2024 CFD Report

PSP Investments' Climate-Related Financial Disclosures

PSP Investments

Table of contents

All amounts in this report are in Canadian dollars unless otherwise noted.

Governance

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

PSP Investments recognizes that climate change is considered a long-term systemic risk, as supported by scientific evidence from the Intergovernmental Panel on Climate Change (IPCC). We acknowledge the potential material impact of climate change on investment risks and returns across various sectors, geographies and asset classes.

We assign accountability for our climate change approach across asset classes, corporate functions, senior management and the Board of Directors (the Board), in line with long-term investment objectives and beliefs to deliver our mandate. Our governance of sustainability-related topics, such as climate change, is discussed in more detail on our website.

a) Describe the board's oversight of climate-related risks and opportunities.

The Board has overall responsibility for approving PSP Investments' climate strategy, which is integrated into the strategic plan, the corporate business plan and our Sustainable Investment Policy, and is guided by our investment beliefs. We aim to integrate material sustainability-related risks and opportunities, including climate considerations, throughout our investment process – from initial investment analysis to asset management through to investment disposition. Under its overall risk oversight and management responsibility, the Board works to ensure that risks, including material climate considerations, are properly identified, evaluated, managed, monitored and reported. This responsibility has been delegated to the Board's Investment and Risk Committee. The Board's Audit Committee approves sustainability-related financial information reporting, while the Board's Governance Committee recommends approval of the sustainability and climate-related financial disclosures reports to the Board. The Governance Committee is also responsible for monitoring PSP Investments' implementation of sustainable investment activities, including those relating to climate change risks and opportunities.[1]

Finally, the Board fully supports PSP Investments' approach to sustainability, and sustainability-related topics are regularly presented and discussed at Board and committee meetings. Topics discussed in fiscal year 2024 included climate change considerations in portfolio construction, social considerations related to our investments, and certain climate-focused investments.

b) Describe management's role in assessing and managing climate-related risks and opportunities.

At PSP Investments, climate risks and opportunities related to investments are subject to the same governance framework as other investment criteria. Investment approval memorandums from the asset class investment teams to senior management's Risk and Investment Committee and the Board's Investment and Risk Committee include a climate strategy alignment section, which standardizes material quantitative climate-related metrics and aims to help us make more consistent, evidence-based decisions. Management is responsible for monitoring and disclosing progress against PSP Investments' fiscal year 2026 climate strategy objectives through various committees, including the Total Fund Management Committee. Upgrading the climate strategy is a corporate priority for fiscal year 2025, as outlined in PSP Investments' 2024 Annual Report.

Our incentive plan is aligned with the organization's strategy and priorities. The senior management team's objectives include priorities and indicators of progress related to the firm's corporate objective to advance its climate capabilities.

Climate Innovation Summit

Our Climate Innovation Summit (CIS) is a transversal forum intended to support our objective of advancing firm-wide climate capabilities and strengthening our position in sustainable investing. The CIS is facilitated by the Sustainability and Climate Innovation (SCI) group and includes representation from senior representatives of asset classes, the Office of the Chief Investment Officer (CIO), and other corporate functions.

In fiscal year 2024, we convened four CIS meetings, engaging all asset classes in critical discussions on implementing our climate strategy. Going forward, the CIS will work to drive the evolution of our climate strategy and will aim to act as a vehicle to foster total fund alignment and direction, knowledge sharing and thought leadership.

[1] Sustainability-related financial information refers to information about PSP Investments' sustainability-related metrics as well as material policies, judgments, assumptions and estimates used in preparing, structuring and presenting such data, which are useful to primary users of general-purpose financial reports.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning where such information is material.

We believe that the ways in which pension investors like PSP Investments could be affected by climate change are diverse, complex and interconnected. Climate change impacts, both direct (such as extreme weather events and climate policies) and indirect (such as market anticipation of future risks), should be considered in our investment strategies. We believe that climate change is one of the factors that will impact the long-term performance and risk profile of our investment portfolio.

In alignment with our mandate, the overarching objective of our climate strategy is to use our capital and influence to support the global transition to net-zero emissions by 2050 by managing material climate risks, unlocking carbon reduction opportunities, strengthening carbon disclosure and enhancing stakeholder collaboration.

In alignment with our climate strategy, we periodically enhance our internal processes and embed the management of material climate-related risks and opportunities across our investment processes and business strategy. This is described in more detail throughout this section.

a) Describe the climate-related risks and opportunities the organization has identified over the short, medium and long term.

We are aware of the urgency of addressing climate change, and we aim to use our capital and influence to support the transition to global net-zero emissions and strive to increase risk-adjusted returns. Our focus includes working to reduce our exposure to carbon-intensive investments with no transition plan and to increase investments aligned with the low-carbon economy, which are important steps for mitigating the adverse impacts of climate change. This approach is embedded in our investment strategy, which also considers the broader environmental impact of our investment choices.

We have identified several physical and transition risks[1] and opportunities that could materially impact the value of our investments in the timeframes specified by the Task Force on Climate-related Financial Disclosures (TCFD):

Short term (pre-2030): We recognize the immediate physical risks posed by climate change, such as the increased frequency of extreme weather events, which can directly impact asset valuations, outlining the need to identify and implement appropriate adaptation and resilience measures. Concurrently, we believe the evolving policy landscape offers opportunities as governments bolster support for low-carbon technologies and industries. Accelerated policy actions and market adjustments to reduce emissions present new investment prospects, particularly in the deployment of innovative low-carbon technologies, an increase in capital allocations to private market solutions, and enhanced incentives from regulatory bodies.

Medium term (2030–2040): In the medium term, the climate investment landscape presents a complex mix of risks and opportunities. Changes in government policies and incentives represent significant risks and opportunities, affecting the economic environment for investments committed to align to net zero by 2050. Investors are challenged by the lack of visibility, compounded by slow approval processes and complex permitting, which can delay or obstruct essential low-carbon infrastructure projects. In addition, we believe that several, if not all, assets will face intensified economic costs associated with frequent and impactful extreme weather events, and that carbon-intensive investments may face increasingly strict regulatory requirements, affecting their returns, hence the risk of lower valuations. At the same time, we believe this medium-term period offers substantial opportunities for investors due to the growing demand for low-carbon products, technologies and services amid intensified global decarbonization efforts. The ability to adapt swiftly to regulatory changes and navigate bureaucratic complexities will be important as we aim to capitalize on these opportunities, emphasizing the need for agile investment strategies that can both manage risks and make the most of emerging market potential.

