Quick Guide to Responsible Investing

Terms like "responsible investing" and "ESG" are increasingly common in the worlds of finance, business and investment. But what do they mean?

This Quick Guide introduces some of the key ideas and terminology that form the basis of many responsible investment conversations. Additional resources are included at the end of this Guide for those interested in exploring further.

What is Responsible Investing?

As your pension fund, UPP's mandate is to provide a secure, lifelong pension income for members today and for generations to come. That requires a very long view of investment risk and opportunity. In a nutshell, that is what Responsible Investing is about -- managing risk and improving returns using a lens that incorporates the issues and factors that are shaping our future.

UPP defines Responsible Investing (RI) as the integration of Environmental, Social and Governance (ESG) factors into investment analysis, decisions and stewardship.

> **Stewardship** is investors using their influence (often in collaboration with others) over companies, policymakers and other stakeholders to drive change and maximize overall long-term value. This includes dialogue on ESG factors of consequence to returns and beneficiaries' interests.[1]

What are ESG Factors?

Investors are increasingly incorporating environmental, social and governance factors into their financial risk/opportunity analysis and dialogue with companies, to drive change, mitigate risk and protect or enhance financial value. For investors, looking at a company's ESG performance is like looking "under the hood". It provides insight into how corporate leadership is planning to thrive in a changing world, beyond the next quarter.

The ESG considerations that are material to a company or investor will vary by investment objectives and style, sector/industry, geography and other external factors.

Environmental
Covers themes such as climate change, resource use, pollution, biodiversity

Social
Includes human rights, equity, diversity and inclusion, labour issues, data security

Governance
Encompasses standards for running a company, such as board effectiveness, anti-corruption, risk management

[1] About stewardship | PRI Web Page | PRI (unpri.org)

How are ESG factors integrated into investment decisions and stewardship?

Investors can use an array of tools to drive change in their portfolios, while also driving change more broadly in the world. Most investors use a mix of approaches to maximize their impact.

Integrating ESG factors into investment decisions

ESG factors are integrated into investment decisions in a variety of ways, including screens, integrated analysis and impact/thematic investing.

Negative and Positive Screening

Involves the use of filters ("screens") that reflect an investor's preferences or values to preemptively rule in or out potential investments.

Divestment is where an investor sells shares in their portfolio based on a screen. *Exclusion* is where an investor does not purchase new shares in companies that do not meet its screening criteria.

There are two types of these exclusionary approaches - *selective divestment/exclusion* refers to an investor's decision to remove or omit specific companies from its portfolio.

Blanket divestment/exclusion refers to an investor's decision to remove or omit all companies within a specific sector, industry, or that are involved in a specific issue from their portfolios.

ESG Integration

To explicitly embed ESG issues into traditional financial analysis.

With ESG integration, an investor considers material ESG data and traditional financial metrics together when assessing a company's value.

Impact / Thematic

An approach that seeks to generates both high financial returns and positive ESG impacts, often on a particular area like renewable energy, affordable housing or education.

Integrating ESG factors into stewardship activities

As shareholders, investors can influence the companies they invest in to improve their sustainability and performance.

Engagement

Holding direct dialogue with companies to improve their ESG performance and hold them accountable for progress.

This can be done individually, or in collaboration with other investors.

Proxy Voting

Shareholders in public companies can generally vote on certain elements of a company's business to influence decisions and leadership (e.g., who is elected to the Board); votes are typically submitted by proxy versus in-person attendance.

Advocacy

When investors use their influence to help shape government regulations and policy.

What is UPP's View on Responsible Investing?

Our job is to ensure our pension fund remains resilient and responsive to all types of risk and opportunity over the long term, with sustainable pension security at the core of all we do.

We consider RI fundamental to that task, founded on the evidence-based belief that applying an ESG lens to our investment process helps us better assess and create value, identify new and emerging opportunities, drive stronger long-term financial performance, and promote healthy market practices.

That's why we're taking steps to integrate responsible investing into the core of our investment approach. This foundational work includes our Statement of Investment Policies and Procedures (SIPP), Responsible Investing Policy and UPP Proxy Voting Policy. See more on our responsible investing foundations here.

Net Zero is the target of completely negating the amount of greenhouse gases produced by human activity, first by reducing human-made emissions and then using methods to remove greenhouse gases from the atmosphere within a defined timeframe.

The world must achieve net zero emissions to reach the goals of the UN Paris Agreement, including to limit the global temperature increase in this century to 2°C while pursuing efforts to limit the increase even further to 1.5 °C.[2]

A Collective Learning Journey

The live conversations about what counts as "green" and "sustainable" investments are an example of the collective journey we are all on when it comes to responsible investing. For example, while there is broad agreement on the need to move urgently toward a "net zero" future, there are diverse and valid responsible investment perspectives on how best to get there.

Moreover, while in the past, conversations focused on the need to balance "responsible" investments with "profitable" investments, we now know that companies that perform better on ESG perform better overall. They have higher valuations, better long-term financial outcomes, and are less risky and volatile.[3]

Learn More

Interested in taking a deeper dive into ESG and responsible investing? Here are some resources you may find helpful.

- The Institute for Sustainable Finance offers an accessible primer series on several topics, from impact investing to carbon markets to climate-related financial disclosure. [READ THE SERIES]
- The supply and demand of responsible investing (Toronto Star Responsible Investing Podcast) [LISTEN]
- ESG Investing – What it Means and Its Pros/Cons (The Plain Bagel) [WATCH]
- This report by Principles for Responsible Investment summarizes how ESG engagement can create value for investors and companies [READ THE REPORT]
- Case studies in Canadian Investor Stewardship (Responsible Investment Association Virtual Conference 2021) [WATCH]
- Climate stewardship and universal ownership (The PRI Podcast) [LISTEN]
- Engaging for Change: Shareholders, Business & the Just Transition (Just Zero Conference) [WATCH]
- How Investment Funds Can Drive the Green Transition (International Monetary Fund) [READ]
- What You Need To Know About Impacting Investing (Global Impact Investing Network) [READ]
- Transition Finance Panel From Vision to Action (Responsible Investment Association ESG Symposium) [WATCH]

[2] https://corpgov.law.harvard.edu/2020/01/14/esg-matters/
[3] The Paris Agreement | United Nations