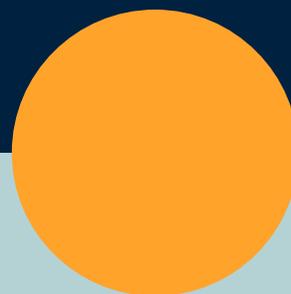
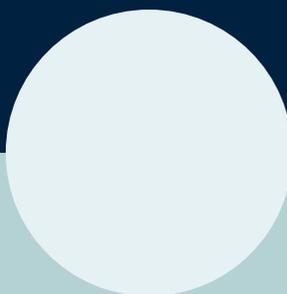
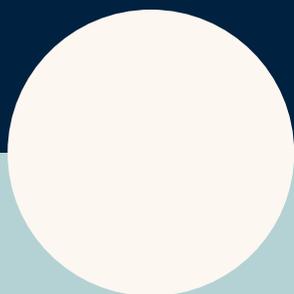


Invested in tomorrow



—2020 Responsible Investment Report

The Public Sector Pension Investment Board (PSP Investments or PSP) is one of Canada's largest pension investment managers, with \$169.8 billion of net assets under management as of March 31, 2020. Our highly skilled and diverse team of 888 professionals works from offices in Montréal, New York, London, Hong Kong and our head office in Ottawa.

\$169.8 Billion
Net AUM*

Diversified asset mix*

% of total net AUM

Public Markets	Private Equity	Real Estate	Infrastructure	Credit Investments	Natural Resources
47.8%	14.2%	14.0%	10.8%	7.8%	4.5%

* As at March 31, 2020. Excludes Cash and Cash Equivalents and the Complementary Portfolio. All dollar amounts in this report are in Canadian dollars unless otherwise indicated. Net AUM denotes net assets under management.

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PSP Investments’ responsible investment approach is anchored in our commitment to act in the best interests of our contributors and beneficiaries.

Environmental, social and governance (ESG) issues are some of the most significant drivers of change in the world today, with major implications for businesses and long-term investors. To take into account the world of tomorrow, we factor ESG risks and opportunities into our investment processes—with a view to enhancing performance, steering capital towards more attractive areas and mitigating potential issues.

Responsible investment at PSP is an active process that addresses ESG factors across all asset classes in our investment due diligence and asset management activities, and when selecting and working with external partners. We also engage regularly with our portfolio companies with a goal of improving relevant ESG practices. We believe that through this ongoing dialogue, we can encourage sustainable corporate conduct and enhance long-term overall corporate performance.

Our investment teams evaluate ESG risks and opportunities in order to make more informed investment decisions. They are supported by our dedicated Responsible Investment group, which is housed in our Chief Investment Officer (CIO) group and acts as a centre of ESG expertise. The Responsible Investment group works collaboratively with the asset classes to oversee and implement responsible investment activities across the total fund, provide guidance on ESG themes and trends, build internal capacity through ESG knowledge sharing, and collaborates with industry peers to drive systemic change on key ESG issues.

Having built a solid foundation for responsible investment, we continually evolve our practices to account for emerging ESG risks and opportunities.

Looking to tomorrow, preparing for what the future will bring, and spotting the edge in change and disruption keeps PSP ahead of the curve and positioned to achieve our mandate.



Executive message



As a long-term investor, PSP has built a solid foundation for integrating ESG risks and opportunities into our investment processes, recognizing the impact—both positive and negative—they can have on returns.

As society continues to grapple with the COVID-19 pandemic, we're experiencing first-hand the impact that social and environmental issues can have on the world and the financial markets. And there are sure to be longer-term implications that will only become fully evident in the months and years ahead.

Throughout 2019, climate change was the ESG theme at the top of investors' agendas. There was growing recognition that the effects of climate change and the transition to a lower-carbon economy are likely to materially impact the pricing of assets and the risk and return profile of investments. We continued to implement our multi-year climate change approach, which focuses on integrating climate change factors into our investment decisions, monitoring our portfolio's exposure to climate change, and engaging with portfolio companies to advocate for better climate change-related financial risk disclosures. We invite you to read our climate change report on pages 17 to 21, which is aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

While climate change remains a priority in 2020, COVID-19's rapid spread required equally swift action early in the year. We reached out to some of our private portfolio companies to share resources and offer access to experts to help them deal with the crisis. For the public companies in which we have ownership positions, we adopted exceptional measures for the 2020 proxy voting season to support shareholder interests and board continuity, including supporting the implementation of virtual annual meetings and, in some cases, the re-election of directors.

Going forward, we'll continue to hold the companies in which we invest to high standards of responsible business practice. This includes ensuring companies identify and manage their ESG risks, have engaged and effective boards of directors, and act in the interests of their shareholders while having due regard to the interests of other relevant stakeholders. We will continue to execute on our multi-year climate change strategy and, more broadly, we will focus on understanding the social and environmental impacts of our investments and how they interact with financial performance.

Our emphasis is always on looking to tomorrow and preparing for the opportunities and challenges that lie ahead. We believe this is in the best interests of Canadian public sector pension plan beneficiaries and contributors—and this is a factor in how we drive long-term investment returns.

Thank you for your ongoing support and confidence in us.

Handwritten signature of Neil Cunningham in black ink.

Neil Cunningham
President and
Chief Executive Officer

Handwritten signature of Eduard Van Gelderen in black ink.

Eduard Van Gelderen
Chief Investment Officer

Key achievements

In our last Responsible Investment Report, we identified the four priorities below for fiscal year 2020, which guided our activities and collaborations. By engaging with institutional investors, investment partners, industry associations, regulators, academia and others, we further PSP's objectives, while also driving systemic change on key ESG issues.

