

PSP Investments Green Asset Taxonomy

Advancing Climate-Aligned
Portfolio Management

—2022



The PSP Investments Green Asset Taxonomy

A new approach for aligning investment portfolios with climate goals

As an institutional investor with a long-term investment horizon, PSP Investments understands that climate change is an unprecedented challenge for our modern society. The overarching objective of our climate strategy is to support the global transition to net-zero emissions by striving to proactively manage climate risks, unlock investment and carbon reduction opportunities associated with climate-aligned assets, strengthen carbon disclosure, and enhance collaboration with a wide range of stakeholders.

For investors and lenders, the increased focus on climate change across all segments of society presents new opportunities and challenges. It reinforces the need to think systematically and explore new angles—across asset classes, markets and industries—to broaden our perspectives to support the global transition to a net zero economy.

At PSP Investments, we are committed to using our capital and influence to support the transition to global net-zero emissions by 2050.

In April 2022, PSP Investments released its inaugural climate strategy. In the document titled PSP Investments Climate Strategy Roadmap¹ we detailed the targets that will guide our investment decisions and engagement activities over the coming years. Targets aimed to be met by 2026, relative to our September 2021 baseline², include:

- Increasing Green Assets under management to C\$70.0 billion
- Increasing Transition Assets under management to C\$7.5 billion
- Reducing holdings of Carbon Intensive Assets that lack transition plans by 50%
- Ensuring that assets representing 50% of PSP Investments' carbon footprint have commitments to implement mature transition plans
- Steering at least 10% of PSP Investments' long-term debt financing toward sustainable bonds
- Undertaking efforts to obtain GHG data for 80% of the in-scope portfolio of PSP Investments' carbon footprint

These initial targets represent tangible actions for how PSP Investments will use its capital and influence to support the transition to global net zero emissions by 2050. By striving to implement these near-term goals, we anticipate reducing the carbon intensity of our global portfolio by 20-25% from our September 2021 baseline.

While many institutional investors have committed to a long-term net-zero goal by 2050, less have provided detailed plans to adjust their overall investment strategy and portfolio in the short and medium term. Through the publication of this report, we are striving to increase transparency by informing stakeholders of the extent to which investment strategies are aligned with science-based decarbonization pathways. Moreover, our Climate Strategy is designed to be evergreen: progress will be monitored and disclosed annually, and additional targets and plans will be developed for 2027.

An important challenge faced by institutional investors

Assessing portfolio alignment to a global net zero scenario represents a significant conceptual and analytical challenge, particularly when looking at a diversified portfolio of assets. As discussed in FCLTGlobal's recent report, *Decarbonizing Long-Term Portfolios*, "a top-down approach allows long-term investors to efficiently and systematically achieve their decarbonization goals while positioning their funds to capitalize on the opportunities related to the shift to a low-carbon economy". However, there is no one optimal or globally accepted framework for investors to quantitatively assess the "shades of green" across an investment portfolio – from carbon-intensive to low carbon – nor is there a globally accepted framework to measure transition readiness across investment strategies, regions and industries. Because of this, investors have yet to identify standardized ways to measure decarbonization progress over time, in part due to the limited availability of high quality GHG data (including Scope 3 emissions), but also due to disparate and evolving sector decarbonization frameworks.

While several initiatives have focused on providing useful sector-specific guidance and decarbonization pathways — including the Science Based Targets initiative (SBTi), the Transition Pathway Initiative (TPI), Network from Greening the Financial System (NGFS), and the Carbon Risk Real Estate Monitor (CRREM) — it remains challenging for investors with globally diversified portfolios to make informed decisions when looking at multiple asset classes and sectors at the same time. Importantly, without a holistic framework at their disposal, investors may fail to correctly price or value financial assets in the context of climate change risks, which can potentially lead to a misallocation of capital and to stranded assets.

To address those significant challenges and to continue to evolve PSP Investments' climate measurement methodology and management approach, we determined that it would be beneficial to develop an in-house classification system to establish our portfolio baseline and assess our exposure to green, transition and carbon-intensive assets. PSP

¹For more information on PSP Investments' inaugural Climate Strategy Roadmap, see: https://www.investpsp.com/media/filer_public/02-we-are-psp/02-investing-responsibly/climate-strategy-2022/Climate-Strategy-Roadmap.pdf

²Applies to 77% of assets under management (AUM) as at September 30, 2021 (unaudited mid-year AUM).

Investments therefore embarked on the development of a tailored, two-dimensional climate alignment framework, called the **PSP Investments Green Asset Taxonomy**. This Taxonomy considers two of the key variables of climate investing: **carbon intensity**³ and the credibility of a company's **transition plan**. Our goal is to employ this taxonomy to map investments within our portfolio over time.

Our data-driven Taxonomy brings together these two important variables in a relatively simple and easy-to-use tool. We hope other investors will consider adopting this framework, as we need more convergence of approaches

across the market. Importantly, the Green Asset Taxonomy is designed to allow users to assess and screen investments not only through backwards-looking GHG disclosures, but also through dynamic and forward-looking analysis related to the execution of climate transition plans. This can help inform climate investing decisions at the asset, asset class and portfolio level, and improve active engagement practices with partners and portfolio companies. It could provide a new and more detailed lens through which assets can be assessed against sector decarbonization pathways and could unlock insights regarding the positioning of our investments against a relevant peer group.

