Investing for a better tomorrow

Public Sector Pension Investment Board

2022 Responsible Investment Report

PSP

At PSP Investments, we have a longstanding commitment to advance our responsible investing practices as a means to better manage risk and generate the long-term returns needed to achieve our mandate.

Through our actions, we can also promote positive change on pressing social and environmental challenges, and contribute to a more inclusive, equitable and sustainable future.

Our newly adopted purpose — *investing for a better tomorrow* — and our values of stewardship, unity and resilience guide our actions and reflect our aspiration to both fulfill our mandate and lift the world through our investments.

Why responsible investment (RI) matters

Environmental, social and governance (ESG) factors, including systemic climate risk, are some of the most significant drivers of changes in today's world. We believe that material ESG risks factors must be considered in the investments we make. We also want to capitalize on the significant investment opportunities that can arise as companies put sustainability at the forefront of their strategies and operations.

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Overview

PSP Investments manages the amounts transferred to it by the Government of Canada for the funding of benefits earned from April 1, 2000 by members of the public sector pension plans of the federal Public Service, the Canadian Forces (Regular Force), the Royal Canadian Mounted Police (RCMP) and, since March 1, 2007, the Canadian Forces (Reserve Force).

In accordance with the *Public Sector Pension Investment Board Act,* PSP Investments' statutory mandate is to: (1) manage amounts that are transferred to it in the best interests of the contributors and beneficiaries under the acts related to the plans; and (2) invest its 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 the plans to meet their financial obligations.

$230.5 B

Net AUM[1]

$22.5 B

Net Income

9.8%
10-year annualized return[2]

8.6%
10-year Total Fund Benchmark return[2]

8.4%
10-year Reference Portfolio return[2]

9.0%
5-year annualized return[2]

7.9%
5-year Total Fund Benchmark return[2]

7.0%
5-year Reference Portfolio return[2]

10.9%
1-year rate of return[2]

9.4%
1-year Total Fund Benchmark return[2]

3.8%
1-year Reference Portfolio return[2]

900K

contributors and beneficiaries

895 employees

Headquartered in Ottawa, with its principal business office in Montréal and investment offices in New York, London and Hong Kong

[1] Net AUM denotes net assets under management.

[2] These measures may not have a standardized meaning under IFRS and may not be comparable to similar measures disclosed by our peers. The 10-year and the 5-year annualized net returns are calculated using a time-weighted return methodology. Management views the 10-year and the 5-year net annualized returns useful to evaluate the performance of our long-term investment approach and believe they are useful to the reader for the same reason.

All amounts in this report are in Canadian dollars at March 31, 2022, unless otherwise noted.

Message from Our Chief Investment Officer

As the world grapples with the lingering pandemic, increasing pressure from climate change and other disruptive forces that are intersecting critically with geopolitics and affecting society and the economy — we at PSP Investments believe that considering material ESG risk factors and opportunities in our decision-making is more important than ever.

Our objective is to be an insightful global investor focused on maximizing long-term, risk-adjusted, sustainable value, and keeping abreast of societal norms and values through active ownership to fulfil our mandate in the best interest of the pension plan contributors and beneficiaries for whom we invest.

Strengthening our foundation

We made strong progress in fiscal 2022, most notably in launching our inaugural climate strategy.

In February 2022, we issued our first-ever $1.0 billion, 10-year AAA green bond, under the PSP Investments Green Bond Framework released earlier that month. Then in April, we announced our new climate strategy, which will guide our climate-aligned investment targets and active ownership activities across the total fund. We are committed to using our capital and influence to support the transition to global net-zero greenhouse gas (GHG) emissions by 2050.

An essential step in creating our climate strategy was the development of a Green Asset Taxonomy, which helped us assess our exposure to green, transition and carbon-intensive assets and set our target baseline. Going forward, we will use this approach to monitor and report progress against our climate targets and guide our investment and active ownership activities.

The Green Asset Taxonomy and its application are examples of the technology-enabled, data-driven approaches we're adopting to enhance and embed our responsible investment process across the organization. Other initiatives in fiscal 2022 included the development of an innovative scoring system, which enables us to quantitatively evaluate and monitor

> **Sustainable investing is a focus of our strategic plan, *PSP Forward*, as we build on the strong foundation created over many years.**
>
> **Eduard van Gelderen**
> Senior Vice President and
> Chief Investment Officer
> PSP Investments

a company's performance on key ESG considerations using an artificial intelligence screening tool that assesses positive and negative stakeholder-related events. PSP Investments was also among the founding members of the ESG Data Convergence Initiative, the first limited partner-general partner collaboration aiming to standardize ESG reporting in the private equity industry.

Linking ESG to value creation

Sustainable investing is a focus of our strategic plan, *PSP Forward*, as we build on the strong foundation created over many years. We aim to elevate ESG factors, so they become key value drivers or considerations in our portfolio construction and investment decisions. In line with this shift, we're starting to use the term *sustainable investing* – instead of *responsible investing* – to emphasize that our process is about more than just applying a risk lens to ESG; it's also about creating value and enhancing returns.

Our fiscal 2023 priorities are as follows:

- Implement and enhance our climate strategy, making progress toward our targets using our Green Asset Taxonomy across the total fund.
- Improve access to ESG data across the total fund to help translate qualitative objectives into quantitative goals and expand the scope of our ESG analysis to better understand and address the correlation between sustainability and financial performance.
- Implement a hub-and-spoke operating model to further embed sustainable investment into our business model and decision-makings to achieve our mandate. The intent is to establish our RI group as a centre of expertise for sustainability, including climate risk leadership, while facilitating the deeper integration of ESG into our asset classes, in line with their specific strategies.

Our efforts will be led by Herman Bril, our newly appointed Managing Director and Head of Responsible Investment, who joined PSP Investments in July 2022. Herman has more than 25 years of experience in international financial institutions, and we welcome the new perspectives he brings.

Going forward, we will also benefit from the insights and experience of our President and CEO, Deborah Orida, a leader in sustainability, climate change and sustainable investing matters in Canada.

Thank you for taking the time to read our 2022 Responsible Investment Report. We are determined to be transparent about how we integrate ESG factors and our climate strategy into our investments and to share progress toward our targets. I also encourage you to read our 2022 Annual Report, where you can learn more about how we're investing for a better tomorrow for our beneficiaries and contributors, employees, portfolio companies and society at large.

Sincerely,

Eduard van Gelderen
Senior Vice President and
Chief Investment Officer
PSP Investments

> **"Given our long-term horizon, sustainability factors are inextricably linked to our ability to achieve our investment objectives. I look forward to working with colleagues across our organization to deepen and leverage our sustainability expertise to make the most well-informed investment decisions for the contributors and beneficiaries of the pension plans we support."**
>
> **Deborah Orida**
> President and CEO
> PSP Investments

Meet our Head of Responsible Investment

Herman Bril joined PSP Investments as our Managing Director and Head of Responsible Investment on July 25, 2022.

Why is responsible investment so important to institutional investors like PSP Investments?

As a pension investment manager and asset owner, we invest and manage assets today to help meet pension obligations decades into the future. This horizon shapes how we view risks and opportunities, and compels us to consider the material ESG issues, including systemic climate risk, that can impact long-term value.

The topic of responsible investment has become all the more important to investors – and society as a whole – in recent years, with COVID-19 and climate-related natural hazards bringing into sharp relief the profound impact that non-financial matters can have on people, society, economies and, of course, investment performance.

While they may use different labels – whether it's responsible investing, sustainable investing or ESG – most of our peers in the pension fund industry consider sustainable investment and stewardship in their processes to some degree or another. Mainly because it makes us better investors – we're better able to mitigate risks to our portfolios, uncover opportunities to create sustainable value and, most importantly, deliver the financial returns required by our long-term mandates.

What role do you see PSP Investments and its peers playing in solving some of the world's biggest challenges?

Solving the world's problems requires global, collaborative and targeted approaches involving governments, businesses and civil society alike. Modern society relies on stewardship, or licence to operate, of all actors to preserve a sustainable future for the next generation.

As investors, we have an important role in promoting sustainability within our investments and considering externalities in managing those investments. It's in fulfilling this role that we can support government priorities, partner with others and help drive the positive changes the world desperately needs.

