

The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. View the full report at shifaction.ca/reportcard2022.



UNIVERSITY PENSION PLAN ONTARIO (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, Toronto and Guelph, with Trent added later) into a multi-university jointly sponsored pension plan.

Assets Under Management (AUM): \$11.8 billion (December 31, 2021)

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



The good

UPP is the only Canadian fund examined in this report to have set a 2040 net-zero emissions target- ten years earlier than other funds. This target is backed by strong interim emissions reduction targets, indications that UPP will have strong climate disclosure (such as having reported in 2021 the scope 3 emissions of oil, gas and mining investments), and a commitment to climate engagement with at least 20 companies. UPP's communication of climate urgency and double materiality is clear and science-based. The fund formalized its membership in the Net Zero Asset Owner Alliance in November 2022.

What UPP should improve in 2023:

- Pair emissions intensity targets with interim targets to reduce absolute emissions.
- Fulfill commitment to set target for investment in climate solutions.
- Set short- and mid-term targets for proportion of AUM covered by a credible net-zero plan.
- Engage owned companies using timebound criteria and a process that escalates to divestment to ensure they rapidly develop profitable and credible net-zero pathways. Set targets to measure the success of climate engagements.
- Set an expectation that owned companies:
 - tie executive compensation to the achievement of climate targets
 - refrain from lobbying against climate action, directly or through industry associations
 - refrain from directing capital toward fossil fuel expansion.

- Provide specific direction to external managers on handling climate-related risks and aligning investments with net-zero pathways.
- Divest from fossil fuel producers.
- Strengthen coal exclusion policy.
- Place an exclusion on any new investments in oil, gas and pipelines.
- Require climate expertise on the Board of Directors.
- Tie executive and staff compensation to the achievement of climate targets.
- Specify in proxy voting guidelines that the fund will vote in favour of proposals requiring companies to demonstrate the Free, Prior and Informed Consent of Indigenous Peoples for projects that affect their traditional lands and waters.

SCORING DETAILS

Paris-Aligned Target

A-

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 scope 1 and 2 interim targets, will focus on driving down real world emissions while aiming to achieve its targets, and has joined a credible and accountable Paris-aligned investor body, the Net Zero Asset Owner Alliance.

While UPP plans to address scope 3 emissions, these are not yet covered by its portfolio footprint. UPP has not yet set a limit on the use of offsets to achieve its net-zero goal.

Interim Targets

B-

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). UPP has no interim targets for reducing absolute emissions.

UPP does not yet have a target for investments in climate solutions, although the fund has committed to set such a target (p.8). UPP has set a target to engage the 20 highest emitting companies in its portfolio (p.13), but has not set a target to measure the success of these engagements, and does not yet have a target for the percentage of its portfolio covered by credible net-zero plans.

Climate Urgency

A

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 (*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

B

SUMMARY

UPP committed in its *Climate Action Plan* to climate engagement with at least 20 owned companies, either bilaterally or collaboratively, with engagement “informed by science and common investor requests” (e.g. Net Zero Asset Owner Alliance or Climate Action 100+) and focused on companies with the largest contributions to UPP’s carbon footprint (p.13). This engagement comes within the context of UPP having set a 2040 net-zero emissions goal for its portfolio.

This engagement target, combined with the 2040 goal, signals strong expectations of portfolio companies and a commitment to results. However, as UPP’s engagement matures it needs to be strengthened with: a) a time-bound and escalatory engagement process; b) a distinction between engagement with fossil fuel companies (which do not have a credible and profitable pathway to net-zero other than phase-out) and other high carbon assets (such as cement or steel, which do have a net-zero pathway); and c) more specifics and rigour applied to the screening of and direction given to external managers.

DETAILS**Expectations for owned companies**

UPP’s *Climate Action Plan* states that the fund is developing a Climate Transition Investment Framework, and that once this is developed the fund will “only [invest] in new mandates that align with the transition to a net-zero world” (p.10).

