The *2023 Canadian Pension Climate Report Card* analyzes, assesses and ranks the progress made by eleven of Canada's largest pension managers and three international pension managers in their approach to climate risk and investment decisions as they relate to the climate crisis. Information is current to December 31, 2023. View the full report at shiftaction.ca/reportcard2023.

shift ACTION FOR PENSION WEALTH AND PLANET HEALTH

PUBLIC SECTOR PENSION INVESTMENT BOARD (PSPIB, or PSP Investments)

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 (PSP) is a Crown corporation sponsored by the Government of Canada.

Assets Under Management (AUM): $243.7 billion (March 31, 2023)

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

OVERALL CLIMATE SCORE	C

Summary and 2023 Updates

PSP is demonstrating an increasingly sophisticated approach to measuring, reporting and managing climate-related financial risks and encouraging portfolio companies to develop credible climate plans, while growing investments in climate solutions. But PSP is not yet treating what it calls "systemic climate change risk" (*Sustainable Investment Policy*, p.3) like a global emergency that could make it impossible for PSP to fulfill its mandate.

The pension manager has a relatively strong short-term emissions intensity reduction target, despite having made no Paris-aligned commitment to achieving net-zero financed emissions by 2050 or sooner. PSP also has 2026 targets for increasing investments in green and transition assets, reducing exposure to "carbon-intensive assets," obtaining greenhouse gas (GHG) data for 80% of its portfolio, financing sustainable bonds, and increasing the proportion of its portfolio covered by a mature, science-based climate transition plan. PSP reports that it is making progress toward these 2026 commitments.

PSP plans to engage owned companies to develop science-based transition plans and has created a "watchlist" of high-carbon companies and hard-to-abate assets without transition plans. PSP has signaled a willingness to "consider" divesting from high-carbon assets without transition plans, but has no fossil fuel investment exclusions in place.

What PSP still needs to do

- ☐ Publicly acknowledge the consensus science, including from the Intergovernmental Panel on Climate Change (IPCC) and the International Energy Agency, that limiting global temperature increase to 1.5°C requires an immediate end to expansion as well as the rapid phase-out of oil, gas, coal and related infrastructure.
- ☐ Join a credible and accountable Paris-aligned investor body such as the Net Zero Asset Owner Alliance or the Paris Aligned Asset Owners.
- ☐ Set a medium-term emissions intensity reduction target (2030 or beyond).
- ☐ Pair interim emissions intensity targets with absolute emissions reduction targets.
- ☐ Continue efforts to measure and disclose scope 3 emissions data.
- ☐ Build on public advocacy for mandatory standardized climate risk disclosure to become a vocal proponent of stringent, ambitious, Paris-aligned climate and energy policies that provide certainty for companies and investments.
- ☐ To ensure companies are rapidly developing and implementing profitable and credible climate plans, clarify PSP's *Sustainable Investment Policy*, *Corporate Governance and Proxy Voting Principles*, and *Climate Strategy Roadmap* by clarifying how long PSP will continue to engage companies and what thresholds those investments need to cross to constitute "material reputational and/or financial risks" necessitating divestment.
- ☐ Make public PSP's engagement "watchlist" of high-carbon, hard-to-abate companies/assets.
- ☐ 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; and
  - ☐ 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.
- ☐ Disclose in advance how PSP will vote on shareholder resolutions and publish proxy votes in real-time.
- ☐ Place an exclusion on any new investments in coal, oil, gas and related infrastructure.
- ☐ Commit to a time-bound and managed phaseout of existing fossil fuel assets.
- ☐ Require climate expertise on the Board of Directors, explicitly differentiated from "Sustainable Investing / Environmental, Social, and Governance (ESG)" expertise.
- ☐ Avoid climate-related conflicts of interest and refrain from re-appointing directors with concurrent 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.

FULL ANALYSIS	
Paris-Aligned Target	F

2023 updates:

- None.

PSP Investments continues to state that its long-term objective is to "use our capital and influence to support the transition to global net-zero emissions by 2050" (*2023 Task Force on Climate-Related Financial Disclosures (TCFD) Report*, p.4). But it remains one of the few pension funds analyzed in this report that has yet to commit its portfolio to net-zero emissions by 2050 or sooner.

Considering how sophisticated other elements of PSP's climate strategy are, it is surprising that PSP still has not taken this necessary step. If PSP's objective is to "support the transition to global net-zero emissions by 2050," it must demonstrate leadership and accountability by setting its own Paris-aligned target. There is no way to track progress against a long-term net-zero target if the target itself does not exist.

