



PRIMER ON FOSSIL FUEL DIVESTMENT

MUNICIPAL PENSION PLAN

August 2016



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Union of BC Municipalities
Suite 60 – 10551 Shellbridge Way
Richmond, BC
V6X 2W9

ubcm@ubcm.ca

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MESSAGE FROM UBCM PRESIDENT

On behalf of the Union of BC Municipalities (UBCM), I am pleased to convey this *Primer on Fossil Fuel Divestment* and the Municipal Pension Plan (MPP).

The Primer has been prepared at the direction of our Executive following the referral of Resolution B120 from the 2015 UBCM 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. The 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.

The Primer begins by highlighting the governance framework for the MPP, and in particular, the fiduciary duty of those responsible for the plan to act in the best financial interests of the plan's beneficiaries. The Trustees of the Municipal Pension Plan Board do not represent the bodies that appointed them and are obliged to maintain an undivided loyalty to plan members as they oversee the policies governing the MPP. Given that 75% of the benefits paid out to retirees is provided by investment earnings, there is a lot at stake for both employees and employers in the event that the MPP fails to achieve target investment returns.

Chapter 8 provides a broad discussion of the practical challenges that limit the efficacy of divestment strategies for pension plans. These challenges may explain why no major Canadian public sector pension plan has made fossil fuel-related divestments and why the BC Municipal Finance Authority has confirmed their existing investment policies in the face of a divestment resolution. As alternatives to divestment, the Primer shares information on the MPP's commitment to Responsible Investment principles (chapter 7) and the potential of a Climate Action Plan (page 29).

I commend the reading of the Primer to all UBCM members to further our shared understanding of the MPP and the service it provides to its 940 employers and 309,000 plan members.

Sincerely,



Al Richmond, 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. Today, nearly 100 years later, the Municipal Pension Plan (MPP) provides a key component in the three potential sources of retirement income: Canada Pension Plan and Old Age Security; a workplace pension; and individual savings.

The municipal 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.

Those 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 employer] so that they 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).

2. PURPOSE OF THIS PRIMER

At the 2015 UBCM Convention, a resolution was presented that recommended that UBCM request a report from the MPP 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. The 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 enrol new hires and remit the employee and employer contributions.

This Primer will explain the 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 – the Synthesis.

3. MUNICIPAL PENSION PLAN IN BRIEF

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

Here are some of the metrics based on the 2015 MPP Annual Report:

- Over 300,000 members (85,000 retired, 188,500 active and 36,000 inactive).
- Local governments are mandated to participate in the MPP.
- 188,500 active members from many sectors including municipal [37,270 (19%)], health, non-teaching school and college workers, community social services and dozens of small organizations like the Municipal Finance Authority, Municipal Insurance Association and UBCM itself.
- A very large multi-employer pension plan with 940 employers (27% municipal).
- Employers and employees contribute to the pension fund; once the contributions are deposited in the fund they all become the beneficiaries’ assets.
- \$1,856 million annual contributions of members and employers (\$272 million from municipal employers).
- \$1,414 million in pensions paid in 2015.
- Assets have grown to over \$43 billion in 2015.



4. PLAN

GOVERNANCE

In 1999, there was a major change that transformed the governance of the four public sector pension plans in BC and set the stage for a unique structure. *The Public Sector Pensions Plan Act* provided for employers and employees to take responsibility for their plans and share the risks, rewards and governance. The *Act* allowed the development of Joint Trust Agreements. In April 2001, a Joint Trust Agreement (JTA) was signed by the provincial government, UBCM, Health Employers Association of BC and the Municipal Employees Pension Committee.

Other important parts of the legal and legislative framework include the *Pension Benefit Standards Act* and other BC legislation (e.g. *Family Law Act*); federal legislation including federal oversight role of the Canada Revenue Agency; and very importantly, the common law.

The Joint Trust Agreement includes:

- appointment of Trustees;
- powers, function and duties of the Board;
- plan administration and investment responsibilities;
- trustees' fiduciary responsibilities; and
- board operations which include customized voting and quorum rules that require several conditions to be met. For example, UBCM must be present to constitute a quorum and have one of its trustees support a motion for it to pass.

MUNICIPAL PENSION BOARD OF TRUSTEES

The MPBT Board has 16 primary and 16 alternate trustees appointed by the following groups:

Employer Appointing Authorities

- Government (2)
- Union of BC Municipalities (2)
- Health Employers' Association of BC (2)
- BC Public School Employers' Association (1)
- Plan Employer Partner (1 "excluded" member)

Member Appointing Authorities

- British Columbia Police Association & BC Professional Fire Fighters' Association (1)
- BC Nurses' Union (1)
- Hospital Employee's Union (1)
- Health Sciences Association of BC (1)
- Canadian Union of Public Employees, BC Division (1)
- Council of Joint Organizations and Unions (1)
- Plan Member Partner (2, including 1 retiree)

Trusteeship moved in 2001 from a sole government appointed trustee to trustees jointly appointed by the plan partners and key stakeholders. The Municipal Pension Board of Trustees [MPBT] is the Plan Administrator. The Board's roles and responsibilities include:

- investing and managing pension funds prudently and in the best financial interests of Plan members and beneficiaries;
- monitoring performance of the direct 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 joint trust agreement 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”).

The Board has a robust policy framework. Of particular interest to this Primer are the policies regarding investments:

- Funding Policy; and
- Statement of Investment Policies and Procedures (SIPP).

The MPBT believes that the purpose of investing is to build on member and employer contributions to ensure there is enough money to pay current and future pensions.



The key investment decision of the Board, after extensive due diligence and modeling, is the SIPP which sets out the allocations of funds to different asset classes (Table 1). The SIPP is then, the most significant factor in determining investment returns. The SIPP includes a statement of investment beliefs and performance objectives as the context for the asset allocations. The Board sets a target percentage allocation for each asset class and a policy range for the investment manager. The objective is to achieve the target rate of return, currently 6.75%, without undue risk, over the long term.

The SIPP then is largely the extent to which the MPBT is involved in investment decisions – it sets the policy and the expectations. It is important to understand that the Board does not make actual “buy or sell” decisions. Its role after setting the policy changes to on-going monitoring of the investment manager.

The roles and responsibilities are important but the relationship between MPBT and BC Investment Management Corporation (bcIMC) is equally important and is reflected in reporting and performance monitoring; collaboration on communication; and partnerships on responsible investing – covered in chapter 7.

In conclusion, the MPBT sets investment policy and directions. It has a number of service providers that execute their directions. These are explained briefly in the next section.

MPP INVESTMENT COMMITTEE

Briefly, the Committee’s over 20 specific responsibilities include:

1. Quarterly review of British Columbia Investment Management Corporation’s activities and investment performance.
2. Review the SIPP and recommend amendments.
3. Monitor the implementation of investment policies and goals.
4. Co-ordinate periodic asset allocation studies with reference to the actuarial valuation as a basis for investment policy.
5. Fulfill the Board’s responsibilities as a signatory to the Principles for Responsible Investment (PRI).
6. Recommend an independent investment consultant(s) to assist in considering and deciding investment policy matters.

TABLE 1: SIPP INVESTMENT ASSET CLASSES, ASSET MIX AND POLICY RANGE

Asset Class	Policy Range		Policy Asset Mix %
	Minimum %	Maximum %	
Short Term	0	10	2
Mortgages	0	11	6
Nominal Bonds	5	20	12
Real Return Bonds	0	10	5
Fixed Income	15	35	25
Canadian Equities	6	20	13
Global Equities	10	35	17
Emerging Markets Equities	3	15	10
Public Equity	30	60	40
Real Estate	10	25	18
Real Estate	10	25	18
Private Placements	1	13	7
Infrastructure & Renewable Resources	2	16	10
Private Markets	5	24	17
Other	0	5	0

KEY POINTS

- Any changes to the Joint Trustee Agreement needs the agreement of all plan partners.
- 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.
- There is a robust policy framework regarding investment including a dedicated Board committee.
- MPBT takes a long-term view to managing the Plan.



