



Canada's Fossil-Fuelled Pensions

The Case of the British Columbia Investment Management Corporation

by Zoë Yunker, Jessica Dempsey and James Rowe

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Summary

THE BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION (BCI), formerly known as bcIMC, is a financial institution most British Columbians aren't aware of. Its actions, however, are essential to BC's and Canada's ability—or inability—to address the climate change crisis.

To avoid dangerous increases in sea levels, drought, species extinction and extreme weather, it is widely agreed that a rise in the earth's average temperature must not exceed 2°C above pre-industrial levels (about 200 years ago). In April 2016, Canada was among 195 countries that signed the Paris Agreement, committing to limit global warming to this 2°C limit with a further goal of working toward a 1.5°C limit. Both targets require urgent, sustained action to create net zero emissions across the global economy.

PENSION INVESTMENTS AND THE CLIMATE CRISIS

BCI is the fourth largest pension fund manager in Canada and controls one of the country's largest consolidated pools of wealth. The pensions of over 500,000 British Columbians are managed by BCI through the College Pension Plan, Public Service Pension Plan, Teachers' Pension Plan, Municipal Pension Plan and WorkSafeBC Pension Plan, among others. BCI manages investments worth over \$135.5 billion, including almost all of the province's public sector pension funds. Therefore we must ask, is BCI investing these funds in ways that support the shift to a 2°C global warming limit?

Unfortunately, the answer is no. Our research indicates that BCI's claims of responsible investment are more talk than walk, as its actions are not sufficient considering the risks posed by climate change to its portfolios, its beneficiaries or the broader society.

This report addresses two key questions regarding BCI's fossil fuel holdings:

- Do BCI's holdings indicate that the company is investing in accordance with the 2°C limit?
- Do BCI's environmental, social and governance investment practices align with the 2°C limit?

BCI is the fourth largest pension fund manager in Canada and controls one of the country's largest consolidated pools of wealth. Therefore we must ask, is BCI investing these funds in ways that support the shift to a 2°C global warming limit?

DO BCI'S HOLDINGS INDICATE THAT THE COMPANY IS INVESTING IN ACCORDANCE WITH THE 2°C LIMIT?

As of 2016, BCI had over \$3 billion invested in the top 200 publicly traded fossil fuel reserve holders—it is invested in 74 per cent of the oil and gas companies with the largest fossil fuel reserves and 30 per cent of the biggest reserve-holding coal producers. The company also invests heavily in Alberta tar sands companies. Therefore, BC pensions facilitate expansion of carbon-heavy oil resources in Canada. BCI is currently not investing in accordance with the 2°C limit, which is both a moral failing and a financial risk.

Instead of curbing these investments to align itself with the Paris Agreement, BCI has been increasing its oil and gas investments. For example, its investments in Kinder Morgan rose to \$65.3 million in 2017, nearly double its 2016 investment of \$36.7 million.

Since BCI's duty is to act in the best financial interests of plan members, its carbon-heavy holdings mean it may be breaching its statutory duty of prudence.

As energy systems move away from fossil fuels, investors who do not adapt could be left with "stranded assets"—investments that are no longer profitable. Canadian fossil fuel companies and their investors are particularly exposed to this threat since 60 per cent of the oil produced in Canada is high-cost bitumen from the oil sands. Many major investors are shifting their portfolios toward lower carbon investments, but BCI has not disclosed any internal processes that address the risks climate change poses to investments, nor has it established any carbon reduction targets for its portfolio.

Since BCI's duty is to act in the best financial interests of plan members, its carbon-heavy holdings mean it may be breaching its statutory duty of prudence. BCI managers also bear a "duty of impartiality" to plan members, meaning that short-term interests should not take precedence over the medium or long term. In the context of climate change, however, BCI's willingness to invest in high-risk, carbon-exposed companies may favour the interests of retirees accessing their funds now over the interests of members who will draw on retirement income in 10, 20 or more years.

DO BCI'S ENVIRONMENTAL, SOCIAL AND GOVERNANCE INVESTMENT PRACTICES ALIGN WITH THE 2°C LIMIT?

BCI defends its continued investment in fossil fuels through its commitment to "environmental, social and governance" (ESG) investing principles and practices, insisting that its ability to affect corporate conduct through shareholder engagement will create meaningful change in investee companies. As such, BCI will divest only in the "rarest of circumstances." Yet there is little publicly available evidence that these strategies are leading to concrete carbon emissions reductions, reductions that are necessary to meet the Paris Agreement targets.

BCI invests a portion (63.5 per cent) of its assets in-house; the remainder is outsourced to a number of external managers, who invest BCI's funds on its behalf. In other words, \$49.5 billion of BCI's assets are invested through external managers. This limits BCI's ESG oversight considerably since it does not require external managers to carry out ESG engagement activities with its investee corporations on its behalf. In terms of in-house asset management, BCI actively selects only 16 per cent of its public equities (stocks) based on social and environmental principles, and analysis of BCI's proxy voting history indicates that its shareholder engagement practices do not reflect the urgency of the climate crisis.

BCI also regularly cites involvement with third-party initiatives such as CDP (formerly the Carbon Disclosure Project) and the Principles for Responsible Investment as one of the primary ways it addresses climate change. But participation in these initiatives does not require a company to take substantive action on overall emissions reductions.

We conclude by offering recommendations for how BCI can align its investments with the 2°C limit. These include:

1. A portfolio-wide climate change risk analysis to determine the impact of fossil fuels on BCI's public equity investments in the context of the 2°C limit. And, subsequent disclosure of all findings to pension members.
2. Divestment. The surest way to address the financial and moral risks associated with investing in the fossil fuel industry is to start the process of divestment: freezing any new investment and developing a plan to first remove high-risk companies from portfolios, particularly coal and oil sands producers, and then moving toward sector-wide divestment.
3. Reinvest divested funds in more sustainable stocks. The International Energy Agency estimates that trillions of dollars of investment are needed in the renewables sector to support the transition away from fossil fuels.

This report invites pension fund members, trustees, unions, economists, journalists, academics and the general public to take part in the conversation around asset funds, their managers and the broader implications of social and environmental responsibility in an era of accelerating climate change. While pension fund managers such as BCI often operate "out of sight," their direct control of a significant portion of BC's economy means that their choices play a crucial role in BC's and Canada's responses to climate change.

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Introduction

BCI has invested billions of dollars in some of the heaviest carbon-producing companies in the world, including those extracting coal, tar sands oil and fracked gas.

THE BRITISH COLUMBIA INVESTMENT MANAGEMENT CORPORATION (BCI), formerly known as bcIMC, is a financial institution most British Columbians have never heard of. Its actions, however, are vital to BC's and Canada's ability—or inability—to address climate change.

BCI is the fourth largest pension fund manager in Canada, controlling one of the country's largest consolidated pools of wealth at \$135.5 billion.¹ The pensions of over 500,000 British Columbians are managed by BCI through the College Pension Plan, Public Service Pension Plan, Teachers' Pension Plan, Municipal Pension Plan and WorkSafeBC Pension Plan, among others.²

In April 2016, Canada was among 195 countries that signed the Paris Agreement, committing to limit a global temperature rise this century to well below 2°C above pre-industrial levels, with a further goal of working toward a less than 1.5°C rise in temperature. Both targets require urgent, sustained action in order to create net zero emissions across the global economy.

BCI manages almost all of the province's public sector pension funds.³ In this report, we ask: is BCI investing these funds in ways that support a 2°C global warming limit? When we examine its investment practices, we find that:

1. BCI has invested billions of dollars in some of the heaviest carbon-producing companies in the world, including those extracting coal, tar sands oil and fracked gas. Its investments do not align with the carbon budget that can keep the global community from surpassing 2°C warming. This is both a moral failing and a financial risk.
2. BCI's core practices of environmental, social and governance (ESG), including screening, direct engagement, proxy voting and participation in third-party ESG initiatives, fail to reflect the urgency of the climate crisis.

Pension beneficiaries and the general public have a right to know that BCI's carbon-heavy portfolio does not support the economy-wide changes that are needed to address the climate crisis.

1 British Columbia Investment Management Corporation. (2018). BCI at a Glance. Retrieved from <https://www.bci.ca/investments-performance/portfolio/>.

2 BCI also invests an accident fund for WorkSafeBC as well as a number of operating funds on behalf of the BC government. British Columbia Investment Management Corporation, *Corporate Annual Report 2016–2017*, 2016, <http://www.bcimc.com/publications/pdf/annualreport/2016-2017AnnualReport.pdf>.

3 BCI—under its previous moniker, bcIMC—was enabled under the *Public Sector Pension Plans Act* (the Act) in 2000 to provide investment management services to BC's public sector. Rather than specifying BCI as a Crown corporation, the Act established BCI as an agent of the BC government.

Further, BCI's inaction is exemplary of "new climate denialism," which acknowledges the climate crisis but avoids taking the substantial actions required to address it. As Klein and Daub suggest, this denial is more "insidious, but just as dangerous" as its traditional counterpart.⁴ Indeed, our findings suggest that BCI publicly expresses concern about human-caused climate change while investing billions of dollars in its most egregious contributors.

CALLS FOR DIVESTMENT

BCI has faced criticism for its unwillingness to respond to clients' requests to divest from certain companies. Susan Lambert, former president of the BC Teachers' Federation, says her union has lobbied BCI for over 15 years to divest from corporations such as Enbridge and British American Tobacco for ethical reasons.⁵ Yet BCI continues to have significant holdings in both companies: investments totalled \$230 million in British American Tobacco and \$782 million in Enbridge in 2016.⁶

In British Columbia, the Trustee Act requires pension trustees to exercise the care, skill, diligence and judgement that a prudent investor would exercise. In 2015, Canadian pension law experts Murray Gold and Adrian Scotchmer assessed the obligations of trustees in relation to climate change. Given the systemic risk posed by climate change, they concluded: "climate denial is not an option for pension fiduciaries."⁷

The economic landscape of the fossil fuel industry is shifting rapidly as the long-term valuations of oil, gas and coal stocks become increasingly uncertain. Having fossil fuel-related assets, once considered socially acceptable, is now seen by many as making one complicit in the climate crisis.⁸ In recent years, churches, endowments, pension funds and state-owned investment funds have pledged to fully or partially divest from fossil fuels, and now over \$6 trillion of investments have been declared partially or fully fossil fuel-free.⁹

Large US pension funds, including many based in Washington, DC and California, are key players in the movement to divest from fossil fuels. A trustee from the District of Columbia Retirement Board (which manages retirement funds for police officers, firefighters and teachers) has said that

In recent years, churches, endowments, pension funds and state-owned investment funds have pledged to fully or partially divest from fossil fuels, and now over \$5 trillion of investments have been declared partially or fully fossil fuel-free.

