

2024 Sustainability Report

Mission Driven

Public Sector Pension Investment Board

PSP
Investments



At PSP Investments, we are driven by our mission to support the retirement of people who protect and serve Canada.

Our mission inspires us. Together with our mandate, it shapes how we invest. We focus on the long term and seek to carefully consider sustainability-related risks and opportunities that may affect long-term value creation and the resilience of our portfolio.

We are progressively embedding accountability for sustainability across the organization. As we proceed, we are learning and evolving our strategies with the aim of reaching better investment outcomes and improving our ability to deliver on our mandate.

This report highlights the progress made in our 2024 fiscal year (April 1, 2023, to March 31, 2024). For more information about PSP Investments' sustainability and climate innovation approach, please visit our [website](#).

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

Overview



Financial Highlights

PSP Investments is one of Canada's largest pension investors

We invest 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 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), and to the ability of the plans to meet their financial obligations.¹

Our portfolio grew to

\$264.9B

net AUM² in fiscal 2024,

an

8.7%

increase over 2023

10-year net annualized return

8.3%

\$135.3B
Cumulative 10-year
net portfolio income³

\$24.5B
Cumulative net investment
gains above the Reference
Portfolio⁴ over 10 years

5-year net annualized return

7.9%

\$80.9B
Cumulative 5-year
net portfolio income³

\$13.9B
Cumulative net investment
gains above the Reference
Portfolio over 5 years

1-year net portfolio return

7.2%

\$17.8B
Net portfolio income³

(\$10.7B)
Net investment gains above
the Reference Portfolio

¹ PSP Investments' statutory legislative mandate: Manage amounts that are transferred to it under the *Canadian Forces Superannuation Act*, the *Public Service Superannuation Act* and the *Royal Canadian Mounted Police Superannuation Act* in the best interests of the contributors and beneficiaries under such acts; and 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 pension plans (the "Plans") and the ability of the Plans to meet their financial obligations.

² Net AUM denotes net assets under management.

³ Excludes contributions.

⁴ The Government of Canada gives PSP Investments a Reference Portfolio that communicates its risk tolerance.



President and Chief Executive Officer's Message

At PSP Investments, we are honoured to manage the funds that support approximately 900,000 contributors and beneficiaries who have worked for Canada's public service, the Canadian Armed Forces, the Royal Canadian Mounted Police and the Reserve Force.

Investing for the long term

Our mandate spans decades and shapes our investment strategy to focus on long-term value creation and resilience across our entire portfolio.

In a world in flux – influenced by evolving macro-economic conditions, geopolitical shifts, rapid technological advancements, the global economy's transition to decarbonization, and significant demographic and societal changes – the scope of uncertainty over our extended investment horizon is substantial.

Succeeding in a world of uncertainty

Embedding material sustainability considerations in our investment decisions is important to ensuring our portfolio remains resilient over time. To this end, we provided in-depth sustainability training to investment professionals in all of our asset classes in fiscal 2024. We rolled out tools that automate analysis and surface insights so that material sustainability considerations can be integrated into our investment decision-making. We also expanded our knowledge and research capabilities to foster sustainability expertise and drive innovation.

Developing foresight related to climate change

One aspect of sustainability is climate change considerations, which present both risks and opportunities for PSP Investments. As a long-term investor, we believe

that incorporating material climate considerations into our investment decisions is important for delivering the long-term risk-adjusted returns needed to support our mandate.

Our long-term horizon – together with our private investing capabilities – positions us well for some of the investment and value-creation opportunities presented by the whole economy transition required by climate change. Through our role as the investment manager of the Canada Growth Fund (CGF), we are also developing foresight regarding this transition. Managed separately and independently from PSP Investments' pension investment mandate, CGF invests in clean technologies and innovative financial instruments that support the growth of Canada's economy.

In closing

Embedding material sustainability factors into our decisions will be important for achieving our bold ambition to become the best pension investor in the world, by steadfastly delivering on our mandate. We made significant progress this past year and I am confident that we are well prepared for the next phase of our journey.