5. SERVICE PROVIDERS

A principle underlying the 1999 pension governance legislative transformation was that there are economies of scale for the 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.**
- **British Columbia Investment Management Corporation (bcIMC).**

The MPBT uses a number of other service providers (legal, actuarial, external audit and group benefit provider) that are not central to this Primer other than to highlight that the Plan's actuary has certain interactions with bcIMC on forecasting assumptions for investment returns over the long-term.

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 Municipal Board appoints two directors to the Pension Corporation board.

The key service provider in the context of this Primer is **bcIMC**. With \$121.9 billion of managed net assets, the British Columbia Investment Management Corporation (bcIMC) is one of Canada's largest institutional investors within the global capital markets. Based in Victoria, bcIMC is a long-term institutional investor that invests in all major asset classes including infrastructure and other strategic investments. bcIMC's 34 institutional clients include several public sector pension plans.

bcIMC provides investment management services to BC's public sector. Their mandate is to invest the funds not currently required by clients to pay pensions. As their investment manager, bcIMC is responsible for growing long-term client wealth while also protecting the value of their funds.

Investment activities help to finance the retirement benefits of more than 538,000 pension plan members including 309,000 MPP members.

bcIMC was established in 1999 under the *Public Sector Pension Plans Act* and began operations in 2000 to provide investment services to British Columbia's public sector. Its clients are not mandated to use bcIMC services and have voluntarily chosen bcIMC as their investment manager.

bcIMC invests on behalf of 11 public sector pension plans, of which MPP is the largest. Since its inception, MPP has been a client of bcIMC. MPP appoints one director to the seven-member bcIMC Board.

The *Act* defines bcIMC's chief investment officer as the chief executive officer with responsibility for day-to-day operations. The CEO/CIO is accountable to the bcIMC Board for the efficiency and effectiveness of the corporation in carrying out its mandate. The CEO/CIO is also accountable to each client, including MPP, regarding its investment policy, and performance and SIPP compliance.

The MPP's Fund is managed by bcIMC and other investment management firms contracted through bcIMC. In all cases, bcIMC and other investment managers shall comply with the MPBT's SIPP Statement, their internal policies, as well as the relevant laws and regulations governing pension fund management in the respective jurisdiction.

The MPBT is legally responsible for the management of the Fund and the establishment of the investment policies. 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

- MPBT uses service providers rather than its own staff to support virtually all of its activities [MPBT has one staff member].
- MPBT has one seat on bcIMC board and that director has his or her own duty to the bcIMC (not to MPBT).
- bcIMC, a large institutional investor of public sector funds, provides investment services to the MPBT.
- The bcIMC CEO/CIO is accountable to the MBPT for investing its funds and is required to report on overall performance and in relation to approved benchmarks.



6. THE IMPORTANCE OF INVESTMENTS

Investment earnings make-up 75% of the value of a member's pension. Employees and employers make contributions to the MPP each pay period and these go into the pension fund and are invested. Investment returns accumulate in the fund and contribute about 75% of the cost of pensions. The remaining 25% of the cost of pensions is funded by employee and employer contributions.

Member's Pension

75% Investment Earnings

12.5% Employee

12.5% Employer

If investment returns are not sufficient to fund pensions then employee and employer contribution must increase rates to make up the balance; so there is a real incentive to have good investment performance.

The Board identifies the investment asset mix which is the largest determinate of returns. The asset mix sets the balance between the expected returns and the risk the Board will assume in its investment strategies. The investment manager makes additional tactical calls that can add value.

Investment opportunities and management took a major shift in the early 1990s when the MPP assets were diversified from simply short or long term bonds and government money market investments into public equities. Today, the MPP portfolio has even more diversified assets with investments such as infrastructure and real estate located in regions around the world (Table 2).

The MPP was established in 2001 after a decade of good investment returns. Shortly after its inception the Plan experienced the "Tech Bubble" bursting in 2003/4 and the "Great Recession" of 2008/9.

The target investment return is 6.75%. Despite periods of volatility, recent performance in this decade has been good with investment returns of:

2010: 9.8%

2011: 3.3%

2012: 10.3%

2013: 15.1%

2014: 11.3%

2015: 8.7%

The most recent five-year annualized return: 9.7%.

TABLE 2: INVESTMENT HOLDINGS (2015) (\$ BILLIONS)

Holding	Value	Percentage
Global equities	\$12.4	29%
Real estate	\$6.1	14%
Canadian equities	\$4.8	11%
Bonds	\$4.7	11%
Emerging markets	\$4.1	9%
Short-term	\$3.0	7%
Infrastructure and renewable resources	\$2.8	6%
Private placements	\$2.6	6%
Real return bonds	\$1.3	3%
Mortgages	\$1.1	3%
"All weather fund"	\$0.6	1%
Total	\$43.5	100%

Every three years the MPBT must undertake an actuarial valuation and report on the financial health of the Plan. As a result of unfunded liabilities, contribution rates were increased for employees and employers after 2003, 2009 and 2012 valuations. The trustees expect the actuarial valuation as of the end of 2015 will show a surplus and that the Plan is 100% "fully funded."

In summary, investments are extremely important to the Plan. In its short history, the MPBT has seen some challenging and some rewarding

times, and has adjusted its investment holding profile as a response. The next section speaks to the role of our Investment Manager.

Investment Management

This is how bcIMC describes its investment mandate:



Our primary mandate is to create long-term client wealth and protect the value of the clients' funds. The majority of the funds we manage belong to pension plans. As pension funds have long-term obligations and seek a specified rate of return to fund these obligations, bcIMC is required to invest clients' funds to generate the expected returns.

We invest in line with our clients' investment frameworks and policies, as well as applicable legislation and regulations ... We focus on understanding our clients' different needs. This includes learning about their risk and return objectives, liability profile and liquidity needs, and their investment horizon. bcIMC assists with developing strategies that take into account our clients' investment objective, risk appetite, and investment beliefs.



bcIMC'S Performance Reviews

Performance reviews are a regular part of Investment Committee and Board meetings. As a long-term investor MPP gives more weight to the 5, 10 and 25-year performance rather than 1-year results. Investment returns from bcIMC are measured against widely used market benchmarks. In 8 of the last 10 years, the Plan's returns earned by bcIMC have exceeded the market benchmarks. In 2015, the Plan achieved a return of 8.7% against the market benchmark of 7.0%.

POOLED FUNDS

bcIMC holds all assets in trust; clients do not own the individual assets within bcIMC's investment portfolios. The pooled funds in which the MPBT has agreed to participate are listed in the SIPP (available on the MPP website).

Pooled investment portfolios are similar to mutual funds. Participating clients combine their investment dollars and purchase (sell) pooled portfolio units, rather than individual securities. Pooled portfolios reduce costs through the purchase of larger blocks of securities, lower administrative expenses, and cost effective management of cash flows. In addition, pooled investment portfolios provide bcIMC's clients with increased diversification benefits and liquidity. They also ensure that the clients are treated fairly and share in the best investment opportunities.

KEY POINTS

- Investment income contributes the largest share of each pension dollar paid (and so actions that risk investing returns will directly effect how much employees and employers must contribute).
- MPBT establishes the target rate of return and the asset allocations.
- MPBT doesn't select stocks or any other specific investments.
- MPBT does not own individual securities directly like publicly-traded stocks - it owns units in pooled funds. It does not tell bcIMC or its contracted managers to buy or sell particular securities.
- bcIMC may have passively managed or "indexed funds" that include all equities in that universe (e.g. Canadian equities) and these are not screened out for particular stocks.
- bcIMC may have external managers for a particular fund that make their own calls on which assets to hold and are measured on their performance for their buy/sell "calls."
- It's a complex structure - but complexity is weighed against the higher cost of alternative asset management structures.

7. RESPONSIBLE INVESTING

Responsible investing is a shared belief between bcIMC and MPBT.

