

# Green Bond Framework

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## Table of Contents

CPP Investments' Sustainability Strategy.....	3
I. Introduction.....	3
II. Corporate Sustainability and Governance .....	3
III. Net Zero by 2050 .....	5
IV. About CPP Investments' Green Bond Program.....	5
2022 CPP Investments' Green Bond Framework .....	6
I. Use of Proceeds.....	7
II. Process for Investment Evaluation and Selection .....	9
III. Management of Proceeds .....	9
IV. Transparency, Reporting and Verification .....	10

# CPP Investments' Sustainability Strategy

## I. Introduction

Canada Pension Plan Investment Board ("CPP Investments") is a major Canadian investment management organization responsible for managing the Fund of the Canada Pension Plan ("CPP") in the best interest of more than 20 million contributors and beneficiaries. CPP Investments' assets under management as of March 31, 2022 was \$539 billion and is projected to surpass \$1 trillion by 2032. Established by Canada's provincial and federal governments in 1997, CPP Investments' purpose is to invest the assets of the CPP in a manner that maximizes returns without undue risk of loss, to help provide a foundation for Canadians to build financial security in retirement. Workers in Canada and their employers jointly contribute to the CPP.

Supported by a global workforce of over 2,000 employees across nine global offices, CPP Investments holds investments in over 50 countries across public equities, private equities, bonds, private debt, real estate, infrastructure and other asset classes. CPP Investments is guided by an independent Board of Directors, operates at arm's length from federal and provincial governments, and is managed independently from the CPP itself.

## II. Corporate Sustainability and Governance

CPP Investments has been building strong internal ESG infrastructure and a robust sustainable investment program for over 15 years.

The Sustainable Investing group was established in 2005. It works across the organization to support integration of ESG into investment analyses and conducts research on industry standards and best practices. For publicly traded equity investments, the Sustainable Investing group also supports CPP Investments' role as an active, engaged owner by carrying out all proxy voting activities. We believe that engagement with companies on ESG issues, either directly or in collaboration with like-minded investors, is an effective way to influence productive change, reduce investment risks, realize opportunities, and enhance and sustain long term competitiveness and financial performance. A key focus of our ESG engagement with companies is climate change, we encourage investee companies to align reporting with the Sustainability Accounting Standards Board (SASB) Standards and Financial Stability Board's (FSB) Taskforce for Climate-Related Financial Disclosures (TCFD) recommendations.

In 2021, CPP Investments established the role of Chief Sustainability Officer, which is held by the Global Head of Real Assets; the enterprise-wide CSO will hold accountabilities for our approach to environment, social and governance (ESG) matters, particularly climate change, and will enhance the integration of ESG considerations into investment decisions.

An overview of relevant ESG policies and reporting platforms are outlined below:

### Policies

- CPP Investments has been a UN-supported Principles for Responsible Investment (PRI) signatory since 2005, which has guided and informed sustainable investment policies.
- Also in 2005, CPP Investments published its first Policy on Responsible Investing, which ultimately became the [Policy on Sustainable Investing](#), which describes CPP Investments' efforts to fully integrate ESG into investment and engagement processes
- The Policy includes CPP Investments' support for company alignment with SASB Standards and TCFD.
- The policy was updated in 2010 and 2020 to reflect CPP Investments' evolving focus on ESG risks and opportunities.
- CPP Investments applies a Climate Change Security Selection Framework as part of its pre-investment diligence and post-investment monitoring processes. This applies "bookend scenarios" to identify and quantify the financial impacts of climate change on CPP Investments' most significant transactions where climate change impacts are deemed to be material.<sup>1</sup>
- CPP Investments' 2022 [Proxy Voting Principles and Guidelines](#) describe CPP Investments' expectations related to ESG integration into public company strategy and disclosure of ESG-related risks and opportunities. The guidelines include a voting policy which stipulates that CPP Investments will vote against the reappointment of the chair of the committee responsible for oversight of climate change (or equivalent) of an investee company in situations where the board has failed to demonstrate adequate consideration of physical and transition-related impacts from climate change.

