Climate Strategy Roadmap — 2022
Investing for a Better Tomorrow

“We are at a crossroads. This is the time for action. We have the tools and know-how required to limit warming and secure a liveable future.”

Intergovernmental Panel on Climate Change Chair, April 4, 2022

The Public Sector Pension Investment Board (PSP Investments) believes that climate change is one of the most critical social, environmental and economic challenges of our time. We acknowledge that climate change will have significant physical and economic impacts on industries, communities and human activity. We also believe that the citizen and government-led focus on decarbonization is here to stay and will become amplified in the coming years.

We support the goals of the Paris Agreement to limit global warming to well below 2.0 degrees Celsius above pre-industrial levels. We support climate science as communicated by the Intergovernmental Panel on Climate Change (IPCC) and the urgency to further limit warming to 1.5 degrees Celsius by 2050. The reports and findings of the IPCC have also underscored the imperative for all segments of society to act urgently to reduce greenhouse gas (GHG) emissions. We hear the calls for the investment community to play an important role in helping to finance this global transition.

We believe that climate change is a long-term structural trend that will have a material impact on investment risks and returns across sectors, geographies and asset classes. As an institutional investor, we adopt a long-term world view and are seized with the potential for the financial sector to support the transition to global net-zero. As a global corporate citizen, we embrace our responsibility to use our capital and influence to drive Paris-aligned decarbonization across our investment portfolio.

Meeting our Mandate

Our mandate is to manage amounts transferred to us by the Government of Canada in the best interests of contributors and beneficiaries of the Plans, and to invest our assets with a view to achieving a maximum rate of return without undue risk of loss, having regard to the funding, policies and requirements of the Plans and the ability of those Plans to meet their financial obligations. This is our obligation to our sponsor, the Government of Canada, and our steadfast commitment to the contributors and beneficiaries on whose behalf we invest.

PSP Investments was established to manage the amounts transferred to it by the Government of Canada equal to the net contributions since April 1, 2000 for the pension plans (the "Plans") of the Canadian Forces, the Public Service, the Royal Canadian Mounted Police and, since March 1, 2007, the Reserve Force.
Meeting our mandate over the long-term requires that we take all relevant risk/return factors into account. It is central to guiding our direction, and is institutionalized through our investment beliefs, our responsible investment approach and our corporate strategy, PSP Forward, which positions us to be an insightful global investor and valued partner that is selective across markets and focused on the long-term.

An important focus area of our corporate strategy is the integration of ESG (environmental, social and governance) factors into our portfolio construction and investment decisions. We strongly believe that climate change is one of the key ESG factors that will drive the long-term performance and risk profile of our investment portfolio. Our comprehensive climate strategy is a reflection of the priority we place on ESG and climate change in our activities.

**PSP Forward is anchored by three strategic pillars:**

**Global Fund First** – will enhance our total fund performance and global operations by aligning our systems, resources and investment focus.

**Insight Driven** – will generate valuable insights by leveraging hubs that institutionalize our knowledge, data, asset management practices and relationships.

**High-Performing Team** – will build an engaged and resilient workforce that enables us to operate as an insightful and established global organization.

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**Our Investment Beliefs**

**Portfolio Construction**
Effective Total Fund portfolio construction is fundamental to meeting the objectives of PSP’s sponsor.

**Diversification and Diversity**
Both diversification and diversity of approaches lead to an optimal expected risk/return profile.

**Market Inefficiencies**
Financial markets are not perfectly efficient and active management can add value.

**Patient Capital**
Patient capital creates opportunities to pursue strategies known to be rewarded over sufficiently long horizons.

**ESG Considerations**
Identifying, monitoring and capitalizing on environmental, social and governance (ESG) factors is material to long-term investment performance.

**Need for Knowledge**
Securing collective knowledge, through a combination of internal resources and external partnerships, will benefit our efforts to drive value creation in active management.

**Effective Execution**
Effective execution with well-structured processes increases our chances of success as an investor.
Our Progress to Date

PSP Investments has a longstanding history of integrating ESG—including climate considerations—into investment decision making. In recent years, we have accelerated our efforts to measure our portfolio GHG exposure, and to assess and address the physical and transition risks, and opportunities.