As outlined in MPP's SIPP, the Board believes "companies that take environmental, social and governance (ESG) matters into account have less risk and generate long-term value for investors compared to companies with less robust practices". The SIPP continues: "responsible investing approach is to be conducted within the framework of fiduciary responsibility. It shall therefore be implemented in a manner which does not interfere with the efficient investment of the Fund's assets to achieve investment return objectives, which are in the best financial interests of the Plan's current and future beneficiaries."

bcIMC RESPONSIBLE INVESTING AND CLIMATE CHANGE

In preparing this Primer, bcIMC was asked to provide their perspectives on a number of their responsibilities as the MPP's Investment agent. These included their progress as a Responsible Investor. Their complete response on Responsible Investment is reproduced in Appendix A. Some of the important aspects are highlighted below.

Definition of Responsible Investment

"Considering environmental, social and governance factors when selecting and managing investments, allows bcIMC to manage long-term investment risk with the view of protecting and enhancing the financial value of our investments. Responsible investing also includes contributing to initiatives that enhance the stability and integrity of global capital markets."

Beliefs

"Responsible investing is an integral part of the investment beliefs shared by bcIMC and our clients. We believe that companies that take environment, social and governance (ESG) matters into account have less investment risk and generate better long-term value than do companies with less robust practices."

Climate Change and Public Equities

"As the oil and gas sector comprises a significant portion of the domestic and global economy, climate change is one of the Public Equities department's top shareholder engagement priorities. For example, the energy sector makes up approximately 20 per cent of Toronto Stock

Exchange's main benchmark index. We believe climate change is now widely predicted to have large-scale economic impacts, both directly through flooding, drought, and other extreme weather events, and indirectly through regulatory measures to limit greenhouse gas emissions and promote low carbon technologies.

Our engagement focus is driven by the management of investment risks and we pursue activities that are expected to have the greatest impact. We engage with heavy CO2 emitting companies, regulators and industry associations, as well as focus on reporting and disclosure, emissions reduction, resource efficiency and regulatory preparation."

Climate Change and Collaboration

Recent policy submissions include:

- bclMC Joins Global Investor Group Calling G7 Finance Ministers to Support Global Emissions Reduction Goal.
- bclMC Joins Pension Funds Calling For Incentives to Invest In Climate-Resilient Infrastructure Assets.
- bclMC Joins More Than 340 Investors in Calling for Strong Climate Change Policies.

Since the early 1990s, bclMC has been actively interacting with companies, industries, regulators and policymakers on the topic of climate change. For more examples, see pages 32-35.

MPBT AND RESPONSIBLE INVESTING & ADVOCACY

MPBT doesn't leave it to bclMC alone to be accountable for responsible investing. MPBT has supported responsible investing since it became responsible for the assets in 2001. With respect to shareholder engagement, the Board has delegated its voting rights to bclMC and instructs bclMC to act in the best financial interests of the Fund.

In addition to proxy voting, the Board expects bclMC to use shareholder engagement to encourage companies to focus on long-term value creation by effectively managing ESG risks that may emerge over time and materially affect the valuation of the company and/or the asset.

MPBT has also become a vocal advocate for defined benefit pension plans and the benefits these plans provide both in terms of larger capital pools for investment in the Canadian economy and the significant contributions of retirees and the companies MPP invests in local economies throughout BC.

MPP'S RECENT ACTIVITIES

RESPONSIBLE INVESTING

1. The MPP was one of the early adopters of the six principles of the United Nations Principles for Responsible Investing [UNPRI]. The MPP reports annually to UNPRI on its progress and UNPRI provides MPP a response to MPP's progress towards the principles.

In the most recent 2014 survey conducted by UNPRI, it compared the Plan's progress in implementing responsible investing principles to some peer groups, both Canadian and international. Regardless of the peer group used, the MPP ranked well overall and outperformed in almost all parts of the survey. To learn more about the MPP's survey submission, read the MPP's 2013/2014 Responsible Investing Transparency Report.

2. MPP is actively involved with like-minded organizations and recently was the co-lead in founding a Western North America local signatory network of UNPRI and hosting its inaugural meeting in Vancouver.

3. Implementation of Responsible Investment and ESG is built into each of the asset class reviews with bcIMC. Asset class Executives and their staff do at least one in-depth review annually on the asset class and ESG is part of the required reporting to MPP.

A few other recent MPBT activities include: i) signing a joint investor statement calling for credit rating agencies to incorporate ESG into their credit analysis in a more systematic and transparent way; ii) signing an investor letter to the Chartered Finance Analysts Society; asking them to increase the depth of ESG-related content in CFA Programs; and iii) reviewing bcIMC's proxy voting guidelines and priorities for corporate engagement.

KEY POINTS

- Responsible Investment is a shared belief of MPP and bcIMC.
- Both were early adopters of United Nations Principles on Responsible Investment and are active participants.
- Reporting on responsible investing is an MPP expectation of bcIMC.



8. DIVESTMENT

The MPBT and bcIMC are long-term investors. Investments may be sold when deemed appropriate. However, investment (buying) and divestment (selling) is a normal process that occurs every working day for a large plan like the MPP. Divestment in this context takes place by the investment managers within the framework of the Board's approved SIPP.

"Divestment" 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 criteria". Some commentators have used the term "disinvestment" to distinguish this activity.

At the outset, the purpose of the Primer was to provide information related to a resolution received by UBCM in 2015. It read:



*Therefore be it resolved that UBCM request a report from the Municipal Pension Plan detailing the percentage and dollar amount of investments currently held in **fossil fuel-related companies or investment products**, and the anticipated effects from implementing a plan to divest those assets over the next five, ten, and fifteen years. [emphasis added]*



This chapter deals with:

- 1 The existing policy framework for divestment.
- 2 An overview of divestment activity in Canada.
- 3 Challenges of defining divestment scope.
- 4 MPP investments in Fossil Fuels.
- 5 Climate Action Plans.

THE EXISTING POLICY FRAMEWORK FOR DIVESTMENT

bcIMC's views on divestment

“ bcIMC acknowledges that people will have different opinions and conflicting views on the companies we own, including our responsible investing activities. Our mandate requires that we maintain our fiduciary responsibility while considering ESG factors throughout the investment management process; it does not permit us to select or exclude investments based solely on ESG or values-based considerations.

bcIMC does not believe divestment is an effective strategy for addressing long-term and persistent ESG risks. Ownership gives an investor the right to raise concerns and influence a company on matters relating to corporate governance, as well as environmental and social (ESG) practices.

You can't change a company you don't own. Therefore, bcIMC believes the effectiveness of share ownership lies not in divesting or avoiding companies with poor ESG practices, but by raising awareness that the effective management of ESG risks contributes to creating long-term financial value.

Engagement is bcIMC's preference. In bcIMC's view:

- *Divestment eliminates our rights as a shareholder to engage with management and raise awareness of long-term risks and encourage change of practices.*
- *Divestment does not encourage companies to amend their policies and practices.*
- *Divestment may compromise our investment strategy, increase risks and costs, and negatively affect our clients' investment returns.*

Engagement may occur at a comprehensive level. As per UNPRI's definition, we define this level of engagement as multiple, substantive, detailed discussions or interactions with a company that may over a longer time-span than one year. All other activities that do not exhibit this level of engagement are classified as basic.



The MPBT also believes: that engagement is a more effective tool to initiate change and influence corporate practices than divesting. Each year, the MPP reviews bcIMC's proxy voting guidelines and priorities for corporate engagement.

DIVESTMENT ACTIVITY IN CANADA

Advocacy seeking divestment from fossil fuel has resulted in pledges by some organizations to divest. These pledges appear to have been made by smaller investors (most of which are not pension funds) and associated with social purpose groups. A non-profit organization that has a few million dollars in investments could easily do a scan of their public equities and make a divestment decision. Contrast that with the bcIMC with thousands of equity investments.

Most of the public divestment discussion in Canada appears to have begun on college and university campuses and is linked to the advocacy group “350.org”.

