Public Sector Pension Investment Board
— 2018 Responsible Investment Report

Think Look Move Responsibly

At PSP Investments, we highlight the possible.

We explore every angle — across asset classes, markets and industries — to broaden our perspectives.

We work as one, recognizing that diversity is an asset that can help us realize the full potential of our ambitions.

Our tight collaboration has allowed us to develop a collective instinct for honing in on opportunities that would otherwise be overlooked, unnoticed, and unseen.

In blind spots or in plain sight, we always seek to **spot the edge.**

—Who we are

The Public Sector Pension Investment Board (PSP Investments) is one of Canada's largest pension investment managers, with $153.0 billion of net assets as of March 31, 2018.

We are a Canadian Crown corporation that invests funds for the pension plans of the federal public service, the Canadian Forces, the Royal Canadian Mounted Police and the Reserve Force. Our head office is located in Ottawa and our highly-skilled and diverse team of more than 800 professionals works from offices in Montréal, New York and London.

—What we do

PSP Investments' mandate is to manage the pension funds transferred to it by the Government of Canada in the best interests of contributors and beneficiaries, and to maximize investment returns without undue risk of loss.

To that end, we manage a diversified global portfolio composed of investments in public financial markets, private equity, real estate, infrastructure, natural resources and private debt.

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Our approach to responsible investing is rooted in our commitment to protecting and enhancing the value of our investments over the long term. We seek to reduce risk and capture value by integrating environmental, social and governance (ESG) factors throughout the investment process and across all asset classes. We focus on those ESG risks and opportunities that have the potential to impact a company's ability to create or preserve long-term financial value. Our integration process varies by asset class and investment type, and ESG factors considered vary by company, industry and geography. Our Responsible Investment group leads our ESG integration activities in collaboration with asset classes and regularly reports on its activities to the Governance Committee of PSP's Board of Directors.

$ 153.0 Billion net assets*

Diversified asset mix*
% of total net assets

Public Markets	Real Estate	Private Equity	Infrastructure	Private Debt	Natural Resources	Complementary Portfolio
50.1%	15.2%	12.7%	9.8%	5.8%	3.2%	1.4%

* As at March 31, 2018. Excludes cash and cash equivalents. All dollar amounts is this report are in Canadian dollars unless otherwise indicated.

President's message

In the increasingly complex and constantly evolving global environment in which we invest, PSP's expertise in addressing ESG-related issues has never been more relevant. We believe that ESG factors can be significant drivers of long-term sustainable value.

This year's focus was on further integrating ESG considerations into the investment processes of all of our asset classes.

Two years ago, we created a dedicated Responsible Investment (RI) group to strengthen our responsible investment practices and I'm pleased to report that we've made significant progress. This year's focus was on further integrating ESG considerations into the investment processes of all of our asset classes. Our RI group has proven its value, making the ESG perspective relevant to our asset classes and becoming an integral part of PSP's investment decision-making processes and ownership practices. In fiscal year 2018, the group also introduced an innovative framework for helping us objectively evaluate and benchmark the ESG practices of external managers and general partners.

Guided by our RI group and asset classes, PSP has taken a strong stance on key ESG issues. Among them, climate change. We believe that climate change is a long-term structural trend that will have a material impact on investment risks and returns, across different sectors, geographies and asset classes. As a long-term investor, we must proactively address the reality of climate change risks and opportunities as part of our investment decisions.

In this year's RI report, we shine a light on five recurring ESG themes from fiscal year 2018, explaining why they matter to us as investors and how we took action on them in private markets, public markets and from a best practice perspective. In reading about them, I trust that you will also gain an appreciation of the knowledge and resourcefulness of our people, and of our strong culture of listening, learning and speaking up when we need to. We challenge ourselves to be bold and act decisively on opportunities to promote long-term investment growth.

Sincerely,

Neil Cunningham
President and
Chief Executive Officer

Achievements

— Fiscal year 2018

Initiated a comprehensive assessment of our portfolio's exposure to climate change risk and developed tools to ensure risks and opportunities are incorporated into our investment decision making.

Publicly supported the 30% Club Investor Statement, in which a group of Canada's largest institutional investors called for 30% representation of women on boards of directors and executive management teams of S&P/TSX composite index companies by 2022.

Issued our inaugural Responsible Investment annual report in the summer of 2017.

Ranked among the world's 25 most responsible asset allocators in a study released by Bretton Woods II program at New America.

Joined 30 Canadian and international financial institutions and pension funds in issuing a joint *Declaration of Institutional Investors on Climate-Related Financial Risks*, calling on publicly traded companies in Canada to commit to enhanced disclosure on their exposure to climate change risks and the measures they are taking to manage them.

Significant progress on the four pillars of our responsible investment strategy has been made throughout the year.

Responsible Investment Group

From left to right

— 1
Ludmya Khaled
Senior Analyst

Stéphanie Lachance
Vice President

Martine Valcin
Senior Director

— 2
Charles Benoit
Senior Analyst

Stéphane Villemain
Director

Nicole Wilson
Manager

Highlights
— Fiscal year 2018

Our ESG strategy is structured around four pillars

Responsible Investment

1

Policy development and strategy

Develop responsible investment policy and strategic initiatives.

Monitor ESG themes, measure ESG risks and identify opportunities for each asset class, and on a total portfolio basis.

2

Advisory role to Board, President and CEO, and Investment Groups

Provide advice and guidance on ESG trends.

Work collaboratively with the asset classes to integrate ESG factors in investment decision making process.

3

Responsible investment oversight

Manage and monitor our portfolio as active stewards of our assets.

4

ESG training & communications

Increase internal capabilities so ESG factors are adequately considered during the investment decision making process.

Report on our ESG activities to key stakeholders.

Fiscal year 2018 highlights for each pillar

Policy development and strategy

- Updated our Responsible Investment Policy and Statement of Investment Policies, Standards and Procedures (SIP&P).
- Updated PSP's Investment Risk Policy to explicitly reference ESG risks as one of the six principal investment risk types to which we are exposed.
- Revised our Proxy Voting Guidelines to clearly set out our expectations on key governance issues.
- Initiated a comprehensive assessment of our portfolio's exposure to climate change risk, developed climate change decision support tools, and supported industry initiatives to improve disclosure of climate-related risks and opportunities.
- Collaborated with Canadian peers to advocate for annual mandatory advisory votes on management compensation ("Say on Pay") and successfully influenced several Canadian companies to adopt Say on Pay.
- Reaffirmed our commitment to diversity by endorsing the 30% Club Canadian Investor Group Statement of Intent and through our engagement activities.

