Think. Act. Responsibly.

Public Sector Pension Investment Board
—2019 Responsible Investment Report

As a pension investment manager, we think long term: we invest and manage assets today to help meet pension obligations decades into the future. This investment horizon shapes how we view risks and opportunities, and compels us to consider the environmental, social and governance (ESG) factors that can impact long-term value.

—Who we are

The Public Sector Pension Investment Board (PSP Investments or PSP) is one of Canada's largest pension investment managers, with $168.0 billion of net assets under management as of March 31, 2019. Our head office is located in Ottawa and our highly-skilled and diverse team of more than 800 professionals works from offices in Montréal, New York, London and Hong Kong.

—What we do

PSP Investments' mandate is to manage the amounts transferred to it by the Government of Canada (the Government) for the funding of retirement benefits earned from April 1, 2000 (Post-2000 Liabilities) by members of the public sector pension plans of the federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police and since March 1, 2007, the Reserve Force (collectively the Plans). PSP Investments' statutory mandate is to:

(a) Manage amounts that are transferred to it in the best interests of the contributors and beneficiaries, and

(b) to 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 and the ability of those plans to meet their financial obligations.

$168.0 Billion Net AUM*

Diversified asset mix*

% of total net AUM

Public Markets	Private Equity	Private Debt	Real Estate	Infrastructure	Natural Resources	Complementary Portfolio
48.1%	14.0%	6.2%	14.0%	10.0%	4.0%	0.9%

* As at March 31, 2019. Excludes cash and cash equivalents. All dollar amounts in this report are in Canadian dollars unless otherwise indicated. Net AUM denotes net assets under management.

Table of contents

PSP and responsible investment

"We take a positive approach to ESG integration. We want to invest in companies that show awareness of material issues and a commitment to responsible and sustainable practices, because these are the companies that are most likely to innovate in a changing world, and to grow and perform over the long term."

Stéphanie Lachance, Vice President, Responsible Investment, PSP

Exploring every angle

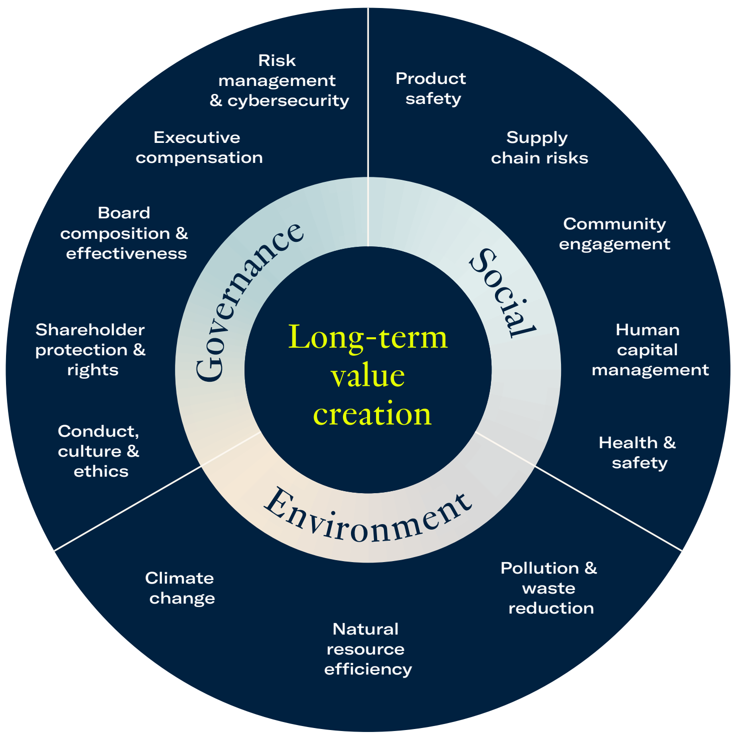
For PSP, responsible investment (RI) is about exploring every angle–identifying, assessing and actively managing ESG risks and opportunities with each investment–so as to maximize long-term performance and mitigate risk.

Our Responsible Investment group spearheads our efforts. The group helps advance our ESG strategy, oversight, capabilities and practices; and works as one with investment teams across all asset classes to develop our collective insight and integrate ESG factors throughout our investment processes.

Our ESG lens

By evaluating investments through our ESG framework, we gain a better understanding of risks and opportunities to create more value. Our approach is highly pragmatic, and draws on our in-house research and deep industry and market knowledge, to zero in quickly on what's material to the value of our investments.