### Reporting

- CPP Investments has published its *Report on Sustainable Investing* annually since 2008.
- CPP Investments was a founding member of the TCFD in 2017 and has been reporting in alignment with the Task Force's recommendations since 2018, achieving full adoption of its recommendations in fiscal 2021. TCFD-aligned reporting is available on our website as a stand-alone document and includes details on climate-related governance, strategy, risk management, metrics and targets.
- CPP Investments' climate-related scenario analysis, guided by the Climate Change Security Selection Framework, allows the organization to systematically identify and disclose material climate change-related risks and opportunities, assess the impact and resilience of investments, and inform strategy and business planning. Details of climate-related scenarios explored, and insights obtained through climate change stress testing, are reported in the annual *Report on Sustainable Investing*.
- CPP Investments has disclosed the carbon footprint of its public equities portfolio since 2018. As of 2020, estimated Scope 1 and Scope 2 carbon emissions associated with all CPP Investments holdings, including government issued securities, are disclosed.
- CPP Investments discloses its operational Scope 1 and 2 GHG emissions and Scope 3 business travel emissions; and will be operationally carbon neutral by 2023.

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<sup>1</sup> CPP Investment's *Report on Sustainable Investing 2021*, page 16

### III. Net Zero by 2050

In 2022, CPP Investments announced its commitment to achieve net zero GHG emissions across all scopes for the portfolio and operations by 2050. The commitment will be met in accordance with CPP Investments' [Climate Change Principles](#) and guided by the following actions:

- Continued investment and exertion of influence in the whole economy transition as active investors, rather than through blanket divestment.
- Achievement of carbon neutrality for internal operations by the end of FY23<sup>2</sup>.
- Increased investment in green and transition assets (company and project level) from \$67 billion in 2021 to at least \$130 billion by 2030.<sup>3</sup>
  - An asset is considered green when at least 95% of its revenue comes from activities that align with International Capital Markets Associations (ICMA) Green Bond Principles' (GBP) suggested project categories.
  - An asset is considered transition if it has announced its commitment to net zero with a credible target and plan and is making meaningful contributions to global emissions reduction.

Since 2019, CPP Investments has more than doubled its investments in renewables from \$2.9 billion to \$7.7 billion. As of June 30, 2021, CPP Investments' real estate portfolio includes 403 green building certified or pre-certified assets across 27 countries.

Progress of the Fund's holdings toward net zero will be reported annually in CPP Investments' *Report on Sustainable Investing* and annual report. Starting in 2020, carbon emission metrics have been estimated for all CPP Investments holdings including government issued securities. Refer to CPP Investments Carbon Footprint Metrics within the [2021 Report on Sustainable Investing](#) for latest figures.

Plans for fulfilling our net zero commitment will expand and evolve over time. Investments in transition projects may not guarantee linear year-over-year decreases in the carbon footprint, but CPP Investments expects absolute decline of portfolio emissions over the decades leading up to 2050. CPP Investments proposes client adoption of a reporting framework, the "[Abatement Capacity Assessment](#)" framework, which would help fill critical information gaps about a company's ability to abate GHG emissions.

CPP Investments is a member of the Task Force on Climate-Related Financial Disclosures, Value Reporting Foundation, Investor Leadership Network and the Task Force on Voluntary Carbon Markets.

### IV. About CPP Investments' Green Bond Program

In June 2018, CPP Investments became the first pension fund to issue a green bond, followed by the first euro-denominated green bond issued by a pension fund in January 2019. CPP Investments has issued green

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<sup>2</sup> Across Scope 1 and 2 GHG emissions and Scope 3 business travel emissions

<sup>3</sup> See [Investing in the path to net zero](#) for more information

bonds in Australian dollars, Canadian dollars, Euros and U.S. dollars across four benchmark issuances and three private placements, totaling more than C\$5.8 billion. Currently, there are six outstanding issuances, totaling more than C\$5.2 billion. As a repeat green bond issuer demonstrating a commitment to transparency and quality in the market, CPP Investments was recognized with Environmental Finance's esteemed SSA Green Bond of the Year award in 2019.

