

# ATRF CLIMATE CHANGE APPROACH



A climate-smart approach  
to pension management

# Message from the Chair

September 24, 2024

On behalf of the ATRF Board, I am excited and very proud to present the ATRF Climate Change Approach. This is not a one-size-fits-all solution; we have custom-designed our measured approach with our plans' specific needs and goals in mind.

Climate change is a systemic risk with implications for our ability to achieve sustainability over the long term. Our unwavering fiduciary duty requires us to acknowledge and address the risks and opportunities that both climate change and the world's ongoing energy transition present. We must be proactive to ensure the plans are well-prepared to thrive in our dynamic environment.

Our approach is not about divesting of certain assets. Rather, it entails transformative change, requiring new investment and funding strategies that position the plans to address climate change and continue to achieve the necessary risk-adjusted returns.

This approach will not only help us navigate the challenges of climate change but also position us to take advantage of the opportunities it presents. In this way it is an important way ATRF continues to live up to its fiduciary duty and ensure our plans are on a solid footing for many years to come.

Sandra Johnston  
ATRF Board Chair

# ATRF Climate Change Approach



## Introduction

Alberta Teachers' Retirement Fund (ATRF) is the trustee and administrator of the Teachers' Pension Plan and the Private School Teachers' Pension Plan and custodian of the pension assets of the plans. Central to all decisions made by ATRF's board is the fiduciary duty to protect the interests of the plans, which includes prudently managing the financial and non-financial risks and opportunities which drive the long-term sustainability of the plans.

In line with broad consensus from the international scientific community, ATRF recognizes that climate change is an urgent global challenge that presents systemic and material risks to ecological, societal, and financial stability with implications for the sustainability of the pension plans. We have worked over the past year to develop a climate strategy that is rooted in current and credible science and data. The ATRF Climate Change Approach outlines a set of commitments and actions to effectively manage climate-related risks and opportunities and to align our investment and governance practices with global efforts to mitigate climate change.

