

# Investing for **tomorrow**

2 0 1 6 R E S P O N S I B L E I N V E S T I N G R E P O R T

# Welcome

With net assets of \$18.4 billion, OPTrust invests and manages one of Canada's largest pension funds.

**FULLY FUNDED**  
PENSION PLAN

**8.0%**  
INVESTMENT RETURN

**5<sup>TH</sup>**  
LARGEST PUBLIC SECTOR  
PENSION PLAN IN ONTARIO

**\$18.4**  
BILLION IN NET ASSETS

**8.4%**  
AVERAGE ANNUAL RETURN  
SINCE INCEPTION

**260**  
EMPLOYEES IN TORONTO,  
LONDON AND SYDNEY

**9.2**  
OUT OF 10  
MEMBER SERVICE RATING

**87,000**  
MEMBERS AND  
RETIREES

## We are member driven

Paying pensions today and preserving pensions for tomorrow is both a great privilege and a great responsibility. Behind every calculation, every investment deal and every email, there is a real person who is counting on OPTrust for their future. As a pension delivery organization, we exist to serve our members, active and retired. Everything we do is aligned with our members' interests.

# In this report

At OPTrust, our members count on us for one thing: a stable and sustainable pension that they know will be there for them in retirement. Ensuring we can pay pensions today and preserve pensions for tomorrow is our mission each and every day. Our Responsible Investing (RI) program helps us to deliver on this promise, by further aligning our investment strategy with long-term environmental, social and governance (ESG) factors.

Our *2016 Responsible Investing Report* provides a snapshot of key highlights during the year together with our long-term RI strategy.

4	MESSAGE FROM THE PRESIDENT AND CEO
6	2016 HIGHLIGHTS
7	OUR APPROACH TO RI
8	OUR RI PRINCIPLES
10	RI INSIGHTS WITH THE CHIEF INVESTMENT OFFICER
12	ESG INTEGRATION
15	ACTIVE OWNERSHIP
23	STAKEHOLDER ENGAGEMENT

# Message from the President and CEO



In a world where market volatility is the new normal and climate change poses a growing risk, the investment decisions we make today will have a far reaching impact for both our members and the environment.

It's through this lens OPTrust invests the Plan's \$18.4 billion in net assets. Behind every investment transaction are members who rely on us for security in retirement, which means we have to get it right.

The recognition that ESG factors can impact risk and return at every stage of an investment's lifecycle is the true definition of RI. We believe it is the only way to invest over the long term.

As a responsible steward of capital, OPTrust employs an approach essential to our member-driven investing (MDI) strategy that covers a wide-range of activities – from engaging public companies on key ESG issues to building strong relationships with institutions globally and advocating for greater disclosure.

For pension funds, climate change presents us with a number of complex and long-term risks that we need to understand. In Canada alone, pension funds manage well over \$1.5 trillion in assets, which brings a real responsibility to drive change on the issue of disclosure and engagement with our investee companies. We also have an opportunity and obligation to play a role in identifying sustainable solutions.

On this front, OPTrust partnered with Mercer to explore the potential impact of climate change on the total fund's portfolio, the results of which are explored in our white paper [\*Climate Change: Delivering on Disclosure\*](#).

CONTINUED ON PAGE 5 >

Of equal importance, when the Task Force on Climate-related Financial Disclosures released its recommendations in 2016, OPTrust joined the conversation urging companies to better disclose our climate risks.

Work such as this is a benefit to our organization and helps inform the way we invest. It also serves to broaden our understanding and spark innovative thinking on this issue among our peers and investment partners.

As the environment continues to change around us, our focus has never been more certain: a MDI approach that offers stability and security delivered in a responsible way.