CPP Investments' inaugural Green Bond Framework was published in 2018, in accordance with the Green Bond Principles (GBP) as set out by the International Capital Markets Association (ICMA). The Framework received an SPO from Center for International Climate Research (CICERO).

The Green Bond Framework was revised in 2021, which incorporated CPP Investments' Policy on Sustainable Investing; updated eligible project categories; mapped investment categories to the EU Taxonomy for Sustainable Activities; and included an external review section among other governance adjustments. The 2021 Green Bond Framework received a Medium Green rating with Good Governance score from CICERO Shades of Green.

As of June 2022, an excess of 80% of existing eligible assets and past green bonds' allocation fall under the renewable energy project category, which received a Dark Green rating from CICERO Shades of Green in 2021. The remainder is allocated to the green buildings project category, which obtained a Medium to Dark Green rating from CICERO.

This 2022 revision of the Green Bond Framework incorporates CPP Investments' commitment to net zero; strengthens and clarifies project eligibility criteria; specifies treatment of temporarily notionally unallocated net proceeds and expands on CPP Investments' processes for transparency, reporting and verification. CPP Investments will seek an updated second opinion from CICERO Shades of Green to confirm alignment of Framework revisions with ICMA Green Bond Principles.

## 2022 CPP Investments' Green Bond Framework

CPP Investments' Green Bond Framework (the "Framework") is aligned with the International Capital Markets Association's (ICMA) Green Bond Principles' four core components:

- Use of proceeds
- Process for project evaluation and selection
- Management of proceeds
- Reporting and verification

This Framework addresses each of the above components in support of CPP Investments' green financing initiatives. Eligible investments have additionally been mapped to the EU Taxonomy for Sustainable Activities and the UN's Sustainable Development Goals.

## I. Use of Proceeds

An amount equivalent to net proceeds raised under this Framework will be used to finance investments (equity or debt, in whole or in part) in assets (companies or projects) that meet the eligibility criteria of one or more of the categories listed below.

- **Companies:** eligible companies must derive at least 95% of their revenues from the eligible green project categories.
- **Projects:** eligible projects must meet the eligibility criteria of one or more of the categories listed below. In the case of green projects for companies which do not derive all of their revenues from green operations, projects are eligible if they form part of a credible transition plan per CPP Investments' Climate Change Principles.

The eligible green categories are:

- 1) Renewable Energy
- 2) Green Buildings
- 3) Low Carbon/Clean Transportation
- 4) Energy Efficiency

New and existing assets may qualify. Eligible assets will have a two-year lookback period from issuance date. An amount equal to the net proceeds raised through a green bond issuance will be notionally allocated within one year of issuance.

As of June 2022, all existing eligible assets and prior notional allocation of green bond net proceeds are in project categories that received at least a Medium to Dark Green rating from CICERO Shades of Green in 2021, as previously disclosed.

Eligible use of net proceeds excludes direct investments in fossil fuel infrastructure. The exclusion explicitly covers but is not limited to investments in fossil fueled transportation (including systems using hydrogen generated from fossil fuels, and bioenergy powered systems) and power generation; renewable energy that expands the capacity of oil and gas; and fuel switching (e.g., oil to gas) in building heating system retrofits.

ICMA GBP Category	Eligibility Criteria of assets (companies or projects)	EU Taxonomy Mapping	SDG Alignment
Renewable energy	Acquisition, development, generation, transmission and distribution of renewable energy including: <ul style="list-style-type: none"> <li>▪ Wind power (offshore and onshore)</li> <li>▪ Solar power</li> <li>▪ Green hydrogen</li> </ul>	Climate change mitigation  3.1 Manufacture of low carbon technologies  4.1 Production of Electricity from Solar PV  4.3 Production of Electricity from Wind Power	SDG 7
Green buildings	Purchase, development and/or redevelopment of properties that have received or are expected to receive at least one of the following green building certifications:	Climate change mitigation  8.1 Construction of new buildings  8.2 Building renovation	SDG 11