General ESG framework



E—

Environmental factors capture both the impact of a company's activities on the ecosystem and the ecosystem's impacts on that company

S—

Social factors focus on the impact that a company has on a community or society as a whole, as well as the impact of a community or society on that company

G—

Governance factors assess how companies are governed, in areas such as board composition and effectiveness (e.g., skillset, diversity, board renewal and independence); executive compensation; and business ethics, including anti-bribery, corruption and whistleblower programs

CEO letter

As a pension investment manager, PSP must take ESG risks and opportunities into account in our investment strategy in order to create long-term sustainable value for our contributors and beneficiaries.

Responsible investment is an integral part of our investment approach, helping us mitigate risk, uncover opportunities to enhance long-term performance, and bring our edge. I'm very pleased with the progress we've made.

Over the past three years, we've embedded ESG considerations into every aspect of our investment process, across all of our asset classes. Once we decide to proceed with an investment, we go beyond identifying and assessing material ESG risks and opportunities by actively managing and monitoring them. Our RI and investment groups collaborate closely, using multiple levers to protect and enhance long-term performance.

We've adopted robust and collaborative approaches for our external relationships as well. This past year, we deepened our conversations with several of our external managers to encourage them to implement ESG best practices. We also partnered extensively with like-minded peers and industry organizations to enhance our effectiveness. This resulted in notable progress in the governance practices of several Canadian companies, which you can read about on pages 7 and 9.

I'm pleased about how we're tackling climate change. While our RI group has spearheaded the ground work, they are collaborating with our asset classes and business partners to implement our approach. So that everybody in our organization is able to play their part, we've also organized climate change information sessions for all employees and conducted targeted ESG sessions for investment teams and business partners. This is a prime example of our fully integrated and collaborative "One PSP" way in action.

I hope you enjoy reading this year's RI report. As much as it's an opportunity to explain our approach and reflect on what we've achieved, we also hope it instills confidence that PSP is doing the right things to drive long-term, sustainable investment returns for the benefit of Canadian public sector pension plan beneficiaries and contributors.

Sincerely,

Neil Cunningham
President and
Chief Executive Officer

Year in review

Reporting on key themes

In our last Responsible Investment Report, we identified seven themes that would be important to us in fiscal year 2019. These themes were chosen because of their significant potential impact on the long-term performance of our portfolio companies.

Climate change

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

We support the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) with the view to fostering enhanced transparency on climate change-related financial risks and opportunities in capital markets.

Our Board of Directors and senior management have approved a multi-year fund-wide climate change approach based on: (1) the integration of climate change factors into our investment decisions, at the total portfolio, asset class and individual asset level; (2) monitoring of the portfolio's exposure to climate change; and (3) engagement with portfolio companies for better climate change-related financial risk disclosures.

Climate change-related risks are among the ESG risk factors assessed as part of our annual review of our corporate and investment risks, and are reviewed by our Board.

"Climate change is accelerating and this will affect our investments over the long term. This is why we need to pay attention now and adapt our strategies to ensure our investments will be resilient in this new environment."

Lynn Haight, Board member, PSP

Achievements

We achieved key milestones of our multi-year climate change strategy, which included the following:

- Climate change stress-test scenario analysis as part of our portfolio construction process to assess the resilience of our long-term asset allocation.
- Monitoring of our exposure to carbon intensive sectors and to low-carbon investments. As at March 31, 2019, we had more than $5 billion of direct investments in more than 130 renewable energy assets with an aggregated net power capacity of 3.5 gigawatts.
- Physical risk assessments of our real assets that may present higher exposure to climate change. We analyzed the exposure of approximately 1,200 of our real estate, infrastructure and natural resources assets to extreme weather such as coastal flooding and chronic changes in weather patterns such as rainfall and temperature cycles.
- Climate change risk assessment during asset acquisition due diligence and portfolio review.
- Engagement with approximately 250 public companies to encourage climate change risk-aware corporate conduct.
- Regular presentations and reports to management and the Board's Governance Committee on the portfolio's exposure and trends related to climate change.

Corporate culture and conduct

Breakdowns in corporate culture and misconduct often lead to shareholder value destruction.

Achievements

We broadened our engagement activities with public issuers to ensure that boards of directors provide strong leadership on corporate culture:

We engaged with 18 companies on corporate culture and conduct to ensure that their boards set the right tone at the top. Approximately 50% of these engagements resulted in positive changes.

For example, with several financial services companies, we stressed the importance of a healthy corporate culture and measures to promote good conduct. In some instances, these engagements led to the adoption of more robust anti-money laundering and anti-corruption policies as well as efforts to strengthen the compliance culture.

Disclosure

Meaningful disclosure is critical for understanding, evaluating and assessing potential risks and returns, including the potential impact of ESG factors on a company's performance.