Advisory role to Board, President and CEO, and Investment Groups

- Worked with our Public Markets group to develop an ESG integration framework.
- Collaborated with our Private Market investment teams to help them assess ESG risks and opportunities as part of their investment due diligence process.
- Provided advice to senior management on emerging ESG trends and themes impacting our portfolio.

Responsible investment oversight

- Launched the PSP Health and Safety Best Practices Network among our Infrastructure portfolio companies to foster greater connectivity and share best practices.
- Developed a framework for objectively assessing the ESG practices of external managers and general partners and fostering discussions on adopting best practices.
- Joined the Sustainable Stock Exchange Initiative to explore how exchanges, in collaboration with investors, regulators and companies, can enhance corporate transparency and ultimately performance on ESG issues.

ESG training and communications

- Presented our key priorities and best practices and tools for ESG integration and monitoring to internal investment groups and external business partners.
- Engaged regularly with investment groups and business partners to ensure they are equipped to assess and manage emerging climate change and cybersecurity risks.
- Published our first standalone annual Responsible Investment Report.

Mindful investing

Our Responsible Investment Policy is grounded in the belief that well-run companies that effectively manage material social and environmental issues are more likely to prosper over time.

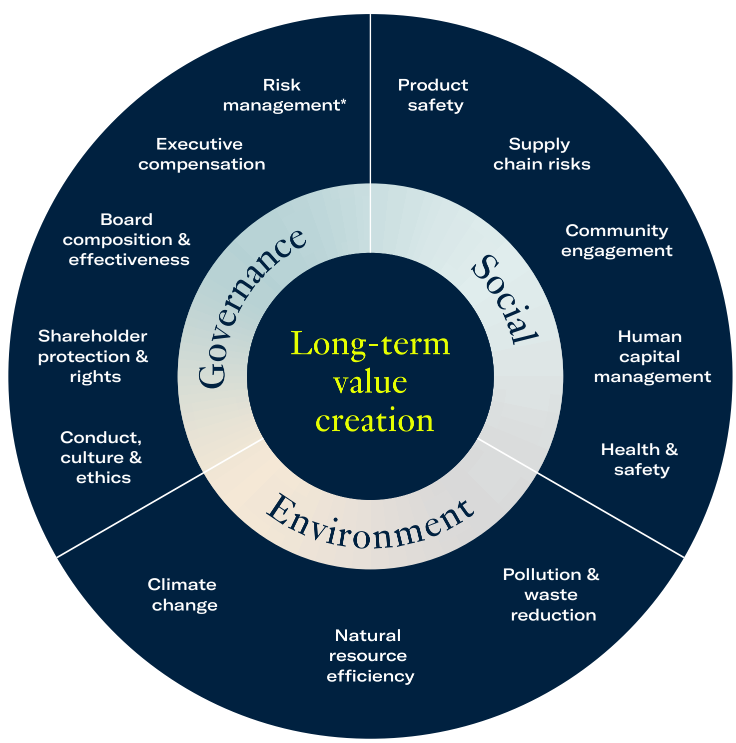
In fiscal year 2018, we updated our policy to take into account the evolution of our responsible investment approach, and of industry standards and practices, by clearly and consistently illustrating how integrating ESG factors is tied to our responsibility to create long-term value.

Our ESG lens

As a long-term investor, we proactively address the following factors as part of our investment strategy.

This diagram illustrates some of the risks we look into when evaluating investments across asset classes. Some cut across several categories; for example, climate change can have far-reaching social impacts in addition to its environmental ramifications. While cybersecurity risks need to be properly overseen by boards as part of their risk management responsibilities, security breaches also often have significant social impacts.

General ESG framework



* Includes cybersecurity

Zeroing in on material risks and opportunities

At PSP, we take a pragmatic approach to responsible investing that is tailored to local social and legal environments, and to the commercial imperatives of the companies in which we invest. As an active and engaged investor, we expect these companies to not only comply with the legal and regulatory regimes applicable to them but to also adopt ESG practices that contribute to long-term financial performance. At the core of our responsible investment philosophy is the belief that a high performing board of directors and good governance are the foundation to responsible business practices. We also believe that directors play a central role in providing leadership on setting corporate culture and ensuring ethical business behaviour.

Public markets

As part of the investment analysis and decision-making processes, we look to identify material ESG factors. We use our ownership positions to promote good corporate governance practices, exercising our proxy voting rights and actively engaging with publicly listed companies based on factors such as the ability to create shareholder value, our prospects for success and the relevancy of issues. We also take a stand on issues that matter to capital markets through our support of best practices. Our engagement activities are at times conducted through a service provider or collaboratively with other like-minded investors.

Private markets

ESG risks, including those linked to climate change, health and safety, human rights and business ethics (including bribery and corruption), are identified in PSP's real estate, private equity, infrastructure, natural resources and private debt investment processes. ESG analysis is fundamental to PSP's due diligence process and to investment recommendations submitted to the Board of Directors' Investment Committee, the President and CEO, and other approving officers. Throughout the life of an investment, investment teams monitor ESG factors and, when risks arise, they ensure that mitigation measures are implemented as necessary.

Forging ESG-powered relationships with external managers and general partners

We allocate capital to external managers for public market investments and make a significant portion of our private market investments through funds. For all externally managed mandates and funds, we assess the ESG practices of the managers and partners to ensure that their approach is aligned with our Responsible Investment Policy and expectations. In fiscal year 2018, we moved ahead with a framework to help us objectively evaluate and benchmark ESG practices, both when selecting new external managers or general partners and on an ongoing basis. By reporting back on the findings, we imprint our ESG vision and open the door to discussions about ESG best practices and how to adopt them.


Material ESG factors in the agriculture and real estate sectors can have widespread implications for long-term investors.

Broadening ESG disclosure

We believe that meaningful disclosure of ESG risks, strategies, practices and performance helps investors make enlightened investment decisions. As an investor, we require consistent, comparable and high-quality information in order to accurately view how a company manages its material ESG risks and opportunities.

We support standardized disclosures of material ESG factors using recognized global reporting frameworks:

- We support the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). The TCFD's recommendations prompt organizations to evaluate and disclose, as part of their annual filing preparation and reporting processes, the climate change related risks and opportunities that are most relevant to their business activities.
- As a CDP member, PSP has access to information on climate change, water scarcity, flooding, pollution and deforestation, which informs our investment decisions. We support CDP's efforts to encourage companies to contribute to its comprehensive collection of self-reported environmental data. In fiscal year 2018, we confirmed our intention to support CDP's annual campaign to prompt companies to measure and disclose material ESG data.
- We joined the Sustainable Stock Exchanges (SSE) initiative in June 2017. This is a peer-to-peer learning platform for exploring how exchanges, in collaboration with investors, regulators, and companies, can improve corporate transparency and ultimately performance on ESG issues and encourage sustainable investment. The SSE is organized by the UN Conference on Trade and Development, the UN Global Compact, the UN Environment Program Finance Initiative and the Principles for Responsible Investment.