> **PSP Investments' climate commitment is a prime example of how, within the context of our mandate, we are aligning with the global transition to a decarbonized economy.**
>
> **Herman Bril**
> Managing Director and
> Head of Responsible Investment
> PSP Investments

PSP Investments' climate commitment is a prime example of how, within the context of our mandate, we are aligning with the global transition to a decarbonized economy. Similarly, our active ownership approach – which includes, where appropriate, the use of engagement and proxy voting to promote good corporate governance and sustainability practices that enhance long-term financial returns – aims to communicate to the board and management of companies in which PSP owns shares our views on important matters such as diversity, equity and inclusion, human rights and climate change.

How do you see responsible investment evolving in the coming years?

ESG is an evolving concept that aims to come to grips with the massive transformation that societies and markets are currently undergoing. Responsible investment will remain relevant so long as current price signals and regulation do not fully capture the true costs and benefits of these transformations.

However, at some point, maybe 10 years from now, we'll no longer talk about responsible investment. That's because sustainability will be pervasive, fully baked into mainstream investing, regulation and reporting as a third dimension, alongside traditionally defined risk and return parameters.

At PSP Investments, the implementation of a hub-and-spoke model will be an important step in this direction. However, this won't happen overnight and a big part of our transition will involve giving our investment teams the technology-enabled tools, data and training that enable them to integrate ESG considerations into their processes in a more holistic manner.

At the same time, I'm mindful that the soft side of change management can be more challenging than the hard side, especially in financial institutions. I see myself as an ambassador of sustainable investment and aim to lead the transition at PSP Investments by building on the great work of my colleagues.

> **As investors, we have an important role in promoting sustainability within our investments and considering externalities in managing those investments.**

2022 ESG highlights

Climate change and green asset taxonomy

20.2%
of AUM considered to be green assets[1] ($46.5B)

2.8%
of AUM considered to be transition assets[2] ($6.6B)

42%
of carbon footprint covered with company-reported GHG data (representing a 14% year-over-year increase)

$1 B
green bond issuance

Active ownership

5,837
Voted at 5,837 shareholders' meetings on 58,678 resolutions

811
Engaged with 811 listed companies on key ESG issues

42
Engaged 42 real estate partners globally in gathering ESG data for more than 1,100 of our privately owned properties

11
Conducted 11 cybersecurity assessments of portfolio companies

Investment analysis and decision-making

Conducted ESG assessments of:

152
prospective direct investments (private markets and alternative investments in capital markets)

98
prospective publicly listed companies

44
external managers and general partners' practices

Governance

Excellent

Highest possible governance score of excellent by CICERO Shades of Green for our Green Bond Framework

[1] Green assets – Investments in low-carbon activities that lead to positive environmental impacts.

[2] Transition assets – Investments that have committed to make a substantial contribution to the low-carbon transition through the establishment of public targets and disclosure practices.

Key achievements and priorities

PSP Investment's pragmatic, data-driven approach to responsible investment helps us deliver on our mandate and bring our purpose to life in our day-to-day decisions and activities. We made good headway on our priorities in fiscal 2022 and have clear plans for the next steps on our journey.

Addressing climate change

We advanced our approach to addressing the multi-faceted risks and opportunities associated with climate change by linking our climate change commitment to our *PSP Forward* strategic plan and overall RI strategy.

- Committed to using our capital and influence to contribute to the transition to global net-zero emissions. Our inaugural climate strategy roadmap sets out an enhanced ambition to guide emissions reduction across our investment portfolio. Through our investment and engagement efforts, we anticipate reducing our portfolio GHG emissions intensity by 20-25% by 2026 relative to a 2021 baseline.
- Developed a bespoke Green Asset Taxonomy to help measure an investment's potential to contribute to the low-carbon transition based on its carbon intensity and the credibility of its transition plan.
- Released a comprehensive Green Bond Framework and issued a $1.0 billion green bond, our first-ever such issuance, to fund specific climate and environmental projects and to meet growing investor demand for sustainable products. The Framework was awarded an environmental rating of "medium green" and the highest possible governance score of "excellent" by CICERO Shades of Green.

FY23 priorities

We intend to accelerate AUM growth in green, enabling and transition assets across the total fund, while reducing our carbon-intensive investments without transition plans. We'll also increase our engagement with portfolio companies, where appropriate, to encourage transition planning and disclosure practices aligned with the Task Force on Climate-related Financial Disclosures (TCFD).

Please see our "Spotlight on our climate strategy" on page 11 to learn more about our climate strategy and early progress.

Data-driven approach to integrating ESG factors into our decision-making

We improved our access to comparable and reliable ESG data, with a view to enhancing our analytical capabilities, generating further insights that drive value-creation opportunities and improving the performance of ESG factors over time.

- Developed a proprietary scoring system, called the ESG composite score, which enables us to quantitatively assess and monitor a company's performance on key ESG considerations, and authored a Sustainability Accounting Standards Board (SASB) ESG integration case study on how we created the ESG composite score.
- Increased our total fund climate-related data collection efforts, enabling us to double the self-reported GHG data available from our portfolio companies – which was critical for developing our climate strategy and setting relevant targets.
- Scaled up our approach to managing and monitoring performance of key ESG considerations by introducing total-fund ESG key performance indicators (KPI) in the areas of climate change, diversity and inclusion, business ethics, cybersecurity and data privacy, and human capital management. The KPI-related data will be collected annually.

FY23 priorities

Expanding our access to credible, high-quality ESG data and the scope of ESG data collected will remain priorities across our total fund. This will also further our understanding of the correlation between sustainability and financial performance through enhanced, comparable and reliable ESG key performance indicators. We'll advance this work both on our own and through continued collaboration with like-minded industry and non-profit organizations and investors.

Knowledge sharing and value creation

We developed new strategies aligned with evolving best practices, which will facilitate our efforts to further embed ESG and climate considerations into our portfolio construction, investment decision-making and active ownership processes and into our organizational culture.

- Leveraged the Corporate Governance Dashboard, a collaborative tool that has transformed our traditional way of managing proxy voting data into a dynamic process and enabled quarterly portfolio monitoring for our Public Market Equities group.
- Developed a technology-enabled ESG due diligence and engagement workflow for our Capital Markets group to enable enhanced information sharing between business units.
- Reviewed our ESG assessment framework for external managers and general partners to align with evolving best practices and to integrate climate change and diversity, equity and inclusion considerations both at the firm level and within investment activities.
- Engaged with like-minded organizations in support of furthering responsible investment best practices and ESG trends, including the Principles for Responsible Investment (PRI), the Investor Leadership Network (ILN), the Institutional Limited Partners Association (ILPA), the SASB Alliance, the Canadian Coalition for Good Governance (CCGG), and the Pension Investment Association of Canada (PIAC).

FY23 priorities

We will advance our RI approach through implementation of a hub-and-spoke operating model, enabling the RI group to devote more time to strategic initiatives, complex transactions, ESG opportunities and active ownership activities. Standard ESG integration activities will be performed within the asset classes, with the RI group providing support and quality assurance.

Spotlight on our climate strategy

As a global investor, PSP Investments can play a significant role in the transition to net-zero emissions by the way we invest and the way we use our influence. Within the context of our mandate, we are aligning our investment and engagement strategies to support the achievement of this global goal.

Our inaugural Climate Strategy Roadmap lays out our plan, and includes several short-term targets aimed at keeping us on track toward our long-term objective. Here, we provide an overview of our strategy and progress since its launch in April 2022.

Climate commitment and objectives

Increase investments in green and transition assets

Increase investments in enablers of climate mitigation and adaptation

Reduce proportion of carbon-intensive investments without a transition plan

Deliver a reduction in real-economy emissions and our portfolio carbon footprint over time

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

Green asset taxonomy

The PSP Investments Green Asset Taxonomy is a bespoke classification system for assessing our exposure to green, transition and carbon-intensive assets.

Many different taxonomies have been developed to help mobilize capital toward achieving the Paris Agreement climate objectives. Most establish asset-level performance criteria that enable investors to benchmark the present-day climate impacts of their investment decisions and activities. While sustainable finance taxonomies have focused on establishing criteria for green activities, there's a growing need to broaden their scope to include climate transition activities. We believe these taxonomies ought to be useful for making decisions related to climate risk management, net-zero transition planning and climate disclosure.