[1] "Physical risks" are defined as risks that stem from climate change impacts and climate-related hazards. "Transition risks" are defined as risks linked to transitioning toward a low-carbon economy.

Long term (2040 and beyond): Over the long term, scenarios developed in collaboration with an external technical advisor highlight the contrast between a failed climate transition scenario, leading to a potential 4.2°C rise in average global temperatures by 2100, and an orderly net-zero transition scenario. The former scenario could significantly reduce investment returns due to severe physical risks, whereas an orderly transition, despite presenting moderate risks, aligns better with sustainable investment returns. The long term also offers substantial opportunities for investors in entities providing innovative low-carbon solutions, particularly those that can scale technologies to mitigate or adapt to climate impacts.

Our strategic response to these risks and opportunities involves continuously adjusting our investment focus to seek to align with climate science, recognizing that this science is rapidly evolving. We leverage external consultants and the S&P Global Climanomics platform to inform our evaluation of the impacts of physical climate change on our real assets, and other relevant portfolio assets where applicable, which we take into consideration throughout our investment decision-making and asset management activities. As part of our investment analysis and decision-making processes, we look to identify and assess material transition risks and opportunities. The investment recommendation memorandum presented to our oversight investment committees includes a summary of the material climate-related risks and opportunities as well as associated risk mitigation measures and action plans to address the findings.

b) Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy and financial planning.

For long-term institutional investors like PSP Investments, climate change risks and opportunities, such as those identified in a) above, present new opportunities and challenges. We are continuing our firm-wide efforts to better assess and address the risks and opportunities posed by climate change on our investment strategy in the context of a changing regulatory and political environment globally. In fiscal year 2023, we launched our climate strategy with enhanced ambition to guide emissions reduction across our investment portfolio. We also established tangible short-term climate-related targets, aimed at supporting global net-zero emissions by 2050. Progress is monitored and disclosed annually.

Our approach is climate-risk informed and supported by several in-house tools developed over the last few years, including the Green Asset Taxonomy. For more information, please see the sections entitled "Describe the organization's processes for identifying and assessing climate-related risks" (page 6) and "Describe the organization's processes for managing climate-related risks" (page 7). Recognizing the impacts of climate-related risks and opportunities, upgrading our climate strategy is one of our fiscal year 2025 corporate objectives, as discussed in further detail in our 2024 Annual Report.

S&P Global Climanomics

We continue to leverage the S&P Global Climanomics platform to enhance our understanding of our investment portfolio and to evaluate the possible impacts of physical climate risk on our investments. The Climanomics platform quantifies climate-related financial risks in line with the recommendations of the TCFD framework.

We have uploaded a large portion of our assets under management (AUM) in private markets, primarily real assets, into the platform. Based on the real assets' portfolio-level analysis, we have observed the following:

- Relative risk associated with climate-related hazards increases at a relatively linear pace through the 2050s under all representative concentration pathways (RCP) scenarios.
- Exposure to temperature extremes is projected to have the most significant impact on the portfolio of the eight climate hazards modelled.
- There is likely limited evolving exposure to tropical cyclone and wildfire risk under all RCP scenarios over the timescales analyzed.

We strive to continue uploading additional private markets assets to the platform to increase the proportion of AUM covered, and to gain greater visibility into the portfolio's exposure to climate physical risk.

c) Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.

We assess the resiliency of our policy portfolio to various climate change scenarios through top-down climate change scenario analysis. Consistent with findings from our engagement with an external technical advisor, our scenario analysis concluded that PSP Investments' active management approach, dynamic portfolio construction and climate-aware investment choices lead to better positioning of the policy portfolio from a risk and return perspective compared to the reference portfolio provided to PSP Investments by the Treasury Board of Canada Secretariat each year[1], under all climate scenarios considered.

[1] For more information, please refer to the Statement of Investment Policies, Standards and Procedures for Assets Managed by PSP Investments.

Risk Management

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

a) Describe the organization's processes for identifying and assessing climate-related risks.

PSP Investments acknowledges that it must take investment-related risks to achieve its statutory mandate and that management of the full spectrum of risks must be integrated on an enterprise-wide basis. We conduct an annual, enterprise-wide risk and control self-assessment exercise to identify and evaluate key risks, and to assess the adequacy and effectiveness of mitigation activities. In addition, an emerging risk monitoring framework is used to identify, assess and monitor new and evolving risks that have the potential to impact our objectives. Sustainability-related considerations represent one of our investment risks under our risk management and related policies.

Identifying, monitoring and capitalizing on sustainability factors being material to the long-term investment performance is one of our investment beliefs. We believe that climate change is a long-term structural trend that will likely have a material impact on investment risks and returns, across sectors, geographies and asset classes. Recognizing the dynamic nature of materiality, and the differences between asset classes and investment types, we strive to be pragmatic in our approach. This helps us mitigate risks to our portfolio, uncover opportunities to create long-term value and, most importantly, deliver the financial returns required by our mandate.

Our approach to identifying and assessing climate-related risks encompasses both top-down and bottom-up perspectives.

Top-down climate change investment analysis

At the total fund level, we consider current greenhouse gas (GHG) emissions and long-term transition commitments made by companies in relation to the Paris Agreement.

We first integrated climate considerations into portfolio construction activities in fiscal year 2023. In fiscal year 2024, we further enhanced our approach by incorporating climate considerations into our baseline economic scenario and portfolio construction activities, including long-term capital market assumptions and climate awareness in passive strategies. Additionally, to support our asset classes, we developed a climate pathways navigator tool prototype, which will help determine the potential contribution of each asset class toward our total fund's climate objectives.

In addition to our portfolio construction efforts, we engage in collaborative initiatives related to stress testing analysis. In fiscal year 2024, we supported the Bank of Canada in its ongoing assessment of the systemic implications of climate transition risk to the Canadian financial system by providing information related to our portfolio. We also participated in consultative efforts to ensure the overall success of the project.

Finally, we conduct regular climate scenario analysis and stress-testing of our policy portfolio using plausible climate pathways and their potential impacts to our portfolio[1]; factor material climate risks into investment decisions; consider investment opportunities that could contribute to the low-carbon transition; and, as required, encourage enhanced emissions disclosure on climate change risks by companies in which we invest. When needed, we will seek to engage with external technical advisors to support these efforts.