PSP Investments’ Corporate View on Climate Change, updated in 2021, proactively addresses climate change as part of our investment strategy by: integrating climate risks and opportunities into decision making; measuring and managing GHG emissions across our investment portfolio; enhancing our climate disclosures and encouraging our portfolio companies and partners to do the same; and, seeking out collaborative efforts with partners, stakeholders and experts.

Measuring GHG intensity across investment portfolios is complex and evolving. GHG data remains sparse but the need to understand our climate risk exposure and engage portfolio companies on decarbonization opportunities is pressing. These needs drove PSP Investments to develop and operationalize a Green Asset Taxonomy which we used to quantify our GHG emissions exposure across our investment portfolio to set our baseline. The Green Asset Taxonomy also allows us to track GHG changes over time by company and by portfolio. This enables us to monitor progress against our targets, informs our investment decision making and provides information to facilitate engagement with portfolio companies. More information on the Green Asset Taxonomy can be found on our website.
PSP’s Green Asset Taxonomy: Developed in 2021, the PSP Green Asset Taxonomy is a bespoke classification system to assess our exposure to green assets, transition assets, and carbon-intensive assets.

**Green Assets**
- **Dark Green**: Investments with low GHG performance, aligned to third-party low-carbon taxonomies and/or PSP’s Green Bond Framework.
- **Light Green**: Investments in activities that achieve 30% better GHG performance than a relevant sector benchmark.
- **Enabling**: Investments that enable climate mitigation and adaptation, aiding the transition to a low carbon economy. Eligible if majority of revenues are derived from one or more low carbon activities.
- **Early**: Investments that have committed to make a substantial contribution to the low-carbon transition through the establishment of public targets and disclosure practices.
- **Mature**: Investments that have some short or long-term targets in place, but are not aligned to science-based approach.

**Transition Assets**
- **High Carbon**: Investments in sensitive high-carbon sectors or that fail to show quantifiable low emission performance.
- **Hard to Abate**: Investments in sensitive high-carbon sectors with large absolute emissions, as identified based on list of common industry sectors.

**Carbon Intensive Assets**
- **Rest of Fund**: Investments where carbon emissions are not a relevant consideration or where data is unavailable.

In scope: Includes Long-Only Public Equities (Active and Passive); Real Assets (Direct and Indirect); Private Equity (Direct and Indirect)
Out of scope: ETFs, Complementary Portfolio, Credit Investment, Fixed Income, Funds of Funds

1 For more information visit sciencebasedtargets.
Our Commitment to Climate Action

Our Climate Strategy Roadmap takes the first step to communicate our enhanced ambition to reduce GHG emissions from our total fund and from the economy.

The overarching objective of our climate strategy is to support the global transition to net-zero emissions by proactively managing climate risks, unlocking investment and carbon reduction opportunities associated with climate-aligned assets, strengthening carbon disclosure, and enhancing collaboration with a wide range of stakeholders. Our long-term commitment is to use our capital and influence to support the transition to global net-zero emissions by 2050.

Our Commitment to Climate Action

Increase investments that will lead to a reduction in our portfolio emissions intensity over time
 Increase investments in enablers of climate mitigation and adaptation
 Increase investments in assets with transition plans
 Reduce proportion of carbon-intensive investments without a transition plan

We are committed to using our capital and influence to support the transition to global net-zero by 2050

Engage with our portfolio companies to develop mature transition plans
 Encourage disclosure practices aligned with TCFD

How we will execute our climate strategy

Our ambitious Climate Strategy Roadmap is based on five areas of focus which are detailed in this document. By executing on our climate strategy, we anticipate reducing our portfolio GHG emissions intensity by 20-25% by 2026 relative to a 2021 baseline.

1 Applies to 77% of assets under management (AUM) as at September 30, 2021 (unaudited mid-year AUM).
We will continue to integrate climate risks and opportunities into investment decision making and asset management practices.

