The *2023 Canadian Pension Climate Report Card* analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers and three international pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. Information is current to December 31, 2023. View the full report at shiftaction.ca/reportcard2023.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

UNIVERSITY PENSION PLAN (UPP)

UPP is a newly created pension fund, launched in 2021 and formed from combining the pension funds for faculty and staff at Ontario universities (Queen's University, University of Toronto and University of Guelph, with Trent University added later) into a multi-university jointly sponsored pension plan. As of December 31, 2023, UPP had 16 participating organizations and over 39,000 members.

Assets Under Management (AUM): $10.8 billion (December 31, 2022)

OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
B+	A	B	A	A-	B+	D+

OVERALL CLIMATE SCORE	B+

Summary and 2023 Updates

UPP continues to be a climate leader among Canadian pension funds and has demonstrated above-average transparency in disclosing to beneficiaries how it is managing climate-related risks. The fund has committed to net-zero by 2040, is a member of the Net Zero Asset Owner Alliance, and publicly and repeatedly acknowledges that its ability to generate returns depends on a stable climate and that its investments impact the climate. However, UPP has thus far failed to place exclusions on fossil fuel investments, with the exception of a weak coal exclusion policy.

In 2023, UPP:

- Released its *Climate Transition Investment Framework*, outlining thresholds that must be met before UPP makes new investments and presenting a framework for tracking the climate-alignment of new and existing funds and assets.
- Committed to invest $1.2 billion in climate solutions by 2030.
- Released its *Climate Stewardship Plan* for 2023-2025, which articulates Paris-alignment as the goal of its climate engagements; commits to focus engagement on banks, high-emitting Canadian companies and oil companies with a significant impact on the fund's carbon footprint; outlines how the fund will strengthen and amplify its proxy voting activity; and commits to advocate for Paris-aligned policy and regulations, including mandatory climate transition plans.
- Launched a real-time proxy voting database, including rationale for votes.
- Improved carbon footprinting data, including scope 3 and sovereign bond data.

In early 2024, UPP updated its *Proxy Voting Guidelines* to specify that the fund would vote in favour of proposals calling for policies or disclosures related to the United Nations Declaration on the Rights of Indigenous Peoples.

What UPP still needs to do:

- Publicly acknowledge the consensus science, including from the Intergovernmental Panel on Climate Change and the International Energy Agency, that limiting global temperature increase to 1.5°C requires an immediate end to expansion as well as the rapid phase-out of oil, gas, coal and related infrastructure.
- Pair emissions intensity targets with interim targets to reduce absolute emissions.
- Set short- and mid-term targets for proportion of AUM / portfolio emissions covered by a credible net-zero plan.
- Strengthen Paris-aligned, outcomes-based engagement to include time-bound criteria and a process that escalates to divestment to ensure companies rapidly develop profitable and credible net-zero pathways.
- Build on identified success measures for climate engagement by adding specific and timebound targets.
- Set an expectation that owned companies:
  - tie executive compensation to the achievement of climate targets; and
  - refrain from directing capital toward fossil fuel expansion.
- Continue strengthening climate-focused direction given to external managers and monitor managers' follow-through.
- Divest from fossil fuel producers.
- Place an exclusion on any new investments in oil, gas and pipelines.
- Strengthen coal exclusion policy.
- Require climate expertise on the Board of Trustees.
- Tie executive and staff compensation to the achievement of climate targets.
- Continue and expand public advocacy for mandatory standardized climate risk disclosure and transition plans, and stringent, ambitious, Paris-aligned climate and energy policies that provide certainty for companies and investments.

FULL ANALYSIS	
Paris-Aligned Target	**A**

2023 updates:

- Began reporting scope 3 emissions for oil, gas and mining in its 2022 reporting, and for the whole portfolio in its 2023 reporting.
- Remarks from UPP's Senior Managing Director, Responsible Investing, indicated that the fund is unlikely to use carbon offsets. UPP should state its position on if and how it will limit the use of offsets in achieving its net-zero commitment.