To this end, we developed our own Green Asset Taxonomy, which considers the two key variables of climate investing – carbon intensity and the credibility of a company's climate transition plan. We intend to use it to map investments at the time of due diligence and to monitor their progress over time.

We have begun to leverage the Green Asset Taxonomy to screen investments and inform our climate investing decision-making at the asset, asset class and portfolio levels. It is also proving useful insights for engaging with partners and portfolio companies on sector decarbonization objectives, and for deepening our understanding of the long-term positioning of our investments with respect to the net-zero transition.

To learn more, please see the Green Asset Taxonomy whitepaper on our website.

Progress since the launch of our strategy

Performance against targets (as of March 31, 2022)

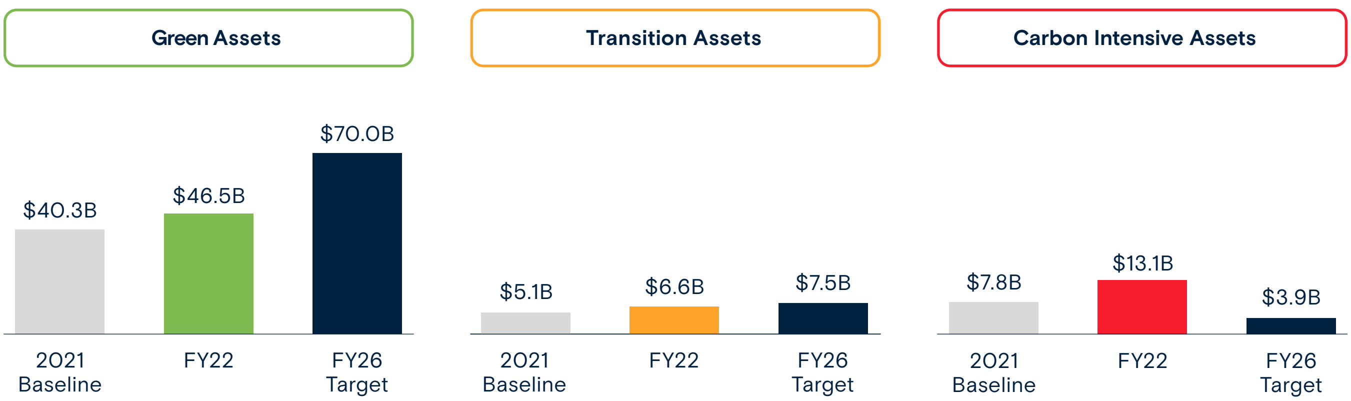
Since the launch of our inaugural climate strategy on April 21, 2022, we have continued to map our AUM against the Green Asset Taxonomy.

To date, more than $202 billion of AUM has been deemed in-scope[3, 4] for this exercise. Of this number, approximately $110 billion has been mapped against our taxonomy, using either asset-level Scope 1 and 2 emissions or asset-level green bond alignment. Approximately $92 billion of in-scope investments do not yet disclose GHG data and therefore cannot be mapped.

Our goal is to increase coverage over time as more data becomes available. We also intend to include Scope 3 emissions data once a sufficient amount of this information exists.

This snapshot of our Green Asset Taxonomy shows where our portfolio stands versus our climate investing targets in each of the key categories.

Green Asset Taxonomy



The **green asset** category includes approximately $17 billion of assets that meet green bond eligible categories, $25 billion of assets that outperform sector benchmarks by 30%, and $3 billion of assets in sectors that enable lower emissions. Relative to our September 2021 baseline calculation, our exposure to green assets has increased by $6.2 billion. This increase was driven by new low-carbon investments, the collection of supplemental GHG data, and methodological changes in industry classification deployed for the purpose of identifying light green assets.

Our exposure to **transition assets** has increased by $1.4 billion. With more target setting in public markets, the majority of our exposure to transition assets stems from public equities, where we benefit from the growing number of issuers that have committed to reducing their GHG emissions through the disclosure of transition plans.

Our exposure to **carbon-intensive** assets has increased by $5.4 billion relative to our baseline. The inclusion of our Credit Investments asset class and our Complementary Portfolio[5] accounted for an increase of $1.7 billion. Other factors driving this increase include methodological enhancements to the taxonomy and increases in asset valuations.

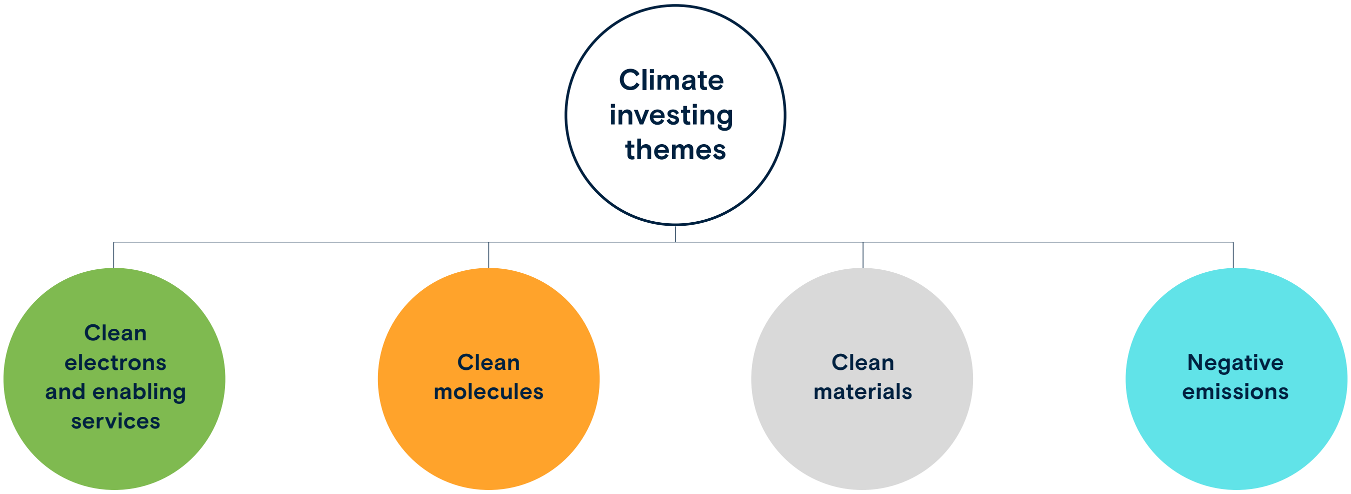
[3] Includes long-only public equities (active and passive); real assets (direct and indirect); private equity (direct and indirect); Credit Investments (added in March 2022), Complementary Portfolio (added in March 2022).

[4] Figures represent gross AUM.

[5] PSP's Complementary Portfolio focuses on investments that are not within the mandate of an existing asset class but are deemed to be beneficial for the total fund.

Climate investing themes

Recognizing the magnitude of the climate-aligned investment opportunity, and to position ourselves to rapidly ideate, incubate and scale our approach, we've developed four climate investing themes. These themes will help drive our strategy forward and identify new value pools and investment opportunities aligned with the global energy transition.



Clean electrons and enabling services

Reducing emissions from power generation and switching more end-uses from fossil fuels to clean power is a key pathway to achieve global decarbonization by 2050. Clean electrons and enabling services refers to the substantial investment opportunity that stems from the decarbonization of the global power sector and electrification of buildings, transportation and industries.

Clean molecules

Clean molecules such as hydrogen and other biofuels will play a complementary role to electrification solutions in the energy transition. The International Energy Agency expects production of hydrogen and other biofuels to grow tenfold by 2050. In many cases, these low-carbon fuels will leverage and extend the economic life of existing fuel infrastructure.

Clean materials

Society continues to demand significant supply of materials essential for our quality of life, such as steel, cement, chemicals and critical minerals. To ensure that the production of these materials does not undermine climate goals, alternative processes to produce these materials must be found, and materials themselves must be decarbonized. Clean materials are assets and opportunities that will enable this transition.

Negative emissions

Since reaching absolute zero emissions will not be possible nor economically viable for many organizations, efforts to decarbonize will need to be complemented by carbon-removal technologies to balance out residual emissions. While natural climate solutions require minimal technological advancement and can be readily implemented, engineered solutions such as direct air capture will require significant investment.

