The 2022 Canadian Pension Climate Report Card analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. View the full report at shiftaction.ca/reportcard2022.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

PUBLIC SERVICE PENSION INVESTMENT BOARD (PSP INVESTMENTS, OR PSP)

PSP Investments is the pension manager for over 900,000 active and retired employees of Canada's federal government, including federal public servants, the RCMP, and the Canadian Armed Forces and Reserve Force. PSP Investments is a Crown corporation sponsored by the Government of Canada.

Assets Under Management (AUM): $230.5 billion (March 31, 2022)

	OVERALL SCORE	Paris-Aligned Target	Interim Targets	Climate Urgency	Climate Engagement	Climate Integration	Fossil Fuel Exclusions
PSP	C	F	B–	B+	C	C+	F

OVERALL CLIMATE SCORE	C

The good

PSP is beginning to articulate the urgency of the climate crisis and PSP's role in addressing it. The pension manager has relatively strong interim targets, despite having made no Paris-aligned commitment to achieving net-zero financed emissions. PSP plans to engage owned companies to develop science-based transition plans, and has signaled a willingness to consider divesting from high-carbon assets without transition plans.

What PSP should improve in 2023:

- ☐ Join a credible and accountable Paris-aligned investor body such as the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative.
- ☐ Pair interim emissions intensity targets with interim targets to reduce absolute emissions.
- ☐ Continue efforts to measure and disclose scope 3 emissions data and set interim emissions reduction targets beyond 2026.
- ☐ Engage owned companies using timebound criteria and a process that escalates to divestment to ensure they rapidly develop profitable and credible net-zero pathways.
- ☐ Set an expectation that owned companies:
  - ☐ tie executive compensation to the achievement of climate targets
  - ☐ refrain from lobbying against climate action, directly or through industry associations
  - ☐ refrain from directing capital toward fossil fuel expansion.
- ☐ Provide specific direction to external managers on handling climate-related risks and aligning investments with net-zero pathways.

- ☐ Divest from fossil fuel producers.
- ☐ Place an exclusion on any new investments in coal, oil, gas and pipelines.
- ☐ Commit to a timebound and managed phaseout of existing fossil fuel assets.
- ☐ Require climate expertise on the Board of Directors.
- ☐ Avoid conflicts of interest and refrain from appointing directors with simultaneous corporate directorships with fossil fuel companies to the Board.
- ☐ Establish minimum time that must elapse in between holding a fossil fuel directorship and joining the board.
- ☐ Tie executive and staff compensation to the achievement of climate targets.

SCORING DETAILS

Paris-Aligned Target	F

PSP Investments intends to "use our capital and influence to support the transition to global net-zero emissions by 2050," (*Climate Strategy Roadmap*, p.6) but has not made a Paris-aligned net-zero commitment.

PSP's *2022 Annual Report* states that "Heading into fiscal 2023, we intend to make a new climate change commitment," but no details are provided (p.27).

Interim Targets	B–

PSP's interim targets are relatively strong, although weaker than Canadian leaders. The fund's interim targets would be strengthened if they were situated as part of a strategy to achieve net-zero financed emissions by 2050 or sooner.

PSP's interim targets for 2026 (using a 2021 baseline), outlined in the *Climate Strategy Roadmap*, are:

Emissions reduction

Reduce portfolio GHG emissions intensity by 20-25% by 2026 (2021 baseline) (p.6). PSP has not set a target for absolute emissions reduction.

Proportion of portfolio footprint covered by a mature science-based transition plan

Ensure 50% of the portfolio's footprint is covered by a mature science-based transition plan by 2026 (p.8).

Investment in green assets

Increase investment in "green assets" (defined as "investments in low carbon activities that lead to positive environmental impacts" (including "dark green", "light green" and "enabling") from $40.3 billion (2021) to $70.0 billion (2026) (p.8).