UPP is the only Canadian fund examined in this report to have committed to net-zero emissions *by 2040*. As described in its *Climate Action Plan*, UPP has set interim targets for reducing scope 1 and 2 emissions. Beginning in 2022, the fund reported scope 3 emissions for oil, gas and mining. In 2023, the fund reported scope 3 emissions across the portfolio.

UPP is a member of a credible and accountable Paris-aligned investor body, the Net Zero Asset Owner Alliance (NZAOA). UPP's NZAOA membership makes it unlikely that the fund would use offsets to achieve its net-zero commitment, but UPP should publicly state if or how it will limit the use of offsets. In a July 2023 *CFA Institute interview*, UPP's Senior Managing Director, Responsible Investing, said that the world must drive down emissions as quickly as possible, that carbon removal would be needed in some hard-to-abate sectors, and that the pension fund was "very unlikely to be in the business of buying [carbon offset] credits and retiring them."[1]

Interim Targets	**B**

2023 updates:

- Reported a 4% reduction in portfolio emissions intensity.
- Committed to invest $1.2 billion in climate solutions by 2030.

Emissions reduction targets

UPP has strong 2025 and 2030 targets to reduce the emissions intensity of the total portfolio (by 16.5% by 2025 and 60% by 2030, using a 2021 baseline). The 2021 baseline included scope 1 and 2 emissions for 70% of the portfolio (*Climate Action Plan*, p.11). The baseline was restated in 2022 and scope 3 emissions were also reported (*2022 Annual Report*, p.40). UPP reported a 4% reduction in portfolio carbon intensity at the end of 2022 (p.40).

UPP could strengthen its existing targets by adding targets to reduce absolute emissions.

Climate solutions targets

UPP committed in December 2023 to invest "at least" $1.2 billion in climate solutions by 2030, using transparent definitions for climate mitigation assets, climate adaptation assets and climate solutions funds (*Climate Transition Investment Framework*, p.6). However, this target does not appear to match the scale required to decarbonize the economy or the ambition of some of UPP's pension peers. Based on typical annual rates of return, this allocation would fall well below 10% of UPP's expected AUM in 2030. In comparison, the Investment Management Corporation of Ontario has pledged to allocate 20% of its assets to climate solutions by 2030.

UPP references the EU Taxonomy and Climate Bonds Initiative Standard, providing welcome transparency for how the fund defines climate solutions. But the definitions appear to leave the door open for UPP to invest in dangerous distractions that could expand and prolong the use of fossil fuels, such as carbon capture, utilization and storage.[2]

Engagement targets

UPP will engage with 27 companies on climate in 2023-2025. While the fund's *Climate Stewardship Plan*, released in November 2023, articulates the indicators that will be used to assess the success of its engagements, UPP has not yet paired these indicators with time-bound targets to achieve Paris alignment (pp.2-3). Similarly, UPP's *Climate Transition Investment Framework*, released in December 2023, outlines how UPP will assess the progress of its investments in aligning to net-zero, but does not yet set timelines for investments to achieve alignment.

Communication of Climate Urgency	A

2023 updates:

- Throughout 2023, interviews and public remarks from UPP staff repeatedly stated that the fund's ability to generate returns depends on a stable climate, and that the way the pension fund invests affects the stability of the climate.[3]

UPP acknowledges that the climate crisis poses risks to its portfolio, that investors have a role in addressing the crisis and that the crisis is urgent and existential. UPP clearly articulates double materiality: that the climate affects its investments and that how UPP invests affects the climate. UPP has articulated an ambition, determination, and responsibility to centre climate in its investment strategy.

Sample language from *Climate Action Plan* (p.3):

"The University Pension Plan Ontario ('UPP') recognizes that climate change continues to present risks and opportunities for our investment portfolio. We also recognize that climate change presents a systemic and material risk to the ecological, societal, and financial stability of the economy as a whole. We believe that our approach to addressing climate change should be grounded in science and supportive of international agreements like the Paris Agreement of the Parties to the United Nations Framework Convention on Climate Change. We also believe that addressing climate change, as outlined below, reflects our fiduciary duty and is in the best interest of our members.

The materiality of climate change for UPP is twofold:

- UPP's ability to realize adequate investment returns and provide retirement benefits depends on a stable climate; and
- UPP's investments affect the stability of the climate."