We believe that integrating climate considerations into portfolio construction, investment decision making and disclosure practices contributes to better total fund performance by mitigating risks and steering capital toward more attractive opportunities. We carry this out in a number of ways including:

- Staying abreast of climate change trends and guidance
- Integrating physical and transition climate risk into decision making and monitoring processes
- Engaging with portfolio companies and advocating for Paris-aligned climate practices including science-based targets
- Exercising our proxy voting and periodically review our principles and guidelines
- Sharing knowledge and building internal capabilities
- Reporting on our climate risks including aligning with the recommendations of the Financial Stability Board’s Task Force on Climate-Related Financial Disclosures (TCFD)

As a climate-aware investor, PSP Investments considers our portfolio exposure to physical and transition climate-related risks. We use the outcomes of these analyses to inform portfolio construction and investment decisions. The results of these assessments are reported in our annual TCFD disclosures.

**Physical risks** manifest as extreme weather events or longer-term shifts in climate patterns. These events can severely disrupt business operations and potentially impact entire industries over time, leading to negative economic and social outcomes.

**Transition risks** arise as a result of policy, legal, technology and market changes resulting from climate change mitigation and adaptation measures. These risks can potentially leave assets stranded, lead to unexpected costs to align with new requirements, and disrupt business operations, plans and outcomes.
2. Climate Investing and Sustainable Finance

We will align our investment strategy to increase investments in assets that support climate mitigation and adaptation including assets that hold promise to become climate-aligned.

As a global investor, our capital and investment practices are important levers to help us contribute to global net-zero. Within the context of our mandate, we will align our investment strategy to help support the attainment of global net-zero over time. We have established assertive short-term targets to track our progress. Given the dynamic nature of the global movement toward net-zero, our targets are a starting point that will evolve over time.

We are committing to increasing our investment in green assets to C$70.0 billion by 2026 from C$40.3 billion in 2021. PSP Investments defines green as encompassing three categories: investments in assets that already demonstrate low-carbon performance and are green bond aligned (dark green); assets that outperform relevant sub-industry benchmarks (light green); and assets that enable climate mitigation and adaptation including technologies, products and services that facilitate the transition to a low-carbon economy. By investing in green assets, PSP Investments expects to reduce its portfolio GHG emissions exposure as well as contribute to reducing carbon emissions from the economy.

We believe there are strategic opportunities to enable global and sectoral progress by investing in transition assets typically defined as heavy emitters that hold promise to become climate-aligned with assertive mitigation plans. We also know that forward-thinking companies with solid transition plans and science-based emissions-reduction targets will likely outperform their peers over time on both financial and GHG targets. To that end, we aim to increase our investment in transition assets to C$7.5 billion by 2026 from C$5.1 billion in 2021.

We acknowledge that our decision to hold transition assets in hard to abate industries may initially increase our total fund carbon footprint. However, we are confident that through credible transition plans, we will unlock financial and environmental value. We aim to ensure that assets representing 50% of our carbon footprint will have mature, science-based transition plans by 2026. We plan to track the change in GHG emissions of our transition assets to illustrate how transition plans can help to reduce the carbon footprint of these assets over time.

PSP Investments believes that transformation requires ongoing engagement with high-emitting portfolio companies to set clear expectations and to support their transition. We will prioritize active engagement on climate change over exclusion or divestment. However, we may choose to exclude or divest from investments where long-term financial risks do not align with our investment beliefs and the meeting of our mandate, or where the Board or management of portfolio companies are unwilling to adopt appropriate mitigation plans to reduce their operational carbon footprint. We aim to reduce our holdings of carbon intensive assets that lack transition plans by 50%, from C$7.8 billion in 2021 to C$3.9 billion by 2026.
We consider the maturity of a company’s transition plan to be a key indicator of their long-term ability to reduce their carbon exposure. We have defined early transition assets as those investments where management has established short or long-term emission reduction targets, but remain early in their implementation. We have defined mature transition assets as being investments that have publicly disclosed short and long-term emission reductions targets aligned to third-party standards such as the Science Based Targets Initiative (SBTi). For these assets, we have a high degree of confidence that they will achieve their stated decarbonization goals.

PSP Investments is committed to using its expertise, network and influence to engage portfolio companies and partners to develop transition plans that clearly delineate their approach to decarbonization, with long-term science-based goals aligned with SBTi or other standards that put them on a Paris-aligned pathway. We will do this through a combination of measures including, but not limited to, active engagement, proxy voting and encouraging adoption of TCFD-aligned disclosure practices.