[1] A set of generally accepted climate scenarios is used for this analysis: Paris Agreement success or failed transition. With respect to a successful Paris Agreement pathway, the net-zero transition can manifest in an orderly or disorderly fashion. With respect to a failure to align with a Paris Agreement pathway, the scenarios can manifest in larger and potentially severe physical risk and material transition risk for portfolios.

Bottom-up climate change investment analysis

At the investment level, we strive to conduct thorough due diligence, focusing on material physical and transition risks, as well as opportunities, relevant to an asset or company's sensitivity to climate risks. Our internally managed investments are analyzed where appropriate for long-term climate risks affecting enterprise value[1], factoring in industry and geography. Our due diligence process also evaluates transition plans and emissions reporting. In fiscal year 2023, we aligned our investment decision documentation with our climate strategy and have included a section that evaluates an individual opportunity's alignment with the strategy.

With respect to material climate change risks and opportunities, we identify and assess transition risks of climate change by performing an initial sensitivity analysis using our bespoke Green Asset Taxonomy approach. This framework considers the two key dimensions of climate change risk and opportunities: investment-level carbon intensity (measured as tCO_2e per $ million revenues) and investment-level climate change transition planning. We also assess an individual investment's likely impact on PSP Investments' overall portfolio carbon footprint.

For externally managed investments, our framework integrates climate considerations, alongside other sustainability risks, and we regularly survey the climate change strategies of new general partners and external managers.

Lastly, we collaborate with external consultants and industry experts to align our investment assessments with market practices. We aim to enhance our understanding of climate change risks and to explore potential correlation with financial performance, including potential downside risks. We also actively seek insights to capitalize on the low-carbon economy's influence on innovation and growth, which presents valuable prospects for long-term investment strategies.

b) Describe the organization's processes for managing climate-related risks.

We aim to better understand and manage risks and opportunities related to climate change through: (i) the integration of material climate change considerations at each stage of our investment process and within our portfolio construction activities; (ii) the pursuit of investment opportunities related to the transition to a low-carbon economy and the reduction of carbon emissions across our portfolio, where relevant; (iii) engagement with our investee companies, as appropriate, to encourage their governance and management of climate change risks, including credible transition commitments, and to support enhanced disclosure against the TCFD framework, where appropriate; and (iv) collaborative efforts with leading organizations to improve our collective understanding of climate change and its potential impact going forward.

Using our capital and our influence

In alignment with our mandate, the overarching objective of our climate strategy is to use our capital and influence to support global net-zero by 2050.

One of our roles as a long-term investor is to be an active steward of the assets we own. We believe that through ongoing dialogue, we can encourage sustainable corporate conduct and drive long-term value creation, particularly in private markets. In the past year, where appropriate, our engagement with investee companies and partners focused primarily on encouraging the development of credible transition strategies. We also sought to increase our efforts to collect GHG data from our private market investments, which resulted in an 8% year-over-year increase in reported Scope 1 and Scope 2 data coverage across these investments.

In considering whether investments are aligned with our commitment to support the global transition to net-zero emissions by 2050, we seek to evaluate whether our investments demonstrate alignment with sector-specific emissions reduction trajectories as outlined in the International Energy Agency's (IEA) Net-Zero Scenario, guidance from the Science Based Targets initiative (SBTi), the Investor Leadership Network (ILN) sector decarbonization pathways, or other credible modelling sources in alignment with a 1.5°C climate scenario.

[1] Here, and throughout the document, enterprise value is defined as the sum of the market capitalization of ordinary shares at fiscal year-end, the market capitalization of preferred shares at fiscal year-end, and the book values of total debt and minorities' interests. No deductions of cash or cash equivalents are made to avoid the possibility of negative enterprise values.

Our engagement activities aim to encourage management to achieve greater alignment between financial returns and sustainable corporate behaviour, while communicating our expectations on specific issues such as climate change. We expect boards of directors and management of publicly traded companies to integrate climate-related risks and opportunities into their strategy and operations, and to provide disclosures that enable shareholders to make informed decisions. In private market investments, we may leverage our direct access to investee companies. We monitor assets and may engage directly with boards and management on climate-related risks and opportunities. Where we have board representation, we may directly influence a company's management of climate-related factors. We may also work closely with co-shareholders and partners to encourage the adoption of climate-related best practices, including the adoption of science-based targets on a Paris-aligned pathway and proactive disclosures aligned with TCFD recommendations. We may undertake specific private engagement activities with high emitters to promote science-based transition plans.

Keeping abreast of market and regulatory trends

Through our hub-and-spoke model for integrating sustainability-related factors, we aim to equip our investment professionals with the required tools and information to measure and start to better manage material climate-related risks. Climate-related training is regularly delivered to all asset classes, key corporate functions, and PSP Investments' employees more broadly to keep them informed and engaged on key climate change insights. Sustainability champions within each asset class are appointed to assess materiality of sustainability-related factors, including climate, and help integrate key findings into their investment processes. We also launched an internal newsletter that provides timely commentary on sustainability-related market trends and policy developments. For more information, please see our 2024 Sustainability Report.

c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organization's overall risk management.

To achieve our long-term mandate, we believe that we must take a calculated and informed approach to managing risks, which may include climate change. We seek to take a disciplined and integrated approach to risk management, supported by a strong, shared risk culture, in which all employees are active participants in risk identification, evaluation, management, monitoring and reporting. Our Risk Appetite Statement and the supporting risk management and related policies, which are reviewed and approved annually by the Board, outline our appetite toward sustainability-related investment risks, including climate change, and detail how investment activities should be guided by our risk philosophy and aligned with our risk appetite. For further information on PSP Investments' Enterprise Risk Management approach, please refer to our 2024 Annual Report.

Furthermore, through our analysis of material climate change risks and opportunities, we seek to understand better the possible consequences of climate change on our ability to achieve a maximum rate of return without undue risk of loss, in line with our mandate. We believe that striving for strong integration across the total fund helps us to better protect and enhance long-term financial value for our beneficiaries.

Metrics and Targets

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

Portfolio carbon footprint metrics

We apply an operational control consolidation approach to our organizational boundary. Therefore, carbon metrics associated with our investment portfolio represent an indirect source of emissions reported under the Greenhouse Gas Protocol's Corporate Value Chain (Scope 3) Accounting and Reporting Standard for Category 15 (Investments) activities guidance.

