

INVESTOR BRIEF: TSX, NYSE: SLF

# CONTEXTUAL INFORMATION REGARDING SHAREHOLDER RESOLUTION FILED AT SUN LIFE FINANCIAL



## SHAREHOLDER PROPOSAL AT THE SUN LIFE FINANCIAL AGM

Meeting date: **May 11, 2023**  
Proxy cut off date: **May 9, 2023**  
Voting information: [Management Information Circular 2023](#)

*NOTE: This is NOT A SOLICITATION of authority to vote your proxy, it is simply further information regarding the proposal, all of which is publicly available. Please do NOT send us your proxy card—we are not able to vote your proxies nor does this communication contemplate such an event. We urge shareholders to consider the information provided below and to then vote on this shareholder proposal at Sun Life Financial following the instructions provided in management's proxy mailing.*

## ABOUT INVESTORS FOR PARIS COMPLIANCE

Investors for Paris Compliance (I4PC) is a shareholder advocacy organization that works to hold Canadian publicly-listed companies accountable to their net zero commitments. More information can be found [here](#).

## CONTACTS

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## BACKGROUND

As of December 31, 2021, Sun Life Financial had committed about 90% of its approximately \$1.4 trillion in AUM to net zero by 2050. The company continues to build on these commitments in its recently released [Net Zero by 2050](#) report, which sets interim intensity emissions targets for 29% of its General Account and presents the interim targets of four of its subsidiaries, which range in ambition. On its face, this net zero commitment is evidence the company acknowledges the financial risk associated with its high-carbon investments, which are significant. By our analysis, Sun Life's financed emissions measure about the equivalent of Ontario and Quebec's emissions combined in 2021.<sup>1</sup> As one of Canada's largest life and health insurers, the financial risk posed by its fossil fuel investments is not simply to its asset management business, but to its insurance business.

The significant and growing health and life impacts of climate change have been acknowledged by the Canadian government, legal experts, the UN, and the life and health insurance industry more broadly; however, we see little evidence that Sun Life is engaging in this conversation, despite the risks to the company. The only reference we've noted so far is in Sun Life's [2022 Sustainability Report](#) (at 44), which provides that Sun Life started

[...] monitoring the emerging risks associated with climate change and its effects on diseases and death in human populations. The research along with experience data will help to inform decisions related to underwriting assumptions over the long term.

Here Sun Life is starting to acknowledge the risk that climate change poses to its insurance business, but without assessing how its investments drive that risk, nor more immediate health impacts of fossil fuel burning. Investors require greater disclosure of these risks and what Sun Life is doing to mitigate them.

1 Per the results of a study we commissioned from Profundo (results available in the Appendix of our 2022 report [Insuring the Climate Crisis](#)).

Image by [Darko Stojanovic](#)



## FOSSIL FUEL-RELATED HEALTH IMPACTS IN CANADA & ASIA

There are three main categories of life and health insurance business risks related to Sun Life's investments in fossil fuels:

- **air pollution** and direct health impacts from the combustion of fossil fuels;
- **indirect health impacts** of climate change; and
- **financial value of its fossil fuel investments** associated with the global commitment to the Paris Agreement.

**In terms of the first risk**, the combustion of fossil fuels contributes to air pollution such as NO<sub>x</sub>, SO<sub>x</sub>, and fine particulates. This is particularly the case for coal combustion, in which Sun Life has some of the largest investments in Canada (see the resolution supporting statement below). The Canadian Institute for Climate Choices projects that average summer ozone concentrations could increase by 22 percent by the end of the century, driving healthcare costs of ozone exposure to one-quarter of current healthcare costs linked to cancer.<sup>2</sup> It estimates the resulting costs of death and lost quality of life to be \$87 billion per year by mid-century and \$246 billion per year by the end of the century. More health impacts from air pollution associated with fossil fuel combustion are outlined in the resolution's supporting statement (see below).

**In terms of the second risk**, the 2021 heat dome in British Columbia killed 619 people. This is perhaps the most dramatic recent example of a climate-related disaster with immediate impacts on the health and well-being of Canadians, but unfortunately is part of a worsening trend. The Canadian Institute for Climate Choices projected that even under a low-emissions scenario, heat-related hospitalization rates will increase by 21 percent by mid-century and double by the end of the century.<sup>3</sup> The costs of death and reduced quality of life from heat-related deaths range from \$3.0-\$3.9 billion annually.<sup>4</sup>

Both types of risks are thoroughly outlined in a 2022 Government of Canada report *Health of Canadians in a Changing Climate: Advancing our Knowledge for Action*.<sup>5</sup> This national assessment of climate and health summarized the serious challenges that climate change is posing and will increasingly pose to Canadians' health and well-being as a result of extreme weather, poor air quality, increased infectious diseases, worsening water quality, growing food security risks, and deteriorating mental health. It is worth noting that many of these air and climate impacts are more extreme in Asia where Sun Life is seeking to expand its life and health insurance business.