Seeing near and far

In the pages that follow, we shine a light on five recurring themes from fiscal year 2018. These were important issues that mattered to us as investors and where we took strong action.

Board composition and effectiveness

Why it matters

A high performing board of directors and good governance are the foundation of responsible business practices and critical to a company's long-term success. The board is ultimately responsible for overseeing corporate strategy and therefore needs a comprehensive understanding of the impact that ESG factors may have on a company's competitiveness, risk profile, resilience and long-term viability.

We place considerable emphasis on the quality of directors and the overall composition of boards in our proxy voting and engagement activities.

We believe that effective board leadership and oversight includes:

- Getting it right on the size of the board and the balance of skills, expertise, diversity and independence.
- Having a robust nominating process that attracts qualified and independent candidates from diverse backgrounds.
- Implementing sound director performance evaluations and renewal processes.
- Ensuring that directors have sufficient time to devote to their board duties.

How we made a difference

Private markets

- We established principles for nominating PSP representatives to boards of private entities in which we have invested or have a financial interest. We consider the overall composition of the board as well as the skills, experience, expertise, diversity and independence from the entity of each director.
- We updated and launched a comprehensive training program for board nominees to ensure they remain abreast of best corporate governance practices.

Public markets

- We updated our Proxy Voting Guidelines to, among other things, strengthen our definition of independence by introducing tenure as a specific factor that may influence the independence of directors; and clarify our expectations related to board diversity, the roles and composition of key board committees, and the number of boards on which directors may sit.
- We actively connected with several companies with respect to board composition, seeking to ensure that directors have the proper skill sets and that boards have robust evaluation processes and healthy renewal practices.
- In the US, we continued to advocate for the separation of the board chair and CEO roles, recognizing that only about one-half of S&P 500 companies separate chair and CEO roles.
- In Asia, we engaged with companies involved in corporate controversies, advocating for improved board effectiveness and independence.
- When we lose confidence in a director's ability to act in the best interests of shareholders, we will not support his or her re-election. For example, we voted against the re-election of board nominees at two US-based companies in fiscal year 2018:
  - At a pharmaceutical company, shareholders suffered significant destruction in shareholder value as a result of high-profile pricing and drug classification controversies that emerged publicly in 2016. In addition, the executive compensation included multiple questionable pay decisions and large payouts despite the harm resulting from the controversies. As the company's board determined that risk oversight is the responsibility of the full board, we found that all incumbent directors should be considered accountable for material failures of risk oversight over a number of years and voted against the re-election of all incumbent directors.

Walking the talk on diversity

While more and more businesses are waking up to the benefits of having a diverse and inclusive culture, fostering change within an organization can be a challenge.

"At PSP, we've always valued inclusion and diversity, but we felt we could do more to get people from all parts of our organization involved, and to really leverage our diverse genders, ethnicities, experiences and points of view to come up with different thinking," said Giulia Cirillo, Senior Vice-President and Chief Human Resources Officer.

In 2017, PSP created an internal I&D Council, co-chaired by Neil Cunningham, President and CEO, and Giulia, to drive change. Each of the 56 Council members also belongs to one of eight affinity groups. To promote awareness and understanding, a three-day i&D forum for all employees offered six workshops, including a session for leaders on unconscious biases.

- At a financial services company, we found that the extent of fraudulent sales practices demonstrated a sustained breakdown in the risk oversight responsibilities of the board, which warranted skepticism in the board's ability to rebuild customer trust. In particular, key board committees (Risk, Audit and Human Resources) failed to exercise proper risk oversight in a timely manner to mitigate the impact of these unethical sales practices. As a result, we voted against the re-election of board nominees who served on the Audit and Examination Committee and the Risk Committee.

- Diversity has also become an important theme for us, as we encourage laggard companies to increase diversity and promote the benefits of adopting diversity policies and targets. Our Proxy Voting Guidelines now indicate that we may vote against or withhold our vote for the election of members of the nominating committee when there are no women being proposed for election to the board of directors or diversity is generally lacking and the company has failed to adopt credible policies or targets to increase diversity. In fiscal year 2017, we sent a letter to approximately 50 TSX-listed issuers in which we were invested and where there were no women on their boards, urging them to adopt diversity policies and targets. In fiscal year 2018, we pursued our efforts to promote diversity by:
  - Engaging with companies to increase the representation of women on boards and in executive positions.
  - Considering the lack of women on boards in making our decisions on whether or not to support the re-election of nominating committee members.

See page 34 for additional information and statistics related to our proxy voting activities.

Engagement in action

Company

Global retail and commercial bank

Engagement objective

Greater board independence

Background

We had been engaging with the company since 2010 over concerns about its governance structure and executive compensation policy.

Achievements

While the company stood by its governance model, we continued to have regular and constructive dialogue over the years. In 2016 and 2017, we welcomed the strengthening of the lead independent director role. Equally encouraging, the deferral of the long-term incentive scheme has since been extended to five years, the vesting in shares has been increased, and the shareholding guidelines have become stricter. Furthermore, we welcomed the planned refreshment of its board and there are indications that the number of women on its board may increase.

Supporting best practices

TOPIC	TAKING A STAND ON ISSUES THAT MATTER
Board independence	• Participated in *Canadian Securities Administrators Paper 52-404 – Approach to Director and Audit Committee Member*. We supported the current approach to defining independence in Canada (general definitions and bright line tests) and advocated for greater guidance to be provided to boards as to how to consider past material relationships and tenure. • Responded to a consultation from the Hong Kong Stock Exchange on how to improve the independence and quality of boards of companies listed on this exchange.
Gender diversity	• Provided comments to the consultation of the Autorité des marchés financiers (AMF) with respect to the representation of women on boards and in executive positions. We pressed the AMF to adopt a true "comply or disclose" approach which prompts boards to: – Achieve greater gender balance. – Adopt a policy to achieve gender balance on boards and executive positions as well as objectives with respect to gender diversity, and provide meaningful disclosure on their progress. – Adopt a board renewal policy taking into account annually: tenure of each board member; number of boards on which directors serve; director performance; and skills and competencies required to support of the strategic objectives of the company. – Consider gender balance when proposing board nominees. • Companies would have to confirm that they have adopted these guidelines, failing which, they would have to describe, as required: the measures adopted by the board to remedy the lack of diversity; how the board has the required array of perspectives, knowledge and experiences to foster effective decision making; and how the board is renewed to ensure its optimal composition.
Dual class share framework	• Based on the principle of "one share one vote", we did not support the proposed introduction of a dual class share framework in Singapore. However, we appreciated the comprehensive consideration that the Singapore Exchange has given this matter and the mitigating steps suggested to address the risks inherent with dual class shares structures such as restrictions on the issuance of additional multiple voting shares and the adoption of mandatory sunset clauses.

