Canadian public pension investments in tobacco companies.

For many years, governments and private investors have been encouraged by health leaders to stop investing in tobacco companies. For over 15 years, medical associations and ministers of health have called on the Canada Pension Plan to divest of tobacco.[1] [2] Provincial governments have been urged by major health charities to stop investing in tobacco companies.[3] In 2008, Guidelines on implementing the Framework Convention on Tobacco Control counsel governments to not invest in tobacco industry or related ventures.[4] More recently, the Director General of the World Health Organization has called on governments to ensure the money under their control is tobacco-free, and has endorsed a global campaign to achieve this objective.[5] The United Nations Environmental Program Finance Initiative sponsors the Tobacco-Free Finance pledge.[6]

Outside of Canada, several governments have adopted tobacco-free investment policies. One of the first to do so was the largest U.S. pension fund, the California Public Employees' Retirement System (CalPERS), which has refrained from owning tobacco shares since 2000.[7] Other governments to divest from tobacco include New Zealand (2007) and Norway (2010). Major financial institutions like AXA (2016), BNP Parabis (2017) and most Dutch investment firms, including those which manage public pensions (2013-2019) have also adopted policies to prevent tobacco investments.[8] [9] More than 130 signatories managing USD $10.9 trillion in assets have undertaken to screen their investments for tobacco holdings.[10] The United Nations Joint Staff Pension Fund explicitly prohibits investment in tobacco,[11] as does the pension fund for French civil servants.[12] Investors managing more than US $10 trillion in assets have committed to the Tobacco-Free Finance Pledge.[13]

Within Canada, with the notable exception of Alberta, governments have not consistently accepted responsibility for ensuring that the money under their stewardship is not invested in tobacco. While the day-to-day operations of these investment funds are generally at arms-length of government, it is government which has statutory responsibility for public pension funds. These include the pensions required for all workers (the Canada and Quebec Pension Plans, CPP/QPP) and also the pensions for public servants, teachers and other public sector workers. Governments contribute to the administration of these funds through regulation and participation in the fund governance. Currently, the majority of Canada's public pension plans do not instruct investors to screen out tobacco industry assets.

"At OPTrust, we prefer to use corporate engagement — the promotion of better business practices — in our investment and ownership practices. However, there is no such thing as a safe level of consumption of tobacco products. They cause only harm. As a result, investments in tobacco do not align with our responsible investing principles."

Hugh O'Reilly
OPSEU Pension Trust
2017.[14]

"People managing other people's money have a fiduciary obligation to ensure the investment decisions they make (or are made on their behalf) pass (1) reasonable 'ethics' tests, and (2) reasonable 'no undue risk' tests. I have come to the view that tobacco investments fail both tests.'

Keith Ambachtsheer
Director Emeritus of the International Centre for Pension Management at the Rotman School of Management, University of Toronto[15]

Physicians *for a* Smoke-Free Canada

134 Caroline Avenue ♦ Ottawa ♦ Ontario ♦ K1Y 0S9
www.smoke-free.ca ♦ psc @ smoke-free.ca

Rationale for government agencies and public pensions to divest of all tobacco shares

Government ownership of tobacco industry shares is inconsistent with the exercise of their role to protect the health of their citizens.

- **Tobacco products fail product safety and ethics tests.**
  There is no safe level of consumption of tobacco. When used as intended, tobacco will have contributed to the early death of the majority of smokers, more than 45,000 Canadians each year.

- **Canada is a party to a UN Treaty which calls for divestment.**
  Canada ratified the Framework Convention on Tobacco Control in 2004. Among the obligations in this treaty is the need to protect tobacco control policies from the vested interests of the tobacco industry. In 2008, Canada supported the adoption of guidelines which call for parties not to invest in the tobacco industry.[16]

- **Partial ownership cannot be effective in addressing harms caused by the industry**
  The World Health Organization has made clear that engaging with the tobacco industry conflicts with UN principles and values.[17]

- **Other responsible investment strategies are ineffective.**
  Tobacco companies are poor prospect for effective use of ESG integration, norms-based screening or investor engagement, as there is an inherent conflict between the sustainability of the business and government's obligations to protect health.