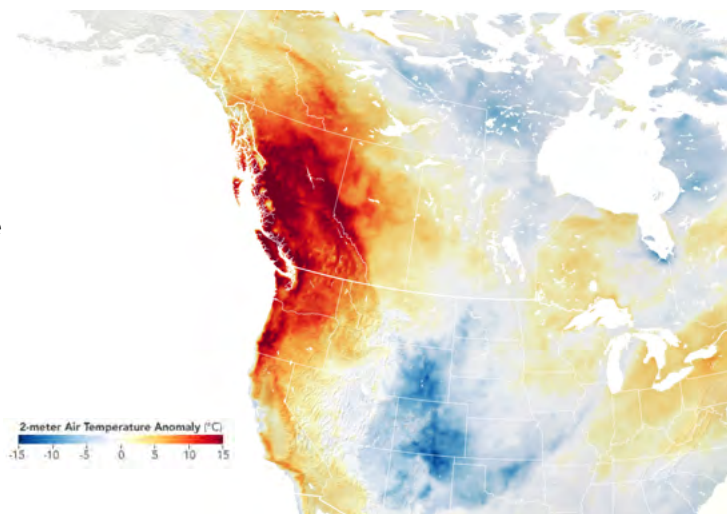
2 Canadian Institute for Climate Choices, [The Health Costs of Climate Change](#) (June 2021).

3 *Ibid.*

4 *Ibid.*

5 Health Canada, [Health of Canadians in a Changing Climate](#) (February 2022).

NASA Earth Observatory image by Joshua Stevens



There is clearly an existing and growing financial impact from the changing climate on Sun Life's health and life insurance revenue model. As the CEO of French multinational life and health insurer and asset manager AXA SA is famously quoted for stating in 2018 at the World Economic Forum, "a scenario between 3 and 4 degrees, it's not insurable anymore."<sup>6</sup> The most recent IPCC report warns that the world is on track for more than 3 degrees of global warming.<sup>7</sup> The need for life and health insurance companies to undertake a climate risk assessment has been acknowledged in major reports from the Geneva Association—the international association of insurance companies—and the UNEP FI; both include guidance on how to undertake said assessment.<sup>8</sup>

**In terms of the third risk,** both the Geneva Association and the UNEP FI, as well as a recent Sustainable Insurance Roadmap produced by the State of California, identify the need for disclosure and integration of climate risk into insurance company investment policies.<sup>9</sup> The State of California complemented their study with a dashboard that daylights the major fossil fuel investments of hundreds of North American insurers—Sun Life was on the higher end of these, with 11 per cent of its AUM invested in fossil fuels (per 2021 Trucost data).<sup>10</sup>



- 6 Anna Hirtenstein, AXA Insurance Chief Warns of 'Uninsurable Basements' from New York to Mumbai, Insurance Journal.com (January 26, 2018).
- 7 Wired, Warnings About Humanity's Future Don't Get More Dire Than This (March 20, 2023).
- 8 Geneva Association, *Anchoring Climate Change Risk Assessment in Core Business Decisions in Insurance* (2022); UNEPFI, *Managing environmental, social and governance risks in life & health insurance business* (2022).
- 9 State of California, Department of Insurance, *California Sustainable Insurance Roadmap* (November 2022) at 15.
- 10 [https://interactive.web.insurance.ca.gov/apex\\_extprd/f?p=260:40:26408816489795::NO::](https://interactive.web.insurance.ca.gov/apex_extprd/f?p=260:40:26408816489795::NO::)

Image by Benita Welter

## THE RESOLUTION'S REQUEST

Due to this material financial risk our resolution requests Sun Life provide a report, at reasonable cost and without disclosing confidential information, that addresses, among other things:

- the impacts of climate change on its insurance revenue model;
- how its financing of an estimated 221 Megatonnes of fossil fuels in 2021 (about 0.5% of global GHG emissions in that year) is contributing to the global climate crisis;
- how being the largest Canadian investor in the coal industry is contributing to health outcomes; and
- how an investment strategy that focuses on enabling climate solutions could help mitigate the climate crisis and ensure long-term value for its shareholders.

There is a clear tension between the core mission of Sun Life's life and health insurance business and its fossil fuel investments. Shareholders have a right to understand this material financial risk. To date, Sun Life has not reported on it.