Public board composition and diversity⁻⁴

ESG disclosure and best practices⁻⁴

Monitoring ESG key performance indicators
across our total fund portfolio⁻⁵

Climate change⁻⁵

Public board composition and diversity

Our priority: Maintain our engagement and proxy voting activities to ensure that public boards have the requisite skills, expertise and independence to exercise effective leadership and oversight.

Key achievements and collaboration

- Supported more than 30 engagements on the topic of gender diversity at board and executive levels through the Canadian Coalition for Good Governance and the 30% Club in Canada, and witnessed positive outcomes in close to 50% of these dialogues.
- Exercised our voting rights to hold members of board nominating committees accountable for implementing credible policies or targets to increase diversity.
- Participated on the Board of Directors of the Canadian Coalition for Good Governance, which promotes good governance practices at Canadian public companies and seeks to improve Canada’s regulatory framework.
- Continued our involvement on the Pension Investment Association of Canada’s Stewardship Committee, which seeks to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries.

View to the future

While the Canadian Securities Administrators’ [report on women on boards and in executive positions](#) found that about one-half of a sample of 641 issuers listed on the TSX have adopted policies related to the representation of women on their boards, the percentage of board seats occupied by women in Canada remained disproportionately low – at 17% in 2019. An emphasis on gender diversity is likely to continue in the future; however, it will be as part of a broader focus on diversity in all forms at both the board and executive levels, as a way of fostering diverse views and more informed decisions, and driving value creation.

ESG disclosure and best practices

Our priority: Continue to encourage improved disclosure by companies in which we invest and promote ESG best practices among our external managers and general partners.

Key achievements and collaboration

- Hosted ESG training sessions for PSP’s private company board nominees to share insights on ESG governance.
- Joined the Sustainable Accounting Standards Board (“SASB”) Alliance in support of SASB, a non-profit organization that has established industry-specific disclosure standards across ESG topics to facilitate communication between companies and investors about financially material, decision-useful information.
- Supported the Principles for Responsible Investment (PRI), which include being actively involved in the PRI Quebec Advisory Council and Events Committee and the PRI Private Equity Council.
- Joined CFA Montreal’s ESG committee working group to foster awareness and education in the financial community.
- Contributed to collaborative engagements with other institutional investors, in the belief that this form of engagement can be the most effective way of advancing good governance and ESG practices at companies and other entities in our portfolio.

View to the future

ESG disclosure requirements and voluntary reporting initiatives such as the SASB materiality framework, the Task Force on Climate-related Financial Disclosures (TCFD) and GRESB continue to gain traction globally and are likely to continue to drive ESG best practices, reporting and disclosures.

Monitoring ESG key performance indicators across our total fund portfolio

Our priority: Refine our tools for managing and monitoring ESG key performance indicators (KPI), recognizing that management of ESG factors increases the likelihood that companies will perform better over the long term.

Key achievements and collaboration

- Advanced initiatives to gain insight into the ESG performance of our portfolio, including dashboards that use novel data platforms to integrate ESG data points, KPIs and insights for public and private markets.
- Introduced and implemented a GRESB-aligned ESG monitoring framework for our real estate portfolio to facilitate conversations with our partners and monitor their practices and asset performance.
- Joined the PRI Private Equity Advisory Committee to advance discussions on ESG KPIs and monitoring during ownership.

View to the future

Emphasis on post-investment ESG monitoring is growing among investors who recognize the importance of this practice for identifying opportunities to mitigate risk and capitalize on value creation. We see this practice continuing to mature in the years to come with an increased focus on materiality and broader impact measurements.

Climate change

Our priority: Continue to deploy our multi-year climate change approach to take into account one of the long-term structural trends that we believe will have a material impact on investment risks and returns, across different sectors, geographies and asset classes.

Key achievements and collaboration

- Continued implementation of our climate change approach, making significant progress on assessing transition and physical risks and the resilience of the portfolio, and enhancing our TCFD-aligned reporting.
- Actively participated in the CSA Group's initiative to develop a Canadian definition of green and transition finance based on recommendations made by Canada's Expert Panel on Sustainable Finance, to support the transition to a lower-carbon economy.
- More details on our strategy, achievements and TCFD-aligned reporting can be found in our dedicated climate change section of this report (pages 17 to 21).

View to the future

Climate change will continue to be high on investors' agendas as awareness and understanding of climate-related transition and physical risks grow. At the same time, the transition to a lower-carbon economy will create new opportunities for long-term investors.

Our evolving ESG framework

PSP’s responsible investment activities are a key pillar of our CIO’s strategy and total fund approach. Over the past several years, we’ve built a strong responsible investment foundation and a robust ESG integration and active ownership framework. Our approach has matured over time, with ESG factors now included in PSP’s broader investment risk framework and funding policy, and the importance of ESG integration being one of our fundamental investment beliefs.

Our ESG framework is evergreen, continually evolving to capture new trends and risks. In fiscal year 2020, we refreshed our Responsible Investment Policy and Proxy Voting Principles to emphasize our focus on materiality and value creation.

The focus on materiality is about ensuring that we thoroughly account for the ESG factors that could have a significant impact on a company’s financial or operating performance. We believe that investors who fail to integrate material ESG factors into their process could end up overstating the value of an investment or missing out on new business opportunities.

In fiscal year 2020, we also introduced new tools to help us better identify, manage and monitor ESG factors; further integrated the SASB materiality framework into our approach for public and private market investments; and developed ESG briefing notes and a climate change toolkit for PSP investment professionals.