Deborah K. Orida
President and Chief Executive Officer

2024 Sustainability Highlights

Green Asset Taxonomy

\$64.9B

considered to be green assets¹ (21.5%)

\$11.5B

considered to be transition assets² (3.8%)

62%

of GHG emissions data reported by portfolio companies, representing an 8% year-over-year increase³

Active ownership

Built a strong foundation of sustainability-related data to gain greater insight into the sustainability performance of our investments and enhance our strategic foresight

Voted at **5,670** shareholders' meetings on **56,638** resolutions

Engaged, where appropriate, with **712** listed companies on key sustainability-related issues

Continuous learning and development

Appointed sustainability champions within each asset class

Deployed a bespoke sustainability due diligence tool for our private market investment teams

Delivered more than **30** hours of sustainability training to over **300** PSP Investments employees

Convened **four** gatherings of our internal, multi-asset class group (Climate Innovation Summit), focused on knowledge sharing and the implementation of our climate strategy

Launched an internal investment research platform that focuses on the connections between sustainability and transversal investment themes, and provides actionable insights to investment teams

¹ Green assets – Investments in low-carbon activities, identified in accordance with the methodology set out in PSP Investments' Green Asset Taxonomy.

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, identified in accordance with the methodology set out in PSP Investments' Green Asset Taxonomy.

³ Calculated as part of PSP Investments' Green Asset Taxonomy.



Our Evolving Approach to Sustainability

One of our investment beliefs is that identifying, monitoring and capitalizing on sustainability factors can be material to long-term investment performance. Our approach to sustainability aims to help us mitigate risks to our portfolio, uncover opportunities to create long-term value and, most importantly, deliver the financial returns required by our mandate.

We are on a journey to translate our investment beliefs into concrete insights, actions and measurable outcomes aligned with our mandate. Our focus has been largely on improving our ability to leverage data, technology and in-house expertise to make material sustainability considerations an integral part of decision-making throughout the investment process and across the organization.

Strengthening Our Data, Technology and Analytics Infrastructure

In recent years, we have been shifting to a more technology-enabled and data-driven approach to sustainability – seeking to gain deeper insights into the environmental, social and governance risks, opportunities and impacts of investments; to make it easier for our investment teams to integrate material sustainability considerations into their analyses and activities; and ultimately to help us make more informed and evidence-based decisions that increase long-term returns, lower risks and support sustainable development.

Our work has involved collecting sustainability data from across our portfolio, reinforcing our data quality controls and processes, and introducing new technology and tools that enable firm-wide access to sustainability data and insights and capitalize on the power of data analytics.

Fiscal 2024 achievements included the following:

- Following the launch of our total fund sustainability data collection process in fiscal 2023, we established a baseline of data across our portfolio in fiscal 2024, which gives us insight into the sustainability performance of our investments. The data covers key performance indicators in the areas of climate change, diversity, equity and inclusion, governance and business ethics, cybersecurity and data privacy, and human capital management. We aim to use this data to explore the potential correlation between sustainability performance and risk-adjusted returns.
- We developed several tools that seek to help us improve our sustainability analytics capabilities, including an application designed to simplify the analysis of investments against our [Green Asset Taxonomy](#). We also launched a web-based due diligence tool that gives us insight into the sustainability practices of our external managers and general partners.

“Our increasing use of technology and data has been noteworthy in advancing our approach to sustainability. With breakthroughs in generative AI (GenAI), we see even more potential to drive efficiencies and develop insights and solutions to issues that can affect the long-term performance of our portfolio and specific assets.

GenAI will enable us to better manage the expanding volume of data covering a variety of relevant information in the space, including transition plans, progress on key sustainability metrics and new industry developments. We expect to use GenAI tools to synthesize all that information to identify patterns, anticipate risks, optimize complex processes and generate new ideas – faster than ever before.”

Herman Brill

Managing Director and Head of Sustainability and Climate Innovation



Launching the Sustainability Research Platform

In fiscal 2024, we launched a research platform which focuses on the intersectionality of sustainability and transversal investment themes.