We will actively engage to encourage management to decarbonize their operations. Through our annual data collection process, we will measure progress over time and hold portfolio companies accountable to their commitments. If progress is not made, we will escalate our engagement and consider divestment if progress remains unsatisfactory. To facilitate this, PSP Investments is developing an escalation policy which is expected to be completed by the end of 2023.

### Using our capital and influence to support the transition to global net-zero by 2050

**Targets for climate investing 2021 – 2026**

(all figures in Canadian dollars unless otherwise specified)

<table>
<thead>
<tr>
<th>Category</th>
<th>Target 2021</th>
<th>Target 2026</th>
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<td>Transition Assets</td>
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<tr>
<td>Mature Transition Plans</td>
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**Sustainable Financing**

- 10% of financing to Sustainable Bonds by 2026
- 4.2% Green Bonds in 2022

**Greenhouse Gas Data Availability**

- 80% by 2026
- 56% in 2021

Applies to 77% of assets under management (AUM) as at September 30, 2021 (unaudited mid-year AUM).
**Issue Debt in the Sustainable Financing Market**

PSP Investments has an important role to play in growing the market for sustainable finance. **We will aim to steer at least 10% of our long-term debt financing toward sustainable bonds by 2026.**

On February 25, 2022, PSP Investments issued its first C$1B, 10-year green bond under its Green Bond Framework. The proceeds of this issuance will be used to fund a range of allowable projects in areas such as, but not limited to, renewable energy, energy efficiency, pollution prevention and control, circular economy, green buildings and clean transportation.

Our Green Bond Framework provides an overview of our approach and gives visibility into the allowable green project categories. PSP Investments’ Green Bond Framework is aligned with the International Capital Market Association (ICMA) Green Bond Principles. It has also been awarded an environmental rating of “Medium Green” and the highest possible governance score of “Excellent” by CICERO Shades of Green.

In order that our investments support the long-term goals of the Paris Agreement, PSP Investments will seek to ensure that Green Bond eligible assets demonstrate alignment with sector specific emissions reductions trajectories such as the SBTi or other Paris-aligned standard. We will also seek to ensure that selected investments do not increase the use of fossil fuels and are on a pathway to reduce fossil fuel dependency over time.
3. Engagement and Proxy Voting

We are an active steward of the assets we own, and will enhance our outreach with portfolio companies to communicate our values and expectations around climate-alignment.

Our goal for public and private markets is the same: we encourage the adoption of sustainable business practices to protect and enhance long-term financial value. Our engagement activities aim to achieve greater alignment between financial returns and sustainable corporate behaviours, while providing transparency on PSP Investments’ expectations on specific issues such as climate change.

We expect Boards of Directors and management of publicly traded companies to integrate climate-related risks and opportunities into their strategy and operations, and to provide disclosures that allow shareholders to make informed decisions. Our Proxy Voting Principles are based on our belief that corporate governance practices, meaningful disclosure and responsible corporate behaviours contribute to the long-term performance of the listed companies in which we invest.

Our Principles outline our expectations with respect to corporate governance practices and sustainability, and address the matters on which we may vote on and the principles on which we will rely when forming our voting decisions. The election of Directors is an important channel for expressing our dissatisfaction when we believe a company has not taken steps to understand, assess and mitigate climate risks. Depending on PSP Investments’ market position, we may also engage to articulate our views on climate-related issues and encourage TCFD-aligned disclosure practices.

In private market investments, we leverage our direct access to portfolio companies. We monitor assets and engage directly with Boards and management on climate-related risks and opportunities. Where we have Board representation, we may directly influence a company’s management of climate-related factors. We also work closely with co-shareholders and partners to encourage the adoption of climate-related best practices including the adoption of science-based targets on a Paris-aligned pathway and proactive disclosures aligned with TCFD.
4. Reporting and Disclosure

We hold ourselves to full alignment with TCFD disclosures and expect our portfolio companies to do the same.