Sharpening our edge

While our Responsible Investment group operates as a center of expertise within PSP, investment professionals remain responsible for implementing our ESG framework. Continuous knowledge sharing is the cornerstone of our approach, ensuring that we are able to identify, assess and monitor both existing and emerging ESG factors. We include an introduction to responsible investment in our new employee orientation program and newly hired investment professionals have one-on-one ESG integration training sessions. The Responsible Investment group also hosts specialized learning sessions tailored to specific asset classes and investment strategies for investment professionals. To ensure our ESG framework remains dynamic and robust, we also regularly leverage the insights, trends and data provided by professionals across our organization.

Spotting the edge in change and disruption

A strong foundation for ESG integration⁻⁸

ESG integration for internally managed investments

Investment analysis and decision-making⁻⁹

Active ownership of public companies⁻¹⁰

Managing private market investments⁻¹³

ESG integration for externally managed investments

Assessing our partners⁻¹⁴

Engaging with partners⁻¹⁵

Emerging best practices⁻¹⁵

A strong foundation for ESG integration

Our ESG integration framework is embedded in our total fund approach, enabling us to address material ESG factors throughout the life of every investment. Beyond simply identifying and assessing ESG risks, we look to capitalize on opportunities driven by ESG trends. In the ownership period, we actively manage and monitor material ESG factors with a view to mitigating risks and enhancing value.

At all times, our process is flexible and dynamic, readily adapted for different asset classes and investment strategies, and to account for emerging ESG issues. For example, in fiscal year 2020, we put more focus on the governance of publicly listed companies in emerging markets, physical climate risk assessments of our real assets, and understanding the sustainability of our private companies' supply chains.

The graphic below provides a snapshot of how ESG factors are considered at different stages of the investment process.

ESG integration framework



More details on how our ESG integration approach is applied across internally and externally managed investments are provided on the following pages.

Investment analysis and decision-making

As part of the investment analysis and decision-making processes for internally managed investments, we conduct an in-depth assessment of material ESG risks and opportunities. Findings are incorporated into the investment thesis and considered alongside traditional financial factors.

Public market opportunities

When contemplating active positions in publicly traded securities, our approach to ESG is to prioritize corporate governance practices, focusing on board composition and effectiveness, executive compensation practices and shareholder rights. We believe that well-governed companies are better able to manage social and environmental issues and are more likely to prosper over time. That's why an assessment of governance remains the foundation of our approach.

ESG risks and opportunities are fully integrated into PSP's Public Markets' investment process. Each new investment recommendation discusses material ESG considerations. In fiscal year 2020, more than 100 in-depth ESG assessments were completed for actively managed positions of the Public Markets team.

Private market opportunities

ESG due diligence and assessment for private market investments is tailored to the opportunity, and varies by industry, sector and geography. Where required, we engage external experts and consultants to provide additional insight. In fiscal year 2020, ESG considerations were reviewed for more than 150 direct transactions across PSP's five private market asset classes. The most common material ESG factors raised were corporate governance, climate change, business ethics, quality and safety of products and services, human capital management and cybersecurity.

Case study



A decision against

As part of our Emerging Markets team's analysis of an investment opportunity, the ESG assessment revealed the target company's involvement in a major supply chain controversy with regards to severe human rights violations and weak governance practices. The combination of ESG and financial considerations outlined in the investment thesis led our portfolio managers to decide against the investment.

Case study



A decision to proceed

When considering a co-investment in a digital publishing operation, our ESG due diligence found that the target company was successfully mitigating key risks by upholding high standards of business conduct and content integrity, and maintaining strong data and cyber security practices. Satisfied with the company's approach, the private market investment team proceeded with the investment.

Active ownership of public companies

We use our ownership positions to promote good corporate governance practices, exercising our proxy voting rights and actively engaging with companies on material ESG issues. ESG performance and controversies are monitored to inform our voting decisions and prioritize engagement activities.

Our Proxy Voting Principles (the Principles) are implemented with flexibility in support of the long-term success of the companies in which we invest. In light of the COVID-19 pandemic, we adopted exceptional measures for the 2020 proxy voting season to support shareholder interests and board continuity.

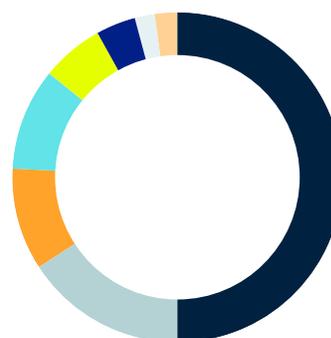
Proxy voting

Our Principles outline our expectations with regard to the corporate governance and sustainability practices of public companies in which we invest. The Principles identify the topics on which we may vote from time to time and inform our voting decisions. We strive to vote at all shareholders' meetings. Our approach is pragmatic and considers local laws, prevailing governance practices and the particular circumstances of a company in the interpretation and application of the Principles.

In fiscal year 2020, we voted at 5,045 meetings for a total of 52,436 management and shareholder resolutions in all regions of the world. We spent a considerable amount of time on board-related resolutions. In our experience, strong governance, including how environmental and social factors are managed, stems from effective board leadership and oversight.

Our proxy voting record is available on our [website](#).