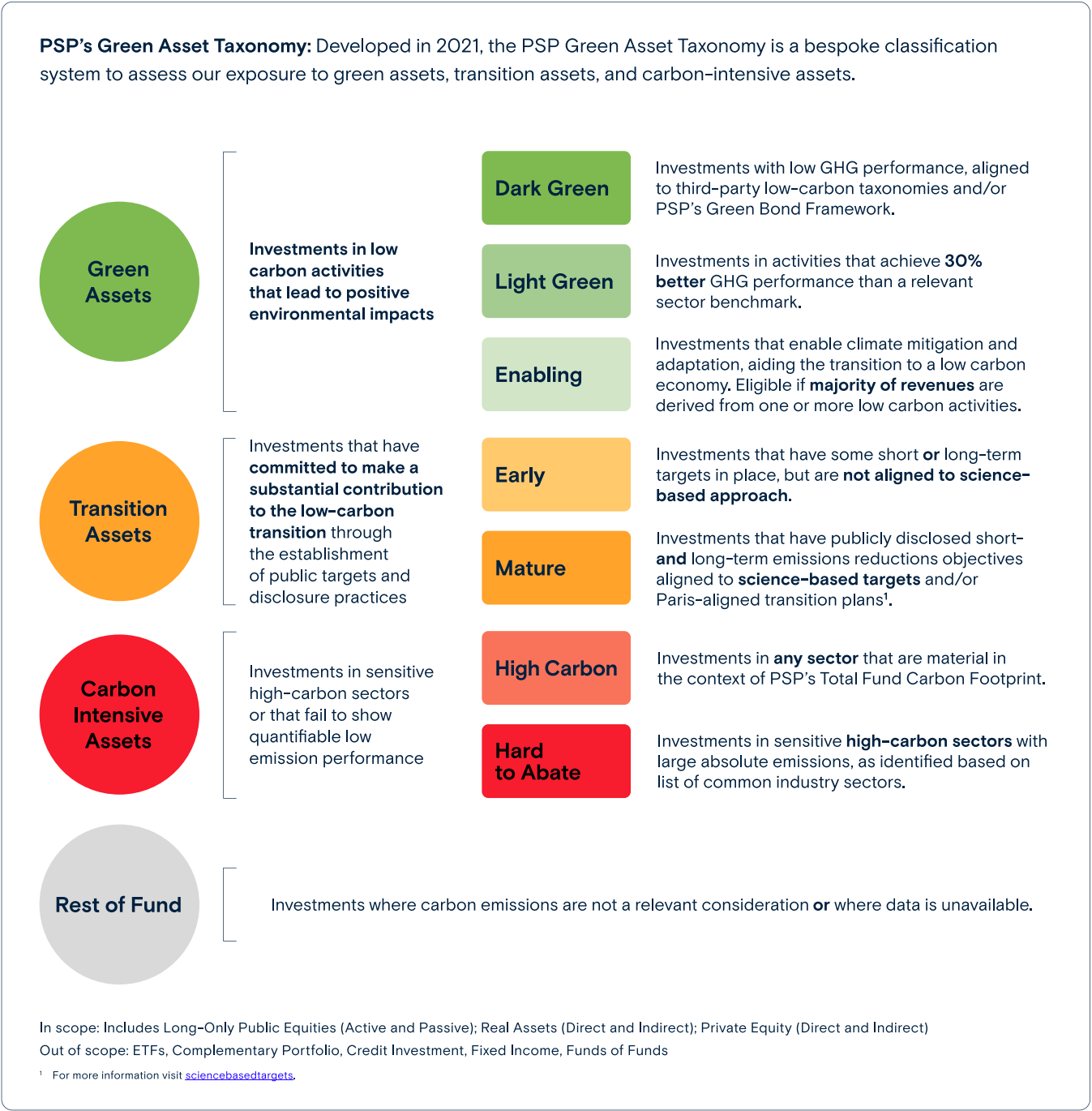


Figure 1: Nomenclature of the PSP Investments Green Asset Taxonomy

³The Weighted Average Carbon Intensity metric is one of the recommended measures from TCFD to compare emissions intensity across sectors and asset classes. PSP is publicly reporting this metric with detailed explanation in its annual Responsible Investment Report.

Key objectives in developing the PSP Investments Green Asset Taxonomy

A key objective in developing the PSP Investments Green Asset Taxonomy was to design a pragmatic framework to help us to better understand our baseline exposure to systemic climate risks and opportunities across our investment portfolio, and to aid us in identifying potential ways to steer our engagements with portfolio companies (where appropriate) toward more relevant decarbonization opportunities.

In addition to this, we sought to advance several other complementary objectives, including:

- Increasing the number of companies reporting their Scope 1 and Scope 2 GHG data as part of our annual data collection efforts (or “coverage” of PSP Investments’ portfolio carbon footprint with self-reported data).
- Supporting the development of our climate investing strategy by defining a set of relevant targets across our portfolio
- Assessing the climate-alignment of our individual assets, asset classes and the overall portfolio using a consistent, data-driven approach

- Building a tool that aims to facilitate asset-level monitoring over time
- Improving our engagement strategy with partners and portfolio companies on transition planning and the implementation of science-based targets
- Facilitating reporting and alignment with the recommendations of the Task-Force on Climate Related Financial Disclosures (TCFD)
- Linking our inaugural [Green Bond Framework](#), and our role as a debt issuer, to our climate investing roadmap in defining green assets

Leveraging green bond principles that have been developed to support issuers and investors in selecting and reporting on green assets has been an important aspect of the thinking that guides our Green Asset Taxonomy. Early in the development of our Total Fund approach, we sought to create an alignment with our Green Bond Framework – a document that sets out the necessary conditions for private assets to be considered green bond eligible and on which we have obtained an independent Second-Party Opinion from [CICERO Shades of Green](#).