Interim Targets	**B–**

2023 updates:

- PSP reduced its absolute financed emissions by 22% between Fiscal Year (FY) 2022 and FY 2023.
- While PSP has made significant progress toward achieving its 2026 target to reduce emissions intensity, the fund still has not set medium-term targets beyond 2026.
- Significantly increased investment in green assets.
- Reached and exceeded target to increase investment in "transition assets" three years ahead of schedule.
- Made moderate progress in obtaining scope 1 and 2 emissions data for portfolio assets.
- Slightly reduced exposure to "carbon-intensive" assets.

PSP's interim emissions reduction targets are relatively strong, although weaker than Canadian leaders. The fund's 2026 targets would be strengthened if they were accompanied by medium-term targets and 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, are:

Emissions reduction

Reduce portfolio GHG emissions intensity by 20-25% by 2026, from a 2021 baseline, expressed as tonnes of CO2e per $m revenue (*2022 Annual Report*, p.27). PSP has not set a target for absolute emissions reduction.

PSP reported in 2023 that it had reduced its absolute financed emissions by 22% between FYs 2022 and 2023, using a Partnership for Carbon Accounting Financials (PCAF) approach. And the fund reduced the carbon intensity of its portfolio by 11% since last year, using a Weighted Average Carbon Intensity metric (*2023 TCFD Report*, pp.11-12).

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

PSP committed to ensure that 50% of its portfolio's carbon footprint is covered by a mature science-based transition plan by 2026 (*Climate Strategy Roadmap*, p.8). PSP did not report on its whole portfolio's progress toward this commitment in 2023. However, its Natural Resources group carried out asset-level GHG data collection with portfolio companies to establish a portfolio-wide baseline for scope 1 and 2 GHG emissions and to develop science-based decarbonization plans for the companies (*2023 Sustainable Investment Report*, p.11).

Investment in green assets

In 2022, PSP committed to increase investment in "green assets" from $40.3 billion in 2021 to $70 billion in 2026 (*Climate Strategy Roadmap*, p.8). These are defined as "investments in low carbon activities that lead to positive environmental impacts," including "dark green," "light green" and "enabling." In September 2023, PSP reported $48.9 billion in green assets as of the end of FY 2023 (*2023 Sustainable Investment Report*, pp.8,14).

Investment in transition assets

PSP set a target in 2022 to increase investment in "transition assets" from $5.1 billion in 2021 to $7.5 billion by 2026 (*Climate Strategy Roadmap*, p.8). PSP surpassed this target in FY 2023, reaching $7.8 billion in transition assets, three years ahead of schedule (*2023 Sustainable Investment Report*, p.14). PSP explains that in FY 2023 it "reclassified a large individual asset from carbon-intensive to transition asset based on its newly established asset-level targets" (p.14). It also identified more eligible transition assets in its portfolio than anticipated when it first implemented its Green Asset Taxonomy, the scope of which was expanded to include listed corporate bonds (*2023 TCFD Report*, p.17). However, it is unclear which individual holdings PSP considers to be "transition assets", making it impossible to verify if those assets have credible climate targets and transition plans.

Reduce high-carbon exposure

PSP set a target in 2022 to halve its exposure to "carbon-intensive assets" from a $7.8 billion exposure in 2021 to a $3.9 billion exposure in 2026 (*Climate Strategy Roadmap*, p.14). These are defined as "investments in sensitive high-carbon sectors or that fail to show quantifiable low emission performance," including "High Carbon" and "Hard to Abate" assets. After rising to $13.1 billion in FY 2022, PSP's exposure to carbon-intensive assets decreased slightly to $12.7 billion in FY 2023. The fund reports this is "primarily due to more intensive asset-level data collection and improved methodology, and as a result, being able to map more AUM against the Green Asset Taxonomy", as well as reclassifying a material number of positions from "no data" to "carbon-intensive" on the basis of asset-level data collection efforts (*2023 TCFD Report*, p.14).

Other targets

- PSP set a target in 2022 to obtain scope 1 and 2 emissions data for 80% of in-scope portfolio assets by 2026, up from 56% in 2021 (*Climate Strategy Roadmap*, p.9).[1] PSP reported emissions data for 54% of in-scope assets in FY 2023 (*2023 Sustainable Investing Report*, p.8).
- PSP plans to steer at least 10% of long-term debt financing toward Sustainable Bonds by 2026 (*2023 Sustainable Investment Report*, p.12).