4 Seth Klein and Shannon Daub, "The New Climate Denialism: Time for an Intervention," September 22, 2016, retrieved April 9, 2018, <http://www.policynote.ca/the-new-climate-denialism-time-for-an-intervention/>. In the new form of climate denialism, political, corporate and institutional leaders assure the public that they understand the scientific warnings about climate change, yet these leaders remain in denial about the scale of action that the scientific reality demands.

5 Katie Hyslop, "Teacher Decries Pension Plan's 'Unethical' Investments," *The Tyee*, November 13, 2012, <https://thetyee.ca/News/2012/11/13/BC-Teachers-Pension-Plan/>. For example, the BC Teachers' Federation has an Environmental Justice Action Group (<https://bctf.ca/SocialJustice.aspx?id=22000>), but its policies are not reflected in the investment mandate or decisions made by BCI.

6 Calculations are aggregates of figures related to subsidiary companies. "British American Tobacco" includes British American Tobacco PLC and British American BHD, and "Enbridge" refers to Enbridge Inc. and Enbridge Income Fund Holdings. bclMC. (2016). bclMC Investment Inventory. Retrieved from <https://web.archive.org/web/20170614050817/http://www.bcimc.com/publications/pdf/Inventory/Investment%20Inventory%202016%20-%20Final.pdf>.

7 Murray Gold and Adrian Scotchmer, *Climate Change and the Fiduciary Duties of Pension Fund Trustees in Canada* (Toronto: Koskie Minsky LLP, 2015), 23, https://kmlaw.ca/wp-content/uploads/2015/10/KM_Climate_Change_Paper_06oct15.pdf.

8 Peter Frumhoff et al., "The Climate Responsibilities of Industrial Carbon Producers," *Climatic Change* 132, no. 2 (2015): 157–71, <https://doi.org/10.1007/s10584-015-1472-5>.

9 Fossil Free, "Divestment Commitments," <https://gofossilfree.org/divestment/commitments/>.

divestment from fossil fuels is not only “the morally and ethically right thing to do” but also a responsible financial decision.¹⁰

HOW DOES BCI MEASURE UP ON CLIMATE ACTION?

Our research suggests that BCI’s actions are not sufficient considering the risks posed by climate change to its portfolios, beneficiaries and the broader society.

In 2014, BCI joined other institutional investors in signing a pledge calling on governments to implement strong climate change policy. As part of that pledge, BCI agreed to “develop our capacity to assess the risks and opportunities presented by climate change and climate policy to our investment portfolios, and integrate, where appropriate, this information into our investment decisions.”¹¹ Our research, however, suggests that BCI is more talk than walk, as its actions are not sufficient considering the risks posed by climate change to its portfolios, beneficiaries and the broader society.

For example, BCI continues to hold investments in the fading coal industry and in a multitude of companies that extract, transport and process other fossil fuels. It asserts that the fiscal and ethical concerns posed by its fossil fuel assets can be effectively managed through investment practices that take into account “environmental, social and governance” (ESG) factors.¹²

This report critically investigates the above claim by asking the following questions:

- Do BCI’s holdings indicate that the company is investing in accordance with the 2°C limit?
- Do BCI’s environmental, social and governance investment practices align with the 2°C limit?

10 Zahra Hirji, “Washington D.C. Pension Fund Announces Full Fossil Fuel Divestment,” *Inside Climate News*, June 6, 2016, <https://insideclimatenews.org/news/06062016/washington-dc-pension-fund-announces-divestment>.

11 Global Investor Statement on Climate Change. (2014). Retrieved from <http://www.iigcc.org/files/publication-files/22NovGlobalInvesorStatementClimateChangeOver400.pdf>.

12 BCI states that it will only divest in instances when companies are sanctioned through federal legislation. Accordingly, after Canada ratified international treaties against the sale of land mines and cluster munitions within the country, BCI divested its holdings in companies selling or producing these weapons. This seems to be the sole occurrence of portfolio-wide ESG-related divestment in BCI’s history. British Columbia Investment Management Corporation. (2017). *RI Transparency Report*. Retrieved from https://www.bci.ca/wp-content/uploads/2018/02/bciMC_RIReport_2017.pdf.

Canada's fossil-fuelled pensions

METHODOLOGY

The following analysis focuses on BCI's public equity investments—by far the largest allocation of funds in its portfolio. (The institution's portfolio of private investments, however, warrants future investigation.)

We based our analysis of BCI's investment practices primarily on reporting materials that are publicly available on the company's website. Fossil fuel holdings information for BCI's public equities portfolio was drawn from its 2016 Investment Inventory List and includes investments in BCI's fixed income and public equity portfolios.¹³ Our analysis of proxy voting—shareholder votes cast at a distance—consists of a two-part methodology because of changes to BCI's proxy voting reporting practices in 2015. Our initial methodology assessed previously accessible quarterly reports from BCI's proxy voting records for Canadian, international and US equities from 2007, 2010 and 2013.¹⁴ Given that BCI's proxy voting reporting practices changed in 2015 to a by-company format, we acquired unpublished proxy voting documentation for the years 2013 to 2016 by communicating with BCI staff. Our systematic analysis was restricted to proxy votes that directly referenced "climate" or "GHG" (greenhouse gas) from 2013 to 2016. Supplementary analysis draws on publicly available documents such as BCI's annual *Responsible Investing Annual Report*, annual *RI Transparency Report*, and quarterly *Responsible Investing Newsletter*.¹⁵

13 When calculating investment totals for fixed income and public equity holdings, we included parent companies and their subsidiaries in cases where the subsidiary carries out the same type of fossil fuel extraction as the parent company. For example, both Enbridge Income Fund Holdings Inc and Enbridge Energy Partners LP were included in the calculation for BCI's investment in the company.

14 A keyword search identified voting topics related to climate, fossil fuels and socially responsible investing; this narrowed topic field provided our subjects for subsequent analysis. BCI's voting summaries for this time period, previously available on its website, are now accessible through the Internet Archive's WayBack Machine: <https://web.archive.org/web/20130815203919/http://bcimc.com/ResponsibleInvesting/Reporting.asp>.

15 As this report was going to press, BCI underwent a rebranding, changing its name from bcIMC to BCI and making substantial changes to its website that included increased disclosure of its ESG principles and practices. Materials released during and after the rebranding have not been analyzed for this paper.

THE NEED TO LIMIT GLOBAL WARMING TO 2°C

In order to avoid dangerous increases in sea level, drought, species extinction and extreme weather,¹⁶ it is widely agreed that the earth's average temperature must not exceed 2°C above pre-industrial levels (about 200 years ago).¹⁷ In 2017, the average global temperature surpassed the 1°C mark, and the effects have been dramatic. What were once understood as risks are now well-documented impacts of climate change: heat waves, forest fires and aquatic mass die-offs, among other effects.¹⁸ Superstorms affecting the poor and racialized more than anyone else, from Houston to the Philippines, can now, at least in part, be attributed to anthropogenic GHG emissions.¹⁹

We believe the 2° degree limit represents a bare minimum of ambition, enshrined in international covenant, and despite its limitations must be adhered to at all costs.

While 2°C might be the most conventionally accepted temperature increase, even this level of warming poses tremendous risks, including inundation of low-lying island nations and the potential displacement of 600 million people living in coastal areas that are less than 10 metres above sea level.²⁰ The Alliance of Small Island States expressed concern with the 2°C target at the 2015 United Nations Climate Change Conference in Paris (COP 21), where Canada joined with the Alliance and other countries in advocating an aspirational goal of keeping warming within a 1.5°C limit. We believe the 2° degree limit represents a bare minimum of ambition, enshrined in international covenant, and despite its limitations must be adhered to at all costs.

THE CARBON BUDGET

Based on the 2°C limit, the Intergovernmental Panel on Climate Change (IPCC) has calculated a carbon budget—the amount of carbon that human society can burn before the 2°C limit is reached.²¹ Research produced by Fossil Free Indexes (FFI) puts the world's carbon budget through 2050 at approximately 630 billion tonnes of carbon dioxide for an 80 per cent probability of staying below the 2°C threshold.²² At current carbon emission rates, we will exhaust our available carbon budget before 2040,²³ and using the 1.5°C target, we will likely blow through our available carbon allocation within the next four years.²⁴

16 "How a 2C Temperature Increase Could Change the Planet," CBC.ca, 2015, <http://www.cbc.ca/news/2/interactives/2degrees/>.

17 Carbon Brief, "Two Degrees: The History of Climate Change's Speed Limit," December 8, 2014, retrieved May 10, 2018, <https://www.carbonbrief.org/two-degrees-the-history-of-climate-changes-speed-limit>.

18 See, for example, Nikolaos Christidis et al., "Dramatically Increasing Chance of Extremely Hot Summers Since the 2003 European Heatwave," *Nature Climate Change* 5 (2015): 46–50; John T. Abatzoglou and A. Park Williams, "Climate Change Has Added to Western US Forest Fires," *Proceedings of the National Academy of Sciences* 113, no. 42 (2016): 11770–75; and Terry P. Hughes et al., "Global Warming and Recurrent Mass Bleaching of Corals," *Nature* 543 (2017): 373–77.

19 Chelsea Harvey, "Scientists Can Now Blame Individual Natural Disasters on Climate Change," *Scientific American*, January 3, 2018, <https://www.scientificamerican.com/article/scientists-can-now-blame-individual-natural-disasters-on-climate-change/>.

20 United Nations, the Ocean Conference, "Factsheet: People and Oceans," 2017, <http://www.un.org/sustainabledevelopment/wp-content/uploads/2017/05/Ocean-fact-sheet-package.pdf>.

21 Intergovernmental Panel on Climate Change, *Climate Change 2013: The Physical Science Basis*, 2013, <http://www.climatechange2013.org>.

