Our path toward net zero by 2050

Municipal Pension Plan

November 2022

About the plan

The Municipal Pension Plan, founded in 1939, is the largest pension plan in Western Canada. We are a defined-benefit pension plan supported by assets with a market value of over $72 billion. The plan has more than 395,000 members. That includes over 225,000 active members working for more than 900 employers in health care, social services, local government, education and emergency services (including police and fire).

The plan is pre-funded, meaning that each generation pays in advance for its own basic pension benefits. For every dollar contributed to the plan by a member, the employer also contributes. The plan currently has a funding ratio of 105.3 per cent, with a balance in the rate stabilization account of $3.2 billion. Approximately 75 per cent of the cost of pensions paid by the plan comes from investment returns.

The plan paid out over $2 billion in pension benefits to more than 115,000 retired members in 2021, with average annual pension benefits totalling $18,394. The plan also provides sustainable cost-of-living adjustments to pension payments and offers access to group benefits through the Municipal Retiree Benefit Trust.

Source: Municipal Pension Board of Trustees Strategic Plan June 2020–2023

Largest pension plan in Western Canada

$72 billion
market value

+395,000
members

The board's role and mission

The Municipal Pension Board of Trustees has a duty to manage the plan fund in the best financial interests of its beneficiaries. The board oversees the work of British Columbia Investment Management Corporation (BCI) as its investment management agent to ensure the plan achieves its investment return objectives.

The board is guided by:

- **Our vision:** Secure and sustainable pensions for current and future beneficiaries of the plan
- **Our mission:** Prudent management of the Municipal Pension Plan in a framework where plan members and employers share the responsibility of plan governance and share the risks and rewards of plan sponsorship

Source: Municipal Pension Board of Trustees Strategic Plan June 2020–2023

We believe that assessing and managing risk over the long term—the cornerstone of our responsible investing beliefs—is fundamental to meeting our mandate to grow and protect the plan's fund. Through prudent plan management, we strive to ensure the plan meets pension security goals in a manner that balances risk and returns.

Strategic priority: Addressing the risk of climate change to the investment portfolio

In our Municipal Pension Board of Trustees Strategic Plan June 2020–2023, we committed to explore investing in a manner compatible with the Paris Agreement goal of keeping the global average temperature to well below 2 °C above pre-industrial levels. Our net-zero goal is an outcome of our strategic work.

Investment beliefs: Responsible investment/climate change

- Environmental, social, and governance matters make a difference.
- 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.
- Social, environmental, and economic sustainability help the plan fulfil 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.
- 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.
- 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.

Source: Statement of Investment Policies and Procedures, 4.4

Global emissions reduction necessity

The report from the Intergovernmental Panel on Climate Change (IPCC) and agreements following the annual United Nations Climate Change Conference (COP26) highlight the need for accelerated action to limit warming to close to 1.5 °C. As part of its report, IPCC assessed various scenarios. To limit warming to around 1.5 °C requires global greenhouse gas emissions to peak before 2025 at the latest. It also requires a 43 per cent reduction in emissions by 2030.

Climate change risk and opportunity to the investment portfolio

We believe climate change is the risk and climate action is the opportunity. That's why we are preparing the plan for a low-carbon future and why we will invest in new climate solutions while meeting pension security goals in a manner that balances risk and returns.

Like all investors, the plan is exposed to the physical risks of a changing climate and the transition risks associated with moving to a low-carbon economy. These include:

- **Physical risks:** Rising temperatures, changing precipitation patterns and sea level rise can lead to storms, fires and droughts. These can damage real estate, infrastructure, forestry and agriculture, and disrupt supply chains.
- **Transition risks:** Changes in policy, technology, consumer preferences and other factors could result in a costly adjustment to a new low-carbon future with potential severe financial impacts on portfolios, including market uncertainty, lower returns on companies that have to implement new regulations and disruptions to values of new and existing companies.

The transition to a low-carbon economy also offers investment opportunities. These include opportunities in sectors and companies that are developing low-carbon technologies and putting them into practice. Examples are alternative energy, energy efficiency technology, green buildings, water protection and pollution prevention technology.

We were one of the first large pension plans in Canada to voluntarily report climate-related financial disclosures, starting in our *2019 Annual Report.* You can read more about our reporting, aligned with the Task Force on Climate Related Financial Disclosures, in the plan's Annual Report.

Source: Climate Orientation Package, Municipal Pension Board of Trustees, June 2022

Climate action: our progress

2006–2007	2009	2016–2017	2018	2019	2020	2021
Signatory to the UN Principles for Responsible Investment (PRI)	First PRI *Transparency Report*	Expands collaboration by co-founding the Western North America PRI Network and joining Climate Action 100+	Integrates climate risk scenarios into its asset liability review; BCI publishes Climate Action Plan and first Task Force on Climate-related Financial Disclosures report	The board adopts new responsible investment beliefs	The board makes climate-related financial disclosures in its *2019 Annual Report*	Signs influential investor statements: • Calling for stronger methane regulations and enforcement • Global Investor Statement to Governments on the Climate Crisis • Canadian Investor Statement on Climate Change

Summary of key climate actions

Governance

- Address climate risk as a strategic priority.
- Incorporate climate-related risks and opportunities into investment beliefs and the Statement of Investment Policies and Procedures.
- Educate trustees on climate change concepts, investment risks and opportunities.
- Review key governance documentation to ensure climate risk is continually addressed.
- Review BCI reports on implementing its Climate Action Plan, including in the areas of risk management, proxy voting, policy advocacy and shareholder engagement.