TCFD Report

PSP Investments has been a longstanding supporter of the Task Force on Climate-related Financial Disclosures (TCFD), which has established recommendations for disclosing clear, comparable and consistent information about the risks and opportunities presented by climate change.

We strongly believe that the TCFD's recommendations foster improved transparency of climate change-related risks and opportunities in financial markets. As a pension fund manager and asset owner, we are committed to continuously improving and enhancing our disclosures in relation to climate change-related financial risks and opportunities. These efforts are aligned with our climate strategy, which includes a focus on improving climate-related reporting and disclosure.

Climate-related risk is increasingly the subject of reporting requirements and regulatory guidance. We welcome the fact that fighting climate change is a key priority of the Government of Canada and are proud members of, and contributors to, the Crown Corporation Community of Practice where we share our experiences around environmental strategies and reporting.

Please see our FY22 TCFD Report to learn more about our climate-related financial disclosure.

ESG portfolio highlights

By investing in key sectors and progressive companies around the world, and by using our influence to promote sustainable business practices, we enhance the long-term returns from our investments and help create a better tomorrow — for our beneficiaries, society at large and the environment.

We're proud to share stories from the companies in our portfolio, which reflect our conviction in pursuing our purpose and the emphasis we place on portfolio and investment management.

Environment

Engineering a bright future for UK rail

On its journey to sustainability, Angel Trains has a ready, willing and able partner in PSP Investments, its majority owner.

"Sustainability is at the centre of our business and our values," says Malcolm Brown, CEO of Angel Trains. "This means both doing what's needed to ensure our company's continued success and contributing to the UK's and our sector's decarbonization agendas."

"We've been fortunate to have PSP Investments beside us all along our journey; not just approving our decisions, but actively involved in the decision-making process and sharing best practices."

Angel Trains' sustainability efforts – which include publishing its first sustainability report in 2021 – have put the company at the top of its sector in key industry benchmarks. Notably, Angel Trains achieved 94% in the 2021 GRESB Infrastructure Assessment, rating well above both the GRESB and peer averages of 72% and 81% respectively and improving its score by more than 28% over the past five years. Angel Trains was also awarded Platinum accreditation by Investors in People in December 2021, in recognition of its commitment to continuous improvement, customer service, culture and more.

An investor in Angel Trains since 2008, PSP Investments acquired a majority stake in the company in September 2021. A big part of our investment decision was the significant role that Angel Trains is playing in the decarbonization of the UK's transportation sector, which accounted for 24% of the UK's GHG emissions in 2020[6], and the opportunities to support Angel Trains in phasing out its remaining existing fleet of diesel trains.

"Rail is one of the lowest-carbon modes of transport, so if we can switch more passengers and freight to rail, then we are already decarbonizing," explains Mr. Brown. However, Angel Trains is doing more than just that.

The company's CEO chairs the Rail Industry Decarbonization Task Force, a collaborative initiative working to reduce carbon emissions across the rail network in line with the UK government's targets to remove all diesel-only trains by 2040 and achieve net-zero carbon by 2050.

Virtually all new trains procured by Angel Trains since 2000 have been electric vehicles, which represent the greatest opportunity for reducing carbon emissions. For its existing fleet, Angel Trains is investing in ground-breaking alternative traction power technologies, such as a self-charging battery hybrid drive that bridges the gap between diesel and fully electrified rail and can be easily adopted without the need for infrastructure changes.

Mr. Brown adds: "We have a strong sense of purpose, which inspires our actions and is very much aligned with PSP Investments' purpose. For us, it's about being intelligently invested in engineering the brightest future for UK rail."

angel Trains

[6] UK Department for Business, Energy & Industrial Strategy, 1 February 2022 (source: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1051408/2020-final-greenhouse-gas-emissions-statistical-release.pdf).

Social

Collaborating for greater social impact

As we put our capital and talents to work in pursuit of greater returns and greater impact, our relationship with TPG is becoming all the more valuable.

We've made a financial commitment to TPG's Rise Funds II and III, which are dedicated to achieving competitive private equity returns alongside social and/or environmental impact, with no compromises between the two objectives. The Rise Fund II's portfolio companies offer business solutions that, to date, support delivery of 13 of the United Nations' Sustainable Development Goals.

In fiscal 2022, we deepened our relationship with Y Analytics, TPG's impact assessment and ESG arm. Y Analytics is committed to helping advance the field of impact investing by sharing its data-driven approaches and learnings, and we are eager to learn from them. Our partnership paves the way for engaging with each other, leveraging our respective insights and data, and working together to build a stronger sustainability community of practice.

"As humans and as investors, we're all recognizing an urgency to address societal problems that affect stability, economic health and the human condition," says Maryanne Hancock, CEO of Y Analytics.

"Many of us – Y Analytics and PSP Investments included – have come to realize that these problems can't be solved with government support or philanthropic capital alone. So, we've asked ourselves collectively what role private capital can play in advancing solutions, while remaining committed to the investment returns needed to deliver on promises to beneficiaries."

Y Analytics provides decision tools to increase investors' confidence that the companies they're going to invest in will have impact above and beyond what would have happened without those companies. "We're essentially translators," explains Ms. Hancock. "We translate the wealth of scientific, climate, social, medical and economic research about the effectiveness of social and environmental interventions into practical decision tools for investors. In this way, we help direct much-needed private capital to solving societal challenges."

TPG

ANALYTICS

reflexion

Investing in healthcare innovation

PSP Investments has invested alongside the Rise Fund in RefleXion, an emerging therapeutic oncology company that has developed an approach to treating cancers that holds promise for reducing healthcare costs, expanding treatment to more people and improving patient survival rates.

The company's innovative biology-guided radiotherapy allows for signals emitted from the cancer itself to guide immediate treatment. The technology would unlock the potential to treat more than three or four tumors simultaneously, which would broaden treatment opportunities for cancer patients who might normally be classified as too advanced for radiotherapy – affecting as many as 600,000 patients annually in the U.S. alone.

Governance

Accelerating change through good governance

FirstLight Power, a clean power and energy storage company in PSP Investments' Infrastructure portfolio, is on a mission to combat climate change and decarbonize the electric grid. The past two years have been pivotal for the company, as it has expanded into new technologies such as solar, lithium-ion batteries and offshore wind, and entered new geographic markets.

FirstLight's growth and strategic repositioning – from a static, New England-based hydroelectric operator to a growth-oriented platform optimizing investments across diversified technologies and markets – are stewarded by an active board of directors, within a strong governance framework put in place when PSP Investments acquired the company in 2016.

We have taken a public markets-style approach to governing FirstLight, following best practices recommended by our inhouse legal and governance experts. This includes bringing in independent directors with diverse backgrounds and deep energy market experience, including two women and a military veteran, so that the seven-person board is comprised of four independent directors (with an independent Chair), two PSP Investments nominees and the CEO.

According to CEO Alicia Barton: "New independent directors and executive leadership have brought a fresh perspective to the company and to what's possible for maximizing the value of the assets in our portfolio, which is becoming all the more important as we look to an extremely dynamic future for energy markets and decarbonization."

"Receiving clear direction from PSP Investments on its priorities and strategies for key ESG issues like climate change has been critical in ensuring strategic alignment with our shareholder. What's more, PSP Investments' emphasis on long-term value creation, rather than quarterly results, is extremely helpful in terms of how we make decisions and think about challenges in the markets we serve."

FirstLight's commitment to responsible governance and management enabled it to weather the energy market's COVID-19-induced downturn of 2020. By continuing to grow the capacity of its assets and team, the company has been able to overcome completely different challenges in 2022, as global fossil fuel prices have skyrocketed and the world has shifted its attention to securing clean, reliable domestic energy that can provide cost-effective solutions for consumers.

As it continues its strategic pivot, FirstLight has recast its corporate mission to reflect its wider goals. That mission is "to accelerate the decarbonization of the electric grid by developing, owning, operating, and integrating large-scale renewable energy and storage assets to meet the world's growing clean energy needs and to deliver an electric system that is clean, reliable, affordable and equitable."