Resolutions voted – by topic (FY2020)



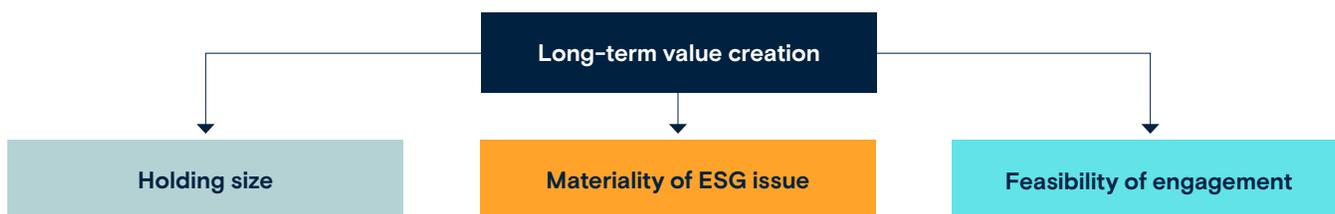
	50%	Board & committee composition
	16%	Financial & auditor
	10%	Compensation
	10%	Capital structure
	6%	M&A and anti-takeover
	4%	Shareholders' resolutions
	2%	Amendments to articles
	2%	Other

Applying materiality to engagement

Engagement is a key component of our responsible investment approach. It's intended to be constructive and ongoing, as we seek to understand a company's management approach and strategies for managing emerging trends and mitigating potential risks over time. We may choose to engage with companies directly, through our global stewardship provider, or collaboratively with other investors. The engagement strategy will be tailored to the issues at stake, and whether the issues are specific to PSP or are core to the investment strategy. However, when feasible, we prefer participating to collaborative engagements through our global stewardship service provider or with other institutional investors, as these can be the most effective way of advancing good governance and improvement of ESG practices at companies and other organizations in our portfolio.

Companies are selected for engagement based on factors such as our ability to create long-term shareholder value, the size of our holding, the prospects for successful engagement and the materiality of their ESG issues.

Engagement selection process

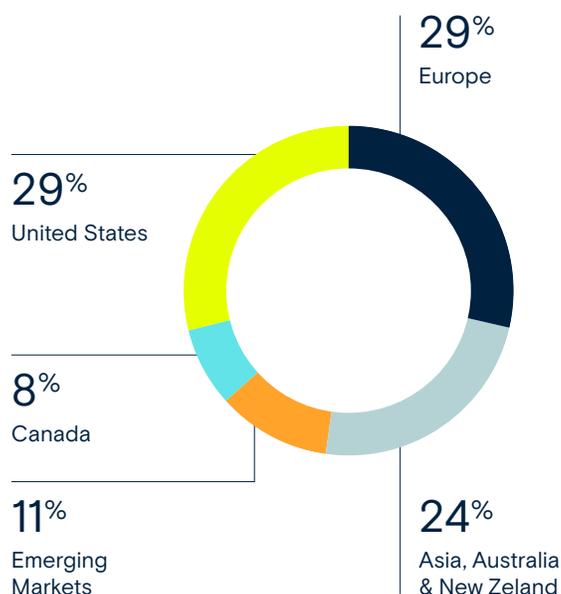


In fiscal year 2020, we engaged with 790 publicly listed companies, either directly, with the assistance of a global stewardship service provider or in collaboration with like-minded investors and industry associations.

These engagements were undertaken globally and covered a broad range of industries. They were initiated by us, or by way of company outreach to address specific ESG issues or themes, or in the context of our proxy voting activities with a goal to address the most material ESG risks and opportunities.

The majority focused on corporate governance practices, thereby also supporting effective management of environmental and social factors.

Companies engaged – by country or region (FY2020)



Case study



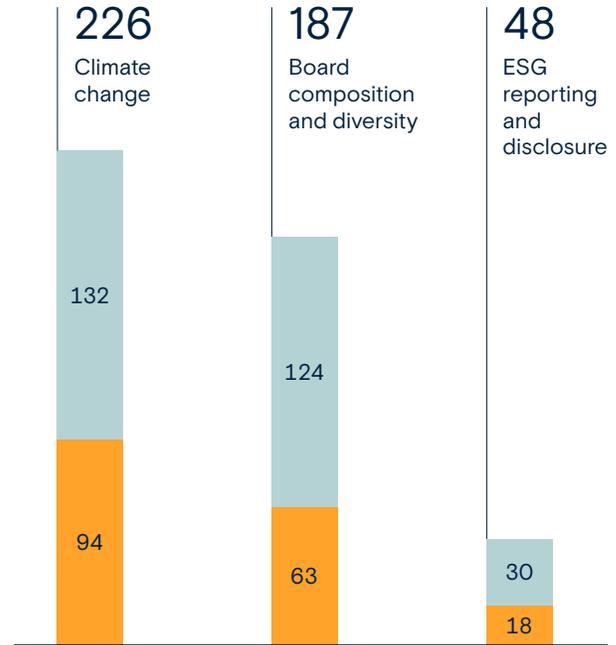
Making progress, achieving results

Engagement themes: climate change, human capital management, human rights and board effectiveness

With the support of our global service provider working in concert with a group of large asset owners and managers, we began engaging with a car manufacturer on the topic of board independence in 2012. The company appointed its first outside director following our initial discussions and subsequently named a female director to its board in 2018. In the past year, the company has developed a climate scenario analysis linked to its mid-term business plan and worked to implement the TCFD reporting standards. The company continues to address material ESG issues in its innovation strategy for product design and has committed to investing in the development of a platform for battery electric vehicles.

Engagement progress in FY2020

— Positive change
— No change



Case study



Addressing the reality of climate change

Engagement themes: integrated reporting and other disclosures

Issues related to climate change are likely to have a material impact on the vast majority of industries; however, climate risks are likely to manifest themselves differently in each one. In the commercial banking sector, the incorporation of ESG factors in credit analysis can impact credit exposure and financial performance. Alongside our global service provider, we engaged with a European bank to understand its process of integrating climate change considerations into banking practices and other parts of the business, and how the bank was implementing the TCFD recommendations, which are supported by PSP. We were pleased to note that the bank made a commitment to consider climate change in their risk scenario and recently provided TCFD-aligned disclosure.



