GREEN BOND FRAMEWORK

Case study: CDPQ
CDPQ is a global investment group based in Quebec, Canada\(^1\) with over CA$392 billion in net assets and offices in 10 countries. We invest constructive capital in private equity, public equity markets, private credit, infrastructure and real estate to create investment returns and position enterprises to succeed. Our goal is to ensure that the funds of our depositors and the pensions of millions of Quebecers flourish.

In 2017, we announced our first investment strategy to address climate change. We were one of the first global investors to make climate change a priority. We have since surpassed our initial targets, in September 2021 we announced an ambitious new strategy to achieve our net zero objective by 2050 and strengthen our leadership in climate matters. Alongside climate, we have also identified equity, diversity & inclusion (EDI), and sound governance as areas of focus.

CDPQ’s commitment to address climate change and provide a positive contribution to our global funding strategy is led by our sustainability team. Our finance team is consistently finding ways to support the sustainability team in their deployment of CDPQ’s initiatives. These include supporting the green bond initiative, putting in place governance and processes for sustainability reporting, and participating in specific industry groups, such as the establishment of the International Sustainability Standards Board. This case study provides a deep dive into CDPQ’s first green bonds and the key role of finance.

\(^{1}\) [www.cdpq.com](http://www.cdpq.com), accessed 18 May 2022
WHY

The finance team, and more specifically the treasury team, leveraged CDPQ’s leadership to establish a green bond framework and engage with value chain actors in pursuit of CDPQ’s climate change strategy. This framework is an additional lever that CDPQ can use to increase and diversify its investor base globally.

The framework has allowed CDPQ to:

- Align its financing needs with its climate strategy
- Take advantage of growing market interest in sustainable finance products in its strategic planning and financing activities
- Gain access to new institutional investors and help reduce CDPQ’s borrowing rate
HOW

CDPQ uses its six complementary sustainable investing levers of influence as an umbrella framework to incentivize action in our value chain. However, this next section will focus on the approach taken by the treasury team with respect to its green bond framework.

OUR SIX SUSTAINABLE INVESTING LEVERS OF INFLUENCE

1. Strategic projects
   Deployment of strategies, policies and initiatives to affirm our ambition in sustainable investing.

2. Leadership
   Outreach initiatives in Québec and abroad as well as involvement in collaborative platforms alongside our peers and the financial ecosystem.

3. Guidance
   Advisory role for our teams regarding sustainable investing opportunities and for our nominee directors and operating partners to enhance their understanding of ESG issues.

4. ESG integration
   Assessment of ESG performance integrated into the investment analysis and decision-making process.

5. Advice and engagement
   Ongoing dialogue with our portfolio companies and external managers to promote ESG best practices and value creation.

6. Shareholder vote
   Exercise our right to vote as a shareholder in line with our sustainable investing convictions and priorities.

INCENTIVIZING ACTION

Direct financial levers

The implementation of CDPQ’s climate change strategy brings new opportunities, such as engaging with lenders through the green bond issuance. CDPQ will then use the proceeds to invest in eligible investments, including renewable energy, clean transportation, and sustainable water and wastewater management.

The finance team initiated and led the process related to the green bond issuance. The treasury team developed the framework (CDPQ’s Green Bond Framework) and led a working group with representation from across CDPQ teams. This working group evaluates and selects eligible investments as well as manages the proceeds to invest them in low-carbon assets. Participants of this group include representatives from sustainability, asset management, legal affairs and public affairs teams.

Sustainalytics was engaged to provide a second party opinion (Microsoft Word - Caisse de dépôt et placement du Quebec Green Bond Framework SPO April 2021 Final.docx (cdpq.com)) and it concluded that CDPQ’s green bond framework is credible, impactful and aligns with the four core components of the Green Bond Principles 2019.

Influence and collaboration

The finance team is also an active industry participant with investment peers from across the world to stay up to date with industry trends and best practices in green bond issuances and reporting. This helps the finance team identify opportunities for increased efficiency and effectiveness in data collection and reporting.

Given the increased focus on sustainability, the treasury team is being proactive and leading the dialogue with stakeholders (credit rating agencies, debt investors, dealers), making sure CDPQ’s commitment to sustainability is demonstrated as part of roadshow presentations, reporting and other communications and promoting and exercising our influence to develop a more sustainable economy. We promote and exercise our influence to develop sustainability initiatives.