Achievements

As an investor, we rely on high-quality disclosure for our investment decisions. While there will always be room for improvement, in fiscal year 2019 we focused on the following disclosure initiatives and were satisfied with our progress:

We joined the CDP* non-disclosure campaign to drive further corporate transparency around climate change by participating in the CDP disclosure framework. These efforts prompted an additional 93 companies to disclose how they measure and manage their environmental impact, with a view to enabling investors to make better-informed decisions.

Our engagement efforts prompted three multinational corporations to adopt integrated reporting on how they create stakeholder value, bringing together information about their operations, strategy, governance, prospects and external environment.

In meetings with the federally appointed Expert Panel on Sustainable Finance, we reiterated the importance of consistent, comparable and reliable disclosure of climate-related information to facilitate more informed business and investment decision-making. Appointed in 2018, the Expert Panel was tasked with engaging a wide range of stakeholders on opportunities and challenges relating to sustainable finance and climate-related risk disclosures, and recommending next steps for the Government of Canada to consider in promoting low-carbon, clean economic growth in Canada.

* Previously the Carbon Disclosure Project.

Diversity

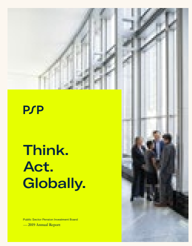
Boards and executive teams with age, ethnic and gender diversity—as well as diversity of skills, competencies and experiences—are likely to think more broadly, have stronger governance processes and be better able to identify opportunities that promote long-term growth.

Achievements

We remained focused on diversity in its many forms at board and executive levels through engagement and proxy voting. Board gender diversity informed our voting decisions in North America. In particular:

We continued our work with the 30% Club Canada Investor Group with the view to achieving 30% representation of women at the board level and executive positions by 2022 for S&P/TSX Composite Index companies. While some progress has been made, the pace of change has been slow; in Canada, the percentage of board seats occupied by women increased by only 1% between 2017 and 2018, from 14% to 15%. This prompted us to work with our Canadian peers and engage with 18 Canadian public companies on board composition and renewal, which we believe will lead to greater board diversity over the long-term.

Members of PSP's Private Equity group collaborated with the Institutional Limited Partners Association to develop diversity and inclusion resources and standardized reporting metrics for the private equity sector.



See PSP's 2019 Annual Report to learn more about PSP's diversity efforts.

"In organizations whose greatest assets are people, we believe diversity and inclusion become significant comparative advantages that give these companies an edge."

Micheline Bouchard, Chair of the Human Resources and Compensation Committee, PSP Board of Directors

ESG best practices

We set a high bar for external managers and general partners, and expect them to adopt best practices in ESG integration and reporting.

Achievements

As part of our ESG integration framework for externally managed investments, we communicated the results of our first benchmarking exercise, which covered 75% of our external managers. Through this exercise, we were able to share our expectations and best practices with external managers and learn more about their ESG integration practices.

We worked collaboratively with our private markets groups to assess general partners' ESG practices for all new, and select existing, fund investments. Where needed, we shared ESG resources and best practices with general partners and followed up on their progress. For the general partners we have engaged and subsequently reassessed in fiscal year 2019, we noticed a 50% improvement in their scores on the policy and resources segment of our in-house ESG benchmarking framework described at page 24 of this report.

As a result of these initiatives, we saw progress in the adoption of more robust ESG procedures and processes among our external managers and general partners.

Health and safety

As an investor, we expect the companies in which we invest to establish and maintain the systems and procedures necessary to fulfill all of their health and safety obligations, in line with relevant regulatory requirements and industry standards.

Achievements

Notable achievements in promoting health and safety best practices were as follows:

Following the 2017 launch of the PSP Health and Safety Best Practices Network for our Infrastructure portfolio companies, the participating companies developed Health and Safety Policy Guiding Principles, which focus on health and safety accountability, management systems, employee training and emergency preparedness.

Our Natural Resources group organized its first Australasian Business Council for its portfolio companies and partners in the region to facilitate the continued sharing of best practices, challenges and lessons learned. Health and safety best practices were key topics on the agenda.

In fiscal year 2019, twelve companies, representing more than 85% of the net asset value of our internally managed Infrastructure portfolio, and twelve companies and partners representing more than 50% of the net asset value of our Natural Resources portfolio (100% of its net asset value in Australasia), shared their health and safety best practices, key performance indicators, training tools and reporting practices with a view to improving their performance.

We continued to engage with public companies on health and safety issues in industries where they present material risks–such as mining and materials, and oil and gas–to ensure they are being effectively managed.

Say on Pay

An advisory vote on compensation—or Say on Pay—gives shareholders the opportunity to express their satisfaction with a company's approach to executive compensation, and has been found to improve communication on the topic between shareholders and issuers.