22 There are different estimates of the earth's remaining carbon budget. In this report, we rely on Fossil Free Indexes' (FFI) calculations. This begins with the IPCC WGIII AR5 carbon budgets from April 2014. FFI favours an 80 per cent probability of keeping warming below 2°C, leaving a total budget of 694 GtCO₂ for 2014–50. Fossil Free Indexes then uses the International Energy Agency data on yearly emissions to update the IPCC budget. This results in a carbon budget of 630 GtCO₂ for 2016–50. These calculations were received via personal communications with Tom Francis, Director of Oil and Gas Research at FFI and co-author of "The Carbon Underground 2016: Managing the Climate Risks of Fossil Fuel Companies in Investment Portfolios." July 2016, <http://fossilfreeindexes.com/research/>.

23 Carbon Brief, "Analysis: Just Four Years Left of the 1.5C Carbon Budget," April 5, 2017, <https://www.carbonbrief.org/analysis-four-years-left-one-point-five-carbon-budget>.

24 Carbon Brief, "Analysis."

This carbon budget is much smaller than the fossil fuel reserves available for extraction and combustion. According to the Carbon Tracker Initiative, total proven fossil fuel reserves contain approximately 2,900 billion tonnes of carbon—a figure that dwarfs our remaining carbon budget of around 630 billion tonnes.²⁵ While these reserves remain underground geologically speaking, they are above ground economically as they are factored into company share prices.

The fundamental contradiction facing the fossil fuel industry and its investors is that a large portion of known reserves already factored into company valuations must stay in the ground if we are to avoid disastrous levels of climate change. When governments legislate for a 2°C world, huge supplies of fossil fuels will become unburnable, and the companies and investors who own them or the rights to extract them could lose billions of dollars.

As a major Canadian investor and steward of public sector pensions, BCI has a responsibility to act on climate change. In order to understand BCI's progress in this area, we set out to answer two questions, beginning with its fossil fuel holdings.

DO BCI'S HOLDINGS INDICATE THAT THE COMPANY IS INVESTING IN ACCORDANCE WITH THE 2°C LIMIT?

GHG emissions of BCI's holdings

As of 2016, BCI had over \$3 billion invested in the top 200 publicly traded fossil fuel reserve holders.²⁶ This list of 200 corporations—called the Carbon Underground 200 (CU200) by Fossil Free Indexes, a carbon emissions research organization for investors—consists of the largest 100 oil and gas reserve holders and the largest 100 coal reserve holders. BCI has shares in 104 of the CU200: 74 oil and gas companies and 30 coal producers. In other words, BCI is invested in 74 per cent of the oil and gas companies with the largest reserves and 30 per cent of the biggest reserve-holding coal producers.

Fossil Free Indexes has calculated a carbon budget for the CU200 showing the amount of fossil fuels these companies can responsibly extract while respecting the 2°C limit. The CU200 carbon budget is only approximately 16 per cent of the total carbon budget because the majority of global reserves are held by nationally or privately owned operations. The current carbon budget is 103 billion tonnes of carbon dioxide.²⁷

BCI is invested in 74 per cent of the oil and gas companies with the largest reserves and 30 per cent of the biggest reserve-holding coal producers.

25 Carbon Tracker and the Grantham Research Institute, "Wasted Capital and Stranded Assets," April 19, 2013, <https://www.carbontracker.org/reports/unburnable-carbon-wasted-capital-and-stranded-assets/>.

26 This total represents the authors' primary research on BCI's 2016 annual investment inventory. Totals for fossil fuel holdings include assets in public equity and fixed income investments. bclMC. (2016). *bclMC Investment Inventory*. Retrieved from <https://web.archive.org/web/20170614050817/http://www.bcimc.com/publications/pdf/Inventory/Investment%20Inventory%202016%20-%20Final.pdf>.

27 Fossil Free Indexes, "The Carbon Underground 2016: Managing the Climate Risks of Fossil Fuel Companies in Investment Portfolios," July 2016, <http://fossilfreeindexes.com/research/the-carbon-underground/>. The CU200 carbon budget is calculated by taking total potential emissions for the CU200 (472 GtCO₂) and dividing this by the potential emissions of all proven reserves (2,900 GtCO₂). The resulting figure (0.16) is then multiplied by the total remaining global carbon budget (630 GtCO₂). The assumption is that because publicly traded companies hold approximately 16 per cent of total potential emissions, they are entitled to approximately 16 per cent of the remaining carbon budget. This assumption does not factor in extraction cost and therefore is favourable to the CU200. Many publicly traded firms are heavily invested in unconventional, high-cost sources such as oil sands and shale oil. When climate legislation raises the cost of production through policy mechanisms such as carbon taxation, lower cost producers in Saudi Arabia and other OPEC nations are likely to consume more of the remaining carbon budget.

Table 1: BCI's 2016 holdings (in millions of Canadian dollars) in top 10 oil and gas companies ordered by size of fossil fuel reserves.

Company	Market value (in C\$ million)
Gazprom	35.9
Rosneft	3.3
PetroChina	54.9
ExxonMobil	222.1
Lukoil	67.4
BP	72.4
Royal Dutch Shell	187
Petrobras	4.9
Chevron	126.3
Novatek	2.7
Total	776.9

Source: British Columbia Investment Management Corporation Investment Inventory List as of March 31st 2016.

BCI has invested billions of dollars in companies whose financial worth depends on overshooting their carbon budget.

When the reserves of the CU200 companies that BCI has invested in are calculated, however, the result is 300 billion tonnes of carbon dioxide, or three times the carbon budget for the entire CU200. Recalling that reserves are factored into current company valuations, this means that BCI has invested billions of dollars in companies whose financial worth depends on overshooting their carbon budget.

BCI also invests heavily in Alberta oil sands companies. Therefore, BC pensions facilitate the expansion of particularly carbon-heavy oil resources. In 2016, BCI had investments of \$3.2 billion in the top Canadian oil and gas midstream and service companies (see Table 2), seven of which are in the CU200.²⁸ The biggest investment is in Canada's largest pipeline company, Enbridge and its subsidiaries, at \$782 million (an increase from \$749 million in 2014). Meanwhile, BCI has invested \$526 million in oil sands producer and refiner Suncor and \$457 million in the TransCanada Corporation—the company behind the controversial proposed Keystone XL pipeline project. With these investments, BCI is heavily invested in the most emissions-intensive energy sources in the world.²⁹

²⁸ Note that while the CU200 list is based on reserve totals, the top 20 Canadian companies list is based on revenue, suggesting that the discrepancy between top-ranking companies stems from methodological differences. The top 20 Canadian companies list is adapted from *Alberta Oil's* annual listing for 2016, <https://www.albertaoilmagazine.com/2016/06/biggest-oil-gas-midstream-service-companies-year-2/>. While Ontario Power Generation is listed in the Alberta Oil ranking, it has been excluded from our list due to the report's emphasis on fossil fuel and fossil-fuel related industries.

²⁹ Benjamin Israel, "The Real GHG Trend: Oilsands Among the Most Carbon Intensive Crudes in North America," Pembina Institute, October 4, 2017, <http://www.pembina.org/blog/real-ghg-trend-oilsands>.

Table 2: BCI holdings in the top Canadian oil and gas, midstream and service companies (by total revenue) as of March 31st 2016.*

Company	Market value (in C\$ million)
Enbridge	782.2
Suncor	525.7
TransCanada Corp	457.4
Hydro One	352.41
Canadian Natural Resources	320.6
Fortis	144
West Coast Energy Inc	130.8
Pembina Pipeline Corporation	113.4
Cenovus	84
Imperial Oil	76.2
Crescent Point	65.7
Encana	40.9
Husky Energy	37.3
Gibson Energy	14.5
Superior Plus	14.5
Parkland Fuel	9.9
Total	3169.51

* The 200 List. (2016, June 1). Retrieved June 7, 2018, from: <https://www.albertaoilmagazine.com/2016/06/biggest-oil-gas-midstream-service-companies-year-2/>.

Instead of curbing these investments to align itself with the Paris Agreement, BCI is increasing many of its oil and gas investments in these large companies. BCI's 2017 investment inventory shows that its public equity investments in companies including TransCanada, CNOOC-Nexen, Encana and others have nearly doubled since 2016.³⁰ While these findings are indicative of BCI's contradictory approach to climate change, a systematic comparison between earlier years is now impossible: BCI has since weakened its reporting practices and no longer discloses the dollar

BCI has weakened its reporting practices and no longer discloses the dollar amount of its fixed income investments, meaning that nearly 20 per cent of its portfolio is invisible to the public.

³⁰ BCI Investment Inventory List as at March 31 2017, <https://www.bci.ca/wp-content/uploads/2018/02/InvestmentInventory2017.pdf>.

amount of its fixed income investments, meaning that nearly 20 per cent of its portfolio is invisible to the public. When it comes to fossil fuel investments, this matters: during the last year they were publicly available, BCI's fixed term investments in Enbridge (\$378 million) were similar to its public equity assets in the company (\$404 million). In 2017, BCI's public equity investments in Enbridge had nearly doubled, to \$701 million. Its fixed term investments—now hidden—would compound this already striking increase. BCI's investments in Kinder Morgan rose to \$65.3 million in 2017, nearly doubling its 2016 investment of \$36.7 million.³¹

Investing in climate change denial and policy obstructionism

The preceding analysis suggests that BCI's investments are incongruent with the 2°C limit. Moreover, it has chosen to invest millions in companies with long histories of climate change denial and policy obstructionism. For example, BCI is a major investor in ExxonMobil (\$222 million) and its Canadian counterpart, Imperial Oil (\$76 million). Since 1998, ExxonMobil has given \$33 million to over 60 organizations that spread doubt about climate change science.³² In 2015, reporters with the *Los Angeles Times* and *InsideClimate News* revealed that ExxonMobil was aware of the dangers of climate change as early as 1977, proving that its denialist efforts have been wilfully deceitful.³³ Continued investment in companies such as this is an investment in climate change denialism.

Additionally, a self-interested desire to preserve existing business models leads fossil fuel companies to lobby against needed climate legislation, and BCI invests in a number of companies guilty of these activities. For example, some of BCI's fossil fuel investee corporations were recently shown, through freedom of information requests, to have contributed to the dilution of BC's Climate Leadership Plan.³⁴ The BC government established a 17-member climate leadership team to make recommendations on how the province could meet its emissions reduction targets, but soon after, provincial government officials held closed-door meetings in Calgary with the oil and gas industry in which company executives revised and rewrote the climate leadership team's recommendations. The result was a weak "non-plan" that failed to account for how the Province could meet its own legislated emissions reduction target of 80 per cent by 2050.³⁵

BCI has significant investments in companies that participated in rewriting and diluting BC's Climate Leadership Plan: Suncor (\$526 million), Canadian Natural Resources (\$321 million), Chevron (\$126 million), Imperial Oil (\$76 million), Encana (\$41 million), ConocoPhillips (\$38 million) and Teck Resources (\$32 million) (see Tables 1 and 2). As owners in these companies, bcIMC also owns its efforts to obstruct sound climate legislation.³⁶

31 BCI's 2016 investment of \$36.7 million includes both fixed and public equity investments, whereas due to the company's limited disclosure practice as of 2017, its reported Kinder Morgan investment of \$65.3 million for that year only references its public equity investments. This suggests that its 2017 investment would likely be more than double that of 2016, had fixed investments been included in the calculation.