Investment in transition assets

Increase investment in "transition assets", (defined as "investments that have committed to make a substantial contribution to the low-carbon transition through the establishment of public targets and disclosure practices" (including "early" and "mature") from $5.1 billion (2021) to $7.5 billion (2026) (p.8).

Reduce high-carbon exposure

Reduce a $7.8 billion exposure (2021) to "carbon-intensive assets", defined as "investments in sensitive high-carbon sectors or that fail to show quantifiable low emission performance" (including "High Carbon" and "Hard to Abate") to a $3.9 billion exposure (2026) (p.5, 8). As of March 31, 2022, this exposure had risen to $13.1 billion (*2022 Responsible Investment Report 2022*, p.13).

Other

- Obtain GHG data for 80% of in-scope portfolio by 2026 (from 56% in 2021). Additionally, PSP notes that it intends to add portfolio companies' scope 3 data to its methodology (*Climate Strategy Roadmap*, p.12).
- Commit 10% of financing to Sustainable Bonds by 2026 (from 4.2% to Green Bonds in 2021) (*Investing Responsibly* webpage).

The Roadmap commits to annual monitoring and disclosure against targets, and states that additional targets and plans will be developed for 2027 through to 2050 (p.14).

Climate Urgency	B+

PSP acknowledges the urgency of the climate crisis but falls short of setting its own Paris-aligned target and centering climate in its investment strategy. Some of PSP's statements indicate that the fund is beginning to acknowledge double materiality– that the climate crisis both affects its portfolio and that its investments affect the climate. PSP's *Corporate View on Climate Change* and *Climate Strategy Roadmap* are significant steps forward in the investment manager's communication of climate urgency.

Sample language (*Investing Responsibly* webpage):

"PSP Investments believes that climate change is one of the most critical social, economic and environmental challenges of our time. We acknowledge that climate change will have significant physical and economic impacts on the economy, communities and the environment. We are committed to using our capital and influence to drive Paris-aligned decarbonization outcomes across our investment portfolio. We are also committed to supporting the transition to global net-zero greenhouse gas (GHG) emissions by 2050."

Climate Engagement	C

SUMMARY

PSP's climate engagement has some strengths. PSP intends to engage on science-based, Paris-aligned decarbonization, it will be motivated to achieve some engagement wins in order to achieve its own interim targets, and it has signalled a willingness to consider divestment if decarbonization progress is "unsatisfactory" (*Climate Strategy Roadmap*, p.8-9).

PSP's climate engagement will be strengthened if PSP publicly sets higher climate-related expectations for its owned companies, strengthens its proxy voting guidelines, publishes an escalation policy (promised for 2023, according to its *Climate Strategy Roadmap*, p.8) and commits itself to net-zero emissions.

DETAILS

Expectations for owned companies

PSP's *Corporate View on Climate Change* does not set climate expectations high enough, stating that PSP expects companies in which it invests to "assess risks faced as a result of climate change, to report on the results of this assessment, and to comment on mitigation plans when such risk is material" (p.4). To its credit, PSP does indirectly set expectations higher than its *Corporate View on Climate Change* would suggest, for example:

- by stating in its *Green Asset Taxonomy Whitepaper* that engagement milestones include, in the near-term, the development of a Paris-aligned strategy and science-based emissions reduction targets, and in the long-term include "ensuring companies have a business model consistent with net-zero emissions and an effective transition plan to achieve this by 2050" (p.8);
- by its commitment to develop in 2023 a climate escalation policy that can be applied to public issuers and private portfolio companies (p.8);
- by signalling in its *Climate Strategy Roadmap* a willingness to escalate (up to and including divestment) if decarbonization progress is not made (p.9). Furthermore, PSP shows its willingness to divest on climate-related grounds through its goal to reduce by 50% by 2026 its exposure to carbon-intensive assets without transition plans (p.8).

Proxy voting

PSP's *Proxy Voting Principles* (last updated in 2020) need to be strengthened on climate. Currently the *Principles* call for disclosure only, and do not address science-based targets, governance of climate-related risks or political and advocacy activities and memberships that undermine government climate action.