**Hugh O'Reilly**  
President and CEO

# 2016 Highlights

RECEIVED AN

**A+**

FROM PRI FOR OUR  
OVERARCHING APPROACH  
TO RESPONSIBLE INVESTING

VOTED AT

**2,340**

COMPANY MEETINGS  
WORLDWIDE

ENGAGED

**351**

COMPANIES GLOBALLY ON  
MATERIAL ESG ISSUES

CONDUCTED

**PORTFOLIO  
CLIMATE RISK  
ASSESSMENT**

OF THE TOTAL FUND

OPTRUST CIO  
JOINED THE

**PRI  
ASSET OWNER  
ADVISORY  
COMMITTEE**



PARTICIPATED IN THE  
CONSULTATION FOR

**TASK FORCE ON  
CLIMATE-RELATED  
FINANCIAL  
DISCLOSURES**



# Our Approach to RI



GOVERNANCE



ESG  
INTEGRATION



ACTIVE  
OWNERSHIP



STAKEHOLDER  
ENGAGEMENT

RI is an approach to investing that explicitly acknowledges the potential relevance of environmental, social and corporate governance factors to investment performance and to the health and stability of the market as a whole. For OPTrust, the purpose of RI lies in the recognition that ESG factors can impact investment risk and return as well as our reputation. We have incorporated this recognition into OPTrust’s investment beliefs, policies and strategy.

As part of our RI program, OPTrust commits to the integration of material ESG factors into our investment decision-making processes and ownership practices. This approach reflects our fiduciary duty to the Plan’s members and is aligned with the Principles for Responsible Investment (PRI), to which the fund is a signatory. Our investment groups seek to identify, assess and manage ESG risks and opportunities in a manner that supports both our mission and mandate and are held accountable for doing so.

# Our RI Principles

OPTrust takes a principles-based approach to identify, assess and manage ESG risks and opportunities in our investment processes. We seek to operate with the following seven principles, all of which are subject to and support our fiduciary duty to generate the long-term rate of return required to ensure sustainable pension security.



CORPORATE GOVERNANCE

1

We support and encourage good corporate governance practices at the entities in which we invest. Companies that follow well-accepted principles of good governance tend to have better risk-adjusted returns and improved alignment between corporate, investor and broader stakeholder interests.



ENVIRONMENT

2

We support and encourage measures to protect the environment by the entities in which we invest. OPTrust expects its investee companies to ensure compliance with environmental regulations, and in regions where regulations are absent or not enforced, that they strive for generally accepted best practices.



HUMAN RIGHTS

3

We support and encourage the fundamental human rights enshrined in internationally-accepted norms and standards.

CONTINUED ON PAGE 9 >





PUBLIC SERVICE

4

We recognize the important role and contribution of public employees and we are sensitive to the stability of public services.



STAKEHOLDERS

5

We support and encourage participation by labour unions, employers, communities and other stakeholders in the development and management of the companies in which we invest.



LABOUR RIGHTS

6

We support and encourage fair wages, benefits and working conditions for workers employed by OPTrust assets. In particular, the International Labour Organization's (ILO) principles addressing the right to form and join trade unions and bargain collectively, and freedom for workers' representatives from discrimination and their right to access all workplaces necessary to enable them to carry out their representation functions.



ESG RISKS

7

We recognize our duty to be aware of and to understand material ESG risks, to the best of our ability, that may impact our ability to ensure sustainable pension security for our beneficiaries.

# RI Insights with James C. Davis, Chief Investment Officer



## **With \$18.4 billion in assets and 87,000 members, why is RI critical for plan sustainability?**

By the very nature of our business, we are investing assets today to meet pension obligations decades into the future. This gives us a long-term time horizon over which to invest. We must be aware of the world beyond our portfolios' borders, understand the complex economic environment and how global events can impact the fund.

We have a fiduciary duty to our members and consider ESG factors with every investment because they can become material to our financial performance, risk profile and reputation over varying time horizons.

Our MDI framework is supported by our investment beliefs and at its core is an approach to RI that aligns with our MDI objectives of stability and sustainability.

## **How would you describe OPTrust's approach to responsible investing?**

Our approach is rooted in risk awareness and management. When we make an investment, we do so with a view to all risks which have the potential to impact that investment.

For OPTrust, we have regular discussions with our investment partners about responsible investment to monitor their performance and create better alignment. Shared beliefs lead to better relationships and increased benefits over the longer term.

## **What can pension funds and asset owners do to drive change within companies?**

We believe that engaging with our investee companies is a more effective means to improving corporate behaviour than by divesting and walking away.

CONTINUED ON PAGE 11 >

Our commitment to engagement means we are regularly talking to management and boards of our investee companies on areas where we have concerns related to ESG risk management.