Managing private market investments

Increasingly, private market investors are focused on building sustainable and resilient businesses by systematically monitoring and managing the material ESG factors of the companies they own. At PSP, we're also taking steps to improve the resilience of our portfolio. We leverage our large ownership stake and our direct access to portfolio companies to influence their ESG practices and ultimately improve their long-term performance.

We remain close to our private portfolio companies and provide assistance when needed. In response to the COVID-19 outbreak, PSP shared business continuity and pandemic plans and resources to help them deal with the crisis. We also offered access to experts for specific COVID-19 issues related to their companies or industries.

PSP holds private assets for the long term. As such, we are increasingly focused on monitoring key performance indicators (KPIs), including those that expand beyond traditional financial metrics, to identify the various levers of risk mitigation and value creation. Developing a more structured approach to monitoring ESG KPIs will facilitate more informed engagement with our portfolio companies and assets on how we can drive shareholder value.

In the past year, we developed an ESG monitoring framework for our real estate portfolio. The framework helps us systemically assess the ESG practices of our real estate partners and gather more asset-level data from our properties on energy consumption, water consumption and greenhouse gas (GHG) emissions.

We have also initiated discussions with our Infrastructure, Private Equity and Natural Resources groups to determine how we can leverage new data platforms and ESG monitoring frameworks to track the ESG performance of our portfolio. Integrating ESG factors into asset management activities for our private markets portfolio will remain a key priority in the coming fiscal year.

Notable portfolio companies' best practices and developments

Real Estate

- Property technology solutions focused on sustainability or efficiency improvements
- Use of low-carbon building materials and measurement of carbon footprints
- Increased focus on tenant wellness and well-being

Private Equity and Credit Investments

- Heightened focus on board and company-wide diversity, supply chain sustainability, product lifecycle analysis and cybersecurity
- Alignment of activities with international standards relevant to companies' activities such as the UN Global Compact

Infrastructure

- Benchmarking asset-level ESG performance
- Risks and opportunities linked to the transition to a low-carbon economy in specific regions and sectors

Natural Resources

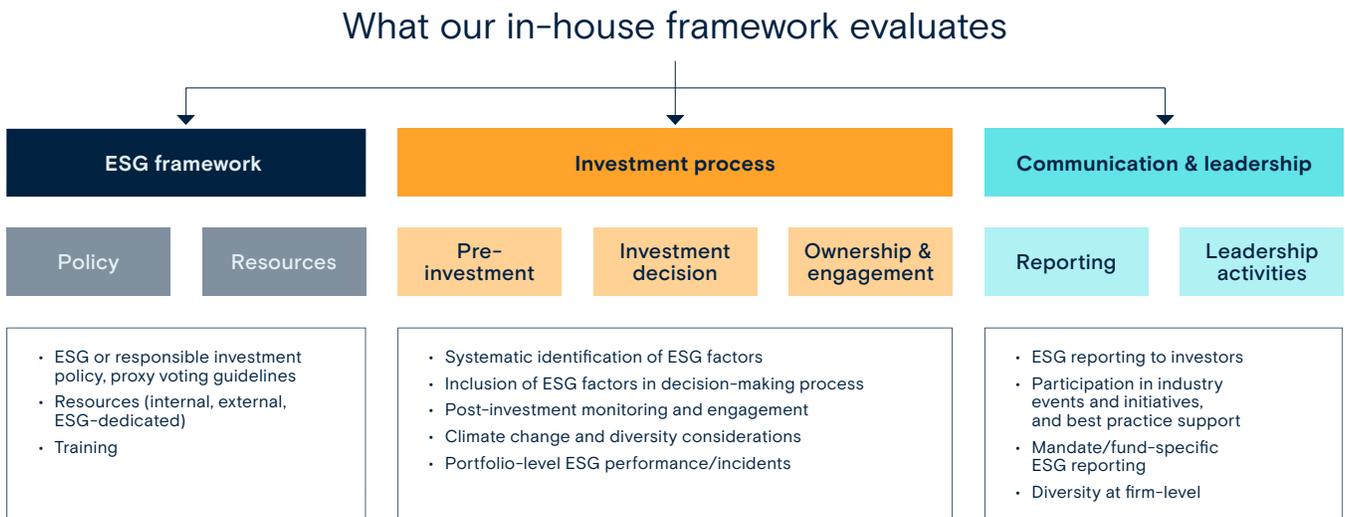
- Increased focus on the impacts of geopolitical risks and social unrest on the global supply chain of agricultural commodities
- Assessing current and future climate change impacts and putting in place innovative sustainable practices

ESG integration for externally managed investments

We allocate a portion of our capital to externally managed mandates and fund investments across our public and private market portfolios. Forging the right relationships is critical in these situations and we engage regularly with our external partners on ESG topics throughout the investment lifecycle.