The platform introduced two internal publication series:

- **Sustainable Alpha Insights** focuses on alpha optimization and offers insights on key thematic topics within the rapidly evolving sustainability arena.
- The **Sustainable Alpha Pulse** newsletter provides commentary on timely sustainability-related market trends and policy updates.

Collaborative research ecosystem

Research collaboration is integral to our Chief Investment Office’s approach and to the sustainability research platform. We aim to build a collaborative research ecosystem that fosters knowledge sharing on long-term thematic topics among internal and external partners.



“Building capabilities in transversal sustainability research is important for PSP Investments because it equips us with the knowledge that helps us to navigate the complex and uncertain landscape of long-term investing. It is a proactive step towards improving resilience and creating value in a world marked by challenges and rapid changes.

Launching the sustainability research platform supports alpha optimization and thought leadership on thematic research and ensures that we are well prepared to identify and capitalize on sustainability-related opportunities.”

Herman Brill

Managing Director and Head of Sustainability and Climate Innovation

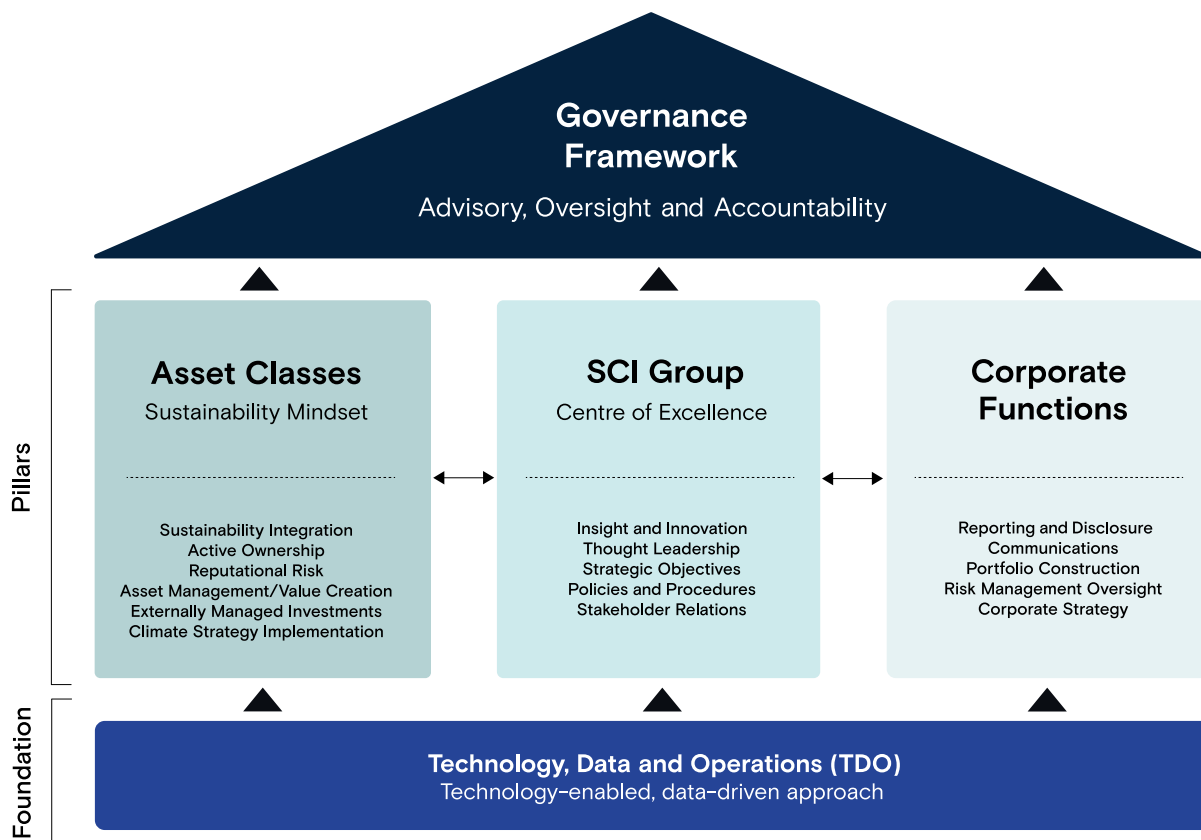
Implementing Our Hub-and-Spoke Operating Model

