October 2024

Sustainable Investing Guidelines

ONTARIO TEACHERS' PENSION PLAN

Ontario Teachers' Pension Plan Sustainable Investing Guidelines

The Ontario Teachers' Pension Plan Board (Ontario Teachers' or the organization) is a global, independent organization that delivers retirement security to over 340,000 working members and pensioners. Our mission is to deliver outstanding service and retirement security for our members.

The consideration of sustainability-related risks and opportunities that may have an impact on the financial performance of the investments of the Ontario Teachers' Pension Plan (the Fund) is consistent with our objective to meet the pension liabilities of the Ontario Teachers' Pension Plan (the Plan) over the short- and long-term horizons based on current Plan provisions. Alongside financial, economic, and other factors, we may weigh relevant sustainability-related factors on the value of the Fund over both short- and long-term horizons. We recognize that there may be jurisdictions, markets, sectors or companies where the associated risks, including risks posed by sustainability-related factors, may outweigh the benefits to the Fund.

II. Introduction

We believe sustainability is essential for value creation and protection as it recognizes the interdependence between a company and its stakeholders, as well as society, the broader economy, and the natural environment throughout its value chain. The dependencies and impacts of a company on those resources and relationships may give rise to sustainability-related risks and opportunities for the company and investors.

We believe that sustainable investing, the practice of integrating and managing material sustainability-related risks and opportunities throughout the investment process, can support the creation of long-term, sustainable value creation or value protection and contributes to higher risk-adjusted returns to help pay pensions. Our approach to sustainable investing is rooted in the belief that a company's effectiveness in managing sustainability-related risks and opportunities[1] is a key determinant of their long-term success and profitability.

1 Sustainability-related risks and opportunities are often referred to as Environmental, Social and Governance (ESG) risks and opportunities. Environmental factors relate to a company's interaction with the physical environment including both impacts on the environment (e.g., contamination or greenhouse gas emissions), as well as impacts from the environment (e.g., extreme weather, biodiversity loss or water scarcity). Social factors arise from the relationship between a company and its employees, consumers, suppliers, and communities. Social factors include, but are not limited to, labour and human rights, health and safety, diversity, equity and inclusion, and product safety. Governance factors, which relate to the system of structures a company puts in place to ensure it is effectively directed and controlled.

III. Purpose and Scope of the Guidelines

The Sustainable Investing Guidelines (the Guidelines) provide a principles-based approach for our investment decision-making and management and cover a broad range of sustainability-related matters, including, but not limited to, systemic issues such as climate change. The Guidelines provide flexibility to tailor our approach to reflect differences in the markets in which we invest and company-specific maturity nuances, while seeking the adoption of leading sustainability practices by our investee companies, without compromising our mission to provide a sustainable pension promise to the retired and active members over the long term.

These guidelines describe Ontario Teachers' Sustainable Investing Framework (the Framework) which applies across asset classes and through the investment lifecycle and is consistent with our fiduciary duty. The purpose of this Framework is to guide the integration of material sustainability-related factors into our investment process, aiming to identify and manage risks and opportunities for value creation and protection.

IV. Sustainable Investing Framework

As a global investor, we recognize the diverse contexts and regulatory environments in which our companies operate. The nature of our investments may vary significantly across asset classes and geographies. We seek to tailor the tools and processes we use to best suit the investment objectives and approach of certain asset classes and investment strategies, and we may also consider other factors such as governance structure, our ability to influence or data availability. Our Framework aims to address a wide spectrum of sustainability-related risks and opportunities and is designed to enable the flexible application of relevant, best practices.

At a total portfolio level, our strategic asset allocation process seeks to incorporate risks and opportunities related to systemic sustainability issues, such as climate change, where possible.

At the investment-level, this process involves due diligence, tailored to the investment's nature, ownership stake and size of the investment as well as other transaction's specifics. Post-investment, we seek to engage with companies to promote transparency and proactive management of sustainability and climate-related risks and opportunities, especially where we have significant ownership and influence. For example, we may support portfolio companies in their sustainability strategies, including energy transition and decarbonization efforts.

Expectations of Portfolio Companies

We expect our portfolio companies to protect and create value through the identification, assessment, and management of sustainability-related risks and opportunities material to their business and to establish the role of the board of directors or equivalent governance body (board) and senior management in the oversight and accountability of those factors.

Where sustainability-related factors are material, they have the potential to present material financial impacts to companies' performance and the management of these impacts is important information for boards and investors. For private companies, we encourage disclosure on sustainability-related risks and opportunities which is consistent, comparable and decision-useful for their boards and investors, including the potential impact of these factors on a company's performance over time. We support an approach of proportionality for sustainability disclosure, which allows companies to use reasonable and supportable information available to them without undue cost or effort.

Climate-related risks, consisting of physical and transition risks, may manifest over varying time horizons, and are likely to intensify over time. Companies are expected to review their vulnerability to climate-related risks regularly. We have developed resources to support our portfolio companies in addressing climate-related risks.

i. Due Diligence

We use our professional judgement to consider applicable, material sustainability-related factors when evaluating new direct investments and seek to ensure our Underwriting and Investment Committees are informed of material sustainability-related risks and opportunities. We may engage external advisors and counsel to assist in conducting sustainability-related due diligence. Our due diligence approach will vary based on (i) the nature and size of the investment, (ii) the transaction process and timeline, (iii) the level of access to information, specifically as it pertains to sustainability factors, and (iv) the target investment's sector or business model and the jurisdictions in which it operates.

For publicly listed investee companies, we may leverage third party sustainability data and information to inform our due diligence and investment decision-making.

ii. Investment Stewardship

We strive to be an active steward of the companies in which we invest. This means that in addition to integrating sustainability-related considerations in investment sourcing and due diligence, we have expectations and ongoing interactions with companies to protect and create value, where feasible. We believe that companies with leading sustainability practices are more resilient in a complex and volatile market environment.