PSP's *Climate Strategy Roadmap* also 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).

Communication of Climate Urgency	B+

2023 updates:

- None. PSP publicly acknowledges the systemic nature of climate change and its impacts, but does not indicate that its mandate could become impossible to fulfill if the worst impacts of climate change are not averted.

While PSP demonstrates that climate risks and opportunities are considered throughout its asset management and investing processes, the fund is not communicating that climate change is an existential emergency. In some instances, PSP comes close to communicating climate urgency, acknowledging "systemic climate risk" as one of the most significant drivers of change today, along with other ESG factors (*2023 Annual Report*, p.14). The fund also cites in its *2023 TCFD Report* the alarming conclusions of the IPCC, such as that human-caused climate change is already causing extreme impacts around the world, that government action to limit warming below 2°C is insufficient, and that financial flows needed to meet climate goals are falling short (p.5).

Despite acknowledging that climate impacts are worsening, that extreme weather events will create economic costs for its assets, and that carbon-intensive assets may see lower valuations with forthcoming regulations, PSP itself has not made a commitment to net-zero financed emissions. Instead, it commits only to "support global net-zero 2050 and decarbonization efforts."

Sample language from PSP's *2023 TCFD Report* (pp.3-4):

"PSP Investments recognizes that climate change is a long-term systemic risk, as supported by scientific evidence from the Intergovernmental Panel on Climate Change (IPCC). As a long-term investor, we recognize the importance of integrating material climate change considerations into our investment process. This approach supports our goal of aiming for better returns and minimizing possible risks across our total fund, while supporting global net-zero 2050 and decarbonization efforts… We seek to use our capital and influence to support Paris-aligned decarbonization across our investment portfolio."

Climate Engagement	C+

2023 updates:

- Updated and strengthened *Sustainable Investment Policy* and *Corporate Governance and Proxy Voting Principles*.
- Instituted a "watchlist" of high-carbon companies, although details are not disclosed.
- Joined Climate Engagement Canada.

SUMMARY

PSP strengthened its approach to climate engagement in 2023. The fund set new climate expectations for companies, began using credible benchmarks to assess companies' climate plans, updated and improved its *Sustainable Investment Policy* and *Corporate Governance and Proxy Voting Principles*, created a "watchlist" of companies for focused engagement, and indicated instances where PSP "may" refrain from investing or decide not to maintain investment, including after consecutive engagement activities are unsuccessful. However, PSP's approaches to engagement and proxy voting are filled with loopholes and leave plenty of wiggle room for PSP to continue investing in — and voting for corporate directors at — companies whose business model is inconsistent with a safe climate. PSP could enhance transparency by disclosing which companies are on its "watchlist" and disclosing in advance how PSP will vote on shareholder resolutions and publishing proxy votes in real-time.

DETAILS

Expectations for owned companies

PSP tailors its engagement approach to investment type, exposure, investment time horizon, objectives sought and likelihood of success. For public markets, companies are selected based on the size of PSP's holding, the prospects of success and the materiality of sustainability-related issues (*2023 Sustainable Investment Report*, p.26).

PSP states 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, "ensuring companies have a business model consistent with net-zero emissions and an effective transition plan to achieve this by 2050" (p.8).

PSP references credible organizations in assessing whether its assessments are climate-aligned: "In considering whether investments support the long-term goals of the Paris Agreement, we seek to evaluate whether our investments demonstrate alignment with sector-specific emissions reductions trajectories as outlined in the International Energy Agency's (IEA) Net-Zero Scenario, guidance from the Science-Based Targets Initiative (SBTi), the Investor Leadership Network (ILN) sector decarbonization pathways, or other credible modeling sources in alignment with a 1.5-degree climate scenario" (*2023 TCFD Report*, p.9).

PSP demonstrated in its 2022 *Climate Strategy Roadmap* that it has a willingness to escalate its engagement, up to and including divestment, if decarbonization progress is not made (p.9). While PSP committed in 2022 to develop a climate escalation policy in 2023 that can be applied to public issuers and private portfolio companies (p.8), the pension manager's updated 2023 policies set strong climate-related expectations for companies, but contain loopholes (see "Proxy Voting" section below).

