

## Analysis of climate-related updates in OMERS 2023 Annual Report

March 2024

OMERS released its [2023 Annual Report](#) in February 2024.

The analysis below builds on previous Shift analyses including:

- [2023 Canadian Pension Climate Report Card - OMERS analysis](#) (February 2024)
- [Shift's Statement on OMERS Inaugural Climate Action Plan](#) (September 2023)
- [2022 Canadian Pension Climate Report Card - OMERS analysis](#) (January 2023)

### Communication of climate urgency

OMERS avoids acknowledging double materiality. The pension fund fails to state that its investment decisions and approach to decarbonization can affect the trajectory of the climate crisis. OMERS broadly suggests that it understands this interplay, however, with statements such as: “As an active investor with a long-term horizon, we have a fiduciary imperative to identify and assess how changes in the world around us may affect or be affected by our investments and the way we invest going forward” (2023 Annual Report p. 58).

OMERS could be more clear with its beneficiaries that its ability to fulfill its mandate depends on climate stability, and that the fund's decisions affect that stability. For examples of communication of climate urgency, OMERS could look to the [University Pension Plan](#) (“The materiality of climate change for UPP is twofold: UPP's ability to realize adequate investment returns and provide retirement benefits depends on a stable climate; And UPP's investments affect the stability of the climate”) or, internationally, a fund such as France's [Ircantec](#) (“In light of the climate emergency, Ircantec is stepping up its commitments to assign its reserves to the emission reduction pathway in line with a 1.5°C scenario, in keeping with recent forecasts made by the Intergovernmental Panel on Climate Change (IPCC) (August 2021 report), which stressed the urgent need to significantly and sustainably reduce greenhouse gas emissions to limit global warming; and the International Energy Agency (IEA) which underlined the need to cease developing the exploitation of fossil fuels in order to achieve the 1.5°C scenario”).

### Paris-aligned target

OMERS scored a B+ for its Paris-aligned target in Shift's 2023 Canadian Pension Climate Report Card. The pension manager falls short of an A because it has not yet accounted for scope 3 emissions, has not yet set absolute emissions reduction targets, and is not

accountable to an external climate-aligned investor body (e.g. Paris Aligned Asset Owners, Net Zero Asset Owner Alliance).

OMERS reported in its *2023 Annual Report* that it has increased the percentage of portfolio companies that are disclosing scope 3 emissions (45% of the companies in its “in-scope” portfolio, by economic exposure, disclosed scope 3 emissions, up from 25% in the previous year) (p.72). But OMERS has not disclosed any plans or targets for ensuring it can comprehensively measure and report scope 3 emissions, which are a primary indicator of transition risk exposure.

## Interim targets

### *Emissions reduction*

OMERS scored a B- in Shift's *2023 Canadian Pension Climate Report Card* for its interim climate targets. The *2023 Annual Report* notes that greenhouse gas emissions data to December 31, 2022 show the fund already surpassing the commitment it made in September of 2023 to reduce the emissions intensity of the portfolio by 50% by 2030. OMERS reported achieving a 52% reduction. It's a sign of progress that OMERS has set and met this target. It's important, however, that the fund set a new and more ambitious reduction target to continue to drive long-term climate-alignment of the fund.

OMERS should raise its ambition in new targets by setting absolute reduction targets. The pension fund could look to the [Netherlands' ABP](#) for an example of a fund with absolute reduction commitments for scope 1, 2 and 3 emissions. An absolute target would build on OMERS' already reporting reductions in the portfolio's emissions intensity (WACI metric, per \$million revenue), carbon footprint (per \$million invested) and absolute greenhouse gas emissions (p.71).