We have converged on key climate-related financial metrics to describe the emissions impact of our investment activities on the atmosphere and, therefore, climate change. Our financed emissions approach is informed by the Partnership for Carbon Accounting Financials (PCAF), which is one of the only standards available for portfolio carbon footprint accounting[1]. We believe the PCAF-informed financed emissions is an insightful measure to understand portfolio-level emissions, which can be normalized by millions of dollars invested to allow for comparison (carbon footprint – PCAF-informed). On the other hand, the weighted average carbon intensity (WACI) metric is normalized by investee company revenues and provides insights into the portfolio's exposure to carbon-intensive companies. Given that these metrics are normalized by different financial factors, they do not always change similarly in direction or magnitude; however, they do provide complementary insights regarding an investor's contribution to climate change.

The methodology used by PSP Investments to calculate the portfolio carbon footprint and financed emissions is informed by the PCAF Standard, which is built on the Greenhouse Gas Protocol's Technical Guidance for Calculating Scope 3 Emissions, Category 15 (Investments).

We acknowledge that requirements related to sustainability and climate disclosures, and the methodologies available, are complex and rapidly evolving. Our methodology will also continue to evolve, as we strive to inform our approach with best practices.

Our portfolio carbon footprint may vary due to external factors out of our control, such as changes in market conditions, company policies, and global regulatory frameworks affecting emissions reporting. Internal factors such as the evolution of our climate strategy may also introduce fluctuation to our portfolio carbon footprint metrics. As we strive to invest in the transition economy, we anticipate a short-term rise in our portfolio carbon footprint, followed by a gradual decline as the effects of emissions reduction due to expediting of decarbonization transition plans of our portfolio companies begin to take hold.

Results[2]

Our financed emissions and carbon footprint calculation applies to 78% of our investment portfolio[3] as of March 31, 2024[4].

Financed emissions and carbon footprint – PCAF-informed

(tonnes of CO_2e[5]/$ million invested)	**FY2024**	FY2023
Financed emissions – PCAF-informed (ktonnes CO_2e)		
Public Markets	**3,083**	2,964
Private Markets	**5,025**	6,140
Adjusted AUM In-scope ($ million invested)		
Public Markets	**63,422**	49,900
Private Markets	**170,913**	156,315
Climate-related financial metrics – PCAF-informed		
Financed emissions (ktonnes CO_2e)	**8,107**	9,104
Carbon footprint (tonnes CO_2e/$ million invested)	**35**	44

1 Please refer to the "Divergences from the PCAF Standard" section for more details.
2 Differences may arise due to rounding.
3 Our investment portfolio is calculated on an Adjusted AUM basis. In fiscal year 2024, we introduced the term "Adjusted AUM" (replacing prior year PSP Portfolio NAV terminology). Adjusted AUM specifically represents the economic exposure of investments used for the carbon metrics calculation and is measured at fair value, except for derivatives.
4 On a like-for-like basis, fiscal year 2023 coverage would be 76% compared to 78% for fiscal year 2024.
5 The absolute GHG emissions expressed in tonnes CO_2e.

Weighted average carbon intensity (WACI)

(tonnes of CO_2e/$ million revenue)	FY2024	FY2023
Public Markets	**117**	148
Private Markets	**114**	145
Total	**115**	147

In fiscal year 2024, our two portfolio carbon footprint metrics have decreased. The decline was influenced by numerous factors, including:

1. **An increase** in the actual reported GHG data, instead of estimates.
2. **An improvement** in collection methodologies for private markets financial data (e.g., asset-level equity and asset-level debt) resulting in more accurate attribution factors.
3. **A variation** in year-over-year position size driven by market values and macroeconomic conditions, including inflation.
4. **Companies implementing** their transition plans, which resulted in a decline in their GHG emissions.

During fiscal year 2024, although our adjusted AUM in-scope increased by 14%, our financed emissions decreased by 11%, leading to a 22% decrease in our PCAF-informed portfolio carbon footprint. We improved our methodology related to proxies, which may have also influenced the downward trend (see “PCAF data quality assessment” for more information).

Our WACI decreased by approximately 22% in fiscal year 2024, bringing us slightly below fiscal year 2021. Since the calculation of the WACI implies normalizing the company’s emissions by their revenues, the metric is greatly affected by major macroeconomic events.

Regarding our assets under development in private markets, we acknowledge this is an area where data availability is limited, and market practices are evolving. Where actual data is not available or is incomplete, our approach is to analyze the existing information and rely on proxy estimates. For the majority of these assets, our calculations are conducted using proxy estimates.

External factors out of our control, including the development and evolution of policy and regulatory frameworks, technological progress, and changes in consumer and corporate behaviours, could influence our carbon footprint metrics over time.

Methodology

These portfolio climate-related financial metrics are described in more detail in the table below:

<table>
<tr><th>Metric</th><th colspan="2">Financed emissions and carbon footprint – PCAF-informed</th><th>Weighted average carbon intensity</th></tr>
<tr><td>Description</td><td colspan="2">Financed emissions: Total GHG emissions for a portfolio based on proportional share of the total enterprise value.
Carbon footprint – PCAF-informed: Financed emissions normalized by the Adjusted AUM in-scope.</td><td>Portfolio’s exposure to carbon-intensive companies.</td></tr>
<tr><td rowspan="3">Formula</td><td>Attribution factor[1, 2, 3, 4]</td><td>$\frac{\textit{Value of holdings}_i}{\textit{Total equity}_i + \textit{Debt}_i}$</td><td rowspan="3">$\sum_{i}^{N} \frac{\textit{Value of holdings}_i}{\textit{Adjusted AUM in-scope}} \times \frac{\textit{GHG emissions}_i}{\textit{Revenues}_i}$</td></tr>
<tr><td>Financed emissions</td><td>$\sum_{i}^{N} \textit{Att. factor}_i \times \textit{GHG emissions}_i$</td></tr>
<tr><td>Carbon footprint – PCAF-informed</td><td>$\frac{\textit{Financed emissions}}{\textit{Adjusted AUM in-scope}}$</td></tr>
</table>

Where *i* = Investee company

1 For public markets, Enterprise Value, including Cash (EVIC), is used instead of total equity and debt, as defined in PCAF guidance.
2 For private markets, when total debt is not available, we use net debt.
3 For real estate, PSP Investments applies the equity ownership percentage value as the attribution factor for assessing its share of emissions, whereas PCAF recommends the use of property value at origination.
4 Value of holdings represents the investment’s fair value except for derivatives for which it represents their notional value.