UPP’s *Climate Action Plan* states the fund will undertake engagements with the goal of “encourag[ing] a transition to a resilient, low carbon, net-zero world, and sufficient climate-related disclosure” (p.8). While the direction of engagement is clear, UPP has not yet spelled out specific time-bound milestones that must be achieved by owned companies.

UPP outlines when it will vote against directors and 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” (*Frequently Asked Questions - My UPP* webpage). But the fund’s expectations and engagement would be strengthened with a clear timebound escalatory process.

Proxy voting

UPP's *Proxy Voting Policy* includes a stand-alone section on climate and includes climate risk in the section on governance. According to the *Policy*, 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 proxy voting policy is stronger than those of a number of Canadian funds, which, if they mention voting against directors at all, usually mention it in a "may consider" capacity rather than "will not support".

The *Policy* 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 posts a proxy voting report to its website on a quarterly basis. This could be improved to be published in real-time or ahead of votes, as some funds already do. The report includes rationale for votes against board or management recommendations, shareholder resolutions and votes against UPP's third-party voting vendor's recommendations.

Collaborative engagement

UPP is a founding member of Climate Engagement Canada. It is also 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.

Direction given to external managers

UPP's direction to external managers is not yet sufficient to ensure strong climate engagement. This direction on climate is crucial, because as of UPP's *2021 Annual Report* the portfolio was primarily invested through external managers, with \$8.6 billion (or 73% AUM) managed through external partnerships and private market fund investments (p.34, 41).

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). The *Responsible Investment Policy* (June 2021) states that "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" (p.7).

As UPP is a newly formed fund that acquired pre-existing relationships with external managers, it is a positive step that "[m]uch of 2021 and early 2022 focused on external manager due diligence and dialogue" (*2021 Annual Report*, p.34). UPP committed to "work with managers whose approach fundamentally aligns with our Investment Beliefs and those ready and willing to evolve with our ambitions and portfolio needs" (p.34). UPP must now follow through on this commitment with a rigorous approach to external manager partnerships and engagement.

Climate Integration

B-

Accountable Paris-aligned membership

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

Transparency and disclosure of holdings

UPP's 2021 Annual Report provided a list of external managers with \$50 million or more under management (for those managers that consented to disclosure) (p.72). 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

As a newly launched fund, UPP has not yet completed a TCFD report, but its 2021 Annual Report provided good disclosure of the fund's carbon footprint (p.68-71). Scope 1 and 2 emissions were reported for 70% of the portfolio, along with scope 3 emissions from oil, gas and mining, and were presented alongside financial statements in the Annual Report. The carbon footprint for public equity had limited assurance conducted by a third party.

UPP's *Climate Action Plan* clearly explains the risks associated with not limiting global heating to 1.5°C, noting that "Efforts to stabilize the climate at as low a temperature rise as possible will result in better outcomes for the environmental and social systems on which the economy relies. Indeed, it is unlikely that there will be any long-term economic winners in a climate-changed world and more change will make things worse" (p.5). UPP has committed to undertake its "first systematic scenario analysis" in 2023, according to its Update on Climate Action Plan implementation website post.

Based on UPP's first annual report and *Climate Action Plan*, Shift anticipates that the fund will likely develop strong disclosure practices.

Board climate expertise and/or fossil fuel entanglement

No Board members are identified as having climate expertise and a Board competency framework is not publicly available.

No Board members appear to have fossil fuel entanglements.

Executive and staff compensation and climate

UPP's compensation structure is evolving as the fund transitions from the start-up period to the operational period. UPP's 2021 Annual Report notes that a Long-Term Incentive Program is in development for 2023 (p.48). This plan should include a link between the achievement of climate targets and executive and staff compensation.

Fossil Fuel Exclusions

D+

UPP has excluded some investments in coal (*Investment Exclusion Policy*, p.7), but the threshold for exclusion is not strict enough. 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.¹ UPP's *Investment Exclusion Policy* notes its exclusion list is informed by considerations which include the Paris Agreement (p.4).