The pension manager states that the emissions intensity reduction already achieved “can be attributed both to rotating capital from higher to lower emitting assets and to emissions intensity reductions in several carbon-intensive assets” (p.67). While Shift has [tracked a number](#) of OMERS' carbon-intensive divestments, we have not seen OMERS share examples of achieving emissions reductions by reducing emissions intensity in its carbon-intensive assets. This potential conflation of emissions-reduction-by-divestment with real-world- emissions-reduction is one that OMERS should seek to avoid as it aims to demonstrate that its portfolio is achieving decarbonization. OMERS could look to the example of Swedish fund AP2, [profiled](#) in Shift's *2022 Canadian Pension Climate Report Card*. Since 2019, AP2 has been reporting the proportion of change to its portfolio carbon footprint stemming from changes in company holdings, as well as the proportion stemming from changes in companies' actual emissions.

### *Real world decarbonization / transition sleeve*

OMERS' 2023 Annual Report did not provide any updates on the fund's \$3 billion transition sleeve, which was announced in its 2022 Annual Report as intended "for assets playing a key role in the global transition toward a lower-carbon economy" (p.67). No transition sleeve investments have been announced to date. This sleeve should be used to decarbonize hard-to-abate industries that have credible, profitable pathways to decarbonization; fossil fuel producers must therefore be excluded from transition sleeve investments.

### *Portfolio alignment*

OMERS' 2023 Annual Report provided some new information regarding the fund's commitment that its top 20 WACI contributors will have credible net-zero transition plans in place by 2030. According to the report, these 20 WACI contributors account for 59% of OMERS' total WACI, 65% of these companies have a net-zero commitment, and OMERS is "in the process of assessing the alignment for each of these top 20 firms and designing engagement strategies to support their advancement" (p.73).

OMERS has not disclosed to its members which 20 companies it is referring to, making it difficult to track progress or backsliding. One of OMERS' portfolio companies, Thames Water, the U.K.'s largest water utility, recently announced it was [abandoning](#) a climate commitment it had made.

While it is essential for the future-proofing of OMERS' portfolio that its owned companies have credible transition plans, it is unclear why OMERS is aiming for transition plans at just 20 companies, or for just 59% of its WACI footprint. That leaves over 40% of OMERS' portfolio greenhouse gas emissions without a pathway to zero.

### *Green investments*

No new information. OMERS reported \$21 billion in green investments "including green buildings, renewable and low-carbon energy, and energy efficiency assets" (p.73). OMERS has set a target to reach \$30 billion in green investments by 2030. Given expected appreciation of assets, it is unclear if this commitment means increased allocation to climate solutions in the coming years.

## **Climate engagement**

### *ESG integration*

OMERS' 2023 Annual Report mentioned an ESG dashboard (public equity, credit and government bond portfolios), ESG benchmarking (infrastructure), an ESG Framework (real estate) and integration of sustainability-related reporting (private equity). OMERS must draw a distinction between the broad category of ESG and the risks associated with the climate crisis, which presents an existential threat to pension funds and must be

approached uniquely from other risk factors.

It remains to be seen whether OMERS' ESG integration is sufficient to improve outcomes. OMERS tries to assure its sponsors and members that it's a responsible steward of its investments and that "In 2023, the infrastructure team conducted site visits at six portfolio companies to discuss and share our ESG assessment and engagement approach" (p.63). But OMERS portfolio company Thames Water, as an example, continues to undermine OMERS reputation for responsible investment. Thames Water is saddled with debt, has been repeatedly fined for dumping raw sewage into rivers, and faces escalating public outrage and the possibility of nationalization (see [here](#), [here](#) and [here](#) for Thames Water updates from July 2023 to January 2024).

#### *Collaborative engagement and proxy voting*

OMERS joined Climate Action 100+ in 2023, is a founding member of Climate Engagement Canada (CEC), and reported participating as a lead or supporting investor for five CEC focus list companies (p.63). CEC's first Net-Zero Benchmark [revealed](#) how off-course Canada's top carbon emitters are in aligning with climate safety and respect for Indigenous rights; Shift looks forward to OMERS' reporting on its engagements with focus list companies.

