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JUSTICE MATTERS

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ROLE OF ESG FACTORS IN ASSET ALLOCATION AND INVESTMENT DECISIONS

- ESG factors are just like other factors
 - If material to risk/return, they must be considered
 - If not material, they need not be considered
 - Even if material, factor needs to be weighed together with other material factors

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- **Objections**
 - For some, ESG factors are, by definition, immaterial to risk/return
 - Reflect personal or political objectives, not investment objectives
 - Always a factual question
 - For some, a threat to their business or financial interests
 - Fiduciaries must consider the facts, not be dominated by ‘the interests’

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- In each case, the challenge is how to evaluate the impact of the factor on risk/return
 - Particularly difficult if factor is new and uncertain
- **Climate change, for example, is a comparatively new investment factor**
 - Scientific community began raising flags in 1950s and 1960s, but CC has not become an investment issue until recently

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- Yet, the imperative is clear and compelling:
 - **“Climate change is real. It is caused by greenhouse gas emissions resulting from human activities, and it poses a grave threat to humanity’s future. The only way to address the threat of climate change is to reduce greenhouse gas emissions.”** (Supreme Court of Canada, *References re Greenhouse Gas Pollution Pricing Act*, 2021 SCC 11)

GREENWASHING RISKS

Greenwashing risks arise when an institution says it is doing something but is not really doing what it says

- A commitment to ESG should reflect a fiducially responsible and accountable decision – a failure to fulfill a commitment made in the best interests of the plan/fund may attract scrutiny/liability
- As well, expect scrutiny of corporate and pension fund processes for evaluating ESG risks

GREENWASHING RISKS

- Are targets science-based?
- Do they align with the Paris Agreement?
- Is there an investment or business plan to achieve the target?
- Is management organized and accountable in regard to climate targets?
- Is management compensation consistent or in conflict with climate targets?
- Does organization have expertise required?
- Is expertise conflict-free?

Qs & As