Scope

This section lists the asset classes and instrument types included in the carbon footprint metrics calculations.

Public markets

- **In-scope:** Shares in long-only public equity strategies, including those held via external managers or funds (including exchange traded funds), exposure to underlying stocks through certain derivative swaps, and listed corporate fixed income.

- **Out-of-scope:** Shares in long-short public equity strategies, unlisted corporate and government bonds, cash and money market instruments, corporate leverage and other derivatives not in-scope.

Private markets

- **In-scope:** Direct and fund investments in all private markets asset classes.

- **Out-of-scope:** Balances associated with working capital, cash, corporate leverage, and funds of funds.

Categories of GHG emissions

We include investee companies' Scope 1 and Scope 2[1] emissions in our portfolio carbon footprint metrics. Scope 1 emissions are direct emissions from owned or controlled sources at our portfolio companies. Scope 2 emissions are those associated with purchased energy.

Investee companies' Scope 3 emissions cover other indirect sources such as the extraction and production of purchased materials and fuels, outsourced activities, business travel and waste disposal. We do not include investee companies' Scope 3 emissions[2] in our portfolio carbon footprint metrics.

Data collection process

Reporting periods used may vary depending on the investment financial period end. To the extent possible, the emissions data used to calculate the climate metrics were the most recent full year (12 months) datasets as at March 31, 2024.

Divergences from the PCAF Standard

There are some areas in which our application of this methodology has diverged from the PCAF Standard. This divergence is in the interest of increasing the coverage of the carbon footprint metrics and ensuring its suitability for an institutional investor like PSP Investments. For this reason, we refer to our methodology as PCAF-informed. These areas are as follows:

1. **Scope of calculations**

   - **Treatment of funds:** PCAF Standard does not provide explicit guidance on methods to calculate financed emissions for unlisted private investment funds. Since we have material exposure in funds, we include the underlying investments with the goal of providing the most representative view of our total financed emissions.

   - **Treatment of derivatives:** PCAF Standard does not provide explicit guidance on methods to calculate financed emissions from derivatives. Since we have material exposure in certain derivative swaps, for which we have GHG information at the underlying investment level, we include these investments with the goal of providing the most representative view of our total financed emissions.

   - **Sovereign bonds:** In December 2022, PCAF Standard published guidance on methods to calculate financed emissions from sovereign bonds. PSP Investments does not currently include sovereign bonds as part of its carbon footprint metrics, but is considering how to implement this guidance in the future.

[1] Due to current data availability, Scope 2 emissions used in PSP Investments' calculations of financed emissions include a mix of location-based and market-based.
[2] For real estate investments, we include Scope 3 emissions in our PCAF-informed metric following the whole building approach.

2. Attribution factors

- **Availability of data:** Underlying debt information can be challenging to obtain, particularly in fund investments. In situations where we could not retrieve debt information on investments, we have used an equity-only approach. This may overestimate PSP Investments' attribution factor. More specifically, 71% of our financed emissions are calculated using a total enterprise value approach. The remaining was calculated based on an equity-only basis.
- **Commercial real estate (CRE):** PCAF recommends the use of property value at origination to calculate the attribution factor. However, we have calculated attribution factors for the real estate portfolio using our equity ownership percentage of the property. This is based on PCAF guidance stating that "When CRE is jointly financed by a group of asset owners, the attribution is based on the share invested by each asset owner."

PCAF data quality assessment

In the context of GHG emissions measurement and portfolio carbon accounting, a data quality assessment involves evaluating the accuracy, completeness, consistency and relevance of data related to emissions sources and activities. The PCAF Standard provides guidance on data quality scoring per asset class. We employ PCAF's data quality terminology as described in the table below. The data quality scores are weighted by the investment size.

Investment weighted data quality

FY2024

Infrastructure	2.0
Listed Fixed Income	2.1
Listed Equities	2.4
Natural Resources	2.4
Private Equity	3.1
Real Estate	3.6
Credit Investments	3.7
Complementary Portfolio	4.7
Total Fund	**2.8**

Score 1	Verified emissions reported by the company.
Score 2	Unverified emissions reported by the company.
Score 3	Emissions estimated using physical activity data such as the company's production.
Score 4	Estimated using emissions factors per unit of revenue for the sector.
Score 5	Estimated using emissions factors per unit of asset for the sector. We use the median of GHG intensity on EVIC.[1]

[1] In the prior year's reporting, our data quality score 5 emissions were estimated using the median of GHG intensity on market capitalization. This year, we improved our methodology by calculating proxies using the median of GHG intensity on EVIC.

In fiscal year 2024, we continued our data collection exercise across our private markets' investments, for both direct and fund positions. As a result, approximately 62% of adjusted AUM in-scope obtained a data quality score of 2 or below, an improvement compared to 54% last year.

We use emissions data from third parties, either directly obtained from investee companies or from proprietary data sources. Investee company GHG data is generally not verified by a third party. This presents an important limitation with respect to our degree of confidence regarding the integrity of investee company disclosures, particularly given that investee companies may use different methodologies to calculate and report their carbon emissions.

Green Asset Taxonomy

We created an internal classification system to improve our climate measurement and management approach. This system provided a starting point for setting targets and enables us to monitor our exposure to assets that are green, transition or carbon-intensive over time[1]. We published the results of this evaluation as part of our first climate strategy launch and they were the foundation of our first climate-related targets.

To track our progress and support the transition to a low-carbon economy over time, we have set initial short-term targets for the end of our 2026 fiscal year (March 31, 2026). For more information on PSP Investments' climate strategy and related fiscal 2026 targets, please refer to our Climate Strategy Roadmap.