**OPTrust’s CEO Hugh O’Reilly has advocated for more substantive disclosure related to climate change. How is OPTrust engaging on this issue?**

Throughout 2016, OPTrust participated in the discussion with the Task Force on Climate-related Financial Disclosures (TCFD) as it developed its recommendations for enhanced climate disclosure for all companies, including public pension plans like OPTrust. We were proud to be involved in this initiative because we have a fiduciary duty to our members to think and act on the inherent risks climate change poses.

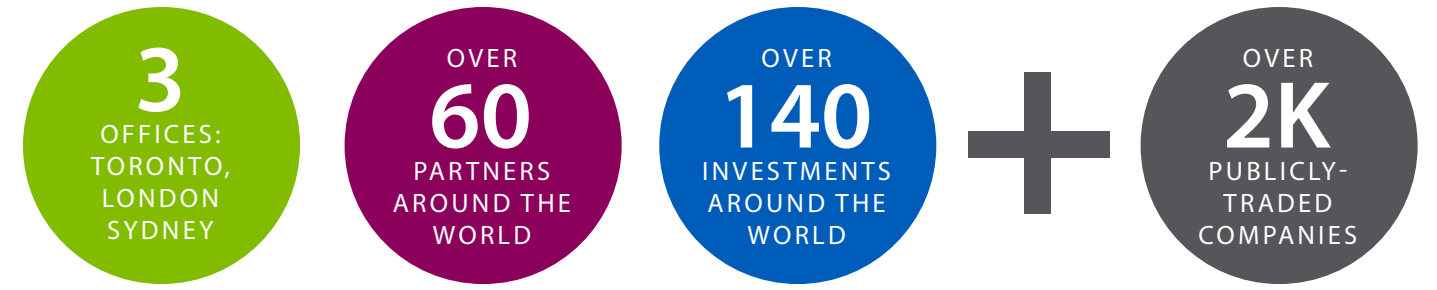
The TCFD’s recommendations are designed to provide all stakeholders with more information on how a company is assessing and managing the risks of climate change. We recognize this disclosure framework is still at an early stage, however we find this information increasingly important given our long-term investment horizon. It provides a foundation to improve investors’ and others’ ability to appropriately assess and price climate-related risk and opportunities.

We intend to closely review the TCFD recommendations and encourage our partners and peers to do so as well, with a view to implementation over the medium term.

**OPTrust invests directly in infrastructure assets all over the world, how does the RI program apply to this asset class?**