- **There is no financial penalty to divesting.**
  Pension funds can continue to perform as well without tobacco industry investments.

"Our withdrawal from the tobacco sector is consistent with our sustainable investment approach, which aims to always improve the environmental and social performance of our portfolio.
Charles Emond, President and Chief Executive Officer,
Caisse de Depot et placement Québec

Weighing the arguments
How the New Zealand Superannuation Fund explained its 2007 decision to divest from tobacco.[18]

Pro's	Cons
• Tobacco is a legal product globally; • Adult choice to buy a legal product is not disputed; · There are legal bans on sales to minors; • Some tobacco companies have now adopted new codes of conduct; and • Most class action litigation against the tobacco industry has failed.	• Investment in tobacco stocks is inconsistent with New Zealand's international commitments, national legislation, and Crown actions – in particular the objectives of the World Health Organisation (WHO) Framework Convention on Tobacco Control (FCTC) and its extensive focus on the tobacco industry; • The characteristics of the tobacco industry clearly delineate it from other industries facing controversy over social, environmental or governance issues; • Engagement and voting on the issue of tobacco faces a significant conflict of interest between shareholder interests and the FCTC objectives; • Engagement and/or voting in this sector will consume resources that could be used to better effect elsewhere; and • Divestment from the tobacco sector will have an immaterial effect on the expected efficiency (i.e. expected return for a given level of total portfolio risk) of the Fund's portfolio.

Responsible investment strategies in Canada and their application to tobacco

A recent review of Canadian investors found that 80% of investing organizations managing about one-half of Canadian assets under management have a formalized policy on responsible investing.

Of the 106 investors surveyed (including Canada's largest investors), 47 excluded some companies from their portfolios and 33 screened out tobacco.[19] These included 5 of Canada's largest public pension funds.

Responsible Investment Strategies used in Canada.

Responsible Investment Approach	**Canadian assets 2018**[20][1]	Application to tobacco	Impact
ESG Integration involves using data on environmental, social and governance matters to assess a company's value.	$1.9 trillion	Canadian public pensions which use ESG Integration (eg. CPPIB, Caisse) continue to invest in tobacco companies. This approach has not been shown to reduce investment.	Ineffective
Shareholder engagement involves the exercise of influence on corporate practice, through proxy voting or direct engagement	$1.5 trillion	Shareholder engagement is used by Canadian public pensions (eg, CPPIB, Caisse). There is no evidence that engagement of institutional investors has influenced or improved tobacco industry behaviour.	Ineffective
Through **norms-based screening,** investments are limited to companies which meet global standards (i.e. the UN Global Compact or the OECD Guidelines on Multinational Enterprises).	$981 billion	OECD and UN Global Compact guidelines do not cover consumer protection or public health practices. The relevant international standard for these is the Framework Convention on Tobacco Control, the interpretive guidelines for which advise governments to not own shares in tobacco companies.	Ineffective
Negative-screening excludes certain companies or categories of companies from assets (i.e. weapons, tobacco)	**$878 billion**	**This is the approach recommended by the World Health Organization and currently implemented by 5 major public pension plans in Canada**	**Effective**
Thematic investing seeks investment opportunities in specific industries or themes (i.e. energy efficiency)	$41 billion	Not relevant. There are no commercial enterprises currently identified as benefiting reduction of nicotine addiction (although some claim to be).	Not currently relevant

1 This information pre-dated the December 2020 decision by the Quebec Caisse de Dépot to divest.

Major Canadian public sector pension funds

In order of the size of their assets, the following are the largest investors of public pensions and public sector pensions. Of these 7 do not invest in tobacco.