Achievements

In our engagements with public companies, we stressed the philosophy underpinning Say on Pay, which is that, while directors are charged with making decisions regarding executive compensation, shareholders should be allowed to provide their views on those decisions.

In collaboration with other Canadian pension funds and institutional shareholders, we continued our dialogue with companies in the S&P/TSX Composite Index for the adoption of non-binding advisory votes on executive compensation policies. We also supported shareholder resolutions calling for companies to adopt what we consider to be best practice.

As a result of these efforts, since 2017, there has been a 6% increase in the number of companies in the S&P/TSX Composite Index that have adopted Say on Pay, and an 8% increase in the number of companies in the S&P/TSX 60 Index that have done so.

Interview with our CIO

In July 2018, Eduard van Gelderen, was appointed as PSP's Chief Investment Officer (CIO), tasked with leading our Total Fund Strategy Group. His group oversees multi-asset class investment strategies, total fund allocations and exposures in terms of asset classes, geographies and sectors, as well as operational due diligence. Eduard also leads our responsible investment and government relations functions.

What value does the RI group bring to the CIO Office?

The primary mandate of our CIO Office is to optimize the risk-return profile of PSP's total fund by reconciling top-down views with bottom-up approaches in a systematic way. The RI group complements and strengthens our efforts, working with and across asset classes, tackling PSP-wide issues like climate change, and collaborating with partners and peers.

Responsible investment is part of PSP's edge—our quest to explore every angle—and our approach will continue to evolve and become more fact-based, supported by past experiences and ongoing research efforts. I also believe that the RI group can contribute to the CIO Office's innovation agenda. We want to identify and pursue more innovative investment opportunities that have the potential to benefit the total fund, and some of them are likely to exist in the ESG space.

Where do you feel that PSP made the most progress from an RI perspective in fiscal year 2019?

We made great strides in collaborating with PSP investment teams on value-creation opportunities by looking at these transactions through an ESG lens. Our approach is pragmatic and focuses on material ESG considerations. See for example the coffee deal signed in Brazil or the farming venture in Hawaii (page 18). By working as One PSP, and assessing investments from all angles—including ESG—we support strong decision-making and uncover unique opportunities to create long-term value.

What are your ambitions for RI at PSP in the coming years?

RI is ripe for innovation, especially in how we use ESG-related data and information to develop an edge for our investments. I'm counting on our RI group to identify and lead innovative initiatives that place ESG at the core of our strategies, catalyze improvements for the total fund, and contribute to PSP's success over the long term.

Our approach

PSP's responsible investment approach is aligned with our investment mandate and our total fund perspective. It is outlined in our Responsible Investment Policy, and anchored in the belief that companies that implement robust ESG practices are likely to perform better over the long term than those that don't.

Key tenets of the policy are as follows:

—We focus on ***material*** ESG risks and opportunities–ones that we determine to have the potential to impact a company's ability to create or preserve long-term financial value. We recognize that the relative importance of ESG factors varies across industries, sectors and geographies. We assess materiality over both the short and the long term.

—We are active stewards of the assets we own. We regularly engage with our portfolio companies and partners, in the belief that through dialogue, and proxy voting for public companies, we can encourage sustainable corporate conduct and enhance long-term financial performance.

—We collaborate with like-minded organizations to support initiatives that enhance the quality of ESG practices and disclosure, and support robust and vibrant financial markets.

—We believe that ESG integration and active monitoring is generally preferable to screening stocks or investments for exclusion, a process by which certain companies or entire industries can be precluded from consideration for investment based only on ESG factors.

—We regularly report to the Governance Committee of PSP's Board of Directors on our RI activities, and report publicly through our annual Responsible Investment Report, annual Principles for Responsible Investment (PRI) Transparency Report, and updates to our website.

Collaboration as an agent of change

We collaborate with like-minded organizations to support initiatives that enhance the quality of ESG practices and disclosure, and support robust and vibrant financial markets. We are proud of efforts undertaken with our peers, most notably with other Canadian pension fund managers. Through collaboration, we have been able to enhance our ESG integration practices and engage with companies in an effective manner on governance themes. We believe this distinctive ecosystem of ESG-focused investors is an important contributor to value creation. Learn more about the organizations and initiatives PSP supports in the Investing Responsibly section of our website.

From left: Stéphanie Lachance, Vice President, Responsible Investment, Nicole Wilson, Manager, Responsible Investment, Louis de La Haye Duponsel, Director, Private Equity.

"As Chair of the Governance Committee, I have been in a unique position to appreciate the evolution of ESG practices at PSP, which are now fully integrated into the investment process across our asset classes."