Direction given to external managers

PSP's *Sustainable Investing* webpage says that the pension manager uses an in-house framework to assess the ESG practices of external managers and ensure that their approach is aligned with PSP's *Sustainable Investment Policy*, which includes using its influence to achieve global net-zero.[2] It is not clear how PSP evaluates climate risk in this assessment. PSP's *2023 Sustainable Investment Report* describes a "sustainability assessment framework" for external managers that includes climate change strategy or guiding principles, systematic identification of risks and opportunities related to climate change, tracking of portfolio carbon footprint, and disclosures aligned with TCFD recommendations (p.31).

In FY 2023, PSP found that 84% of its exposure to externally managed investments is managed by external managers or general partners with "active" or "leading" approaches to sustainability-related factors. However, only 36% of these partners were TCFD supporters and just over two-thirds had dedicated ESG staff (p.10).

Proxy voting

PSP published new *Corporate Governance and Proxy Voting Principles* in February 2023 that include a new stand-alone section, "Taking Action on Climate Change" (p.16). The *Principles* state that PSP "will generally support shareholder proposals seeking enhanced climate-related disclosures," and "expect(s) companies to have a sound climate-related governance structure, accountability for oversight of climate commitments, a transition plan aligned with climate science, and enhanced disclosure of decision-useful information."

PSP "*may consider*, in light of value and portfolio risk considerations, voting against directors to hold them accountable" (italics added). The weak "may consider" language in PSP's climate-related proxy voting guidelines stands in contrast to other Canadian pension managers, such as the Canada Pension Plan Investment Board (CPPIB) and Investment Management Corporation of Ontario (IMCO), that have indicated they *will* vote against accountable corporate directors.

The updated principles say that PSP "discourage(s) companies from making political contributions, in order to prevent the appearance of a quid pro quo and possible scandal if politicians or governments adopt policies favourable to the company. If companies choose to make political contributions or engage in direct or indirect political activities, they should be fully transparent about their actions" (*Corporate Governance and Proxy Voting Principles*, p.16). This falls short of PSP setting an expectation that companies and their industry associations stop lobbying or engaging in political activities that undermine climate action.

PSP also put in place a "watchlist" of "companies with the greatest impact on our public equities portfolio's carbon footprint — those classified as high-carbon and hard-to-abate assets without transition plans." The fund "may consider" voting against director nominations for those companies as a way to hold them accountable.

PSP gives the example of a waste management company on its watchlist for which it had "identified issues with the board's approach to setting targets and articulating its outlook on future climate strategy-related plans." That resulted in a vote against a director at the company's AGM (*2023 Sustainable Investment Report*, pp.18, 29).

If PSP wants its engagement efforts to be effective and transparent to plan members, it must start naming the companies on its "watchlist" and confirm that it will vote against directors if companies do not have science-based targets backed by credible climate plans.

PSP's *Corporate Governance and Proxy Voting Principles* are an improvement over the previous year, but still leave wiggle room for PSP to allow companies to continue to expand fossil fuel infrastructure and lobby against climate action. For example, PSP says that it "may consider, in light of value and portfolio risk considerations, voting against directors to hold them accountable" (*Corporate Governance and Proxy Voting Principles*, p.16). This language is a far cry from PSP's claim that it is "seized with the potential to use our capital and influence to support the transition to global net-zero emissions by 2050" (p.16).

PSP lags behind its peers in the Canadian pension sector in its approach to proxy voting because it does not announce how it will be voting on shareholder resolutions ahead of companies' annual meetings and delays the reporting of its proxy votes by up to three months after a meeting. In a limited analysis of pension fund proxy votes at shareholder resolutions at annual meetings in spring 2023, PSP voted against six of eight climate-related shareholder proposals, including a resolution asking Royal Bank of Canada to respect Indigenous rights.[3]

According to PSP's *2023 Sustainable Investment Report*, the investment manager had 1,058 engagements on climate change in FY 2023, a dramatic increase over the 346 climate-related engagements with public companies that PSP reported for FY 2022 (*2022 Annual Report*, p.33). Of those 1,058 engagements in FY 2023, PSP says that 255 of them resulted in "confirmed progress" (*2023 Sustainable Investment Report*, p.28).

Collaborative engagement

PSP does not provide examples of collaborative engagement on climate, although according to its *Investing Responsibly* webpage the investment manager participates in collaborative engagements with peers. Companies are selected for engagement based on the ability to create shareholder value, the prospects for successful engagement and the relevance of ESG issues. Engagements have clear objectives aimed at driving behavioral change and can involve multiple meetings and last several months or years.[4] PSP is not a member of Climate Action 100+, but joined Climate Engagement Canada in 2023.