Climate Engagement	A–

2023 updates:

- Committed in *Climate Stewardship Plan* to advocate for Paris-aligned policy and regulations, including mandatory climate and transition plans.
- The *Climate Stewardship Plan* additionally included:
  - A statement that the intended outcome of engagement activities is alignment with the goals of the Paris Agreement;
  - An engagement focus on 1) banks; 2) high-emitting Canadian companies; and 3) oil companies contributing to UPP's carbon footprint;

- A plan to strengthen proxy voting guidelines and communicate votes to issuers.
- Set climate-related thresholds for new investments and developed criteria to assess and monitor net-zero alignment of new and existing investments (*Climate Transition Investment Framework*).
- Launched a real-time proxy voting database, including voting rationale.
- A snapshot of UPP's climate-related proxy votes indicates that the fund's voting record aligns with its published voting guidelines.

SUMMARY

UPP's net-zero emissions by 2040 commitment and *Climate Stewardship Plan* together set strong expectations for focus companies to set targets and define and implement a credible transition strategy for 1.5°C alignment. The *Climate Stewardship Plan* also outlines UPP's timeline for considering revisions to strengthen climate-related proxy voting guidelines and a plan to amplify the impact of its votes through communication with companies and external managers. UPP's *Climate Transition Investment Framework* will be used to screen new investments and assess and monitor climate-alignment of the portfolio.

UPP's engagement approach differentiates between high-emitting companies generally and oil companies specifically. This is a crucial distinction as fossil fuel companies do not have a credible and profitable pathway to net-zero other than phase-out. However, UPP has not yet committed to excluding investments in fossil fuel companies or set a date by which these risky investments will be phased out of the portfolio.

UPP also engages collaboratively, for example through Climate Engagement Canada, and engages with its external managers on climate.

Notably, UPP has committed to advocate for Paris-aligned policy and regulations and set an expectation that oil companies align their policy advocacy with the goals of the Paris Agreement (*Climate Stewardship Plan*, pp.4, 6).

Going forward, UPP must articulate time-bound net-zero-aligned expectations of companies, with consequences if they are not met, and follow through on the considered strengthening of its proxy voting guidelines. UPP can also leverage its relatively strong guidelines and voting record to take a leadership role in filing climate-related shareholder resolutions and publicly highlighting climate resolutions or climate-related votes against directors.

DETAILS

Expectations for new investments

UPP is the only fund included in this analysis that has shared with beneficiaries a detailed outline of the climate-related thresholds it will use for new investments. (The Ontario Teachers' Pension Plan comes close, having stated that new investments without science-based emissions reduction targets must set such targets within two years).[4] UPP's *Climate Transition Investment Framework*, released in December 2023, is intended to support UPP's efforts to "invest only in new mandates and assets that align with the transition to a net-zero world" (p.2). The Framework sets thresholds that must be met before UPP makes new investment commitments and outlines how UPP will assess the "transition alignment and readiness" of current and new investments (p.2).

Investment thresholds differ for fund commitments versus co-investments or direct investments. Any new fund commitment must be to a fund that discloses scope 1 and 2 emissions and "where possible" scope 3 or to a fund that commits to net-zero emissions by 2050 *or* commits to an interim science-based target (p.4).

Co-investments and direct investments are broken down into different categories, each of which have their own investment thresholds. Any new co-investment or direct investment must disclose scope 1 and 2 emissions and scope 3 "where possible" (p.5). Additionally, "high-impact" categories of new co-investments or direct investments must meet thresholds as follows:

- high-impact sectors with high scope 1 and 2 (and possibly 3) emissions must commit to develop a net-zero by 2050 target or an interim science-based target, and must commit to develop a plan to achieve the targets;
- high-impact sectors with only high scope 3 emissions are required to develop a climate transition plan (p.5).