The Canada Pension Plan Investment Board (CPPIB)

The CPPIB is a Crown Corporation created by Parliament in 1997. It manages the compulsory Canada Pension Plan (CPP) contributions of workers and employers in all provinces except Quebec. The fund is managed at arms -length from government. the directors are appointed by the federal Finance Minister in consultation with participating provinces and through a nomination process managed by government appointees. The CPPIB is governed by federal legislation, the *Canada Pension Plan Investment Board Act*. This law gives the federal government the authority to direct the CPPIB in its investments, provided that the regulations are agreed to by two-thirds of the participating provinces. [21]

In 2016, the CPPIB had investments in tobacco companies that were valued at $1.14 billion.[22] On March 31, 2020 its tobacco holdings were only $194 million.[23] The reduction in its investment in tobacco was not related to any policy change.[24]

The Caisse de dépôt et placement du Québec (Caisse)

The Caisse was established by the government of Quebec in 1965. It manages the compulsory Quebec Pension Plan (QPP) contributions of workers and employers in Quebec. It also manages the contributions of public-service pension plans in Quebec, and other Quebec public institutions. It operates at arms-length from the Quebec government, although the board and senior officers are appointed by government. It is governed by provincial legislation, the Act respecting the Caisse de Dépot et placement du Québec.[25]

The Caisse's Policy on Responsible Investing includes Shareholder engagement and ESG Integration. In limited circumstances, it will exclude companies from its portfolio "only in unusual circumstances, particularly when products of a company are prohibited by legislation applicable to Canada or through international agreements".[26] In December 2020, the Caisse announced that it had signed the "Tobacco-Free Finance Pledge" and had divested of tobacco holdings. [27] In December 2019, their tobacco investments were valued at $307 million.[28]

The Ontario Teachers' Pension Plan Board (OTPP)

The OTPP invests and administers the pensions of 329,000 active and retired teachers.[29] The plan is jointly sponsored by the Ontario government and the Ontario Teachers' Federation. It operates at arms-length from both, but its board is co-appointed by the two fund sponsors. The fund is regulated by Ontario provincial legislation, the *Teachers' Pension Act*.[30] In 2018, the OTPP pledged to go tobacco free, and committed to divesting all direct tobacco holdings in its portfolio.[31]

The Public Sector Pension Investment Board (PSP)

PSP manages the pension funds for the federal public service, the Canadian Armed Forces, the Royal Canadian Mounted Police and the Reserve force. It is a federal Crown Corporation established by law in 1999 (the Public Sector Pension Investment Board Act). [32] The fund operates at arms' length of government, but the board of directors is appointed by the Minister of Finance after consulting with a nominating committee composed of ministerial and other representatives of the employees affected. PSP does not disclose its investment portfolio, but from its regulatory filings with the U.S. Securities and Exchange Commission, we know that in May 2020 it held stocks in U.S. based Altria and Philip Morris.

The British Columbia Investment Management Corporation (BCI)

The BCI manages the pension assets of public-sector workers in British Columbia (including school and college employees, municipal and provincial public service workers). Its investment principles emphasize environmental, social and governance (ESG) considerations, with an emphasis on engaging companies in change. BCI has holdings in several tobacco companies, with a value on March 31, 2019 of $239.4 million. [33] It has voted against shareholder motions aimed at ending tobacco promotion or providing greater disclosure on toxic ingredients.[34]

The Ontario Municipal Employees Retirement System (OMERS)

OMERS invests and administers pensions for employees of municipalities, school boards, libraries, police and fire departments, and other local agencies in communities across Ontario.

As of 2019, OMERS has not invested in tobacco companies. It lists these as among 3 categories of industries which are excluded from investment, the others being civilian firearms manufacturers and cluster munitions manufacturers.[35] [36]

The Investment Management Corporation of Ontario (IMCO) / Ontario Pension Board (OPB)

The OPB administers the Ontario's Public Sector Pension Plan for employees of the Ontario government, its agencies, boards and commissions. IMCO manages the OPP's funds as well as those of the Ontario Workplace Safety and Insurance Board. It was established in 2015 and has a mandate to solicit additional public sector clients. It operates at arms length from government, although the government can appoint a limited number of directors.[37] Its investment policies exclude tobacco.[38] It does not make public a list of its holdings.