Garnet Garven, Chair,
Governance Committee, PSP Board of Directors

Delivering our edge: ESG integration in action

In this section, we provide examples of ESG integration at different stages of the investment process.

An integrated and collaborative process

ESG factors are addressed throughout the life of every investment we make. This goes beyond simply identifying and assessing material risks and opportunities. Once we proceed with an investment, we actively manage and monitor these risks and opportunities as well.

Our processes are highly collaborative and tailored to support our investment teams and leverage ESG expertise and technology solutions within the organization. We use different levers to assess ESG performance over time and to ultimately protect and enhance long-term financial value.

ESG integration framework

	Investment opportunity	Investment decision	Investment monitoring	Investment review
Internally managed investments	Identify key ESG factors and determine due diligence scope	In-depth assessment of material ESG risks and opportunities	Monitoring of ESG risk and performance, shareholder engagement and *proxy voting**	Re-assessment of material ESG risks and opportunities
Externally managed investments	Define due diligence scope based on investment strategy	In-depth assessment of ESG integration practices	Engagement on ESG best practices	Re-assessment of ESG practices

** Applicable to public market investments*

Investment opportunity

At the investment opportunity stage, we perform a high-level review of a prospective company's operations and assets to identify potential material ESG risk factors and opportunities.

There are instances where we will decide not to pursue investment opportunities due to heightened ESG risks which cannot be properly mitigated.

Considering environmental and governance performance in our public market investments

In 2017, we decided against an investment in a utility company for our internally managed public market portfolio as we were not confident in the company's ability to appropriately mitigate environmental risks and other related risks that could imperil its financial viability. In retrospect, we realized this decision was sensible as some of these risks have since materialized.

"We work as one team with the RI group to ensure ESG considerations are integrated at every step of the investment decision process for public markets."

François Lachance, Managing Director, Head of Fundamental Equity Strategies, PSP

From left: François Lachance, Managing Director, Head of Fundamental Equity Strategies, Martine Valcin, Senior Director, Responsible Investment, Ludmya Khaled, Senior Analyst, Proxy Voting and Responsible Investment.

Investment decision

ESG risk and opportunity analysis is fundamental to PSP's due diligence and investment decision-making process. During due diligence, investment teams, with the support of the RI group, perform an in-depth assessment of ESG risks and opportunities when developing the investment thesis. The assessment is tailored to the investment, and varies by industry, sector and geography. Where required, we engage external experts and consultants to provide additional insight.

When we take active positions in publicly traded securities, we further take into account corporate governance practices, focusing on board composition and effectiveness (e.g., skillset, diversity, board renewal and independence), executive compensation practices and shareholder rights.

Completed close to 70 ESG assessments to support investment decisions of our Public Markets' group in fiscal year 2019.

From left: Andrew Hunkeler, Senior Analyst, Natural Resources, Christian Bonneau, Senior Director, Natural Resources, Fernando Furtini, Director, Natural Resources, William McCullough, Manager, Natural Resources and Charles Benoît, Senior Analyst, Responsible investment.

Collaborating with the Natural Resources team

Climate change as an opportunity

Research suggests that climate change could result in less land suitable globally for agriculture. Before our Natural Resources group invested in coffee producer Grupo Montesanto Tavares (GMT), we retained climate experts to perform long-term modelling for the Brazilian coffee sector as a whole and for GMT.

The analysis uncovered an opportunity associated with GMT's operations: namely, altitude. Because of their high altitude, GMT's coffee farms are less susceptible to long-term climate change impacts, which in turn positions the company favourably should coffee supply tighten in the future. Other favourable ESG factors included GMT's social practices and commitment to sustainability, as evidenced by its Rainforest Alliance, UTZ and Starbucks' Coffee and Farmer Equity (C.A.F.E.) Practices certifications.

Working with communities

Mahi Pono, one of our farming joint ventures, acquired former sugar cane plantations on the island of Maui in Hawaii. Our ESG analysis of the transaction included an in-depth assessment of the sustainability of the water required for operations and the potential long-term impact of climate change.

We also engaged with community stakeholders and our agri-food partners worldwide to help develop a sustainable and diversified farming plan. The resulting plan will provide many benefits, including creating local jobs, increased local food supply, dedicated land for local farmers to grow their own crops with assistance from farm managers, an on-site farmers' market, and local agriculture training programs.

See PSP's 2019 Annual Report *to learn more about both of these investments.*

Investment monitoring

Investment monitoring in Public Markets

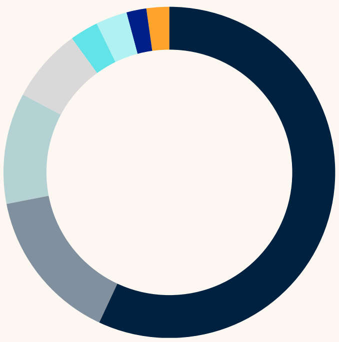
We use our ownership positions to promote good corporate governance practices, exercising our proxy voting rights and actively engaging with companies on material ESG issues. ESG performance and controversies are monitored to inform our voting decisions and prioritize our engagement activities.