The following universities have chosen not to divest after reviewing the arguments in favour and contrary: from B.C.: University of British Columbia, University of Victoria and Simon Fraser University Foundation; and elsewhere – University of Toronto, Queen’s University, McGill University and University of Ottawa. Two of Canada’s largest pension plans have publicly rejected divestment: Ontario Teachers’ Pension Plan and Canada Pension Plan Investment Board. No major Canadian public sector pension plan has divested.

Very recently, the BC Municipal Finance Authority has confirmed their existing policies in response to a request to divest from fossil fuel investments.

THE CHALLENGE OF DEFINING THE SCOPE OF FOSSIL FUELS AND RELATED COMPANIES

A central question is what is: the definition of “fossil fuels and related companies”? It may seem like a simple question but the interpretation of “related” companies must be clearly understood. A narrow interpretation will have a smaller divestment impact than a broader interpretation.

The charts on the following page show some of the dimensions for the definition of fossil fuel related companies. It was developed for the purpose of this Primer based on researching relevant material and is illustrative of fossil fuel related companies, but is certainly not definitive of the extent and variety of related supply or demands.

The first chart lists core fossil fuels (coal, oil and natural gas) industrial activities according to the Global Industrial Classification Standard for energy investments.

The second diagram extends the “related” companies along the two axes. The horizontal axis shows “value added” uses of fossil fuel while the vertical extends from extractions to final consumption. This diagram also adds a “heat map” of possible core (red), closely related (purple) and somewhat more related (yellow). The question is which of these activities are “fossil fuel-related investments”?

	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

*and combustibles. Source: Global Industry Classification Standard

	Core Fossil Fuels			Core +1 related company	Core +2 related	Core +3 related	Core +4 related
Intensity (Vertical)	Energy investment sector			Derivative fossil fuels	Petro Chemicals producers	Plastics Industry producers	Other** Products and users
	coal*	oil	gas	kerosene propane			
exploration	x	x	x				
drilling		x	x				
equipment/services	x	x	x				
production	x	x	x	x	x	x	x
refining/marketing	x	x	x	x	x	x	x
storage/transport	x	x	x	x	x	x	x
research & development		x	x		x	x	x
wholesaling		x	x	x	x	x	x
retailing		x	x	x	x	x	x

**Other uses that have significant fossil fuels consumption in the production or operation such as on the supply-side: pharmaceuticals, fertilizers and pesticides, or on the demand-side, fossil fuels used in the transportation sector.



MPP INVESTMENTS IN THE ENERGY SECTOR OF FOSSIL FUELS

The resolution asked for “percentage and dollar amount of investments currently held in fossil fuel-related companies or investment products.”

This section responds to the question above but importantly goes beyond that in providing more breadth of information on the investment sectors involved. The items to be covered are:

1. All MPP energy investments;
2. The top 25 MPP investments and four energy companies; and
3. Energy exposure in other investment sectors.

Accompanying these disclosures are some side-bar commentary on possible divestment consequences or corporate profiles.

1. ALL MPP ENERGY INVESTMENTS

“Energy” is a sector that is used in Canadian, Global and Emerging markets. “Fossil Fuel-related companies” is not a term that has a common definition.

MPP is invested in Canadian energy public equity investments, and in global and emerging markets energy companies. These investments are represented in the portion of the chart shown in red on page 22. Taken together, in the last six-year period, as at the end of the calendar year, these ranged from 3.75% to 7.30% of total plan investments. The Canadian portion was just over half of the total exposure. As points of reference the MPP has in its diversified portfolio:

- 3.3% of total assets in the Indexed Global ESG Equity Fund.
- 2.5% of assets in five Canadian banks.

These reference points may be more meaningful than the Canadian dollar point in time value as a reference to understand the exposure relative to other investments.

DIVESTING FROM CANADIAN PUBLIC ENERGY SECTOR

MPP invests in Canadian Equities with a 13% target allocation of its funds (currently around \$5 billion).

bclMC and the MPP are long-term investors and invest in companies and sectors that generate reliable returns. This includes investing in the oil and gas industry – a significant part of the Canadian and global economy. For example, in Canada, oil and gas represents roughly 20% (as of April 2016) of the Toronto Stock Exchange’s main benchmark index. If this were divested where would the money go? If the allocation to Canadian equities was maintained (and not redirected to global equities) it would go to other Canadian equity sectors. The Financial sector is the largest sector with about 36% of the Canadian equities and this sector would see the largest reallocation. Since this sector is heavily involved in financing energy companies the indirect investment in the energy sector would continue, diminishing the divestment objective.

2. THE TOP 25 MPP INVESTMENTS INCLUDING FOUR ENERGY COMPANIES

The MPP published in its Annual Report its top 25 Company Holdings. The holdings as at December 31, 2015 contain four companies that might be considered “energy” and represented 1.1% of the total portfolio at that time.

Rank	Company	% of portfolio	% of public equities	total exposure (million)
7	Suncor Energy Inc.	.4	.8	\$ 171
19	Enbridge Inc.	.3	.5	\$ 115
21	Exxon Mobil	.2	.5	\$ 103
22	Canadian Natural Resources Ltd.	.2	.5	\$ 101
	Total	1.1	2.3	\$ 490
	Total Public Equities			\$21,276
	Total Investment Portfolio			\$43,540

DIVESTING CONSEQUENCES – ENBRIDGE & SUNCOR AS EXAMPLES

Enbridge is at 19th spot. Do we divest because it's an energy (fossil fuel) stock?

Enbridge is known as a pipeline company. Its recent commitment to “alternatives” is lesser known. It has invested \$5 billion in renewable energy including 19 wind farms, five waste heat recovery facilities, four solar energy operations, a geothermal project and hydroelectric facilities. In this case the divestment in Enbridge would have the unintended consequence of divesting renewable energy sources.

Suncor is at 7th place.

It has a similar story with wind power investments as a foundation of their climate action plan. It is an extraction, refining and retail (Petro Canada) company based on oil, natural gas, wind energy and ethanol.

3. ENERGY EXPOSURE IN OTHER INVESTMENT SECTORS

bcIMC publishes an annual Investment Inventory List. The Primer draws on the March 31, 2015 list for some examples and contains some comments on the energy sector from an asset owner perspective. In considering divestment it is also important to know the stories behind the companies and some profiles are included from the following Fixed Income, Public Equities and Private Markets investment sectors.



FIXED INCOME

The March 2015 bcIMC Investment Inventory List includes global government bonds and investment grade corporate securities that are 21.5% of the managed assets. This example group is \$1.4 billion of assets.

Company	Investment
AltaGas Ltd.	\$37.9 million
Fortis (BC Gas and Terasen)	\$157.7
Husky Energy	\$96.6
Union Gas Ltd.	\$113.3
Nova Gas Transmission	\$45.6
TransCanada Pipelines	\$148.9
BHP Billiton	\$62.4
Canadian Natural Resources	\$15.5
Enbridge	\$347.0
Inter Pipeline	\$297.3
Westcoast Energy (Spectra)	\$130.2

This figure represents the total bcIMC holdings of which only a portion may be held for MPP.

TWO FIXED INCOME INVESTMENTS

Union Gas

Union Gas Limited is a major Canadian natural gas storage, transmission and distribution company based in Ontario. The distribution business serves about 1.4 million residential, commercial and industrial customers in more than 400 communities across northern, southwestern and eastern Ontario. Union Gas's storage and transmission business offers a variety of storage and transportation services to customers at the Dawn Hub, the largest integrated underground storage facility in Canada and one of the largest in North America.

Spectra

The story in BC begins in 1949 with a natural gas processing plant in Taylor and a 1,046 km pipeline that made possible the natural gas industry in BC. Spectra is the largest cross-border player in the natural gas sector and the largest natural gas liquids producer in North America. It has expanded its operations in BC and expanded coverage to Vancouver Island in 1999 and in 2012 opened a new plant in Dawson Creek. It has been recognized for its sustainability and other corporate governance practices.

