UPP UNIVERSITY PENSION PLAN ONTARIO

Climate Transition Investment Framework

The Climate Transition Investment Framework was created to support the commitments outlined in UPP's Climate Action Plan. It supports our ability to manage the impacts of climate-related risks on fund performance and capitalize on opportunities for long-term value creation.

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1. Summary

Managing the risks and opportunities related to climate change and the transition to a low-carbon economy is essential to earning adequate investment returns and paying pensions in the long term. We seek to embed sound practices and work collaboratively with external investment managers and partners to manage climate-related risks and opportunities and to improve industry practices over time. These efforts can lead to better long-term investment performance.

The Climate Transition Investment Framework (the "Framework") was created to support our ability to manage the impacts of climate-related risks on fund performance and capitalize on opportunities for long-term value creation. The Framework achieves some of the commitments outlined in UPP's Climate Action Plan, which describes our goal to support emissions reductions in the real economy and transition our investment portfolio to net-zero greenhouse gas ("GHG") emissions by 2040 or sooner.

2. Purpose

The Framework contributes to advancing our efforts to mitigate climate risk in our portfolio and in the real economy and stands to create long-term value through improved investment outcomes for our members. It establishes climate transition assessment metrics and thresholds to systematically evaluate and drive the transition alignment and readiness of our current portfolio and new investment opportunities.

Following an in-depth review of existing industry frameworks and best practices, and with consultation from industry experts, the Framework was developed to support efforts towards several commitments in the Climate Action Plan, including:

- Evaluate climate transition risks, opportunities and impacts of our current and prospective investments at the total fund and investment mandate levels,
- Invest only in new mandates and assets that align with the transition to a net-zero world,
- Set a target for new investments in climate solutions, and
- Inform priorities and focus for engagement with portfolio companies and external investment managers and partners.

What does net-zero emissions mean? A state of net zero exists when all emissions released by human activities are counterbalanced by removing carbon from the atmosphere in a process known as carbon removal (source: World Resources Institute "WRI"). Net-zero emissions can be achieved first by reducing GHG emissions as much as possible, then removing the remaining emissions from the atmosphere.

What is climate transition risk? Transition risks arise from dislocations related to the shift to a low-carbon economy and can be driven by changes in policy, legislation, technology, and markets (source: United Nations).

Specifically, this Framework achieves the following objectives:

- Establish climate transition assessment metrics to monitor exposure to climate transition risks and opportunities in our portfolio,
- Define new investment thresholds for funds, co-investments and direct investments to avoid exposure to unmitigated climate transition risk, and
- Define a climate solutions investment target to increase exposure to climate transition opportunities.

3. Scope

The Framework establishes assessment criteria for evaluating funds and assets, such as individual company stocks or bonds. It includes asset subclasses where UPP has the greatest influence or impact related to climate transition.

Table 1: Scope of Climate Transition Investment Framework

Funds[1]	Assets[2]
Evaluate new and existing: ✓ Public Equity ✓ Private Equity ✓ Real Estate ✓ Infrastructure ✓ Private Debt	**Evaluate existing:** ✓ Public Equity (individual stocks, long positions only) **Evaluate new direct/co-investments:** ✓ Private Equity ✓ Real Estate ✓ Infrastructure ✓ Private Debt *Additional asset subclasses will be added in future iterations, prioritizing those where new methodologies become available and where future activity is anticipated.*

1 Fund assessment criteria will not be applied to private market late harvest-stage funds, and public equity funds undergoing redemption or termination. Fixed income, inflation sensitive bonds, absolute returns, short-term money market and funding are excluded due to lack of existing industry frameworks or standards.

2 Existing private market investments are currently excluded due to a lack of asset-level climate data, and public equity short positions, absolute return, fixed income, inflation sensitive bonds, short-term money market and funding are excluded due to lack of existing industry frameworks or standards. Asset assessment criteria will only be applied to public equity funds where asset-level information is available.

4. Climate Transition Assessment Metrics

Climate transition assessment metrics are used to evaluate existing funds and assets and to set thresholds for new fund investments, new co-investments, and new direct investments.