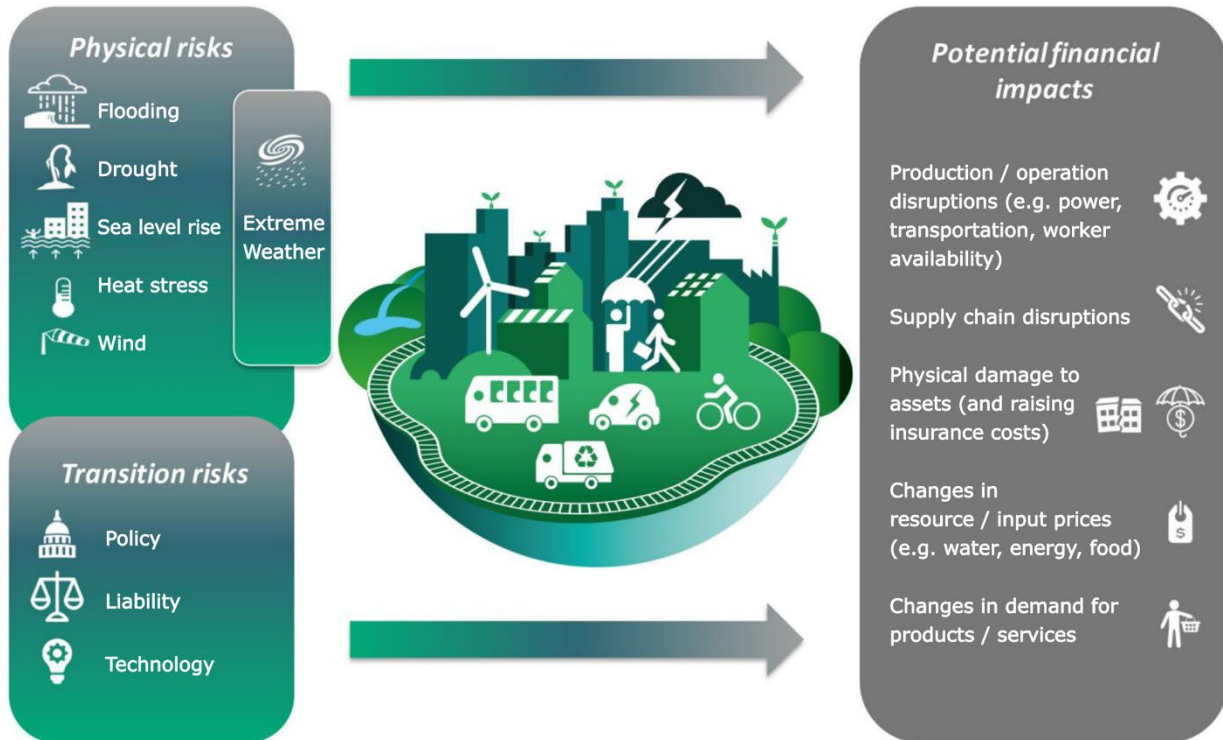
## Context

There is scientific consensus that human activities, principally through emissions of greenhouse gases, have caused global warming. The Earth is now 1.2°C warmer than it was in the pre-industrial era.<sup>1</sup> In 2016, the Paris Agreement came into effect. Almost 200 countries around the world agreed to make an urgent, science-based commitment to limit global warming to well below 2°C and pursue efforts to limit it to 1.5°C to avert the worst impacts of climate change. To achieve this, emissions need to be reduced 45% from 2010 levels by 2030 and reach net zero ([see Glossary](#)) by 2050.<sup>2</sup>

## Climate Change and Pension Plan Sustainability

Climate change is a systemic risk with potential implications for ATRF's ability to achieve sustainability over the long term. For example, climate change can impact global economic performance, the value of assets in our portfolio, future mortality rates, and the financial health of our plan sponsors. Climate change is recognized as a key financial risk by governments and regulators.<sup>3</sup> Two types of climate-related risks are most relevant to pension plans:

1. **Physical risks:** The impacts of rising temperatures, changing precipitation patterns, sea level rise, and increased frequency and severity of extreme weather events. Physical risks may have financial implications for organizations, such as direct damage to assets and indirect impacts from supply chain disruption.
2. **Transition risks:** The impacts arising from the realignment of our economic system towards a low-carbon future, which will entail extensive policy, legal, technology, and market changes. Transition risks may pose varying levels of financial risks to companies due to changes in consumer demand, increased operating costs, and the potential for stranded assets.



Source: [Center for International Climate Research](#)

The transition to a low-carbon economy also presents investment opportunities in companies and industries that stand to benefit. There are viable technological solutions available now that can substantially contribute to greenhouse gas emissions reductions, and every day there are businesses around the globe working aggressively to develop new and innovative products in this field.

## ATRF’s Environment

Our approach to climate change recognizes and reflects this broader context as well as the more local environment within which we operate. As with nearly all climate change targets, our approach depends on innovation and leadership, which in turn requires support from industry and government.

### The Alberta Context

In 2019 an Alberta Government Report, “[Alberta’s Climate Future](#)”, looked at the predicted impacts of climate change on our province. They found that, “Many climate indicators for Alberta are projected to increase at a greater rate of change than the global average.”

The report says projected changes will profoundly impact Alberta’s natural environment, and have the potential to affect the province’s agriculture, infrastructure, and natural resources, as well as the health and welfare of its inhabitants.

In 2023 the government of Alberta published the [Alberta Emissions Reduction and Energy Development Plan](#) that outlines its current approach to addressing climate change. Updated in 2024, it includes a message from Sonya Savage, Minister of Environment and Protected Areas, “*Alberta’s aspiration of achieving a carbon neutral economy – net zero – by 2050 will take a dedicated and focused effort to achieve... Alberta understands the importance of identifying achievable pathways to emissions reductions.*”

### **AIMCo’s Approach**

ATRF will need to work collaboratively with our investment manager, AIMCo, to implement ATRF’s climate change initiatives. AIMCo has published numerous reports and updates on their work in this area, and they describe their approach to climate change as “investment driven and focused on meeting client’s objectives.”

AIMCo’s [2024 Climate Approach](#) acknowledges that climate risks can significantly impact the long-term performance of investments while also creating investment opportunities. AIMCo notes that it has been evaluating climate change risks for over a decade, resulting in investments in energy transition and climate solutions across asset classes, regular monitoring and reporting on climate change, and the organization becoming a member of climate change initiatives like Climate Engagement Canada and Climate Action 100+.

AIMCo’s [‘Four Pillar’ approach to climate change](#) (page 9) outlines their commitment to supporting the transition to the low-carbon economy through their investments and stewardship.