FirstLight

Our evolving approach to responsible investment

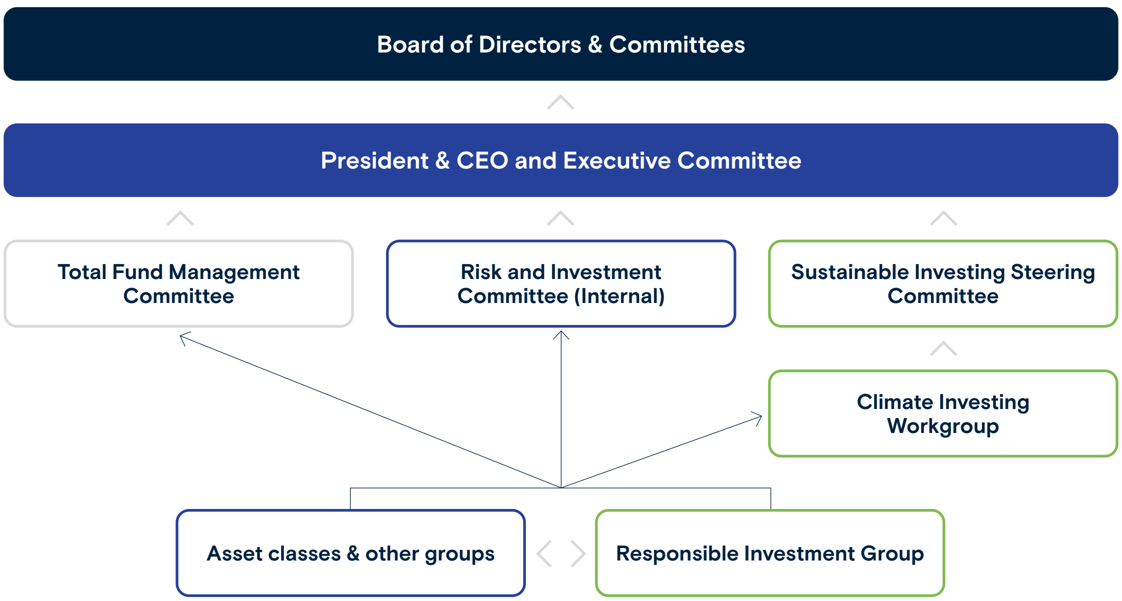
We believe that well-run companies that effectively manage social and environmental issues are more likely to prosper over time. That's why, as a long-term investor, we integrate ESG considerations into our investment analysis and decision-making and support sustainable business practices among the companies in our portfolio.

Where we once considered ESG integration mainly as a risk lens, we now approach it as a way to capitalize on trends and capture value-creation opportunities to enhance returns.

Our responsible investment journey started in 2001. Click to discover our key milestones.

Responsible investment governance

PSP Investments is committed to upholding high standards of corporate governance. RI accountability and oversight are integrated into existing governance and management structures, ensuring a firmwide approach. Our Board fully supports our approach to responsible investment, and ESG-related topics are discussed regularly at Board and Committee meetings. Our Responsible Investment Policy forms part of the overarching responsible investment strategy and is reviewed and approved by PSP Investments' Board.



- Assisted by its **Governance Committee**, PSP Investments' **Board of Directors** is responsible for approving and monitoring our approach to responsible investing, including the management of climate change-related risks and opportunities. As part of this oversight, the Board approves the Responsible Investment Policy and the Governance Committee approves the Proxy Voting Principles.
- The **President and Chief Executive Officer** (CEO), with the support of the **Executive Committee**, is responsible for providing strategic oversight of responsible investing initiatives, objectives, and strategy, as well as related commitments and implications.
- Our **Chief Investment Officer** (CIO) oversees the development and execution of our responsible investing and climate strategies and related policies and guidelines, and the incorporation of ESG considerations, including climate change, into our portfolio construction.
- The internal **Risk and Investment Committee** (RIC) is composed of senior members of PSP Investments, including the Managing Director and Head of Responsible investment, and is responsible for general investment management oversight and the approval of specific investment decisions under its delegated authority. The RIC evaluates transaction-specific underwriting and risk/return considerations, such as material ESG risks and opportunities including climate change and reputational impacts.
- The internal **Total Fund Management Committee** (TFMC) is composed of senior members of PSP Investments, including the Managing Director and Head of Responsible investment. The TFMC is responsible for approving all portfolio construction decisions, including those related to the Green Bond Framework, and ensures the incorporation of ESG and climate factors.
- The **Sustainable Investing Steering Committee** is comprised of senior members of PSP Investments and is responsible for strengthening our responsible investing foundation by enhancing our governance, approach to climate change and ESG data integration.

- The multi-asset-class **Climate Investing Working Group** is responsible for monitoring the implementation of our climate investing strategy within asset classes and for sharing knowledge across the firm. It is occasionally involved in investment opportunities that fall outside asset class strategies or mandates. Please see our TCFD report to learn more.
- The **Responsible Investment group** acts as a centre of expertise responsible for elevating ESG factors, including climate risks and opportunities, as key value drivers in our portfolio management and investment decisions. Key activities include:
  - Developing policies and strategies to ensure alignment with leading practices.
  - Providing guidance on key ESG themes and trends to the Board, President and CEO, and investment groups.
  - Supporting our asset classes and overseeing ESG integration at all stages of the investment cycle.
  - Working with the Technology and Digital Strategy group to advance a more technology-enabled, data-driven approach to ESG integration.
  - Pursuing active ownership through proxy voting and engagement activities.
  - Promoting thought leadership, conducting ESG research, and delivering climate education, training and awareness to build knowledge and expertise across PSP Investments.
  - Reporting on responsible investment activities to the Board's Governance Committee and other stakeholders at least twice a year.
  - Collaborating with partners, NGOs and peers.

About the Responsible Investment group

Our Responsible Investment group is housed in our Chief Investment Officer group, giving group members the unique ability to systematically oversee and implement responsible investment activities across the total fund.

The group members' diversity and wide range of skills, experience and expertise equip them to provide insights on the ESG risks and opportunities of our investments, and to facilitate better investment outcomes and lasting positive impact.

From top left to bottom right
Marilynn Ethier, Catherine Isabelle, Kaitlyn Law, Mitch Seider

While operating as a centre of excellence within PSP Investments, the group partners with asset classes and corporate functions to implement our responsible investment approach. It also pursues stewardship and collaborative activities to steer ESG best practices.

In fiscal 2022, the RI group conducted targeted ESG and climate sessions for investment teams and corporate functions and organized information sessions for all PSP Investments employees to promote organization-wide ownership of our responsible investment approach and climate change strategy.

From left to right
Meera Sodonon-Along,
Herman Bril, Erin Flanagan,
Denis Boily Ortega

From left to right
Ludmya Khaled, Vincent Felteau,
July Giachetti, Caroline Samson

ESG integration and active ownership framework

ESG integration is one of our core investment beliefs. Embedded in our total fund approach, our ESG integration and active ownership framework outlines our approach to identifying, analyzing and monitoring material ESG factors at each stage of the investment process, for both internally and externally managed investments. This framework prioritizes materiality but remains flexible so that processes can be tailored to the asset class and investment strategy, and keep pace with emerging ESG risks and opportunities.

Our focus on materiality is aimed at accounting for the most salient ESG factors that could have a significant impact on a company's financial or operating performance. Beyond simply managing risks, we look to capitalize on investment opportunities provided by these factors.

	Investment opportunity	Investment decision	Active ownership
Internally managed investments	Identify key ESG factors and determine due diligence scope	In-depth assessment of material ESG risks and opportunities	Monitoring and re-assessment of ESG risks, opportunities and performance, shareholder engagement and proxy voting
Externally managed investments	Define due diligence scope based on investment strategy	In-depth assessment of ESG integration practices of the manager	Monitoring and re-assessment of ESG practices and engagement on ESG best practices

Investment restrictions and divestment

We believe that active ownership 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 on ESG factors, including climate change.

As a long-term investor, we believe that working with companies can bring change over time. We regularly engage with our portfolio companies and partners across all asset classes to advocate for and improve relevant ESG practices.

However, there are instances where we may decide to refrain or may be legally restricted from investing in sectors presenting heightened ESG risks. We may also exclude or divest from investments where long-term financial risks do not align with our investment beliefs and the meeting of our mandate. This occurred following Russia's invasion of Ukraine. While our investments in Russia were not material and were predominantly passive indexing, we took steps to divest from all of our Russian Federation investments and are committed to exiting this market as soon as market conditions permit.