32 DESMOC, "ExxonMobil's Funding of Climate Science Denial," <https://www.desmogblog.com/exxonmobil-funding-climate-science-denial>.

33 Neela Banerjee et al., "Exxon's Own Research Confirmed Fossil Fuels' Role in Global Warming Decades Ago," *InsideClimate News*, September 16, 2015, <https://insideclimatenews.org/news/15092015/Exxons-own-research-confirmed-fossil-fuels-role-in-global-warming>.

34 Shannon Daub and Zoë Yunker, "BC's Last Climate 'Leadership' Plan Was Written in Big Oil's Boardroom (Literally)," *Policy Note*, September 18, 2017, <http://www.policynote.ca/climate-leadership-plan-big-oils-boardroom/>.

35 Seth Klein, "The BC Government's Updated Climate (Non-)Plan: This Is Not Leadership," *Policy Note*, August 19, 2016, <http://www.policynote.ca/the-bc-governments-updated-climate-non-plan-this-is-not-leadership/>.

36 bcIMC. (2016). bcIMC Investment Inventory. Retrieved from <https://web.archive.org/web/20170614050817/http://www.bcimc.com/publications/pdf/Inventory/Investment%20Inventory%202016%20-%20Final.pdf>.

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Financial risk and investor responsibility

As energy generation shifts away from fossil fuels, investors who do not respond could be left with “stranded assets”—investments that are no longer profitable. Canadian fossil fuel companies and their investors are particularly exposed to this threat, since 60 per cent of the oil produced in Canada is high-cost bitumen from the oil sands.³⁷ When regional, national and international climate legislation raises the cost of production through policy mechanisms like carbon taxation, high-cost producers will face a profitability crisis.

A recent study published in *Nature* analyzes which fossil fuel reserves in particular will need to stay buried for the world to avoid surpassing the 2°C limit. The authors conclude that 85 per cent of known oil sands reserves in Canada must go unburned if we want to achieve the Paris Agreement targets.³⁸ This finding is based on the economic reality that the cheaper reserves to exploit—such as conventional crude in the Middle East—will be burned first as climate legislation raises the cost of production. Canadian pension beneficiaries may therefore be particularly exposed to stranded assets and the financial risks they pose—risks that fund managers such as BCI are not adequately addressing. Most recently, banking giants HSBC, BNP Paribas and ING (among others) announced they would halt financing for greenfield oil sands projects (those carried out on previously unexploited land), coal power plants and Arctic drilling projects.³⁹

Many major investors are shifting their portfolios toward lower carbon investments. The European Union recently passed a law requiring European pension funds to consider climate risk—described as the possible depreciation of assets due to regulatory change—in investment decisions. The Norwegian central bank, Norges, which manages the world’s largest sovereign wealth fund (valued at over \$1 trillion), recently advised its government to divest its shares in oil and gas companies. Likewise, New York City has announced plans to remove fossil fuel investments from its \$189 billion pension fund.⁴⁰

BCI, however, has not disclosed the presence of any internal processes to address the critical risks that climate change poses to investments, and it has not established any carbon reduction targets for its portfolio.⁴¹ In a recent report on Canadian pension funds and climate change, Marc Lee and Justin Ritchie outline risk factors associated with heavy investment in fossil fuel assets. These include commodity price risk (e.g., the drop in oil price since 2014), energy innovation risk (e.g., the rapidly decreasing cost of renewables), carbon liability risk (e.g., the potential for fossil fuel producers to be sued for damages in the same way that tobacco companies have been held liable for health damages) and the risk of opposition from Indigenous and non-Indigenous communities (e.g., the role Indigenous rights and title played in stopping the Enbridge Northern Gateway

Canadian pension beneficiaries may be particularly exposed to stranded assets and the financial risks they pose — risks that fund managers such as BCI are not adequately addressing.

37 Jeff Rubin, “The Case for Divesting From Fossil Fuels in Canada,” *CIGI Papers* 112 (The Centre for International Governance Innovation, October 2016): 6, <https://www.cigionline.org/sites/default/files/documents/CIGI%20Paper%20no.112web.pdf>.

38 Christophe McGlade and Paul Ekins, “The Geographical Distribution of Fossil Fuels Unused When Limiting Global Warming to 2°C,” *Nature* 517 (2015): 187–90, <http://www.nature.com/nature/journal/v517/n7533/abs/nature14016.html?foxtrotcallback=true>.

39 Elizabeth McSheffrey, “Europe’s Biggest Bank Retreats from the Oilsands,” *National Observer*, April 20, 2018, <https://www.nationalobserver.com/2018/04/20/news/europes-biggest-bank-retreats-oilsands>.

40 Associated Press, “NYC Sues, Divests from Oil Firms Over Climate Change,” *New York Daily News*, January 10, 2018, <http://www.nydailynews.com/news/wires/news/business/nyc-sues-divests-oil-firms-climate-change-article-1.3748095>.

41 British Columbia Investment Management Corporation. (2017). *RI Transparency Report*. Retrieved from https://www.bci.ca/wp-content/uploads/2018/02/bclIMC_RIReport_2017.pdf.

Pipeline).⁴² According to Lee and Ritchie, “Fund managers and trustees should be required to justify continued fossil fuel investments, clarify the risks associated with fossil fuel holdings and develop criteria to evaluate best and worst performers.”⁴³

Since BCI has a duty to act in the best financial interests of plan members, its carbon-heavy holdings mean it may be breaching its statutory duty of prudence. BCI managers also bear a “duty of impartiality” to plan members, meaning that short-term interests should not take precedence over the medium or long term. In the context of climate change, however, BCI’s willingness to invest in high-risk, carbon-exposed companies may favour the interests of retirees accessing their pension funds now over the interests of members who will draw on retirement income in 10, 20 or more years.

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DO BCI’S ENVIRONMENTAL, SOCIAL AND GOVERNANCE INVESTMENT PRACTICES ALIGN WITH THE 2°C LIMIT?

BCI’s approach to responsible investment

BCI asserts that environmental, social and governance (ESG) factors—including climate change—can be managed through responsible investing practices. It argues that its ability to affect corporate conduct through shareholder engagement will create meaningful change in investee companies (companies it invests in). As such, BCI will divest only in the “rarest of circumstances.”⁴⁴

Asset managers’ ESG practices include integrating environmental, social and corporate governance considerations into their investment selection process or strategically engaging with investee companies to improve corporate practices. These techniques are based on the assumption that investors can effectively regulate market externalities and risk with their discretionary use of voluntary and independently managed measures, directing the burden of climate action onto market forces.⁴⁵

Socially responsible investment (SRI) and ESG principles are implemented by investment fund managers in several ways:

NEGATIVE SCREENING: The exclusion of certain companies from an investment portfolio on the basis of ESG principles.

42 Marc Lee and Justin Ritchie, *Pension Funds and Fossil Fuels: The Economic Case for Divestment* (Ottawa: Canadian Centre for Policy Alternatives, 2015), <https://www.policyalternatives.ca/publications/reports/pension-funds-and-fossil-fuels>. Recently, the Indigenous Network on Economies and Trade (INET) issued a report outlining the significant financial risks to investors in Kinder Morgan and Kinder Morgan Canada (KML) due to Secwepemc opposition to the Trans Mountain pipeline expansion in BC. See INET, “Standing Rock of the North: The Kinder Morgan Trans Mountain Pipeline Expansion Secwepemc Risk Assessment,” 2017, https://docs.wixstatic.com/ugd/934d11_6d9408803da54d24a2d6b650f14e6125.pdf.

43 Lee and Ritchie, *Pension Funds*.

44 British Columbia Investment Management Corporation. (2011). *Responsible Investing Report: Annual Summary April 2010 to March 2011*. Retrieved from <https://web.archive.org/web/20130617050039/http://www.bcimc.com/publications/pdf/ResponsibleInvesting/ResponsibleInvestingSummary2010-2011.pdf>.

45 Carlos Joly, “Why Responsible Investment Falls Short of Its Purpose and What to Do About It,” *Corporate Governance* 10, no. 1 (2010): 18–32, <http://www.emeraldinsight.com/doi/full/10.1108/14720701011021085>; Brett Christophers, “Climate Change and Financial Instability: Risk Disclosure and the Problematics of Neoliberal Governance,” *Annals of the American Association of Geographers* 107, no. 5 (2017): 1108–27.

POSITIVE SCREENING: The practice of applying indexes that evaluate companies according to particular performance indicators.⁴⁶ BCI uses positive screening to bolster investment in firms that align with particular ESG criteria.⁴⁷

PROXY VOTING: Shareholders in a company have the right to vote on certain issues and proposals that either managers or shareholders put forward during shareholder or special meetings. When a shareholder participates in the voting process at a physical distance from the location of the vote, it is called a “proxy vote.” The impact that BCI’s vote can have on a proposal varies, depending on the proportion of shares in a company that are owned by BCI and the company’s governance structure.

SHAREHOLDER ENGAGEMENT: This is the practice of “active management”—attempting to shape the policy directions of invested-in companies.⁴⁸ BCI carries out shareholder engagement by engaging directly with companies or with coalitions of investors, often mediated by industry organizations such as the PRI (Principles for Responsible Investment) Association.⁴⁹

Since BCI’s only systematic negative screens are for land mines and cluster munitions, our report focuses on its use of the following three techniques—positive screening, proxy voting and shareholder engagement—into its asset management practice.

Positive screens: Are ESG integration techniques aligning BCI’s holdings with climate action?