## REASONS FOR SUPPORT

This proposal aims to support Sun Life address significant material risks to its business. These risks are:

**Direct business risk.** Fossil fuel combustion is already driving adverse health outcomes directly via air pollution and indirectly via climate impacts, and this will accelerate under current conditions. Sun Life clients are exposed to these outcomes which will add pressure for payouts under health and life policies. The risks these present for the life and health insurance industry are outlined in a 2021 report from the Canadian Climate Law Initiative, as follows

Life insurance contract duration can range from ten years to several decades, involving payout patterns of 20 to 30 years, life insurers generally aiming to generate predictable and stable income to match cash flows of long-dated liabilities under life insurance contracts' long duration periods. They pay careful attention to the asset-liability mismatch [...]. The unexpected timing and severity of climate change impacts creates risks in being able to predictably price the risk over the long term. Key to successful transition is making climate-related risk a core business issue, building financial resilience to climate risks and supporting the transition to a net-zero carbon economy.<sup>11</sup>

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11 Dr. Janis Sara, *Life, Health, Property, Casualty: Canadian Insurance Company Directors and Effective Climate Governance* (Canadian Climate Law Initiative: February 2021) at 41-42.

Shareholders need to understand how much these claims are costing Sun Life's insurance business today and may cost it in the coming years, in various climate scenarios.

**Transition risk.** As a major asset manager with a net zero policy, Sun Life has pledged to reduce its financed emissions to 'net zero' by 2050.<sup>12</sup> A recent estimate found that Sun Life's financed emissions are equivalent in size to the combined entire emissions of the provinces of Ontario and Quebec. Without ambitious action, Sun Life's fossil fuel investments represent a barrier to meeting its own net zero commitment and to achieving the global transition.

**Compliance/regulatory risk.** The Office of the Superintendent of Financial Institutions has developed Climate Risk Management [guidance](#) for Canadian financial institutions that will require Sun Life to run stress tests and disclose key aspects of their plans to manage climate change risk by the end of next year. Regulators are increasingly policing climate risk, meaning that Sun Life needs to take credible action to comply.

**Reputational risk.** Any major financial institution needs to mean what it says. Sun Life positions itself publicly as committed to supporting its clients' financial and physical well-being. Its carbon-intensive investment model is inconsistent with these representations, and its lack of early, transparent disclosure about this raises reputational risk. Over time, this disconnect may affect Sun Life's customer base and even its ability to attract employee talent from younger demographics that [prioritize](#) the environment.

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12 <https://www.investorsforparis.com/insuring-the-climate-crisis/>.

## SUN LIFE RESPONSE AND REBUTTAL

Sun Life offers three main arguments to oppose the resolution,

- it will restrain them,
- the format of the work requested would not be meaningful to investors, and
- it will divert resources from their more important climate mitigation efforts.

1. *"The proposal would constrain the exercise of the board's business judgement by dictating how Sun Life's climate and broader sustainability strategy should be managed to best meet its Purpose."*

An assessment of risks posed by its fossil fuel investments and climate change to its life and health insurance business, as recommended by the insurance industry's international association and the UNEP FI, would in no way restrain how the board manages said risks. We are asking for a report. This will empower better decision making, not restrict the company.

- "the proposal is unlikely to result in the reporting of meaningful information for investors." Sun Life explains that it is committed to providing information to shareholders about climate risks that is "consistent, comparable, reliable, and clear" and that the proposal "does not reference any existing framework for the requested disclosure, nor does it seek information that investors could easily compare to equivalent information from other organizations."*

The report requested is a company-specific risk assessment of a directly related issue; something that takes place routinely. (See for example, McDonald's [assessment](#) of plastics use). There is also emerging guidance on how to undertake similar risk assessments—see for example recent reports from the Geneva Association and the UNEP FI.<sup>13</sup>

- "Making significant, measurable progress on limiting global greenhouse gas emissions must be a priority for this decade, to avoid the worst consequences of a changing climate. Preparation of the report requested would require Sun Life to expend funds and resources to produce a document that would not provide meaningful information; it would divert resources and fail to serve the best interests of Sun Life and its stakeholders."*

It is our view that an analysis of this additional material climate business risk to Sun Life would help shareholders understand the scale of action needed to address it. The proposal also notes that the report should be done at reasonable cost, something very manageable for a company with \$1.4 trillion AUM.

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13 Geneva Association, [Anchoring Climate Change Risk Assessment in Core Business Decisions in Insurance \(2022\)](#); UNEPFI, [Managing environmental, social and governance risks in life & health insurance business \(2022\)](#).

## SUN LIFE'S PEERS

Sun Life's French peer, AXA SA has acknowledged the risks posed by climate change, as well as its fossil fuel investments to its life and health insurance business, and has published the results of its first limited study on the topic (see below). In addition, as mentioned above, both the international insurance association and the UNEP FI have advised about the need for industry players to undertake studies and provide guidance on how to do so.