We support standards that give shareholders the option of directly approving or disapproving executive compensation.

Say on Pay

Canada is one of the few developed markets where annual advisory votes on management compensation ("Say on Pay") is not required by law or listing rule. While the majority of companies in the S&P/TSX 60 Index have voluntarily adopted Say on Pay as a best practice, this is not the case for the overall Canadian market.

We believe Say on Pay is an effective means of communication as it offers shareholders the option of directly approving or disapproving executive compensation instead of withholding their votes for the election of directors who are members of the compensation committee. In addition, the overall level of shareholder support expressed through the vote clearly communicates shareholder views, allowing boards of directors to respond more effectively and proactively to any concerns.

In collaboration with a group of Canadian institutional shareholders, we have urged a number of Canadian reporting issuers to adopt Say on Pay. In the last fiscal year, our efforts resulted in seven additional TSX-listed companies adopting or committing to adopt Say on Pay.

We have also made representations to Canadian securities regulators to adopt Say on Pay as a rule for all Canadian reporting issuers. We believe that within the current disclosure framework for executive compensation there would be minimal incremental costs to issuers to add a resolution in their proxy materials allowing shareholders to express their views annually on the company's compensation practices.

In the coming year, we will continue our dialogue with securities regulators for the adoption of Say on Pay for all TSX-listed issuers.

Climate change

Why it matters

Climate change is one of the most critical challenges of our time. According to the World Economic Forum, over the next 10 years, three of the top five global risks in terms of potential impact and likelihood are linked to the physical or transition risks of climate change

Physical risks from extreme weather events or long-term shifts in climate patterns can disrupt business and negatively affect the economy, thereby impacting investments. Transition risks refer to the impact on organizations of policy, legal, technology, and market changes resulting from climate change mitigation and adaptation measures.

At the same time, the transition to a low-carbon economy is driving innovation and growth in many sectors, creating new opportunities for long-term investors like PSP.

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

We have initiated a comprehensive assessment of our portfolio's exposure to the impacts of climate change, and we encourage broader disclosure of climate change risks by companies in which we invest.

How we made a difference

Private markets

- With the cost competitiveness of renewable energy having significantly improved, so that it is now comparable to traditional power generation, we are fully committed to the sector. More than one-quarter of PSP's Infrastructure portfolio is invested in renewable energy, and we are one of the largest institutional investors in the sector in North America, with a net installed capacity of about 3.0 gigawatts. In fiscal year 2018, we closed two new investments, representing a total equity investment of over $1 billion. Our investment in Pattern Energy increases our exposure to renewable energy in North America while our investment in Equis Energy is focused on the Asia-Pacific region.
- Buildings account for about one-third of the world's energy consumption and global greenhouse gas emissions. With more than 1,000 properties in our diversified real estate portfolio, energy efficiency is a key area of focus, often requiring significant capital investments. Based on internal surveys performed in fiscal year 2018, we noted that the vast majority of our real estate partners, who manage our properties on our behalf, integrate energy efficiency measures as part of property development or refurbishment. We expect the number to increase as we broaden the scope of our analysis and further improvements are made to the quality and efficiency of our assets.

Public markets

- We welcomed the commitment by a number of leading businesses in emission-intensive sectors to report in accordance with the guidelines put forward by the Task Force on Climate-Related Financial Disclosures (TCFD).
- We engaged with several companies on enhanced climate change disclosure, including a large oil and gas producer that subsequently published its first annual sustainability report, publicly disclosing its sustainability strategy and its emissions, pollution, energy efficiency and environmental risk management performance. As requested by the company, we recommended further improvements in its materiality assessment and sustainability targets.
- In 2017, together with 62% of Exxon Mobil Corporation ("Exxon") shareholders, we supported a shareholder resolution requesting that the company produce an annual report explaining how it will be affected by global efforts to reduce green house gas emissions, including an analysis of the financial risks the company faces as countries reduce fossil fuel. As a result, Exxon published its *2018 Energy & Carbon Summary*, providing shareholders with information on energy demand sensitivities, implications of two-degree Celsius scenarios, and the positioning of the company for a lower-carbon future.

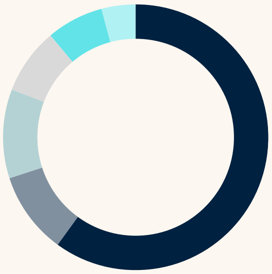
PSP's renewable investments include more than

100

renewable power generating facilities located in more than

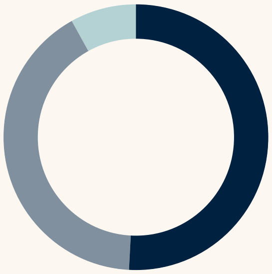
10

countries.



Power capacity (MW) by country

60%	US
10%	Brazil
11%	ROW
8%	Turkey
7%	Canada
4%	UK

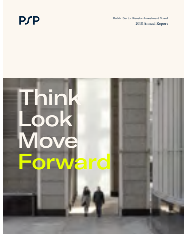


Power capacity (MW) by technology

51%	Hydro
41%	Wind
8%	Solar

Supporting best practices

TOPIC	TAKING A STAND ON ISSUES THAT MATTER
Climate change disclosure	• Supported the TCFD recommendations with the view to fostering enhanced transparency on climate change related financial risks and opportunities in capital markets. • As an asset owner, PSP is committed to enhancing disclosure over time about how we manage climate change related financial risks. In this regard, our Chief Financial Officer signed the A4S ("Accounting for Sustainability") CFO statement of support for the recommendations of the TCFD in December 2017. • Joined 30 Canadian and international financial institutions and pension funds in issuing a joint *Declaration of Institutional Investors on Climate-Related Financial Risks*, calling on publicly traded companies in Canada to commit to enhanced disclosure on their exposure to climate change risks and the measures they are taking to manage them. This declaration was led by Finance Montreal's Responsible Investment group, in which PSP assumed a leadership position.



See PSP's 2018 Annual Report to learn more about our renewable energy portfolio and recent investment in Pattern Energy.