BCI uses positive screening techniques, which it refers to as “integration,” in an attempt to focus investments on holdings that align with higher ethical standards outlined in its Responsible Investment Policy.⁵⁰ However, BCI does not publicly make clear the nature of these screens or the proportion of assets they are applied to. Based on available documentation, we believe that these screens only cover approximately 16 per cent of BCI’s public equity portfolio. Moreover, in the context of the Paris Agreement, it is unclear whether reducing carbon emissions factors into the selection of investments, which may explain why climate change deniers like ExxonMobil still appear in BCI’s portfolio. Further, as we outline below, BCI is not transparent about the ESG investment practices of its external fund managers.

In the context of the Paris Agreement, it is unclear whether reducing carbon emissions factors into the selection of investments, which may explain why climate change deniers like ExxonMobil still appear in BCI’s portfolio.

BCI’s externally managed investments

As noted, BCI invests a portion (63.5 per cent) of its assets in-house; the remainder is outsourced to a number of external managers who invest BCI’s funds on its behalf.⁵¹ These external managers

46 Marc Lee and Brock Ellis, *Canada’s Carbon Liabilities: The Implications of Stranded Fossil Fuel Assets for Financial Markets and Pension Funds* (Ottawa: Canadian Centre for Policy Alternatives, 2013), [https://www.policyalternatives.ca/sites/default/files/uploads/publications/National Office, BC Office/2013/03/Canadas Carbon Liabilities.pdf](https://www.policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/BC%20Office/2013/03/Canadas%20Carbon%20Liabilities.pdf).

47 Some of BCI’s private investment funds show promise in terms of moving toward more sustainable practices—it claims to prioritize sustainable building certification standards and has supported energy and water conservation programs.

48 Paul Hawken, *Socially Responsible Investing: How the SRI Industry Has Failed to Respond to People Who Want to Invest with Conscience and What Can Be Done to Change It* (California: Natural Capital Institute, 2004) <http://www.baldwinbrothersinc.com/wp-content/uploads/2018/03/report-harkin.pdf>.

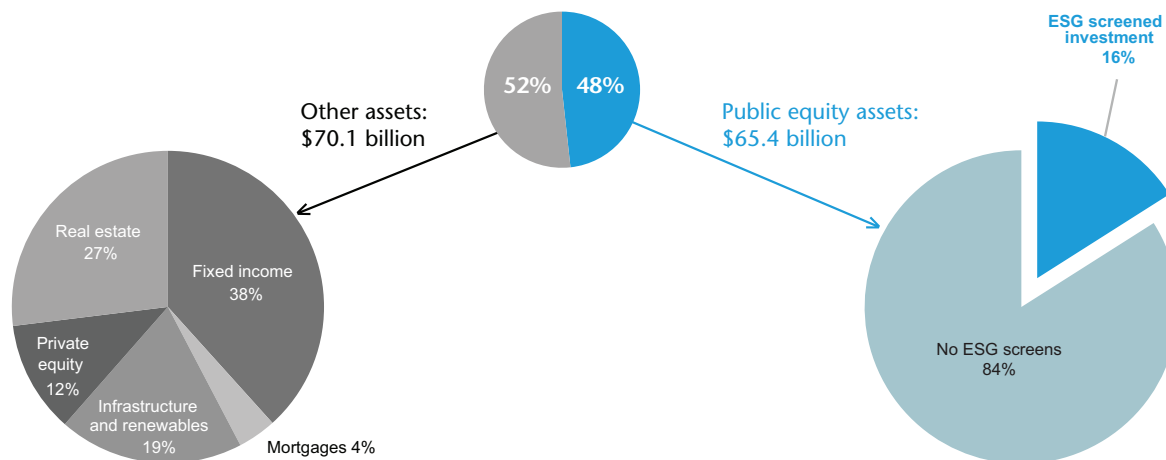
49 British Columbia Investment Management Corporation, *Responsible Investing Annual Report 2015*, 2015a, <http://read.uberflip.com/i/640677-2015-bcimc-responsible-investing-annual-report>.

50 British Columbia Investment Management Corporation, *2016 Responsible Investing Annual Report*, 2016c, <http://read.uberflip.com/i/797019-2016-responsible-investing-annual-report>.

51 British Columbia Investment Management Corporation, *2016 Responsible Investing Annual Report*.

Figure 1: Environmental, social and governance (ESG) screen coverage for BCI public equities

BCI's total investment portfolio: \$135.5 billion*



* Of BCI's entire portfolio (public equity assets and "other investments"), 63.5% is managed internally, and 36.5% is invested by external managers.¹ In relation to BCI's entire portfolio, public equities make up 48.3%, fixed income investments are 19.2%, mortgages are 2.1%, infrastructure and renewables are 9.6%, private equity is 5.8%, and real estate is 13.5%.² Our calculation of ESG screens only applies to public equity assets.

1 British Columbia Investment Management. (2017). *bclMC Annual Report 2017*. Victoria BC. Retrieved from <http://read.uberflip.com/i/847510-bcimc-corporate-annual-report-2016-17>.

2 BCI. (2017). *BCI Investment Inventory List as at March 31st 2017*. Victoria BC. Retrieved from <https://www.bci.ca/wp-content/uploads/2018/02/InvestmentInventory2017.pdf>.

BCI cites climate change as a top shareholder engagement priority, but it lacks transparency and accountability on how this priority is materially affecting the carbon-heavy nature of its investment portfolio.

include over 29 investment management corporations such as BlackRock Asset Management Canada and J.P. Morgan Asset Management.⁵² In other words, 36.5 per cent or \$49.5 billion of BCI's assets (out of a total of \$135.5 billion) are invested through external management companies.

According to its documents, BCI includes ESG considerations in external asset manager selection and since 2016 has required all external managers to provide ESG reporting on a quarterly basis.⁵³ While BCI's disclosure on its relationship with external managers has improved in recent years, it still does not mandate that they integrate any particular ESG techniques or engagement activities with their investee corporations on its behalf.⁵⁴ The quarterly ESG reports referenced above are not publicly available, and BCI concedes that it does not report on the impacts and outcomes of external manager ESG investment practices.⁵⁵ This means that BCI's clients are unable to determine whether the ESG practices of external managers are creating material changes in its portfolio—particularly in terms of the carbon emissions generated from its assets. Given that externally managed investments represent a considerable portion of BCI's public

52 British Columbia Investment Management Corporation, *Corporate Annual Report 2016–2017*, 2017, <http://read.uberflip.com/i/847510-bcimc-corporate-annual-report-2016-17>.

53 British Columbia Investment Management Corporation. (2017). *RI Transparency Report*. Retrieved from https://www.bci.ca/wp-content/uploads/2018/02/bclMC_RIReport_2017.pdf, 17.

54 British Columbia Investment Management Corporation, *RI Transparency Report 2017*. The only systematic analysis of BCI's external fund managers' ESG-related approaches focuses exclusively on its portfolio-wide screen on land mines and cluster munitions. BCI also requires managers to avoid investing in jurisdictions subject to Canadian legal sanctions.

55 British Columbia Investment Management Corporation, *RI Transparency Report 2017*.

equities portfolio, its capacity to responsibly manage its members' assets in line with the Paris Agreement is questionable.

BCI cites climate change as a top shareholder engagement priority,⁵⁶ but it lacks transparency and accountability on how this priority is materially affecting the carbon-heavy nature of its investment portfolio. This is the case with its externally managed investments, as well as the internally managed ones we now turn to.

BCI's internally managed investments

Of the listed public equity investments BCI manages internally, approximately 84 per cent are passive: BCI aligns these investments with pre-structured market indexes that mirror segments of the market economy.⁵⁷ The remaining 16 per cent consist of active in-house investments, which BCI monitors and adjusts based on its own research.

BCI consolidates the majority of its equity investments into portfolios called "pooled funds."⁵⁸ BCI reports carrying out ESG selection in only four of these funds: the Active Canadian Equity Fund, the Active Canadian Small Cap Equity Fund, the Thematic Public Equity Fund and the Indexed Global ESG Equity Fund. Yet in 2017, these screened investments comprised only 16 per cent of BCI's overall public equities assets (\$10.7 billion out of \$65.4 billion).⁵⁹ ⁶⁰ As with the externally managed funds described above, BCI does not publicly disclose the nature of its ESG selection criteria, meaning that we are unable to determine whether these processes are exerting significant influence on the carbon emissions investments held in BCI's portfolio. While BCI alludes to ESG-informed investment selection as one of its primary strategies of responsible investment, a critical lack of transparency in its disclosure practices means that it is not possible to discern whether ESG selection extends beyond the individual ESG funds listed above.

In conclusion, across all BCI internally and externally managed public equities (\$65.4 billion in 2016), we can only confirm that 16 per cent are systematically screened by BCI according to ESG considerations (Figure 1).⁶¹ This leaves 84 per cent of BCI public equities with marginal ESG oversight, suggesting that BCI's claims of responsible investing are unsupported by its actions.

Across all BCI internally and externally managed public equities (\$64.4 billion in 2016), we can only confirm that 16 per cent are systematically screened by BCI according to ESG considerations.

56 British Columbia Investment Management Corporation, *bclMC Responsible Investing Annual Report*, 2016c.

57 British Columbia Investment Management Corporation. (2017). *RI Transparency Report*. Retrieved from https://www.bci.ca/wp-content/uploads/2018/02/bclMC_RIReport_2017.pdf.

58 Pooled Funds: British Columbia Investment Management Corporation. (2018). Retrieved June 14, 2018, from <https://www.bci.ca/investments-performance/pooled-funds/>.

59 According to BCI's December 2017 Pooled Investment Financial Statements, BCI had investments totaling \$10.7 billion in the Active Canadian Equity Fund, the Active Canadian Small Cap Equity Fund, the Thematic Public Equity Fund and the Indexed Global ESG Equity Fund. The percentage of screened ESG assets—16 per cent—was determined by comparing this pool of capital to BCI's entire public equities portfolio (\$65.4 billion). Note that while BCI reports that it integrates ESG considerations into the selection of its external managers and requires external managers to report on ESG performance, it does not require them to screen investments according to particular ESG principles—with the exception of BCI's portfolio-wide screen on land mines and cluster munitions. While it's possible that BCI's external managers do screen their assets according to ESG factors, this information has not been made publicly available. Sources: British Columbia Investment Management Corporation. (2017). *RI Transparency Report*. Retrieved from https://www.bci.ca/wp-content/uploads/2018/02/bclMC_RIReport_2017.pdf. Pooled Fund Financial Statements: British Columbia Investment Management Corporation. (2017). Retrieved June 14, 2018, from <https://www.bci.ca/wp-content/uploads/2018/03/PooledFundFinancialStatements.pdf>.

