JANUARY 2025

INVESTOR BRIEF

# FAIRFAX: AN ASSESSMENT OF CLIMATE RISKS

INVESTORS *for* PARIS COMPLIANCE

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Note: All currency is CAD unless noted otherwise.

# COMPANY OVERVIEW AND CLIMATE RISK EXPOSURE

Fairfax Financial Holdings Ltd. ('Fairfax', TSE:FFH) is a global financial holding company with headquarters in Toronto, Canada. Ranked among the 30 largest companies in Canada,[1] Fairfax has ~USD 77 billion in total assets under management (AUM) as of year end 2023. These assets are primarily managed by Hamblin Watsa Investment Management ('HWIM'), Fairfax's investment arm.[2]

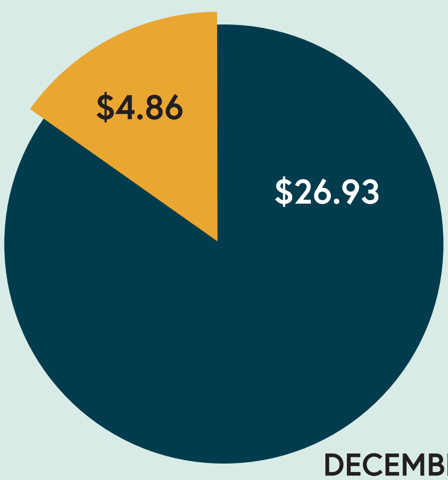
Through its subsidiaries, Fairfax primarily engages in property and casualty insurance and reinsurance, with HWIM overseeing the investment side of both Fairfax and its subsidiaries. This includes substantial holdings in industries such as steel manufacturing, food services, hospitality, commercial retail, and energy.

While Fairfax's insurance revenue surpasses its investment income by more than fivefold, its investment management activities constitute the majority (~70%) of its AUM, as illustrated in Figure 1 below.

**FIGURE 1: FAIRFAX REVENUE SPLIT (LEFT) AND ASSET MIX (RIGHT) AS OF DECEMBER 2023.**

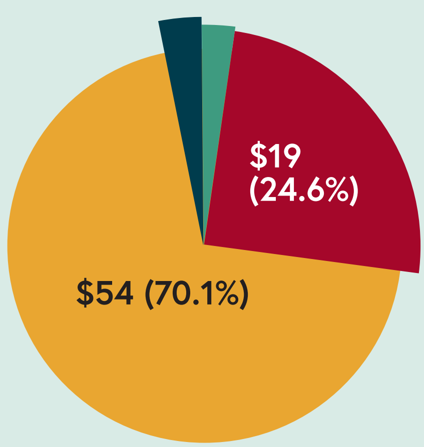
**DECEMBER 31, 2023 (US$ BILLIONS)**

- Insurance revenue
- Investment income




**DECEMBER 31, 2023 (US$ BILLIONS)**

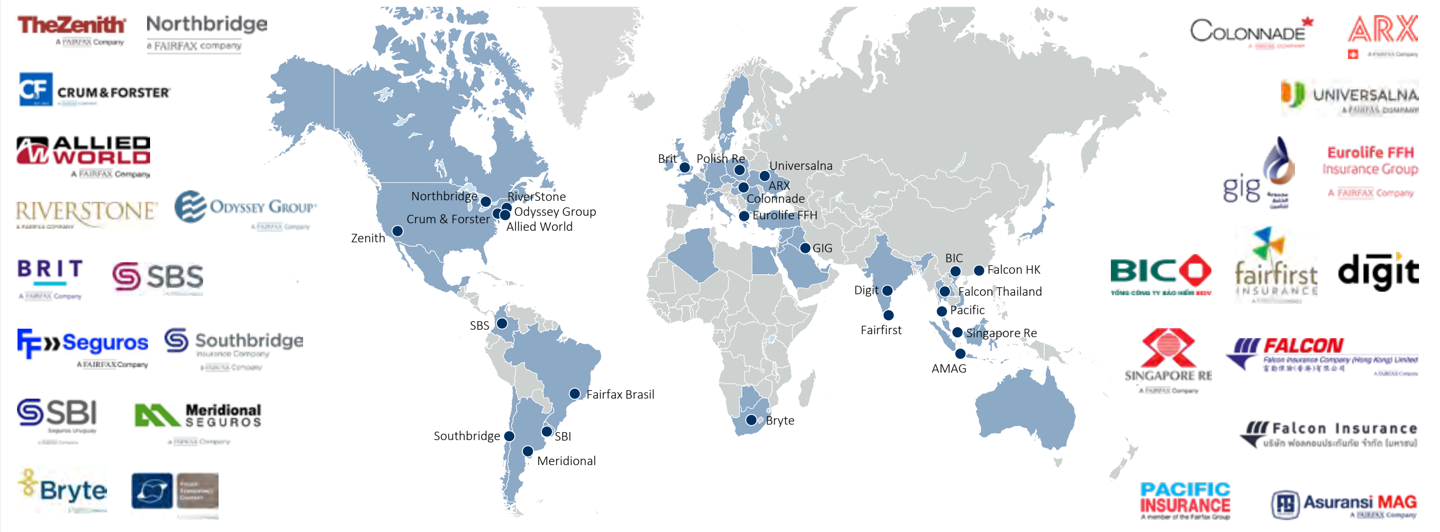
- Holding company cash and investments
- Insurance business
- Investment business
- Fairfax India cash, portfolio investments and associates