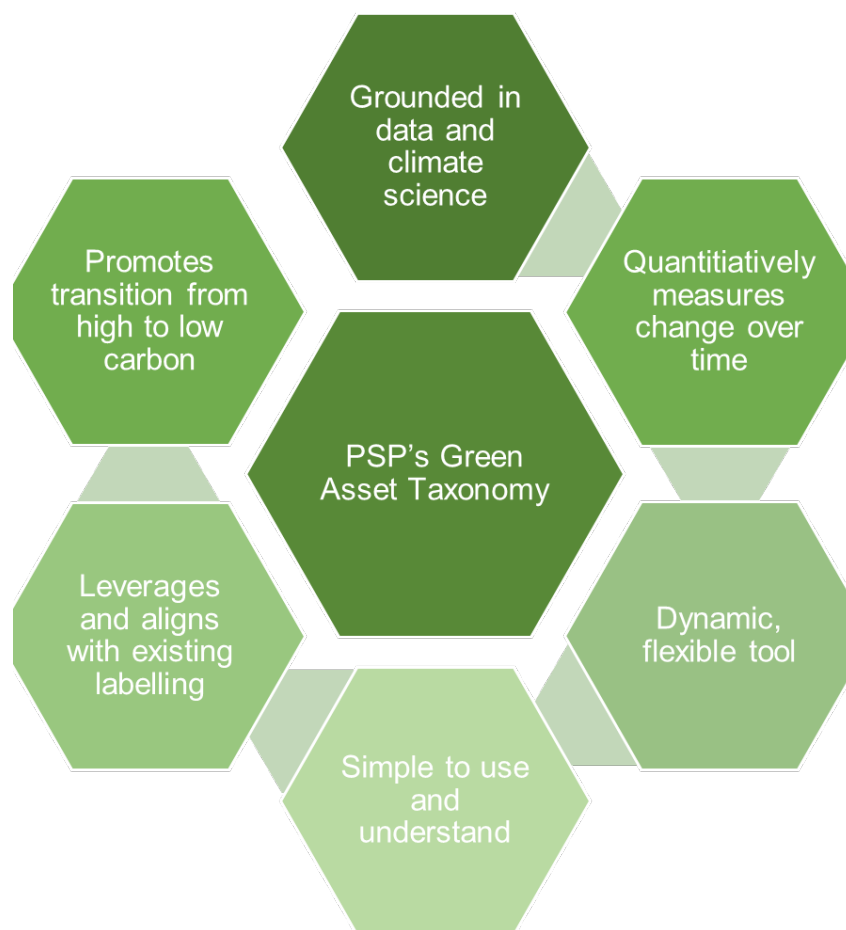


Figure 2: Key Principles of the PSP Investments Green Asset Taxonomy⁴

⁴As inspired by materials from the Climate Bonds Initiative, Growing green bond markets: The development of taxonomies to identify green assets. Access at: https://www.climatebonds.net/files/reports/policy_taxonomy_briefing_conference.pdf

A new approach for Climate-Aligned Portfolio Management and Measurement

Given the growing interest among investors and lenders to measure company and portfolio alignment against global net zero goals, there is considerable appetite in the responsible investment community to exchange ideas on new and innovative approaches to achieve these goals. We hope to contribute to this discussion by making public our new framework for climate-aligned portfolio management and measurement. We continue to strongly support the work of investors and governments to converge around common definitions and frameworks to measure and manage climate risks and opportunities.

As an institutional investor with a goal to support the Paris Agreement and global net-zero emissions, PSP Investments began by considering what would be required to assess whether our portfolio, asset classes and underlying investments are in alignment with a Paris Agreement-based emissions trajectory. In this approach, an investment would be considered aligned with the goals of the Paris Agreement if its emissions reductions trajectory is consistent with a relevant sector-specific decarbonization pathway to achieve 1.5°C. In their Special Report on 1.5°C⁵, the Intergovernmental Panel on Climate Change (IPCC) – the world’s pre-eminent scientific body on the science of climate change – concluded that global net human-caused emissions would need to fall by about 45 percent from 2010 levels by 2030, and would need to reach ‘net zero’ around 2050, in order to avoid the most catastrophic impacts of climate change.

As discussed in the Climate Finance Leadership Initiative paper: Financing the Low-Carbon Future⁶, “while scaling financial flows to low-carbon alternatives is an important element of the transition, it represents only part of the answer. Reducing emissions to net zero will require a holistic approach that also supports the transition of existing carbon-intensive sectors. The private sector and the broader financial system play a key role in supporting both pathways through their engagement with the real economy through financing, investment, and management of investment portfolios and loan books.”

To that end, we believe that aligning with a Paris-based emissions reduction trajectory, from an investment portfolio’s perspective, requires two things:

1. Increasing investment in low-carbon, climate positive assets; and
2. Active management and engagement with current and future portfolio holdings to support companies in high emitting sectors increase their capacity to implement science-based carbon reduction transition plans.

We embrace our opportunity to use our capital and influence to support Paris-aligned decarbonization across our investment portfolio. We therefore set out to design a framework that aims to allow us to calculate PSP Investments’ portfolio baseline exposure using two key variables related to net zero alignment: **carbon intensity** and **climate transition readiness**. While neither metric provides enough information on their own, together they unlock a useful methodology to measure asset-level, asset-class, and portfolio progress over time.

The Green Asset Taxonomy will support PSP Investments in its efforts to quantify and assess the evolving carbon profile of our portfolio, to help inform our approach to climate investing and to assess our progress toward our interim targets. Our Taxonomy is not only a monitoring and screening tool, but also a method for enhancing investment in relevant sectors and contributing to the global net-zero transition. It presently covers 88% of PSP Investments’ in-scope assets under management. We began by mapping the following asset-classes against the Taxonomy: Long-Only Public Equity (Active and Passive); Private Equity (Direct and Indirect); and Real Assets (Direct and Indirect). As of March 2022, we expanded the scope to include Credit Investments and our Complementary Portfolio. We intend to gradually add more instruments and asset classes to our mapping over time. As we increase coverage in terms of asset classes and portfolio companies disclosing their carbon footprints, this causes greater variability in results from period to period. That being said, as coverage increases, the results become more representative of the actual carbon footprint of our investment portfolio.