4.1 Fund and Asset Assessment

The climate transition management practices of all in-scope funds and assets, existing and new, are evaluated against the criteria presented in Appendix 1. Criteria include an acknowledgement of the need to manage climate change-related impacts, emissions disclosure, net-zero commitments, climate transition plans and demonstrated progress against the commitments.

4.2 New Fund Investment Threshold

New fund investments are assessed against the new fund investment threshold, which is to meet, at minimum, the fund assessment category **1-Acknowledgement** and at least one of the criteria in the fund assessment category **2-Committed to Align** (see below).

1. Acknowledgement		2. Committed to Align
Acknowledge climate change as an investment risk/opportunity to be managed.	**AND**	Commitment to disclose scope 1 and 2 emissions data (from direct operations and purchased energy) and, where possible, scope 3 emissions data (from upstream and downstream value chains) associated with holdings AND seek emissions data not yet directly reported by holdings. **OR** Commitment to net-zero by 2050 or to develop an interim science-based target.

The new fund investment threshold applies to investments in new funds UPP has committed to after January 1, 2024 (with existing or new fund managers), increased allocations to existing funds, and changes to existing investment mandates. It applies to all funds in this Framework's scope, excluding total return swaps.

4.3 New Co-Investment and Direct Investment Thresholds

All new co-investments and direct investments made after January 1, 2024 are assessed against a threshold based on their assignment to one of the following four categories.

1. **High impact sectors with high scope 1 and/or 2 emissions and may also include high scope 3 emissions**. These sectors may face regulations or market competition to decrease carbon costs and it is within their operational control to reduce this risk. Examples include production of oil and gas, chemicals, aluminum, steel, and cement.

   Co-/direct investments that fall into this category are expected to:
   - Commit to disclose scope 1, 2 and, where possible, scope 3 emissions,
   - Commit to develop a net-zero target by 2050 or sooner or an interim science-based target, and
   - Commit to develop a climate transition plan to achieve the stated targets.

   Entities/assets may be excluded from this category if the following conditions are met:
   - Absolute or intensity emissions data is available or reasonable estimates can be efficiently produced,
   - Intensity emissions are at or below the 25th percentile relative to average entity/asset in the sub-industry or industry, and
   - It does not meet exceptional inclusions criteria (see #4).

2. **High impact sectors with high scope 3 emissions only.** These sectors may face decreasing global demand in the future due to global decarbonization objectives and this risk may be addressed by considering adjustments to business strategy. Examples include automobile manufacturing, oil and gas equipment and services, and other activities that may fall in the value chain of category 1, described above.

   Co-/direct investments in this category are expected to:
   - Commit to disclose scope 1, 2 and, where possible, scope 3 emissions, and
   - Commit to develop a climate transition plan.

   Entities/assets may be excluded from this category if their business model relies on products or services purchased (for high upstream scope 3) or sold (for high downstream scope 3) that are considered climate solutions or have emissions intensity at or below the 25th percentile.

3. **Low impact sectors:** These sectors are not anticipated to be highly negatively impacted by the climate transition and some, such as climate solutions, may instead benefit from it. Examples include household durables, diversified consumer services, health care, information technology and communication services.

   Co-/direct investments in this category are expected to commit to disclose scope 1, 2 and, where possible, scope 3 emissions.

4. **Exceptional inclusions:** The following conditions may lead to an entity/asset being assigned to category 1 or 2:

   - A known or probable risk of high absolute or intensity emissions compared to industry or sub-industry average in scopes 1, 2, or 3, and
   - The possibility that the entity/asset may face public scrutiny related to its carbon management. For example: the entity/asset or one of its peers has garnered negative news coverage related to carbon management or the climate transition. Public scrutiny may be related to scope 1, 2, or 3 emissions.

   For supporting guidance, including sectors defined into the first three categories, please refer to Appendix 2.

5. Investing in Climate Solutions

Efforts to decarbonize require significant amounts of capital. At the same time, the low-carbon transitions of economies around the world present opportunities for investors. To capitalize on these opportunities, UPP will commit at least $1.2 billion to climate solutions by 2030. Climate solutions are companies and technologies that can help mitigate the effects of climate change and adapt to a changing climate. This target includes new commitments to private market funds, co-investments, and direct investments, as well as net-new climate solutions in public market or fixed income fund commitments.

