Europe, and 87 international partners. As an active owner and with board representation at Pilot, BCI has helped Pilot consider several ESG-related initiatives including:

- Air and water pollution
- Exploring a carbon credit offset program
- Working on converting forklifts from propane to electricity

In addition, to strengthen their ESG initiative, the company has been researching the feasibility of adding electric vehicles for customer pick-ups and deliveries. While still in early days of electric vehicles being considered as competitive options for commercial deliveries, the initiative positions Pilot as a forward thinker.

To learn more about Pilot Freight Services view: www.pilotdelivers.com

Infrastructure & Renewable Resources

In Infrastructure & Renewable Resources, MPP's portfolio value of $7.8 billion, at December 31, 2020, represented 11.7% of total portfolio assets. Of this, nearly $4.0 billion or 51% of the portfolio would be classified as utilities and renewable power. Less than 1% of MPP's Infrastructure & Renewables market value is exposed to energy. Nearly half of BCI's program is invested in core regulated utilities that are essential to the economies they serve and provide investors with stable, long-term cash distributions. The majority of assets are in electric and gas utilities with limited exposure to oil, gas & consumable fuels. Approximately 25% of the program is invested in Renewable Resources.

Featured Infrastructure Investments

Below are descriptions of fossil fuel related companies held in MPP's infrastructure and renewable resources portfolio.

Open Grid Europe

Open Grid Europe ("OGE") is the largest of Germany's 12 regulated gas transmission service operators, responsible for about 70 per cent of the country's total national shipping volume. The company is committed to maintaining high standards of environmental management, occupational health and safety, and technical safety. BCI is OGE's largest shareholder.

To learn more about Open Grid Europe visit: oge.net/en

Puget Sound Energy

Puget Sound Energy (PSE) is the largest utility in the U.S. state of Washington, serving more than 1.1 million electric and nearly 850,000 natural gas customers in a service area spanning over 15,500 square kilometers. PSE owns and operates three wind farms, making it the Pacific Northwest's largest utility producer of renewable energy. BCI has held an equity interest in Puget Energy since 2009 alongside other institutional investors. In January 2021, PSE announced its target to be a "beyond net-zero carbon" energy company by 2045. As a shareholder and board member, BCI worked closely with PSE throughout 2020 to support this target and participated in the development of climate change policy in Washington State.

To learn more about Puget Sound Energy visit: www.pse.com

PORTFOLIO CARBON FOOTPRINT

In 2020, BCI expanded the methodology of its portfolio carbon footprinting to include private markets alongside most of fixed income and real estate, and public equities. BCI's carbon footprinting now covers all asset classes.

Carbon footprinting is an intensity measure of GHG emissions relative to the percentage of holdings. It is expressed in tonnes of CO2e/$M invested. BCI's total carbon footprint includes direct emissions (all emissions generated by the activities of the organization) and indirect emissions (emissions generated from energy purchased and used by the organization).

BCI is committed to disclosing its carbon footprint annually in line with the Montreal Carbon Pledge, which mobilizes investors to measure, disclose and reduce portfolio carbon footprints. By measuring the carbon footprint annually, BCI can track changes in portfolio emissions, identify areas of climate-related risk and opportunity.

The table below shows the MPP specific carbon foot calculation by asset type:

Asset type	2020 Carbon footprint[1] (CO2e/$M)
Public Equities[2]	138
Fixed Income[3]	71
Real Estate[4]	8
Private Markets[5]	335

1) 2020 metrics have been derived from 2019 emissions data.

2) The public equities footprint has been calculated based on updated carbon and portfolio financial data and includes broader coverage of the portfolio compared to last year. The methodology continues to be refined and additional coverage will be added in future years. The 138 tonnes of CO2e per million invested as at December 31, 2020, is compared to the benchmark[3] intensity of 146 tCO2e/$M invested. The benchmark is a weighted combination of multiple indices selected to measure performance that is appropriate for the portfolio.

3) The fixed income carbon footprint includes public corporate bond exposures but excludes private debt, money market and segregated assets. The carbon footprint of 71 tonnes of CO2e per million invested as at December 31, 2020, is compared to the benchmark intensity of 70 tCO2e/$M invested.

