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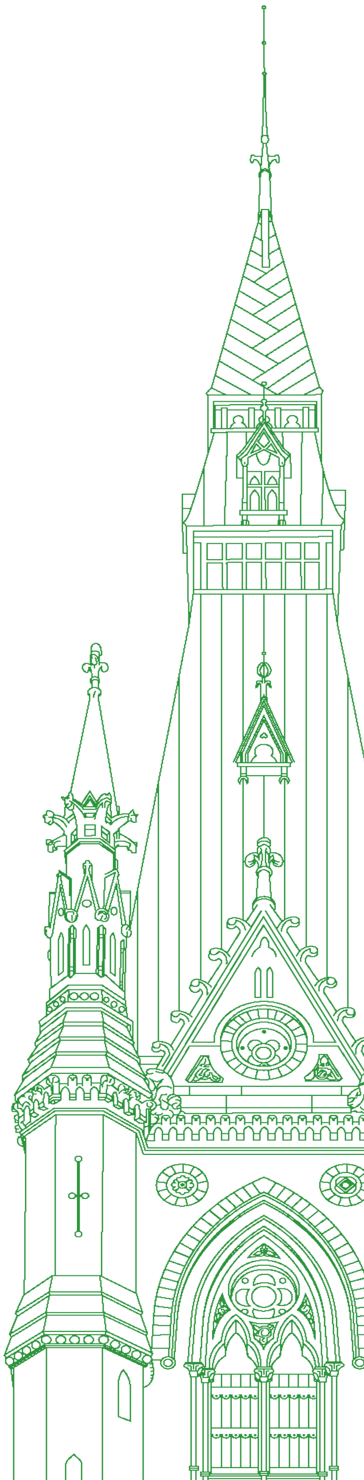

Chair: Mr. Tom Kmiec

Standing Committee on Public Accounts

Tuesday, February 15, 2022

• (1145)

[*English*]

The Vice-Chair (Ms. Jean Yip (Scarborough—Agincourt, Lib.)): I call this meeting to order. Welcome to meeting number six of the House of Commons Standing Committee on Public Accounts.

Pursuant to Standing Order 108(3)(g), the committee is meeting today to study "Report of the Joint Auditors to the Board of Directors of the Public Sector Pension Investment Board—Special Examination Report—2021" of the 2021 reports of the Auditor General of Canada.

Today's meeting is taking place in a hybrid format, pursuant to the House order of November 25, 2021. Members are attending in person in the room and remotely using the Zoom application. The proceedings will be made available via the House of Commons website. So you are aware, the website will always show the person speaking, rather than the entirety of the committee.

I would like to take this opportunity to remind all participants at this meeting that taking screenshots or photos of your screen is not permitted.

Given the ongoing pandemic situation and in light of the recommendations from health authorities, as well as the directive of the Board of Internal Economy on October 19, 2021, to remain healthy and safe, all those attending the meeting in person are to maintain two-metre physical distancing and must wear a non-medical mask when circulating in the room. It is highly recommended that the mask be worn at all times, including when people are seated. You must maintain proper hand hygiene by using the provided hand sanitizer at the room entrance.

As the chair, I will be enforcing these measures for the duration of the meeting. I thank members in advance for their co-operation.

Members and witnesses may speak in the official language of their choice. Interpretation services are available for this meeting. You have the choice at the bottom of your screen of floor, English or French. If the interpretation is lost, please inform me immediately, and we will ensure interpretation is properly restored before resuming the proceedings.

The "raise hand" feature at the bottom of the screen can be used at any time if you wish to speak or alert the chair.

For members participating in person, proceed as you usually would when the whole committee is meeting in person in a committee room. Keep in mind the Board of Internal Economy's guidelines for mask use and health protocols.

Before speaking, please wait until I recognize you by name. If you are on the video conference, please click on the microphone icon to unmute your mike. For those in the room, your microphone will be controlled as normal by the proceedings and verification officer. When speaking please speak slowly and clearly. When you are not speaking your mike should be on mute.

I remind everyone that all comments by members and witnesses should be addressed through the chair.

With regard to a speaking list, the committee clerk and I will do the best we can to maintain a consolidated order of speaking for all of the members, whether they are participating virtually or in person.

I would now like to welcome our witnesses.

