



**PUBLIC SECTOR PENSION INVESTMENT BOARD
(PSP INVESTMENTS)**

RESPONSIBLE INVESTMENT POLICY

November 2017

The Public Sector Pension Investment Board (“PSP Investments”)¹ is one of Canada’s largest pension investment managers. We are a Canadian Crown corporation that invests funds for the pension plans of the federal public service, the Canadian Forces, the Royal Canadian Mounted Police and the Reserve Force.

PSP Investments’ mandate is to manage the pension funds transferred to it by the Government of Canada in the best interest of the contributors and beneficiaries, and to maximize investment returns without undue risk of loss.

Our Responsible Investment Policy (the “Policy”) forms part of our overarching responsible investment strategy and has been reviewed, approved and endorsed by our Board of Directors. This Policy articulates our approach in respect to how we integrate ESG factors into our investment process and how we work as active stewards of the assets we own.

1 OUR BELIEFS AND PHILOSOPHY

At PSP Investments, our responsible investment approach is aligned with our investment mandate and our total fund perspective. As a long-term investor, we have a fiduciary obligation to proactively address environmental, social and governance (“ESG”) risks and opportunities as part of our investment strategy to create long-term sustainable value for our contributors and beneficiaries.

At the center of our responsible investment philosophy is the belief that a high performing board of directors and good governance are the foundation to responsible business practices. A well-sized and diverse board with the proper balance of skills, expertise and independence is critical to a company’s long-term success. It is the board of directors that is ultimately responsible for overseeing corporate strategy and this oversight requires a full understanding of the impact that ESG factors may have on a company’s competitiveness, risk profile, resilience and, ultimately, long-term viability. In our experience, strong governance, including how environmental and social factors are managed, stem from effective board leadership and oversight.

¹ In this document, *we* and *our* refer to PSP Investments

Why ESG Matters

Good governance and effective management of environmental and social factors increase the likelihood that companies will perform well over the long-term while managing risk and capitalizing on opportunities.

Our definition of success goes beyond financial considerations. As a long-term investor, we proactively address the following factors as part of our investment strategy:

- Environmental factors capture the impact of a company's activities on the ecosystem and the ecosystem's impacts on a company. Some examples include climate change, water usage, biodiversity impacts, pollution and waste management. Environmental performance is often assessed based on the impact of a company's activities on the natural environment and the practices adopted to limit this impact.
- Social factors focus on the impact that a company has on a community or society as whole, as well as the impact of a community or society on a company. Examples include labour rights, workplace practices, human rights, social license to operate, product safety, supply chain management and data security and privacy.
- Governance factors assess how companies are governed, such as board composition including skillset, diversity, and independence; executive compensation; and business ethics including anti-bribery and corruption and whistleblower programs.

Disclosure: The Key to Sound Decision-Making

We believe that meaningful disclosure in respect to ESG risks, strategies, practices and performance allows investors to make informed investment decisions. As an investor, we require consistent, comparable and high-quality information in order to accurately assess how a company manages its material ESG-related risks and opportunities. We encourage standardized disclosures of material ESG factors within consistent global reporting frameworks.

We notably support the Financial Stability Board's Task Force on Climate-related Financial Disclosures ("TCFD"). We believe that climate change is among the critical long-term structural trends that will likely have a material impact on investment risks and returns, across different sectors, geographies and asset classes. The TCFD's recommendations serve to encourage organizations to evaluate and disclose, as part of their annual filing preparation and reporting processes, the climate-related risks and opportunities that are most pertinent to their business activities.

2 OUR APPROACH

PSP Investments' responsible investment approach is anchored by our commitment to act in the best interests of our contributors and beneficiaries by protecting and enhancing the value of our investments over the long-term. We seek to reduce risk and capture value by integrating ESG factors throughout the investment process and across all asset classes. We focus on identifying material ESG risks and opportunities, being those we determine to have the potential to impact a company's ability to create or preserve long-term financial value. The ESG factors considered and their materiality will vary by company, industry and geography. Additionally, our integration process may vary according to the asset class and type of investment.

We take a pragmatic view when applying our approach to responsible investing. This approach is tailored to local social and legal environments, and to the commercial imperatives of the companies in which we invest. As an active and engaged investor, we expect these companies to not only comply with the legal and regulatory regimes applicable to them but to also adopt ESG practices that contribute to long-term financial performance.

3 OUR INVESTMENTS

As a global investor, PSP Investments has a significant allocation to public markets with investments in equities, fixed income and world inflation-linked bonds. Public market investments are managed internally and externally using a combination of active, absolute return, and index-replication strategies. We also invest in private markets through our activities in real estate, private equity, infrastructure, private debt and natural resources. Private markets focuses on a wide range of equity and credit investments by way of direct investments, platforms, co-investments and fund investments. These investments are managed by internal or external managers.