### **ATRF Members**

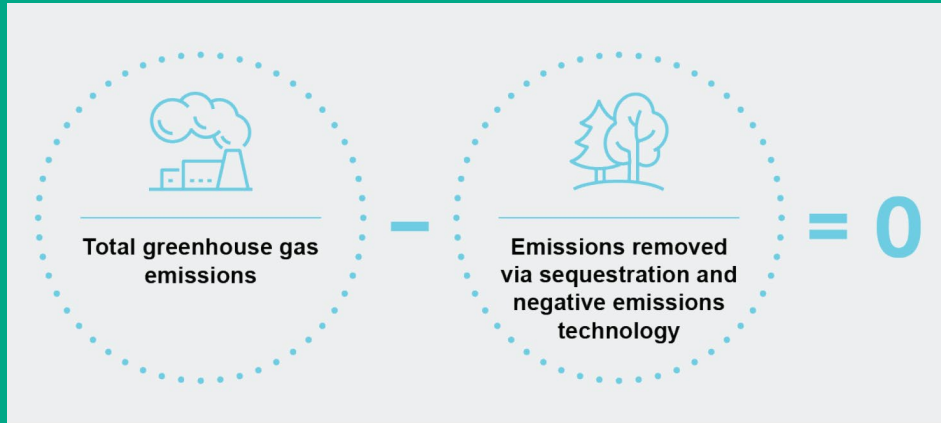
Albertans in general are becoming increasingly concerned about the effects of climate change. Polling in 2023 shows that around 7 in 10 Albertans are personally concerned about climate change (70% Research Co.; 67% Leger).

The World Economic Forum also explains why addressing the effects of climate change is becoming increasingly important to teachers around the world specifically: “The education of more than 40 million children is being disrupted each year by the effects of climate change and ecosystem degradation”.



## What does net zero mean?

Net zero means any emissions are offset by greenhouse gas ([see Glossary](#)) removals.



Graphic Source: [Alberta emissions reduction and energy development plan](#)

## Why are investors making net-zero commitments?

Investors are making net-zero commitments to manage climate-related risks and opportunities, contribute to real-world GHG emissions reductions, and align with global efforts and commitments to achieve net-zero emissions by 2050 or sooner.

## How are investors achieving their net-zero commitments?

Different strategies are available to investors to transition their portfolios and contribute to efforts to achieve global net-zero emissions by 2050. For example, through shareholder engagement and proxy voting, investors are encouraging companies to improve their climate-related disclosure and accelerate their climate performance, including by setting emissions reduction targets. Investors are also advocating for policies and regulations to help advance global climate change goals and investing in climate solutions that will play a key role in the low-carbon transition.

Net-zero investing requires designated investment strategies, actions, metrics and methodologies through which investors can contribute to achieving global net-zero emissions. It is not a simple matter of selling high-emitting assets and buying low-emitting assets. It requires a nuanced and holistic approach that considers the real economic impact to investing in different sectors and companies. It entails transformative change, requiring new investment strategies that do not compromise risk-adjusted returns.

## Our Approach

The ATRF Climate Change Approach outlines a set of commitments and actions to manage the risks and opportunities associated with climate change. It is appropriate for the context within which we operate, and designed specifically to minimize risks and maximize benefits for our plans.

We make our climate commitments with the expectation that governments will take meaningful steps to meet their obligations under the Paris Agreement and limit global temperature rise to below 2°C.

### ATRF Climate Change Principles



We recognize that climate change presents risks to ecological, societal, and financial stability with implications for the sustainability of our pension plan.



We believe that addressing climate change risks and opportunities in plan governance and investing and doing our part to contribute to climate change mitigation is consistent with our fiduciary duty to the plans and its beneficiaries.



We understand that our approach to addressing climate change should be rooted in current and credible science and data, and supportive of the global goal of an orderly transition to limit global average temperature rise.



We value transparency in our approach to addressing climate change as it is critical to preserving the trust of our members, sponsors, and stakeholders.



## Our Commitments

The ATRF Climate Change Approach is adaptive and recognizes the complexities of the global transition. Our approach is based on our plans' unique needs and circumstances, and we understand that the impacts of climate change on our plans are difficult to predict and will change over time. We acknowledge that our understanding of the impacts of climate change on our plans will evolve with experience and improved data. Therefore, we will be proactive in keeping apprised of relevant developments to ensure our strategy remains resilient and aligns with our fiduciary duty to the plans and beneficiaries.