Today we have, from the Office of the Auditor General, Andrew Hayes, deputy auditor general and Melanie Cabana, principal. With the folks from the Office of the Auditor General is Victoria Loutsiv, partner at Deloitte, who was involved with the audit. From the Public Sector Pension Investment Board, we have the chair of the board, Martin Glynn; Neil Cunningham, president and chief executive officer; and Jean-François Bureau, senior vice president and chief financial and risk officer.

You will have five minutes to make your opening statement.

I will go to deputy auditor general Mr. Hayes.

You have the floor.

• (1150)

Mr. Andrew Hayes (Deputy Auditor General, Office of the Auditor General): Madam Chair, thank you for this opportunity to discuss the results of our special examination of the Public Sector Pension Investment Board.

I want to start by acknowledging that this hearing is taking place on the traditional unceded territory of the Algonquin Anishinabe people.

I'm accompanied today by Mélanie Cabana, who led this audit on behalf of our office, and by Victoria Loutsiv, who is a partner with the accounting firm Deloitte. Our office and Deloitte are appointed joint auditors of this Crown corporation.

The Financial Administration Act requires that a special examination be carried out at least once every 10 years to assess whether a Crown corporation's systems and practices provide reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently and its operations are carried out effectively. We report a significant deficiency when, in our opinion, the corporation could be prevented from having such reasonable assurance.

The Public Sector Pension Investment Board plays a significant role of investing and managing contributions from the pension plans of the public service, the Canadian Armed Forces, the Royal Canadian Mounted Police and the reserve force. This special examination focused on selected corporate management practices and on the management of the corporation's investments and operations. I am pleased to report that the corporation had good systems and practices for managing its investments and operations. We found no significant deficiencies as a result of our audit work.

However, we noted potential for improvement in areas not related to the management of investments, such as performance measurement and performance monitoring and reporting. For example, the corporation had set several strategic objectives, but did not have targets for measuring progress against these objectives in areas that included talent management, diversity and inclusion. As a result, the corporation did not consistently report to the board of directors on some of these performance indicators. Without this information, it is difficult for the board to monitor the corporation's performance, and for management to track progress against strategic objectives and take corrective action as required.

[*Translation*]

We also noted that improvements were needed in risk mitigation and risk monitoring, and reporting. For example, the corporation lacked risk appetite metrics, thresholds, or limits for some significant non-investment risks in certain areas such as human resources planning. Without such thresholds and limits, management cannot make effective decisions to address these risks in line with the risk appetite statement approved by the board.

Our office has committed to assessing and reporting on the United Nations' Sustainable Development Goals across all our audit work, to support Canada's progress on this important international commitment.

During this audit, we noted that the corporation integrated environmental, social and governance considerations into its decision-making, and its investments indirectly addressed three of the United Nations' goals. There is an opportunity for the corporation to enhance its reporting on the sustainability of its investment activities to more clearly link to the Sustainable Development Goals.

The corporation agreed with our recommendations and prepared an action plan. As our audit work was completed in October 2020, I cannot comment on the corporation's progress in implementing its plan, but I expect the corporation's officials will be happy to update the committee.

This concludes my opening remarks. We would be pleased to answer any questions the committee may have.

Thank you.

● (1155)

[*English*]

The Vice-Chair (Ms. Jean Yip): Thank you, Mr. Hayes.

We will now go to Mr. Glynn. You have the floor.

Mr. Martin Glynn (Chair of the Board, Public Sector Pension Investment Board): Thank you very much.

Good morning. I'm pleased to appear before the committee today to discuss the results of the special examination of PSP Investments that was tabled at the end of 2021.

I would like to start by acknowledging that, since I'm in Vancouver, I am on the traditional unceded territory of the Coast Salish peoples.

I am accompanied virtually on this call today by PSP's CEO, Neil Cunningham, and its chief financial and risk officer, Jean-François Bureau.

The special examination was performed by PSP's joint auditors, the Office of the Auditor General of Canada and Deloitte. It considered whether PSP's systems and practices provided reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively. I am happy to report that this is the case and that no material deficiencies were found as part of this detailed and extensive audit exercise.

PSP is a Crown corporation that operates at arm's length from the Government of Canada. It was established in 1999 to invest the amounts transferred by the Government of Canada for the funding of the post-2000 obligations of the pension plans of the public service of Canada, the Canadian Forces, the RCMP and, since March 1, 2007, the reserve force pension plan. As of March 31, 2021, PSP's net assets under management were $205 billion.