⁵IPCC, 2018: Global Warming of 1.5°C. An IPCC Special Report on the impacts of global warming of 1.5°C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty [Masson-Delmotte, V., P. Zhai, H.-O. Pörtner, D. Roberts, J. Skea, P.R. Shukla, A. Pirani, W. Moufouma-Okia, C. Péan, R. Pidcock, S. Connors, J.B.R. Matthews, Y. Chen, X. Zhou, M.I. Gomis, E. Lonnoy, T. Maycock, M. Tignor, and T. Waterfield (eds.)]. In Press.

⁶Climate Finance Leadership Initiative, Financing the Low-Carbon Future: A Private-Sector View on Mobilizing Climate Finance. As Accessed at: https://data.bloomberglp.com/company/sites/55/2019/09/Financing-the-Low-Carbon-Future_CFLI-Full-Report_September-2019.pdf

A two-dimensional framework to assess climate alignment

Fundamental to our framework is the collection of timely self-reported GHG data from portfolio companies and partners. Without this information, in most cases, investments cannot be classified against the Green Asset Taxonomy. Therefore, the first dimension of the Taxonomy involves analyzing recent asset-level GHG emissions Scope 1 and Scope 2 data, normalized by million dollars of revenue from the corresponding year. Along the GHG intensity axis, assets can be classified from Dark Green to Hard to Abate.

Greenhouse Gas Intensity

Our taxonomy provides a methodology to help identify investments in **low-carbon activities** that are expected to lead to positive environmental impacts, while undertaking efforts to understand and avoid carbon lock-in effect.

Along the **Greenhouse Gas Intensity axis** (see figure 3) assets can be classified from high carbon (i.e., High Carbon and Hard to Abate Assets) to low carbon (i.e., Dark Green, Light Green, Enablers). This axis measures the carbon intensity of company's business model and allows for comparison of relative "carbon competitiveness" across asset classes and investment strategies. We chose to normalize GHGs by revenues of the business instead of by investment size to better reflect the carbon intensity of the asset's business model, irrespective of PSP's investment size.

From a quantitative perspective, when GHG data is available, **Dark Green** assets need to beat the PSP Investments portfolio weighted average carbon intensity (WACI) by at least 30%. As such, based on fiscal year 2021 carbon footprint disclosure, these assets must emit less than 80 tonnes of CO₂e per \$M of company revenues. In our private markets portfolio, assets deemed to be aligned with the PSP Investments Green Bond Framework are classified as Dark Green in the Green Asset Taxonomy. In some cases, however, these assets might not already have self-reported GHG data available because they are green bond eligible due to other factors (i.e. third-party environmental certification) but we strive to obtain carbon emissions data in a timely manner. For example, PSP Investments has recently undertaken an intensive GHG data collection exercise with its direct and indirect positions in private markets, and has recently joined the ESG Data Convergence Initiative for private equity and credit investments. These activities will support our objectives to collect asset-level GHG data and transition plan information.

Carbon lock-in effect

According to the World Resources Institute, carbon lock-in can be defined as an investment or activity that perpetuates fossil fuel-intensive systems, delays or prevents the transition to low-carbon alternatives.

The EU Taxonomy further defines carbon-lock in as the tendency for certain carbon-intensive technological systems to persist over time, 'locking out' lower-carbon alternatives, and owing to a combination of linked technical, economic, and institutional factors.

As a result, by investing in assets prone to lock-in, planners and investors restrict future flexibility and increase the costs of achieving agreed climate protection goals.

Two other shades of green assets are further considered in the taxonomy, on the basis on their low-carbon environmental impact. First, **Light Green** assets are investments which display carbon competitiveness relative to their sectors. Eligibility in this category is determined based on an investment's ability to achieve 30% better GHG performance than a relevant sector benchmark, and to achieve a Carbon Intensity less than or equal to the PSP FY21 Total Fund Weighted Average Carbon Intensity (WACI)⁷. Finally, green **Enabling** assets are investments in products or services that enable climate mitigation and adaptation, aiding the transition to a low carbon economy. For this category, assets would be eligible if the majority of their revenues are derived from one or more of low carbon activities.

At the other end of the spectrum, **carbon-intensive assets** are investments in high-carbon assets or sectors that fail to show quantifiable low emission performance. Carbon intensive assets include two sub-categories: **High Carbon**, whose carbon intensity, regardless of sector, is more than twice the PSP Investments FY21 Total Fund weighted average carbon intensity; and **Hard to Abate** whose assets are in high-carbon sectors and whose carbon intensity is greater than 500 tonnes of CO₂e per \$M of revenues. We anticipate the thresholds employed to determine carbon intensive assets will change over time; however, for our inaugural baseline, we built a methodology to focus on the most material emitting investments across the Total Fund.