Proxy voting

Our Proxy Voting Guidelines (the Guidelines) outline our expectations with regard to the corporate governance and sustainability practices of public companies in which we invest. The Guidelines identify the topics on which we may vote from time to time and the principles that inform our voting decisions. We take a pragmatic approach when exercising our voting rights by considering local laws, prevailing governance practices and the particular circumstances of a company in the interpretation and application of the Guidelines.

We strive to vote at all shareholders' meetings organized by companies in which we invest. In fiscal year 2019, we voted at 4,131 meetings for a total of 44,028 management and shareholder resolutions in all regions of the world. We spent a considerable amount of time on board-related resolutions. In our experience, strong governance, including how environmental and social factors are managed, stems from effective board leadership and oversight. Our proxy voting records are available on our website.

Resolutions voted – by topic (FY2019)



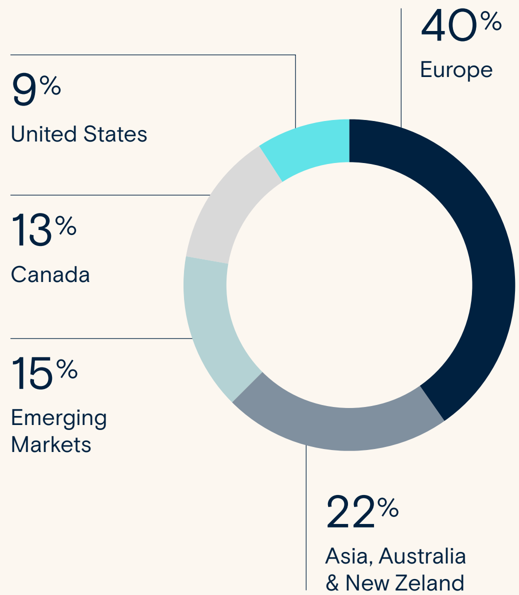
57%	Board & committee composition
15%	Financial & auditor
11%	Compensation
7%	Capital structure
3%	Amendments to articles
3%	M&A and anti-takeover
2%	Other
2%	Shareholders' resolutions

Engagement

Engagement is a key component of our responsible investment approach. Public companies in which we have an equity or debt position are selected for engagement based on factors such as our ability to create shareholder value, prospects for successful engagement and the relevance of ESG issues.

In fiscal year 2019, we engaged either directly, with the assistance of a global service provider, or in collaboration with like-minded investors or organizations such as the Canadian Coalition for Good Governance, with 507 publicly listed companies whose securities we hold. These engagements were undertaken globally and covered a broad range of industries, including financial services, oil and gas, pharmaceuticals and information technology. These engagements were initiated by us or by companies in our portfolio to address specific ESG issues or themes, or in the context of our proxy voting activities. The majority focused on corporate governance practices, thereby also supporting effective management of environmental and social factors.

Companies engaged – by country or region (FY2019)



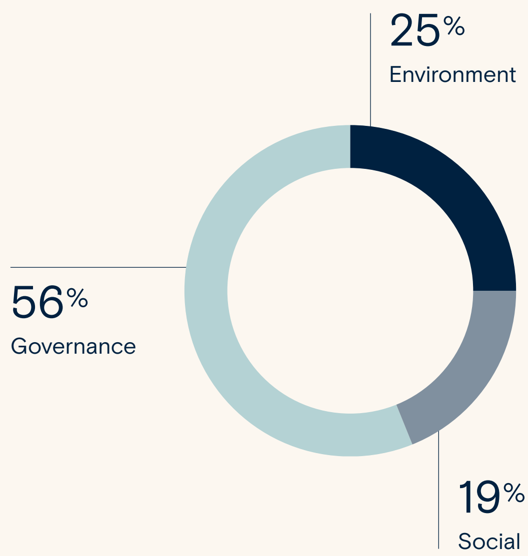
We engaged with an information technology firm in Asia that had faced several corruption-related controversies.

With the company demonstrating a new-found willingness for investors to dialogue directly with non-executive directors, we have encouraged the board, over the past two years, to exercise greater oversight of corporate donations and to manage compliance and ethical risks more systemically.

We have seen progress in both areas. Notably, the board lowered the threshold for which board approval is required for corporate donations, which has significantly tightened board oversight of the use of company funds and increased transparency related to donations.