Assessing our partners

To better understand how partners consider and monitor ESG risks and opportunities, we have an in-house proprietary assessment framework that evaluates their ESG practices across more than 35 indicators and three key pillars:



Recognizing that ESG practices continue to evolve, we refined our approach in fiscal year 2020 by developing tailored frameworks that consider differences in ESG integration best practices across asset classes and investment strategies; for example, we created customized assessment frameworks

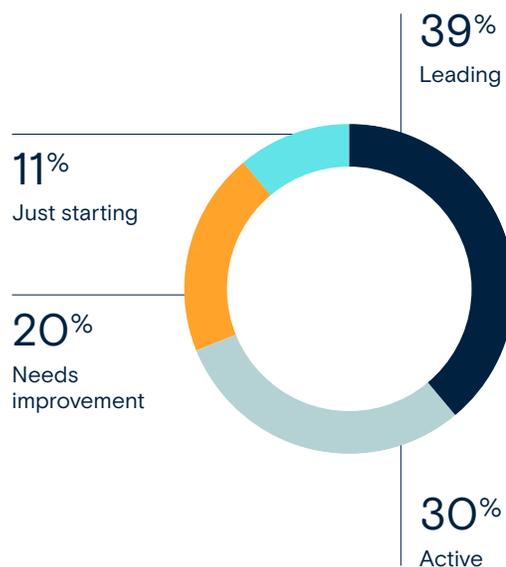
for our emerging market debt, venture capital and fund of funds strategies. We also added assessment indicators to help us measure our partners' approach to integrating climate change and diversity considerations at both the firm and the portfolio level.

Engaging with partners

In fiscal year 2020, we assessed the ESG integration practices of 38 fund investments and six externally managed mandates. We've learned over the past three years that ESG is moving to the mainstream. Approximately 70% of our externally managed investments employ strong approaches to integrating ESG factors and applying ESG principles firm-wide.

In line with our objective of encouraging ESG best practice, we also engaged with partners to monitor their approaches and portfolio-level ESG performance, and to share best practices and opportunities for improvement.

ESG benchmark for externally managed investments



View to the future: emerging best practices

ESG practices are evolving rapidly among our external partners. Through our fiscal year 2020 assessment process, we gained insight into notable ESG practices, which we believe will become commonplace in the future. A few of these trends are outlined below¹:

Public Markets

- Investment teams take the lead on the integration of ESG factors into investment analysis with input from ESG specialists
- Robust integration of climate change-related data into financial modeling
- Use of unstructured ESG data to assist with ESG analysis
- Many have developed proprietary ESG integration frameworks
- Mandate-specific ESG reporting

Private Markets

- Increased focus on post-investment activities with ESG integration in value creation plans and training of board nominees on ESG topics
- Monitoring of ESG KPIs that are material to portfolio companies and use of tools that collect ESG data alongside financial metrics
- Formal ESG knowledge sharing at portfolio company conferences or CEO/CFO meetings
- Fund-specific ESG reporting including ESG metrics
- Diversity and inclusion initiatives at both the firm and portfolio company levels

¹ For the purposes of this report, these are general trends and thus may not be applicable across all asset classes or investment strategies.

Preparing for tomorrow

In fiscal year 2021, we will continue to approach responsible investment in a way that supports PSP's strategy. We have established four priorities:

— Continue to scale up our approach to managing and monitoring ESG key performance indicators by leveraging new data sources and analytics.

— Support knowledge sharing and collaborative initiatives to strengthen ESG practices as drivers of value creation for our portfolio companies.

— Continue assessing the multi-faceted risks and opportunities associated with climate change and improving the resilience of our portfolio.

— In the context of a changing world, continue to refine our approach to measuring the impact of our investments, with an increasing focus on social factors.

Appendix

Climate change report

Climate change is a critical challenge of our time. Over a ten-year time horizon, the top three global risks in terms of potential impact and likelihood are linked to the transition or physical risks of climate change, according to the World Economic Forum. Transition risks refer to the impact on organizations of policy, legal, technology, and market changes resulting from climate change mitigation and adaptation measures. At the same time, the transition to a low-carbon economy is driving innovation and growth in many sectors, creating new opportunities for long-term investors. Physical risks from extreme weather events or longer-term shifts in climate patterns can disrupt business and negatively affect the economy, thereby impacting investments.

As a long-term investor, PSP proactively addresses climate change as part of our investment strategy. We believe that climate change is one of several long-term structural trends that will likely have a material impact on investment risks and returns, across different sectors, geographies and asset

classes. As such, our broadly diversified portfolio has exposure to both transition and physical risks, as well as opportunities associated with climate change.

We developed a multi-year climate change approach, which is structured around three pillars:

—**Integration** of climate change factors into our investment decisions, at the total portfolio, asset class and individual asset level;

—**Monitoring** of the portfolio's exposure to climate change (including transition risks, physical risks and opportunities); and

—**Engagement** with portfolio companies, including advocating for better climate change-related financial risk disclosures.

This climate change approach applies across all asset classes in PSP's portfolio, and is readily adapted for different investment strategies and industry sectors.

Task Force on Climate-related Financial Disclosures (TCFD)

The TCFD was established by the Financial Stability Board of the G20 to develop a consistent framework for climate-related financial disclosures. The TCFD developed voluntary recommendations structured around four pillars: governance, strategy, risk management, and metrics and targets. These disclosure recommendations are intended to help the financial community in understanding material climate change risks.

We support the TCFD with the view of fostering enhanced transparency on climate change-related financial risks and opportunities in capital markets. We encourage enhanced disclosure on climate change risks by companies in which we invest. As an asset owner, PSP is committed to steadily enhancing disclosure about how we manage climate change-related financial risks, with full adoption of these recommendations by the end of fiscal 2021.

On the following pages, we provide an overview of how we are implementing the TCFD's recommendations.

Governance

Disclose the organization’s governance around climate-related risks and opportunities

Our Board of Directors and senior management oversee PSP’s efforts to understand and manage climate-related risks and opportunities. They approved our multi-year fund-wide climate change approach based on three pillars: integration, monitoring and engagement.

