



PSP

# PSP Investments

## *Corporate View on Climate Change*

# FOREWORD

The Public Sector Pension Investment Board (“PSP Investments”) is one of Canada’s largest pension investment managers. We are a Canadian Crown corporation that invests funds transferred to it by the Government of Canada for the pension plans of the federal public service, the Canadian Forces, the Royal Canadian Mounted Police and the Reserve Force. PSP Investments’ mandate is to manage the funds transferred to it in the best interest of the contributors and beneficiaries, and to maximize investment returns without undue risk of loss.

In order to guide our investment underwriting and decision-making in the context of emerging risks and opportunities, PSP occasionally develops positions on key themes. In 2018, we adopted an initial Corporate View on Climate Change which was developed with the full support of our Board. This initial Corporate View was based on a 3-year action plan and was successfully implemented. Key achievements and further detail regarding these efforts can be found in PSP’s past Responsible Investment Reports.

In 2021, in order to evolve and enhance our approach, PSP Investments updated its climate change Corporate View. The 2021 Updated Corporate View on Climate Change recognizes the significant urgency of recent Intergovernmental Panel on Climate Change (IPCC) scientific assessments, which have underscored the imperative for all segments of society to take action. Moreover, the 2021 Updated Corporate View on Climate Change presents an opportunity to further evolve our strategy to align with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Consistent with our mandate, our 2021 Corporate View on Climate Change articulates PSP Investments’ view on investment risks and opportunities related to climate change and our approach with respect to: (i) integrating climate change considerations in our investment decisions and portfolio construction activities; (ii) seizing investment opportunities from the transition to a low-carbon economy and reducing carbon emissions across our portfolio; (iii) **engaging with our portfolio companies to influence, where appropriate, their governance and management of climate change risks**, and to support enhanced disclosure against the TCFD framework; and (iv) scaling our collaborative efforts with leading organizations to further drive our collective understanding of climate change and its potential impact going forward. PSP will continue to remain abreast of developments related to climate change risks and opportunities in the jurisdictions in which it invests and remains committed to routinely updating its corporate views to reflect best market practices.

# PSP Investments – Updated Corporate View on Climate Change

## Climate Change: Context in Today’s World

Climate change is one of the most critical social, environmental and economic challenges of our time. According to the World Economic Forum, climate change continues to be a catastrophic risk, while “Climate action failure” is considered the most impactful and second-most-likely long-term risk. In their Special Report on 1.5°C, the Intergovernmental Panel on Climate Change (IPCC) – the world’s preeminent scientific body on the science of climate change – concluded that global net human-caused emissions would need to fall by about 45 percent from 2010 levels by 2030 and would need to reach “net zero” around 2050, in order to avoid the most catastrophic impacts of climate change. This foundational scientific reality is what is guiding the acute present-day societal focus on reducing emissions. Investors must consider both physical and transition climate-related risks. Physical risks manifest as acute or natural weather events or longer-term shifts in climate patterns that can disrupt businesses and negatively affect the economy, thereby impacting investments. 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 significant opportunities for green investments and companies that can adopt new business models.

## Climate Change: Our Corporate View

At PSP Investments, 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 a long-term investor, we proactively address climate change risks and opportunities as part of our investment strategy. At PSP Investments, we want to position our portfolio to deliver investment results by identifying and managing material environmental, social and governance (ESG) risks and opportunities as the world transitions to a low-carbon economy. This entails actively considering climate resilience at the portfolio construction level, factoring climate risks into investment decisions, seeking investment opportunities that contribute to the transition to a low-carbon economy, and encouraging enhanced disclosure on climate change risks by companies in which we invest through active ownership. However, by effectively incorporating ESG risks and opportunities into our investment decision-making and asset management, we may exclude or divest from investments where long-term financial risks do not align with our investment beliefs and the meeting of our mandate.

Our climate change approach is structured around the following elements:

- **Integration:** Analysis of ESG risks and opportunities, including climate change, is integrated into our investment decision-making and asset management practices. In this spirit, we ensure that our investment professionals are appropriately equipped to identify, measure and manage climate change-related risks and opportunities. We conduct regular assessments of our investment portfolio’s exposure to climate change physical and transition risks, as well as climate change opportunities. These assessments include both top-down (e.g., portfolio-level climate change scenario analysis and stress-testing) and bottom-up (e.g., asset-level climate vulnerability studies, incremental contribution to total portfolio carbon footprint) techniques that will evolve, along with emerging best practices in this area. We will continually advance our integration of climate change risks and opportunities considerations through ongoing education and guidance, as well as continuous progression of our internal climate change risk assessment and management approaches.
- **Investment and management:** We aim to seize investment opportunities from the transition to a low-carbon economy, which include investment in **green assets** (i.e. assets that already demonstrate strong climate-related performance and contribute to a low-carbon economy), investment in **enablers of climate mitigation and adaptation** (i.e., investments in technology, products and services that facilitate the transition to a low-carbon economy; or products and services that increase resiliency to physical impacts of climate change), and investment in **transition assets** (i.e., assets that require capital to transition to a low-carbon economy). When financially viable, we will also prioritize early, deep, sustained, and technologically feasible direct emissions reductions across our portfolio through a science-based approach. In hard-to-abate sectors, we will

define an appropriate role for carbon removal and offsets. However, carbon removal and offsets will not be approached as an alternative to real reductions in portfolio emissions, but rather in addition to them. We will also continue to develop our data analytics and technology infrastructure to properly measure and manage our total fund exposure to climate-related risks and opportunities.

- **Engagement and disclosure:** As climate change is a multifaceted risk, we expect all companies in which we invest to assess risks faced as a result of climate change, to report on the results of this assessment, and to comment on mitigation plans when such risk is material.

We encourage portfolio companies and other partners to disclose against the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD) framework. We will further increase our engagement with portfolio companies and partners on decarbonization planning and active asset-management strategies aligned with science-based targets, to support the implementation of business plans that are resilient in the face of a changing climate. We will provide comprehensive annual climate disclosures in line with the TCFD recommendations, continue to advance our climate-related metrics in line with evolving practice, and seek to improve the quality of portfolio emissions data.

- **Leadership and collaboration:** Continued collaboration among institutional investors, investment partners, industry associations, regulators, civil society and academia will help to raise awareness and understanding on ESG issues, including climate change. We will continue to seek out these collaborative opportunities with a view to scale our collective efforts to enhance the quality of climate change disclosures and the understanding of the materiality of related risks.

At PSP Investments, we strive to ensure that all employees share responsibility for the implementation of our climate change approach. We assign accountability for climate change-related considerations across asset classes, responsible investment and senior management in accordance with their respective areas of responsibility. Periodic reporting is provided to the Board of Directors to assist them in their oversight. Our goal is to unlock the talents and insights across the organization to ensure that PSP Investments is well positioned to mitigate emerging climate change risks and take advantage of new opportunities. Our updated corporate view on climate change was developed with the full support of our Board and will drive further enhancement of ESG considerations across our investment policies and processes. Our view may evolve over time; we will continue to keep stakeholders informed of the salient elements of PSP Investments’ climate change strategy and implementation process.