Engagement in action

Company

Leading cement and building materials manufacturer, with operations in more than 50 countries

Engagement objective

Improve sustainability disclosure

Background

The cement industry is among the most emissions-intensive industries. We engaged with the company to ensure that it had a strategy in place to prepare for the transition to a low-carbon economy.

Achievements

We encouraged the company to do better than the minimum regulatory requirements of its local market law and adopt best international sustainability disclosure practices. The company responded to our engagement in a positive way and made meaningful progress, including developing and publishing policies on various sustainability issues.

The quality of its disclosure also improved. The company now publishes 18 medium-term sustainability targets linked to atmospheric emissions, use of alternative fuels and the proportion of sales derived from sustainable products and materials. It also reports on its contribution towards meeting the UN Sustainable Development Goals. In 2017, it adopted the *International Integrated Reporting Framework*, which includes a statement from an independent external advisory panel on the quality of the report.

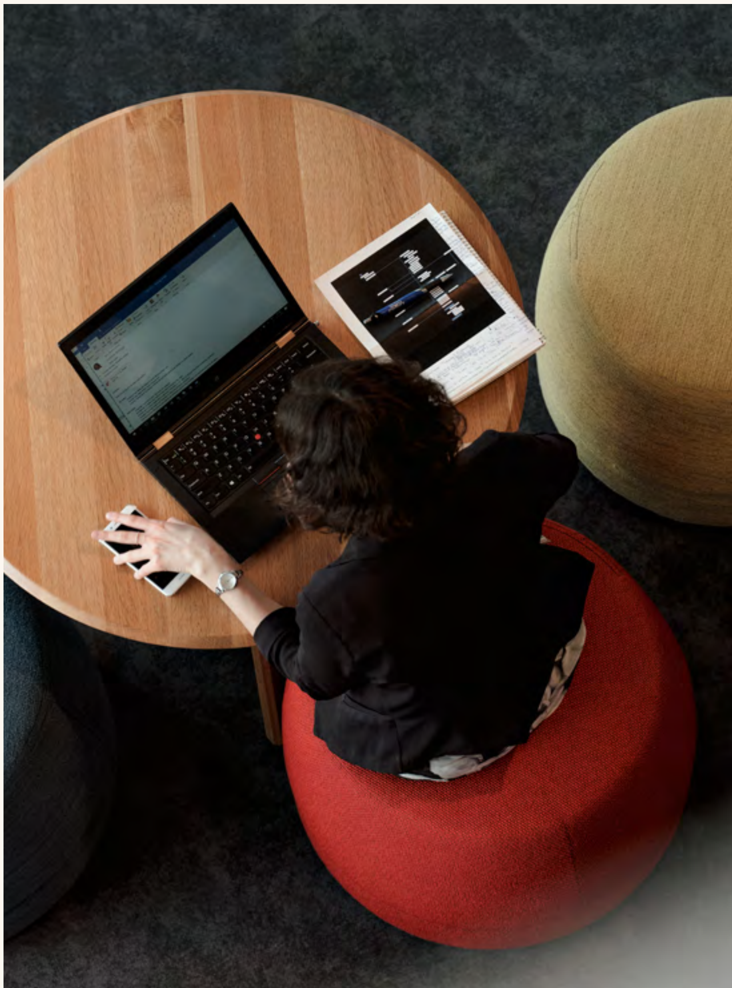
Cybersecurity

Why it matters

The past year has highlighted the extent to which cyberattackers have both the capability and intent to cause significant business disruption. Data security breaches are a material risk to many companies, can affect numerous stakeholders and may lead to significant internal costs. In addition, information or intellectual property theft can cause business disruption, such as revenue losses, fines from regulators, reputational damage and erosion of customer confidence.

Where cybersecurity is a material risk, it should be integrated into day-to-day business operations and the responsibility should rest at the executive level, with proper board oversight. In addition, as an investor, we need to understand how companies are mitigating technological and human vulnerabilities. For example, looking at whether they are:

- Maintaining cybersecurity policies and processes to identify, protect, respond and recover from cyber events.
- Staying abreast of the evolving cyber threat landscape including the associated regulatory environment.
- Robustly assessing the various cybersecurity risks to which they are exposed.
- Regularly testing their relevant controls.
- Rehearsing their plans to respond to a cyber incident.
- Training their employees on topics ranging from cybersecurity culture to technical controls.



How we made a difference

Private markets

- In collaboration with a cybersecurity expert, we organized training sessions for our investment professionals to help them better identify threats and increase their awareness of cybersecurity risks.
- The Responsible Investment group engages on a regular basis with the private market investment teams to discuss investee companies' exposure to cybersecurity risks and how they are managed. For example, our Private Debt group looked into an investment opportunity for a US-based Internet software and services company. Data security, regulatory compliance and business ethics factors were identified as potential material risks to the company's operations and reputation. With assistance from legal experts and our own IT specialists, we conducted a due diligence process that included an in-depth assessment of the company's practices and an analysis of best market practices to confirm that the company had robust systems in place. We noted that the company had a dedicated team overseeing its systems who took on responsibility for policies, procedures, employee training, auditing, and compliance and performance monitoring. Our review concluded that the company had the capacity to manage these key risks.

Public markets

- We engaged with global financial institutions on their cybersecurity capabilities and preparedness for new regulation around data protection and payments services.
- Generally, our engagements with companies for which cybersecurity is a material risk have focused on:
  - The adoption of robust cybersecurity management measures.
  - Determining whether companies are following and disclosing best practices in data privacy and cybersecurity.
  - Improvement of board oversight on cybersecurity risk issues.

Engagement in action

Company

Major multinational clothing, food and home product retailer

Engagement objective

Ensure that the company has developed an effective strategy on cybersecurity risk management

Background

To remain competitive, retailers must invest in digital channels, applications and other payment technologies, which increases the cybersecurity risks they face, especially in respect to the theft of customer data.

Achievements

Following the launch of its online and multi-channel retail strategy, the company assured us that it had undertaken a thorough review of its data governance and cybersecurity systems, following a cyber maturity assessment by a third party. As the company holds sensitive data, we challenged its policies and processes on data protection, especially considering new European Union General Data Protection Regulation coming into force in 2018. We also gained comfort that the board has cybersecurity on its agenda and we plan to follow-up with the company on its cybersecurity plans in fiscal year 2019.

We encourage regular employee training on topics ranging from cybersecurity culture to technical controls as a means of mitigating cybersecurity risks.

Cybersecurity risk training at PSP

Cybersecurity is a risk that has been highlighted in many investment proposals – no industry is immune to the threat.

During Cybersecurity Awareness Month, which takes place in October each year, we promoted cybersecurity to our employees with a video posted on our intranet explaining how each person can protect PSP data.