According to PSP's *2022 Annual Report*, the investment manager had 346 climate-related engagements with public companies in fiscal year 2022, with 190 resulting in undefined "positive change" (p.33).

Collaborative engagement

PSP does not provide examples of collaborative engagement on climate, although according to its *Investing Responsibly* webpage the investment manager "may participate in investor-led initiatives on climate change-related matters." PSP is not a member of Climate Action 100+ or Climate Engagement Canada.

Direction given to external managers

PSP's *2022 Responsible Investment Report* provided some disclosure regarding external managers and general partners. In 2021, PSP added climate change to its ESG assessment framework for these partners, and identified that the assessment framework included climate strategy, identifications of climate-related risks and opportunities, TCFD disclosure, and tracking of portfolio carbon footprint. While these elements form an important baseline, they do not go far enough in ensuring external managers and general partners are adequately managing climate-related risk, nor do they express an expectation that external partners align with PSP's commitment to "support the transition to global net-zero emissions by 2050" (*Climate Strategy Roadmap*, p.6).

Climate Integration	C+

Accountable Paris-aligned membership

PSP Investments is not a member of any accountable and credible Paris-aligned investor body.

Transparency and disclosure of holdings

PSP does not disclose its investments and their valuations, apart from listing "sample investments" on its website.

Transparency and disclosure of climate risk

When asked in a letter from beneficiaries to disclose assets allocated towards companies involved in fossil fuel exploration, extraction, transportation, refining and combustion, PSP Investments' response did not address the question.[1] The fund's *Green Asset Taxonomy Whitepaper*, released in November 2022, provided laudable details on how the fund is classifying assets based on their emissions intensity and the maturity of the asset's transition plan. The *Whitepaper* gave examples of how different hypothetical companies would be classified and how they might move from one classification category to another. However, PSP stopped short of naming individual assets and disclosing how they are classified. Furthermore, the bar to move from "no transition plan" to "early transition asset" does not seem sufficiently rigorous.

PSP's *2022 TCFD Report* significantly improved the fund's disclosure of its climate scenario analysis. Three outlooks were included, including a failed transition, an orderly net-zero by 2050 outlook, and a disorderly net-zero by 2050 outlook. Discussion of the findings was detailed, with some acknowledgment that an orderly net-zero by 2050 transition would be the best outcome. However, PSP's conclusion that "this independent, external scenario analysis has confirmed the resilience of PSP Investments' Total Fund Strategy under many different future climate scenarios, including an orderly or disorderly, and failed net-zero scenario by 2050" (p.7) is a red flag: failed net-zero scenarios represent catastrophic risk to the financial system and human society and PSP should be investing to avoid them.[2] PSP itself said in December 2021 correspondence to beneficiaries that "We are deeply concerned that risks posed by climate change, if unchecked, would not be conducive to sustainable investment performance for our stakeholders."[3]

PSP's *2022 TCFD Report* also showed progress in the fund's disclosure of GHG metrics: PSP disclosed a Weighted Average Carbon Intensity metric, a carbon footprint (equity-only approach), and for the first time disclosed a Financed Emissions metric (p.11).

PSP has a recent *Climate Strategy Roadmap*, published in April 2022.

Board climate expertise and/or fossil fuel entanglement

PSP does not provide a Board skills matrix or identify directors with climate expertise. Five directors are identified in PSP's *2022 Annual Report* as having "Corporate social responsibility / sustainability" competency (p.89-94).

One of 11 Directors, or 11% of the Board, has a current fossil fuel entanglement. Miranda C. Hubbs is a Director of Imperial Oil.[4]

Executive and staff compensation and climate

While compensation is "aligned with PSP Investments' objectives and strategic plan" (*2022 Annual Report*, p.71), there is no indication that executive or staff compensation is linked to climate targets.