The RI group, which is housed in PSP’s Chief Investment Office (CIO) group, is responsible for coordinating the development of PSP’s climate change approach, and overseeing its implementation, in collaboration with asset classes and business partners. Delivering on our climate change approach was amongst the CIO group’s priorities in fiscal year 2020.

The RI group reports on a regular basis to the Board, the Board’s Governance Committee and senior management on ESG matters, including climate change. Presentations and workshops are regularly organized to ensure that investment groups and senior management remain abreast of our progress in implementing PSP’s climate change approach and of key climate change trends and risks.

Strategy

Disclose, where material, the actual and potential impacts of climate-related risks and opportunities on the organization’s businesses, strategy and financial planning

As a long-term investor, we have a fiduciary obligation to proactively factor climate change risks and opportunities into our investment strategy. For PSP, this entails developing and implementing investment policies and processes to make the portfolio more resilient to the impacts of climate change. Our multi-year fund-wide climate change approach includes top-down efforts focused on portfolio design, such as portfolio-level climate change scenario analysis. Bottom-up efforts are focused on incorporating climate factors across the investment cycle, and include asset-level climate change vulnerability studies.

Each year, we perform a scenario analysis to better understand the impacts of climate change on our long-term asset allocation. The analysis estimated an annual average “climate impact on return” at three levels—total portfolio, asset class, and industry sector—factoring in both transition and physical risks. We used three scenarios for the climate analysis. One scenario led to 2°C warming and was most closely aligned with both successful implementation of the Paris Agreement’s ambitions and the greatest chance of lessening physical damages. The other two scenarios indicated failure to meet the Paris Agreement¹ at different rates: 3°C scenario and 4°C scenario. Based on these scenarios, we elaborated the climate risks and opportunities related to our reference portfolio and policy portfolio, looking ahead to 2030, 2050 and 2100. The results confirmed the resilience of our long-term asset allocation.

¹ In 2015, Canada and 194 other countries adopted the Paris Agreement, which sets out a global framework to limit global warming to well below 2°C and pursuing efforts to limit it to 1.5°C.

Risk management

Disclose how the organization identifies, assesses and manages climate-related risks

Climate change-related risks are among the ESG risk factors assessed as part of our annual review of corporate and investment risks, and are reviewed by our Board. We also conduct an annual, enterprise-wide risk and control self-assessment exercise to identify and evaluate key risks, including climate change, and to assess the adequacy and effectiveness of mitigation activities.

As part of our climate change approach, we integrate climate change risks into our investment decisions, at the total portfolio, asset class and individual asset levels. For example:

- We perform climate change scenario analysis as part of our portfolio construction process to assess the resilience of our long-term asset allocation. This assessment informs which asset classes or sectors may present higher exposure to climate change transition and physical risks.
- We analyze the exposure of our real estate, infrastructure and natural resources assets to physical risks of climate change, including coastal flooding and chronic changes in weather and rainfall patterns. In fiscal year 2019, we looked at approximately 1,200 of our real assets and found that a large majority have a low exposure to climate change physical risks, based on asset type and location. In fiscal year 2020, we worked with our portfolio companies to assess adaptation measures in place and improve resilience to climate change impacts for those assets with a higher exposure.
- At the asset level, we evaluate material climate change risks and opportunities across the investment cycle. For each investment requiring the approval of the President and CEO or the Board Risk and Investment Committee, we formally consider if climate change could have a material impact on the company, based on the sector and geography in which it operates. Relevant transition and physical risks as well as opportunities are then assessed during due diligence. Where relevant, we engage external advisors to support the assessment of climate change risks for investment opportunities that present a higher exposure to these risks. In fiscal year 2020, we developed a framework to assist investment teams with this process and ensure that climate change risks and opportunities for new and existing investments are assessed in an effective and systematic manner.

In addition, we regularly engage with our portfolio companies in relation to climate change, which was among our top three engagement priorities. Our focus is on transparency of climate-related risks, recognizing that data quality and availability is an area for improvement and important to our ability to effectively assess climate-related risks. As such, we encourage disclosure and participation in the CDP (formerly known as Carbon Disclosure Project) and support shareholder proposals for enhanced climate-related disclosures, in accordance with the TCFD's recommendations. In fiscal year 2020, we engaged with 226 public companies, either directly or in collaboration with our global stewardship service provider, to encourage climate change risk-aware corporate conduct and good practice disclosure through mechanisms such as proxy voting and exercising our influence by sitting on the boards of private companies.

Metrics and targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities, where such information is material.

PSP monitors best practices for measuring and managing climate-related risks and opportunities across our portfolio. The most widely used metrics in the industry to date relate to portfolio carbon emissions. We agree with the TCFD's view that, despite the limitations associated with portfolio carbon emissions, including that it should not necessarily be interpreted as a risk metric, reporting such information is a first step and should prompt advancements in the development of decision-useful, climate-related risk metrics. Carbon footprint metrics are one of several inputs that inform our management of climate risks in PSP's investment decision-making process.

We have been calculating our portfolio carbon emissions since fiscal year 2017. We developed an in-house framework and system to calculate portfolio carbon metrics of various asset classes in real time. As part of our commitment to steadily enhance disclosure about how we manage climate change-related financial risks in line with the TCFD, we are disclosing our portfolio carbon footprint and weighted average carbon intensity over the past five years, based on equity ownership.