## AXA SA (FRANCE)

A French multinational health and life insurance company and asset manager with €824 AUM (as at 31 December 2022), clearly addresses on its website the significant health impacts presented by climate change in the medium and long term.<sup>14</sup> It also makes the critical connection between investments made by insurance companies and climate impacts, noting that insurers

through their significant investments, [...] are also well positioned to send the right signals to the investment community and to the specific companies they invest in, for example by leveraging the framework developed by the [TaskForce on Climate-related Financial Disclosures \(TCFD\)](#).<sup>15</sup>

In its [2022 Climate and Biodiversity Report](#), Axa undertook a study of potential climate-related health impacts linked to a few specific climate-related scenarios, namely: vector-borne diseases, urban air pollution, and ozone level increases (at 65-66). This narrow study found few impacts, but it does provide an example of insurance companies taking steps in the right direction.

14 See: [www.axa.com/en/commitments/axa-and-climate-change](http://www.axa.com/en/commitments/axa-and-climate-change).

15 *Ibid.*

Image by [Ralf Vetterle](#)

## ENGAGEMENT WITH SUN LIFE

The shareholder proponents had several engagements with Sun Life staff, all of which were courteous and polite. To its credit, Sun Life made available relevant staff to explain the company's views on the various issues raised in the proposal and to hear the proponent's concerns. There was, however, little movement by the company, necessitating a vote on the proposal.





## THE SHAREHOLDER PROPOSAL

**RESOLVED:** Shareholders request that Sun Life produce a report, at reasonable expense and omitting confidential information, documenting the health impacts and potential insurance implications of its investments in fossil fuels on its current and future client base. The report should be reviewed by independent experts to add credibility.

## SUPPORTING STATEMENT

As a health and life insurer, Sun Life's stated purpose is "to help our clients achieve lifetime financial security and live healthier lives." On its home page under "Why choose Sun Life?" the company answers: "We're building sustainable, healthier communities for life."<sup>16</sup>

Yet, as an asset owner and asset manager, Sun Life via its subsidiaries invests tens of billions of dollars in fossil fuels. Sun Life is the largest Canadian investor in companies on the Global Coal Exit List, at US\$11.9 billion in 2021.<sup>17</sup> An independent study of Sun Life's financed emissions estimated them at 222 million tonnes of carbon dioxide equivalent, nearly the combined entire emissions of Ontario and Quebec.<sup>18</sup>

Fossil fuel use has a range of direct adverse health impacts via air pollution and indirect health impacts via climate change, for example:

- The Government of Canada finds coal combustion impacts include asthma, respiratory diseases, and hundreds of thousands of premature deaths worldwide.<sup>19</sup>
- A 2022 Lancet Journal study found the costs of premature mortality due to air pollution amounted to US\$2.3 trillion in 2020, the equivalent of 2.7% of gross world product.<sup>20</sup>
- The same study found heat-related deaths increased by 68% since 2000 and global heat-related mortality was estimated to cost \$144 billion in 2021, equivalent to the average income of 12.4 million people. A "heat dome" killed over 600 people in British Columbia in 2021.<sup>21</sup>

16 <https://www.sunlife.ca/en/>

17 <https://www.coalexit.org/>

18 <https://www.investorsforparis.com/insuring-the-climate-crisis/>

19 <https://www.canada.ca/en/services/environment/weather/climatechange/canada-international-action/coal-phase-out.html#toc3>

20 <https://www.lancetcountdown.org/2022-report/>

21 <https://news.gov.bc.ca/releases/2022PSSG0035-000911>

- A national assessment of climate and health by the Government of Canada concludes: "Health risks will increase as warming continues, and the greater the warming, the greater the threats to health."<sup>22</sup>

Sun Life has pledged to reach net zero in its financed emissions by 2050, but to date only its subsidiary InfraRed has a fossil fuel exclusion, calling it "vital to drive this transition."<sup>23</sup> Other subsidiaries continue to invest in fossil fuels with no timelines for change, driving the adverse health impacts listed above, and hindering Sun Life's transition to net zero.

The contradiction between Sun Life's stated purpose and its investments in fossil fuels represents a business risk. Its uneven approach to fossil fuels across its subsidiaries represents a governance risk and compliance risk as financial regulators develop guidance to address climate change, as the Office of the Superintendent of Financial Institutions is now doing.<sup>24</sup>

Investors require more disclosure regarding the nature of this business risk, including information about the potential client base in the emerging markets that Sun Life is currently targeting for growth and where climate and health impacts are more extreme.<sup>25</sup>

**We respectfully request that shareholders vote FOR this proposal.**

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- 22 <https://changingclimate.ca/site/assets/uploads/sites/5/2022/02/CCHA-REPORT-EN.pdf>
- 23 [https://www.ircp.com/sites/default/files/2022-05/infrared\\_exclusion\\_policy\\_2022.pdf](https://www.ircp.com/sites/default/files/2022-05/infrared_exclusion_policy_2022.pdf)
- 24 <https://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/b15-dft.aspx>
- 25 <https://foreignpolicy.com/2022/08/24/extreme-weather-asia-climate-change-floods-droughts-heatwave/>