



Responsible Investment Policy

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Responsible Investment Policy

1. Purpose

The University Pension Plan Ontario (“UPP”) serves pension plan members and retirees of its sponsor universities. Informed by our belief, supported by research and evidence, that responsible investment (“RI”) supports risk management, value creation, and a duty to be active owners and consider stakeholder interests and investment impacts, UPP seeks to embed responsible investment practices throughout our investment management activities. We believe this commitment reflects our fiduciary duty and is in the best interests of our members.

The purpose of this Responsible Investment Policy (“Policy”) is to outline UPP’s initial beliefs, commitments, and approach to responsible investment. This first Policy provides a framework and guidance to incorporate environmental, social, and corporate governance (“ESG”) considerations in investment management and stewardship activities in a consistent and comprehensive manner.

ESG factors and their materiality for investments may vary across companies, sectors, regions, asset classes and time horizons. These factors are often systemic, requiring a coordinated, multifaceted response from public and private leaders. While investors play an important role in driving market changes, economic forces are also largely influenced by supervisory expectations and policy signals. This underscores the importance of collaborative engagement in aligning industry initiatives, public policy, issuer interests and financial systems with international goals and long-term value creation for plan members.

Responsible investment practices are constantly evolving. As well, the approach to responsible investment will vary depending on whether investments are managed internally by UPP staff or by external investment managers, and whether externally managed funds are in segregated mandates or reside in pooled or commingled funds. UPP therefore expects its approach to responsible investment to evolve over time as our capacity improves and grows and as research, evidence and industry practice evolve. Our goal is purposeful, future-oriented investments, continual improvement, and transparency in our approach. To that end, UPP will regularly provide our plan members and the public with information on our responsible investing approach and activities. Reporting will, at a minimum, address proxy voting and other stewardship activities, climate change and diversity.

2. Scope

This Policy applies to all UPP personnel and Trustees and covers all invested assets and investment activities.

Application of the Policy will vary depending on UPP’s degree of influence over investment activities and decisions. For example, segregated mandates give us greater control (over investment holdings and stewardship activities like proxy voting) than commingled mandates and pooled funds.

Application of this Policy and integration of responsible investment considerations must be consistent with all other policies and legal obligations, including UPP's fiduciary duty to beneficiaries. That is, UPP will not make investment decisions exclusively on ethical or moral grounds.

The focus of this Policy is ESG integration in our investment activities, however we also seek to address ESG factors and best practices in UPP's own management and operations.

We are committed to continuously improving our reporting to promote transparency and open dialogue with our members. We welcome ongoing feedback and encourage our members to share research and other informative and educational materials as they see fit. Members can comment on this Policy or provide materials via myupp@universitypensionplan.ca.

3. Definitions

Environmental, Social, Governance (ESG): ESG refers to environmental, social, and governance factors that may impact or be impacted by corporate or investment activities. Environmental factors relate to the quality and functioning of the natural environment and natural system. Social factors relate to the rights, well-being and interests of people and communities (e.g., employees, customers, broader society). Governance factors relate to the policies and procedures used to direct, control, and monitor companies and other investee entities.

Examples of ESG factors that may be considered by UPP include, but are not limited to:

Environmental

- climate change
- greenhouse gas (GHG) emissions
- water and air pollution
- biodiversity
- natural capital
- resource use and efficiency

Social

- human rights and labour rights in operations and supply chains
- equity, diversity, and inclusion
- employee health and safety
- data privacy
- consumer protection

Governance

- board structure and diversity
- executive compensation and link to ESG performance
- shareholder and stakeholder rights
- corporate oversight and risk management
- cybersecurity
- conflicts of interest
- anti-bribery
- corruption

Principles for Responsible Investment (PRI): The PRI are a set of six voluntary and aspirational investment principles established by a United Nations-supported international network of investors. The PRI offer a menu of possible actions to incorporate ESG issues into investment practice.

Responsible Investing (RI): The integration of ESG considerations into investment management processes and stewardship practices, focused on those factors that could have a material impact on financial performance and environment, social and financial systems.

Stewardship: Investors' use of influence to mitigate risk or derive long-term value, including the value of common economic, social, and environmental assets on which returns, and client and beneficiary interests, depend (also referred to as "active ownership").

Task Force on Climate-related Financial Disclosure (TCFD): The TCFD is a task force established by the Financial Stability Board to develop recommendations for effective climate-related disclosures that could promote more informed investment, credit, and insurance underwriting decisions. TCFD recommendations are being applied by companies and investors globally to help integrate climate considerations into investment management.

4. Responsible Investment Beliefs

This Policy is informed by the following set of beliefs endorsed by the Board of Trustees:

- ESG factors such as climate change and diversity will present material and evolving impacts over time and are part of comprehensive risk management for a long-term investor.
- An ESG lens helps to better assess and create sustainable value, identify differentiated opportunities, and drive stronger long-term financial performance.
- Engagement is a key tool for investors to influence a culture of sustainability among investee companies and external managers and promote fair, efficient, and transparent market practices.
- Investors have a responsibility not only to respond to evolving real-world challenges but also to promote a just, sustainable society and economy.