4) QuadReal emissions reflect the location-based domestic real estate emissions rather than the market-based emissions which were reported previously. Renewable energy credits and verified emission reductions were acquired in the portfolio and will be disclosed in QuadReal reporting. The international portfolio emissions are currently excluded from the footprint. Emissions data is estimated based on roughly 80 per cent data completeness. By the fourth quarter, QuadReal will publish final carbon emissions numbers with higher data completeness, quality control and external assurance.

5) Private market footprints are calculated using a combination of estimation methodologies most appropriate for the asset types and data availability. The approach is consistent with the TCFD recommendations and current industry best practices but is limited in accuracy due to data gaps and methodology limitations. BCI is working to improve private market quantification techniques, and we expect that these results will change over time.

Closing Comments on Divestment Resolution

The 2020 resolution calls for "Re-examining Municipal Pension Plan Divestment" in light of globally changing investment and divestment strategies in relation to climate change. The objective of this chapter has been to share a transparent view of MPP's exposure to fossil fuel related investments and how this exposure has changed since the publication of the 2016 Primer.

The data shows the evolution of MPP's portfolio. Since 2015, MPP's portfolio has grown and evolved. The total AUM has grown approximately 53% to $66.427 billion, investment in private market assets has increased, and following the 2018 ALM review - changes to the strategic asset allocation have been completed. As of December 31, 2020, MPP's energy-related investments were approximately 2.2% of the total portfolio. Additionally, as reported in MPP's 2020 TCFD disclosure, the plan has exposure to $1.2 billion in climate-related opportunities. These include exposure to investments such as, green bonds, private market renewable energy assets, and exposure to companies that generate revenue that contribute to the UN's Sustainable Development Goals, as defined by the SDI-AOP classifications.

Importantly, since 2016, inline with increased climate action from global investors, BCI and MPP have also evolved their approach to ESG to advance leading practices and support active in-house management. Today, BCI integrates climate analysis in all investment decision-making, and monitors ESG key performance indicators throughout the life of the investment. This level of analysis allows BCI to understand the current exposure to climate risks in the portfolio, and monitor how the exposure to physical and transition climate change risks change as investment strategies and new investment decisions are considered. It also supports BCI in making more informed investment and policy decisions that will benefit its clients in the long term, as well as limit wealth erosion resulting from all forms of climate risk.

Through pursuing a strategy of 'voice over exit', BCI and MPP are also committed to proactive engagement and policy efforts to advance best practices in the capital markets. BCI advocates for climate action policies that will limit the rise in global average temperatures to below two degrees Celsius and participates in global initiatives on climate risk reporting and transparency. BCI also regularly meets with management teams and board directors to share their views and encourage the adoption of best climate practices, including setting targets. This active approach positions BCI and MPP to not only manage the risks of the transition to a lower carbon economy, but to capitalize on the opportunities the transition creates.

COMMITMENT TO ADVANCING CLIMATE-RELATED DISCLOSURE

The Task Force on Climate-related Financial Disclosures (TCFD) was created by the global Financial Stability Board to develop climate-related disclosures that will lead to a better understanding of the financial system's exposure to climate-related risks following the entry into force of the Paris Agreement in 2016. The recommendations of the Task Force on Climate-Related Financial Disclosure are widely recognized as the global standard for climate change disclosure.

As part of its commitment to climate action, the MPP board is disclosing climate-related financial information for the second consecutive year, building on its inaugural disclosures in the 2019 Annual Report.

In building on the MPP 2019 disclosure, the 2020 disclosure lays out key updates of MPP's actions and those of BCI as they relate to climate change. This disclosure also features relevant updates relating to the integration of climate consideration into BCI's asset management processes. The board is aligned with and supports the efforts of BCI to integrate climate change considerations throughout its investment analysis and stewardship activities.

Although the timing and extent of the effects of climate change are uncertain, the MPP board believes that actions to reduce GHG emissions through investor stewardship, the selection of assets and advocating for appropriate public policies directly and indirectly benefit the plan. The board is committed to understanding the issues, risks and opportunities posed by climate change to support informed investment decision making.