*Source: Fairfax, 2023 Annual Report.*[3]

Operating across North America, Europe, Asia, and Latin America, Fairfax is one of the world's largest property and casualty insurers (see Figure 2). Fairfax is the fifth largest underwriter of fossil fuels in the world and is ranked in the bottom 10 for climate-aligned insurance policies.[4]

## FIGURE 2: FAIRFAX'S GLOBAL REACH OF INSURANCE BUSINESS AS OF DECEMBER, 2023.




*Source: Fairfax, 2023 ESG Report*[5]

Despite recognizing rising reinsurance costs due to climate change,[6] rising weather-related losses,[7] and the material impact of climate-related losses on equity markets,[8] Fairfax has no goal or plan to align its operations or investments with a net zero transition.

Fairfax's lack of a net zero target and transition strategy places it as an outlier within the global financial industry. This absence exposes the company to transition risk and limits its ability to capitalize on expanding investment and insurance opportunities tied to the energy transition. The global transition is projected to require annual clean energy investments of USD 4 trillion by 2030[9] and could reach USD 275 trillion by 2050.[10]

While holding companies generally have fewer climate guidelines compared to insurance and financial firms, global peers such as the global insurance holding company Tokio Marine[11] and other holding companies such as GBL,[12] Industrivarden AB,[13] and Investor AB,[14] have made progress on their climate strategies.[15] Furthermore, Fairfax could utilize detailed guidance available for asset owners, managers, and insurers to align with industry standards for transition planning.[16] Holding companies are also directed towards the UN Global Compact for guidance.[17]

Despite not having a net zero goal or transition plan, Fairfax states, "understanding climate change is not only critical to managing risks at a Fairfax level but also the opportunities arising from them,"[18] and climate-related risks are explicitly recognized as a senior management priority. Additionally, Fairfax states that senior management already actively monitors subsidiary activities to ensure they align with the company's overarching strategic objectives, yet these objectives appear to deprioritize the energy transition.

## YELLOW FLAGS: SIGNIFICANT FOSSIL FUEL EXPOSURES

Fairfax holds stakes in several fossil fuel companies that present significant climate transition risk. Within its top listed investments, Fairfax owns:

**48%**
**stake in EXCO Resources (oil and gas) with a**
**$587**
**million investment**

**$444**
**million invested in Occidental Petroleum (oil and gas)**

**$364**
**million in Mytilineos (gas-fired power)**[19]

The company continues to invest significantly in fossil fuel companies, with over $1.5 billion invested in fossil fuels in 2023.[20] Fairfax also provided approximately USD 700 million in direct underwritten premiums for commercial fossil fuel clients in 2023,[21] and issued insurance bonds for controversial offshore oil exploration in Brazil as of 2022.[22]

The table below offers a snapshot of the net zero progress for Fairfax's major insurance subsidiaries and investment associates. Insurers were selected for assessment if Fairfax owns more than 80% of the company, or if it generates over $1 billion in gross annual written premiums. Investments were included if Fairfax holds a stake valued at over $400 million (market value) in the company.

Overall, Fairfax's insurance portfolio is not covered by any net zero commitment. Only minor subsidiaries have made limited climate commitments. Fairfax's investment portfolio also lacks net zero coverage, with only five out of its nine top investments having some type of net zero commitment and associated plan.