The company also implemented business ethics training for all employees globally, put in place a whistleblower program, and adopted the best practice of having the head of compliance report to the board on a regular basis.

Engagement – by theme (FY2019)



“Engagement is an essential component of our investment management activities. We believe engaging privately, in a constructive manner and with clear goals and objectives on material ESG issues, can have a positive, long-term impact on a company’s performance.”

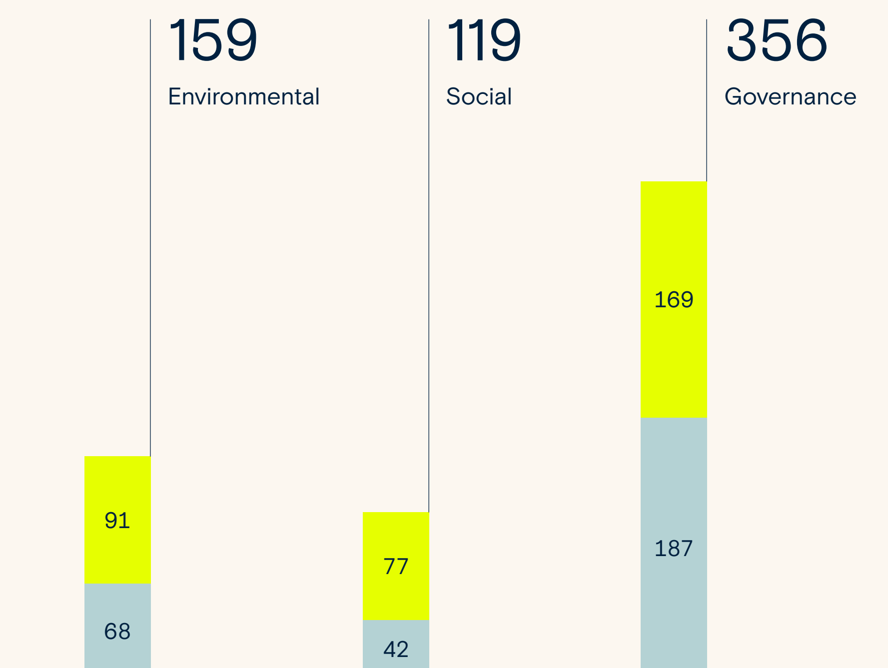
Anik Lanthier, Senior Vice President, Public Markets and Absolute Return Strategies, PSP

We monitor the progress of our engagement objectives using a milestone approach, as illustrated to the right.

In fiscal year 2019, PSP achieved new milestones towards its engagement objectives across various themes, as shown in the graph to the right.

Engagement progress – by objectives (FY2019)

Positive change
No change



Investment monitoring in Private Markets

In private market investments, we leverage our direct access to portfolio companies and larger ownership stake, which often includes board representation, to influence a company's ESG practices with a view of improving its long-term performance.

ESG and long-term value in real estate

PSP typically invests in real estate through joint ventures with best-in-class partners. With close to 70 partners and more than 1,000 properties, we are among the 20 largest real estate investors in the world. Managing ESG performance is essential for mitigating longer-term risks such as rising energy costs–and for enhancing value, for example, by improving operating efficiency or tenant satisfaction.

Following the 2018 energy efficiency survey of our properties, in fiscal year 2019, we engaged with 14 of our partners, who manage over 200 properties. Our discussions focused on their ESG management practices and performance, as well as opportunities for improvement.

We also became an investor member of the Global Real Estate Sustainability Benchmark (GRESB). GRESB is generally recognized as the leading global ESG benchmark for real assets. It will be used for monitoring both our partners' practices and our properties' performance.

"As cybersecurity risks are present across many sectors in which we invest, we need PSP representatives on the boards of our portfolio companies to adequately oversee these risks. In fiscal year 2019, we developed a series of tools, including a cybersecurity guide and training program, to help directors exercise proper oversight of these fast-evolving risk factors."

David Ouellet, Vice President and Head of Strategic and Business Planning, PSP

Investment review

We periodically review investment theses in support of our investments. This provides an opportunity to re-assess ESG risks and opportunities, and to evaluate the progress made on ESG issues identified at the investment decision stage.

At the time of the investment, concerns were identified related to the board composition of a company in our Emerging Markets portfolio.

While the company had several independent directors on its board, none of them had industry or public company experience. After meetings with the company and due to ongoing concerns about bribery and corruption, we decided against continuing with our investment.

"Given the size of our Infrastructure portfolio, we put a strong emphasis on portfolio and investment management. Being a large shareholder in most of our infrastructure investments, we are in a position to influence change and raise the bar on ESG topics ranging from risk management to corporate culture or operational safety."

