NEI

September 29, 2023

Canadian Association of Pension Supervisory Authorities
25 Sheppard Avenue West
Box 21 - Suite 100
Toronto, Ontario M2N 6S6
Email: capsa-acor@fsrao.ca
Attention: CAPSA Secretariat

Re: CAPSA Guideline: Pension Plan Risk Management

Dear Members of the Risk Management Committee:

NEI Investments is a Canadian asset manager specializing in responsible investing, with approximately $11 billion in assets under management. We are part of Aviso Wealth's asset management business - Aviso being one of the largest Canadian financial services providers with over $110 billion in assets under administration and management. NEI's approach to investing incorporates the thesis that companies can mitigate risk and take advantage of emerging business opportunities by integrating best environmental, social and governance (ESG) practices into their strategies and operations. As part of our investment process, we utilise sustainability-related financial information to better inform our investment decisions and guide our corporate proxy voting and engagement activities.

We appreciate the opportunity afforded by CAPSA to provide input to this consultation as it looks to improve pension plan administration and enhance protection for pension plan members.

We have chosen to focus our comments to **section 6.3 Environmental, Social, Governance (ESG)**. Our responses are defined by our perspective as an asset manager. Through our responses we have sought to highlight that we believe that sustainability-related financial information in managing pension assets should be incorporated into the investment process for the benefit of pension members in protecting the value of their pension. Please note that we interchange the term sustainability-related financial information and ESG-related information according to the topic addressed by CAPSA. We have also addressed topics 6.3.4 and 6.3.5 within the Principles outlined by the Guideline.

6.3.2 What does fiduciary duty mean in the context of ESG?
Principle #1

> Pension plan administrators (either directly or through their delegates) should consider whether and how ESG information may be relevant to the investment performance of their funds and take appropriate action based on their determination.

Environmental, social and governance (ESG) issues are generally a series of material, non-financial factors that affect corporate performance, including financial performance. We believe ESG factors are inextricably connected to how a business generates long-term sustainable value creation. Though there are a breadth of issues that are considered ESG issues, for any given company there will be certain ESG issues that are more material to the business given its business model, where it operates, the products/services it provides etc. The ESG issues, whether new or existing issues, should be continuously monitored as their materiality may change over time. Other considerations used to address material non-

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financial risks and to avoid potential losses in investment value include engagement and proxy voting as part of the investment decision making process. For the benefit of members' pension plan assets, we believe that both *material* financial and non-financial risks should be taken into consideration for all assets invested in and should be part of the plan administrator's fiduciary duty in providing and protecting retirement income.

Additionally, similar to reasons for investing across asset classes to provide diversification benefits for a fund, pension administrators should also consider not only ESG-integrated funds or funds that consider ESG factors into the investment decision, but ESG-related funds as well, within the fiduciary duty to protect retirement income. Such ESG-related funds may include thematic and impact funds.

6.3.3 Implementing ESG Factors in Plan Activities
Principle #2:

Plan administrators, as part of their standard of care, should ensure that their plan governance, risk management and investment decision-making practices are designed to identify and respond to material ESG risks and opportunities in a manner appropriate for their plan circumstances and investment beliefs. A review should be conducted at least annually, or whenever there is a material change in the risks facing the plan or governance processes.

As the responsible investing landscape is continuing to evolve with more information and data becoming available, we believe that it is prudent that plan administrators review their plan governance, risk management and investment decision-making practices, not only for traditional financial risks and opportunities but for ESG risks and opportunities as well, noting that both review requirements should not be seen as mutually exclusive. We believe that the review process and cadence should not be any different than what is currently being done as part of their standard of care.

The review, responsibility and accountability of ESG considerations should be governed by the same processes in place for other investment considerations. However, due to the nature of non-financial information and its relative early stage of consideration or implementation for some pension administrators, we do believe that identifying the specific processes for ESG considerations should be explicitly assigned. We also recommend that if the skills needed to execute on the processes are not identified within the plan administrator, third-party expertise can be drawn upon to ensure that the standard of care is met. And similar to traditional investment considerations documented in firm policies and procedures and investment policies and procedures, we believe documentation is necessary and prudent from a fiduciary duty standpoint.

Finally, as the nature of pension obligations are typically long-term in nature, we believe the consideration of material sustainability-related information aligns with the longer time horizon of the management of ESG-related risks. Due to the nature of certain systemic risks identified using ESG analysis, it is even more important that these risks are considered in managing the long duration of members' pension assets.

6.3.6 Disclosure
Principle #3:

Plan administrators should describe whether and how material ESG information is considered or not and make reference to that information in the SIP&P and plan member statements or other

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sources of plan member information (e.g., websites or fund fact sheets). Where appropriate, plan administrators should also provide reports on their stewardship activities as well as request companies and asset managers in which they invest to disclose their ESG-related policies.

We believe that transparency of information that could benefit pension members, including ESG-related information, should be part of a pension administrator's fiduciary duty. As the investment process needs to be included in the SIP&P outlining factors and considerations in that process, ESG-related information should not be any different. The SIP&P should also include the framework used to determine material sustainability-related risks and in other documents available to plan members to provide transparency.

We also recommend that pension plan administrators look to best practice on disclosure requirements and follow potential regulatory requirements for disclosure on identified systemic risks that could impact the value of pension assets, including standards now recommended by the International Sustainability Standards Board (ISSB) and in the Canadian context, to be recommended by the Canadian Sustainability Standards Board (CSSB) in the near term.

The frequency of updated disclosure should be considered by the pension administrator along with the disclosure procedures for information given to pension members, similar to the annual report publication requirement. However, if there have been material changes to the ESG-related process or governance, investment process considering ESG-related information or other ESG-related considerations, the plan administrator should provide intra-period disclosure as necessary for the benefit of its members.

Thank you again for the opportunity to respond to this consultation. We would be pleased to discuss any of our comments in further detail, as is helpful to the Committee.

Sincerely,

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cc: Jamie Bonham, Head of Stewardship
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