PSP Investments' statutory mandate is to manage the funds in the best interests of the contributors and beneficiaries and to maximize investment returns without undue risk of loss, having regard to the funding, policies and requirements of the plans and their ability to meet their financial obligations. PSP's investment approach is designed to achieve the best possible alignment with the obligations of the pension plans. The government communicates its risk tolerance for the pension plans to PSP annually. Our task is to design and implement the most suitable investment strategy, taking into consideration the level of risk tolerance of the government while also maximizing returns and fulfilling the other requirements of our mandate.

One way to evaluate the success of our investment approach is to compare PSP's return with the return of a reference portfolio. A reference portfolio is an example of the returns an investor could achieve with a passive investment approach that reflects the government's risk tolerance. PSP's investment strategy is focused on the long term, in line with the long-term nature of the pension obligations, so we believe that comparisons with the reference portfolio are most useful when considered over a long-term horizon, such as a 10-year horizon.

Over the last 10 years, I'm proud to report PSP has achieved a return of 8.9%, which compares favourably with the 8.2% return of the reference portfolio. This additional 0.7%, representing close to $11.3 billion, represents the value added by PSP Investments' strategic decision to build a more diversified portfolio—called the policy portfolio, it includes less liquid assets—and to engage selectively in active management activities.

Let me now turn to the main focus of our appearance today, which is the result of the special examination. We were pleased that the auditors concluded that there were no significant or material deficiencies in the corporate management practices or management of the investment operations of PSP. The findings validate the diligent work of the board, management and our hard-working and dedicated employees to implement and maintain a comprehensive and effective risk governance framework.

The board oversees the business and affairs of the corporation, and PSP is accountable to Parliament for the tabling of its annual report. The special examination confirmed that PSP's board functions independently, provides strategic direction, has the capacity and competencies to fulfill its responsibilities and effectively carries out its oversight role. I feel privileged to have the opportunity to serve on the board of PSP with truly exceptional individuals who take great pride in serving their country and working diligently to ensure PSP's success in delivering the pension promise.

● (1200)

While all systems and practices were found by the auditors to meet established criteria, some areas of improvement were identified.

PSP has already implemented measures to address three of those areas. We have set and improved risk appetite metrics and thresholds for significant non-investment risks. We have completed compliance risk assessments to evaluate adherence to relevant regulations. We have established a solid and more frequent framework for reporting of regular and ad hoc risk areas to the board.

A fourth recommendation to ensure that strategic objectives are supported by measurable performance indicators is nearly fully implemented, with full implementation expected to be completed by the end of March 2022.

An action plan to implement the last recommendation—to develop and apply an enterprise-wide risk management framework for model risk—has been launched, with significant progress already having been made. The model governance framework currently in place for risk group models is being reviewed and adapted to include the chief investment officer group models. This recommendation is expected to be fully implemented by the end of the next fiscal year.

In conclusion, I would like to thank our auditors, the Office of the Auditor General and Deloitte for performing such a thorough and diligent examination.

The board of directors, management and employees of PSP all share the same objective, and that is to fulfill PSP's mandate to the very best of our abilities. While the recent pandemic has most certainly taken a physical and emotional toll, we're proud that we were able to stay focused on our investment mandate, our responsibilities to the contributors and beneficiaries and the health and well-being of our people.

Before I close, I would like to acknowledge the announcement yesterday of our—

The Vice-Chair (Ms. Jean Yip): I'm sorry, Mr. Glynn. We will now have to move on to questioning.

We will start our rounds of questioning, beginning with the official opposition for six minutes.

Mr. Lawrence, go ahead, please.

Mr. Philip Lawrence (Northumberland—Peterborough South, CPC): Thank you.

I'll yield the first little bit of my time, maybe a minute or so, and the witness can finish, if that's okay with him.

Mr. Martin Glynn: Yes. I'm 30 seconds away. I appreciate this.

I just wanted to say that yesterday there was an announcement of our CEO Neil Cunningham's planned retirement, the news of which was officially conveyed to the board last week. He has given us 13 months' notice so we can perform a proper external/internal search. After 19 years of service, he leaves PSP in excellent shape and performing very well.

We wish him well in his retirement.

That concludes my remarks. Thank you very much for the extra time.

Mr. Philip Lawrence: I'd like to start out by congratulating you, sir. In two years in public accounts, I don't know if I've seen an audit this clean. It's really great work. I'm sure it's a great relief, and an appreciation, to all those great public service workers out there that you are indeed doing your job, which is fantastic to hear.

In the report on page 2, we see that the five-year return was 5.8% and 8.5%.... I know your number is slightly different because you have slightly different dates. I assume that yours are more up to date than this.