Policy engagement

PSP participates in the Sustainable Finance Action Council and supported the Bank of Canada in its ongoing assessment of the systemic implications of climate transition risk to the Canadian financial system (*2023 TCFD Report*, p.8). PSP also publicly supported mandatory, International Sustainability Standards Board climate risk disclosure, jointly with other pension funds.[5] However, beyond this PSP does not appear to be involved in advocacy activities that are critical to limiting global temperature increase to safe levels, such as making climate-aligned submissions to policy and regulatory processes or publicly supporting and advocating for ambitious climate policy that creates certainty for climate-aligned investments.

Climate Integration	C+

2023 updates:

- Still no disclosure of either a comprehensive inventory of PSP's assets or its fossil fuel exposure.
- Improved emissions accounting and scenario analysis.
- PSP is unique among Canadian pension funds for its measurement of its portfolio's biogenic emissions, meaning those that result from biological sources, such as livestock digestion, manure management and the decomposition of organic materials. This likely reflects PSP's relatively large portfolio of agriculture assets.

Accountable Paris-aligned membership

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

Transparency and disclosure of holdings

PSP has a series of webpages with information about its portfolio broken down by asset class, along with a few sample investments, breakdowns by economic sector, and geographic distribution. But PSP does not disclose a comprehensive list of its investments and their valuations, unlike its Canadian peers such as the CPPIB, Caisse de dépôt et placement du Québec (CDPQ) and British Columbia Investment Management Corporation (BCI).

Transparency and disclosure of climate risk

After nearly three years of beneficiaries persistently asking PSP to fully disclose a list of assets allocated towards companies involved in fossil fuel exploration, extraction, transportation, refining and combustion, PSP again did not do so in 2023. 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.

Scenario analysis

PSP's *2023 TCFD Report* indicates that PSP conducts regular climate scenario analysis and stress-testing of its portfolio, partnering with Ortec Finance to consider three plausible climate pathways and their potential impacts to its portfolio, capturing both direct and indirect impacts of the scenarios employed. One of the scenarios employed by Ortec is a "failed transition scenario" using an average temperature increase of 4.3°C by 2100. The analysis finds that under the failed transition scenario PSP is expected to generate lower returns relative to an orderly net-zero transition scenario, with the most material impact stemming from increased physical risks. In an orderly or disorderly net-zero transition, the portfolio will face moderate physical risks and moderate transition risks (p.6). As in PSP's *2022 TCFD Report* (p.7), the pension manager's casual response in 2023 to a 4.3°C warming scenario is alarming. A 4.3°C scenario represents catastrophic risk to the financial system and human society, including PSP's members. PSP should be taking all measures possible to avoid this failed transition scenario for its portfolio and its members.[6]

PSP also uses S&P's Global Climanomics tool to evaluate the impacts of climate change on its portfolio. PSP says the relative risk associated with climate-related hazards increases at a relatively linear pace through the 2050s under all emissions pathways. The fund concludes that its "active management approach, dynamic portfolio construction and climate aware investment choices lead to better positioning of the policy portfolio from a risk and return perspective … under all climate scenarios considered." Again, PSP's strange assumption that everything will be fine under extreme warming scenarios is cause for concern, especially considering the devastating impacts that Canadians already experienced at less than 1.5°C of warming in 2023.

Emissions accounting

PSP's *2023 TCFD Report* showed progress in the fund's disclosure of GHG metrics, improving coverage of its portfolio from 66% in 2022 to 68% in 2023 and pledging to use market-leading carbon accounting and methodology practices and uphold a high degree of transparency (pp.10-11). 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 set a target in 2022 to obtain scope 1 and 2 emissions data for 80% of in-scope portfolio assets by 2026, up from 56% in 2021 (*Climate Strategy Roadmap*, p.9).[7] The pension manager reported emissions data for 54% of in-scope assets in FY 2023 (*2023 Sustainable Investing Report*, p.8).