UPP's transparency and initiative in setting climate-related investment thresholds is laudable, but UPP is drawing a false equivalency by considering oil and gas production companies in the same category as other "high-impact sectors", such as steel and cement, that have credible, profitable pathways to transition. Investments in oil and gas carry significant, unique, system-level financial risks for investors and distinct, disproportionate harms for the climate and UPP members. UPP's investment thresholds should be strengthened to include an exclusion screen for any investment in new fossil fuel development and an acknowledgment that the only 1.5°C-aligned pathway for fossil fuel companies is phasing out production.

Expectations for owned companies

UPP's *Climate Stewardship Plan* outlines that the fund's climate engagement activities aim to achieve one goal: a company's alignment with limiting global heating to 1.5°C. Specifically, UPP outlines how it will engage on Paris-alignment with 27 companies (not named) across three categories: banks, "as allocators of capital that shape climate transition;" high-emitting Canadian companies; and oil companies with an outsized impact on UPP's carbon footprint (p.3). UPP can improve transparency and accountability to its members by naming these 27 companies and regularly reporting on progress.

UPP will engage banks to disclose 1.5°C-aligned interim and long-term targets for financed and facilitated emissions, disclose exposure to high-emitting sectors, and set targets to scale up finance to climate solutions and 1.5°C-aligned assets (p.3).

UPP will engage high-emitting Canadian companies and oil companies in its portfolio to disclose 1.5°C-aligned interim and long-term targets (including material scope 3 emissions) and a decarbonization strategy to achieve the targets (p.4).

UPP is also asking oil companies to commit to aligning their policy advocacy with the goals of the Paris Agreement and to support this alignment with disclosure (p.4). Oil companies have a track record of lobbying against climate policy individually and through trade associations.[5]

UPP notably distinguishes "oil companies with an outsized impact on UPP's carbon footprint" from other "high-emitting Canadian companies" in its *Climate Stewardship Plan* (p.3). But while UPP plans to assess whether or not oil companies are aligned with net-zero benchmarks, it is difficult to imagine why the fund believes its assessment will demonstrate anything other than the fact that a managed decline of production is required for oil companies to align with 1.5°C. Without a credible pathway for net-zero alignment, these oil investments must be phased out of UPP's portfolio rather than shortlisted for a futile engagement process that should result in divestment when UPP's assessment inevitably finds that oil companies have no credible plans to align with climate safety.

UPP's *Investment Exclusion Policy* (January 1, 2023) states that "Selling or excluding investments is appropriate when engagement, or other activity, has not, or is unlikely to, provide remedies." Rather than a misguided focus on engagement, UPP should manage the unique risks of this sector by divesting its oil assets and redirecting its efforts toward strongly and publicly supporting laws, regulations and policies that require the phase-out of fossil fuels.

While the *Climate Stewardship Plan* provides excellent clarity on UPP's goals and strategy for engagement for 2023-2025, it is unclear by when UPP expects companies to align with its expectations, or what will happen if they don't. See below in the *Proxy voting* section for indications of how UPP might escalate its climate expectations with public companies.

Direction given to external managers

UPP appears to be giving its external managers more education and expectations on their management of climate-related risks than other funds. The direction UPP gives to external managers on climate is crucial, with UPP's *2021* and *2022 Annual Reports* noting that the majority of the fund's assets are externally managed.

According to UPP's *2022 Annual Report*, the fund hosted a webinar to introduce UPP's *Climate Action Plan* to external managers and to "discuss the critical role of our external managers and other investment partners in achieving our climate goals" (p.38). The fund said it will prioritize partnerships with entities that have made, or plan to make, net-zero emissions commitments.

The *Climate Action Plan* states UPP will engage external managers "in a dialogue" to "encourage" these managers' engagement on behalf of their clients, and to "encourage" external managers to set emissions reduction targets for their portfolios (p.13). UPP's *Climate Stewardship Plan* included commitments to share updated proxy voting guidelines with external managers in 2024, and "systematically highlight our climate-related vote guidelines to external managers" in 2025 (p.5). In order to gauge the success of its *Climate Stewardship Plan*, UPP will examine outcomes including that "UPP's external managers exercise proxy voting, company engagement, or advocacy in support of climate transition, following our dialogue with them" (p.2). UPP's Fund Assessment Criteria (*Climate Transition Investment Framework*, p.8) will be used to assess the climate-alignment of externally managed funds.