⁷According to the Task-Force on Climate-Related Financial Disclosures, the Weighted Average Carbon Intensity measures a portfolio's exposure to carbon-intensive companies, expressed in tCO₂e / \$M revenue. This is a metric recommended for tracking and disclosure by the Task Force. More information available here: <https://www.tcfhub.org/Downloads/pdfs/E09%20-%20Carbon%20footprinting%20-%20metrics.pdf>

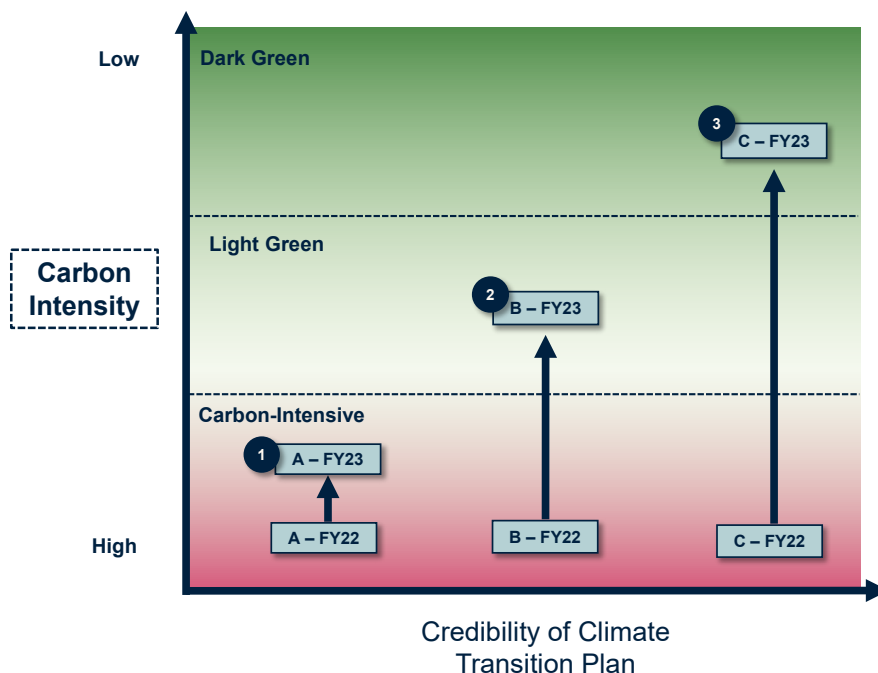


Figure 3: Carbon Intensity Dimension along the Y-Axis

We can use different examples of investments to demonstrate how PSP Investments can use the Green Asset Taxonomy to monitor progress at the asset or company level.

1
Company A is a **carbon-intensive asset** that is improving its carbon intensity year- over-year. It remains a carbon-intensive asset over the period.

2
Company B was initially classified as a high carbon investment, but it has improved its carbon intensity considerably, over the period. It can be considered a **light-green asset** if two conditions are met:

1. Its carbon intensity is better than PSP Investments Weighted Average Portfolio Carbon Intensity (116 tCO₂e/\$M as at March 31, 2021);
2. Its carbon intensity is **30% better than a relevant sub-industry GHG benchmark**. At present, PSP has generated sub-industry GHG benchmarks across a range of sectors based on disclosed emissions data from public issuers. We find the comparison of an asset's positioning vis-à-vis peers a compelling lens through which to evaluate an investment's relative carbon competitiveness.

- If an asset does not achieve these conditions, it could be considered a **green enabling asset** if the investment enables low-carbon performance elsewhere in the economy, aiding the transition to a low-carbon economy. Assets are eligible to be a green enabling asset if the **majority of their revenues** are derived from one or more low-carbon activities.⁸

3
Company C is significantly improving its carbon intensity and could be considered a **dark green asset** if two conditions are met:

- It achieves relevant eligibility criteria outlined in PSP Investments' [Green Bond Framework](#) and/or is aligned to relevant low-carbon taxonomies; and
- Its carbon intensity is below 80 tCO₂e/\$M revenue (i.e., 30% better than PSP Total Fund weighted average carbon intensity of 116 as of March 31st 2021).

⁸Low carbon revenues are defined by MSCI's Sustainable Impact Metrics, which are designed to identify companies that derive revenue from products or services with positive impact on the society and the environment.

Climate Transition Readiness

Beyond green and carbon intensive assets, we believe that the path to global net zero emissions will not be linear and will involve a significant transition away from high carbon emitting industries over time. We also believe investors have an important role to play in ensuring a smooth transition to a low-carbon economy, as long-term capital providers to industries and assets that need to decarbonize over time. Investing in transition assets is an important aspect of our Climate Strategy Roadmap, as we believe companies with credible transition plans in place will likely outperform their peers over time.

As described in PSP Investments [Updated Corporate View on Climate Change](#), we are increasing our engagement efforts, where appropriate, with portfolio companies and partners on decarbonization planning and active asset-management strategies aligned with science-based targets. To that end, our Taxonomy provides a framework that aims to increase our investments in assets across various sectors that have committed to make a substantial contribution to the low-carbon transition through the establishment of public GHG reduction targets and disclosure practices.

On the **transition readiness axis**, assets are classified along a spectrum from no evidence of transition plans to mature transition plans.

- **No evidence of transition plans:** These are companies for which management has not yet established any form of climate change strategy. For example, companies that have not yet made public carbon reduction goals for the short or long-term are marked at the zero point on our x axis.
- **Early transition plans:** These are assets for which the management team has already set some short- or long-term targets but remain in the early stage of implementation. These assets do not need to have made long-term net-zero commitments, but management must have demonstrated some initial progress towards either a short-term goal or a non-science-based long-term goal. In our Taxonomy framework, we consider a short-term target to be any GHG reduction goal set to be achieved before 2035. A long-term climate target is any announced commitment to reduce emissions relative to a base year after 2035. GHG targets, whether short or long-term, must be quantitative in nature and established against a relevant baseline year.

- **Mature transition plans:** Assets that have short- and long-term emissions reductions objectives aligned to Paris Agreement mitigation outcomes. Assets are eligible based on the presence of short-term and long-term public science-based targets as outlined in the IEA Net-Zero Scenario, the guidance from the Science-Based Targets Initiative, the Investor Leadership Network sector decarbonization pathways, Network for Green the Financial System scenarios, or other credible modeling sources in alignment with a 1.5-degree climate scenario. For these assets, we have a high degree of confidence that management will achieve their stated decarbonization goals, and that these goals reflect an equitable and ambitious mitigation effort relative to the sector in which the asset operates.