The nature of identified material sustainability-related risks will guide the investment team's decisions, in line with their professional judgement and comprehensive investment strategy, which may involve additional company engagement among other factors. We may further tailor our engagements based on the materiality of the issue, the size of the investment and our ability to influence.

The Sustainable Investing Framework outlines our sustainable investing approach, but exceptions may apply when the processes described are impractical, such as with index replication strategies or derivative instrument investments that have a shorter-term investment horizon or where sustainability-related due diligence and integration information is lacking or too nascent for adherence to the described processes.

Private Markets

With our private assets, we strive to support the development of robust sustainability practices within our portfolio companies, including decarbonization strategies and the consideration of value creation opportunities that come through decarbonization and other sustainability-related factors more broadly. We contribute our expertise to help companies plan and execute their transitions to a low-carbon future by collaborating with companies where we have significant ownership stakes and/or influence. We recognize that active engagement may not always be feasible if we don't have enough control or board seats to influence our portfolio companies.

Public Markets

As active owners, we may use multiple channels (or "tools of influence") to advocate for practices that protect and create value and help manage systemic and idiosyncratic risks within our portfolio. We steward our public markets assets by casting our proxy votes based on our Proxy Voting Guidelines and in the best long-term economic interests of the Fund. We also engage companies directly on salient issues, and participate in public policy advocacy to improve the resiliency of capital markets and encourage strong corporate governance practices across jurisdictions we invest in.

For externally managed investments, we apply an approach of ongoing dialogue and sharing of leading practices, to encourage our external managers to continually improve their sustainable investing approach. Sustainability-related practices and performance are also assessed as part of the ongoing monitoring and evaluation of external investment managers. External managers may apply their own approach to sustainable investing and the integration of material sustainability-related risks and opportunities.

V. Priority Sustainability-related Topics

Managing sustainability-related risks and opportunities throughout our investment decision-making process requires consideration of an expansive set of sustainability factors that may give rise to financially material risks and opportunities for our investments or across the Fund.

There are key trends that may emerge that may impact the value of companies, global markets and the Fund. We might give higher priority to sustainability issues for in-depth evaluation when we view them as systemic risks, or if they are subject to developing regulations, or an emerging concern, particularly if we are positioned to exert a meaningful impact. Beyond these considerations, climate change will remain a central area of focus.

As a pension plan, we have a long horizon extending beyond 70 years. Climate change impacts will differ depending on whether we are looking over the next year, 3-5 years, 5-10 years and beyond. This is particularly true of physical climate change risk, with physical risks increasing as the horizon elongates. Transition risk is more complex as the near-term and medium-term impacts will be dependent on, among other things, policy, technology, consumer preferences, and capital flows.

VI. Sustainable Investing Leadership and Implementation

Accountability for Sustainable Investing (SI) at Ontario Teachers' extends throughout the organization. The Board is responsible for the overall management of the Fund. The Board has oversight of sustainable investing activities, including the approval of the Sustainable Investing Guidelines. In fulfilling its responsibilities, the Board may delegate certain duties and responsibilities to committees of the Board and to the President and Chief Executive Officer with the power to sub-delegate. The Board, its delegates and sub-delegates may leverage existing committees for investment-related activities or new governance structures to oversee elements of our sustainable investing activities.

The CEO ensures processes are in place to manage material sustainability-related risks. The Chief Investment Officers (CIOs) integrate sustainability considerations into investment strategy and ensure processes and practices are in place to manage sustainability risks for the investment portfolio. The CIOs regularly discuss sustainable investing and climate change at Board Investment Committee meetings.

Various management committees and Councils oversee the implementation of actions related to our sustainable investing strategy, including the implementation of our Green Bond Framework. The Global Head of Sustainable Investing (SI) is responsible for developing the overarching sustainable investing strategy in consultation with the Chief Strategy Officer (to whom the Head of SI reports), Investments and Investment Risk teams, along with ensuring appropriate training and knowledge-building within these teams. The Investment teams are responsible for implementing actions that relate to their roles including the day-to-day integration of sustainability and climate change considerations into investment activities and the development of macro views to assess climate-related, or other sustainability-related, risks and opportunities. The SI team supports the investment teams in the identification, assessment and management of material sustainability and climate -related risks and opportunities for assets under management.

VII. Investment Restrictions

Generally, Ontario Teachers' believes that engaging with portfolio companies is more likely to influence positive change than divesting from investments. However, Ontario Teachers' may choose to not invest in certain businesses due to certain risks. Under our exclusion framework, we consider international treaties and conventions, we may also consider the degree to which there may be societal or environmental harm, and the company or sector's willingness or ability to address the harm.

In addition to our exclusion framework, Ontario Teachers' has an ongoing process to identify and assess companies associated with severe controversies. Investment in companies posing potential reputational, and therefore financial, risks as a result of these controversies, may be restricted following an assessment of the risk and our ability to engage and influence positive change.

VIII. Reporting

Consistent with our expectations of reporting and transparency from companies in which we invest, we are committed to reporting on our sustainable investing activities. This reporting happens internally through various committees and the Board and externally through various means such as our Annual Report, Green Bond Report and may also include regular updates and case studies to our website to illustrate how these Sustainable Investing Guidelines are put into practice.

Ontario Teachers' Proxy Voting Guidelines and proxy voting record are also available on our website.

Ontario Teachers' Pension Plan Board
160 Front Street West, Suite 3200
Toronto, Ontario, M5J 0G4
+1 416-228-5900
communications@otpp.com

@otppinfo
otpp.com/linkedin
www.otpp.com