5. Commitments

In recognition of our RI beliefs and in accordance with this Policy, UPP will:

- Become a PRI signatory and align our investment activities with the PRI's six Principles of Responsible Investment;
- Establish ESG management and oversight responsibilities;
- Integrate ESG considerations into investment analysis and decisions, including when selecting, appointing, monitoring, and engaging with external managers;

- Be active owners and engage in ESG stewardship activities, including issuer engagement, industry collaboration and proxy voting;
- Integrate evaluation of climate change risk and opportunity into investment management and stewardship practices in line with the principles outlined in *Investing to Address Climate Change—A Charter for Canadian Universities*;
- Report on ESG practices publicly and to plan members.

6. Our Approach

6.1 ESG Management and Oversight

6.1.1 To address our ESG commitments, UPP's Board of Trustees is responsible for setting the Responsible Investment Policy and overseeing its implementation.

6.1.2 UPP's CEO is responsible for communicating the Policy to all employees.

6.1.3 All employees of UPP are required to adhere to the Policy.

6.1.4 Investment teams are responsible for integrating ESG considerations in all investment decisions and for communicating this Policy to external managers.

6.1.5 To support our responsible investment commitments, we will establish a responsible investment team. Led by our Managing Director of Responsible Investing, the RI team will set ESG strategy and targets and identify focus areas and initiatives. This team will oversee and support integration of ESG factors across investment processes and manage RI stewardship and reporting activities.

6.1.6 UPP's CEO and RI team will report to the Board of Trustees on relevant responsible investment matters on an ongoing basis, and on adherence to this Policy at least annually.

6.2 ESG integration

6.2.1 To fulfill our ESG commitments, UPP will integrate ESG factors in investment decisions.

6.2.2 To support ESG integration in investment decisions, UPP will, where appropriate:

- Provide ESG training to our investment professionals and Board members;
- Develop tools and resources for investment teams;
- Use third-party data to evaluate holdings and measure ESG performance;
- Identify ESG focus areas and, where appropriate, set ESG targets; and
- Collaborate with academic institutions to access research and resources related to responsible investment.

Exclusions¹

6.2.3 Excluding particular companies, sectors or asset types can be applied as an investment strategy and tool to influence change. UPP will consider exclusions where:

- Investment would contravene international treaties; or
- The Trustees believe the investment may result in financial detriment to the plan or does not contribute appropriate long-term risk-adjusted returns; or
- Engagement activities by UPP or wider industry are unsuccessful.

6.2.4 In general, UPP favours active engagement over exclusion or divestment as a first course of action to influence corporate behaviours and will use constructive dialogue and clear guidance as primary tools to effect change.

6.2.5 Any exclusions must be recommended by UPP's Investment Committee and approved by the Board of Trustees.

External Managers

6.2.6 Currently, all UPP investments are managed by external managers. These external managers therefore play a critical role in integrating ESG considerations into UPP's investment activities. UPP will assess the external managers' commitments to responsible investing by reviewing and evaluating their business organization, investment processes and portfolio compositions.

Manager selection and appointment

6.2.7 As UPP is assuming existing investment mandates, we will integrate responsible investment considerations into our future selection and appointment of new external managers and renewal of existing external managers.

6.2.8 When selecting external managers, we will evaluate responsible investment practices and performance, including firm ESG policy, commitments, approach, resourcing, stewardship activities, performance measurement and reporting.

6.2.9 When appointing new managers, UPP will engage those who have demonstrated a commitment to, or to improvement of, responsible investment and ESG integration practices. This assessment shall consider the investment strategies employed by the relevant manager and will recognize that different strategies have inherently different ESG potential.

6.2.10 UPP will seek to integrate responsible investment requirements, such as reporting on ESG performance, into new agreements. Where possible, we will seek to use our influence to ensure ESG considerations are integrated into the terms of pooled and commingled funds.

Manager engagement and monitoring

6.2.11 We will communicate UPP's RI Policy, and any material updates to such Policy, to all external managers, along with our expectation that managers should integrate ESG considerations into their investment management processes and stewardship activities.

¹ For the purposes of this Policy, 'exclusion' refers to the decision not to invest in a particular company, sector, or asset type, which is distinct from 'divestment', being the decision to reduce exposure to held positions.

6.2.12 Annually, UPP will request updates on responsible investment, including policy changes, ESG integration, major ESG incidents, stewardship activities, and ESG performance of underlying portfolios.

6.2.13 UPP investment team will discuss ESG practices and performance with external managers, including attributes of individual securities.