OMERS did include climate change specifically in an update to its [Sustainable Investment Policy](#) (effective January 1, 2024), stating that "We generally support proposals that take into consideration or improve policies or practices relating to climate change" (p.4).

OMERS should expect increasing scrutiny of its climate-related votes, such as in Investors for Paris Compliance's (I4PC) [second annual assessment](#) of proxy voting records of select Canadian investors. I4PC reported that during the 2023 proxy voting season, OMERS supported around half of a sampling of key climate-related shareholder proposals, far fewer than the number supported by the Canada Post Pension Plan, Caisse de dépôt et placement du Québec, University Pension Plan, British Columbia Investment Management Corporation (BCI) and Investment Management Corporation of Ontario (IMCO).

OMERS could improve its climate engagement by strengthening its proxy voting guidelines as many of its peers have done. For example:

- [BCI](#) has considered voting for more prescriptive climate proposals since 2021, has escalated its votes against directors for climate-related reasons, and now requires publicly traded companies to incorporate climate assumptions and risk assessments into their audited financial statements.
- IMCO's [guidelines](#) spell out specific net-zero-aligned requirements for management-sponsored proposals on climate change.
- OPTrust's [guidelines](#) encourage companies to have "climate-competent boards".
- The Ontario Teachers' Pension Plan's [guidelines](#) state the pension manager expects

companies to provide short-, medium-, and long-term greenhouse gas emissions reduction targets and report their progress towards those targets.

- The University Pension Plan has [committed](#) to a year-over-year strengthening of its climate-related proxy voting guidelines.

OMERS should also, as a number of its peers do, provide timely or advance disclosure of its proxy votes and rationale for its votes on shareholder resolutions and votes against management. It should also outline and follow-through on a timebound escalation process for climate engagement, for example by bringing forward climate-related shareholder resolutions.

### *Policy engagement*

OMERS is disclosing submissions and comments on some governmental and industry body policy and regulatory processes on its [website](#), which provides welcome transparency. But the fund's submissions to date have advocated only for disclosure of climate-related data. While such disclosure is essential for investors such as OMERS, the pension manager should work to create investor certainty by advocating for, bolstering and supporting Paris-aligned government policy. OMERS must realize that avoiding the worst outcomes of climate change and ensuring its members have a safe climate future to retire into will be impossible without stringent, ambitious, Paris-aligned climate and energy laws, policies and regulations.

## **Climate integration**

### *Disclosure*

OMERS discloses its portfolio makeup by Global Industry Classification Standard (GICS) and reported that as of December 31, 2023, energy (oil and gas) has dropped to 2% of AUM (as of December 31, 2021, it was 4% according to OMERS' *2021 Annual Report*). Utilities, which include fossil fuels (e.g. power generation), comprise 12% of the portfolio (*2023 Annual Report*, p.47).

OMERS also discloses, without valuation, its significant investments (those exceeding one per cent of total net investment assets) (p.98). The list includes a number of companies with heightened transition or physical risk exposure due to the climate crisis, including Associated British Ports (physical risk), BridgeTex (transition risk, illustrated by high scope 3 emissions), London City Airport (both transition risk and physical risk exposure), the Kenan Advantage Group (transport and logistics with a reliance on transporting fossil fuels, among other products) (transition risk exposure).

OMERS' significant investments also include companies that are or could be well-positioned for the transition off fossil fuels, including Leeward Renewable Energy (wind and solar) and

investments in electricity distribution and transmission (which may be fossil-based currently, but could decarbonize).

#### *Climate metrics*

OMERS reported its greenhouse gas emissions data for 2019 and 2020, engaged a third party for limited assurance, had directly reported emissions data for 63% of the portfolio, reported emissions for 95% of in-scope assets (with \$118 billion in scope) and has created an internal Climate Metrics Manual to guide reporting procedures (pp.70-72).