While UPP has sent strong signals to its external managers, the fund must now demonstrate it is following through and ensuring external managers are supporting the fund in achieving its net-zero commitment and engaging companies on decarbonization. UPP could also improve transparency and accountability to members by reporting the progress externally managed funds are making toward Paris alignment.

Proxy voting

In 2023, UPP began to provide a real-time database of its proxy voting record on its website, along with voting rationale, increasing transparency for its members. Snapshots of UPP's climate-related proxy voting record indicate that the fund has generally been voting in line with its own guidelines.[6]

UPP's *Proxy Voting Policy* (January 1, 2023) states UPP will "support proposals calling for initiatives and/or targets aligned with the goals of the Paris Agreement, including trying to hold the increase in global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels" (p.9).

UPP will not support director re-elections "if there appears to be inadequate oversight of climate change," (p.6) and will "not support the election of the chair of the committee responsible for overseeing disclosures if the company does not report on its climate-related governance and risks and opportunities and does not have a plan to do so in a reasonable timeframe" (p.9). This policy is stronger than that of most funds, which, if they mention voting against directors at all, usually mention it in a "may consider" capacity rather than "will not support." UPP reported in its *Climate Stewardship Plan* that its 2023 voting focus included voting against "all incumbent directors where there appears to be little to no board oversight of climate-related issues" (p.5). In a website post at the end of 2023, UPP reported that it had voted against directors at 30 companies in 2023 for an absence of board climate oversight.[7]

The *Climate Stewardship Plan* states that UPP will consider revisions to its voting guidelines for 2024 and 2025, with items under consideration including voting against directors based on insufficient climate action, and instituting climate-related expectations related to auditor appointment, advisory votes on compensation and corporate transactions. The *Climate Stewardship Plan* also articulated how UPP intends to amplify its votes by communicating in writing with companies when UPP votes against management for climate-related reasons, and by pre-declaring votes for at least one climate-related ballot item in 2025 (p.5).

UPP's *Proxy Voting Policy* section on lobbying calls only for disclosure of political contributions and lobbying activities (p.10). While this section still needs to be strengthened to ensure that companies do not lobby against Paris-aligned climate policy, UPP articulated in its *Climate Stewardship Plan* that it expects oil companies to align their lobbying activities with the goals of the Paris Agreement (p.5). UPP must also express an expectation in engagements and in its voting guidelines that companies tie compensation to the achievement of climate targets and do not direct capital expenditure to fossil fuel expansion.

In August 2023, the fund added its voice to a call for proxy service provider ISS to call for improved resources on climate-related votes and better integration of climate into the ISS Benchmark Policy.[8]

UPP has an opportunity to leverage its relatively strong guidelines and voting record to take a leadership role in filing climate-related shareholder resolutions and publicly highlighting climate resolutions or climate-related votes against directors, for example through news releases and public letters to companies.

Collaborative engagement

UPP is a founding member of Climate Engagement Canada (CEC). In its *2022 Annual Report*, UPP reported that it had begun CEC engagement with three companies and provided an example of its engagement with fuel retailer and roadside convenience company Couche-Tard: "We outlined our goals for the company to disclose emissions in line with [the Task Force on Climate-Related Financial Disclosures] TCFD and adopt comprehensive strategies to achieve net-zero greenhouse gas emissions by 2050, including measurable sector-relevant targets" (p.38). UPP can strengthen its engagement by laying out time-bound milestones that Couche-Tard must meet and escalatory actions UPP will take if these milestones are not met.

UPP is an investor supporter of Climate Action 100+, meaning it is a signatory to the initiative and supports the initiatives' goals, but does not participate directly in engagements with focus companies.

UPP is also a supporter of CDP's 2023-2024 Science-Based Targets Campaign, which in 2023 sent letters on behalf of its supporters (financial institutions and multinational corporations) to "over 2,100 high-impact companies asking them to commit to and set 1.5°C-aligned Science-Based Targets."[9]

Policy engagement

UPP took a leading position on policy advocacy in its *Climate Stewardship Plan*, stating that it aims to "[c]ontribute to establishment of mandatory standardized, economy-wide disclosure of scope 1, 2 and material scope 3 emissions, and transition plans from all medium and large enterprises," and to "[s]upport policy advancing the alignment of activity in the real economy with a 1.5 degrees scenario" (p.6). While other funds analyzed in this report have indicated they support standardized climate risk disclosure regulations, UPP goes further by committing to advocate for regulation that requires transition plans from all medium and large enterprises.