Fossil Fuel Exclusions	F

None.

The investment manager's *Climate Strategy Roadmap* expresses a willingness to consider exclusion or divestment "where the Board or management of portfolio companies are unwilling to adopt appropriate mitigation plans to reduce their operational carbon footprint" (p.8) and states that if "[decarbonization] progress is not made, we will escalate our engagement and consider divestment if progress remains unsatisfactory" (p.9).

PSP stated in its *2022 Annual Report* that it aimed to reduce by 50% by 2026 its exposure (as of September 30, 2021) to "$7.8 billion of carbon-intensive assets without credible transition plans" (p.29). However, as of March 30, 2022 PSP's exposure to carbon-intensive assets had risen to $13.1 billion (*2022 Responsible Investment Report*, p.13).

PSP's *Green Bond Framework* states that "Any investment that increases the use of fossil fuels— including exploration, processing and/or transportation— would not be considered a green investment under our Green Bond Pillars" (p.7).

As of PSP's *2022 Responsible Investment Report*, the fund reported that it was beginning to use its *Green Asset Taxonomy* (which maps investments by their carbon intensity and the credibility of their transition plan) to screen investments and inform investment decision-making (p.12).

Greenwashing Awards

As part of the 2022 Canadian Pension Climate Report Card, Shift has assigned PSP a bronze star for its purchase of Alaskan fossil gas assets a month after releasing its inaugural climate strategy, failure to disclose how its own assets fit into its Green Asset Taxonomy, and risky investments in questionable carbon offset markets. Learn more at shiftaction.ca/reportcard2022/greenwashingawards.

ADDITIONAL INFORMATION

The information below provides relevant context but did not contribute to the assigned scores. Exception: membership in the Net Zero Asset Owner Alliance or Paris Aligned Investment Initiative was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	PSP's *2022 Annual Report* states that going forward, the investment manager "will support shareholder proposals requesting that a company uphold the UN Declaration on the Rights of Indigenous Peoples or create a policy or program to do so. We will also support proposals that ask companies to obtain and maintain free, prior and informed consent of Indigenous people (FPIC); develop, strengthen or implement an FPIC policy or guideline; or assess and report on the adoption of FPIC policies" (p.24).
Accountable Paris-aligned memberships	None
Collaborations and memberships	• 2022 Global Investor Statement to Governments on the Climate Crisis • Canadian Coalition for Good Governance • Carbon Disclosure Project • Coalition for Inclusive Capitalism • ESG Data Convergence Project • International Corporate Governance Network • Investor Leadership Network • Principles for Responsible Investment • Sustainability Accounting Standards Board (now part of IFRS Foundation) • Sustainable Finance Action Council • Task Force on Climate-Related Financial Disclosures
Self-reported assets linked to climate solutions*	$46.5 billion, or 20.2% of March 31, 2022 AUM**
Estimated investments in fossil fuels	No disclosure. PSP's *2022 Responsible Investment Report* (p.13) noted that as of March 31, 2022 the fund had exposure to $13.1 billion of carbon-intensive assets (or 5.7% of March 31, 2022 AUM). Carbon-intensive assets are identified in PSP's *Green Asset Taxonomy Whitepaper* as high carbon or hard to abate assets with no evidence of a transition plan (p.10).***
Notable fossil fuel holdings (not a comprehensive list)	• Joint ownership of TriSummit Utilities.[5] • An undisclosed joint stake in EG Group.[6] • Information from the Thomson Reuters Eikon database to June 30, 2022 shows that PSP holds nearly US$459 million in shares in publicly-traded fossil fuel companies.[7]

* Definitions vary. Number is not comparable between funds. Self-reported numbers do not necessarily indicate climate-aligned assets.

** PSP's *2022 Responsible Investment Report* notes $46.5 billion in "green assets". These green assets include "approximately $17 billion of assets that meet green bond eligible categories, $25 billion of assets that outperform sector benchmarks by 30%, and $3 billion of assets in sectors that enable lower emissions" (p.13).