In the sections that follow, we provide a more comprehensive view of our approach to ESG integration for internally managed public and private market investments, and for externally managed investments.

Internally managed investments

Investment analysis and decision-making

We conduct an in-depth assessment of material ESG risks and opportunities of all internally managed investment opportunities, using the SASB industry-level materiality framework as our guide. Our approach to ESG integration is designed to be agile and reflective of the dynamic nature of ESG materiality, recognizing that ESG considerations that may not currently be viewed as material could escalate in the future.

We also monitor the occurrence of controversies, assess the actions that followed past incidents, and leverage insights from our stewardship activities to better inform our decision-making process. Findings are incorporated into the investment thesis and considered alongside traditional financial factors.

Public markets

When conducting ESG reviews of publicly listed companies, we start with an analysis of their corporate governance practices, focusing on board composition and effectiveness, executive compensation and shareholder rights. This governance assessment also provides indications of transparent and timely disclosure of reliable information, sufficient for investors to make informed long-term decisions.

Our RI group performed 98 ESG assessments to support our Capital Markets' investments across developed and emerging markets.

ESG composite score

Our ESG composite score is a proprietary scoring system that enables us to quantitatively assess and monitor a company's performance of ESG considerations. The system identifies material ESG risks and opportunities and dynamically measures their relative importance, using an artificial intelligence screening tool that captures real-time changes in stakeholder sentiment.

Designed to scale our ESG integration process and monitor portfolio holdings over time, the ESG composite score has helped us translate information previously buried in hundreds of pages of traditional research and sustainability reports into quantitative data that can be centralized and aggregated.

Incorporating SASB Standards, our solution was featured in an SASB case study showcasing how the Standards can help investors develop new tools to support ESG integration and inform the investment process. The case study highlighted our use of artificial intelligence to shed new light on the pathways to enterprise value creation through the lens of dynamic materiality.

Private markets

Our approach to ESG due diligence and assessment for private market investments is tailored to the opportunity and varies by industry, sector and geography. Given the significance of climate change risks, we integrate material climate issues into our due diligence and assessments. Where required, we also engage external experts and consultants to provide additional insight.

The investment recommendation memorandum presented to our oversight investment committees includes a summary of the ESG due diligence outcomes, including overall conclusions on ESG risks and opportunities as well as associated risk mitigation measures and action plans to address the findings. This ESG due diligence and assessment may result in turning down an investment opportunity, reviewing the price, or implementing action items during the ownership period.

ESG considerations were reviewed for more than 150 transactions across our private market asset classes. The most common material ESG factors raised were business ethics, cybersecurity, employee health and safety, environmental management and climate change risks.

Climate change physical risk assessment tool

The climate change physical risk assessment tool helps us screen potential investments for climate-related physical risks, including acute risks associated with extreme weather events as well as chronic risks caused by longer-term shifts in precipitation, temperature and weather patterns. Used by several of our Canadian pension fund peers, we work together to continually improve the tool.

Going forward, we also intend to use it to generate asset class and portfolio-level insights that can inform our asset management decisions. We see this as a key value driver, giving us more visibility into climate change risks and opportunities across multiple dimensions and helping us identify areas requiring greater adaptation and mitigation measures.

Case study

Investing in industry leaders

In fiscal 2022, our Credit Investments (CI) group committed to provide financing to support a partner in its acquisition of a leading manufacturer of packaging products.[7]

During the due diligence process, we worked closely with our partner to assess material ESG factors, including product lifecycle management and climate change transition risks.

The due diligence revealed that the company aspired to be an industry leader in the circular economy by providing innovative sustainable product solutions and that it had set near-term GHG emissions reduction targets. We also determined that the company's GHG emissions performance outperformed the relevant packaging industry benchmark by more than 30%, demonstrating strong climate change competitiveness and meeting the light green asset-level requirements of our Green Asset Taxonomy (please refer to our website for more information on these requirements. In addition, the company's climate change targets aligned with our definition of an "early transition plan."

Overall, our analysis revealed strong performance on key ESG considerations, positioning the company well in our total fund and credit investments portfolios.

[7] Transaction closed after our FY22 year-end.

Active ownership of public companies

For public companies whose securities we hold, we promote good corporate governance and responsible business practices by exercising our proxy voting rights and actively engaging with them, where appropriate, on material ESG issues. Board responsiveness, performance of key ESG considerations and management of controversies are monitored to inform our voting decisions and prioritize our engagement activities.

We believe that our actions contribute to the long-term success of these companies.

Engagement

We rely on constructive, recurring, objectives-driven dialogue to understand a company's approach and strategies for managing emerging trends, mitigating potential risks and seizing opportunities.

Our engagements are focused on the most material ESG risks and opportunities, and companies are selected based on factors such as the size of our holding, the prospects of success and the materiality of the ESG issues.

Engagement selection process

Case study

Guiding emissions reduction

Following the review of a chemical company's sustainability and CDP reports, which was conducted with the assistance of a global stewardship provider, we expressed concern over the absence of targets for improving environmental resource efficiency and methods of using plastics more sustainably.

Setting ambitious climate targets was seen as important because of the dependence of the company's business model on hydrocarbon value chains, concerns over the materiality of energy expenses, and its role in managing plastic waste globally.

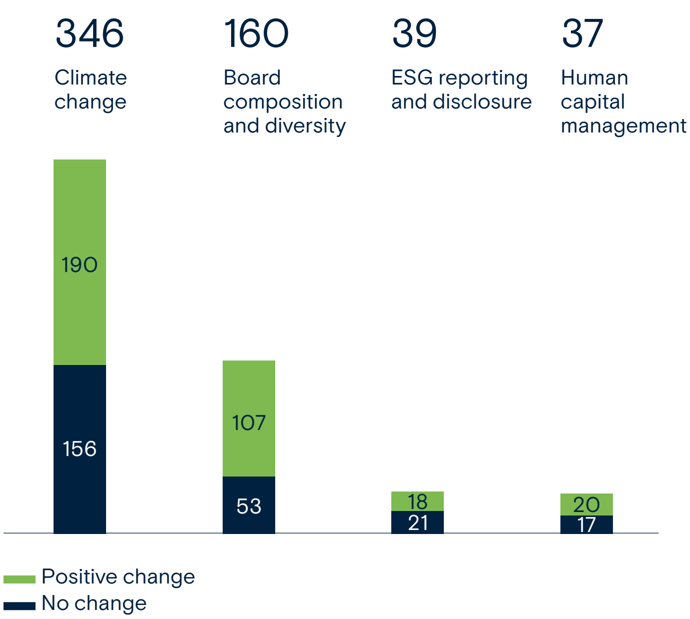
In response to these concerns, the company communicated that it was investing in projects to improve energy efficiency and acknowledged our request to set science-based targets. Our engagement partner proposed a discussion on climate change at the company's 2021 annual meeting using a legal mechanism to accelerate progress.

The outcome of these engagement activities was positive. In 2021, the company released a climate strategy that included a 2050 net-zero goal for global operations, a 30% target for the absolute reduction of Scope 1 and 2 emissions, and a commitment to a 50% increase in electricity sourced from renewable energy by 2030. In addition to its climate goals, the company made commitments in its sustainability report to help eliminate plastic waste from the environment, including waterways and oceans, and to advance a circular economy.

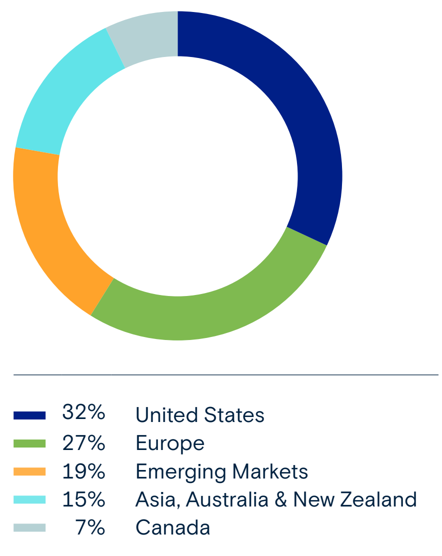
Engagement statistics

We engaged with 811 publicly listed companies whose securities we hold. This was done either directly with the company, with the assistance of a global stewardship service provider, or in collaboration with like-minded investors or organizations such as the Canadian Coalition for Good Governance.