Importantly, UPP considers its policy advocacy to be part of fulfilling its duty to UPP members, stating, "We believe that UPP has a duty to advocate for effective rules and regulations on behalf of our members for the good of the fund and for the good of the economic, social, and environmental systems on which long-term fund performance relies" (p.6).

UPP, along with other financial institutions, including pension manager British Columbia Investment Management Corporation, demonstrated its advocacy efforts with a joint submission to a Government of Canada consultation on capping oil and gas emissions. The submission encouraged the government "to adopt the most practical and effective regulatory changes, in order to incentivize emission reduction innovation and implementation to further limit climate change and to reduce systemic risk in our portfolios."[10]

Climate Integration	B+

2023 updates:

- Established climate-related investment thresholds and criteria for assessing and monitoring the net-zero alignment progress of both the current portfolio and new investments (*Climate Transition Investment Framework*).
- Strengthened climate risk disclosure by reporting scope 3 emissions data and emissions associated with sovereign debt.
- Participated in a climate scenario analysis conducted by the Bank of Canada, but did not disclose results.
- While compensation at UPP is tied to an organizational scorecard which likely includes climate-related targets, UPP could provide better disclosure of how climate is factored into compensation.

Accountable Paris-aligned membership

UPP is a member of the Net Zero Asset Owner Alliance (NZAOA).

Transparency and disclosure of holdings

As in 2021, UPP's *2022 Annual Report* provided a list of external managers with $50 million or more under management (for those managers that consented to disclosure) (p.115). An accompanying *Top single name public equity holdings* document provided a list of UPP public equity holdings of $5 million or greater.

Transparency and disclosure of climate risk

Portfolio transition readiness

UPP's *Climate Stewardship Plan* provides stakeholders with information on how UPP intends to steward its assets (see *Climate Engagement* section above). In tandem, UPP's *Climate Transition Investment Framework* sets climate-related investment thresholds (also described in the *Climate Engagement* section above) and explains how the fund will assess and monitor net-zero transition alignment across its existing portfolio and new investments. The *Framework* outlines criteria that investments must meet to move through UPP's assessment categories of "Acknowledgment [of climate risk/opportunity]," "Committed to align [with net-zero];" "Aligning;" and "Aligned." Criteria are somewhat different for funds versus assets, but generally categorize an investment's progress from emissions disclosure through to commitment to a net-zero by 2050 target, an interim science-based target, a plan to achieve targets, and finally to progress toward emissions reduction targets and execution of a climate action plan (pp.8-9). The criteria appear to include just one time-bound requirement: that assets must develop a climate transition plan by 2025 to be considered "Committed to align" (p.9). But it is not clear what, if any, steps UPP will take if assets do not meet this requirement.

UPP's *Climate Transition Investment Framework* assessment criteria put UPP in a strong position to transparently disclose to stakeholders the portfolio's alignment with a net-zero pathway. UPP's next steps must be to disclose its alignment assessment of current investments, and to set time-bound requirements for alignment and consequences for non-alignment.

Carbon footprint

UPP's *2022 Annual Report* contained its first TCFD report. Scope 1 and 2 emissions were reported for ~70% of the portfolio, with separate disclosures for the portfolio's scope 3 emissions; scope 3 emissions specific to oil, gas and mining; and scope 1 and 2 emissions associated with sovereign debt. The carbon footprint was presented alongside financial statements in the annual report, and the footprint for public equity had limited assurance conducted by a third party (pp.109-114).

Scenario analysis

UPP reported that in 2023 it participated in a Bank of Canada project that provided an analysis of risk exposure in four climate scenarios (*Progress on UPP's Climate Action Plan in 2023*). UPP's disclosure of its exposure to climate-related financial risks will remain incomplete without reporting the results and conclusions of climate scenario analysis, including for an emissions pathway aligned with 1.5°C.