The board is starting by measuring and monitoring MPP investments. The board expects climate-related data to evolve as more information becomes available and MPP reporting will also evolve as better data becomes available. This disclosure is one way the board reports on climate-related risks and opportunities.

Please see the plan website to read the full disclosure at http://www.mpp.pensionsbc.ca/.

Taking Action on Climate Change

Climate change is one of the most significant social and economic risks the world faces today. The 2016 Primer set out a vision for an MPP Climate Action Plan that would change the thinking from "getting out" of investments to investing with a clear, forward looking plan. As an outcome, BCI created and released its Climate Action Plan in 2018. The action plan outlines four activities to manage the effects of climate change across the total portfolio. They are: manage risk, integrate, seek opportunities, and engage and advocate.

With the release of the action plan, BCI began incorporating ESG into the asset liability review process, and conducting climate change scenario analysis to identify macro-economic climate-related opportunities and risks that could impact clients' investment returns. Evaluating the potential impacts from systemic risks like climate change provides a critical lens to ensure investment strategy is informed by a holistic understanding of the most pressing global sustainability risks.

Following the momentum created with the action plan, in 2020 BCI introduced its ESG Strategy, which established a coordinated and consistent approach to ESG integration across the entire portfolio. Today BCI employs a robust ESG framework to identify, analyse and manage the risk and investment opportunities from climate change. BCI's investment strategy and focus on integrating ESG has allowed them to reduce the carbon exposure of the public equity program by 13% in 2020 relative to 2019. By 2025, the continued execution of this strategy is expected to further reduce the carbon exposure of the public equity program by 30%, using 2019 as a baseline.

BCI's action plan also supports proactive engagement and advocacy to encourage best practices in climate-related disclosure and strategy. Through direct engagement with companies, policy submissions and collaborations with likeminded peers, BCI uses its voice to influence change on a global scale.

The action plan and ESG strategy have helped position BCI and MPP to capitalize on investment opportunities from the long-term transition to a low carbon economy, while protecting the portfolio from undue physical and transition risks.

9. PRIMER
SYNTHESIS

The 2016 Primer included the four 2016 conclusions (see side bar). These four points remain valid. The final call for a Climate Action Plan has made huge strides.

1. Trustees are Fiduciaries who must act in the best financial interests of the beneficiaries
2. The governance structure is not conducive to a directive on divestment
3. The investment management structure is not conducive to divestment by a single public sector pension plan
4. An avenue for UBCM members is to support, promote and advocate for continued MPBT and bcIMC action through Responsible Investing; including consideration of Environment, Social and Governance factors and the development by MPBT of a Climate Action Plan for the Municipal Pension Plan

The 2020 Resolution:

EB42 Re-Examining Municipal Pension Plan Divestment Vancouver

Whereas since 2016, when the UBCM report, Primer on Fossil Fuel Divestment and the Municipal Pension Plan noted that “Divestment may compromise our investment strategy, increase risks and costs, and negatively affect our clients’ investment returns”, there have been major shifts in global climate science and investment strategies;

And whereas evidence is growing that fossil fuel-free funds are outperforming fossil fuel investments. The 2019 return on the BC Government Employees Union’s fossil fuel-free investments, for example, was 21.7 percent:

Therefore, be it resolved that UBCM re-examine and update its 2016 Primer on Fossil Fuel Divestment and the Municipal Pension Plan report in light of globally changing investment and divestment strategies and inform BC Investment Management Corporation, as the provider of investment management services for BC’s Municipal Pension Plan, of the concerns regarding the growing financial risks related to investing in fossil fuels and its support for a plan, built on leading practices related to fossil fuel-free investment portfolios, to fully divest Municipal Pension Plan funds from fossil fuels.

The 2021 Primer’s objectives are to update and elevate the background on the MPP, plan governance, service providers, responsible investing and divesting. The content is richer and more evocative of the values of UBCM, MPP, BCI and pension partners. Chapter 8 deals with Fossil Fuels and BCI’s 2021 response is equally rich and a deeper financial reporting.

