

# Inequality Stewardship Plan

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# About this plan

As a diversified, long-term investor, UPP’s ability to realize adequate investment returns and provide retirement benefits depends on stable and low levels of inequality in opportunities and outcomes across society. We believe that addressing inequality as outlined in this plan reflects our fiduciary duty and is in the best interest of our members as it helps protect their long-term retirement income.

This Inequality Stewardship Plan (“Plan”) sets out how UPP will exercise active ownership to support the mitigation of [inequality](#).

## 1.0 Overview

Through [stewardship](#), UPP seeks to align the interests of companies and financial systems with long-term value creation for plan members. We focus on systemic issues that can threaten or enhance the health of the financial, environmental, and social systems on which markets rely.

This plan focuses on actions from 2024 to 2027 to support [decent work standards](#) within financial markets and among large, influential companies, as well as moderating excessive executive compensation. It prioritizes financial market advocacy to foster awareness about inequality and collaboration to mitigate it.

As a systemic risk, inequality is a concern for both social justice and capital markets. It erodes social cohesion, diminishes trust in key institutions, fuels civil and political unrest, increases the damage caused by environmental and health crises, and leaves societies incapable of tackling critical challenges.<sup>1</sup> In turn, these weakened social systems harm macroeconomic systems on which long-term stable investment returns rely.

### Key financial system impacts of inequality

Reduces long-term economic growth	Exacerbates recessions	Worsens socio-political instability
Income inequality has a negative and statistically significant impact on growth across markets and over time. The <a href="#">International Monetary Fund (IMF)</a> has found that increasing the income share of the wealthiest 20% lowers GDP growth, whereas increases to the income share of the bottom 20% had the strongest positive impact. <sup>2</sup>	IMF economists have found that higher levels of inequality lead to more frequent and severe economic downturns. Where inequality is high, economic gains are less enduring and more likely to be destroyed by recessions. <sup>3</sup>	Where inequality is higher, people are less trusting of each other and of their social and political systems, and more likely to adopt extreme political views. This reduced trust in societal institutions makes it more difficult for policymakers to manage and navigate economic and financial crises. <sup>4</sup>

<sup>1</sup>Heather Boushey, Unbound, *How Inequality Constricts our Economy and What We can do about it*, Harvard University Press, 2019.

<sup>2</sup>Era Dabla-Norris, et al “Causes and Consequences of Income Inequality: A Global Perspective” International Monetary Fund, 2015.

<sup>3</sup>Jonathan D. Ostry, Prakash Loungani, and Andrew Berg, *Confronting Inequality: How Societies Can Choose Inclusive Growth*, Columbia University Press, 2019.

<sup>4</sup>Era Dabla-Norris, et al “Causes and Consequences of Income Inequality: A Global Perspective” International Monetary Fund, 2015; Heather Boushey, Unbound, *How Inequality Constricts our Economy and What We can do about it*, Harvard University Press, 2019.

## 2.0 Promoting market guardrails to address inequality

Addressing a social issue such as inequality requires action across society with government leadership. As an asset owner, UPP can leverage our ownership stakes in companies and stewardship tools to promote [market guardrails](#), or limits on corporate behaviors that excessively externalize social and environmental costs.<sup>5</sup> Promoting adequate guardrails on key issues within our portfolio can help reduce unequal access to opportunities and mitigate persistently unequal outcomes.

### Market guardrails for two key issues

#### Decent work standards

The [International Labour Organization Declaration on Fundamental Principles and Rights at Work \(ILO Fundamental Principles\)](#)<sup>6</sup> set out five globally-recognized principles of decent work, including:

- elimination of all forms of forced or compulsory labour,
- effective abolition of child labour,
- elimination of discrimination in respect of employment and occupation,
- a safe and healthy working environment, and
- freedom of association and effective recognition of the right to collective bargaining.<sup>7</sup>

UPP will promote adherence to the ILO Fundamental Principles by companies in our investment portfolio.