Information and knowledge sharing

Finance has established data collection to facilitate the reporting of allocation and impact reporting.

CDPQ will publish a green bond report to communicate the allocation reporting and impact reporting, following each green bond issuance or at a minimum, annually. The 2021 Green Bond Impact Report is available here: Green Bond Impact Report 2021 (cdpq.com). A green bond register is maintained by the treasury team, with information on the use of proceeds of every green bond issued and an annual review will be conducted by the green bond working group.
Finance can play multiple roles, as support to other teams in the organization or as instigator to put in place new initiatives to capitalize on its climate strategy. CDPQ’s finance team will continue to play a supporting role for the sustainability team, utilizing its skills in areas such as understanding process, controls, reporting and audit. For example, the finance team could develop financial controls for sustainability data collection and reviews ESG reporting.

With respect to financing, the treasury team could potentially develop a sustainable finance framework, including issuing green bonds and integrating ESG into other products (loans and credit facilities). The treasury team can take advantage of growing market interest in sustainable finance products in their strategic planning and financing activities.

The above applies to green bonds but could also apply more broadly to green financing, which CDPQ is looking into. CDPQ has the tools to offer a variety of financing attached to ESG-linked key performance indicators. For example, CDPQ’s subsidiary, Ivanhoé Cambridge, developed a sustainability-linked margin loan with its financial partners, and indexed corporate financing to its ESG performance.

CDPQ is continuing to expand its work on driving climate change action post-investment, for example, pushing companies to have more concrete transition plans and working with organizations to support the TCFD’s recommendations.

We acknowledge that data challenges remain a systemic issue and therefore the sustainability team is continuing to look at improving data quality for measuring greenhouse gas (GHG) emissions and climate risk. Our finance team’s expertise could contribute to solving this issue.
## TOP TIPS

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<th>Top Tip</th>
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<td><strong>DO NOT WAIT TO ACT</strong></td>
<td>Start taking action now even if there is not a clear pathway on how sustainability objectives and targets will be achieved. The earlier you begin on the journey, and start engaging with your value chain, the better you will be in the long term.</td>
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<td><strong>TONE AT THE TOP IS ESSENTIAL</strong></td>
<td>Strong leadership and support within the organization is key. A strong commitment to sustainability from the board and senior management can really drive change and provide a clear indication of the organization’s commitment to sustainability both internally and externally.</td>
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<td><strong>PROVIDE SUSTAINABILITY TRAINING TO STAFF</strong></td>
<td>Buy-in from internal staff is crucial for success. Start by educating staff on why the sustainability strategy is important before extending it to the rest of the value chain. If sustainability strategies are clear and embedded and staff are bought-in, interaction with the value chain will come naturally as the next step.</td>
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<td><strong>HAVE A CLEAR STRATEGY</strong></td>
<td>Develop a clear sustainability strategy to address the key risks and opportunities across the organization. Start by identifying key stakeholders and the key sustainability issues for your organization.</td>
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**Case study: CDPQ**
FULLY EMBED SUSTAINABILITY WITHIN THE ORGANIZATION

Sustainability must be embedded within all aspects of the organization; incentivizing sustainability action should not be a legal or public affairs initiative, it must be embedded within the organization's DNA. Ensure that sustainability is an integral part of the overarching organizational strategy rather than an isolated initiative. Incorporate it into performance evaluations and compensation.

USE DATA

Data has a key role to play in making informed decisions; it is a large and fast-evolving area so it can be daunting to know where to begin. Start by understanding the data available within your organization as well as proxies. Identify data challenges for both you and your stakeholders and develop a plan to overcome these challenges. Data can be used to measure risks as well as the progress of the climate strategy.

DEVELOP INNOVATIVE SOLUTIONS

We need new approaches and thinking to address the climate crisis, be creative in developing solutions and push the needle. First consider a few key focus areas of your organization where you see potential for innovation.

IT MAY NOT BE PERFECT AT THE START

Acknowledge that embedding sustainability into an organization and throughout the value chain will not be perfect at the start, but we must start somewhere. Processes, data, and strategies will evolve over time.
GET IN TOUCH OR FIND OUT MORE

@PrincesA4S

Accounting for Sustainability Project (A4S)

ThePrincesA4S

info@a4s.org

www.accountingforsustainability.org