60 This includes both active and passive funds.

61 Again, this statement does not apply to the portfolio wide screen of cluster munitions and land mines, which extends across BCI's actively managed public equities. Source: PRI Association, British Columbia Investment Management Corporation. (2017). *RI Transparency Report*. Retrieved from https://www.bci.ca/wp-content/uploads/2018/02/bclMC_RIReport_2017.pdf.

Shareholder engagement: Will BCI's ESG engagement bring the changes needed to keep within the 2°C limit?

In lieu of divestment from fossil fuel-heavy companies, BCI conducts shareholder engagement both directly through its staff and indirectly through collaboration with third-party ESG initiatives. When combined, these actions show promise, suggesting that BCI is becoming aware of its considerable influence over corporate practice. But while the intent behind these policies may be commendable, each is limited in scope, content and application. Without an active screening process that withdraws investments from companies found to be transgressing the 2°C limit, BCI's stated policy preference of engagement over divestment is insufficient given the urgency of climate change.

Direct corporate engagement and proxy voting

In 2016, BCI voted against a shareholder resolution asking ExxonMobil to adopt a climate policy that acknowledges the imperative of a 2°C limit.

BCI's direct engagement with investee firms has steadily improved over the years. In 2016, the company released a report detailing its process of identifying ESG priorities in its portfolio, and as of 2017, four full-time employees—of 327 total—are specifically mandated to conduct research and implement ESG policies.⁶² In 2016, BCI engaged with 19 energy companies on environmental issues. Unfortunately, however, BCI does not publicly disclose any subsequent impacts of these engagements.⁶³

BCI reports that proxy voting is “the foundation of [its] ESG Integration program.”⁶⁴ Every year, it submits thousands of proxy votes during annual and special shareholder meetings.⁶⁵ This proxy voting, BCI reports, is its “opportunity each year to provide input on ESG issues with almost all of [its] portfolio companies.”⁶⁶

According to BCI's reporting documents, of the 23,717 proposals it voted on in 2016, 97 per cent were related to corporate governance issues such as say-on-pay, shareholder rights and board of director nomination proposals.⁶⁷ The remaining 3 per cent consisted of shareholder proposals; this is the only category that regularly addresses climate-related issues. Our proxy vote investigation found that in 2014, BCI voted against 29 per cent of all climate-related shareholder proposals; in 2015, the percentage of negative votes dropped to 20 per cent.⁶⁸

In 2016, BCI voted against a shareholder resolution asking ExxonMobil to adopt a climate policy that acknowledges the imperative of a 2°C limit.⁶⁹ “While we are supportive of additional disclosure

62 British Columbia Investment Management Corporation, *ESG Engagement: Public Equities Priorities and Process* (Victoria, BC, 2016), <http://read.uberflip.com/i/653745-2016-bcimc-esgengagement>; PRI Association, British Columbia Investment Management Corporation. (2017). *RI Transparency Report*. Retrieved from https://www.bci.ca/wp-content/uploads/2018/02/bciMC_RIReport_2017.pdf.

63 BCI does indicate the nature of its direct engagement with investee companies as comprehensive, basic or collaborative. British Columbia Investment Management Corporation, *ESG Engagement* (2016).

64 PRI Association, *RI Transparency Report: British Columbia Investment Management Corporation* (2016): 82, <https://reporting.unpri.org/surveys/PRI-Reporting-Framework-2016/94926728-84bc-4dc4-8cf1-ddb8da6f5886/79894dbc337a40828d895f9402aa63de/html/2/?lang=&a=1>.

65 British Columbia Investment Management Corporation, *2016 Responsible Investing Annual Report* (2016c), <http://read.uberflip.com/i/797019-2016-responsible-investing-annual-report>.

66 British Columbia Investment Management Corporation, *2016 Responsible Investing Annual Report* (2016c): 82.

67 British Columbia Investment Management Corporation, *2016 Responsible Investing Annual Report* (2016c).

68 This data was developed by examining BCI proxy vote responses for 2014 and 2015 by doing a search for the terms “climate” and “GHG.”

69 Shareholder resolution, “Acknowledge Moral Imperative to Limit Global Warming to 2°C, 2016—Exxon Mobil Corporation,” January 2, 2016, http://www.iccr.org/sites/default/files/resources_attachments/exxonreso.pdf.

on climate risk,” BCI writes in its proxy voting record, “we are not supportive of this imprecise proposal and the proponent failed to demonstrate any issues with the company’s current policy.”⁷⁰ In other words, BCI found that the resolution failed to prove the status quo of Exxon’s climate policy was insufficient. Exxon’s history of climate change denial, however, makes BCI’s defence of the company’s “current policy” difficult to comprehend. In 2015, for example, Exxon rejected accusations that its reserves were vulnerable to financial risk by guaranteeing that it would exploit 100 per cent of its full proven reserves, an amount totalling 24 billion barrels.⁷¹

A general trend appears in BCI’s proxy voting patterns: BCI rejects proposals that will negatively affect activities that are at the core of the company’s current operations. For example, in 2007 BCI voted against a shareholder proposal that requested Loews Corporation divest from the production and sale of cigarettes. BCI argued that this activity represented a major market and therefore divestment would likely have negative effects on shareholder value.⁷²

Given BCI’s voting record and the criteria used to guide it, it is unlikely to support a motion calling for a shift away from the main operational focus of a fossil fuel company: the extraction and refining or transport of fossil fuels. With substantial investments in companies that own some of the largest oil reserves in the world, BCI’s investment strategy runs counter to the actions necessary to keep climate change below 2°C.

BCI has, at times, voted in favour of proposals that decrease shareholder return in the short term for the sake of stronger financial performance in the long term. For example, in 2010 BCI voted for proposals to allow South African companies to participate in a program developed by the South African government called the Broad-Based Black Economic Empowerment program, which aims to promote diversity in corporate ownership by requiring companies to enable their employees to purchase shares in the company. BCI’s voting rationale noted that although this program would reduce the value of shares, it could be viewed as a positive step in the broader economic context, as it would enhance the corporate citizenship and reputation of the corporations in question.⁷³ This decision indicates that fiduciary duty (the duty to prioritize returns when making investment decisions) need not be confined to short-term returns and can take into account broader ESG considerations. Yet pension fund managers and BCI itself have argued that having more stringent ESG principles regarding climate change is not an option given the rigidity of fiduciary duty.

The vast majority of climate-related shareholder resolutions that BCI has supported have called for more comprehensive disclosure about climate risk and ESG principles.⁷⁴ While improved disclosure is an initial step toward emissions reduction, it does not require companies to change their corporate behaviour or reduce emissions. A smaller portion of BCI’s proxy votes call on companies to adopt GHG reduction targets; however, these are often the reduction of emissions intensity rather than a reduction in absolute emissions. Emissions intensity, in this case, refers to the amount of emissions created during a given fuel’s production, excluding those generated during consumption. For fossil fuel companies whose forecasted reserves are projected to push us far past the 2°C limit, the emissions created at the site of fuel production (through extraction,

While improved disclosure is an initial step toward emissions reduction, it does not require companies to change their corporate behaviour or reduce emissions.

70 British Columbia Investment Management Corporation, *Proxy Voting Record* (2016d).

71 ExxonMobil, *Energy and Carbon—Managing the Risks*, 2015, <http://cdn.exxonmobil.com/~media/global/files/energy-and-environment/report---energy-and-carbon---managing-the-risks.pdf>.

72 British Columbia Investment Management Corporation, *US Equities Voting Summary 2007 (Q1–Q4)*, 2007.

73 British Columbia Investment Management Corporation, *International Equities Voting Summary 2010 (Q1–Q4)*, 2010.

74 This analysis was developed through the authors’ direct examination of BCI’s proxy voting records from 2013 and 2016. Proxy voting records containing the words “climate” and/or “GHG” were collated and then coded according to the nature of the request. Codes included “disclosure,” “targets” or “adopt policy.” A frequency count was then used to determine findings.

refining) are minimal compared to the consumption and burning of those fuels.⁷⁵ In other words, even if a unit of fossil fuel is extracted using less emissions-intensive measures, the GHGs produced by its consumption remain unchanged.

Additionally, recent findings suggest that these incremental policy shifts have little impact on a corporation's GHG emissions. The first large-scale, quantitative study of the impact a corporation's "carbon management program" has on the reduction of GHG emissions found "little compelling evidence" that these programs have any meaningful effect on emissions. The study found that carbon management programs—including emissions targets, climate-related performance incentives for employees, climate risk assessments, and emissions disclosure—had no significant association with trends in a company's corporate emissions.⁷⁶

Proxy voting: Is it effective?

British Columbians and affected pension beneficiaries should be concerned that proxy voting is one of BCI's primary tools for responsible investment. Its voting record promotes the status quo of minimal disclosure at a time when fossil fuel companies must begin to make profound transformations in their business models in order to limit warming to 2°C.

Moreover, it is unclear whether proxy voting has any significant impact on corporate behaviour. BCI repeatedly supported shareholder resolutions (in 2014, 2015 and 2016) asking Anadarko Petroleum Corporation to increase its disclosure on climate risk. At the time of writing, Anadarko still has not fulfilled the request, despite the proposal receiving a "record breaking" amount of support.⁷⁷ Further, BCI has voted for ExxonMobil to adopt quantitative GHG goals for its products and operations every year since 2013, and the oil and gas giant has yet to take action.⁷⁸

Even when companies do respond to climate-related shareholder resolutions, substantial changes in corporate behaviour do not necessarily follow. In 2017, Exxon accepted a resolution calling on the company to report on the potential risks to its business posed by global efforts to reduce carbon emissions under the Paris Agreement, a resolution that BCI supported. A majority of shareholders (62.3 per cent) voted in favour—a dramatic increase from the 38 per cent support rate for the same motion when it was tabled a year earlier.⁷⁹ Exxon fulfilled its obligations by publishing a report titled *Positioning for a Lower-Carbon Energy Future* nine months later, concluding that fossil fuel assets "face little risk" despite the Paris Agreement's 2°C limit.⁸⁰ The company justified its claims through predictions that unprecedented increases in the rate of carbon capture and storage technology would enable its continued expansion. It also assumed that countries would not make

BCI has voted for ExxonMobil to adopt quantitative GHG goals for its products and operations every year since 2013, and the oil and gas giant has yet to take action.