*Fairfax founder Prem Watsa maintains control of the company through a dual-class share structure.*

## TABLE 1. 2024 NET ZERO PROGRESS SUMMARY.

| FAIRFAX FINANCIAL HOLDINGS | NET ZERO TARGET(S) | EMISSIONS REPORTING | POLICIES & ACTIVITIES TO ACHIEVE TARGETS | OWNERSHIP | SIZE |
|---|---|---|---|---|---|
| FFH (holding company) | No | No | No | | |
| **LARGEST INSURANCE AND REINSURANCE OPERATIONS** | | | | | Gross Premium Written |
| Allied World | No | No | Coal exclusions, weak climate solutions insurance offering | 83% | *$6,840* |
| Odyssey | No | No | No | 90% | *$6,333* |
| Crum & Forster | No | No | Vague environmental impact investment grading | 100% | *$5,218* |
| Brit | No | Scope 1 & 2, missing material insurance-associated & financed emissions | Weak engagement commitment (no time bound escalation) & vague renewable energy insurance offering | 86% | *$3,732* |
| Gulf Insurance | Yes (but, potentially retracted) | No | No | 90% | *$2,879* |
| Northbridge Financial | No | No | No | 100% | *$2,442* |
| Zenith | No | No | No | 100% | *$738* |
| **LARGE DIRECT EQUITY HOLDINGS** | | | | | Market value of Holdings |
| Recipe | No | Scope 1 & 2 | Restaurant sector focused (some disclosure, not assessed) | *84%* | *$684* |
| Fairfax India | No | No | No | *43%* | *$875* |
| Grivalia Hospitality | No | No | No | *85%* | *$567* |
| Thomas Cook India | Yes | Scope 1, 2, 3 | Travel agency sector focused (some disclosure, not assessed) | *65%* | *$490* |
| Eurobank Ergasias | Yes | Scope 1 & 2, some scope 3, not financed emissions | 95/100 LGIM climate strategy rating | *34%* | *$2,252* |
| Stelco | Yes | No | No | *24%* | *$492* |
| Poseidon | Weak | Scope 1 & 2 | Shipping sector focused (some disclosure, not assessed) | *43%* | *$2,046* |
| Exco Resources | No | No | No | *48%* | *$435* |
| Commercial International Bank | Yes | Scope 1, 2, 3 | 73/100 LGIM climate strategy rating | *7%* | *$480* |


# 1.0 SETTING TARGETS AND MEASURING PROGRESS

## 1.1 TARGET SETTING

### HOLDING COMPANY

As a holding company, Fairfax has not disclosed any net zero targets for its investments or insurance portfolios, and it has no interim goals. This is in contrast to the global financial industry, as over 650 financial institutions, representing 40% of global financial assets, have committed to net zero goals.[23]

### INSURANCE SUBSIDIARIES

The only Fairfax insurance subsidiary to state a commitment to net zero is **Gulf Insurance Group**, which made a commitment in 2022,[24] though its most recent 2024 report makes no mention of this.[25] Therefore the highest estimate of Fairfax insurance assets committed to net zero is ~8.7%, though without follow up to this net zero commitment, it is unclear whether this commitment still stands.

Other minor insurance subsidiaries have disclosed some climate-related policy, but have not made net zero commitments, including **Fairfax Brazil** which has a sustainability policy in place due to government regulations.[26] **Eurolife** stated it does not consider the adverse impacts of investment decisions on sustainability factors, but plans to update this policy,[27] while **ThaiRe** has a sustainable development report but has not committed to net zero.[28] Finally, **Singapore Re** states that it is "concerned about changing climatic patterns and its repercussions on mankind and the core business" though has not made a net zero commitment.[29] Together, these subsidiaries make up about 2% of Fairfax's insurance operations.

### DIRECT INVESTMENTS AND HAMBLIN WATSA INVESTMENT MANAGEMENT

Hamblin Watsa Investment Management has not made a commitment to net zero.

The following investments, out of the companies that Fairfax disclosed it has over $400 million invested, have made net zero commitments: **Thomas Cook India**,[30] **Eurobank Ergasias,**[31] **Commercial International Bank,**[32] and **Stelco,**[33] though notably Stelco does not yet measure its emissions. **Poseidon (Seaspan)** has made a vague commitment to "ensure [its] business is aligned with a net zero greenhouse gas (GHG) emission agenda."[34]

## 1.2 FINANCED AND INSURANCE-ASSOCIATED EMISSIONS REPORTING

### HOLDING COMPANY

Fairfax has not disclosed any scopes of emissions, including financed or insurance-associated emissions at the holding company level. As government regulations begin to mandate the disclosure of emissions, some of Fairfax's subsidiaries will need to disclose their financed emissions by 2026.[35]

### INSURANCE SUBSIDIARIES

The only major Fairfax subsidiary to begin to disclose any emissions is **Brit**, which only discloses scope 1 & 2 emissions, but not its scope 3 emissions as recommended by PCAF.[36] Brit accounts for 10% of Fairfax's insurance operations. There are no targets to reduce these emissions.