You referenced a similar risk portfolio; I think that might be a fair way to characterize it. Would you happen to know or be able to get for me how your return would compare to, say, the indexes, like the TSX, the Dow, the NASDAQ, etc.?

Mr. Martin Glynn: Neil or J.F., do you want to answer that?

Mr. Jean-François Bureau (Senior Vice President and Chief Financial and Risk Officer, Public Sector Pension Investment Board): I can certainly comment on it. I'll use the March 31, 2021, results to give you a better idea.

We have the reference portfolio that is set by the government, but we also have a policy portfolio that we track, and it becomes our benchmark. In there, you have a series of benchmarks, like the S&P 500 and the TSX, etc., for public markets. For private markets, we have custom-made benchmarks that we track.

To use the same 10-year approach that Mr. Glynn used in his presentation, the total fund generated over 10 years approximately 1.1% above the benchmark, for a total of almost $13 billion, so clearly, based on our own internal benchmark, we're performing slightly better than against the reference portfolio set by the government.

● (1205)

Mr. Philip Lawrence: Once again, well done. Congratulations on that.

One of the few minor deficiencies, I guess they would be called, that the auditor did come up with was the lack of metrics respecting non-investment risks. One was with respect to global branding. I didn't quite understand the importance of global branding for this pension fund, but perhaps you could explain that to me and why you were deficient and what you're doing to fix it.

Mr. Jean-François Bureau: The comment refers to our initial strategic plan. That was a five-year plan which was set almost seven years ago now. At the time, one strategy was to expand the global branding of PSP.

The idea was to benefit from a better relationship with global partners and to make sure that PSP had access to the best investments possible around the world. We wanted to be better known and better recognized. One thing we did at the time to achieve that was to open an office in New York and also one in London. About two years later—and I may be off on my timing here—we also opened a smaller office in Hong Kong.

Mr. Philip Lawrence: Thank you for that.

One thing that comes across quite clearly from both the Financial Administration Act and the audit is that your mandate is fairly specific. I'm sure there are some nuances, but it's to generate the best possible rate of return at the minimum amount of risk going forward.

In this audit, I did see a bit of mission creep. This is as much a comment as anything, but I would encourage you to stay on mission. There are, of course, tens of thousands of public service workers who are depending on you going forward.

I'd make that comment and then I'd say that we have been in a bull market for a long while. I think it's one of the longest bull markets in history. At the end of every bull there is a bear. How are you preparing the pension fund to tolerate a bear market?

Mr. Neil Cunningham (President and Chief Executive Officer, Public Sector Pension Investment Board): I'll take this. Thank you for the question.

Our portfolio is designed for long-term performance, which means that we have different aspects of the portfolio construction. J.F. described some of the asset classes that we're in, both public and private. The intention is to add as much diversification as we can so that over the long term the portfolio can handle the ups and downs that inevitably come from market activity.

Right now only 30% of our assets are in publicly traded equities. The other 20% is in fixed income and roughly 50% is in various public markets investments that have different characteristics and correlations, if I can use that word, to what happens in the public markets. All of this is designed to protect in the long term, remove volatility to the extent that we can and to provide cashflow on a constant basis.

We did make an adjustment to the portfolio last year when we started worrying more about inflation than we have in the past. That was to make some slight adjustments to add a portion of our infrastructure portfolio related specifically to high inflation correlated assets. We also added some allocation to our private credit business, which typically is investing in floating rate debt that will move with the market.

These are significant for us, but we're not making dramatic swings ever because the long-term nature of the portfolio construction is most important.

The Vice-Chair (Ms. Jean Yip): Thank you, Mr. Cunningham.

We now move to Mr. Dong for six minutes.

Mr. Han Dong (Don Valley North, Lib.): Thank you very much, Madam Chair.

I want to thank all the witnesses for joining us today.

I always knew that PSP was quite large, but it wasn't until I read the report.... It's actually enormous. As of March 31, 2020, it's $169.8 billion. I count eight zeroes following the eight. It's quite sizable.

For the public who are watching, that's a pension contributed to by the public service, the armed forces, the RCMP and reserve forces. You can see the importance of the health of this pension.

My question is for Deputy Auditor General Hayes. How does PSP's performance compare to other large pension funds in Canada?

● (1210)

Mr. Andrew Hayes: Thank you for the question.