To ensure that our investment professionals are well equipped, we organized training sessions in partnership with a cybersecurity expert. The objective was to help us better identify cybersecurity threats and increase our awareness, as investors, of those risks. These sessions provided practical tools to better assess the right cybersecurity risks facing each business and how these risks can be effectively managed.

Health and safety

Why it matters

There are certain risks that can affect all companies, and health and safety is one of them. A serious workplace injury or death changes lives forever – for families, friends, communities and coworkers. All companies should strive to foster a work environment in which everyone has a sense of wellbeing and feels safe from injuries and illness.

Health and safety incidents are disruptive to a company's operations. If an employee is injured at work, it costs the company in lost work hours, increased insurance rates, employees' compensation premiums and possible litigation. Productivity is lost when other employees have to focus their energy and efforts on dealing with the injury and remediation plan. Even a single injury can have far-reaching and debilitating effects on the company's operations.

As an investor, we expect the companies in which we invest to establish and maintain the systems and procedures necessary to fulfill all of their health and safety obligations, as appropriate for their sector of activities and in line with relevant regulatory requirements and industry standards. The final objective is to ensure the health, safety and wellbeing of employees and others who could be affected by the company's operations.

How we made a difference

Private markets

- We helped drive improvements in the safety culture of a number of our Natural Resources partners. For example:
  - Hewitt Cattle — This Australian beef cattle company implemented Tracertrak, a cloud-based remote worker monitoring system to promote the safety of workers when they are outside of radio and mobile range. Hewitt Cattle was later recognized as a tier one company in the Australian cattle industry by an external safety audit firm.
  - Australian Food & Fibre (AFF) — AFF grows and markets cotton and other farm products, including horticultural products in Australia. Several ESG-related improvements have been made since PSP invested in this family-owned company, including installing a new health and safety reporting system with a built-in risk assessment tool, allowing for efficient communication between farms and the corporate office. See PSP's 2018 Annual Report to learn more about our investment in AFF.

Public markets

- We continued to engage on health and safety issues in industries where these issues present material risks, such as mining and materials, and oil and gas, to ensure they are being effectively managed.
- We prompted a leading cement and building materials manufacturer to implement policies dealing with a variety of sustainability issues, including health and safety. In particular, we encouraged the company to exceed the minimum regulatory requirements of its home country and adopt best international practices. The company responded favourably by developing a health and safety policy as well as medium-term targets for occupational safety.
- Our engagement with one of the largest publicly listed utilities with activities in the UK and US started in 2012, when we met with the chair to discuss a variety of challenges facing the company, including health and safety issues. In 2013, PSP welcomed the news that the company's safety, environment and health committee had initiated a review of its training and safety leadership programs. After several meetings and an update on the company's health and safety performance in 2016, an external benchmarking exercise demonstrated that its performance was among the best. The company had its safest year ever in 2016-2017, with the lost-time injury frequency rate falling by approximately 40% from 2012-2013.

Engagement in action

Company

Major oil and gas exploration and production company

Engagement objective

Ensure health and safety risks are adequately managed throughout the company's operations along with appropriate board oversight and accountability

Background

The oil and gas industry has an inherently elevated occupational fatality and injury rate. Numerous working conditions from oil rigging and other operations expose workers to safety hazards that must be effectively managed.

Achievements

Meeting with the sustainability and health and safety teams over a number of years led to the company publicly committing to reduce its accident rate. In its 2017-2021 business plan presented by the CEO in the third quarter of 2016, the company set a target of reducing the total recordable injury frequency rate from 2.2 in 2015 to 1.4 in 2018. At that time, we challenged the company's health and safety team on the feasibility of this ambitious target. We also explored how the company was embedding a culture of safety in its operations through intensive training and sharing of best practices.

In 2017, the company renewed its commitment to reduce its accident rate. The CEO highlighted that it had achieved its recordable injury frequency rate target, ahead of the 2018 timeframe set in the previous business plan. As a result, the target for 2018 was again lowered. Going forward, we will continue to follow up on the company's initiatives to foster a safety culture.

The PSP Health and Safety Best Practices Network helps promote strong health and safety management systems and practices among our portfolio companies.

Inspiring collaboration through the health and safety network

Health and safety at work involves both preventing harm and promoting health and wellbeing. We invest in companies that have a strong safety culture and expect them to live up to high health and safety standards.

To foster greater connectivity and share best practices among our Infrastructure portfolio companies, we launched the PSP Health and Safety Best Practices Network in February 2017. One of the Network's first deliverables was the Health and Safety Policy Guiding Principles, which focus on health and safety accountability, management systems, employee training and emergency preparedness. The principles are intended to help our Infrastructure portfolio companies develop or update their health and safety policies and management systems. The next step will be for the Network to share health and safety best practices, key performance indicators, training tools and reporting practices.

In fiscal year 2019, we will work to expand health and safety efforts in our portfolio companies to provide secure and safe environments for their workers. Health and safety will also remain an engagement theme for public companies.

Community engagement

Why it matters

While many commercial projects can improve people's lives and stimulate economic growth, they can also raise serious social issues which make approval neither automatic nor unconditional. Responsible development of projects is achieved by promoting a balanced approach towards environmental, social and economic considerations.

Through engagement, one can assess a community's perceptions of the acceptability of a company's project or local operations. In this context, community can be broadly defined to include stakeholders and interested parties well outside the immediate areas of operations, or any group or individual that can affect or is affected by the achievement of a company's project. In other words, companies cannot operate sustainably without community support.

The recent and well-publicized example of Native Americans resisting the Dakota Pipeline demonstrates that legal compliance alone may not be enough to secure the support of a community. What's more, insufficient community support can lead to costly delays that can ultimately affect the economics of a project as well as harming a company's reputation.

How we made a difference

Public markets

- The attention around the Dakota Access Pipeline in 2016 and 2017 highlighted risks to the rights of First Nations and the importance of community engagement. As a result, we engaged with a number of financing banks with a view to improving their due diligence and expanding the application of the Equator Principles[1] to developed markets, in addition to emerging markets.
- Companies in extractive industries bear a high level of environmental and social risk due to the nature of their operations. Maintaining community engagement over the long term requires strong governance. We engaged with a mining company on the theme of water stress to foster the adoption of best practices for managing water demand across water-stressed catchment areas in order to maintain operational and social resilience.

[1] The Equator Principles (EP) are a risk management framework adopted by financial institutions for determining, assessing and managing environmental and social risk in projects. The EPs are primarily intended to provide a minimum standard for due diligence and monitoring to support responsible risk decision-making.