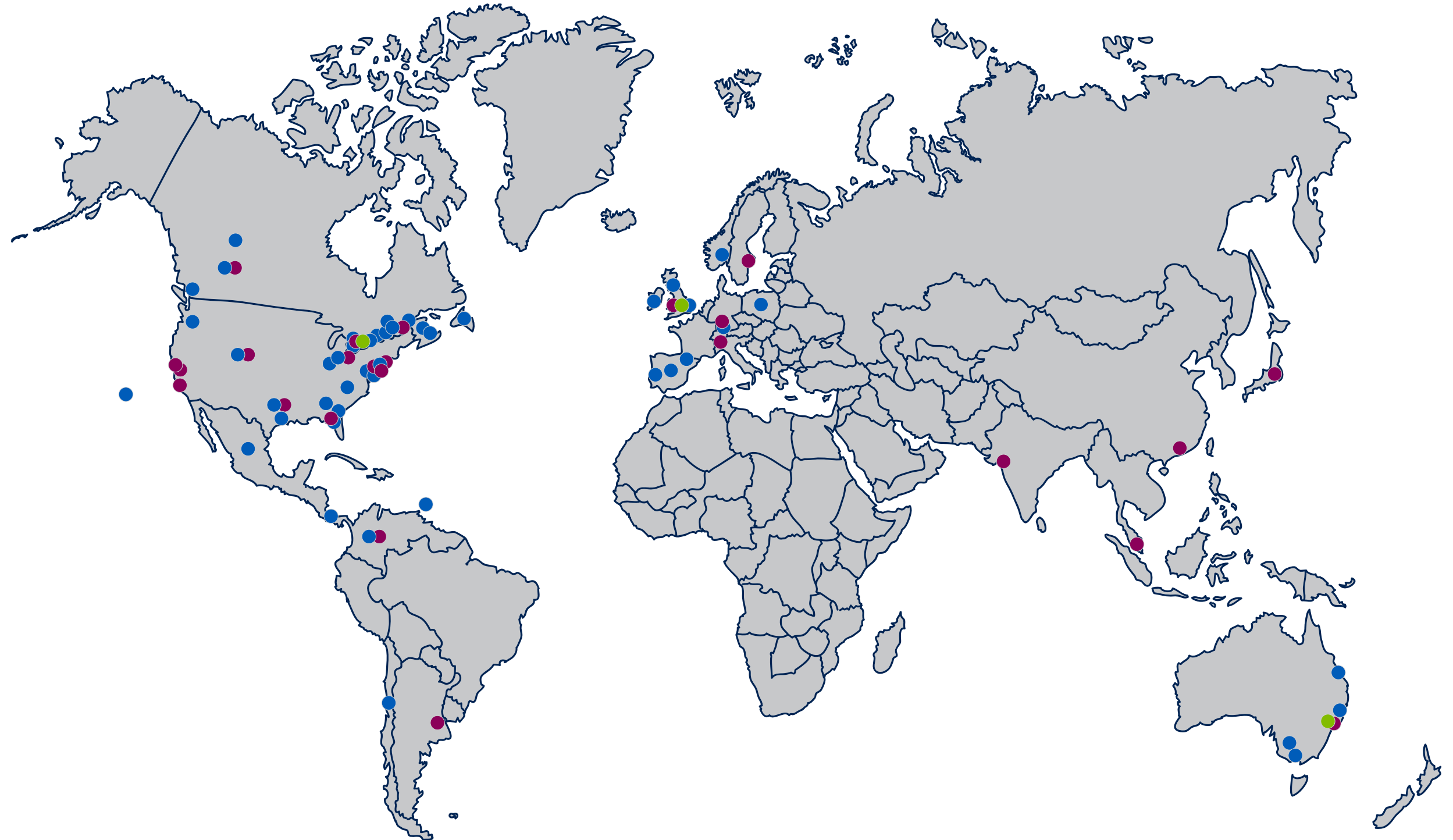
Our RI policy applies to all of our investment teams, regardless of the strategy they are investing. Our front line investment staff consider any material issues as part of their due diligence process. Whether we are investing in roads, railways, or energy assets, we consider the impact of ESG issues. We see the transition to a low carbon energy future already underway, we are seeing more opportunities to invest in renewable energy and lower carbon energy assets and are making investments in these areas.

# ESG Integration



OPTrust is a sophisticated global investor with offices in Toronto, London and Sydney.

We invest in a diversified portfolio around the world and incorporate material ESG issues throughout the investment process across asset classes.



[AS AT DECEMBER 31, 2015]

CONTINUED ON PAGE 14 >



“ We have significant investments in the infrastructure space across sectors from railways to roads and renewable energy. We work closely with our partners to monitor potential ESG risks at every stage of an investment’s lifespan. ”

**GAVIN INGRAM**  
GLOBAL GROUP HEAD, INFRASTRUCTURE



“ While markets go through cycles, portfolio construction is the primary tool we use to manage risks. For OPTrust taking risk is necessary to earn the returns required to meet our pension obligations over a long horizon. Our diversified portfolio is constructed in a manner that considers ESG factors – and the impact on risk, return and our reputation – in OPTrust’s investment process to create value and long term sustainability. ”

**JENNY WANG**  
DIRECTOR, PORTFOLIO ANALYTICS



“ Building strong relationships with our investment partners is paramount to OPTrust’s success as one of Canada’s top pension funds. We believe strongly in the potential for collaboration between institutional investors to lead to better outcomes – whether its investing in a low return environment, driving technological innovation or identifying solutions to transition to low carbon energy sources our investment approach in public markets reflects these realities. ”

**DENNIS WALLACE**  
MANAGING DIRECTOR, EXTERNAL PUBLIC INVESTMENTS & CREDIT

# Active Ownership

OPTrust’s RI strategy includes a commitment to active ownership; by monitoring companies within its portfolios, actively voting at all company meetings, and engaging with investee companies on key issues to improve long-term investment performance. We favour an engagement approach to one of divestment. With a seat at the table we are better able to work with our investee companies and partners to bring about positive change.