	<ul style="list-style-type: none"> <li>▪ Leadership in Energy and Environmental Design (LEED) Platinum or equivalent levels in other certification programs such as DGNB Platinum, or BREEAM Outstanding</li> </ul>	8.4 Acquisition and ownership	
Low carbon / clean transportation	<p>Development, deployment and operation of clean transportation assets including:</p> <ul style="list-style-type: none"> <li>▪ Private transport: <ul style="list-style-type: none"> <li>○ Electric or non-motorized transport vehicles</li> </ul> </li> <li>▪ Public transport: <ul style="list-style-type: none"> <li>○ Electric or non-motorized public transportation vehicles and fleets</li> <li>○ Supporting infrastructure such as walkways, bike paths, and charging stations</li> <li>○ Electrification of existing rail infrastructure</li> </ul> </li> </ul> <p>Transportation systems that rely on conventional fuels, hydrogen generated from fossil fuel(s) and/or bioenergy are excluded</p>	<p>Climate change mitigation</p> <p>6.1 Passenger rail transport (interurban)</p> <p>6.3 Public transport</p> <p>6.4 Infrastructure for low carbon transport (land)</p> <p>6.5 Passenger cars and commercial vehicles</p>	SDG 11
Energy efficiency	<p>Develop, operate, and maintain renewable energy battery storage</p> <p>Development, deployment and operation of technologies, products, or systems that provide significant improvements in energy efficiency (&gt;30% per International Energy Agency and EU Taxonomy), examples including but not limited to:</p> <ul style="list-style-type: none"> <li>▪ Renewable energy-powered district heating and cooling technologies, Smart grids, sensors, load control systems, grid connectors, renewable energy battery storage</li> </ul> <p>Investments that increase efficiency of fossil fueled equipment or power plants are excluded</p>	<p>Climate mitigation</p> <p>4.10 Storage of electricity</p> <p>4.15 District heating/Cooling distribution</p>	SDG 7



## II. Process for Investment Evaluation and Selection

CPP Investments' Sustainable Investment Committee (SIC) will be responsible for evaluating, approving, tracking and reporting eligible investments under this Framework, in accordance with the eligibility criteria outlined below. The Sustainable Investing Committee has assumed the role of CPP Investments' Green Bond Committee that focused solely on CPP Investments' Green Bond Program previously and other legacy climate change-related committees to provide a central forum for the monitoring and guidance of issues related to ESG. Several members of the former Green Bond Committee are members of the SIC.

The SIC is chaired by the Global Leadership Team - Managing Director, Head of Sustainable Investing and includes senior members from teams across the organization. The positions on the SIC that bring environmental expertise are the following: the Head of Sustainable Investing (Chair), the Managing Director in Sustainable Investing, Managing Director in Sustainable Energies, Managing Director in Energy and Resources, Managing Director of Investment Risk and Portfolio Manager in Total Fund Management.

The SIC's other responsibilities include discussion and approval of policies including our *Policy on Sustainable Investing* and *Proxy Voting Principles and Guidelines*, ahead of these policies being recommended to the Board.

The SIC will meet six times per year to evaluate potential eligible investments against Framework eligibility criteria, approve investments that meet the criteria, and review notional allocation of net proceeds. Eligible investments are approved by consensus. Eligible investments will be added to CPP Investments' Green Bond Register, which will be publicly available on the Green Bond section of CPP Investments' website. Eligible investments are identified by investment teams using the following eligibility criteria:

- Investments in assets (companies or projects) that meet the eligibility criteria of one or more of the eligible green project categories; companies must derive at least 95% of their revenues from the eligible green project categories;
- Investments were made no more than 24 months before bond issuance;
- Per CPP Investments' Policy on Sustainable Investing, disclosure of carbon footprints, emissions reductions targets, climate risk stress testing per TCFD, and deforestation commitments – among other ESG oriented initiatives – are identified and considered, where available;
- CPP Investments has access to reliable data for impact reporting, where feasible.

## III. Management of Proceeds

CPP Investments' Head of Term Debt, who is also a member of the SIC, will be responsible for tracking net proceeds generated and notionally allocated under this Framework. Net proceeds from CPP Investments' Green Bond issuance will be deposited in the general account and an amount equal to the net proceeds will be earmarked for notional allocation to eligible investments, as approved by the SIC. Notional allocation of net proceeds will be on a portfolio basis, meaning they will be notionally allocated across all eligible investments in the Green Bond Register.