PSP noted in its *Climate Strategy Roadmap* in 2022 that it intends to add portfolio companies' scope 3 data to its methodology (p.12). As of its *2023 TCFD Report*, PSP's investee companies' scope 3 emissions are still excluded because the comparability, coverage, transparency and reliability of scope 3 data is generally insufficient in the marketplace (p.14). PSP says "we intend to include more scope 3 data as it becomes more widely available and reliable." Nonetheless, PSP makes a good-faith effort to be transparent about the methodology and quality of its GHG emissions accounting (pp.14-15).

Comprehensive climate plan

PSP published its *Climate Strategy Roadmap* in April 2022, and reported on progress on the *Roadmap* in both fall 2022 and fall 2023.

Climate expertise

Starting in 2022, PSP had a cross-asset class Climate Investing Workgroup that collaborated on climate investing opportunities, built knowledge on key climate investing themes and supported the execution of identified climate priorities. In FY 2023, the workgroup was integrated into the Sustainability and Climate Innovation group and rebranded as the "Climate Innovation Summit," described as "a transversal group focused on advancing our climate strategy and knowledge-building across asset classes" (*2023 Sustainable Investment Report*, pp.7, 10, 15).

Board climate expertise and/or fossil fuel entanglement

In its *2023 Annual Report*, PSP includes a board competencies breakdown that identifies five directors as having a "Sustainable Investment" competency (p.64). This is similar to PSP's *2022 Annual Report*, which also identified five directors as having a "Corporate social responsibility / sustainability" competency (pp.89-94). Neither of these are an indication that any PSP directors specifically have climate risk expertise.

One of 12 Directors, or 8% of PSP's Board, has a current fossil fuel entanglement. Miranda C. Hubbs is a Director of Imperial Oil.[8] In August 2023, a group of working and retired federal public servants sent a letter to Cabinet asking them to remove Ms. Hubbs from PSP's board with cause, citing her role as a Director of Imperial Oil and Chair of the company's Community Collaboration and Engagement Committee. News had recently broken that the oil and gas company leaked millions of litres of oil sands tailings and toxic chemicals into Alberta waterways from its Kearl facility and then hid it from regulators, the public and downstream Indigenous communities for months.[9] A PSP spokesperson defended Ms. Hubbs' "experience, dedication, honesty and integrity," saying that there is no conflict of interest arising from the "mere fact" that Hubbs is a director of both the pension fund and Imperial Oil.[10]

Another PSP Director, Helen Mallavoy Hicks, is concurrently a Director of Northland Power. While Northland Power mostly owns and operates wind, solar, storage and electricity transmission assets, the company also owns four gas-fired power plants in Ontario and Saskatchewan.[11] Northland also proposed to build a new gas plant in Thorold, Ontario in 2023, but its proposal was rejected by the municipal council over climate and health concerns.[12] The rest of Northland Power's projects that are proposed or under development are wind, solar and storage.[13] We do not consider Ms. Mallavoy Hicks to have a potential conflict of interest due to her position on the board of Northland. While the company's attempt to build a new gas plant in 2023 is concerning, power generation utilities have a credible, profitable pathway to decarbonization by phasing out fossil-fired power and building out renewables. Oil and gas *producers* like Imperial Oil, on the other hand, have no credible pathway other than phase-out.

Executive and staff compensation and climate

For FY 2023, PSP reports that "the President and CEO's personal objectives as well as those of her leadership team were aligned with PSP Investments' strategy, mission and values, including advancing our climate capabilities while leveraging improved ESG data and reporting" (*2023 Annual Report*, p.74.) This was the first time that PSP has mentioned climate targets in the context of executive or staff compensation. But there is no reporting to indicate if PSP staff are incentivized to reduce emissions or whether they are compensated for doing so.

Fossil Fuel Exclusions	F

2023 updates:

- None.

PSP has no exclusions on fossil fuel investments.

PSP's 2022 *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). It also states that if "[decarbonization] progress is not made, we will escalate our engagement and consider divestment if progress remains unsatisfactory" (p.9).

In its February 2023 *Sustainable Investment Policy*, PSP affirms that it believes that engagement is "usually preferable to exclusion or divestment." But it clarifies that there are instances where PSP Investments "may refrain from investing or decide not to maintain investment, including where there are material reputational and/or financial risks relating to:

- material ESG factors that do not align with our investment beliefs and the meeting of our mandate;
- the potential for investments to cause or contribute significantly to negative societal outcomes, for example environmental harm or human rights abuses;
- material concern about a company's long-term social license to operate;
- the lack of engagement or strategy by the board of directors or management to prevent or mitigate material ESG issues;
- structurally unsuccessful engagement activities (by PSP Investments or collective efforts)" (p.3).