#### Moderating excessive executive compensation

Today's approaches to executive compensation consider company financial performance and lateral peer company benchmarking. However, they often ignore whether the amount paid to top executives is optimal for the economy as a whole or how compensation is distributed across all the people involved in creating value for a company.<sup>8</sup>

UPP will promote approaches to executive compensation that consider implications for inequality and adopt a more holistic perspective on value creation.

<sup>5</sup> The Shareholder Commons, Stewardship Practices: Guardrails. System Stewardship - [The Shareholder Commons](#).

<sup>6</sup> As the only tripartite U.N. agency, the ILO brings together governments, employers and workers representatives of [187 Member States](#), to set labour standards, develop policies and devise programmes promoting decent work for all women and men. [Mission and impact of the ILO | International Labour Organization](#)

<sup>7</sup> ILO Declaration on Fundamental Principles and Rights at Work, Adopted at the 86th Session of the International Labour Conference (1998) and amended at the 110th Session (2022); [ILO Declaration on Fundamental Principles and Rights at Work \(DECLARATION\)](#). The ILO Fundamental Principles are further elaborated in fundamental conventions addressing each principle of the declaration: [ILO Conventions \(ilo.org\)](#).

<sup>8</sup> See for example the benchmark proxy voting policies of the major proxy advisors [Glass Lewis](#) and [ISS](#).

## 3.0 Measures of success

While no single institution can claim success when a company, policy maker, or investor takes steps to address inequality-related risks, we will assess UPP's contributions by assessing progress on key indicators.

### Examples

- A portfolio company adopts and meaningfully implements new policies and practices to ensure a living wage is paid to employees in their direct operations following UPP's engagement efforts.
- Other investors revise their proxy voting guidelines in a similar direction to UPP, addressing excessive executive compensation.
- Regulators or standards setters adopt strengthened disclosure guidelines related to decent work standards following our participation in advocacy activities.

The Social Benchmark of the [World Benchmarking Alliance](#), information from our external managers, company disclosures, and SHARE engagement reporting will help us assess our engagement progress annually.

## 4.0 Commitments

### 4.1 Engagement

Our [engagement activities](#) will focus on companies within the retail, hospitality, and automotive industries. When selecting focus companies, we considered the following:

- size and weight in UPP's investment portfolio,
- importance in addressing the long-term systemic impacts of inequality due to their large, low-wage workforce,
- opportunities to promote and diversify existing investor engagement,
- opportunity to work with UPP's external managers to enhance the impact of the dialogue,
- whether we hold long investments with voting rights, and
- opportunity to measure performance and progress through the [World Benchmarking Alliance's](#) Social Benchmark Assessment.<sup>9</sup>

#### Goals

1. Ensure the ILO Fundamental Principles are respected in direct operations.
2. Identify and address risks related to ILO Fundamental Principles in supply chains.

#### Approach

- Third-party engagement: work with [SHARE](#), our external stewardship partner.
- Collaborative engagement: explore joining engagement initiatives with like-minded investors and companies to advance our goals.
- Engagement with UPP's external managers: seek support from our external managers to advance our goals with our focus companies.

<sup>9</sup>World Benchmarking Alliance, Social Transformation Framework: [2022 Baseline Assessment](#).

## 4.2 Proxy voting

As a shareholder in publicly traded companies, we use our [proxy voting](#) rights to communicate expectations and hold companies accountable on governance issues, including those related to social issues such as inequality. UPP's [Proxy Voting Policy](#) states our positions and expectations for companies about important ballot issues that can enhance the long-term economic interests of shareholders. Our votes are publicly disclosed on our [proxy voting page](#) on our website, myUPP.ca.

### Goals

1. Through our votes and related communications, signal to companies where we consider compensation practices to be excessive or exacerbating inequality.
2. Promote the use of proxy voting guidelines on decent work standards and moderating excessive executive compensation.

### Approach

Enhance UPP's Proxy Voting Policy:

- Recommend additional guidelines that outline when we will vote against compensation-related ballot items due to excessive compensation or implications for growing inequality,
- Consider revisions to better reflect our expectations around decent work standards and the ILO Fundamental Principles, and
- Annually assess the policy's execution and refine our guidelines on decent work standards and moderating excessive executive compensation accordingly.