At present, the PSP Investments Green Asset Taxonomy evaluates transition plan credibility based on public disclosures, namely targets and metrics disclosed in alignment with the TCFD recommendations. Going forward, we intend to evolve the transition axis to consider other financial metrics, including allocation of capital expenditures where relevant.

In our engagement activities, we seek to achieve progress on specific milestones. Near-term environmental corporate outcomes that we seek include: the development of a strategy consistent with the goals of the Paris Agreement; science-based emissions reduction targets; board oversight and understanding of climate risks and opportunities; and adoption and implementation of the TCFD recommendations. Long-term outcomes we seek include ensuring companies have a business model consistent with net-zero emissions and an effective transition plan to achieve this by 2050.

We expect boards of directors and company executives to integrate climate related risks and opportunities into their strategy and operations, and to provide, where material, disclosure that allow shareholders to make informed decisions on that basis. Where boards of public companies fail to demonstrate adequate consideration of physical and transition-related impacts from climate change, we will consider, in light of value and portfolio risk considerations, voting against directors to hold them accountable. Going forward, as outlined in [our inaugural Climate Strategy Roadmap](#), PSP Investments will develop a “climate escalation policy” to determine how and when it may choose to escalate its engagement with public issuers, where appropriate, and private portfolio companies if progress is not made on climate change commitments.

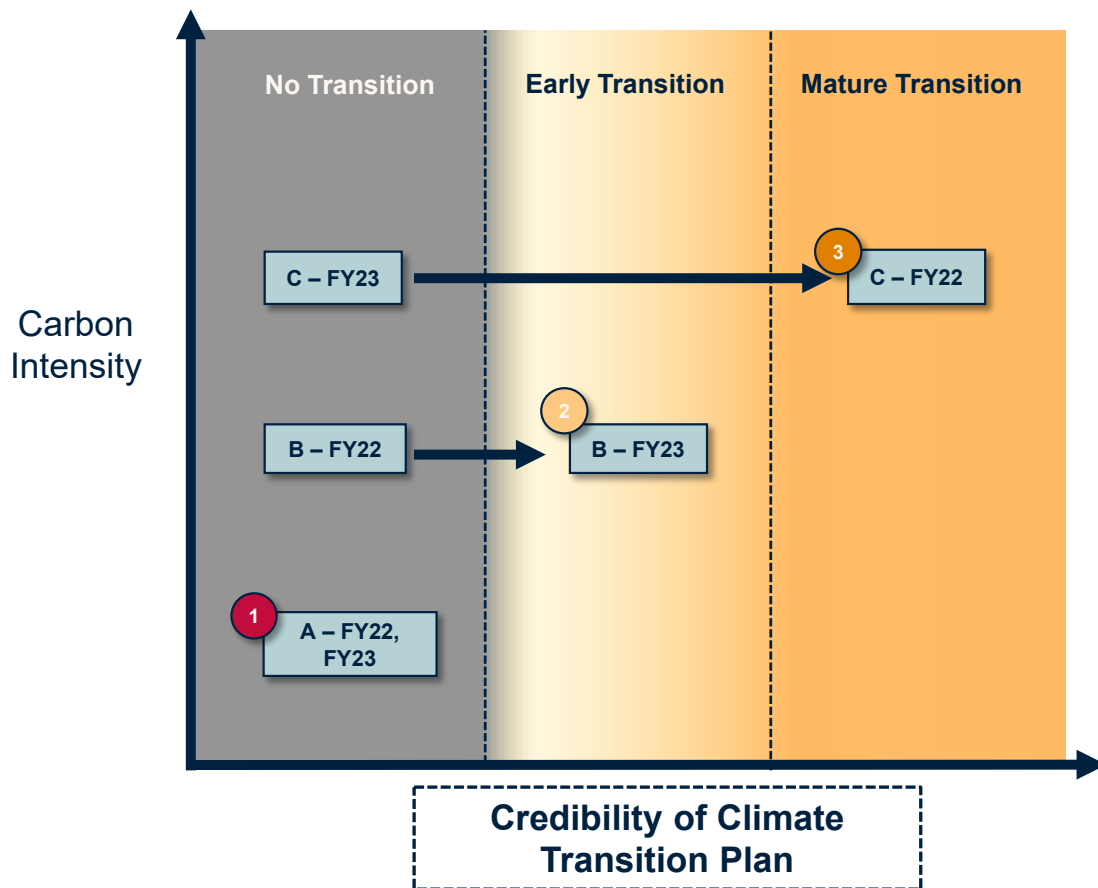


Figure 4: Transition Readiness Dimension along the X-Axis

Once again, we can use different examples of investments to demonstrate how PSP Investments can use the Green Asset Taxonomy to monitor progress at the asset or company level.

1

Company A does not have a transition plan in place and is not yet disclosing any short-, medium- and long-term GHG targets. Because of this, the asset is considered as an asset with **no transition plan**.

2

Company B initially did not have a public climate change goal; however, it has graduated by announcing short- or long-term climate targets for GHG reductions, despite those targets having not been validated against a third-party decarbonization pathway. The company is now considered an **early transition asset**.

3

Company C began its journey with some short- or long-term climate commitments in place. Over the period, it evolved its approach and has publicly disclosed short and long-term carbon reduction goals that are considered science-based by credible 3rd party standard providers. The company is now considered a **mature transition asset**.