Many of these risks already apply to fossil fuel production companies, yet PSP has placed no exclusion on new or continued investment in fossil fuels.

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

PSP committed in 2022 to halving its $7.8 billion exposure to "carbon-intensive assets without credible transition plans" by 2026. As of FY 2023, PSP reported $12.6 billion in exposure to carbon-intensive assets (*2023 Sustainable Investment Report*, p.14). Reducing PSP's exposure to $3.9 billion by 2026 will almost certainly require PSP to divest carbon-intensive assets.

PSP and the Canada Growth Fund: An opportunity to accelerate decarbonization, or a slush fund for oil and gas?

The Government of Canada mandated PSP in 2023 to manage the $15-billion Canada Growth Fund (CGF), an innovative public finance tool to leverage private capital for decarbonization and climate-aligned investment in Canada.[14] Unfortunately, the CGF's scope and strategic objectives have left the door open for the fund to finance dangerous distractions that subsidize fossil fuel companies, like carbon capture, utilization and storage (CCUS) and "low-carbon" hydrogen.[15]

As of December 31, 2023, the CGF had announced its first two investments. The first investment, announced in October, smartly provided a modest $90 million in financing for Eavor Technologies, a Calgary-based geothermal energy company that uses an innovative closed-loop system to generate zero-carbon baseload heat and power.[16] Then in December the CGF announced it would invest up to $1 billion in an oil and gas company's risky, unnecessary and likely ineffective CCUS schemes. The investment included $200 million in debt financing for Entropy, a subsidiary of Calgary-based oil and gas producer Advantage Energy, to help equip a fossil gas power plant in Alberta with unproven CCUS technology. It also included a "carbon credit offtake agreement," valued at up to $800 million, that commits the CGF to buy carbon credits from Entropy for any "emissions reductions" the company achieves over the next 15 years from its risky CCUS schemes at a price of $86.50 per tonne of CO2e.[17]

While the CGF is to be "separate from and managed independently of the pension assets of PSP Investments,"[18] the Entropy investment announcement noted that PSP holds a 1% stake in Entropy through its participation in the Brookfield Global Transition Fund, which provided the company with $300 million in financing in 2022.[19]

Prior to the CGF's announcement regarding Entropy, Shift had voiced concerns that the CGF could be used to finance dangerous distractions that prolong the use of fossil fuels instead of de-risking, deploying and scaling up well-established climate solutions.[20] This concern was heightened with the government's 2023 Fall Economic Statement, which announced that the CGF will be the principal federal entity issuing all carbon contracts for difference (CCfDs).[21] The Pathways Alliance of oil sands companies issued a statement in response to the Fall Economic Statement suggesting that its CCUS projects are eligible for CGF investment.[22]

It should be concerning for PSP beneficiaries and stakeholders that the pension fund manager, which has a mandate to invest in their best long-term interests— which include a safe and stable climate in their retirement— is also managing a fund subsidizing CCUS, which will likely prolong the production and combustion of oil and gas and therefore contribute to worsening climate breakdown. CGF officials suggested that the Entropy investment sets a benchmark that could see the CGF invest additional public money in CCUS projects for oil and gas.[23]

Shift will continue to monitor the CGF and advocate for investment in climate solutions such as offshore wind, solar energy, electric vehicle battery production, sustainable agriculture, energy efficiency and conservation, rather than unproven, uneconomical, unscalable, ineffective CCUS and fossil hydrogen fantasies that subsidize oil and gas companies.

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 the Paris Aligned Asset Owners was considered when assigning scores.

United Nations Declaration on the Rights of Indigenous Peoples	PSP's *2022 Annual Report* says 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). But PSP's *Corporate Governance and Proxy Voting Principles*, updated in February 2023, appear to only partially fulfill this commitment. The *Principles* say that PSP "encourage[s] companies to adopt appropriate standards and as a minimum to support labour standards and human rights in all their operations. … Companies should strive to ensure that they maintain their long-term 'social license to operate,' gaining the support of communities who may be affected by their activities. This *may include*, *where appropriate*, the free, prior, and informed consent of indigenous peoples" (p.15, emphasis added). PSP's *Principles* do not specifically indicate how the fund will vote on shareholder resolutions related to labour standards, human rights, or Indigenous consent, or how it may escalate its engagement with companies that don't meet "appropriate standards." PSP also says in its *2022 Green Bond Impact Report* that an unspecified part of its timber, aquaculture and agriculture assets are certified by the Canadian Council for Aboriginal Business (CCAB) Progressive Aboriginal Relations certification program (p.5).
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 • Climate Engagement Canada • Coalition for Inclusive Capitalism • ESG Integrated Disclosure Project • ESG Data Convergence Initiative • International Corporate Governance Network • Investor Leadership Network • Principles for Responsible Investment • IFRS Sustainability Alliance • Sustainable Finance Action Council • Task Force on Climate-Related Financial Disclosures • Taskforce on Nature-related Financial Disclosures
Self-reported assets linked to climate solutions*	$48.9 billion in green assets, or 16.2% of AUM (March 31, 2023)**