A minor subsidiary, **Southbridge**, accounts for ~1% of insurance operations and calculates scope 1, 2, and 3 emissions.[37]

### DIRECT INVESTMENTS AND HAMBLIN WATSA INVESTMENT MANAGEMENT

The following subsidiaries report some scope 1 and 2 emissions: **Recipe,**[38] **Thomas Cook**[39] and **Poseidon.**[40] **Eurobank Ergasias** also reports its material scope 3 emissions,[41] and **Commercial International Bank** reports scope 1 and 2, and some scope 3 but not category 15 financed emissions.[42]

Hamblin Watsa Investment Management does not disclose its financed emissions.

# 2.0 POLICIES AND ACTIVITIES TO REACH TARGETS

## 2.1 HOLDING COMPANY

### FOSSIL FUEL EXCLUSION POLICIES

Fairfax does not have any fossil fuel exclusion policy across its investment and insurance portfolios.

### ESCALATING ENGAGEMENT POLICIES

Fairfax has not disclosed any escalation policies for client or investee engagement regarding climate transition.

### CLIMATE SOLUTIONS

Fairfax has not made any commitments to underwriting or investing in climate solutions.

### PUBLIC POLICY LOBBYING

Fairfax does not commit to lobbying in support of net zero, nor does it disclose its lobbying activities related to climate policies, either directly or through industry associations.

## 2.2 INSURANCE SUBSIDIARIES

### FOSSIL FUEL EXCLUSION POLICIES

Among Fairfax's insurance subsidiaries, **Allied World** has committed to align its underwriting guidelines with the Paris Agreement, and

> "generally not provide coverage (i) on risks related to the construction and operation of new coal-fired plants; (ii) to insureds that derive over 30% of their projected revenue from thermal coal mining; or (iii) to insureds that generate more than 30% of their energy production from coal, taking into consideration the alternative energy sources available within the respective territory. Any remaining in-force coverage for insureds that do not meet these thresholds will be phased out in 2024, or non-renewed."[43]

Allied World has historically underwritten coal projects that are not Paris-aligned in Vietnam, Indonesia, and the Philippines.[44] Allied World continues to offer oil and gas coverage more broadly, and does not clarify whether this offering aligns with the Paris Agreement (i.e. no expansion, no new gas, coal phaseout, etc).[45]

**Northbridge** is frequently listed alongside global insurers on certificates for fossil fuel projects in Canada,[46] and **Crum & Forster** also offers specialty fossil fuel insurance.[47] Neither subsidiary has fossil fuel exclusion policies and together account for 26% of Fairfax's insurance operations.

Except for Allied World, no subsidiary provides fossil fuel exclusions.

### ESCALATING ENGAGEMENT POLICIES

Only **Brit** has stated that it expects "[its] customers in carbon-intensive industries to have clear and measurable transition plans,"[48] though the lack of a time-bound, transparent engagement and escalation strategy leaves gaps in Brit's ability to drive client and investee transformation.

No other subsidiaries have engagement policies.

### CLIMATE SOLUTIONS

Less than 20% of **Allied World**'s gross premiums written has underwriting guidelines that call for consistency with the Paris Climate Agreement.[49] **Brit** also offers renewable energy insurance, though there are no clear targets or measurement of activity.[50] Similarly vague, **Crum & Forster** has an "environmental profit center" where underwriters grade the potential impact to the environment, but the use of this data is not disclosed.[51] **Southbridge** has also financed clean energy projects in Chile, though no metrics or targets are identified.[52]

### PUBLIC POLICY LOBBYING

None of Fairfax's subsidiaries disclose lobbying activities related to climate policies, either directly or through industry associations.

## 2.3 DIRECT INVESTMENTS AND HAMBLIN WATSA INVESTMENT MANAGEMENT

### POLICIES AND ACTIVITIES TO ACHIEVE NET ZERO

The investment arm, Hamblin Watsa Investment Management, does not disclose any element of a transition plan.

Fairfax states that

> "deficiencies or excessive environmental, social or governance risks will result in the rejection of investment opportunities or the sale of existing positions. With any investment, good governance and the honesty and integrity of management is fundamental and will never be compromised for short-term gains or benefits."[53]

It is unclear how this broad principle practically affects Fairfax's investment decisions or mitigates its exposure to climate transition risk.