Board climate expertise and/or fossil fuel entanglement

No UPP Board members are identified by the fund as having climate expertise, and a Board competency framework is not publicly available. UPP's *2022 Annual Report* notes that each Trustee self-assesses against a matrix of skills to inform education, committee composition and the need for independent advice. One of the self-assessment skills is "climate/sustainability and social responsibility" (p.63).

Trustee Kathy Bardswick is Chair of the Sustainable Finance Action Council and past President of the Canadian Institute for Climate Choices.

No trustees appear to have fossil fuel entanglements.

Executive and staff compensation and climate

Discussion of compensation in UPP's *2022 Annual Report* references an annual scorecard which corresponds to organizational strategy and informs compensation (pp.68-71). As climate commitments are built into UPP's strategy, it would be reasonable to assume that there is some link between compensation and UPP's progress on its climate commitments, but no specific link is reported. As a pension fund with a reputation for climate leadership, UPP should provide specific disclosure of how climate and compensation are linked.

Fossil Fuel Exclusions	D+

2023 updates:

- Failed to implement fossil fuel exclusions in its *Climate Transition Investment Framework*.
- Committed that after it evaluates oil companies' alignment with net-zero benchmarks, the fund will "refine" its position on ongoing investments.

UPP has excluded some investments in coal, but the threshold for exclusion is not strict enough (*Investment Exclusion List – General Parameters*, p.1). European sustainable finance NGO Reclaim Finance's Coal Policy Tool scores UPP's coal exclusion policy with just 12 out of 50 points, noting that the policy is incomplete without a phase-out commitment, an exclusion on coal developers, and a production exclusion threshold.[11]

According to the fund's online *Frequently Asked Questions*, when it comes to fossil fuels, UPP "will not apply a pre-emptive, blanket policy of divestment," but acknowledges the necessity of "targeted exclusions." The fund states that "if a company is resistant to change and other measures are not encouraging improvements, we believe selling or excluding assets can be appropriate." Similarly, UPP's *Investment Exclusion Policy* states that UPP believes that "selling or excluding investments is appropriate when engagement, or other activity, has not, or is unlikely to, provide remedies" (p.4) and notes that its exclusion list is informed by considerations which include the Paris Agreement (p.5).

UPP's *Climate Stewardship Plan* states that the fund will "refine UPP's position on ongoing investment in [oil] companies" after assessing information as to whether the companies are aligned with net-zero benchmarks. The fund's *Climate Transition Investment Framework* failed to place an exclusion on new fossil fuel investment.

After years of investor engagement, fossil fuel companies walked back their climate ambitions in 2023.[12] Analysis from

Climate Action 100+'s *Net Zero Benchmark* and CDP and the World Benchmarking Alliance have demonstrated that no fossil fuel companies are aligned with the goals of the Paris Agreement.[13] Climate Action 100+'s lead investor engaging Shell has announced it will no longer try to engage oil and gas companies and will divest from fossil fuels.[14] There is ample evidence of the oil and gas industry's intransigence when it comes to doing what's necessary to align with climate safety. It is difficult to imagine how UPP will arrive at a different conclusion after making its assessment. UPP should not remain under the delusion that engagement with fossil fuel companies will produce Paris-aligned results, and should re-focus its efforts on policy advocacy and robust climate and energy laws and regulations.