Estimated investments in fossil fuels	Between $4.8 billion (2% of AUM)*** and $12.7 billion (5% of AUM)**** (March 31, 2023)
Notable fossil fuel holdings (not a comprehensive list)	• Joint ownership of TriSummit Utilities, which includes subsidiaries Apex Utilities Inc. (fossil gas utility business in Alberta), Eastward Energy (fossil gas distribution utility in Nova Scotia), Pacific Northern Gas Ltd. (fossil gas distribution and transmission utility in northern British Columbia), and Enstar Natural Gas (fossil gas transmission and distribution pipeline operator Alaska Pipeline Co., with a 65% interest in Cook Inlet Natural Gas Storage Alaska).[24]

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

** PSP's *2023 Sustainable Investment Report* defines green assets as "investments in low-carbon activities that lead to positive environmental impacts" (p.8). PSP also considers $7.8 billion of its portfolio to be "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" (p.8). PSP does not disclose a list of "transition assets."

*** PSP does not disclose a list of total investments in fossil fuels, and its *2023 Annual Report* generally does not distinguish between fossil fuels, renewable energy, and gas and electric utilities in its reporting on its investments in "energy." The $4.8 billion figure is an estimate based on calculating the sum of "energy" in PSP's Public Market Equities portfolio ($3.15 billion, pp.34-35), "energy" in its Credit Investments portfolio ($365.4 million, pp.39-40), "energy" in its Infrastructure portfolio ($1.08 billion, p.43-44), and "oil and gas" in its Natural Resources portfolio ($184.5 million, p.45). This estimate does not include investments in utilities, infrastructure or "other," all of which may include significant fossil fuel assets, and is therefore likely an underestimate.

**** PSP's *2023 Sustainable Investment Report* disclosed that PSP has $12.7 billion in "carbon intensive assets" (p.14). "Carbon-intensive assets" are defined in PSP's *Green Asset Taxonomy Whitepaper* as "high carbon or hard to abate assets with no evidence of a transition plan" (p.10). PSP Investments does not disclose a list of individual "carbon-intensive assets," so we cannot confirm if this classification is solely comprised of fossil fuels.

ENDNOTES

1 PSP said 77% AUM were "in-scope" as of September 31, 2021. See: PSP Investments. (2022). *Climate Strategy Roadmap 2022*. P.9. https://www.investpsp.com/media/filer_public/02-we-are-psp/02-investing-responsibly/climate-strategy-2022/Climate-Strategy-Roadmap.pdf.

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

PSP Reports

- 2023 Annual Report (May 16 2023)
- 2023 Sustainable Investment Report (September 14, 2023)
- 2023 TCFD Report (September 14, 2023)
- 2022 Green Bond Impact Report (covering January 1, 2022 to December 31, 2022)
- 2022 Annual Report (2022)
- 2021 Annual Report (2021)
- 2022 TCFD Report (2022)
- 2022 Responsible Investment Report (2022)
- 2021 Responsible Investment Report (2021)

PSP Documents

- Corporate Governance and Proxy Voting Principles (February 10, 2023)
- Sustainable Investment Policy (February 10, 2023)
- 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)

PSP Webpages and Press Releases

- Board of Directors (webpage) (accessed November 2023)
- Sustainable Investing (webpage) (accessed November 2023)
- Press release - PSP Investments posts 4.4% return in fiscal year 2023, demonstrating resilience and outperforming market in a challenging environment (June 7, 2023)
- Press release - PSP Investments' 2023 Sustainable Investment Report outlines progress on top sustainability priorities (September 14, 2023)
- 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)

Other

- Shift's 2022 Canadian Pension Climate Report Card (2023)
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