Determining asset placement across both axes

Following the analysis of a company's asset-level GHG performance and the quality of its climate transition plan, an asset can be mapped in the PSP Investments Green Asset Taxonomy according to their relative positioning on each dimension. Conclusions can be drawn on an asset's final

Taxonomy category according to this positioning. Moreover, asset class and total fund assets under management can be combined to calculate **PSP Investments' baseline exposure to relevant climate investments**.

Representative Sub-Sectors	GHG Threshold (tCO2e per \$M revenue)	Category	No Evidence of Transition Plan	Early Transition Plan	Mature Transition Plan
Renewable Energy; Green Buildings; Sustainable certified agriculture and timber, Clean Transport	80	Dark Green	DG1	DG2	DG3
All	116	Light Green	LG1	LG2	LG3
IT optimization; Industrial automation; Demand-side management solutions; Electricity transmission and distribution; Energy storage; Fuel cell technologies	N/A	Enabling	EG1	EG2	EG3
All	300	High Carbon	A1	B1	C1
Oil & Gas & Coal; Industrials; Mining; Rubber & Plastic; Chemicals; Cement & Aggregates; Steel Producers; Thermal Utilities.	500	Hard to Abate	A2	B2	C2
All minus Dark Green and Hard to Abate	300>X>116	Other			
All	N/A	No GHG Data			
		Total Portfolio	Green Assets	Carbon-Intensive Assets	Transition Assets
			All DG, LG and EG assets	A1 + A2	B1 + B2 + C1 + C2

Figure 5: Green Asset Taxonomy: Identifying Assets Across Two Dimensions

A data-driven and outcomes-based framework

With this comprehensive framework in place, PSP Investments climate investing approach will move from qualitative to quantitative. Our two-dimensional framework is designed to allow the firm to assess transition progress based on the like-for-like change of individual assets or portfolios from an emission intensity perspective, as well as a company's year-over-year progress in implementing transition plans that reflect science-based progress towards sector relevant targets and objectives. It may also become

possible to use **scenario analysis and stress-testing** to evaluate the potential impacts of adopting various **climate investing targets** on a portfolio's future weighted average carbon intensity. This was the approach taken to determine the impact of PSP Investments' new climate strategy objectives; by implementing our near-term investment and engagement goals, we anticipate reducing the carbon intensity of our total fund by 20-25% from our September 2021 baseline.



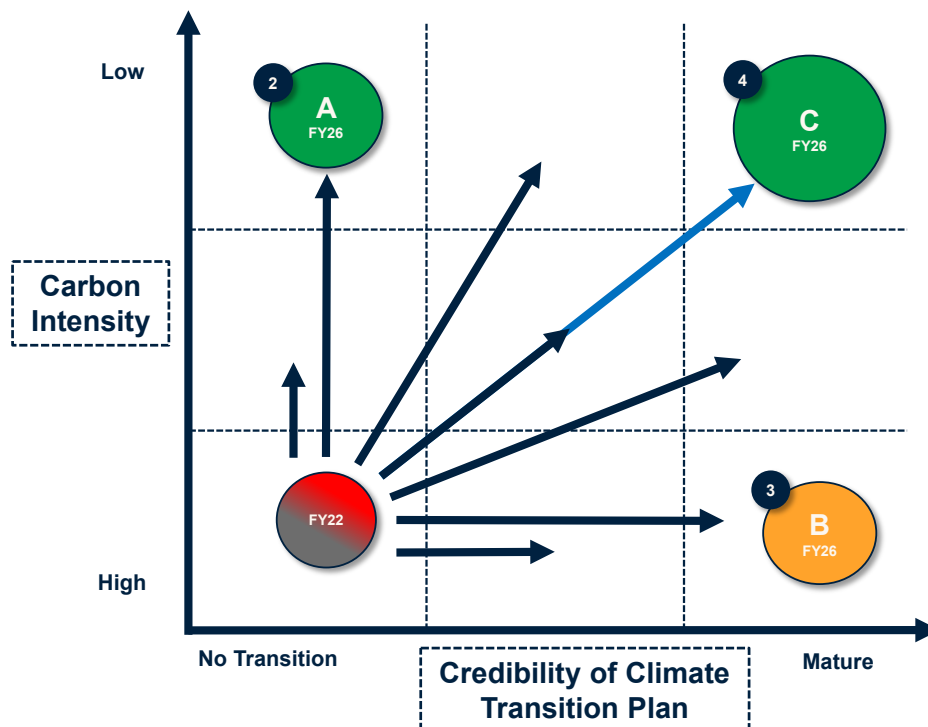


Figure 6: Monitoring progress both at the asset and sub-portfolio level

By consolidating the results of the taxonomy at the asset class levels (i.e. sub-portfolios), PSP Investments is able to monitor progress alongside a carbon intensity pathway (y-axis) and transition plan readiness pathway (x-axis). Using year-over-year GHG and transition plan data, PSP Investments can assess the rate of acceleration and relative progress of asset-level transformations.

For example:

1

Portfolio A is significantly improving its weighted average carbon intensity (WACI). This is possible for sectors where asset-level climate mitigation strategies (i.e., energy efficiency; switching way from fossil fuels; and/or electrification) are readily available and relatively simple to implement.

2

Portfolio B is significantly improving both its WACI and its alignment to the low-carbon economy by adopting climate targets. Over the holding period, this can be accomplished by both investing in near-term emissions reductions solutions and aligning long-term corporate strategy with the goals of the Paris Agreement. **This is expected to maximize long-term green premium and reduce climate-related risks.**

3

Portfolio C is not improving its WACI, but underlying companies have significantly improved their climate-related disclosures by setting science-based targets to reduce their GHG emissions. By doing so, companies are generally **lowering their regulatory and/or policy risks**, and the portfolio is likely to reduce its carbon intensity in the years ahead.