ADDITIONAL INFORMATION

The information below provides relevant context but did not contribute to the assigned scores. Exception: membership in the Net Zero Asset Owner Alliance or Paris Aligned Asset Owners was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	In early 2024, UPP updated its *Proxy Voting Policy* to specify that the fund "will support proposals calling for policies or disclosures related to Indigenous rights and reconciliation, and, in particular the UN Declaration on the Rights of Indigenous Peoples and the Canadian Truth and Reconciliation Commission Call to Action 92" (p.10). UPP's *Frequently Asked Questions* webpage (*How is UPP considering the human rights of Indigenous peoples?*) states that "companies in UPP's investment portfolio are being engaged in outcome-focused dialogues to make tangible commitments to reconciliation, including the adaption (sic) of Indigenous rights policies, employment targets and procurement from Indigenous-owned businesses." UPP has instituted an *Equity, Diversity, Inclusion and Reconciliation Policy (EDI&R Policy)* that defines reconciliation as: "Commitment to meaningful consultation with Indigenous people, where required, building respectful relationships between Indigenous & non-Indigenous people, and *obtaining the free, prior, and informed consent of Indigenous peoples on matters pertaining to them*. At UPP, reconciliation also signifies the organization's commitment to honouring the Truth and Reconciliation Commission's Call to Action #92 [which calls on the corporate sector to adopt the United Nations Declaration on the Rights of Indigenous Peoples as a reconciliation framework]" (p.3, italics added).[15]
Accountable Paris-aligned memberships	Net Zero Asset Owner Alliance
Collaborations and memberships	• Accounting For Sustainability - Asset Owners Network • Canadian Coalition for Good Governance • Carbon Disclosure Project (including Science-Based Targets Campaign) • Ceres Investor Network • Climate Action 100+ (investor supporter) • Climate Engagement Canada • ESG Data Convergence Project • IFRS Sustainability Alliance • Institutional Investors Group on Climate Change • International Corporate Governance Network • 2022 Global Investor Statement to Governments on the Climate Crisis • Principles for Responsible Investment • Sustainable Finance Action Council • Task Force on Climate-Related Financial Disclosures
Self-reported assets linked to climate solutions*	No data available.**

Estimated investments in fossil fuels	Limited data available. Estimated $105 million - $235 million in fossil fuel public equities as of December 31, 2022.*** This number reflects an increase from an estimated $40 million - $85 million in fossil fuel public equities as of December 31, 2021.
Notable fossil fuel holdings (not a comprehensive list)	Public equity holdings as of December 31, 2022 include Canadian Natural Resources Ltd, Chevron, ExxonMobil, Shell, Suncor, BP, Cenovus, Enbridge, Equinor, Kinder Morgan, Marathon Petroleum, Pembina Pipeline, Petroleo Brasileiro S.A, TC Energy, Tidewater Inc and Tourmaline Oil.

* Definitions vary. Number is not comparable between funds. Self-reported numbers do not necessarily indicate climate-aligned assets.

** UPP committed in 2023 to invest at least $1.2 billion in climate solutions by 2030 (*Climate Transition Investment Framework*, p.6). To date, the fund has not reported a current number for climate solutions investment, but in October 2023 reported committing €150 million to Copenhagen Infrastructure Partners (renewable energy projects) (*UPP invests in global leader in renewable energy development*).

*** Along with its *2022 Annual Report*, UPP reported the value, as of December 31, 2022, of the *Top Single Name Public Equity Holdings* in its portfolio and the range of its investment in each ($10-$25 million; $5-$10 million) (pp.1-4). Based on this list, the UPP would have had $105 million - $235 million invested in fossil fuels in its public equities portfolio alone as of December 31, 2022.

ENDNOTES

1 CFA Institute. (2023, July 19). *Brian Minns, CFA: Guiding the Path to Net Zero Emissions*. Minute 21:00. Youtube. https://www.youtube.com/watch?v=7-T3CjWy7xs.

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- Climate Transition Investment Framework (December 2023)
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- Statement of Investment Policies and Procedures (January 1, 2023)
- Responsible Investing Policy (January 1, 2023)
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- Investment Exclusion Policy (January 1, 2023)
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- Equity, Diversity, Inclusion and Reconciliation Policy (January 1, 2023)
- Top single name public equity holdings (2023)
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- Quick Guide to Responsible Investing (2022)

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- UPP publishes Climate Transition Investment Framework, introduces a climate solutions investment target (press release) (December 13, 2023)
- UPP launches Climate Stewardship Plan – a roadmap for climate engagement, proxy voting and advocacy (press release) (November 23, 2023)
- UPP invests in global leader in renewable energy development (press release) (October 3, 2023)
- UPP achieves growth milestones, maintains healthy funded and liquidity status in 2022 (press release) (June 12, 2023)
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