The Primer’s goal is to provide the information for delegates to evaluate and vote on the Primer [Note delegates are not voting on the resolution. That was done in 2020 and it was endorsed. Delegates will be voting on accepting the policy paper].

UBCM, after consultation with its advisors, is confident that the Primer addresses the matters raised in the resolution and is complete for presentation to the membership.

New and Renewed Opportunities

Renewed Opportunities

1. An outcome of the 2016 Primer was a challenge for BCI to adopt a Climate Action Plan. This plan was in place by 2018. UBCM understands there is a similar opportunity available today starting with a suggestion to BCI to update the Climate Action Plan.

2. UBCM support, promote and advocate for continued MPP board and BCI action through Responsible Investing, including ongoing consideration of Environment, Social and Governance factors.

New Opportunities

3. Boards, including MPP, need to consider if a high carbon emitting company is in their Plan's best financial interests.

   We recommend MPP and BCI accept the challenge to explore how this would be operationalized. We acknowledge this may involve a significant change to the role of the Municipal Pension Board of Trustees and the role of BCI. This will certainly require pioneering work to scope the options, determine a set of implementation parameters, and define new monitoring and reporting requirements. However, UBCM also notes that this model could offer a solution to the impediments identified on points 2 and 3 on the first page of this Chapter. It offers site-specific company solutions. It is an alternative where one-size doesn't fit all situations.

4. There is a commitment by the MPP to explore the "Net Zero" concept and its applicability. Net Zero is a target of completely negating the amount of greenhouse gases produced by reducing emissions, implementing technologies to absorb carbon dioxide before it is released into the atmosphere or off-setting emissions."

   The federal government and the City of Vancouver have already made net-zero-by-2050 commitments, and British Columbia has announced plans to move forward with provincial net-zero-by-2050 legislation.

Recent Net-Zero Announcement By the Cooperators – An Example

We are announcing *net-zero emission targets for both our operations and our investments. This is a reflection of our continued journey to catalyze a more sustainable, resilient and low-emissions society.*

Milestones our journey to net-zero emissions future include:

- *2026: Reduce the emissions of our investments by 20% (public equities and publicly-traded corporate bond portfolios)*
- *2030: Reduce emissions of our operations by 45%*
- *2040: Emissions of our operations will be net-zero*
- *2050: Our investment portfolio will be net-zero*

In addition, by 2030: we will invest 60% of our total invested assets in either impact investments or investments that support the transition to a sustainable, resilient, low-emissions society.

We suggest BCI join with the MPP to explore a Net-Zero commitment.

The Primer earlier introduced the participation of MPP and BCI in Climate Action 100+.

The Climate Action 100+ initiative developed the Net-Zero Company Benchmark. It is designed to clarify specific disclosures and targets for companies and be a useful tool for investors to assess and compare company performance. Disclosure indicators include:

- Net-zero by 2050 ambition
- Targets and goals for GHG emissions reduction in the short, medium, and long term and whether targets align with 1.5 degrees Celsius climate scenario
- Decarbonization strategy
- Capital allocation alignment
- Climate policy engagement
- Governance, including executive remuneration linked to climate targets
- Just transition (impacts on workers and communities)
- TCFD reporting, including scenario analysis

While considering the Net-Zero for MPP and BCI activities the indicators could also be considered to apply to internal organizational performance management of MPP and BCI.

5. Finally, we ask the MPP board and BCI to consider if holding high carbon emitting industries in the portfolio is in the MPP's best financial interests. (see also #3 for similar rational)

In conclusion, we would encourage UBCM members to support these five initiatives:

1) Update the Climate Action Plan.

2) Continued MPP board and BCI action through Responsible Investing, including ongoing consideration of Environment, Social and Governance factors.

3) MPP and BCI consider if holding a high carbon emitting **company** is in MPP's best interests.

4) BCI join with the MPP to explore a Net-Zero commitment and consider applying Net-Zero Indicators to internal organizational performance management of MPP and BCI.

5) MPP and BCI consider if holding a high carbon emitting **industry** is in MPP's best financial interests.