Patrick Samson, Managing Director and Head of Infrastructure Investments, PSP

Externally managed investments

We sometimes allocate capital to external managers for public market investments or make private market investments through funds. Forging the right relationships is critical in these situations. We use an in-house benchmarking framework to objectively evaluate our partners' ESG practices and better understand how they consider and monitor material ESG risks and opportunities over time.

What our in-house framework evaluates

ESG framework

Policy | Resources

- ESG or responsible investment policy, proxy voting guidelines
- Resources (internal, external, ESG-dedicated)
- Training

Investment process

Pre-investment | Investment decision | Ownership & engagement

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

Communication & leadership

Reporting | Leadership activities

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

In fiscal year 2019, we reviewed the ESG integration practices of three new public markets external managers and, as part of our monitoring process, we engaged with all of our external managers following the benchmarking of their ESG practices.

We followed a similar process for fund managers of private market investments, reviewing the ESG integration practices of general partners for 18 new fund investments in addition to engaging with five general partners for existing fund investments. This was a great opportunity to share best practices and keep our partners engaged. As a result of these initiatives, we noticed progress in the adoption of more robust ESG procedures and processes among our external managers and general partners.

One of our external managers specializing in health care avoids companies that have failed to adopt best practices regarding the diversion of pharmaceuticals from their intended use or the distribution of opioids. Through this practice, they are able to avoid investing in companies whose performance would be negatively affected by controversy.

One of our external managers conducted extensive research to link corporate performance with material ESG factors and developed its own methodology to monitor the ESG performance of its portfolio companies. Doing so confirmed to us their alignment with PSP's Responsible Investment Policy.

One of our private equity general partners has developed a framework that outlines its ESG expectations for its portfolio companies. Companies within its portfolio are expected to develop appropriate ESG policies, implement ESG initiatives, and monitor and report on material ESG-related key performance indicators. Our general partners' ESG practices contribute to our RI approach by ensuring that our externally managed assets are consistently managed in accordance with our Responsible Investment Policy and beliefs. From time to time, these general partners sponsor transactions for which our Private Debt group provides financing. In these situations, the sponsor's ESG practices can facilitate our access to material ESG-related information for use in our investment analysis and decision-making.

Looking ahead to fiscal year 2020

As we look ahead to fiscal year 2020, the following will be our priorities:

—Board composition and diversity

We will maintain our engagement and proxy voting activities to ensure that boards have the requisite skills, expertise and independence to exercise effective leadership and oversight.

—Climate change

We will continue to deploy our multi-year climate change approach.

—ESG disclosure and best practices

We will remain focused on improving reporting and disclosure from companies in which invest, and encouraging ESG best practices from our external managers and general partners.

—Monitoring ESG key performance indicators (KPI) across our total fund portfolio

Effective management of ESG factors increases the likelihood that companies will perform well over the long-term, while managing risk and capitalizing on opportunities. To that end, we will refine the tools we use to monitor and manage ESG KPIs across our portfolio.

Our responsible investment journey*

PSP's responsible investment journey began in 2001, with the adoption of our first Social and Environmental Responsibility Policy and proxy voting guidelines, which laid the groundwork for becoming an active steward of our public market assets. Since then, we have endeavoured to vote all the proxies of public companies in our portfolio in accordance with our guidelines.

Our approach to responsible investing was strengthened in 2007 with the launch of a formal ESG engagement program with public issuers. Over the next several years, we refined our policies and processes related to the integration of ESG factors into our investment decisions for all asset classes, including private and public markets.

2005

Initiated our membership at the Canadian Coalition for Good Governance, joining other Canadian institutional investors in supporting best practices in corporate governance

2007

Became a signatory of the Carbon Disclosure Project (now CDP), allowing us to better consider carbon-related risks in our investment decisions

2009

Became a signatory of CDP Water, allowing us to better consider water-related risks in our investment decisions

2012

Replaced the Social and Environmental Responsibility Policy with the Responsible Investment Policy, formally integrating ESG considerations into our investment process for all asset classes

2014

Became a signatory of the United Nations supported Principles for Responsible Investment (PRI), a leading proponent of responsible investment

2016

Created a dedicated Responsible Investment group to enhance ESG integration in all of our asset classes

2016/2017

Implemented robust processes to support ESG integration and monitoring across asset classes

2017

Issued our inaugural Responsible Investment Report

2018

Launched a climate change initiative to assess our portfolio's exposure to climate change risks

* Years shown are calendar, not fiscal.

We are listening

— If you have any questions or comments, please contact us at:
responsibleinvestment@investpsp.ca

responsibleinvestment@investpsp.ca

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

Head office

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

info@investpsp.ca