75 Marc Lee, *Extracted Carbon: Re-examining Canada's Contribution to Climate Change through Fossil Fuel Exports* (2017), <https://www.policyalternatives.ca/publications/reports/extracted-carbon>.

76 Baran Doda et al., "Are Corporate Carbon Management Practices Reducing Corporate Carbon Emissions?" *Corporate Social Responsibility and Environmental Management* 23, no. 5 (2016): 257–70, <https://doi.org/10.1002/csr.1369>.

77 Andrew Montes and Danielle Fugere, "Record-Breaking Support for 'Carbon Risk' Resolution at Anadarko Petroleum," press release, May 22, 2014, <https://archive.asyousow.org/wp-content/uploads/2014/05/Record-Breaking-Support-for-Carbon-Risk-Resolution-at-Anadarko-Petroleum.pdf>.

78 ExxonMobil, "Mitigating emissions in our operations," <http://corporate.exxonmobil.com/en/community/corporate-citizenship-report/managing-climate-change-risks/mitigating-greenhouse-gas-emissions-in-our-operations>.

79 Marianne Lavelle, "Exxon Shareholders Approve Climate Resolution: 62% Vote for Disclosure," May 31, 2017, retrieved May 22, 2018, <https://insideclimatenews.org/news/31052017/exxon-shareholder-climate-change-disclosure-resolution-approved>.

80 ExxonMobil, *2018 Energy & Carbon Summary: Positioning for a Lower-Carbon Energy Future*, 2018, <http://cdn.exxonmobil.com/~media/global/files/energy-and-environment/2018-energy-and-carbon-summary.pdf>.

more aggressive cuts to limit global warming to 1.5°C, as agreed to in the Paris Agreement.⁸¹ Exxon’s response was widely perceived as unsatisfactory, and yet still technically fulfills the obligations of a successful proxy vote.⁸² Given that proxy voting appears to have a limited impact, why does it continue to be a cornerstone of BCI’s ESG investment policy?⁸³

THIRD-PARTY ENVIRONMENTAL, SOCIAL AND GOVERNANCE INITIATIVES

Collaboration with other organizations is an increasingly common way for institutional investors to fulfill their ESG requirements. Over the past decade, a number of these organizations have been established to create dialogue between clients, institutional investors and policy-makers on climate issues. BCI collaborates with initiatives such as the PRI (Principles for Responsible Investment), CDP (formerly the Carbon Disclosure Project), the Responsible Investment Association and the Extractive Industries Transparency Initiative, among others. BCI’s involvement with these groups generally consists of membership and/or serving on an advisory council or board of directors.⁸⁴ In this report, we highlight CDP and the PRI because they feature prominently in BCI’s ESG reporting; partnerships with these two organizations, according to BCI, help it carry out its due diligence on climate issues.

CDP (formerly the Carbon Disclosure Project)

BCI regularly cites its involvement with CDP as one of the primary ways it addresses climate change in its portfolio.⁸⁵ CDP provides a database of corporate emissions information that is intended to support investors’ ability to respond to climate risk. BCI is a strong advocate of corporate disclosure, noting that “comparable data is needed before [climate policy] integration can occur.”⁸⁶ However, CDP’s scoring requirements leave considerable room for improvement, and there is little transparency in its company-level data.

As noted above, when it comes to the impacts of carbon, there is an important distinction to be made between emissions intensity and net emissions totals. CDP companies are asked to disclose either “absolute” targets or “intensity” targets. Absolute targets refer to the total amount of emissions produced, while intensity targets specify the amount of GHG emitted per unit of energy produced. If both targets are included, CDP will select the best of the two, stating that “only the target (whether absolute or intensity) that scores best overall is recorded.”⁸⁷ As a result, companies can receive a favourable CDP score by committing to decrease their emissions intensity even if

Companies can receive a favourable CDP score by committing to decrease their emissions intensity even if their total emissions continue to increase.

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- 81 Brad Plumer and Hiroko Tabuchi, “Exxon Studies Climate Policies and Sees ‘Little Risk’ to Bottom Line,” *New York Times*, February 2, 2018, <https://www.nytimes.com/2018/02/02/climate/exxon-global-warming.html>.
- 82 Climate Nexus, “ExxonMobil Releases Climate Impact Report,” February 5, 2018, retrieved May 8, 2018, <https://www.ecowatch.com/exxon-climate-report-2531615968.html>.
- 83 British Columbia Investment Management Corporation. (2017). *RI Transparency Report*. Retrieved from <https://reporting.unpri.org/surveys/PRI-Reporting-Framework-2016/94926728-84bc-4dc4-8cf1-ddb8da6f5886/79894dbc337a40828d895f9402aa63de/html/2/?lang=&a=1>.
- 84 PRI Association, *PRI Transparency Report: British Columbia Investment Management Corporation*, 2016, http://www.bcimc.com/ResponsibleInvesting/pdf/bclMC_RIReport_2016.pdf.
- 85 British Columbia Investment Management Corporation, *bclMC Responsible Investing Newsletter: Climate Change*, 2016b, <http://read.uberflip.com/i/664765-rin-april-2016>.
- 86 British Columbia Investment Management Corporation, *bclMC Responsible Investing Newsletter: Climate Change*.
- 87 CDP, *CDP 2017 Climate Change Scoring Methodology*, 2017, https://b8f65cb373b1b7b15feb-c70d8ead6ced550b4d987d7c03fcd1d1.ssl.cf3.rackcdn.com/cms/guidance_docs/pdfs/000/000/509/original/CDP-climate-change-scoring-methodology.pdf.

their total emissions continue to increase. In the context of the 2°C limit, CDP’s ambiguity around this distinction is a barrier to reducing overall emissions.

Further, the type of emissions being counted in CDP reports varies widely. CDP divides the classification of emissions into a number of categories, depending on the stage along the commodity chain in which the emissions are produced. For fossil fuel companies, “direct emissions” include those created during a given operation (extraction, refining, transporting, etc.). “Indirect emissions” include all emissions throughout the life cycle of the commodity (i.e., extraction processes carried out by another company as well as the end-user combustion of oil, and there is a large degree of variability in how these emissions are measured. Under CDP reporting regulations, it’s possible for a company to receive an A grade for disclosure that doesn’t include its indirect emissions.⁸⁸

When companies can gain a top CDP score by reporting only their direct emissions, there is little incentive to report on the full scope of indirect emissions.⁸⁹ And in cases where companies do provide information on indirect emissions, the accuracy of the reporting is inconsistent.⁹⁰ Another critical issue in CDP score reliability is that many CDP responses are scored for “completion” rather than on a quantitative assessment of emissions.⁹¹ Again, this level of variability in disclosure practice permitted makes it extremely difficult, if not impossible, to use CDP scores to determine whether a company is taking substantive action on emissions reduction.

In its *Fossil Fuels: Issue Management Plan*, BCI points to its involvement with CDP as a key strategy in carrying out its commitment to climate action. BCI says that by supporting CDP, it “has helped raise the awareness of climate change as an investment risk and has influenced Canadian and global companies to report climate change efforts and risk management to the CDP.”⁹² However, if fossil fuel companies can gain favourable CDP scores while increasing their overall emissions, CDP may be obscuring the information needed to actually assess progress toward the Paris Agreement targets.

Under CDP reporting regulations, it’s possible for a company to receive an A grade for disclosure that doesn’t include its indirect emissions.

Is shareholder engagement an effective tool for supporting climate action?

As one of its main instruments of responsible investment, BCI carries out shareholder engagement through direct engagement, proxy voting and affiliations with groups like the PRI and CDP. Our findings raise critical concerns about this strategy, suggesting that while shareholder engagement looks good on paper, it has not reduced portfolio emissions quickly enough to be in alignment with the Paris targets. By enabling corporations to minimally report on their carbon emissions, for example, programs such as the PRI and CDP allow institutional investors such as BCI to claim due diligence on environmental and social issues *without making any changes to their investment selection*. This approach does not match the scale of the climate crisis. By acknowledging the serious threats that climate change poses but only using shareholder engagement to address it, BCI is effectively engaging in new climate denialism.

88 Note that in CDP reporting methodology, “direct emissions” fall within “Scope 1” and “Scope 2,” while “indirect emissions” are designated “Scope 3.” CDP, *CDP 2017 Climate Change Scoring Methodology*.

89 Jayme Walenta, “The Limits to Private Sector Climate Change Action: The Geographies of Corporate Climate Governance,” *Economic Geography*, forthcoming.

90 A company can qualify for a “basic response” under CDP without having its emissions totals confirmed by a third-party verification body.

91 CDP, *CDP 2017 Climate Change Scoring Methodology*, 2017, https://b8f65cb373b1b7b15feb-c70d8ead6ced550b4d987d7c03fcd1d.ssl.cf3.rackcdn.com/cms/guidance_docs/pdfs/000/000/509/original/CDP-climate-change-scoring-methodology.pdf.

92 British Columbia Investment Management Corporation, *Fossil Fuels: Issue Management Plan* (Victoria, BC: released through a Freedom of Information Request in 2013).

BCI's continued investment in Canadian Natural Resources Limited (CNRL) is a prime example of this denialism. CNRL is a laggard in terms of environmental and social responsibility. For example, in 2014 it was responsible for four spills over the course of two months, in which over 60,000 litres of bitumen leaked into the Primrose/Wolf Lake region of the Alberta muskeg and caused significant, long-term damage to the traditional territory of the Beaver Lake Cree Nation.⁹³ As far as publicly available documents show, BCI's shareholder engagement activities have not examined these aspects of CNRL's corporate history.

Regarding the gaps and failures of emissions reporting, CNRL's case is instructive. While it did submit a climate change disclosure report to CDP in 2017, many areas of the report were unfinished—in some cases, they were left blank. Furthermore, the company provides targets based solely on emissions intensity rather than those based on absolute emissions, and it claims that its “downstream” emissions are “not relevant.”⁹⁴ The CNRL case demonstrates the environmental and social violations that shareholder engagement obscures. It also raises a larger question: if a corporation's business model centres on the extraction and production of fossil fuels, can any amount of investor engagement change the nature of the business itself?