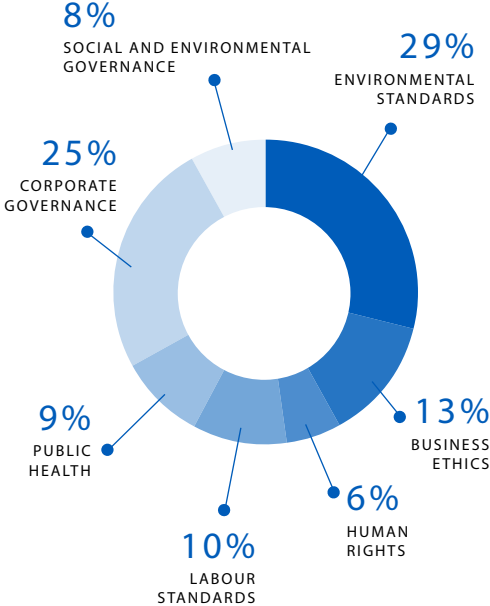
**351**  
COMPANIES ENGAGED

**37**  
COUNTRIES

**122**  
MILESTONES ACHIEVED

## CORPORATE ENGAGEMENT

OPTrust practices engagement several ways; directly, collaboratively with our peers, and with broader industry groups. Through our engagement partner reo®, we had a successful year.



CONTINUED ON PAGE 16 >



## CASE STUDY: STRANDED ASSETS – MITIGATING INVESTMENT RISK POSED BY CLIMATE CHANGE

Political movement on climate change and advances in alternative energy technologies, are turning the transition to a lower-carbon future from theory into reality. This is presenting a key challenge to fossil fuel businesses and investors in these companies with an increasing focus around the concept of “stranded assets.” Analysis has shown that 60-80% of the known reserves of publicly-listed companies which extract coal, oil and gas are unburnable and would have to remain in the ground if global warming is to be limited to two degrees centigrade.

The concept of stranded assets is now slowly starting to resonate, with boards and CEOs beginning to take notice. Over the past two years, we have been raising concerns around potential asset stranding with a wide range of executives and boards within the oil and gas, mining and electric utility sectors.

In addition to targeting large-cap companies such as **Exxon**, **Royal Dutch Shell**, **BP**, **Anglo American** and **Glencore**, we engaged emerging market and mid-cap oil and gas companies like **Pemex** and **Husky**.

Our main engagement objectives are:

- **Risk management:** To encourage companies to stress-test and disclose the range of possible future energy scenarios used for their strategy planning.
- **Transparency and Commitment:** To provide greater disclosure on carbon risks embedded in their assets and to set clearer targets for mitigating these risks by reducing exposure to high-cost, high-carbon projects.
- **Board oversight:** To strengthen board expertise on climate change economics and improve oversight to

CONTINUED ON PAGE 17 >



ENVIRONMENTAL

ensure that business models are resilient to rapid energy transition pathways.

- **Political advocacy:** To ensure that lobbying activities are consistent with the company’s stated climate change policies and to support publicly policy mechanisms, such as carbon pricing, that are designed to drive an orderly transition toward a lower carbon economy.

Climate change is no longer a risk to investments that can be considered purely long-term and arising far away in the future. Already, coal miners and electric utilities are increasingly facing the urgent need to develop alternative business models to stay relevant and profitable.

Amongst leading companies, more time and resources are being dedicated to analyze the implications of the climate change challenge. This is, in part, a direct result of investor engagement. We will continue to press management and board directors to closely examine the economic impact of climate change on their business.

## CASE STUDIES: ENGAGEMENT IN ACTION

**Company:** Google Inc, United States

**Sector:** Information Technology

**Theme:** Environmental Standards

**Milestone:** We had asked the company in the past to develop a low carbon energy strategy and engage in policy interventions that are consistent with its business goals. Then in 2016, Google, Amazon and Microsoft filed a legal brief that supports the continued implementation of the U.S. Environmental Protection Agency’s Clean Power Plan (CPP). The filing discusses the technology industry’s growing desire for affordable renewable energy across the U.S. Such public interventions are important to help overcome the political headwinds that policies promoting a low carbon energy transition are facing in the U.S.

CONTINUED ON PAGE 18 >





SOCIAL



GOVERNANCE

**Company:** Samsung Electronics, South Korea

**Sector:** Information Technology

**Theme:** Labour Standards

**Milestone:** South Korean electronics giant Samsung Electronics has struggled to eradicate poor labour standards in its Chinese supply chain. Through engagement Samsung has taken measures to identify, assess and monitor supply chain vulnerabilities and risks related to poor labour standards, and to build capacity on labour and other ESG issues among its supplier base. Samsung introduced ESG criteria in its supplier code of conduct and procurement systems, built up and strengthened supplier audit and compliance governance and practices, and significantly improved transparency and disclosure.