*** PSP Investments does not disclose a list of total investments in fossil fuels, and its *2022 Annual Report* does not distinguish between fossil fuels and renewables when reporting on its $23.5 billion Infrastructure portfolio exposure to "energy" and "utilities" (p.58).

ENDNOTES

1 PSP Investments. (2021, December 29). *PSP Response to SHIFT Letter_Dec 29-2021*. Posted at drive.google.com/file/d/10u8qX88pG3jeLyPaspnJXTJiG33ZRy_B/view.

See also Shift: Action for Pension Wealth and Planet Health. (2021, September 29). *Beneficiaries warn Canada's largest pensions of legal duty to manage climate-related financial risks*. www.shiftaction.ca/news/2021/9/29/beneficiaries-warn-canadas-largest-pensions-of-legal-duty-to-manage-climate-related-financial-risks.

2 Greg Gelzinis and Graham Steele. (2021, November 21). *Climate Change Threatens the Stability of the Financial System.* Center for American Progress. www.americanprogress.org/wp-content/uploads/2019/11/Climate-Change-Financial-Stability-brief.pdf.

3 PSP Investments. (2021, December 29). *PSP Response to SHIFT Letter_Dec 29-2021*. P.1. Posted at drive.google.com/file/d/10u8qX88pG3jeLyPaspnJXTJiG33ZRy_B/view.

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5 Kirong, N. (2020, March 31). *Canadian pension funds complete C$1.01B acquisition of AltaGas Canada*. S&P Global. www.spglobal.com/marketintelligence/en/news-insights/latest-news-headlines/canadian-pension-funds-complete-c-1-01b-acquisition-of-altagas-canada-57842501.

6 Kleinman, M. (2020, November 12). *£15bn petrol station giant EG woos global investors with stake sale*. Sky News. news.sky.com/story/15bn-petrol-station-giant-eg-woos-global-investors-with-stake-sale-12130703.

7 Shift: Action for Pension Wealth and Planet Health. (2022, September 26). *PSP Investments' Fossil Fuel Public Equity Holdings (USD, June 30, 2022)*. Data from the Thomson Reuters database. https://drive.google.com/file/d/1wQzRREXOgOb_tE3IGYh8gJumbwV1JynF/view.

REFERENCES

The following publicly available information was reviewed in the preparation of this analysis.

Reports

- 2022 Annual Report (2022)
- 2021 Annual Report (2021)
- 2022 TCFD Report (2022)
- 2022 Responsible Investment Report (2022)
- 2021 Responsible Investment Report (2021)

Documents

- PSP Investments Green Asset Taxonomy. Advancing Climate-Aligned Portfolio Management (2022)
- Climate Strategy - Roadmap (2022)
- Green Bond Framework (2022)
- Corporate View on Climate Change (April 21, 2022)
- Risk Appetite Overview (November 2021) (accessed in July 2022 but appears to no longer be available on PSP's website)
- Statement of investment policies, standards and procedures for assets managed by the Public Sector Pension Investment Board (November 2021)
- Responsible Investment Policy (February 2020)
- Proxy Voting Principles (February 2020)

Webpages and press releases

- Annual Report 2022 (webpage) (accessed July 2022)
- Responsible Investment Report 2022 (webpage) (accessed November 10, 2022)
- Board of Directors (webpage) (accessed June 2022)
- Investing responsibly (webpage) (accessed October 7, 2022)
- Press release - PSP Investments' 2022 Responsible Investment Report demonstrates continued momentum on climate change commitments, data integration and active ownership (November 10, 2022)
- Press release - PSP Investments launches inaugural Climate Strategy with targets to guide climate action and emissions reduction (April 21, 2022)
- Press release - PSP Investments Posts 10.9% Return in Fiscal Year 2022 as Net Assets under Management Grow by 12.7% to $230.5 Billion (June 9, 2022)