Out of Fairfax's top 9 investments, only 5 — **Recipe**, **Thomas Cook India**, **Eurobank Ergasias**, **Poseidon**, and **Commercial International Bank** — have some type of climate action plan in place. The LGIM climate strategy scores for Eurobank (95/100)[54] and Commercial International Bank (73/100)[55] have been listed on the summary table for reference.

# 3.0 RECOMMENDATIONS

To mitigate risks and capitalize on opportunities in the global transition to net zero, Fairfax should:

- **Set an overall net zero target:** Fairfax should commit to an overall net zero target that covers its material financed emissions, including both its insurance subsidiaries and large direct equity holdings.
- **Add climate change capacity at the holding company level:** Appoint a Chief Sustainability Officer or similar capacity at headquarters with a mandate and budget to drive a company-wide climate strategy.
- **Drive subsidiaries and investees towards net zero:** Implement a systematic program to ensure that subsidiaries and investees are aligning with net zero.

Fairfax's senior management has both the ability and responsibility to guide its subsidiaries on risk management, within which climate change is significantly overlooked. The energy transition will create trillions of dollars of economic activity — Fairfax would be well placed to pursue this opportunity.

## ENDNOTES


1 "Canada's Largest Companies by market capitalization, 2024" CEO World Magazine (February 17, 2024).
2 Fairfax, 2023 Annual Report (Mar, 2024).
3 'Insurance business' includes: insurance contract receivables, subsidiary cash and short term investments, reinsurance contracts held. Investment business includes: bonds, stocks, investments in associates, derivative and other invested assets, assets pledged for derivative obligations. Fairfax India was separated due to its significance as an associate.
4 Insure our Future, 2024 Scorecard, (Dec, 2024) at 20).
5 Fairfax, 2023 ESG Report, (n.d.)
6 Fairfax, 2023 Annual Report (Mar, 2024) at 107.
7 Ibid at 201.
8 Ibid at 205.
9 IEA, Net Zero by 2050 (May, 2021).
10 UNEP, Unlocking Investment in Net Zero, (Sep, 2023).
11 Tokio Marine, Our Climate Strategy (n.d.).
12 GBL, Annual Report 2022, (n.d.) at 150.
13 Industrivarden AB, 2022 Sustainability Report (March 2023).
14 Investor AB, Climate and Resource Efficiency.
15 SBTi, Companies Taking Action, (n.d.).
16 Transition Plan Taskforce, Sector Summary, (April, 2024).
17 PRI, Signatory Sign-up Guidelines, (n.d.).
18 Fairfax, 2023 ESG Report, (n.d.) at 13.
19 Fairfax Financial, Letters To Our Shareholders, (Mar, 2024).
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23 WRI, Financial Institutions Net Zero Tracker, (n.d.).
24 GIG, ESG Report 2022, (n.d.).
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28 Thai Re, Sustainability Development Report 2023, (n.d.).
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33 Stelco, 2021 ESG Commitment, (n.d.).
34 Atlas Corp, ESG Report 2023, (n.d.) at 11.
35 OSFI, Guideline B-15 - Climate Risk Management (March, 2023) at Annex 2-2.
36 Brit, Climatewise report 2023, (n.d.) at 35; PCAF, Insurance-Associated Emissions, (Nov, 2022).
37 Southbridge, Annual Report 2023, (n.d.).
38 Recipe, Corporate Responsibility, (n.d.).
39 Thomas Cook, 2023 Integrated Report, (n.d.) at 123
40 Atlas Corp, ESG Report 2023, (n.d.) at 23.
41 Eurobank, Annual Report 2023, (n.d.) at 80.
42 CIB, Advancing the Net Zero Transition, (May, 2023) at 23.
43 Allied World, Social Impact, (n.d.).
44 Insure our Future, Coal Insurers of Last Resort, (June, 2022).
45 Allied World, Property & Energy, (n.d.)
46 Investors for Paris Compliance, Playing with Fire, (July, 2023).
47 Ibid.
48 Brit, Climatewise report 2023, (n.d.) at 3.
49 Fairfax, 2023 ESG Report, (n.d.) at 15.
50 Brit, Climatewise report 2023, (n.d.) at 31
51 Fairfax, 2023 ESG Report, (n.d.) at 15.
52 Ibid at 18.
53 Ibid at 7
54 LGIM, Eurobank Climate Impact Pledge score, (n.d.).
55 LGIM, CIB Climate Impact Pledge score, (n.d.).