Principles for Responsible Investment

The organization Principles for Responsible Investment (the PRI) describes itself as “an international network of investors” working together to put into practice their socially responsible investment (SRI) management framework, “The Six Principles”. The framework sets out a number of voluntary principles and provides a list of “possible actions for incorporating ESG issues into investment practices across asset classes.”⁹⁵ The PRI is supported by two UN partners: the UN Environmental Programme Finance Initiative and the UN Global Compact.⁹⁶

The PRI has seen a substantial jump in membership since it was launched by then-UN Secretary-General Kofi Annan in 2005, and now has 1,800 signatories representing US\$60 trillion in assets under its management.⁹⁷ The PRI website suggests that becoming a member “allows your organization to publicly demonstrate its commitment to responsible investment,” in other words, the PRI helps investors with their social licence.⁹⁸ The PRI's reputation appears to carry weight with BCI clients as the Municipal Pension Plan cites BCI's involvement with the PRI as evidence that BCI's requirements on socially and environmentally responsible investing are being sufficiently met.⁹⁹ Our analysis of the PRI and its reporting requirements, however, suggest that “sufficiently met” ESG is a far cry from the Paris Agreement.

The PRI reporting structure provides numerous opportunities for investors to pick and choose the types of information they disclose, and no third-party verification is required that would

The PRI reporting structure provides numerous opportunities for investors to pick and choose the types of information they disclose, and no third-party verification is required that would regulate the quality of responses.

93 “Alberta Pipeline Spills 60,000 Litres of Crude Oil into Muskeg,” Global News website, December 1, 2014, retrieved December 13, 2017, <https://globalnews.ca/news/1699902/alberta-pipeline-spills-60000-litres-of-crude-into-muskeg/>.

94 CDP. (2017). *Climate Change 2017 Information Request: Canadian Natural Resources Limited*. Retrieved from https://www.cnrl.com/upload/media_element/1113/01/programmeresponse-cdp2016-reporting-year.pdf.

95 “What Are the Principles for Responsible Investment?” n.d., <https://www.unpri.org/about/the-six-principles>.

96 About the PRI. (n.d.). Retrieved June 5, 2018, from <https://www.unpri.org/pri/about-the-pri>.

97 “About the PRI,” n.d., retrieved May 8, 2018, <https://www.unpri.org/pri/about-the-pri>.

98 “Become a Signatory,” n.d., retrieved May 15, 2018, <https://www.unpri.org/signatories/become-a-signatory>.

99 Municipal Pension Plan, *Primer on Fossil Fuel Divestment* (Richmond, BC, 2016), <http://www.ubcm.ca/assets/Resolutions-and-Policy/Policy/Finance/Primer%20on%20Fossil%20Fuel%20Divestment.pdf>; Teachers' Pension Plan, *Teachers' Pension Plan Statement of Investment Policies and Procedures* (2017), <https://tpp.pensionsbc.ca/documents/1594030/1619848/%28PDF%29+Statement+of+investment+policies+and+procedures/4014627b-38aa-4672-b111-5047d9b5e578>.

regulate the quality of responses.¹⁰⁰ While a company's self-generated Transparency Report must be publicly released, a third-party assessment report created by the PRI for its investor signatories can be kept private. The latter report, which compares the institutional investor to itself and its peers on a year-by-year basis, is meant to encourage improvement in ESG application. Yet many investors, including BCI, choose to keep this document confidential, undermining its ability to promote transparency and behavioural change.¹⁰¹

Even more fundamentally, the PRI's principles leave considerable room for interpretation by its signatories. Its first principle, for example, highlights the importance of incorporating ESG issues into decision-making. While it suggests a number of possible techniques, the PRI has no requirement that investors implement them, and research suggests that it fails to hold signatories to any minimum standard of practice in their investment activities.¹⁰² Regarding the Paris Agreement, signatories to the PRI are not required to integrate climate change into their investment decisions. The PRI does directly acknowledge climate issues through a number of initiatives its signatories can join voluntarily, including the Montreal Pledge—an initiative that encourages PRI signatories, mostly asset managers, to disclose their portfolios' carbon footprint. Unfortunately, the Montreal Pledge has some critical limitations: signatories are not required to use any particular methodology to measure their carbon footprint; the resulting mishmash of disclosure types makes comparisons between responses nearly impossible.¹⁰³ Although it is a PRI signatory, BCI has not signed the Montreal Pledge, signalling unwillingness to take even this limited step toward carbon disclosure.¹⁰⁴

Regarding the Paris Agreement, signatories to the PRI are not required to integrate climate change into their investment decisions.

Other collaborative engagements

BCI also participates in a number of collaborative ESG initiatives for corporations and investors. Its involvement represents varying levels of engagement, ranging from an active role on steering committees to paying membership dues. Through its involvement with the PRI, BCI participates in the Human Rights in the Extractive Sector Steering Committee, the Committee on Hydraulic Fracturing, the Sustainable Financial System working group and the Sustainable Stock Exchanges working group. Its non-PRI-related work includes the Extractive Industries Transparency Initiative, the Green Bond Principles, the Responsible Investment Association, Shareholder Association for Research and Education, the UN Global Compact and the Canadian Coalition for Good Governance.¹⁰⁵ Through these collaborations, BCI claims to leverage its influence on other institutional investors to promote changes in state and corporate policy.¹⁰⁶ While BCI's efforts to participate in these policy arenas are commendable, limited disclosure of the substantive impacts these collaborations have on its carbon emissions is cause for concern.

100 Principles for Responsible Investment, *Confidence Building Measures Among PRI Signatories: Based on Responses to the 2017 Reporting Framework* (2017), https://www.unpri.org/Uploads/t/l/e/Assurance-practices-among-PRI-signatories--03_12_17.pdf.

101 British Columbia Investment Management Corporation. (2017). *RI Transparency Report*. Retrieved from https://www.bci.ca/wp-content/uploads/2018/02/bclMC_RIReport_2017.pdf.

102 Benjamin J. Richardson, "Socially Responsible Investing Through Voluntary Codes," in *Harnessing Foreign Investment to Promote Environmental Protection: Incentives and Safeguards*, ed. Pierre-Marie Dupuy and Jorge E. Viñuales (Cambridge: Cambridge University Press, 2013).

103 Marie Marchais and Dominique Blanc, *Montréal Carbon Pledge: Accelerating Investor Climate Disclosure*, Novethic and the PRI Initiative, 2016.

104 PRI Association, *Montreal Pledge: About the Montréal Carbon Pledge*, 2017, http://montrealpledge.org/wp-content/uploads/2018/04/MontrealPledge_A4-Flyer-2017.pdf.

105 PRI Association, *RI Transparency Report 2017: British Columbia Investment Management Corporation*, 2017, https://www.bci.ca/wp-content/uploads/2018/02/bclMC_RIReport_2017.pdf.

106 British Columbia Investment Management Corporation, *2016 Responsible Investing Annual Report*, 2016, <http://read.uberflip.com/i/797019-2016-responsible-investing-annual-report>.

Conclusion

AS ONE OF CANADA'S LARGEST INSTITUTIONAL INVESTORS, BCI's actions appear to maintain a fossil fuelled status quo. We return to the questions posed at the beginning of this report.

Do BCI's holdings indicate that the company is investing in accordance with the 2°C limit?

Our investigation indicates that the answer is no. BCI continues to invest in fossil fuel companies whose proven reserves far surpass the amount of carbon that can be burned to stay within the 2°C limit.

Do BCI's environmental, social and governance investment practices align with the 2°C limit?

Our investigation indicates that the answer to this question is also no. While BCI defends its continued investment in fossil fuels through its commitment to ESG investing principles and its adherence to third-party initiatives, there is little publicly available evidence that these strategies are resulting in concrete carbon emission reductions, reductions that are necessary for Canada to meet the Paris Agreement targets.

In sum, BCI's engagement strategy does not reflect the urgency of the climate crisis. Our findings indicate that by continuing to invest heavily in fossil fuels, BCI exemplifies the "new climate denialism": talking the talk about climate change but avoiding the strong action needed to forestall 2°C warming.¹⁰⁷

BCI's engagement strategy does not reflect the urgency of the climate crisis. By continuing to invest heavily in fossil fuels, BCI exemplifies the "new climate denialism."

¹⁰⁷ Klein and Daub, "The New Climate Denialism."

Recommendations

This report invites pension fund members, trustees, unions, economists, journalists, academics and the general public to take part in the conversation around asset funds, their managers and the broader implications of social and environmental responsibility in an era of accelerating climate change.

TO HELP BCI ALIGN ITS ASSET MANAGEMENT with the 2°C limit, we recommend the following:

1. Carry out a portfolio-wide climate change risk analysis (including all internally and externally managed funds) in the context of the 2°C limit and disclose all findings to pension members.¹⁰⁸
2. Divest. The surest way to address the financial and ethical risks associated with investment in the fossil fuel industry is to start the process of divestment. This means freezing any new fossil fuel investment, developing a plan to first remove high-risk companies from portfolios such as coal and oil sands producers, and finally moving toward sector-wide divestment.
3. Pursue shareholder engagement activities that promote material emissions reduction targets that take into account the full life cycle of emissions (direct and indirect) produced by a company.
4. Move toward internal management of all investment funds and require all external fund managers to actively screen out fossil fuel holdings while publicly disclosing their strategy of investing funds in alignment with the 2°C limit.
5. Reinvest divested funds in more sustainable companies. The International Energy Agency estimates that trillions of dollars of investment are needed in the renewables sector to support the transition away from fossil fuels.¹⁰⁹

This report invites pension fund members, trustees, unions, economists, journalists, academics and the general public to take part in the conversation around asset funds, their managers and the broader implications of social and environmental responsibility in an era of accelerating climate change. While pension fund managers such as BCI often operate out of sight, its direct control of a significant portion of BC's economy means that its actions play a crucial role in BC's and Canada's responses to climate change.

¹⁰⁸ Readers are encouraged to see McGlade and Ekins for more details regarding necessary considerations for a meaningful climate change risk analysis to limit warming to 2°C. McGlade and Ekins suggest that in order to meet this target, one-third of global oil reserves, half of all gas reserves and over 80 per cent of coal reserves must remain unused between 2010 and 2050. Source: McGlade and Ekins, "The Geographical Distribution of Fossil Fuels Unused."

¹⁰⁹ International Energy Agency, "Energy and Climate Change: World Energy Outlook Special Briefing for COP21" (Paris: IEA, 2015), http://www.iea.org/media/news/WEO_INDC_Paper_Final_WEB.PDF.



The Corporate Mapping Project is shining a bright light on the fossil fuel industry by investigating the ways corporate power is organized and exercised. The initiative is a partnership of academic and community-based researchers and advisors who share a commitment to advancing reliable knowledge that supports citizen action and transparent public policy making.

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