**With that in mind, ATRF has established three overarching commitments to guide the implementation of our climate change approach:**

1. ATRF will establish systems and frameworks to better evaluate and manage climate-related risks and opportunities.



2. ATRF will engage constructively with our asset manager to support its management of climate-related risks and opportunities in alignment with our goal of achieving net-zero emissions by 2050.



3. ATRF will transition its investment portfolio to achieve net-zero greenhouse gas emissions by 2050 or sooner.





# The Four Pillars of ATRF's Approach

GOVERNANCE	<p><b>Commitments:</b></p> <p>Formalize ATRF's governance approach and oversight of climate-related risks and opportunities.</p> <p>Provide regular and transparent reporting to members, sponsors, and stakeholders on the plans' progress.</p>	<p><b>Actions:</b></p> <p>Incorporate climate-related risks and opportunities into key governance documents, including in the Statement of Investment Policies and Goals.</p> <ol style="list-style-type: none"> <li>1. Evaluate the resilience of the plans' long-term sustainability under different climate -related scenarios.</li> <li>2. Provide on-going education to the ATRF Board and staff on climate change concepts, risks, and opportunities.</li> <li>3. Provide regular reporting on our progress in implementing our climate approach.</li> </ol>
STRATEGY	<p><b>Commitments:</b></p> <p>Engage with and influence the strategy of AIMCo and other relevant capital market participants, including regulators and standard-setting bodies, in addressing climate-related risks and opportunities.</p>	<p><b>Actions:</b></p> <p>Identify opportunities to participate in collaborative investor initiatives focused on climate change, including those related to net-zero alignment, corporate engagement, and policy advocacy.</p> <p>Monitor AIMCo's climate performance and engage in the areas of asset alignment, risk management, engagement, proxy voting, policy advocacy when appropriate or necessary.</p>
RISK MANAGEMENT	<p><b>Commitments:</b></p> <p>Implement risk management approaches that will help ATRF better understand and evaluate the short-, medium- and long-term risks of climate change to inform decision making and enhance plan sustainability.</p>	<p><b>Actions:</b></p> <p>Undertake climate scenario analysis (<a href="#">see Glossary</a>) as part of the plan's asset-liability modeling and strategic asset allocation.</p> <p>Incorporate climate-change-related risks into the plan's overall risk management framework.</p>
METRICS AND TARGETS	<p><b>Commitments:</b></p> <p>Identify key climate metrics to measure the plans' progress in managing climate-related risks and opportunities and achieving our net-zero commitment.</p> <p>Consider the feasibility of setting targets related to interim portfolio emissions reductions, exposure to climate solutions, asset alignment, and engagement.</p>	<p><b>Actions:</b></p> <p>Develop a climate metrics dashboard to measure the financed emissions (<a href="#">see Glossary</a>) of ATRF's portfolio that will include:</p> <ul style="list-style-type: none"> <li>• Scope 1 and 2 (<a href="#">see Glossary</a>) emissions,</li> <li>• Material Scope 3 (<a href="#">see Glossary</a>) emissions where feasible,</li> <li>• % of AUM that are assessed on their alignment with net zero,</li> <li>• % of carbon intensive assets that are the subject of direct or collaborative engagement,</li> <li>• Value of investments in climate solutions across all asset classes, and</li> <li>• Relevant signposts on global progress toward net zero.</li> </ul>

## Our Next Steps

- 1. Update Statement of Investment Policies and Goals**

ATRF will update its Statement of Investment Policies and Goals (SIP&G) to incorporate its approach to addressing climate-related risks and opportunities.
- 2. Develop Climate Metrics Dashboard**

ATRF will create a comprehensive climate metrics dashboard to monitor key climate-related data. This dashboard will include metrics such as Scope 1 and 2 emissions, the alignment of our assets to net zero, and investments in climate solutions. By establishing a baseline and tracking progress ATRF will ensure transparency and effective oversight of climate-related risks and opportunities.
- 3. Conduct Climate Scenario Analysis**

ATRF will conduct climate scenario analysis to evaluate the impact of various climate futures on its assets and liabilities. This analysis will incorporate the latest actuarial recommendations and combine qualitative and quantitative methods. It will help update capital market assumptions, risk-return expectations, and stress test portfolios to enhance strategic asset allocation.
- 4. Monitor and Evaluate AIMCo's Climate Performance**

ATRF will engage with AIMCo to ensure continuous improvement in its climate performance. We will monitor and assess AIMCo's approach to proxy voting, corporate engagement, policy advocacy, and the integration of climate considerations into its risk management and asset selection processes.
- 5. Evaluate Alignment of Assets with Net Zero**