TimberWest foresters, engineers, forest technologists, biologists, geologists, hydrologists and operations specialists work together to ensure the best forest land practices are followed.

Aboriginal relations *PAR Excellence*

Operating on Vancouver Island and the British Columbia coast for more than 100 years, TimberWest is jointly owned by PSP Investments and British Columbia Investment Management Corporation. Its forest lands were the first in Canada to be independently certified in 2000 under the Sustainable Forestry Initiative (SFI®).

In 2017, TimberWest became the first forestry company in British Columbia to achieve Canadian Council for Aboriginal Business certification under the Progressive Aboriginal Relations (PAR) program, signaling that it had met four PAR standards related to leadership actions, employment, business development and community relationships.

“In addition to validating our commitment to Indigenous communities, PAR certification has inspired our employees,” said Domenico Iannidinardo, TimberWest’s Vice-President, Sustainability and Chief Forester. “Staff and contractors are even more interested in Indigenous history and culture, and they’re approaching planning and production differently knowing that they’re genuinely incorporating that culture into forest management.”

Driving growth and sustainable change

As a long-term investor in global equity markets, we engage with public companies and use our ownership positions to promote better corporate governance and improve ESG practices. In this section, we present our fiscal year 2018 proxy voting and engagement statistics.

Proxy voting

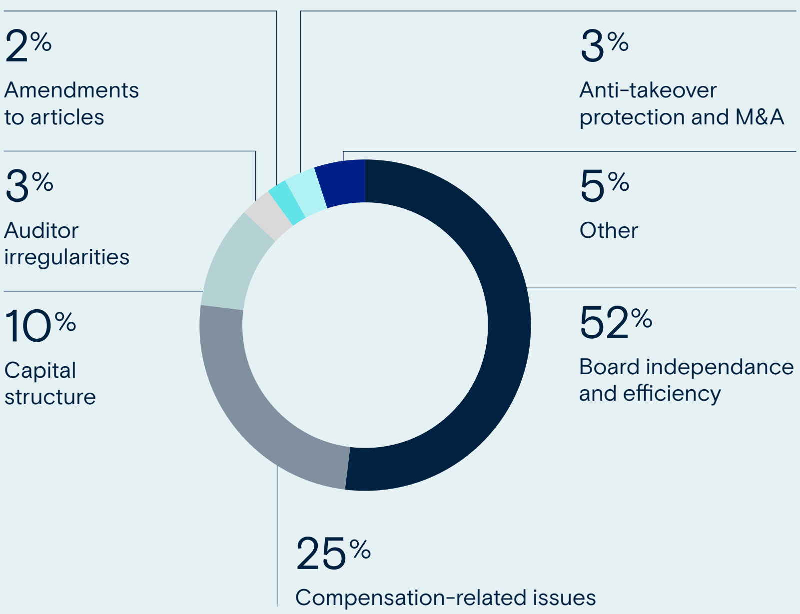
PSP strives to vote at all shareholders' meetings organized by companies in which we invest. Last year, we voted at 3,871 meetings for a total of 43,172 management and shareholder resolutions in all regions of the world.

We cast our votes in accordance with our Proxy Voting Guidelines (the "Guidelines"). We take a pragmatic approach when exercising our voting rights by considering local laws, prevailing governance practices and the circumstances of a company in the interpretation and application of the Guidelines.

While most voting occurs on relatively routine matters, some proposals require a significant amount of attention due to their sensitive nature or their high profile. For these proposals, we conduct enhanced analysis by reviewing meeting materials, engagement insights and other sources of information.

We use research provided by proxy advisory firms to access synthesized information and analysis in a concise and accessible format. We do not follow any single proxy advisor's voting recommendations. Proxy advisory firms are one of many data sources we use to make informed voting decisions. Learn more about our proxy voting activities at proxy voting activities.

We did not support management on 11% of the 41,834 management-proposed resolutions.



Votes against management by issue

In fiscal year 2018, we supported resolutions put forward by management in about 90% of cases. In instances where we voted against management, it was primarily for the following reasons:

Board independence and effectiveness: We did not support the re-election of directors where:

i. we had lost confidence in their ability to act in the best interests of shareholders;
ii. the board lacked independence;
iii. the candidates' commitments on multiple boards of directors compromised their ability to effectively discharge their duties; or
iv. there was a lack of diversity or board renewal.

Compensation: We did not support resolutions on executive compensation practices or approaches where pay was misaligned with the performance of the company. While we supported compensation of non-executive directors in the form of shares or deferred share units, we generally voted against arrangements providing stock options to non-executive directors as we believe this form of compensation is less efficient in aligning their interests with those of long-term shareholders.

Capital Structure: We did not support certain private placements or issuance of shares that were overly dilutive, priced at a significant discount to market price, or provided advantageous conditions to insiders and other related parties of a company.

Shareholder resolutions

Shareholder-initiated proxy proposals can be useful and relevant when addressing concerns and effecting change at companies that underperform or have poor environmental, social and governance practices. PSP reviews all shareholder proposals on a case-by-case basis. We generally support shareholder proposals that increase board accountability to shareholders and serve the company's financial interests, if they do not put excessive constraints on the company, its board or its management.

In fiscal year 2018, PSP voted on 1,338 shareholder proposals, and supported 56% of them.

Examples of shareholder proposals supported	Number of proposals supported	Rationale for supporting shareholder proposals
Proxy access	43	We supported the adoption of practices giving shareholders a meaningful say in the nomination of directors.
Compensation-related proposals	23	We voted in favour of proposals that enhanced executive compensation disclosure and further aligned the interests of executives with those of shareholders.
Report on sustainability and other environmental matters	56	We supported proposals that sought to increase board accountability to shareholders on sustainability and environmental matters.
Political contribution and lobbying reports	52	We encouraged full and transparent disclosure of company practices regarding political contributions and lobbying.
Independent Board Chair and separation of Chair and CEO	30	We supported proposals that strengthened independent board leadership and oversight of management.

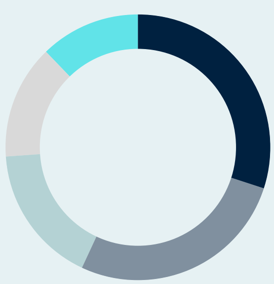
Engagement

We actively engage in direct dialogue with public companies to improve their ESG practices related to a wide range of issues, including pollution and waste management, health and safety, supply chain management, board independence and executive compensation.

Public companies are selected for engagement based on a process that takes into account factors such as our ability to create shareholder value, prospects for successful engagement and the relevance of ESG issues.