Engagement objectives progress



Companies engaged – by country or region (FY2022)



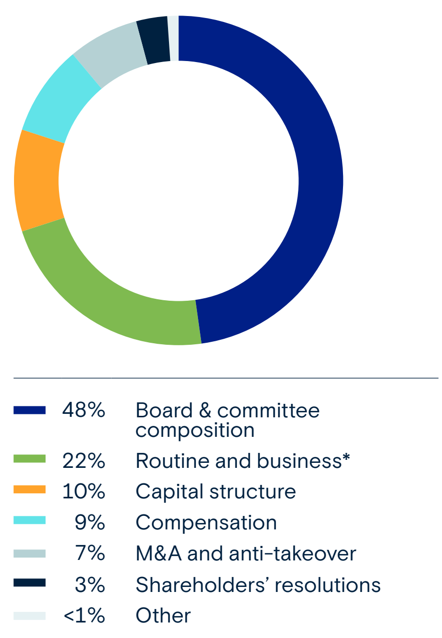
Proxy voting

Our Proxy Voting Principles (Principles) outline our expectations as 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.

We regularly review our Principles, supporting guidelines and procedures to appropriately address emerging trends and practices. The review conducted in our last fiscal year reinforced our belief that boards should have appropriate levels of diversity in the backgrounds, experience, and competencies of their directors, as well as policies supporting diversity. We also resolved to take a more proactive approach to supporting shareholder proposals in favour of timely disclosure of performance of key ESG considerations and practices that have a material influence on investment risks and returns, including those related to climate change.

We voted at 5,837 meetings on a total of 58,678 management and shareholder resolutions around the world. Approximately 21% were votes against management, mainly related to board composition issues. Details of our proxy voting records are available on our website.

Resolutions voted – by topic (FY2022)



* This includes auditors and financial

Active ownership of private investments

In the face of continued disruption in the global economy, many private market investors are focused on building sustainable and resilient businesses. We view the current situation as an opportunity to further integrate ESG into our asset management practices and drive positive outcomes through direct and collaborative engagement.

In line with our emphasis on ESG data, we're increasing the measurement and management of ESG outcomes resulting from our private market activities and operations. This will notably be done by introducing the annual collection of ESG KPIs in the areas of climate change, diversity and inclusion, business ethics, cybersecurity and data privacy, and human capital management from our portfolio companies. We believe that 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, while generating positive impacts for society and the environment.

Tackling climate change through advice and engagement

As part of our new climate strategy, we're increasing our outreach with portfolio companies to communicate our expectations around emissions reductions and long-term climate alignment. We're also working closely with co-shareholders and partners to encourage the adoption of credible decarbonization plans and proactive disclosures aligned with the TCFD.

In July 2022, we announced a partnership with the engineering consulting firm WSP to launch a comprehensive climate analysis of more than three million hectares of timberland and farmland. Our objectives were two-fold: to establish a portfolio-wide baseline of PSP Investments' Natural Resources GHG emissions using farm-level data to support the development and implementation of a decarbonization roadmap and establishment of science-based transition plans for portfolio companies; and to determine the sequestration capabilities of our Natural Resources assets in different carbon pools.

Case study

Infrastructure Health & Safety Best Practices Network

During the pandemic, we facilitated meetings of the PSP Investments Health and Safety (H&S) Best Practices Network to discuss how our portfolio companies could protect their employees. Topics included updates to H&S policies and procedures, adoption of new technologies and operating models (e.g., working from home), adaptation and mitigation to improve performance, and effective contact tracing and testing protocols.

The Network connects H&S professionals from some of the largest infrastructure companies in our portfolio, providing a forum for sharing information, insights and best practices. Since its formation in 2017, participating companies have developed H&S policy guiding principles that cover topics ranging from H&S accountability and management systems to employee training, monitoring of key performance indicators and emergency preparedness. Through this initiative, we hope to help our infrastructure portfolio companies elevate their H&S standards and performance.

Real estate asset-level data collection initiative

This past year, we engaged 42 real estate partners globally in gathering asset-level data for more than 1,100 of our properties across various sectors and geographies, using a proprietary real estate ESG assessment tool.

We also improved our tool by incorporating a GHG quantification methodology aligned to industry best practice. This new functionality supports analysis of performance at the property level and identifies properties that are significantly under- or over-performing relative to the industry benchmark.

With this data in hand, we're able to evaluate properties and partners against the Carbon Risk Real Estate Monitor (CRREM) transition pathways and our own Green Asset Taxonomy, and better assess partners on their climate transition preparedness.

Case study

Cybersecurity preparedness

With the pandemic heightening companies' cyber risk exposure — due largely to increased external cyber threats and rapid digitization of business operations — we've taken steps to help our portfolio companies protect themselves.

In fiscal 2022, our Information Security group helped one of our wholly owned portfolio companies organize a cyber workshop for individuals overseeing IT security within its own portfolio companies. Alongside PSP Investments' specialists, various experts were invited to share industry trends and best practices for discussion and consideration.

During the year, we also continued the rollout of an investment cyber risk program aimed at helping our asset classes identify, assess and oversee cyber risk within their investment portfolios. The program covers the entire deal lifecycle with guidance on cyber risk due diligence and review at the pre-deal stage, transition support for new acquisitions and in-depth cyber risk assessments and advisory support for wholly owned and high-risk/high-exposure investments.

In fiscal 2022, we conducted 11 detailed cybersecurity assessments of wholly owned subsidiaries and certain controlled entities.

Externally managed investments

We allocate a portion of our capital to externally managed mandates and fund investments across our public and private market portfolios. Throughout the investment lifecycle, we engage regularly with our external partners on ESG topics to ensure that their ESG integration approach is consistent with our Responsible Investment Policy and expectations.

Investment opportunity

Our in-house proprietary ESG assessment framework for external managers and general partners evaluates ESG practices in three key pillars – Policy & Resources, Investment Process, and Reporting & Leadership – and across more than 40 indicators.

We recently updated our framework to align with our strategic priorities and evolving market practices. This included adding climate change and diversity, equity and inclusion (DEI) considerations, both at the firm level and within investment activities, to improve our understanding of managers' processes and performance in these two key areas.

The updated framework provided new opportunities to share knowledge and engage with our external partners on how they can improve their ESG investment and engagement activities, data management and ESG reporting. Supporting our shift to a more data-driven approach, our RI group now provides quarterly reports to PSP Investments' Board on external partners' ESG rankings and progress.

ESG assessment framework

Policy & resources

- Policy
- Resources

- ESG or responsible investment policy
- ESG-dedicated resources (internal, external)
- ESG-related training

Investment process

- Pre-investment
- Investment decision
- Ownership & engagement

- Systematic identification of ESG factors
- Inclusion in decision-making process
- Post-investment monitoring and engagement

Reporting & leadership

- Reporting
- Leadership activities

- ESG reporting to investors
- Participation in industry events and initiatives, and best practice support

ESG building blocks

Climate change

- Climate changes strategy or guiding principles
- Systematic identification of risks and opportunities related to climate change
- Tracking of portfolio carbon footprint
- Disclosures aligned with the TCFD recommendations

Diversity, equity, and inclusion (DEI)

- Systematic identification of risks and opportunities related to DEI practices
- Tracking of portfolio carbon company diversity metrics

Investment decision-making and active ownership

We assessed the ESG integration practices of external managers and general partners during the due diligence of 42 new fund investment and externally managed mandate opportunities and reviewed two existing external managers for changes in their practices.

Our assessment characterizes a firm as Leading, Active, Needs Improvement and Just Starting with regards to the robustness of its ESG practices. This rating then helps us determine the appropriate level and intensity of engagement with each organization.

We have seen steady progress in the adoption of ESG best practices by the majority of our external managers and general partners over the past five years, with most of it driven by momentum in both public and private markets.

Fast facts about our external managers and general partners[8]

83% of our exposure to externally managed investments is managed by external managers and general partners who have leading or active approaches to integrating ESG factors and applying ESG principles firmwide.