ATRF will evaluate the alignment of its investments with net-zero pathways. Using criteria from Canadian and international investor initiatives, ATRF expects AIMCo will evaluate company performance on emissions, targets, capital allocation and decarbonization strategies to identify whether companies have credible, science-based net-zero transition plans. This kind of evaluation will help ATRF track its progress towards its net-zero goal and monitor the effectiveness of AIMCo's stewardship efforts.
- 6. Collaborate with Other Investors**

ATRF will collaborate with other asset owners and institutional investors to share best practices, engage in joint initiatives, and advocate for policies supporting the net-zero transition. This collaboration will enhance ATRF's influence and effectiveness in driving the systemic changes necessary for a sustainable and resilient financial system.
- 7. Monitor and Continually Improve**

Constant innovation and industry developments will require ATRF to continually monitor for trends that could impact our plans and require modifications to our approach. Our climate change approach needs to be flexible and responsive so it can adjust to changes in the broader context or with our plans.



## Glossary of Key Terms and Acronyms

### Climate Scenario Analysis

Using specialized computer models, climate scenario analysis assesses the potential impact of future events to help investors understand related risks and opportunities. It involves assessing both transition risks (associated with the shift to a low-carbon economy) and physical risks (stemming from climate change impacts such as extreme weather events). Climate scenario analysis can help pension funds prepare for a range of potential futures and ensure sustainable and resilient fund governance and investment strategies.

### Climate Solutions

Technologies, actions and strategies that contribute to the reduction of greenhouse gas emissions such as renewable energy, electric vehicles, or carbon capture and storage.

### Emissions Scopes (Scope 1, Scope 2 and Scope 3 Emissions)

A categorization framework is used to classify and account for greenhouse gas emissions produced by various activities and sources within an organization. **Scope 1** emissions are direct emissions from owned or controlled sources. **Scope 2** emissions are indirect emissions from the generation of purchased energy. **Scope 3** emissions are all indirect emissions (not included in scope 2) that occur in the value chain of the reporting entity, including both upstream and downstream emissions (source: [GHG Protocol](#)).

### Financed Emissions

The greenhouse gas emissions associated with the investments or loans of an organization (source: [PCAF](#)).

### Greenhouse Gases (GHG)

Greenhouse gases are gases in the earth's atmosphere that trap heat, contributing to global warming. Greenhouse gases include carbon dioxide, methane, nitrous oxide and fluorinated gases.

### IPCC

The Intergovernmental Panel on Climate Change (IPCC) is an intergovernmental body of the United Nations. Its job is to advance scientific knowledge about climate change caused by human activities. The IPCC has developed emissions scenarios that are widely used in the analysis of potential climate-related risks.

### Material Scope 3 Emissions

Scope 3 emissions are considered material when they represent more than 40% of a company's total emissions and total scope 3 emissions are greater than 10Mt CO<sub>2</sub>e (source: [GFANZ](#)).

### Net-Zero Emissions

Net zero refers to a balance between the amount of greenhouse gas emissions that are produced and the amount that are removed from the atmosphere. Net zero can be achieved through a combination of emissions reductions, and carbon removal through actions such as restoring forests and employing technologies that can capture carbon before it is released into the air (source: [WRI](#)).

### Paris Agreement

[The Paris Agreement](#) is an international treaty that aims to strengthen the global effort to mitigate the impacts of climate change by keeping global temperatures well below 2 degrees Celsius. Canada and 194 other UN parties have committed to the agreement so far.

## References

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<sup>1</sup>Intergovernmental Panel on Climate Change (IPCC). Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change. Available at:

[https://report.ipcc.ch/ar6/wg1/IPCC\\_AR6\\_WGI\\_FullReport.pdf](https://report.ipcc.ch/ar6/wg1/IPCC_AR6_WGI_FullReport.pdf)

<sup>2</sup> Intergovernmental Panel on Climate Change (IPCC). Summary for Policymakers of IPCC Special Report on Global Warming of 1.5°C. Available at: <https://www.ipcc.ch/sr15/chapter/spm/>.

<sup>3</sup> Bank of Canada. Disclosure of Climate-Related Risks 2023. Available at:

<https://www.bankofcanada.ca/2024/05/bank-of-canada-disclosure-of-climate-related-risks-2023>.