The Healthcare of Ontario Pension Plan (HOOPP)

HOOPP manages the retirement funds of 380,000 Ontario health care workers. Its board of trustees is appointed by the employer (Ontario Hospital Association) and unions. Tobacco companies are the only investments that HOOPP excludes from its investments. In 2019, HOOP formalized its practice of not owning tobacco stocks and made a public commitment to this practice.[39]

The Alberta Investment Management Corp. (AIMCo)

AIMCO is responsible for investing pension and government funds in Alberta, including its unique-in-Canada sovereign wealth fund, the Heritage Savings Trust Fund. In the October 2019 budget, the Alberta government has and is currently transferring funds from other public sector pensions to AIMCO, including the Alberta Teachers' Retirement Fund, the Alberta Health Services and the Workers Compensation Board Fund.[40] AIMCo operates at arms-length from government, although its directors are appointed by government.[41] In 2011, in concert with the government of Alberta filing lawsuits against tobacco companies, AIMCO began divesting of tobacco holdings.[42]

The OPSEU Pension Trust (OPTrust)

OPTrust provides joint trusteeship of pension funds for the workers represented by the Ontario Public Sector Employees Union. In 2017, OPTrust announced that it would be divesting from tobacco holdings."[43]

Colleges of Applied Arts & Technology Pension Plan (CAAT)

The CAAT is a multi-employer plan rooted in the Ontario college system. The governors are appointed by the College Employer Council and unions representing college employees. Its investment policies require consideration of ESG factors, but do not screen out any category of investment. It also administers the pension funds of private-sector employees, such as Torstar Corporation. CAAT does not make public its asset holdings, nor its proxy voting record.

Nova Scotia's Public Service Superannuation Plan Trustee Inc. (PSSPTI)

PSSPTI manages the pension funds of Nova Scotia provincial employees. Its investment policies do not prohibit ownership of tobacco industry shares.[44] [45]

Saskatchewan Public Employees Benefits Agency (PEBA)

PEBA administers pension and other assets on behalf of Saskatchewan provincial and municipal government employees, including cities, schools, libraries and other agencies. It is operated by the Ministry of Finance, Saskatchewan. Municipal employees pension funds (MEPP) are invested through agencies, for whom the instructions make no restrictions on tobacco holdings.[46] Retirement funds for provincial government employees (PEPP) are managed by independent investment managers, under guidelines which make no restrictions on tobacco holdings.[47]

Vestcor

Vestcor is the investment agency which since 2016 has managed pension funds for New Brunswick public service employees, including and teachers, healthcare workers and university employees. It operates at arms' length under specific legislation.[48] It's list of holdings includes tobacco companies. [49]