PUBLIC EQUITIES

This is the largest portfolio (49.5%) and contains thousands of publicly traded companies in Canada and around the world. The bcIMC Investment Inventory List includes many energy related companies. Those that should be familiar to a BC audience include those in the chart to the left.

Company	Investment
Suncor	\$481.4 million
Enbridge	\$436.5
Canadian Natural Resources	\$359.4
TransCanada Pipelines	\$300.4
Exxon Mobil	\$240.5
Royal Dutch	\$190.6
BHP Billiton	\$185.8
Chevron	\$141.8
Cenovus	\$104.6

In a portfolio of over \$122 billion, an investment of over \$100 million contains 9 energy firms. There are also a few more just below this threshold:

Company	Investment
BP	\$80.5 million
Pembina	\$80.3
Encana	\$91.1

These 12 companies represent \$2,699.2 million of the equities portfolio. The bulk of the other energy companies are in the under \$10 million invested category.

THREE PUBLIC EQUITY COMPANIES

Fortis

Supplies energy to more than 1.1 million BC customers – electricity, natural gas and propane. Fortis has established relationships with 136 communities and local governments in many parts of BC and has over 2,600 employees.

Westshore Terminals

Canada's busiest coal export terminal, handling more than 33 million tonnes of coal annually and providing billions in dollars of export revenue for Canada and British Columbia.

Teck Resources

Teck is a diversified resource company with business units focused on copper, steelmaking coal, zinc and energy. Headquartered in Vancouver, Teck owns or has an interest in 13 mines in 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.



PRIVATE MARKETS

These are investments in infrastructure, renewable resources, private companies and private equity funds. It's a growing part of the portfolio (now 10.8%) where bcIMC is responding to MPP and other client demands for assets that they own to harvest higher returns by investing in less liquid and longer term assets. These include Investment Funds and Direct Holdings.

There are over 200 funds and Direct Holdings. Some explicitly reference "energy" (see examples on this page). There are a number of Direct Holdings (see sidebar on page 28) where the assets owned include water infrastructure, electrical transmission, forest timberlands, and three energy related companies.

CLOSING COMMENTS ON THE DIVESTMENT RESOLUTION

The resolution called for a measure of the extent of current fossil fuel investments. The Primer provides a percentage measure of 3.75% to 7.30% of total plan assets over the past six years for the energy sector. This shows the variation that isn't evident in a point in time measure.

In the interest of fuller disclosure the Primer also provides more specific information on investment sector assets and some examples of companies. These show how learning about companies and the scope of their business is useful knowledge. This is the type of knowledge, and more, that is gained through Responsible Investment engagement on the ESG activities of individual companies

INVESTMENT FUNDS

Arclight Energy Partners

The firm prefers to invest in power generation; production; midstream; electric transmission; and distribution. In the power generation sector, it invests in power plants and related assets including natural gas, oil, coal, hydro, wind, solar, biomass, geothermal, and other renewable sources of energy. For production sector investments, the firm invests in extraction and production of onshore oil; natural gas; coal; natural gas liquids, and related products. Within the midstream sector, it focuses on gathering; processing; storage, terminals, and transportation of oil; natural gas; coal; pipeline; and related products. In the transmission sector, the firm invests in interstate and intrastate gas and electric transportation systems. Within the distribution sector, it invests in electric and gas distribution companies and related businesses. The firm primarily invests in companies based in North America, Western Europe, Australia, and New Zealand.

Kern Energy Partners Fund

Calgary based, the company specializes in investments in middle market and emerging companies. The fund typically invests in non-conventional oil and gas and energy infrastructure development.

– knowledge that is not part of blanket divestments.

The resolution also asked for reports on impacts of plans to divest at 5, 10, and 15-year intervals. Again the lack of a firm definition of fossil fuel-related companies would need to be overcome before embarking on this work. So would determining other details triggering divestment.

There may also be an assumption in the resolution that the MPBT would undertake this report if the request is made. Based on previous experience the MPBT would likely only become involved in such work if the Trustees were supportive of using pension funds for this purpose. MPBT would have to seek bcIMC's assistance to conduct any further research. There would be considerable cost incurred if the request for reports on 5, 10 and 15-year divestment implementation were pursued.

The featured section on the next page suggests a timely alternative direction for joint follow-up action through a climate action plan.

DIRECT HOLDINGS

Open Grid Europe GMBH

As the operator of the longest regulated supra-regional natural gas transmission network in Germany, OGE is responsible for about 70% of the country's total national shipping volume. With assets that include 27 compressor stations and 12,000 kilometres of pipeline, OGE serves 450 national and international customers. OGE transports natural gas from Russia and Northern/Western Europe to customers throughout Europe. It is a core asset and an integral part of the European economy. Maintaining high standards of environmental management, occupational health and safety, and technical safety are key priorities. bcIMC is OGE's largest shareholder.

Puget Power

An energy generator serving the US Puget Sound region, it is wholly owned by bcIMC [and others] on behalf of MPP and other pension funds. Generates hydro and wind energy. Distributes gas and electricity. Puget Power has a "coal energy play" presently in the mix.

Dalrymple Bay Coal Terminal

Dalrymple Bay is part of one of the largest coal exporting ports in the world. The terminal operates around the clock exporting thermal and metallurgical coal from Central Queensland's Bowen Basin mines to ports around the world. It is a private placement between bcIMC and other investors. The company recently invested in \$60 million in environment upgrades.



TOWARDS CLIMATE ACTION PLAN FOR MPP A ROBUST ALTERNATIVE TO DIVESTMENT PLANS

The role of the Primer has been to provide information on the MPP to assist UBCM members in understanding a plan to divest assets. The following information offers an alternative avenue for consideration.

A recent discussion paper commissioned by BC-based SHARE (Shareholder Association for Research and Education) argues that recognition of, and planning for, climate change is not only compatible with a Trustee's fiduciary duty but can't be ignored (Koskie Minsky, 2015). At the very least, the duty is consistent with taking into account ESG factors in setting investment policy and making investment decisions – something that Ontario pension plans are now required to report on.

Climate Action planning is well established in BC local governments. These plans are more than just a reaction to a single action.

A MPP Climate Action Plan might consider not only the causes of climate change but the impact of climate change on current investments – for instance water utilities and farmland; and the consequences such as sea-level change and intense storms. A plan would look at global as well as local, regional and national impacts. The Plan would look at “opportunities for investments” – where are the new farmlands, sustainable water sources, renewable resource and infrastructure investment opportunities?

Perhaps a unique feature would be to tie to the national and provincial government commitments that relate to trans-national UN commitments as the framework for planning and investment strategies. A MPP action plan would be tied to MPP's risk profile and strategic planning.

A “Climate Action Plan” changes the thinking from just “getting out” of investments to investing with a clear, forward looking plan. Success is measured not on how much we have divested but how much we have pro-actively managed the challenges and opportunities to make meaningful investments. As long-term investors, the MPP is aligned with sustainability.

9. PRIMER

SYNTHESIS

The Primer began by setting out that the MPP imperative is to provide income security for retired members. The Primer provided a brief overview of the MPP; its plan governance; service providers; investments; responsible investing; and divestment. The purpose was to provide information in relation to this motion:

*“Therefore be it resolved that UBCM request a report from the Municipal Pension Plan detailing the percentage and dollar amount of investments currently held in **fossil fuel-related companies or investment products**, and the anticipated effects from implementing a plan to divest those assets over the next five, ten, and fifteen years. [emphasis added]”*

Chapter 8 pointed out the short comings of trying to define “fossil fuel-related companies or investment products” but did go on to provide information on energy company investments including many company profiles that showed the diversity of their activities.

The earlier parts of the Primer provide the information responding to implementing a plan to divest fossil fuel assets and these are addressed below:

Based on the information in chapter 4 – Plan Governance:

1. Trustees are Fiduciaries who must act in the best financial interests of the beneficiaries.

Trustees cannot act in the interests of themselves, their appointing body or others who are not accountable to pension plan beneficiaries. The MPBT must take a long-term view to investment considering the environmental, social and governance (ESG) implications of their investment policy and procedures. They have directed the investment manager to engage in considering a company’s ESG activities.