Spotlight: PSP Investments Green Asset Taxonomy — key definitions

Green Assets

- **Dark Green** assets are low-carbon assets that beat the PSP Investments Total Fund weighted average carbon intensity by at least 30% (e.g., based on fiscal year 2021 disclosure, less than 80 tonnes of CO₂e per \$M of company revenues). In private markets, Dark Green Assets can also be determined based on asset-level alignment with the PSP Investments' Green Bond Framework.
- **Light Green** assets are investments which display sector-relevant carbon competitiveness. Eligibility in this category is determined based on an investment's ability to achieve 30% better GHG performance than a relevant sector benchmark. Determining credible GHG benchmarks at the sub-industry level remains challenging. In the first instance, PSP's benchmarks have been generated based on BICS Level 4 or Level 5 data; and, while investments must beat these benchmarks by at least 30%, they may not exceed their benchmark by more than 85%, unless they have a mature transition plan, so as to prevent overestimations. Moreover, asset level GHG performance must also be no greater than the PSP Investments Total Fund average (i.e., ≤ 116 tonnes CO₂ per \$M revenues).
- **Green Enabling** assets are investments that enable low-carbon performance across the economy, aiding the transition to a low carbon economy. Eligible if the majority of revenues are derived from one or more of low carbon enabling activities.

Transition Assets

- **Early transition** assets are investments where management has established some short or long-term targets, but remain early on their implementation journey. These assets are not yet fully aligned to a science-based approach. Transition plans are measured by the quality of a company's public disclosures and the ambition of their established quantitative GHG reduction targets. Short-term targets are publicly disclosed emission reduction targets for the pre-2035 period. Long-term targets are publicly disclosed emission reduction targets for the post-2035 period.
- **Mature transition** assets are investments that have publicly disclosed short- and long-term emissions reduction objectives aligned to credible third-party decarbonization standards such as SBTi.

Carbon Intensive Assets

- **High Carbon** assets are investments in any sector that are material in the context of PSP Investments' Total Fund Weighted Average Carbon Intensity
- Asset level GHG performance ≥ 300 tonnes CO₂/\$M revenues.
- **Hard to Abate** assets are investments in sensitive high-carbon sectors with large absolute emissions, as identified based on list of common BICS sectors (e.g., oil and gas, industrials, materials). Asset level GHG performance ≥ 500 tonnes CO₂/\$M revenues

PSP Investments' Approach to Fossil Fuels

The PSP Investments Green Asset Taxonomy is not just about buying green assets. It is about unlocking emissions reductions across all sectors of the economy. For this reason, we see enormous potential value in carefully selecting and engaging with higher carbon investments and deploying our long-term capital with an aim to ensure a credible decarbonization path is pursued. We intend to continue to position our portfolio to deliver investment results by identifying and managing material ESG risks and opportunities as the world transitions to a low carbon economy.

In that spirit, PSP Investments' approach is one of engagement, not divestment. However, by effectively incorporating ESG risks and opportunities into our investment decision-making and asset management, we may exclude or divest from investments where long-term financial risks do not align with our investment beliefs and the meeting of our mandate. Our approach to exclusions is outlined in the PSP Investments' [Responsible Investment Policy](#), available on our website.

Increasing Greenhouse Gas Data Availability across the Total Fund

Accelerating the collection of decision useful data, to measure progress over time, remains vital to this effort. Given the critical role of Scope 1 and 2 GHG data in our data-driven climate approach, we have undertaken a significant effort to increase collection of this data across the Total Fund. In our 2021 TCFD disclosure, PSP Investments' carbon footprint metrics employed 28% company-specific Scope 1 and Scope 2 data from issuers and portfolio companies. Following this intensive data collection effort over the last year, we have increased company specific GHG data to 56% of the investments mapped under the Taxonomy. Going forward, we will continue to enhance data availability across the portfolio, aiming to obtain company-specific GHG data for 80% of the portfolio by 2026.

Regarding the inclusion of company-level Scope 3 emissions in our approach: we continue to monitor the availability of credible company-specific Scope 3 emissions data and will seek to integrate this into our disclosure when a sufficient critical mass exists. We are also motivated to actively contribute to the development of methodologies that avoid potential double counting effects where holdings exist at multiple levels of a sector's value chain. We believe that emissions reductions unlocked across a company's value chain due to the nature of their product or service is a vital and often underdiscussed aspect of climate investing.

Ongoing application of the Green Asset Taxonomy

In the spring of 2022, PSP Investments engaged a major public accounting firm to conduct a readiness assessment of our initial application of the Taxonomy to the PSP Investments portfolio, in anticipation of future third party assurance. In April 2022, the results of this assessment confirmed the consistent application of our methodology across our in-scope AUM and found no significant flaws in the results.

The application of our Green Asset Taxonomy to our Total Fund will be an ongoing data-driven process and approach. We have provided a baseline disclosure for fiscal year 2022 in our TCFD report, contained with the FY22 Responsible Investment report.

Given the dynamic nature of the topic and leading practices in the field, we expect to update our approach in-line with evolving market expectations and new sector decarbonization pathways, as they become available over time. Going forward, an important step will also be to add a dimension related to expected returns and asset valuation to this climate framework. We expect the methodology underpinning the PSP Investments Green Asset Taxonomy to be refined over time, and we anticipate fluctuations in mapping conclusions as data availability improves. rolling three-year period.

More information about PSP Investments' Climate Strategy Roadmap is available [here](#)

More information about PSP Investments' Green Bond Framework is available [here](#)

PSP Investments' historical TCFD disclosures and Responsible Investment Reports are available [here](#)



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