**Company:** BGEO Group PLC, United Kingdom

**Sector:** Financials

**Theme:** Corporate Governance

**Milestone:** In January 2015, we reached out to the company to discuss board diversity, including steps the board/company are taking to address the lack of female directors on the board. In addition, it had no formal policy on gender diversity at the time. This year, the company adopted a formal diversity policy and re-appointed a female director, Hanna Loikkanen, to the board.

## PROXY VOTING

As a long-term investor, OPTrust believes that good governance practices support stronger long-term performance and enhance shareholder value.

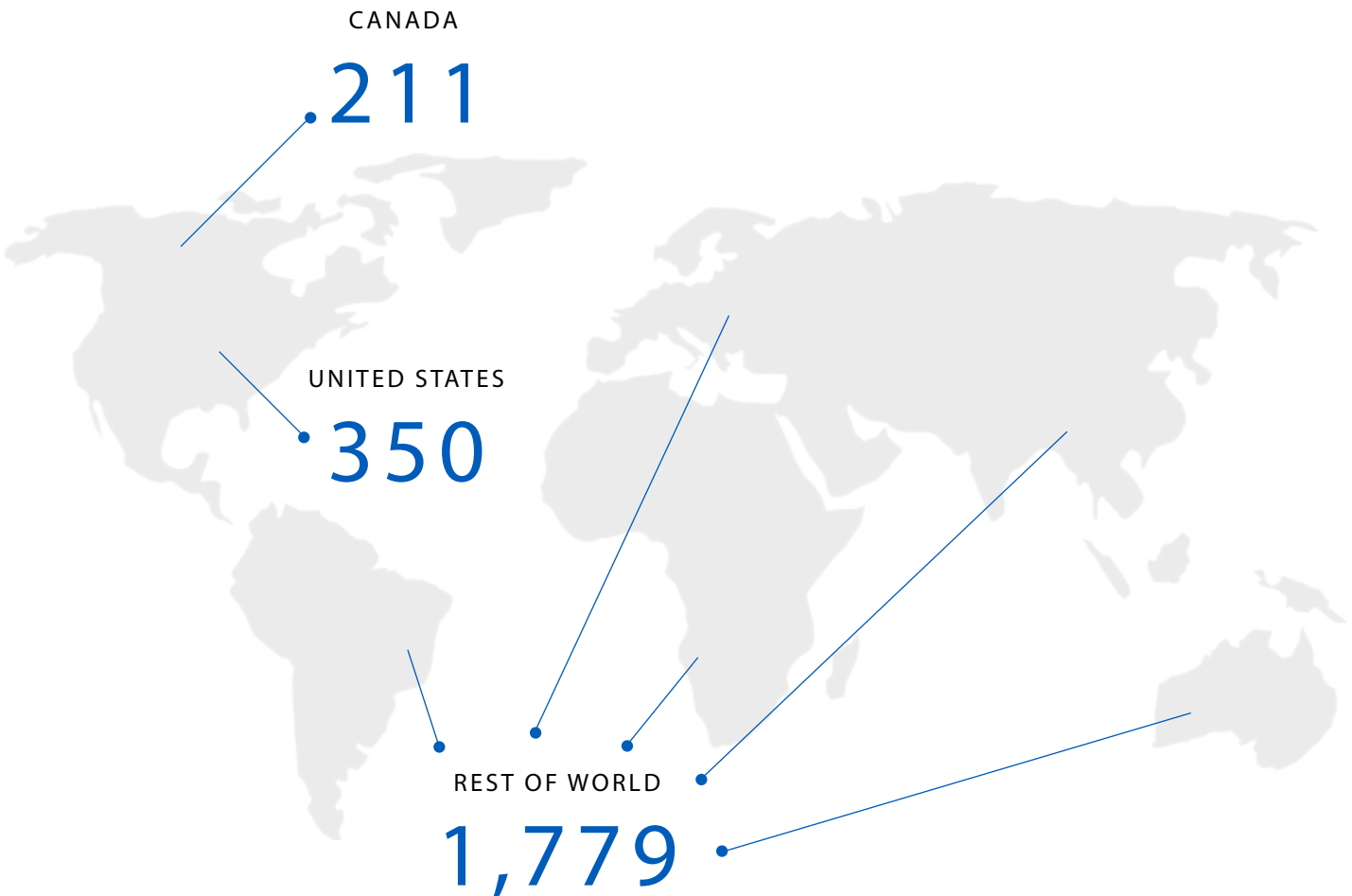
We actively exercise our voting rights for public securities held within our portfolios according to OPTrust's Proxy Voting Guidelines. The Guidelines include our expectations for:

- the composition of the board
- executive compensation
- shareholder rights
- the disclosure of environmental and social information.