Based on the information in chapters 5 and 6 – Service Providers and the Importance of Investments, the MPBT is constrained as follows:

2. The governance structure is not conducive to a directive on divestment.

Trustees can’t effect change on their own.

- a super-majority of MPP Trustees are required to enact or change Board policy.
- a Board decision must reflect the views of Board members across the various sectors and be in the best financial interest of all members.



Also based on the information in chapter 4 – Plan Governance:

3. The investment management structure is not conducive to divestment by a single public sector pension plan.

If a public sector pension plan wished to invest or divest in certain companies, the current structure has a number of rules such as:

- fund structure – the four public sector pension plans hold units in a fund that will likely be composed of many companies and these pools do not screen out companies for individual public sector pension plans.
- asset ownership is held by bcIMC (in trust) not by the plans.
- indexed passively managed funds are not designed for active management required by divestment.
- external managers may have broad mandates that allow stock selections to their buy-sell decisions.

These are the same structures of the management designs that promote cost effectiveness for higher overall returns.

The investment structure is designed to provide economies of scale, and the MPBT's investment strategy is designed to provide returns above the benchmarks; if the benchmarks are not achieved it would likely lead to employee and employer contribution rate increases.

Based on chapter 7 - Responsible Investing and the conclusion of chapter 8 - Divestment, changes the focus from getting out of divesting to getting into proactive investing for meaningful investments in support of climate action.

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.

APPENDIX A

bcIMC'S APPROACH TO RESPONSIBLE INVESTING

In preparing this Primer, bcIMC was asked to provide their perspectives on a number of their responsibilities as Plan Investment agent. These included their approach to investment (chapter 6), thoughts on divestment (part 8) and their progress on Responsible Investment (chapter 7)

Their complete response on Responsible Investment is the subject of this Appendix.

1. bcIMC'S DEFINITION

bcIMC defines responsible investing as: "Considering environmental, social and governance factors when selecting and managing investments, allows bcIMC to manage long-term investment risk with the view of protecting and enhancing the financial value of our investments. Responsible investing also includes contributing to initiatives that enhance the stability and integrity of global capital markets."

2. OUR BELIEFS

Responsible investing is an integral part of the investment beliefs shared by bcIMC and our clients. We believe that companies that take environment, social and governance (ESG) matters into account have less investment risk and generate better long-term value than do companies with less robust practices

3. RESPONSIBLE INVESTING PRINCIPLES

bcIMC's approach and activities are guided by eight responsible investing principles, informed by the Principles for Responsible Investment (PRI), of which we are a founding signatory. Each asset class is responsible for integrating and embedding responsible investing into their investment processes.

- As our primary responsibility is to ensure enduring long-term investment returns, environmental, social and governance matters are addressed when these factors present material risk to an investment and/or the portfolio.
- As significant ESG risks vary between asset classes, regions, sectors and companies, we adapt our approach and strategy to what is appropriate for the investment.
- Knowledge and reason, while looking out for our clients' investment return expectations, inform our responsible investing decisions and activities.
- We encourage companies to identify practical and realistic solutions to ESG risks, and recognize that introducing good governance and operational practices takes time.
- We must own a company to be able to influence its governance and operational practices. As a long-term owner, we have a responsibility to interact with companies about their governance structures, policies and operations.
- We believe that engaging is more effective in seeking to initiate change than divesting, and that aligning with like-minded investors and organizations is sometimes more effective than working in isolation.
- As a significant investor, we have a duty to advance responsible investing within the investment industry.
- As responsible investing continues to evolve, integrating ESG considerations into our investment approach is constantly under development; we shall continuously learn from our own practices and experience.

4. bcIMC'S APPROACH TO RESPONSIBLE INVESTING

Assessing investment risk, including that related to ESG, is an integral part of how we meet our fiduciary responsibility. As part of the prudent investment management of our clients' funds, we aim to actively manage the long-term risks and opportunities that ESG matters present, both now and into the future.

Responsible investing is part of our investment style; our approach is based on three core activities:

- **Integrating ESG considerations** into investment analysis & decision-making
- **Active ownership**
- **Active participant**

Our Expectations. As an active owner, bcIMC expects companies and external managers to:

1. Comply with the laws of Canada, and/or the laws of the jurisdiction within which they operate.
2. Aspire to align their practices and adhere to international standards.
3. Apply best practices for corporate governance and be transparent about their practices, risks, and opportunities.
4. Meet all environmental regulations and seek to reduce their operational impact on the environment.
5. Be responsible in their operations, adopt good standards of occupational health & safety, and effectively manage stakeholder relationships.
6. Being an active participant in capital markets

ESG risks vary and we adapt our approach according to what is appropriate for the asset class or investment. Understanding ESG risks is an important part of our due diligence on prospective investments. Where possible without sacrificing returns, we include ESG factors in our investment decisions.

5. ASSET CLASSES AND RESPONSIBLE INVESTING ACTIVITIES RELATED TO CLIMATE CHANGE

Fixed Income

We recognize fixed income funds can be exposed to ESG risks. To ensure we are investing responsibly, we focus on strongly-rated credit. bcIMC believes weak governance and broader environmental and social factors can play a role in credit ratings and practices that may affect bondholders.

In 2015, bcIMC signed on to the Green Bond Principles. The industry-recognized principles promote transparency, disclosure and the integrity of the development of the green bond market. The voluntary process seeks to ensure investors are able to access information that is necessary to assess the environmental impact of their green bond investments.

In 2014, we invested in the first green bond in Canadian dollars launched by The Toronto-Dominion Bank. In 2013, we were among the first global investors to invest in a green bond issued by the International Finance Corporation, the private sector lending arm of the World Bank. bcIMC strives to adhere to industry-recognized Green Bond Principles. This is a voluntary process developed in early 2014 by a group of global financial institutions that recommends transparency and disclosure. It also promotes integrity in the development of the green bond market.

Mortgages

We acknowledge that lenders do not have controlling interests over their mortgaged properties and are unable to directly influence ESG matters. However, we look for opportunities to integrate ESG considerations into our mortgage investment process.

Our pre-investment analysis favours industrial, office, multi-family, and retail properties with environmentally-sound principles that match our clients' risk-return parameters.

Private investments

bcIMC holds investments in infrastructure, renewable resources, privately-held companies, and private equity funds. With our private investments, we promote the integration of best governance practices within our portfolio companies and fund investments. And we also encourage our external managers and portfolio companies to formally and systematically integrate ESG matters into their activities.

Real Estate

As property investments involve longer time horizons than other asset classes, our investment strategies consider long-term issues and the consequences these may have on fund and asset performance. Responsible property investing allows us to integrate environmental, social and governance issues into our decisions, especially where bcIMC can exert significant influence. In so doing, we can build a resilient real estate program that maximizes the value of our holdings without undue risk of loss while also positioning the portfolio for future opportunities.

Within our domestic and global bcIMC is committed to our responsible property investing guidelines:

- Integrating responsible property investing throughout our policies, due diligence activities, investment mandates, partnerships, property strategies and business plans...
- Communicating, engaging and encouraging our stakeholders (investment partners, external advisors, property managers, tenants and suppliers) to align with bcIMC's practices.
- Enhancing tenant satisfaction and acceptance by the local community...
- Supporting initiatives that enhance responsible property investing policies and practices.
- Adopting sound governance practices to enhance the performance of our real estate business enterprises.

Certification programs such as the Leadership in Energy and Environmental Design (LEED) and BOMA BEST encourage sustainable building and development practices through standards and performance criteria.

Public Equities

ESG considerations have been integrated into the fundamental analysis of our internally-managed active Canadian mandate since 2011. Companies are assessed and rated in accordance with a sector-appropriate checklist that accounts for the diversity of companies and the complexity of ESG issues that may be encountered. Our checklist, developed in house, includes a range of key performance indicators identified for each ESG factor.