6.2.14 We recognize that different managers will have made varying degrees of progress on their approach to responsible investment. Therefore, we are committed to supporting managers seeking to develop their practices over time. As part of our regular engagement with managers, we will encourage them to enhance their responsible investing practices, including ESG analysis, reporting and stewardship activities.

6.3 Stewardship

6.3.1 UPP recognizes the importance of stewardship or “active ownership” to align the interests of issuers and financial systems with long-term value creation for plan members.

6.3.2 In determining stewardship priorities, we will consider our responsible investment focus areas as well as issues affecting our investments. We will account for our relative influence on a case-by-case basis, and the likelihood of successfully meeting our stewardship objective.

Collaboration and Engagement

6.3.3 UPP seeks to achieve greater influence through collaborative engagement networks and working groups. We will join and actively participate in initiatives that seek to address ESG topics and advance industry practices, including climate change management, systemic decarbonization and corporate disclosure. We will also collaborate with peers to engage issuers held in our portfolios, and in some instances, may engage such issuers individually.

6.3.4 As part of our ongoing dialogue with external managers, we will encourage alignment of their engagement activities with this Policy. We will also encourage managers to participate in collaborative stewardship initiatives.

6.3.5 UPP aims to make a broader contribution to public policy and the Canadian investment ecosystem by providing our insight and expertise where it can have an impact.

6.3.6 We will work collaboratively with our peers, industry, policymakers, standard-setters, and the academic community to inform, promote and advance industry practices and public policy relating to relevant ESG issues and the pursuit of sustainable economic growth.

6.3.7 We will establish internal processes to guide and facilitate our responses and input on public policy and industry matters and prioritize the issues on which we will engage.

Proxy voting

6.3.8 Proxy voting is an important stewardship tool that UPP can use to influence ESG management in our portfolios.

6.3.9 UPP will adopt a proxy voting policy that outlines our stance on select ESG factors. We will also seek support from third-party proxy service providers to supplement our policy and execute our votes. Our approach to proxy voting will vary depending on our ability to vote proxies; for example, we are not able to vote proxies in most pooled funds. We will communicate our proxy voting policy to all external managers.

6.3.10 We will periodically review and report on our voting activities to ensure they align with our responsible investment and proxy policies. ESG factors are continually evolving, as is our investment strategy; therefore, we expect our proxy policy and approach to evolve along with other stewardship activities.

6.4 Climate Change

6.4.1 We recognize that climate change will continue to present risks and opportunities for investment portfolios. 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 the approach to addressing climate change should be grounded in science-based targets and supportive of international agreements like the Paris Agreement of the Parties to the United Nations Framework Convention on Climate Change.

6.4.2 To address climate risk and opportunity in our investment activities, UPP will follow the principles outlined in *Investing to Address Climate Change—A Charter for Canadian Universities*.

6.4.3 Moving forward, we will:

- Measure and publicly disclose the absolute emissions and carbon intensity across our listed equity, fixed income assets and other asset classes, where possible;
- Discuss portfolio emissions with external managers at least annually;
- Begin to evaluate forward-looking climate scenarios and potential impacts on our investments, in line with evolving industry practices;
- Evaluate and set science-aligned targets to reduce emissions in our holdings and track progress towards these targets;
- Include climate change as a focus area for stewardship activities;
- Begin to align reporting with the TCFD recommendations and encourage their use in corporate disclosure; and
- Explore opportunities to reduce our own operational emissions and other climate change impacts.

6.5 Equity, Diversity, and Inclusion

6.5.1 We seek to promote a diverse, equitable and inclusive market environment and practices among investee companies and external managers, as well as within our own operations.

6.5.2 We will support and participate in industry initiatives that promote diverse and inclusive representation at all levels of an organization as a means toward enhanced decision-making, innovation, and long-term investment performance.

6.5.3 We will convey our expectations for investee companies and managers as it relates to diversity and inclusion in their internal policies, talent strategies and training, and will progress our expectations toward formal policies and time-bound representation baselines.

6.5.4 We commit to continually enhancing our tracking and disclosure of diversity data within our organization and portfolio.

6.6 Reporting

6.6.1 At least annually, we will provide our plan members and the public with information on our approach to responsible investment as well as our initiatives and progress toward our objectives and targets. Our reporting will include, but not be limited to, our proxy voting and other stewardship activities, climate-related information informed by the TCFD recommendations and diversity-related information. To report, we will use the PRI Reporting and Assessment Framework; our annual responsible investment reporting and maintain a responsible investing section of our website.

7. Responsibilities for Approving and Monitoring

The Board of Trustees has set and approved this Policy. They are accountable for its implementation.

UPP's CEO and RI team will report to the Board of Trustees on relevant responsible investment matters on an ongoing basis, and on adherence to this Policy at least annually.

This Policy will be reviewed at least annually.

8. Approval Record

Policy Name	Responsible Investment Policy
Version	1.0
Reviewer	Investment Committee
Effective Review Date	June 7, 2021
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