Internally Managed

As part of the investment analysis and decision-making processes for internally managed investments in both public and private markets, we look to identify material ESG factors. Potential ESG risks or opportunities are systematically identified, assessed and considered as part of the investment decision-making. From ownership through to exit, we actively monitor ESG factors throughout the life of the investment and engage in direct dialogue with companies in respect to a wide range of ESG issues with a view of improving their performance on material ESG factors. Our engagement process is described in further detail in Section 4.

Externally Managed

PSP Investments allocates capital to external managers for public market investments and makes a significant portion of its private market investments through funds. For all externally managed mandates and funds, we systematically due diligence the ESG practices of external managers and general partners. This allows us to ensure that their respective approaches to ESG integration are consistent with our Policy and expectations. Through an ongoing dialogue and sharing of best practices, we encourage these partners to continuously improve their ESG approach.

4 BEING AN ACTIVE OWNER

One of our roles as an investor is being an active steward of the assets we own. We regularly engage with our portfolio companies and partners across all asset classes to improve ESG practices. We believe that through this ongoing dialogue, we can encourage sustainable corporate conduct and enhance long-term financial performance. In addition, for public companies, we exercise our voting rights in accordance with our Proxy Voting Guidelines which outline our expectations with respect to corporate governance practices and sustainability of companies in which we invest.

Our engagement approach is tailored to the investment type and varies between public and private markets. However, our goal for both public and private markets is the same; we seek to encourage the adoption of sustainable business practices to protect and enhance long-term financial value.

Public Markets

Public companies are selected for engagement based on a process that takes into account such factors as ability to create shareholder value, prospects for successful engagement and relevance of ESG issues. Many of our engagements are triggered because companies have not provided sufficient information in their disclosures to fully inform our assessment of the quality of their governance practices, including the exposure to and management of environmental and social factors. We may choose to engage with companies directly, through service providers, or collaboratively with other investors. If we conduct individual engagements, our preference is to do so privately. The intensity of our engagements varies depending on the issues at stake. Some engagements entail one or two meetings over several months; others are more complex and warrant multiple meetings with board members and senior management over several years. We establish our engagement objectives based on issues for which we believe behavioural changes are warranted. Often, multiple ESG factors need to be addressed within a given company. Each of them may require varying approaches and levels of engagement, as well as different contact points.

For extensive engagements, we use a five-step milestone approach to guide the process and assess its success.

Five-step engagement process



Proxy Voting

We use our ownership positions to promote good governance practices by exercising our proxy voting rights. Our Proxy Voting Guidelines address issues of corporate governance and responsible investment, on which we may vote from time to time, as well as the principles on which we rely when voting. We give due consideration to corporate governance principles when assessing the merits of an issue, and exercise our voting rights, with a view to maximizing the value of our shareholdings.

Private Markets

For private market investments, we leverage our direct access to portfolio companies. We regularly monitor assets and will engage directly with boards and management on material ESG risks or opportunities. For our direct investments, we often have board representation, allowing us to influence a company's ESG management. For investments where we do not hold a board seat, we work closely with co-shareholders and constructively dialogue with the company to encourage the adoption of ESG best practices. In both approaches, we seize opportunities to improve ESG performance over time with the goal to protect and enhance long-term financial value.

5 INVESTMENT RESTRICTIONS

We believe that active engagement is usually preferable to screening stocks or investments for exclusion, a process by which certain companies or entire industries can be precluded from consideration for investment based only on ESG factors.

However, there are instances where PSP Investments may voluntarily refrain or may be legally restricted from investing in sectors presenting heightened ESG risks.

6 WORKING WITH OTHERS TO EFFECT CHANGE

PSP Investments works with a number of organizations to support initiatives that enhance the quality of ESG practices and disclosure. For PSP Investments, responsible investing means being committed to principles and collaborating with peers to support robust and vibrant financial markets. We promote sound governance practices, meaningful disclosure on ESG-related matters, effective boards and companies, good public policy and sustainable financial markets. As part of our commitment, we are proud to partner with our peers, investment partners, industry associations, regulators and standard setters.

7 REPORTING AND TRANSPARENCY

In line with our expectation of meaningful reporting and transparency from companies in which we invest and from our partners, we are committed to reporting on our responsible investment activities and performance.

We report internally on a regular basis to our Governance Committee and to our Board of Directors on our responsible investment activities. We also report publicly through our annual Responsible Investment Report and through updates to our website. Our Proxy Voting Guidelines and proxy voting records are also available on our website.

Finally, as a signatory to the United Nations supported Principles for Responsible Investment, we also report through its annual reporting and assessment process.

8 WE ARE LISTENING

This Policy will be reviewed at least every two years or more frequently if needed in order to reflect the evolution of our responsible investment standards and practices. We welcome feedback, questions and comments about our Responsible Investment Policy. Please feel free to contact us at responsibleinvestment@investpsp.ca.