Pending notional allocation, an amount equal to unallocated net proceeds may be temporarily invested in cash, cash equivalents, and/or government securities. Investment in green, social/sustainable and/or highly rated ESG securities will be privileged where feasible. Funds will not knowingly be placed in investments that are inconsistent with the delivery of a low carbon economy.

All relevant information regarding the issuance of green bonds and notional allocation of net proceeds to eligible investments will be recorded annually in the Green Bond Register and made publicly available on the Green Bond section of CPP Investments’ website.

The payment of principal and interest on any Green Bond issued by CPP Investments will be made from our general funds and will not be linked to the performance of any eligible investment.

#### IV. Transparency, Reporting and Verification

CPP Investments will report annually on notional allocation of net proceeds and associated impact, where feasible, for the preceding 12 months per green bond issued until an amount equal to the net proceeds of the green bond issuance has been notionally allocated. CPP Investments will use a portfolio approach in its impact reporting methodology.

The information will be published annually in the Green Bond Register/Green Bond Impact Report on the Green Bond section of CPP Investments’ website. Highlights will be included in CPP Investments' annual *Report on Sustainable Investing*. The first report will be published within one year of green bond issuance and every year thereafter, until an amount equal to the net proceeds of the issuance has been notionally allocated. The Green Bond Register/Green Bond Impact Report will include the following information:

- Net proceeds generated under the Framework;
- Notional allocation of net proceeds by eligible category;
- A brief description of the investment where possible;
- Breakdown of notional allocation of net proceeds between new and existing investments
- Impact metrics by investment category, where feasible;
- Outstanding amount of net proceeds at the end of the reporting period.

Impact metrics that may be used for eligible categories include the following:

ICMA GBP Category	Example Environmental Impact Indicators
Renewable energy	<ul style="list-style-type: none"> <li>• Annual renewable energy generation in MWh/GWh</li> <li>• Capacity of renewable energy constructed or integrated</li> </ul>
Green buildings	<ul style="list-style-type: none"> <li>• Percentage of energy use reduced/avoided vs local baseline/building code</li> <li>• Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent vs local baseline/baseline certification level</li> <li>• Amount of waste minimized, reused or recycled</li> <li>• Certification standard: type of scheme and certification level</li> </ul>
Low carbon /	<ul style="list-style-type: none"> <li>• Annual GHG emissions reduced/avoided in tCO2e p.a.</li> </ul>

clean transportation	<ul style="list-style-type: none"> <li>• Reduction of air pollutants, particulate matter (PM), sulphur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO), and non-methane volatile organic compounds (NMVOCs)</li> <li>• Number of clean vehicles deployed</li> <li>• Kilometers of new or improved train lines/dedicated bus, BRT, LRT corridors, bicycle lanes</li> </ul>
Energy efficiency	<ul style="list-style-type: none"> <li>• Annual energy savings in MWh/GWh (electricity) and GJ/TJ (other energy savings)</li> <li>• Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent</li> </ul>

On an annual basis, the notional allocation of net proceeds and impact metrics listed in the Green Bond Register will be verified by management attestation. An external verification of the notional allocation of net proceeds and, where feasible, impact metrics, will be carried out by an independent, qualified third-party on an annual basis until all net proceeds have been notionally allocated. The results of the third-party verification will be made publicly available on CPP Investments' website, alongside the Framework and *Report on Sustainable Investing*. In the unlikely event that the external verification identifies notional allocations to projects that do not comply with this Framework, these projects will be removed from the Green Bond Register and corresponding amounts will be notionally allocated to different assets that comply with this Framework.

CPP Investments is seeking a second party opinion for this Framework from CICERO Shades of Green to verify alignment with ICMA's Green Bond Principles as well as provide expert insight into potential environmental impact of eligible investments. The second party opinion will be made publicly available on CPP Investments' website, alongside the Framework. If the Framework is substantially altered, an updated second party opinion will be procured.

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