I think this might be one that the management at PSP might be best able to answer. Our focus is really on looking at systems and practices and making sure that they provide the corporation with reasonable assurance that their assets are protected.

I'll leave the answer to Mr. Glynn.

Mr. Han Dong: Sure.

Mr. Martin Glynn: Neil, why don't you take this?

Mr. Neil Cunningham: I'll start and J.-F. might want to add something at the end.

One of the things that is really important to always remember about PSP is that our investments mirror the risk appetite that is given to us from TBS, and it's reflected in the reference portfolio that Jean-François referred to earlier. Our reference portfolio is comprised of 59% equities and 41% fixed income. It's a theoretical mix of equities and fixed income on a passive basis.

The other organization that uses a similar approach is the Canada pension plan, which has an 85% equity and 15% fixed-income asset mix. That is fully reflective of the risk appetite that our sponsor, the Government of Canada, Treasury Board, is willing to take.

What it means is that to do a direct comparison between our results and that of CPPIB, or even one of the other pension funds that have different mandates, different liability profiles, different maturities, is an apples-to-oranges comparison. It's the reason we use measures such as the reference portfolio to say, if we were totally passive, maintaining the risk appetite that's given to us—a very similar process to what your own broker would do when they ask you about your own risk appetite—how do we do relative to that? In other words, what's our return while maintaining our diligence on the risk appetite that we're given?

Notwithstanding that, we do some benchmarking. J.-F. might want to get into that a bit, but just a little bit for time's sake.

Mr. Han Dong: There is limited time, but I get the idea. Thank you very much.

Going back to Deputy AG Hayes, in your opinion, how did the governance and board of PSP perform?

I know there's no large deficiency. Could you quickly give us an overview?

Mr. Andrew Hayes: That's right. You've covered the overall conclusion. The corporation has reasonable assurance that the board is operating well. We did identify a few areas that management could improve on in order to increase the information that the board receives so that it can follow the progress being made towards strategic objectives and targets and all that, but overall we did not identify any significant deficiencies in the board and management.

Mr. Han Dong: Your audit encourages PSPIB to integrate to sustainable development goals. Can you please explain how you have seen this done elsewhere and what kind of impact there would be for PSPIB?

Mr. Andrew Hayes: Sure. The sustainable development goals, of course, are a major focus for our office and we do see the integration of these goals, targets and strategies in a number of Crown corporations. It's becoming more prevalent. The importance of these for a given corporation will depend on the nature of their mandate and given the investment mandate of PSPIB and the influence that it can have on the achievement of sustainable development goals. We suggested that this could be a lens through which it can look at some of their activities.

In addition, it provides an opportunity for PSPIB to show how the work it does contributes to the government's achievement of its commitment to the UN SDGs.

Mr. Han Dong: That's good.

Going back to the last special examination in 2011, has the PSP board implemented all the recommendations offered by the AG's office?

Mr. Andrew Hayes: Yes, we found that they did implement our recommendations. There were two areas in the report where we identified there were improvements made but maybe a little more space for improvement.

I might ask Mélanie Cabana or Victoria Loutsiv if they want to add to that.

● (1215)

Ms. Mélanie Cabana (Principal, Office of the Auditor General): I can take it on.

One of the areas was related to, in the past, when PSP was more focused on reporting on accomplishment of tasks and not as much on progress on the objectives. We did see an improvement there. Now I guess some fine tuning is necessary to actually specify measurable targets for the non-investment risks, but before, it was more prevalent.

The other area where we've seen some improvement was—

The Vice-Chair (Ms. Jean Yip): Thank you.

Mr. Han Dong: Thank you.

The Vice-Chair (Ms. Jean Yip): We will now move to Ms. Sinclair-Desgagné, please, for six minutes.

[*Translation*]

Ms. Nathalie Sinclair-Desgagné (Terrebonne, BQ): Thank you, Madam Chair.

I'd like to thank the witnesses very much for being with us today. It's a pleasure to welcome representatives from the Public Sector Pension Investment Board, or PSP Investments, which has offices here, in Montreal.

To follow up on my colleagues' comments, I would like to commend the very strong performance that has been achieved in the past year, which offsets a perhaps lesser performance in previous years. However, the mandate of PSP Investments is also combined with the financial and economic stability of the Canadian economy.

PSP Investments is a Crown corporation and has a duty to lead and apply international best practices in all areas. The audit report confirmed that this was the case both in terms of governance—I congratulate it—and in terms of financial risks. However, with respect to environmental risks, the report mentions, among other things, that there is room for improvement.