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 Investment Initiative was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples

While UPP does not yet appear to have a policy requiring owned companies to respect Indigenous Peoples' right to free, prior and informed consent for projects affecting them, the *Strategy* page of UPP's website prominently includes the Truth and Reconciliation Commission's Call to Action #92 ("We call upon the corporate sector in Canada to adopt the United Nations Declaration on the Rights of Indigenous Peoples as a reconciliation framework and to apply its principles, norms, and standards to corporate policy and core operational activities involving Indigenous peoples and their lands and resources").

The UPP's *Frequently Asked Questions* webpage includes the question *How is UPP considering the human rights of Indigenous peoples?*, and provides this answer: "As an organization, we are committed to taking action respectfully and intentionally as outlined in Call to Action #92 from the Truth and Reconciliation Commission of Canada. As we learn, we continue to seek ways we can help address the barriers faced by Indigenous peoples and support a more positive chapter in the relations between Indigenous peoples and non-Indigenous Canadians. Through our association with the Shareholder Association for Research and Education (SHARE), companies in UPP's investment portfolio are being engaged in outcome-focused dialogues to make tangible commitments to reconciliation, including the adaptation of Indigenous rights policies, employment targets and procurement from Indigenous-owned businesses."

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
- Ceres Investor Network
- Climate Action 100+ (investor supporter)
- Climate Engagement Canada
- ESG Data Convergence Project
- 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
- Sustainability Accounting Standards Board (now part of IFRS Foundation)
- 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 \$40 million - \$85 million in public equities as of December 31, 2021.***

Notable fossil fuel holdings (not a comprehensive list)

Public equity holdings include Suncor, BHP Group, Enbridge, Enel SpA, Gazprom PJSC, Petroleo Brasileiro SA, and TC Energy.

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

** UPP has committed to setting a target for investments in climate solutions, but to date has not quantified these investments or set a target (*Climate Action Plan*, p.8).

*** Along with its *2021 Annual Report*, UPP reported the December 31, 2021 value of the top single name public equity holdings assumed by UPP on July 1, 2021, but noted the summary “does not reflect subsequent modifications to the portfolio” (p.1). The list of top single name public equity holdings includes Suncor Energy (\$10-\$25 million range); and BHP Group, Enbridge, Enel SpA, Gazprom PJSC, Petroleo Brasileiro SA, and TC Energy (all in the \$5-\$10 million range) (p.2-6). Based on this list, UPP would have had \$40 million - \$85 million invested in fossil fuels in its public equities portfolio alone, assuming no changes to the portfolio between July 1, 2021 and December 31, 2021.

ENDNOTES

- 1 Reclaim Finance. (2022). *Coal Policy Tool*. See: UPP - University Pension Plan. Webpage. Retrieved October 12, 2022 from <https://coalpolicytool.org/>.

REFERENCES

The following publicly available information was reviewed in the preparation of this analysis.

Reports

- [2021 Annual Report](#) (2022)

Documents

- [UPP Climate Action Plan](#) (June 2022)
- [Top single name public equity holdings](#) (2022)
- [Quick Guide to Responsible Investing](#) (2022)
- [Statement of Investment Policies and Procedures](#) (April 27, 2022)
- [Proxy Voting Policy](#) (October 2021)
- [Responsible Investment Policy](#) (June 10, 2021)
- [Investment Exclusion Policy](#) (April 27, 2022)

Webpages and press releases

- [Member Engagement - My UPP](#) (webpage) (accessed September 2022)
- [Frequently Asked Questions - My UPP](#) (webpage) (accessed October 27, 2022)
- [Origins and Governance - My UPP](#) (webpage) (accessed September 2022)
- [Responsible Investment - My UPP](#) (webpage) (accessed September 2022)
- [Partners and associations - My UPP](#) (webpage) (accessed September 2022)
- [Strategy - My UPP](#) (webpage) (accessed October 12, 2022)
- News post (webpage) - [Update on Climate Action Plan implementation](#) (December 13, 2022)”.
- News post (webpage) - [UPP joins the UN-convened Net-Zero Asset Owner Alliance](#) (November 9, 2022)
- News post (webpage) - [UPP launches roadmap to net zero portfolio emissions by 2040, reports on 2021 Year](#) (July 21, 2022)