UPP may classify any type of fund or asset as a climate solution. These may include:

Climate mitigation asset: An asset or an entity where greater than 50% of economic activities or a loan's value is considered to contribute substantially to climate change mitigation (i.e., enables low- or zero-emitting activities) and does not cause significant harm to other environmental or social systems.

Climate adaptation asset: An asset or an entity where greater than 50% of economic activities or a loan's value is considered to contribute substantially to climate change adaptation (i.e., strengthens resilience and reduce vulnerability to climate change) and does not cause significant harm to other environmental or social systems.

> **EU taxonomy data (reported or estimated, as disclosed by our third-party data provider) will be used to identify public equity assets that are substantially contributing to climate mitigation or adaptation, as per the definitions above. The Climate Bonds Initiative Standard will be used to identify private market asset climate solutions.**

Climate solution funds: Funds with a mandate to invest the majority of the fund (>70%) in assets that meet UPP's climate solutions definition (i.e., aligned with EU taxonomy, Climate Bonds Initiative Standard, or equivalent).

If a fund is not classified as a climate solution but is anticipated to have a specific % invested in climate solutions based on the investment mandate, an estimate of $ committed to climate solution assets from this fund can be produced.

> **Additional climate solution activities not currently eligible in the referenced taxonomies but referred to as critical to the climate transition in a credible net-zero scenario may be considered as UPP-accepted climate mitigation or adaptation solutions.**

6. Monitoring and Reporting

To monitor potential changes to climate transition management practices, fund assessments will be completed at minimum every three years, and asset assessments on a quarterly basis.

UPP recognizes that climate risk is a dynamic field and we are committed to ongoing evaluation of the landscape to ensure our practices are adaptive and responsive to emerging risk and opportunities. This Framework will be reviewed at least triennially based on changes in legislation, regulations, UPP investment activities, UPP operations, climate scenarios and market practices.

7. Definitions

Assets: Cash or any financial instrument that holds economic value.

Climate transition plan: A time-bound action plan that clearly outlines how an organization will pivot its existing assets, operations, and entire business model towards a trajectory that aligns with the latest and most ambitious climate science recommendations (source: CDP).

Climate transition risk: Transition risks arise from dislocations related to the shift to a low-carbon economy and can be driven by changes in policy, legislation, technology, and markets (source: United Nations).

Fund: A portfolio of securities or other assets managed by third party investment managers or partners for a fee.

Interim science-based targets (asset-level): GHG emission reduction targets for 2030 or sooner that are aligned with the level of decarbonization required to keep global temperature increase below 1.5°C compared to preindustrial levels (source: SBTi).

Interim-science based targets (fund-level): GHG emission reduction targets for 2030 or sooner that align with a standard such as Net-Zero Asset Owners' Alliance, Net Zero Asset Managers Initiative, Paris Aligned Investment Initiative, or SBTi. They should be GHG reduction targets or portfolio coverage targets (% of portfolio with SBTi approved targets or % of portfolio 'aligned' with net-zero using a methodology).

Investor climate action plan (ICAP): Steps that an investor will take to support the goal of net-zero emissions economy by 2050 or sooner (source: Investor Agenda).

Late harvest-stage funds: Investments in the Private Markets portfolio that are in the later stages of the harvest period and are not material in value.

Material scope 3 emissions: Scope 3 emissions are considered material when they represent more than 40% of a company's total emissions and total scope 3 emissions are greater than 10Mt CO2e (source: GFANZ).

Net-zero commitment: A commitment made by an investment firm or company to achieve net-zero emissions through their investments or operationally, respectively. Commonly, a time-bound date, such as 2050 or sooner, is associated with the commitment.

Net-zero emissions: is a state when all emissions released by human activities are counterbalanced by removing carbon from the atmosphere in a process known as carbon removal (source: WRI).

Redemption: The repayment, withdrawal, or sell down of an asset for cash.

Appendix 1: Fund and Asset Assessment Criteria

Fund Assessment Criteria

The following table presents UPP's criteria to evaluate the climate transition management practices of funds, including the practices of external investment managers and partners and associated investment mandates. All criteria from a category must be met before advancing to the next category.