Our Proxy Voting Guidelines clarify our beliefs and expectations for corporate responsibility. We believe that companies that do not give careful considerations to issues of environmental and social responsibility risk failing to create shareholder value.

We conduct all proxy voting activities in-house and vote all our Canadian, U.S., and the most significant global holdings based on market value.

- Environmental subject matters on which shareholders are most frequently asked to vote on include climate change and environmental risk assessment, greenhouse gas emissions disclosure and emissions reduction targets, hydraulic fracturing, methane emissions and natural flaring.
- We generally support requests if a company does not have well-documented environmental management systems and/or does not monitor impacts or their actions and policies lag peers.
- Case study: Proxy Voting. (For example, in 2015, we voted on 40 climate change shareholder proposals of which we supported 75 per cent. That represents a 264 per cent increase in number of proposals from 2013).

Policy Submissions

As an active participant in capital markets, we advocate for regulatory changes that make responsible investing principles part of the legal framework and improve the investment environment for all investors. By engaging with Canadian and international regulators and standard-setting bodies, our activities are aimed at addressing systemic risks, with the expectation that our efforts will lead to greater stability and integrity within markets. We recognize that meaningful, large-scale change takes time and our interactions with regulators and policymakers often span years.



We seek policy and regulatory clarity to make informed decisions so we can continue to successfully deploy and manage capital, leveraging our large balance sheet and long-term investment horizon. We also believe pushing for regulatory reform can influence change on a larger scale.

Recent climate policy submissions include:

- Global Investors' Letter to the Alberta Premier on Renewing Alberta's Climate Change Policy.
- Framework and Setting an Effective Price on Carbon — The Province of Alberta announced a comprehensive climate change policy in November 2015, providing investors with more certainty.

Collaboration & Partners

Cooperation with like-minded investors leads to synergies and increases influence. By collaborating with pension funds, asset managers, and organizations, we can deploy our resources more effectively and strengthen our voice.

We actively support and contribute to initiatives that focus on governance practices, enhance transparency and disclosure of ESG risks and advocate for long-term thinking within the investment industry.

Specifically climate related examples include:

1. **Founding signatory of PRI:** A UN initiative to develop and promote best practices in the area of responsible investing by institutional investors. Principles are based on the understanding that environmental, social and governance issues can affect the performance of investment portfolios over time.
2. **CDP:** An independent organization that works globally with investors, public companies and governments to gather information aimed at reducing greenhouse gas emissions.

*bcIMC joined as an investor signatory to the CDP Climate Change program in 2006. In January 2016, we enhanced our participation by becoming an investor member, one of four Canadian members out of a total membership of 63. Being an investor member gives us enhanced access to company information so that we can understand a company's climate change risks and analyze broader trends.

Collaborative climate engagements include:

- In 2014, we joined the PRI's Collaborative Engagement on Hydraulic Fracturing—on behalf of MPP—as a steering committee member, helping to launch the initiative by identifying objectives and target companies.

Reporting

PRI's principles require signatories to report on their activities, and bcIMC is committed to reporting to our clients and publicly disclosing our initiatives. Each year, we produce three Responsible Investing Newsletters and an RI Annual Report.

We also disclose our proxy votes and rationale for when we vote against a proposal, ahead of publicly-traded company's annual general meeting. The searching database, available on our website, provides an account of our voting.

We have also participated in PRI's voluntary pilot and mandatory reporting process. The Transparency Report is available on our website.

We have produced two newsletters dedicated to the topic of climate change.

Please see our **climate change timeline** for a snapshot of our responsible investing activities since the 1990s: Responsible Investing Newsletter: Climate Change, March 2014.

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Mortgages

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- 2015 Responsible Investing Annual Report <http://read.uberflip.com/i/640677-2015-bcimc-responsible-investing-annual-report>, page 17, paragraph 1
- Responsible Investing Newsletter: Climate Change, April 2016 <http://read.uberflip.com/i/664765-rin-april-2016>, page 2, From the CEO/CIO
- bcIMC website, http://www.bcimc.com/newsroom/pdf/Submissions/2015/InvestorCEO_letter.pdf
- bcIMC website, http://www.bcimc.com/newsroom/pdf/2014/Sep23_bcimc_Investor_Statement.pdf
- <http://www.bcimc.com/newsroom/pdf/2014/2014GlobalInvestorStatementonClimateChange.pdf>
- Responsible Investing Newsletter: Climate Change, March 2014, http://www.bcimc.com/publications/pdf/ResponsibleInvesting/RIN_Issue1_Mar2014_Final.pdf, timeline, page 6 & 7

Collaborations & Partners

- RI Overview <http://read.uberflip.com/i/605664-responsible-investing-overview>, page 19
- Responsible Investing Newsletter: Climate Change, April 2016 <http://read.uberflip.com/i/664765-rin-april-2016>, back page
- Responsible Investing Newsletter: Climate Change, April 2016 <http://read.uberflip.com/i/664765-rin-april-2016>, page 6

Reporting

- 2015 Responsible Investing Annual Report, <http://read.uberflip.com/i/640677-2015-bcimc-responsible-investing-annual-report>, Reporting and Disclosure, page 20
- Responsible Investing Newsletter: Transparency & Disclosure, October 2015, <http://read.uberflip.com/i/589515-rin-oct-2015>, back page
- Responsible Investing Newsletter: Climate Change, April 2016 <http://read.uberflip.com/i/664765-rin-april-2016>
- http://www.bcimc.com/publications/pdf/ResponsibleInvesting/RIN_Issue1_Mar2014_Final.pdf, page 6&7

APPENDIX B

ORIGINAL SOURCES & OTHER READINGS

The principal sources of information on the MPP policies, governance and investments are publically available from bcIMC and MPP. In addition the range of energy investments as a percentage of total plan assets was prepared by bcIMC for this report.

FROM bcIMC

1. About bcIMC Factsheet - http://www.bcimc.com/publications/pdf/FS_AboutbcIMC_2015.pdf
2. Responsible Investing Factsheet - http://www.bcimc.com/publications/pdf/FS_RI_2015.pdf
3. Shareholder Engagement Factsheet - http://www.bcimc.com/publications/pdf/FS_SE_2015.pdf
4. An Overview of bcIMC's Approach to Responsible Investing - <http://read.uberflip.com/i/605664-responsible-investing-overview>
5. March 2014 Newsletter – No 1. Climate Change - http://www.bcimc.com/publications/pdf/ResponsibleInvesting/RIN_Issue1_Mar2014_Final.pdf
6. 2015 Responsible Investing Annual Report - <http://read.uberflip.com/i/640677-2015-bcimc-responsible-investing-annual-report>
7. 2014 Responsible Investing Annual Report - <http://read.uberflip.com/i/499572-ri-ar2014>
8. ESG Engagement: Public Equities Priorities and Process - <http://read.uberflip.com/i/653745-2016-bcimc-esg-engagement>
9. Proxy Voting Guidelines - <http://read.uberflip.com/i/500877-proxy-voting-guidelines>
10. RI Newsletter on Climate Change - <http://read.uberflip.com/i/664765-rin-april-2016>

FROM MUNICIPAL PENSION PLAN

For information regarding a brief overview of the Municipal Pension Plan, please see:

About the Plan http://www.pensionsbc.ca/portal/page/portal/pencorcontent/mpppage/publications/municipal_education_and_outreach/mpp_in_depth_look.pdf on StraightTalk and the plan's Annual Report http://www.pensionsbc.ca/portal/page/portal/pencorcontent/mpppage/publications/annualreports/mpp_2014_annual_report.pdf on the plan website.

For information regarding the legal and legislative frameworks, please refer to the plan's Joint Trust Agreement http://www.pensionsbc.ca/portal/page/portal/pencorcontent/mpppage/publications/boardgovernance/policies/mpp_joint_trust_consolidated.pdf, the Public Sector Pension Plans Act http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/00_99044_01, and the Pension Benefits Standards Act http://www.bclaws.ca/EPLibraries/bclaws_new/document/ID/freeside/00_96352_01.