We advanced the implementation of our hub-and-spoke operating model, which is intended to help embed our sustainability practices across the organization. In this model, our Sustainability and Climate Innovation (SCI) group acts as a centre of excellence and support for sustainability matters and provides thought leadership on thematic priorities. With the support and expertise of the SCI group, each asset class is accountable for integrating sustainability considerations into its own investment and asset management processes.

Fiscal 2024 achievements included the following:

- Asset classes appointed sustainability champions to work with their respective deal teams to assess the materiality of sustainability factors and help integrate key findings into their investment processes.
- The SCI group delivered more than 30 hours of sustainability training across 21 sessions, including each asset class. The training was focused on embedding a sustainability mindset across the firm and ensuring that investment professionals were well equipped to identify, assess and manage sustainability-related risks and opportunities throughout the investment lifecycle. The sessions covered a range of topics from the basics of sustainable investing to specific issues such as climate change, cybersecurity, greenwashing and industry initiatives. Training was tailored to each asset class to make it relevant and actionable for each team’s specific needs and strategies.
- The SCI group developed and deployed several tools and frameworks that aim to align with market practices and standards. This included a bespoke sustainability due diligence tool for private market investment teams, which helps them identify material topics and create tailored due diligence questionnaires that can be used with advisors, partners or management teams.

Our blueprint for sustainability integration



Advancing Our Climate Capabilities

We believe that climate change is a long-term structural trend that will have a material impact on investment risks and returns, across sectors, geographies and asset classes. We are focused on advancing our climate capabilities to better position ourselves to manage these risks, to discover new investment opportunities associated with the transition to a low-carbon economy, and to increase the resilience of our portfolio through implementation of adaptation measures, where appropriate.

We launched our climate strategy in April 2022, which outlines our commitment to using our capital and influence to support the transition to global net-zero greenhouse gas (GHG) emissions by 2050. We continued to execute on our strategy in fiscal 2024.

Our [climate strategy](#) encompasses five focus areas. Our fiscal 2024 progress in each of these areas is discussed below.

1. Climate integration

We believe that we have made significant inroads in integrating material climate considerations into our portfolio construction activities (i.e., long-term capital market assumptions) – this integration seeks to strengthen the climate change resiliency of our portfolio.

To support investment decision-making within our asset classes, we rolled out a template designed to help teams conduct quantitative assessments of potential investments using our [Green Asset Taxonomy](#) and analyze the potential effects of an investment on our portfolio carbon footprint.

We also developed tools that aim to facilitate the monitoring of our investments and portfolio against our climate metrics. As part of our risk management approach to climate risk, we conduct regular climate scenario analysis and stress-testing of our policy portfolio. For more information, refer to the Risk Management section in our [2024 Climate-Related Financial Disclosures Report](#).

2. Climate investing and sustainable finance

We enhanced our ability to monitor and manage climate-related risks and opportunities through our new Green Asset Taxonomy dashboard and climate pathways navigator tool. These tools aim to provide detailed insights into our investments and to enable more informed decision-making and strategic planning at both asset and portfolio levels.

We also issued a \$1 billion green bond in fiscal 2024, raising our sustainable bond financing to 7.1% of PSP Capital's debt outstanding, as at March 31, 2024.

3. Active engagement

Our engagements with partners and portfolio companies focused primarily on encouraging the development of credible sustainability and transition strategies. We witnessed positive momentum across our private markets' portfolio related to transition planning and will strive to continue engaging with our investee companies to develop credible plans going forward.

4. Reporting and disclosure

We continued our efforts to collect GHG data from our private markets' investments, for both direct and fund positions. As a result, we collected company-reported Scope 1 and 2 data from approximately 62% of our in-scope portfolio compared to 54% the year before, representing an 8% year-over-year increase. The improvement was driven mainly by the efforts of our Credit Investments group to collect more data, but was also boosted by the continued focus of our other asset classes to increase coverage. The collection of reported GHG data is important for enhancing the reliability and precision of our climate-related reports and disclosures.