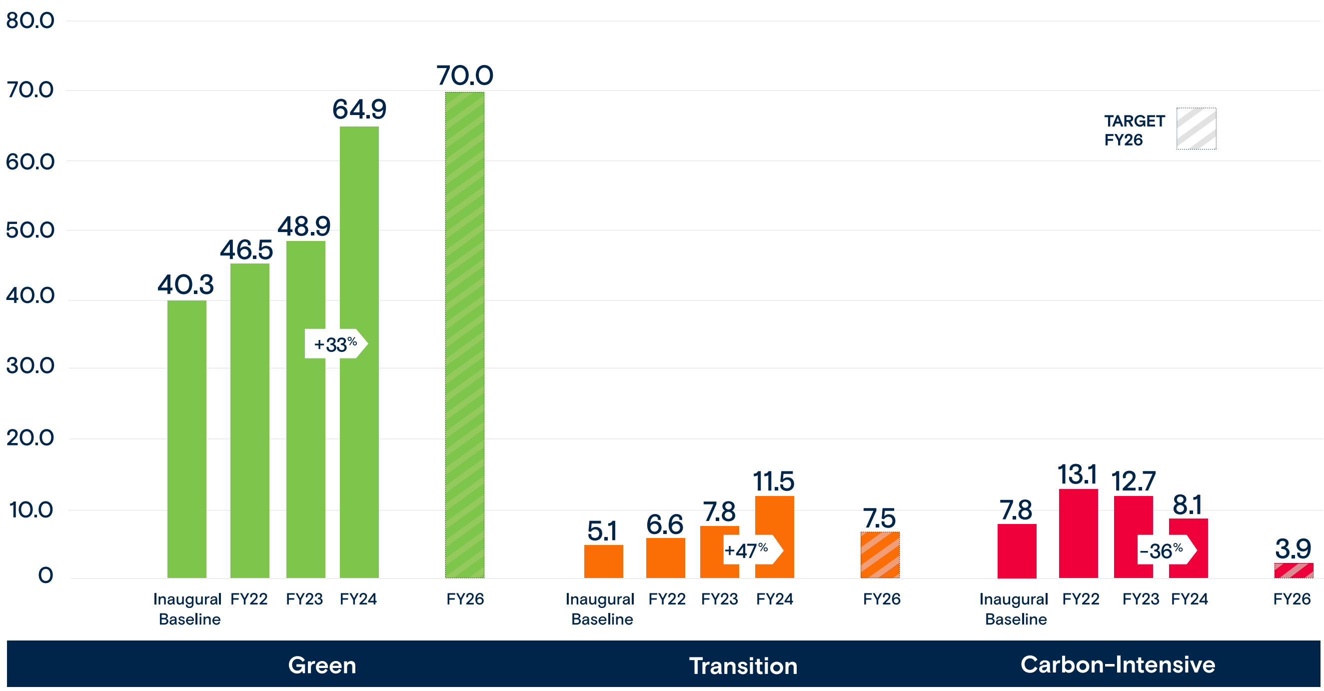
In fiscal year 2025, our goal is to evolve our climate strategy, informed by the insights gained since its inception. This enhancement will include refining our methods for incorporating material climate considerations into our investment strategies and processes to aim for better investment outcomes supporting PSP Investments' ability to deliver on its mandate.

Performance against our targets

Our fiscal year 2024 Green Asset Taxonomy results revealed an increase in exposure to green[2] and transition[3] assets, as well as a decline in carbon-intensive assets compared to fiscal year 2023. This marked a turning point as the exposure to transition assets now exceeds that of carbon-intensive assets. The growth in green assets was driven in part by the increase in reported data coverage. In line with our efforts to increase decarbonization engagements, a large number of assets in our Natural Resources portfolio developed transition plans during the year, which explains the decrease in carbon-intensive assets and the increase in transition assets. As at March 31, 2024, our Green Asset Taxonomy applied to 78%[4] of the portfolio.

As at March 31, 2024, we had reported Scope 1 and Scope 2 GHG data for approximately 62% of assets in-scope, up from 54% in fiscal year 2023. Our target is to achieve 80% data coverage by fiscal year 2026. We remain committed to our data collection efforts to increase the proportion of our investment portfolio with reported data. Finally, we also issued in fiscal year 2024 a $1-billion green bond, raising our sustainable bond financing to 7.1% of PSP Capital's debt outstanding, as at March 31, 2024.

Figure 1: Green Asset Taxonomy results in $CAD billions for fiscal year 2024



[1] For more details on our Green Asset Taxonomy methodology, please refer to our Green Asset Taxonomy Whitepaper and additional technical information in our "Supplemental disclosure" section below.
[2] Green assets – Investments in low-carbon activities, identified in accordance with the methodology set out in PSP Investments' Green Asset Taxonomy.
[3] 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, identified in accordance with the methodology set out in PSP Investments' Green Asset Taxonomy.
[4] For details on the scope of calculation, please refer to "Methodology" in the "Portfolio carbon footprint metrics" section.

Methodology enhancements to GAT

Since our initial assessment as at September 30, 2021, we have worked to enhance our Green Asset Taxonomy approach and implementation processes. This includes evolving our methodology and data collection approach. We have improved the scope of the Green Asset Taxonomy by including listed corporate bonds, and by enhancing the requirements for green assets in public and private markets. Specifically:

- **Publicly listed real estate companies (REITs):** These investments accounted for a significant portion of Capital Market's dark green assets. In the initial assessment, REITs were considered eligible for dark green category if they could demonstrate less than 80 tonnes of CO_2e per $ million revenues. In fiscal year 2023, to align to our Green Bond Framework, we included a supplemental criterion to verify REIT positions against MSCI's Green Buildings dataset to confirm if most of their revenues stem from "green building" activities. Our enhancement makes accessing this Green Asset Taxonomy category more difficult for REITs, but better aligns with how we classify assets in PSP Investments' private markets real estate portfolio.
- **Development assets:** In our real estate portfolio, we have identified several properties that are in the construction phase and have not yet reported GHG data. Given that many of these positions are targeting green building certifications, we have allowed these development assets to be mapped as light green if their certification aligns with that of our Green Bond Framework. We anticipate GHG disclosure from these assets once they become operational.
- **Dark green assets:** In addition to aligning with our Green Bond Framework criteria, all dark green assets must have reported GHG data. Moreover, all dark green assets must achieve 80 tonnes of CO_2e per $ million revenues or less to maintain their classification.
- **Commercial real estate:** To best utilize available market information regarding transition pathways, we have required all dark green assets in real estate to demonstrate Green Bond Framework alignment through both certification and GHG performance against the Carbon Risk Real Estate Monitor (CRREM) 1.5°C sub-sector decarbonization pathways.