Amplify the impact of our votes and promote the adoption of market guardrails against inequality:

- Seek opportunities to work with likeminded peers to advance broader consideration of inequality in voting practices,
- Communicate with companies about our votes on key inequality-related ballot items, and
- Highlight our inequality-related guidelines with external managers and encourage them to consider the issue when voting.

### 4.3 Policy advocacy

Developing economic and social policies that foster equal opportunities and address entrenched inequality is most effectively led by governments in partnership with affected communities and stakeholders. However, there remains a gap in the market awareness necessary to drive demand for such policies. We firmly believe that [policy advocacy](#) can play a crucial role in bridging this in the market awareness gap.

#### Goals

1. Enhance awareness among Canadian investors of the systemic implications of inequality to long-term portfolios, economic growth, and stability.
2. Support the establishment of mandatory, standardized, economy-wide disclosure on environmental, social, and support the establishment of governance (ESG) issues that incorporates inequality factors such as human capital, human rights, and equity, diversity and inclusion (EDI).

#### Approach

- Collaborate with investor networks, pension peers and likeminded investors to facilitate knowledge-sharing on the ways inequality impacts long-term investment outcomes, and consider strategies to address the issue.
- Support more standardized and robust disclosure on material issues concerning decent work and excessive executive compensation by:
  - continuing to advocate for enhancements to diversity disclosure requirements for publicly-listed companies,<sup>10</sup>
  - promoting the adoption and implementation of the International Sustainability Standards Board ([ISSB](#))'s general sustainability disclosure requirements ([IFRS S1](#)) by regulators,
  - supporting the ISSB's consideration of standard human rights and human capital, and
- Focus our advocacy efforts within Canada, while also monitoring for opportunities for impactful international advocacy.

<sup>10</sup> September 28, 2023, UPP Letter re Proposed Amendments to Corporate Governance Disclosure and Guidelines ([osc.ca](#))

## 5.0 External manager collaboration

UPP will work with our external asset managers to constructively advance the goals and commitments in this Plan. Building on our current dialogue about EDI and ESG issues, we will encourage some of UPP's external managers to integrate market guardrails addressing inequality into their engagement, proxy voting, and advocacy activities.

## 6.0 Definitions

**Decent work standards:** Opportunities for people to obtain decent and productive work in conditions of freedom, equity, security and human dignity.<sup>11</sup>

**Engagement:** Holding structured, outcome-focused dialogue with companies in our portfolio and our external investment managers intended to result in sustainable value creation for members and improved risk management about systemic issues and material risks such as climate change, human rights, and corporate governance.

**Inequality:** Wide disparities in income, wealth, and overall wellbeing in society, underpinned by deep, structural differences in people's chances or prospects based on factors that are largely outside of their control.<sup>12</sup>

**Market guardrails:** Limits on corporate behaviors that excessively externalize social and environmental costs. Guardrails raise minimum performance expectations, providing investors and companies with confidence that financial success at a company must be built on efficiency and innovation, not externalization of social and environmental cost.<sup>13</sup>

**Policy advocacy:** Advocating with policymakers, regulators, and within the financial sector to encourage fair and efficient public policy, regulations, and market systems that support the management of ESG factors as well as UPP's broader sustainability objectives.

**Proxy voting:** Using our shareholder rights to vote for initiatives that support our expectations according to our [Proxy Voting Policy](#) and accountability on the ESG practices of publicly traded companies.

**Stewardship:** The use of investor rights and influence to protect and enhance overall long-term value for clients and beneficiaries, including the common economic, social, and environmental assets on which their interests depend.<sup>14</sup>

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<sup>11</sup> From the [1999 International Labour Conference Report](#).

<sup>12</sup> [The Business Commission to Tackle Inequality \(tacklinginequality.org\)](#).

<sup>13</sup> [System Stewardship - The Shareholder Commons](#)

<sup>14</sup> [Principles for Responsible Investment \(PRI\)](#)