ENDNOTES

1 Globe and Mail. End CPP investment in tobacco, doctors demand. August 18, 2004.
2 Physicians for a Smoke-Free Canada. Canada Pension Plan investments used to oppose Canadian health warnings on international sale of Marlboro cigarettes. Press release. April 30, 2004.
3 CBC News. Groups pressure NB pension plan to end investment in tobacco. June 18, 2009.
4 World Health Organization. Framework Convention on Tobacco Control. Guidelines for implementation of Article 5.3 of the WHO Framework Convention on Tobacco Control, recommendation 7.2.
5 World Health Organization. Tobacco Free Finance pledge. Speech by 26 September 2018. Dr. Tedros Ghebreyesus
6 United Nations Environment Program Finance Initiative. The Tobacco-Free Finance Pledge.
7 Washington Post. CalPERS votes to sell tobacco stock. October 17, 2017
8 Cancer Council Victoria. Tobacco in Australia. Chapter 10.18. The investment of public funds in tobacco – the case for divestment. November 2019.
9 AN Asset News. Dutch investors snuff out tobacco. May 31, 2019.
10 United Nations Environment Program Finance Initiative. The Tobacco-Free Finance Pledge.
11 United Nations Joint Staff Pension Fund. Investment Policy Statement. 2019.
12 Government of France. Retraite additionnelle de la Fonction publique. ERAFP signs the Tobacco-Free Finance Pledge and completes its withdrawal from the tobacco industry. September 2019.
13 Top 1000 Funds. Finance industry behind no tobacco. May 2020.
14 Benefits Canada. OPTrust to divest from tobacco industry in 2018. November 2017
15 KPA Advisory Services. Why your fund should be tobacco-free. October 2017.
16 WHO. Framework Convention on Tobacco Control. Article 5.3 Guidelines.
17 WHO Framework Convention on Tobacco Control Secretariat. Engagement with tobacco industry conflicting with UN principles and Values. 11 July 2017
18 New Zealand Superannuation Fund. Background information for Tobacco Stocks Divestment. 2007
19 Responsible Investment Association. 2018 Canadian Responsible Investment Trends Report. October 2018.
20 Responsible Investment Association. 20p18. Canadian Responsible Investment Trends Report. October 2018.
21 Canada Pension Plan Investment Board Act (S.C. 1997, c. 40)
22 Canada's Implementation of Article 5.3 of the Framework Convention on Tobacco Control A Civil Society Shadow Report September 2016
23 CPPIB Foreign Publicly Traded Equity Holdings. March 31, 2020
24 Personal correspondence with CPPIB, July 12, 2020.
25 C-2 Act respecting the Caisse de dépôt et placement du Québec.
26 Caisse de dépôt et placement du Quebec. Policy on responsible investment.
27 Caisse de dépôt et placement du Quebec. CDPQ signs the Tobacco-Free Finance Pledge
28 Caisse de dépot et placement du Québec. 2019 Annual Report
29 Ontario Teachers' Pension Plan About Ontario Teachers
30 Government of Ontario. Ontario Teachers' Pension Act, R.S.O. 1990, c. T.1
31 Ontario Teachers Pension Plan. We're going tobacco-free. October 2, 2018.
32 Public Sector Pension Investment Board Act (S.C. 1999, c. 34)
33 BCIM Investment Inventory. March 31, 2019
34 BCIM. Analysis of Proxy Voting Record. Altria, 2019, 2017
35 OMERS Sustainable Investing. Exclusions.
36 OMERS Annual Report 2019.
37 Investment Management Corporation of Ontario Act, 2015, S.O. 2015, c. 20, Sched. 19
38 OPB. Investments. Exclusions.
39 Healthcare of Ontario Pension Plan (HOOPP) Responsible Investing Policy. January 2020
40 Alberta. Reform of Agencies, Boards and Commissions and Government Enterprises Act.
41 Alberta. Alberta investment Management Corporations Act. C A-26.5
42 CBC News. Alberta dumps millions in big tobacco shares. October 2011.
43 OP Trust. Press Release. November 9, 2017. OPTrust to divest from public market tobacco firms. November 2017
44 Nova Scotia Public Service Superannuation Plan Trustee Inc. Statement of Investment Policies and goals.
45 Nova Scotia Public Service Superannuation Plan Trustee Inc. 2018-2019 annual report.
46 Saskatchewan Public Employees Benefits Agency. MEPP Statement of Investment policies and procedures. May 2020
47 Saskatchewan Public Employees Benefits Agency. PEPP Statement of Investment Policies and Procedures. May 2020
48 Government of New Brunswick. Vestcor Act. C-31
49 Vestcor. Detailed Listing of Public Securities. 2020.

Funding for this report was provided by Health Canada's Substance Use and Addictions Program (SUAP) Arrangement #2021-HQ-000058.
The views expressed herein do not necessarily represent the views of Health Canada