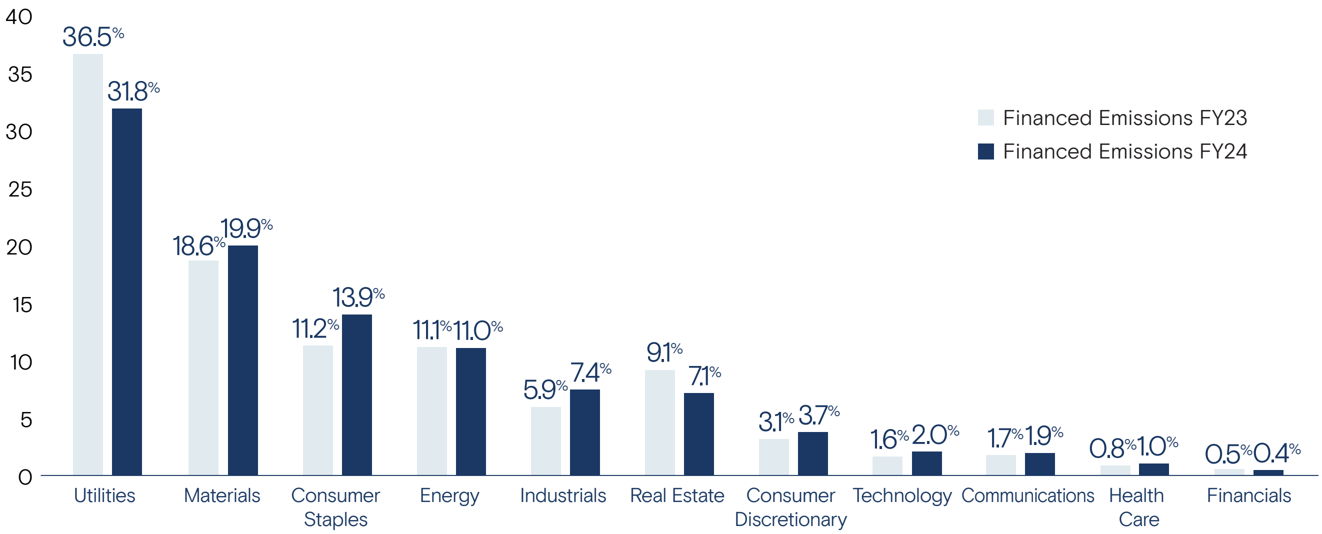
Supplemental disclosure

Sector-based carbon footprint contribution

Understanding the climate-related impacts of a portfolio's allocation of investments across industry sectors is an important step in any climate change strategy. It can provide valuable insights into the climate-related risks and opportunities inherent in a portfolio and help to identify areas where, from a materiality perspective, investors can best contribute to climate mitigation efforts. See below for additional details regarding the distribution of our carbon emissions[1] across sectors, comparing fiscal years 2023 and 2024. The changes between fiscal year 2023 and 2024 are mainly explained by data quality improvements as outlined in the section "Metrics and Targets."

Financed emissions by sector FY23-24

Figure 2: Distribution of carbon emissions across sectors of the PSP Investments in-scope portfolio for fiscal year 2023 and 2024



Biogenic emissions

As an agriculture and timberland investor and asset owner, we recognize the significance of biogenic emissions arising from these activities. Biogenic emissions are GHG emissions that result from natural processes and biological sources, such as livestock digestion, manure management and the decomposition of organic materials. This disclosure aims to provide an overview of our approach to measuring biogenic emissions within our Natural Resources asset class, which has the most exposure to such emissions.

PSP Investments' financed biogenic emissions are detailed below. As per the PCAF Standard, the attribution factor is measured by our equity ownership share divided by the enterprise value of the investment. The metrics below apply to 65% of the Natural Resources portfolio and are based on reported emissions obtained as part of the farm-level data collection effort undertaken with a technical consultant.

Financed biogenic emissions and carbon footprint – PCAF-informed

	FY2024	FY2023
Financed biogenic emissions (tCO_2e)	**253,939**	245,193
Adjusted AUM in-scope ($ million invested)	**15,202**	14,656
Carbon footprint (tCO_2e/$ million invested)	**16.70**	16.73

Biogenic emissions are an important part of the natural carbon cycle, and we are working to improve our ability to measure and manage the impact that our investment activities may have on this carbon cycle. We continue working toward understanding the sequestration capabilities of our Natural Resources investments in different carbon pools (e.g., biomass carbon and soil organic carbon).

[1] Calculated using our PCAF-informed methodology.

Cautionary Statements Regarding Sustainability-Related Data, Metrics and Forward-Looking Statements

In preparing the sustainability-related information contained in this report, PSP Investments has made a number of key judgments, estimations and assumptions. The processes, methodologies and issues involved are complex. The sustainability data, models and methodologies used are often relatively new, are rapidly evolving and are not of the same standard as those available in the context of financial and other information, nor are they subject to the same or equivalent disclosure standards, historical reference points, benchmarks or globally accepted accounting principles. It is not possible to rely on historical data as a strong indicator of future trajectories, in the case of climate change and its evolution. Outputs of models, processed data and methodologies are also likely to be affected by underlying data quality, which can be hard to assess and we expect industry guidance, standards, market practice and regulations in this field to continue to evolve. There are also challenges faced in relation to the ability to access data on a timely basis and the lack of consistency and comparability between data that is available. This means the sustainability-related forward-looking statements, information and targets discussed in this report carry an additional degree of inherent risk and uncertainty.

In light of uncertainty as to the nature of future policy and market response to climate change and other sustainability-related issues, including between regions, and the effectiveness of any such response, and as market practice and data quality and availability develops, PSP Investments may have to update the models and/or methodologies it uses, or alter its approach to sustainability analysis and may be required to amend, update and recalculate its sustainability disclosures and assessments in the future, its sustainability ambitions, goals, commitments and/or targets or its evaluation of its progress toward its sustainability ambitions, goals, commitments and/or targets. Revision to sustainability data may mean it is not reconcilable or comparable year-on-year.

This report contains a number of graphics, infographics, text boxes and illustrative case studies and credentials which aim to give a high-level overview of certain elements of this report and improve the accessibility of the report for readers. These graphics, infographics, text boxes and illustrative case studies and credentials are designed to be read within the context of the report as a whole.

The information in this report includes non-financial metrics, estimates or other information that are subject to significant uncertainties, which may include the methodology, collection and verification of data, various estimates and assumptions, and underlying data that is obtained from third parties.

PSP Investments has appointed Deloitte to perform limited independent assurance over PSP Investments' financed emissions and carbon footprint metrics. The Independent Limited Assurance Report issued by Deloitte is available within this document.