In addition, our Statement on Proxy Access outlines our position on the importance of shareholder engagement on all governance issues including the director nomination process.

CONTINUED ON PAGE 20 >

> ACTIVE OWNERSHIP CONTINUED FROM PAGE 19



## ADVOCACY

In navigating an increasingly complex environment, trusted partnerships mean the world to OPTrust. We thrive through collaboration and strong relationships, which lead to better outcomes and diversity of thought. We engage with policy-makers and regulators to advocate for good governance practices and sustainable financial markets in Canada and worldwide. Our organization has built a network with investors, stakeholders and companies across the globe to help support OPTrust's long-term mandate.

Advocacy involves responding to regulators on proposed amendments to existing regulations or on new regulations, as well as to industry associations and organizations that develop best practices. This requires participating in key organizations to ensure OPTrust is lending its voice to the conversation in the development of policies and best practice guidance on relevant areas.



MEMBER SINCE 2009

HUGH O'REILLY,  
PRESIDENT AND CEO,  
SERVES ON THE PUBLIC  
POLICY COMMITTEE



MEMBER



MEMBER SINCE 2009

KATHARINE PRESTON,  
DIRECTOR, RESPONSIBLE  
INVESTING, SERVES AS  
CHAIR OF THE INVESTOR  
STEWARDSHIP COMMITTEE



MEMBER



SIGNATORY SINCE 2010

CIO, JAMES C. DAVIS  
SERVES ON THE  
ASSET OWNER  
ADVISORY COMMITTEE



SIGNATORY SINCE 2010

CONTINUED ON PAGE 22 >

> ACTIVE OWNERSHIP CONTINUED FROM PAGE 21



MEMBER SINCE 2015



MEMBER SINCE 2016

HUGH O'REILLY,  
PRESIDENT AND CEO,  
SERVES ON THE BOARD



MEMBER SINCE 2016



PARTNER



PARTNERSHIP SINCE 2016



BRONZE CORPORATE  
CHAMPION



RESEARCH PARTNER



MEMBER



MEMBER SINCE 2016



ASSOCIATE MEMBER



PARTNER

# Stakeholder Engagement

Transparency is important to OPTrust. We communicate regularly and publicly on our RI activities and how we continue to practice RI in alignment with our MDI approach through our annual report, annual RI report and member newsletters.

As a signatory to the PRI, we complete an annual assessment and reporting exercise. A large part of this submission forms a public report outlining details on how OPTrust implements our RI program. It also provides transparency to our members and assesses our activities against those of our fellow signatories, highlighting areas of strength and any potential areas for improvement.

On a quarterly basis, we disclose our proxy voting record. This, along with all of our RI reports, policies and related information, can be found at the [responsible investing section of optrust.com](#). We also published our first white paper on climate change and the results of our [Portfolio Climate Risk Assessment](#) in early 2017.

## HEADQUARTERS

1 Adelaide Street East, Suite 1200  
Toronto, ON M5C 3A7

[optrust.com](http://optrust.com)

Phone: (416) 681-6161  
Toll-free within Canada: 1 800 906-7738

Fax: (416) 681-6175  
[email@optrust.com](mailto:email@optrust.com)

## London

33 Cavendish Square, 15<sup>th</sup> Floor  
London, UK W1G 0PW

Phone: 011 44 207 009 1100  
Fax: 011 44 207 009 1101

## Sydney

Level 29 Chifley Tower  
2 Chifley Square  
Sydney, Australia NSW 2000

Phone: 011 61 9238 8050  
Fax: 011 61 9238 8040



OPTrust

OPSEU Pension Trust

Fiducie du régime de  
retraite du SEFPO

CONNECT WITH US