Strategy

- Explore investing in a manner compatible with the Paris Agreement.
- Monitor BCI's progress on its Climate Action Plan to manage climate-related opportunities and risks across all aspects of its investment activity, and provide input into the 2022 Climate Action Plan.
- Consider systemic climate risk in the triennial asset liability review, as part of its strategic policy advocacy efforts, and as part of its oversight of BCI's performance, including implementing BCI's Climate Action Plan.

Risk management

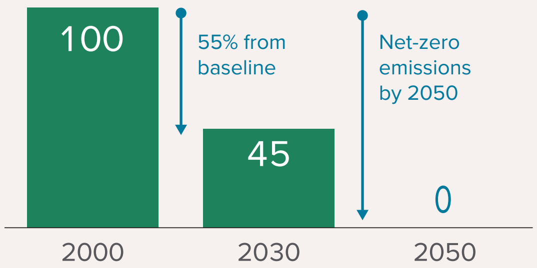
- Consider climate-related physical and transition risks and opportunities across the short-, medium-, and long-term.
- Review BCI's scenario analysis to identify the main sources of risk and opportunity for the portfolio under different climate change scenarios.
- Use climate change scenario analysis in the plan's asset liability review in 2018 and 2021 to build greater resilience of the portfolio to climate change risks.

Metrics and targets

- With BCI, monitor climate-related metrics:
  - Relative impact of climate scenarios on total expected returns
  - Total portfolio investment carbon footprint
  - Weighted average carbon intensity for public equities
- With BCI, monitor capital invested in climate-related opportunities to support:
  - 30 per cent reduction in carbon exposure in BCI's equity portfolio by 2025
  - Investing a cumulative $5 billion in sustainable bonds by 2025

Source: Adapted from Climate Orientation Package, Municipal Pension Board of Trustees, June 2022

Carbon footprint and emission reduction targets



Our net-zero goal

What is a net-zero goal?

Having a net-zero portfolio means that the assets within the portfolio, in total, do not contribute to global greenhouse gas emissions. This requires transitioning the investment portfolio to meet net-zero greenhouse gas emissions by 2050 or sooner.

Achieve a net-zero aligned portfolio by 2050

- This aligns the plan with the global objective to restrict global warming to less than 2 °C.
- Our goal is based on the expectation that the rest of the world will continue to evolve, and governments will deliver on their global commitments.

Reduce the carbon intensity of our portfolio by 55 per cent by 2030

- Our interim target is to cut the carbon intensity of the portfolio by more than half relative to the 2020 carbon intensity.
- BCI calculates the carbon footprint normalized by the market value of the portfolio, expressed in tonnes of carbon dioxide emissions per million dollars (CO_2 e/$M) invested.
- Carbon footprint coverage is currently about 70 per cent of assets under management.
- Our target relies on global governments continuing to strengthen policies aligned with the overall objectives of net zero 2050.

We will review our goal and target regularly to ensure it remains prudent and in line with the board's fiduciary duty.

Our path toward net zero

Through oversight of our investment manager, BCI, the board will:

- **Track** the effect of natural decarbonization.
  - The global economy is gradually decarbonizing as industries shift toward a lower carbon future.
- **Select investments** by continuing to integrate climate change scenario analysis and carbon foot printing. This will allow BCI to choose investments that are best aligned to the plan's long-term financial interests.
  - BCI integrates ESG analysis and risk management in all investment processes, from supporting clients' asset allocation decisions to individual investment decisions.
  - BCI's internally managed active programs in public markets are less carbon intensive than their benchmarks.
  - The carbon intensity of BCI's public equities asset class is expected to fall by 30 per cent between 2019 and 2025.
- **Support BCI's ongoing engagement** to influence companies and hold them to account in establishing credible plans to thrive in the lower-carbon future. BCI will:
  - Continue engagement activity in public and private markets.
  - Help drive assets it holds as direct investments to transition to a carbon-neutral model.
  - Expect portfolio companies to establish long-term and interim emissions reduction targets that are based on climate science and aligned with the ambition of achieving net-zero emissions by 2050 or sooner.
- **Put more capital into clean energy solutions** and related industries to drive down the emissions intensity of the portfolio. BCI will:
  - Seek opportunities that arise from climate action in line with its Climate Action Plan and Corporate ESG Strategy.
  - Aim to invest a cumulative $5 billion in sustainable bonds by 2025.

How we'll report on progress

- In the plan's *Annual Report*
- At our annual general meeting