Table 2: Fund Assessment Criteria

Note: **Bold text** *represents an addition to the criteria for the previous assessment category.*

	Fund assessment categories			
Criteria	**1-Acknowledgement**	**2-Committed to Align**	**3-Aligning**	**4-Aligned**
Acknowledgement	Acknowledge climate change as an investment risk/opportunity to be managed			
Emissions disclosure		Commitment to: disclose scope 1, 2 and, where possible, scope 3 emissions data associated with holdings (as reported by holding entity or estimated) AND seek emissions data not yet directly reported by holdings	**Disclose complete** scope 1, 2 and, where possible, scope 3 emissions data associated with holdings AND **At least 50% of portfolio exposure** emissions data is directly reported by holdings[3]	Disclose complete scope 1, 2 **and material scope 3** emissions data associated with holdings AND At least **90%** of portfolio exposure emissions data, **including some scope 3**, is directly reported by holdings
Commitment to net zero		Commitment to net-zero by 2050[4] (or sooner) or to develop an interim science-based target	Commitment to net-zero by 2050 **and** interim science-based target	Commitment to net-zero by 2050 and interim science-based target, **which includes scope 3 emissions (of holdings)**
Investor climate action plan (ICAP)			The fund has an ICAP which describes how it intends to meet decarbonization targets	**ICAP includes the following elements: governance, investment strategy, asset engagement, advocacy, and disclosure[5]**
Demonstrated progress				Emissions reductions demonstrated over 1 or more years[6] AND 1 or more activities in ICAP are executed

3 Includes commitment to seek emissions data not yet directly reported by holdings, as noted in 2-Committed to Align.

4 According to the Net Zero Asset Owners Alliance, which relies on the Intergovernmental Panel for Climate Change (IPCC) latest Assessment Report (AR6), global emission reductions must be halved by 2030 (relative to 2019 baseline) and reach net zero by 2050 to reach 1.5°C with no or low overshoot.

5 In alignment with the Investor Agenda's Investor Climate Action Plans Expectations Ladder.

6 As measured by emissions intensity per $ CAD million invested.

Asset Assessment Criteria

The following table presents criteria to evaluate the climate transition management practices of assets.

Table 3: Asset Assessment Criteria

Note: **Bold text** *represents an addition to the criteria for the previous assessment category.*

	Fund assessment categories			
Criteria	**1-Acknowledgement**	**2-Committed to Align**	**3-Aligning**	**4-Aligned**
Acknowledgement	Acknowledge the need for climate action by the entity/asset			
Emissions disclosure		Scope 1 & 2 emissions are reported	Scope 1, 2 & some **Scope 3 emissions** are reported	Scope 1, 2 & **material Scope 3** emissions are reported
Commitment to net zero		Commitment to net-zero by 2050 (or sooner) or to develop an interim science-based target	Commitment to net-zero by 2050 **and** interim science-based target	Commitment to net-zero by 2050 & interim science-based target **covering material scope 3 emissions**
Climate transition plan		Commitment to develop a climate transition plan by 2025	**A climate transition plan exists**	A climate transition plan exists[7]
Demonstrated progress			Emissions reductions demonstrated over 1 or more years OR activities in climate transition plan are executed	**Emission performance is on track to meet science-based target and, for high impact sectors with high scope 1 and/or 2 emissions, is aligned with the 1.5°C sector decarbonization pathway**

7 Ideally in alignment with guidance from Glasgow Financial Alliance for Net Zero (GFANZ), Transition Plan Taskforce and The Institutional Investors Group on Climate Change (IIGCC)

Appendix 2: High Impact Sector Guidance

High impact sectors are defined by UPP and informed by the following criteria:

- Sectors that are listed in most existing industry frameworks, starting with target sectors identified by the Net Zero Asset Owners Alliance,
- Alignment with systems transformations needed to limit global warming as defined in the IPCC Sixth Assessment Report, and
- Outsized contribution of existing UPP investments in the GICS subindustry to the UPP carbon footprint.

UPP categorizes high impact sectors into the following themes:

- Resource extraction (e.g., oil and gas, mining and metals),
- Transportation systems (e.g., air, shipping, cars),
- Utilities (e.g., electric, gas and water utilities),
- Energy-intensive production of materials (e.g., chemicals, cement, steel, textiles and leather),
- Land use changes (e.g., forestry, agriculture), and
- Buildings (construction, operations).