The report contains certain forward-looking statements with respect to PSP Investments' sustainability targets, commitments, ambitions, climate-related scenarios, processes, plans, and the methodologies we use, or intend to use, to assess our progress in relation to these ("sustainability-related forward-looking statements"). These sustainability-related forward-looking statements reflect management's assumptions, expectations, objectives, strategies and intentions as of the date of this report. These sustainability-related forward-looking statements are typically identified by future or conditional verbs or words such as "outlook," "believe," "estimate," "project," "expect," "plan," "goals," "targets" and similar terms and expressions.

By their nature, sustainability-related forward-looking statements require assumptions to be made and involve inherent risks and uncertainties. As a result, PSP Investments cannot guarantee that any forward-looking statement will materialize, and its future investment activities may vary from those outlined herein. You should not place undue importance on forward-looking statements and should not rely upon this information as of any other date.

Sustainability-related forward-looking statements are inherently predictive, speculative and involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, but are not limited to, the following:

- changes in the sustainability regulatory framework in which PSP Investments operates, including government approaches and regulatory treatment in relation to sustainability disclosures and reporting requirements;
- the impact of legal or other proceedings against PSP Investments or others in the industry;
- climate change projection risk including, for example, the evolution of climate change and its impacts, changes in the scientific assessment of climate change impacts, transition pathways and future risk exposure and limitations of climate scenario forecasts;
- amendments to or new sustainability reporting standards, models or methodologies used to assess and set sustainability-related targets, which could result in revisions to reported data and lack of reconcilability or comparability;
- changes to and challenges with sustainability data availability, quality, accuracy, verifiability, and data gaps, could cause fluctuations year on year and/or differences between the quality of data obtained, which could result in revisions to reported data going forward meaning that such data may not be reconcilable or comparable year on year;
- climate scenarios and the models that analyze them have limitations that are sensitive to key assumptions and parameters, which are themselves subject to some uncertainty; and
- global actions may not be effective in transitioning to net zero and in managing relevant sustainability-related risks, including, in particular, climate, nature-related and human rights risks.

Actual results and developments may differ materially from the expectations disclosed or implied as a result of factors including those outlined above. All subsequent written or oral sustainability-related forward-looking statements attributable to PSP Investments or any persons acting on its behalf are expressly qualified in their entirety by the factors referred to above. No assurance can be given that the sustainability-related forward-looking statements in this report will be realized. Subject to compliance with applicable law and regulations, PSP Investments does not intend to update these sustainability-related forward-looking statements and does not undertake any obligation to do so.

Independent Practitioner's Limited Assurance Report

To the Board of Directors of
Public Sector Pension Plan Investment Board

We have undertaken a limited assurance engagement of the accompanying Subject Matter Information of the Public Sector Pension Plan Investment Board ("PSP Investments") for the year ended March 31, 2024 (collectively the "Subject Matter Information"), as presented in the table below.

Subject Matter Information	Unit of measurement	Year ended March 31, 2024
Financed emissions	Kilotonnes carbon dioxide equivalent ($ktCO_2e$)	8,107
Carbon footprint	Metric tonnes carbon dioxide equivalent per million dollars invested (tCO_2e/$ million invested)	35
Weighted average carbon intensity	Metric tonnes carbon dioxide equivalent per million dollars revenue (tCO_2e/$ million revenue)	115

Management's Responsibility

Management is responsible for the preparation of the Subject Matter Information in accordance with the applicable criteria defined in the Methodology section in the *PSP Investments' Climate-Related Financial Report* (the "applicable criteria"). Management is responsible for selecting the applicable criteria used. Management is also responsible for such internal control as management determines necessary to enable the preparation of the Subject Matter Information that is free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the Subject Matter Information based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with Canadian Standard on Assurance Engagements (CSAE) 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*. This standard requires that we plan and perform this engagement to obtain limited assurance about whether the Subject Matter Information is free from material misstatement.

A limited assurance engagement involves performing procedures (primarily consisting of making inquiries of management and others within the entity, as appropriate, and applying analytical and other procedures) and evaluating the evidence obtained. The procedures also include assessing the suitability in the circumstances of PSP Investments' use of the applicable criteria as the basis for the preparation of the Subject Matter Information. The procedures are selected based on our professional judgment which includes identifying areas where the risks of material misstatement of the Subject Matter Information are likely to arise, whether due to fraud or error.

Our engagement included the following procedures, among others:

- Making inquiries of relevant management and staff responsible for the preparation and reporting of the Subject Matter Information;
- Obtaining an understanding of the underlying data that is used as an input into the calculation of the Subject Matter Information;
- Obtaining an understanding of the process used to prepare and report the Subject Matter Information;
- Performing analytical review procedures; and
- Agreeing, testing, and recalculating the underlying data related to the Subject Matter Information on a sample basis.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement conducted in accordance with the Canadian Standards on Assurance Engagements. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether the Subject Matter Information has been prepared, in all material respects, in accordance with the applicable criteria.

Our Independence and Quality Management

We have complied with the independence and other ethical requirements of the relevant rules of professional conduct/code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Canadian Standard on Quality Management 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management, including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Significant Inherent Limitations

Non-financial information, such as the Subject Matter Information, is subject to inherent limitations of accuracy given the nature and the methods used for determining such data. The selection of different acceptable measurement techniques can result in materially different measurements. The precision of different measurement techniques may also vary.

Conclusion

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Subject Matter Information of PSP Investments for the year ended March 31, 2024 is not prepared, in all material respects, in accordance with the applicable criteria.

Specific Purpose of Applicable Criteria

The Subject Matter Information has been prepared in accordance with the applicable criteria to assist PSP Investments in reporting the Subject Matter Information to the Board of Directors (the "Board"). As a result, the Subject Matter Information may not be suitable for another purpose.

Deloitte LLP[1]

[1]CPA auditor, public accountancy permit No. A125494

Montréal, Canada
August 9, 2024

Business offices

MONTRÉAL
(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
Suite 603-606, 6/F
One International Finance Centre
1 Harbour View Street
Central, Hong Kong

Phone: +852 91616063

Head office

OTTAWA
135 Laurier Avenue West
Spaces Laurier
Ottawa, Ontario
Canada K1P 5J2

Phone: +1.613.782.3095

info@investpsp.ca

investpsp.com

PSP Investments