Information regarding the governance framework for the plan's investments is available in the board's Statement of Investment Policies and Procedures http://www.pensionsbc.ca/portal/page/portal/pencorcontent/mpppage/publications/boardgovernance/investments/municipal_statement_of_investment/mpp_sipp.pdf. The 2014 Annual Report http://www.pensionsbc.ca/portal/page/portal/pencorcontent/mpppage/publications/annualreports/mpp_2014_annual_report.pdf also provides graphics showing plan participation of local government members/employers relative to other plan stakeholder.

For information regarding responsible investing, please refer to the plan's investment page, which includes copies of the plan's PRI Responsible Investing Transparency Report – MPP – 2014/15 <http://www.pensionsbc.ca/portal/page/portal/FDB7F1F5EA47961CE040010A96221C41> and the plan's PRI Assessment Report -2015 <http://www.pensionsbc.ca/portal/page/portal/2BE670E1AEDC0EEE05078CE1270196D>



APPENDIX C

ABBREVIATIONS & GLOSSARY

bcIMC – British Columbia Investment Management Corporation

ESG – Environmental, Social and Governance factors applied to a company's performance

HEABC – Health Employers' Association of BC

JTA – Joint Trust Agreement

MPP – Municipal Pension Plan (or Plan)

MPBT – Municipal Pension Board of Trustees (or Board)

SIPP – Statement of Investment Policies and Procedures: A document that outlines the investment policies and procedures of a particular fund. A typical SIPP includes sections covering the fund's purpose, governance, funding, investment principles, asset allocation, performance, and ethics

UNPRI – United Nations Principles of Responsible Investment

GLOSSARY

Active Investment Management – A style of fund management where the portfolio manager attempts to add value through enhanced returns or reduced risk. Implementation consists of taking an investment position that deviates from that of the benchmark or market index. The less efficient the market, the greater the potential for a manager to add value through active management.

Actuarial valuation - An actuarial valuation is a mathematical analysis of the financial condition of a pension plan. An actuary prepares an actuarial valuation for the Municipal Pension Plan at least once every three years.

Annual Rate of Return – The rate of return generated over a 12 month period (e.g. for MPP is January 1, 2015 to December 31, 2015).

Asset – A resource with economic value that an individual, corporation, or country owns or controls with the expectation that it will provide future benefit.

Asset Allocation – The process of deciding the types of assets to hold and the relative weights of the different asset classes. Asset allocation is generally recognized as being the most important determinate of risk and return. Consequently, it is considered the most important decision made by an investor. (See also Strategic Asset Allocation and Tactical Asset Allocation.

Asset Class – A broadly defined generic group of financial assets, such as stocks or bonds.

Basis Point – One hundredth of one per cent (1/100 of 1%). Therefore, 100 basis points is equal to one per cent. Basis points express percentages in a small unit and are particularly useful when expressing the yields and spreads of individual bonds.

Benchmark – A standard against which investment performance can be measured for the purpose of determining investment skill.

Capital Market – A medium that allows buyers and sellers of a specific good or service to interact in order to facilitate an exchange (real or virtual). Capital markets include primary markets, where stock and bond issues are sold to investors to raise long-term funds, and secondary markets, which trade existing securities.

Equity – Ownership of an asset, such as shares in a company or real estate. By taking an equity position in an asset, the investor shares in the future earnings of the asset.

Fiduciary – An individual, organization, or association that has control or influence over the property of another party. A fiduciary is legally obligated to always in the best interests of the beneficiaries, to treat all of the beneficiaries evenhandedly, and to not profit personally from their fiduciary duties.

Fixed Income Investment - A type of debt investment that provides a return in the form of fixed periodic payments and eventual return of principal at maturity. (e.g. bonds or money markets).

Illiquid Asset – Illiquid is the state of a security or other asset that cannot easily be sold or exchanged for cash without a substantial loss in value. This is the case usually in low volume stocks or bonds, or unique investments. Investors should expect to be compensated for illiquidity with higher rates of return. Examples are real estate, private equity, and infrastructure. (See Liquid Asset)

Inactive member – Employees that were formerly employed by a plan employer; are not now employed but have left their contributions in the Plan.

Infrastructure - The basic physical systems of a business or nation such as transportation, communication, sewage, water, and electric systems. These are tangible investments that are considered to be essential to a country's economic development and prosperity. Infrastructure investments include tangible assets with long-term horizons that provide strong, long-term cash flows.

Liquid Asset - An asset that may be bought or sold quickly with relatively small price changes resulting from the transaction. Often investments with high transaction volume in the market.

Management Fee – The money paid to the managers of an investment portfolio. The fee is generally based on a percentage of the net asset value of the fund.

Market Value – The current price at which a security can be bought and sold.

Money Market – The market for trading short-term securities such as commercial paper, Treasury bills, bankers' acceptances, and certificates of deposit. The term to maturity of these investments is 15 months or less.

Mutual Fund – A fund that gives small investors proportional ownership of a diversified portfolio of equities, bonds, and other securities. Mutual funds continually offer new shares and stand ready to redeem the shares of existing owners. Individual funds vary greatly in terms of the types of investments, sales commissions, and management fees.

Passive Investment Management - An investing strategy that attempts to replicate a market index and does not attempt to outperform that index.

Plan Administrator – in case of MPP it is the Municipal Pension Board of Trustees; who have delegated many day-to-day responsibilities to BC Pension Corporation.

Plan Partners – Comprised of the provincial government, UBCM, and the Municipal Employees Pension Committee that have high level responsibilities in the Joint Trust Agreement.

Pooled Funds - A fund similar to a mutual fund, enabling participants to purchase and sell units in the fund



and combine investments dollars to acquire securities or other investments.

Portfolio – A grouping of financial assets that may include stocks, bonds, cash equivalents, and alternative investments. Portfolios are held directly by investors and/or managed by financial professionals.

Private Equity – Equity securities of companies not listed on an exchange, the transfer of which is strictly regulated. Investing in private equity provides the benefits of attractive potential long-term returns and diversification, but the disadvantage of illiquidity and poor initial performance. Returns on private equity are generally realized in three ways: a merger or sale, an initial public offering, or a recapitalization. Public companies may also be “taken private,” with ownership then controlled as private equity.

Proxy Voting - share ownership carries with it the right to vote shares at company meetings. The MPBT has delegated the proxy to vote its shares to bclMC.

Rate of Return (Return on Investment) – The return calculated by dividing the investment income by the amount invested.

Real Assets – Physical or tangible assets which have value due to their substance and properties. Real assets include precious metals, commodities, real estate, agriculture land, and oil.

Responsible Investing – bclMC’s definition is as follows: Considering environmental, social, and governance factors when selecting and managing investments allows bclMC to manage long-term investment risk with the view of protecting and enhancing the financial value of their investments. Responsible investing also includes contributing to initiatives that enhance the stability and integrity of global capital markets.

Sector – A subset of a market or economy whose components share similar characteristics. (e.g. energy sector)

Share - A unit of ownership in a corporation or mutual fund.

Stranded assets – Stranded assets are those that lose value or turn into liabilities before the end of their expected economic life. In the context of fossil fuels, this means those that will not be burned – they remain stranded in the ground.

Strategic Asset Allocation – A portfolio strategy that establishes a target asset mix that reflects the investor’s risk tolerance and expected capital market conditions over a medium or long-term horizon. It typically provides the basis for calculating a total fund benchmark. Also called Policy Asset Allocation.

Tactical Asset Allocation – A portfolio strategy that allows a manager to actively depart from the normal (i.e., strategic) asset mix. It focuses on a short-term horizon, where the manager attempts to increase returns or reduce risks through opportunistic shifts in the asset class weightings.

Trustee – A person or institution appointed under a trust agreement that manages assets for the benefit of someone else; in MPP case those appointed under the JTA.

Principal source – bclMC, Investment Terms.