Improve Robustness of Reporting
PSP Investments became a public supporter of the TCFD framework in 2017 and has been disclosing against TCFD since 2020. Effective 2022, we will be fully aligned with all the recommendations of the TCFD. Going forward, we aim to adopt best practices to continually improve our climate disclosures. In addition, by the end of 2023, PSP Investments will complete, and start to implement plans to reduce, its operational carbon footprint.

We also expect our portfolio companies and partners to disclose against the TCFD framework, in addition to other carbon disclosure platforms that are important for their industry (e.g. CDP). We applaud governments for their strong encouragement of TCFD-aligned reporting practices and look forward to TCFD adoption across all sectors of the economy.

Increase GHG Data Across the Total Fund
The application of our Green Asset Taxonomy to our total fund will be an ongoing process. Given the dynamic nature of the topic, we will continue to update our approach in line with evolving market expectations and best practices. Going forward, we will enhance the scope of application of the Green Asset Taxonomy and aim to obtain GHG data for 80% of the in-scope portfolio by 2026, from 56% in 2021.

We will also continue to develop and improve the taxonomy, including adding portfolio companies’ Scope 3 data to get the fullest understanding of their impact on climate. At present, Scope 3 data collection methodologies are not standardized across the market and will be added to the Green Asset Taxonomy when a sufficient critical mass of such information exists.
5. Leadership and Collaboration

We will continue to engage and collaborate with a broad range of stakeholders to enhance global knowledge and practice around GHG measurement and target setting, climate change disclosures, and climate risks and opportunities.

Participating in Investor-led Initiatives on Climate Change Related Matters

PSP Investments has a steady track record of working collaboratively with a range of national and global organizations to deepen our collective understanding of climate-related issues, and enhance our practices and disclosures around climate risk. We were early supporters of the TCFD framework and the Sustainability Accounting Standards Board (SASB) standards. We are also a proud signatory to the Maple 8 CEO Statement on Sustainability and Inclusive Growth, released in 2020, calling on companies and investors to provide consistent and complete ESG information to strengthen investment decision-making and better assess and manage ESG risk exposures.

Ongoing and focused collaboration among institutional investors, investment partners, industry associations, regulators, civil society and climate change experts will help to raise understanding around climate change and put that understanding into action. Going forward, we will continue to engage actively to stay abreast of its implications for and contribute to the rapidly evolving knowledge and practice around climate-related issues and its implications for the financial industry.
Reporting

Our Climate Strategy Roadmap is designed to be evergreen. Progress will be monitored and disclosed annually and additional targets and plans will be developed for 2027 through to 2050. Our approach to governance will be further elaborated in our Responsible Investment report scheduled for release in the fall 2022.

Conclusions

This Roadmap is a call to action to our investment teams and business groups, portfolio companies, partners and stakeholders to work together in achieving our commitments and targets. We also support the important work of governments, businesses and other stakeholders to act within their sphere of influence to advocate for decarbonization, remove barriers and enhance incentives, and take action to achieve global net-zero emissions.

We are committed to position our portfolio to deliver investment results as required by our mandate. We believe this is possible while also proactively managing climate risks and opportunities in our portfolio, thereby enabling PSP Investments to support the transition to global net-zero.

As we activate our climate strategy, we will unlock the talents and insights across the organization. We will work in concert with a wide range of peers, partners and stakeholders to raise awareness and understanding of climate change impacts and the potential for the financial industry to make material contributions to the overarching goal of reaching global net-zero by 2050. We will continue to seek out collaborative opportunities, two-way dialogue and active engagement to leverage our relationships, together with our capital and influence, to invest for a better tomorrow.

Summary

As outlined in our Climate Strategy Roadmap, we will manage risks and opportunities related to climate change by:

- Integrating climate change considerations in our investment decisions and portfolio construction activities
- Reducing carbon emissions across our portfolio and from the economy by investing in green assets
- Increasing our exposure to transition assets
- Reducing our exposure to carbon intensive assets without a transition plan
- Engaging with our portfolio companies to influence the management of climate change risks, encourage TCFD-aligned disclosures and support management in taking steps to decarbonize their operations
- Increasing sustainable bond financing
- Scaling our collaborative efforts to measure and manage climate change exposure in investment portfolios
- By executing on our climate strategy, we anticipate reducing our portfolio GHG emissions intensity by 20–25% below 2021 levels by 2026