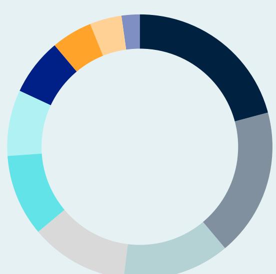
In fiscal year 2018, we engaged either directly, with the assistance of a service provider or in collaboration with like-minded investors, with 582 publicly listed companies whose securities we hold. These engagements were undertaken globally.

Learn more about our engagement activities at [engagement activities].



Companies engaged by country or region (as at March 31, 2018)

30%	Europe
27%	United States
17%	Asia, Australia & New Zealand
14%	Canada
12%	Emerging markets



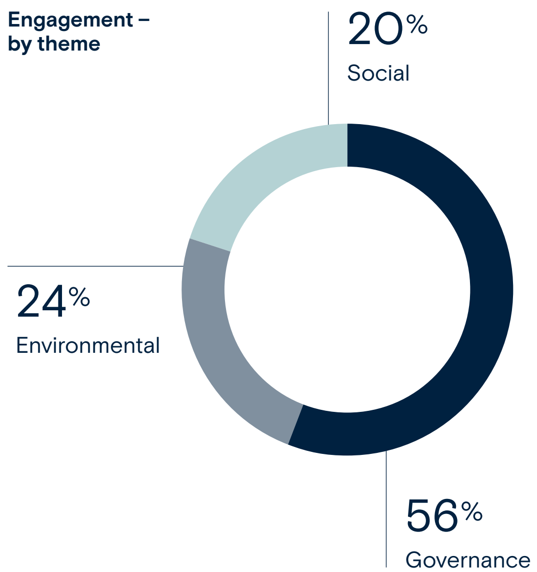
Companies engaged by industry (as at March 31, 2018)

21%	Consumer & retail
18%	Financial services
13%	Technology
12%	Oil & gas
10%	Industrial & capital goods
8%	Pharmaceuticals & healthcare
7%	Mining & materials
5%	Utilities
4%	Automotive
2%	Chemicals

Our engagements cover a wide range of ESG issues

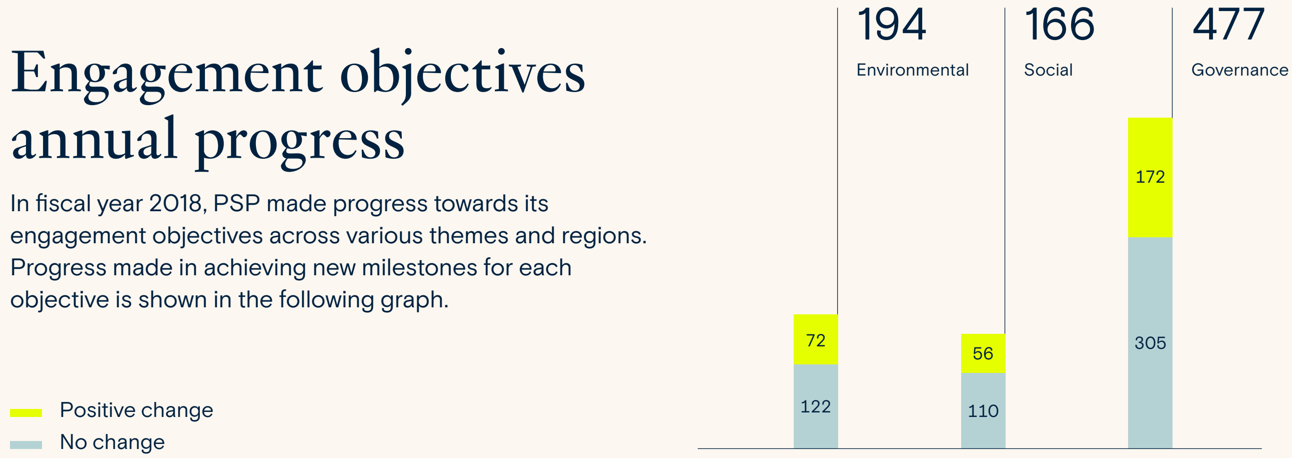
A breakdown of engagement activities by issue is shown below, together with examples for each category.

Theme	Examples of issues discussed
Governance	Director independence, majority voting, separation of Board Chair and CEO roles, succession planning, committee structures, performance-linked compensation, Say on Pay, and risk management (including bribery and corruption risk).
Social	Labour and community relations, health and safety, human rights and cybersecurity.
Environment	Climate change, water stress, biodiversity, forestry and land use, pollution and waste management.



Engagement objectives annual progress

In fiscal year 2018, PSP made progress towards its engagement objectives across various themes and regions. Progress made in achieving new milestones for each objective is shown in the following graph.



Looking ahead

As we look ahead to fiscal year 2019, these are the ESG themes that we will be important to us:

Diversity

With the view to strengthening the governance of companies in which we invest, we will continue our efforts to promote all forms of diversity at the board and executive levels through engagement and proxy voting. We will also continue to support initiatives that promote diversity, as well as board renewal.

Say on Pay

We will continue to support standards that promote shareholder rights such as Say on Pay. In particular, in Canada, we will maintain dialogue with securities regulators for the adoption of Say on Pay for all issuers listed on the Toronto Stock Exchange. We believe that Say on Pay is a positive engagement tool and more effective than not supporting the reelection of directors in light of compensation concerns.

Climate change

We will refine our climate change strategy by developing investment processes to make the portfolio more resilient to the impacts of climate change. We will also continue to encourage enhanced disclosure of climate-related risks by companies in which we invest.

Health and safety

We want to expand health and safety efforts to provide secure and safe environments for the workers employed in our private market portfolio companies. Health and safety will also remain an engagement theme for public companies.

Disclosure

We will remain focused on efforts to improve reporting and disclosure on environmental and social issues that are material to the companies in which we invest.

ESG best practices

We will continue to encourage our external managers and general partners to adopt best practices in ESG integration and reporting.

Corporate culture and conduct

We want to broaden our engagement activities to ensure that boards of directors provide strong leadership on corporate culture to foster respectful and harassment-free workplaces.

We are listening

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

— **responsible**investment@investpsp.ca

Business offices

MONTRÉAL
(main business office)
1250 René-Lévesque Boulevard West, Suite 1400
Montréal, Québec
Canada H3B 5E9
Phone: +1.514.937.2772

NEW YORK
450 Lexington Avenue, Suite 3750
New York, New York
U.S.A. 10017
Phone: +1.212.317.8879

LONDON
10 Bressenden Place, 8th floor
London, United Kingdom
SW1E 5DH
Phone: +44 20 37 39 51 00

Head office

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

info@investpsp.ca