With the market shifting toward integrated reporting, we have started to evolve roles and responsibilities within our own organization. Increased support from our Finance teams enabled us to expand the limited assurance review of our key performance indicators to include our weighted average carbon intensity (WACI) metric.

5. Leadership and collaboration

We were pleased to contribute to a climate scenario analysis led by the Bank of Canada to evaluate the resilience of the Canadian financial system to climate shocks. This engagement helped with broadening our understanding of how climate shocks might impact the portfolio. Beyond the benefits to the broader financial system, the exercise improved our understanding of climate risks and helped us to benchmark our risk management strategies against those of industry peers.

We continued our involvement with [Climate Engagement Canada](#) (CEC), a finance-led initiative that facilitates dialogue between the financial community and industry to promote a just transition to a net-zero economy, and to support Canada's net-zero emissions by 2050 goal.

Short-term targets to guide progress

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](#).

While we are making steady progress toward our targets, 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 ability to achieve our targets. Our fiscal 2024 Green Asset Taxonomy¹ results revealed an increase in exposure to green and transition assets, as well as a decline in carbon-intensive assets compared to fiscal 2023 – resulting in the quantity of transition assets exceeding that of carbon-intensive assets. See our [2024 Climate-Related Financial Disclosures Report](#) for details about our performance against fiscal 2026 targets.

As we approach the end date for our inaugural climate strategy targets, we plan to revisit our climate strategy in fiscal 2025 to consider insights gained and ensure its relevance in the context of evolving policies, frameworks and scientific guidance. We aim to upgrade our approach to integrating climate considerations into our investment strategies and processes as we strive for better investment outcomes supporting PSP Investments' ability to deliver on its mandate.

Climate Innovation Summit

Our Climate Innovation Summit (CIS) series brings together internal stakeholders across the business to engage in discussions about implementing our climate strategy. These summits serve as a platform for aligning with our climate goals and sharing insights and best practices. By focusing on tangible steps

toward achieving the fiscal 2026 climate targets, the CIS aims to help ensure that we are synchronized and proactive in our approach to climate-related challenges. We convened four CIS meetings in fiscal 2024.

¹ For more details on our Green Asset Taxonomy methodology, please refer to our [Green Asset Taxonomy Whitepaper](#).

Our Fiscal 2025 Priorities



Data, technology and analytics infrastructure

Our focus will be on delivering more insights and foresight into sustainability risks, opportunities and impacts that may affect our investments over the long term. To achieve this, we intend to enhance our analytics capabilities to help us quantify the risk/return impacts of material sustainability considerations and further embed them into our investment decision-making strategy.

Sustainability research platform

Another priority for the coming year is to grow the sustainability research platform to help support investment activities in areas where PSP Investments has unique expertise and capabilities. The platform also aims to support the asset classes on deal-specific needs and bolster portfolio management through research on sustainability strategy and alpha generation.

Hub-and-spoke model

We aim to further embed sustainability into the intersections between our SCI group and asset classes by notably striving to refine our engagement principles to focus on value creation and risk mitigation, with greater efforts in private markets and on thematic priorities aligned with PSP Investments' corporate strategy.

Climate change

We intend to upgrade our climate change strategy, drawing on the lessons learnt since its launch, to drive better investment outcomes and ensure that our focus on climate change improves the organization's ability to deliver on its mandate.



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 judgements, 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 towards 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. The information contained within this report has not been independently verified or assured.

The report contains certain forward-looking statements with respect to PSP Investments' sustainability targets, commitments, ambitions, climate-related scenarios, processes, plans, and the methodologies it uses, or intend to use, to assess its 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 statements 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 used to assess and set sustainability-related targets, which could result in revisions to reported data and lack of reconcilability or comparability;
- amendments to or new sustainability reporting standards, models or methodologies;
- 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, particularly 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 assurances 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.

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