PSP portfolio carbon footprint metrics

	Carbon footprint	Weighted average carbon intensity
Metric	Total carbon emissions for PSP portfolio normalized by the market value of PSP portfolio (tons CO2e/\$ million invested)	PSP portfolio exposure to carbon-intensive companies (tons CO2e/\$ million revenue)
Carbon accounting equation	1. Calculate portfolio carbon emissions: $\sum_i^n \frac{\text{Holding NAV}_i}{\text{Issuer's Mkt Cap}} * \text{Issuer's GHG emissions}$ 2. Divide by PSP portfolio NAV	$\sum_i^n \frac{\text{Holding NAV}_i}{\text{PSP portfolio NAV}} * \frac{\text{Issuer's GHG emissions}}{\text{Issuer's revenues}}$

Carbon footprint

As of March 31



Weighted average carbon intensity

As of March 31



Our weighted average carbon intensity trended downwards until March 2020, which is due in part to the combined reduction in exposure to carbon-intensive sectors and the increase in exposure to low-carbon investments. For example, in fiscal year 2020, we analyzed the avoided emissions apportioned to PSP's stake in 150 renewable energy assets. This assessment was performed in line with recommendations from the GHG Protocol to use the marginal emissions factor, which represents the incremental change in GHG emissions from power sources serving an electrical grid system. The analysis found 3.6 MtCO₂ in avoided emissions apportioned to PSP, which is equivalent to taking 750,000 cars off the road per year.

However, PSP's carbon footprint increased between March 1 and March 31, 2020, due to the COVID-19 pandemic outbreak and market turbulence. The carbon footprint was 101 tCO₂e/\$ million invested as at March 1, 2020. However, the market correction that began in March 2020 caused companies' market capitalization to decrease. While changes in market capitalization are reflected in the carbon footprint calculation, actual decreases in emissions due to the pandemic (which would otherwise offset this effect) are not, due to time lags in data availability. As a result, this decrease in market capitalization led to an inversely proportional increase in PSP's portfolio carbon footprint. The revenue-based weighted average carbon intensity (WACI) calculation was less impacted by market movements as at March 31, 2020, as there is a time lag in the companies' revenues used.

This analysis highlights some of the limitations of portfolio carbon emissions metrics. First, they are directly impacted by market conditions, including companies' valuation and revenues, as well as exchange rates. Second, there is a discrepancy in the update frequency of the components of portfolio carbon emissions. While financial metrics are regularly updated, carbon emissions are typically reported several months after a company's year-end. Third, portfolio carbon emissions are calculated at a point in time, not necessarily reflecting the underlying carbon-related risk in a portfolio over a given time period.

Methodology

We include scope 1 and scope 2 emissions in our portfolio carbon footprint metrics. Scope 1 emissions are direct emissions from owned or controlled sources at our portfolio companies while Scope 2 emissions are those associated with energy purchased by those portfolio companies. We use emissions data from a third-party, which are combined with market data and PSP's positions to calculate the portfolio carbon footprint and WACI.

We recognize that companies use different methodologies to calculate and report their carbon emissions. For those companies that do not report their carbon emissions, we use a waterfall approach for estimating carbon emissions, which is consistent across our public and private market portfolios:

1. Company-reported emissions (29% of NAV)
2. Estimate based on company-specific factors (3% of NAV)
3. Proxy based on sub-industry average carbon intensity (68% of NAV)

Scope

This section lists the asset classes and instrument types that are included in the portfolio carbon footprint metrics, which represented 74% of net asset value as of March 31, 2020.

Public markets

- In-scope: shares in long-only public equity strategies, securities held through market indexes or exchange traded funds (ETFs), externally managed investments
- Out of scope: government bonds, cash and money market instruments, non-equity derivatives

Private markets

- In-scope: direct and fund investments in private equity, infrastructure, real estate and natural resources
- Out of scope: fund of funds, credit investments

Glossary

Canadian Standards Association (CSA) Group

Standards organization dedicated to standards development, as well as global testing, inspection and certification services.

CDP (formerly known as Carbon Disclosure Project)

Non-profit organization that collects climate change, water security and deforestation information through the voluntary disclosures of companies, cities, states and regions.

Greenhouse Gas (GHG) Protocol

Accounting tool that provides companies and organizations with standards, guidance, frameworks, and calculation tools used to measure and manage their greenhouse gas emissions.

GRESB (formerly known as Global Real Estate Sustainability Benchmark)

Investor-driven organization that assesses and benchmarks the sustainability performance of real estate and infrastructure assets.

Principles for Responsible Investment (PRI)

United Nations-supported organization that promotes the integration of ESG factors into the investment and ownership decisions of its international network of investor signatories.

Sustainability Accounting Standards Board (SASB)

Non-profit organization that has established industry-specific disclosure standards across ESG topics to facilitate communication between companies and investors about financially material, decision-useful information.

Task Force on Climate-related Financial Disclosures (TCFD)

Market-driven initiative that developed voluntary recommendations intended to help the financial community in understanding material climate change risks.

Weighted Average Carbon Intensity (WACI)

Portfolio's exposure to carbon-intensive companies, measured in tons CO₂e / \$ million revenue.

responsibleinvestment@investpsp.ca

Business offices

MONTREAL

(main business office)
1250 René-Lévesque Boulevard West, Suite 1400
Montréal, Québec
Canada H3B 5E9
Phone: +1.514.937.2772

NEW YORK

450 Lexington Avenue, Suite 3750
New York, New York
USA 10017
Phone: +1.212.317.8879

LONDON

10 Bressenden Place, 8th floor
London, United Kingdom
SW1E 5DH
Phone: +44 20 37 39 51 00

HONG KONG

Suites 01-05, 22nd floor
Prosperity Tower
39 Queen's Road Central
Central, Hong Kong
Phone: +852 91616063

Head office

OTTAWA

1 Rideau Street, 7th floor
Ottawa, Ontario
Canada K1N 8S7
Phone: +1.613.782.3095

info@investpsp.ca