#### *Climate scenario analysis*

OMERS detailed which scenarios it is using to assess climate risks to the portfolio, ranging from a Net Zero 1.5°C scenario (orderly transition and locked-in physical risk) to a High Warming 4.2°C scenario (physical risk and severe climate change impacts) (p.68). OMERS reported next to no information about its conclusions from the scenario analysis. The pension fund should take note that severe climate change impacts are beginning to be experienced currently as the world approaches the 1.5°C global heating threshold. A 4.2°C scenario would have catastrophic impacts. A pension fund that is mandated to provide its members with a secure retirement in a safe climate future should be doing everything within its power to avoid such disastrous climate outcomes.

#### *Board education and climate oversight*

OMERS' report mentioned that the Board continued oversight of OMERS' approach to sustainable investing and approved the *Climate Action Plan* in 2023 (p.23). The *Climate Action Plan* itself states that climate training is part of Board onboarding (p.8). OMERS has not mentioned Board-wide education sessions on climate since its *2021 Annual Report* (pp.28, 53), which is concerning given the pace and evolution of both the climate crisis and the energy transition and the Board's duty of oversight.

One member of OMERS' Board [is concurrently](#) a director at fossil fuel company Gibson Energy. Gibson Energy's business model (oil pipelines, storage facilities and refining) is dependent on the continued combustion of fossil fuels. The company's lip service commitment to net-zero emissions by 2050 is not credible, as it covers only scope 1 and 2 emissions. Shift remains concerned about the potential for a conflict of interest that fossil fuel-entangled directors bring at the Board level. The best long-term interests of OMERS' beneficiaries, including the 14-year-old beneficiary mentioned in OMERS' 2023 report (p.14) who could inherit a world of climate breakdown, do not align with the best interests of Gibson's shareholders.

#### *Compensation*

OMERS' Annual Report reiterated information from the September 2023 *Climate Action Plan*, stating that climate change performance measures were linked to incentive compensation

“for relevant C-suite members and senior investment professionals” (p.59). As in 2021 and 2022, the discussion of compensation for OMERS CEO Blake Hucheson included climate-related achievements; in 2023 this included launching OMERS’ *Climate Action Plan* (p.131).

## **Fossil fuel exclusions**

OMERS has yet to place a comprehensive exclusion on new investments in fossil fuels, despite the International Energy Agency (IEA) having [said](#) as early as 2021 that a global net-zero by 2050 pathway required no new investment in coal, oil or gas development. The pension manager earned a D in Shift’s 2023 *Report Card* for its limited exclusion on new investment in thermal coal. In order to fully align its portfolio with a safe climate trajectory, avoid stranded assets and signal to markets the imperative to limit global heating to 1.5°C by phasing out fossil fuels, OMERS must place an immediate exclusion on new investment in coal, oil, gas and related infrastructure.

## **Additional notes**

Other updates from OMERS’ 2023 annual results include:

- An [update](#) to the pension manager’s Inclusion and Diversity Statement “to highlight OMERS commitment to advancing the principles of Indigenous Reconciliation as set forth in Call to Action 92 of the Truth and Reconciliation Commission of Canada.” Shift’s [analysis](#) of pension managers’ commitments to Indigenous rights shows that some funds have gone further, particularly by incorporating support for the United Nations Declaration on the Rights of Indigenous Peoples into their proxy voting guidelines.
- Establishment of a “Climate Action Plan Implementation Team” (CAP IT) (*2023 Annual Report*, p.60)
- Updating the Sustainable Investing Framework to include biodiversity (no further details) (p.59).

## **Conclusion**

OMERS took a significant step forward in 2023 by releasing its *Climate Action Plan*. But the pension manager still has work to do to strengthen its ambition, demonstrate actual emissions reductions in its portfolio and the real economy, improve its climate engagement and disclosure, safeguard significant investments from physical and transition risks, and place exclusions on new fossil fuel investments. Shift looks forward to OMERS improving on these measures and providing further updates to its beneficiaries.