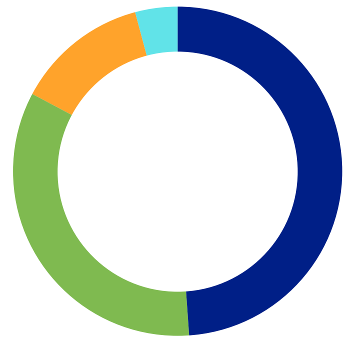
- ~59% are UN Principles for Responsible Investment signatories[9]
- ~87% have adopted a firmwide Responsible Investment or ESG policy[9]
- ~63% have dedicated ESG staff and/or an ESG committee/working group[9]

Targeting positive impact and improvement

Our proprietary, GRESB-aligned ESG assessment framework for real estate facilitates systematic assessment and monitoring of both the ESG maturity and robustness of our real estate partners' ESG approach, as well as the performance on key ESG considerations of the underlying assets. The partner assessment tool includes four dimensions – GRESB participation and scoring, integration of ESG factors in asset management and operations, asset-level ESG performance and sustainable development practices.

The data and insights from these assessments, combined with analysis from our annual asset-level data collection initiative, are the basis of targeted engagement with our partners focused on the areas most likely to yield positive impacts and improvements. In fiscal 2022, we completed 12 detailed partner assessments.

ESG ratings for external managers and general partners[8]



49%	Leading
34%	Active
13%	Needs improvement
4%	Just starting

[8] Third parties that manage funds on behalf of PSP Investments, approved by our Board's Investment & Risk Committee.

[9] Out of our approved external managers and general partners.

Partner insights

ESG practices among our partners are evolving rapidly and we are committed to engaging with and supporting our partners throughout their ESG journey. In the course of our interactions with them, we've identified notable ESG practices that we believe will become commonplace in the future. Some of these trends are outlined below.[10]

Public markets

- Increased focus on integrating ESG considerations, both from a risk management perspective and as a value-creation driver.
- Robust integration of climate change-related data into financial modelling.
- Company scoring on quality of climate-related risks disclosure, in line with the TCFD recommendations.
- Analysis of companies' ESG profile using industry specific ESG frameworks similar to SASB.
- Commitment to build ESG expertise within the firm.
- Use of unstructured data and artificial intelligence tools to complement company disclosure.
- Development of quantitative models that integrate ESG factors alongside other traditional factors.
- Increased focus on diversity and inclusion initiatives at the firm level.
- Formal and integrated ESG engagement process with engagement outcomes influencing the investment decision-making process.

Private markets

- Increased focus on post-investment activities, including ESG integration in value-creation plans and training of board nominees on ESG topics.
- Greater attention to monitoring GHG emissions and target-setting at the portfolio company level.
- Monitoring of ESG key performance indicators that are material to portfolio companies and increased use of tools that enable ESG data to be collected alongside financial metrics.
- Enhanced asset-level ESG reporting, including ESG metrics aligned with the EDCI.
- Advanced diversity and inclusion initiatives at both the firm and portfolio company levels.
- Increased focus on climate change-related risks and opportunities to guide investment decisions.
- Greater focus on social factors such as employee health and safety, labour practices, and diversity and inclusion.
- Alignment of lenders and private equity sponsors to support material and consistent ESG data disclosure within credit markets.
- More robust ESG integration practices for private credit strategies.

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

Leadership and collaboration

While seeking to accelerate and enhance the impact we can achieve directly, we also collaborate with like-minded firms, institutional investors, industry associations, non-profits and others to tackle responsible investment challenges.

Memberships and collaborations

We're proud to partner with peers, investment partners, industry associations, regulators and standard setters both nationally and internationally. Our collaborative efforts include, but are not limited to, seeking to improve transparency and standards on ESG data and disclosures, conducting relevant and informative research, participating in ESG-related regulatory consultations, promoting good governance practices and advocating for long-term thinking in both the investment and corporate worlds. Listed below are some of the partners we engaged with in fiscal 2022.

ILN (partner)

ICGN (member)

ILPA (member)

Signatory of:

PRI (signatory)

EDCI (founding participant)

ICPM (member)

PIAC (member)

CCGG (member)

CII (member)

Finance Montréal (signatory)

CDP (investor signatory)

FCLTGlobal (member)

30% Club (founding member)

Sustainable Finance Action Council (member)

Highlights of our collaboration efforts

Statement by the Quebec Financial Centre for a Sustainable Finance

In September 2021, we signed the Statement by the Quebec Financial Centre for a Sustainable Finance, alongside more than 20 peers from Quebec's finance industry, who together manage more than $900 billion in assets. By adding our name, we commit to promote finance based on the principles of responsible investment, underscoring Quebec's role as a North American leader in sustainable finance.

ESG Data Convergence Initiative

In September 2021, PSP Investments was one of the founding members of the ESG Data Convergence Initiative (EDCI), the first limited partner (LP)-general partner (GP) partnership aiming to standardize ESG reporting in the private equity industry. We have since become an active member of its Steering Committee.

The intention of the EDCI is not to introduce a new standard, but rather to provide better data over time that would enable GPs and portfolio companies to benchmark their current position and drive ESG improvements, while enabling greater transparency and more comparable portfolio information for LPs.

The effort encourages private market industry stakeholders to work together to gather better, decision-useful ESG data. Once fully completed, the initial benchmark data, which will be anonymized and aggregated, will provide findings on GHG emissions, renewable energy, board diversity, work-related injuries, net new hires and employee engagement.

Focused on creating a long-term mechanism for improving comparative reporting, the group will meet annually to review the prior year's data and build upon the initial metrics. It is also working to expand more broadly in private markets to include asset classes such as private credit.

Institutional Limited Partners Association (ILPA) Diversity in Action initiative

We were one of the first 25 limited partners to join the ILPA's Diversity in Action initiative in September 2021, securing a leadership role for PSP Investments among our industry peers. ILPA's Diversity in Action signatories bring together LPs and GPs who prioritize diversity, equity and inclusion (DEI) – both within their own organizations and in their portfolios. The goal is to motivate market participants to engage in the journey to becoming more diverse and inclusive and to build momentum around the adoption of specific actions that advance DEI over time.

Investor Leadership Network's Diversity in Investment Initiative

As part of the Investor Leadership Network's (ILN) Diversity in Investment Initiative, we contributed to the development of the Inclusive Finance Playbook, which provides investors with case studies and inclusion metrics that can be used for assessing company culture and employee experience. In June 2021, the ILN published *Creating a More Inclusive Economy: Practical Insights from Global Institutional Investors*. This state-of-the-industry report on equity, diversity and inclusion showcases best practices from member organizations — both as employers and as investors — and provides a blueprint for driving change in the investment and financial sectors. The report highlights that the lack of standardization in reporting and limited access to high-quality data, especially beyond gender, is a shared challenge for investors as they seek to improve DEI integration.

IFRS International Sustainability Standards Board

In July 2021, PSP Investments submitted input and comments for a letter supporting the IFRS Foundation playing an active role in setting sustainability disclosure standards and establishing a new International Sustainability Standards Board (ISSB). We also joined the Government of Canada and a coalition of more than 55 Canadian public and private institutions in inviting IFRS Foundation Trustees to locate the ISSB headquarters in Canada. Shortly thereafter, at COP26 in November 2021, the IFRS Foundation announced that the ISSB would establish an office in Montreal, with responsibility for key functions supporting the new Board and deeper cooperation with regional stakeholders.

Securities and Exchange Commission (SEC) Climate Change Disclosure Rulemaking

We collaborated on a joint letter to the SEC, on behalf of Canada's 10 largest pension plan investment managers, in response to the SEC's request for public input on climate-related financial disclosures. The SEC is seeking to evaluate its disclosure rules with an eye on facilitating the disclosure of consistent, comparable and reliable information on climate change. This consultation comes on the heels of the White House Executive Order on climate financial risks and resilience plans.

Sustainable Finance Action Council (SFAC)

The Government of Canada launched the Sustainable Finance Action Council to help lead the Canadian financial sector toward integrating sustainable finance into standard industry practice. The Action Council serves as a centre of expertise, partnership and dialogue on sustainable finance issues in Canada and internationally. It also champions the implementation of sustainable finance best practices across Canada's financial sector and the broader Canadian economy, and supports the growth of a well-functioning sustainable finance market in Canada. This is expected to help accelerate movement of private capital in support of the Government of Canada's climate goals.

PSP Investments actively participates in the SFAC's Data Technical Expert Group, created to validate and advise on climate data needs and capacity within the financial community.

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