Let me explain. The Bank of Canada, another major, neutral crown corporation, just released a report a month ago pointing out that the Canadian economy is being compromised by investments in the oil sector. In the report entitled “Assessing climate change risks to our financial system”, the authors do not mince words. It states that if we don't do more to pull our investments out of the oil sector, the Canadian economy is in jeopardy.

Therefore, beyond this report from the Bank of Canada, we note that PSP Investments is not a signatory to the commitment made by the Net Zero Asset Owner Alliance, unlike its peers, such as the Mouvement Desjardins and the Caisse de dépôt et placement du Québec, or CDPQ. PSP Investments' invested and reported assets in sustainability sectors are found to be 6% compared to its peers, 9% at CDPQ, and 11% with respect to the Canada pension plan.

My question is for one of the officials from PSP Investments.

I was a little surprised to see that the long-term goals Mr. Glynn mentioned are only for the next 10 years, given that a retirement now lasts 30 years.

Why isn't PSP Investments doing more to be a leader and to have the best environmental practices?

Mr. Neil Cunningham: Thank you for the question, Ms. Sinclair-Desgagné.

[*English*]

It's an interesting question, because what we've discovered over the last year, and we spent a great deal of time on exactly this point over the last year, is that we at PSP were doing a great deal with respect to climate awareness, investing in positive climate change investments, but we weren't keeping score as well as we could have. We've undertaken in the last short period of time to do exactly that.

I can describe our approach. At the first level it's ensuring the safety of our assets from physical climate change. That was something we'd been doing for years. We have a responsible investment team that sits on every one of our investment committees for private investments.

It's twofold with respect to engagement. We work primarily with public companies working with other similar investors to have them improve their practices, improve their transparency, improve their disclosure. We've had some pretty significant improvements in that regard.

On the physical assets, we are on the verge of releasing our climate investment strategy. I wish I could do it today. It's not public yet, but it will be released in the next few weeks. What you'll see is that we have a commitment to multi-faceted approaches. We call it the pathway to net zero. We're committed to global net zero in general. You may have noticed just yesterday that we issued our framework for our first green bond issue, which will hopefully happen this week. We have a commitment to grow our green assets and our transition assets, all with the intention of removing carbon from the world.

● (1220)

[*Translation*]

Ms. Nathalie Sinclair-Desgagné: Thank you very much, Mr. Cunningham.

Does that mean that you'll be publishing the targeted quota very soon and that you've made a commitment to net-zero emissions?

[*English*]

Mr. Neil Cunningham: We have targets, yes, but not a disinvestment program. The reason for not having a disinvestment program—it's very similar to what John Graham at CPPIB said yesterday—is that our commitment is to remove carbon. We can divest and make our own portfolio look greener, but it doesn't do anything to remove carbon from the environment. Whoever buys it continues on.

Our commitment is, through either advocacy or cash dollar investment, to assist companies to migrate to a cleaner activity. That's not just oil and gas. There are a number of other industries, many of which are important in Canada, where capital is required in order to allow them to shift from what they're doing and invest money to get greener. That, to us, is a better way, or a complementary way, to simply divesting.

[*Translation*]

Ms. Nathalie Sinclair-Desgagné: You're right, it's necessary. But have you—

[*English*]

The Vice-Chair (Ms. Jean Yip): Thank you.

We will now move to Mr. Desjarlais for six minutes.

Mr. Blake Desjarlais (Edmonton Griesbach, NDP): Thank you very much, Madam Chair.

I want to begin by thanking the witnesses who are present today for their service.

I was pleased to see, in the Auditor General's report, a very good audit. Congratulations to all of those who participated in ensuring our public corporations are accountable and transparent and have good governance.

I also want to mention—it was one of the earlier witnesses, but I don't recall who.... Mr. Cunningham, I believe it's you who's retiring in 13 months. Congratulations. Thank you for your service as well.

I want to turn to one aspect of the report that the Auditor General pointed to. Maybe this is best suited for Mr. Cunningham.

According to the Auditor General's report, there was a strategic direction related to the prioritization of diversity inclusion. Part of that was implemented within the strategic direction of the corporation and had particular performance indicators, but there were no specific targets to measure whether that objective would be achieved.

I am wondering if you could speak to how those performance indicators were intended to guide the work of the corporation. The second part of my question is, when will the new performance indicators be in place for this strategic objective?

Mr. Neil Cunningham: I'll say the equity, inclusion and diversity, EI and D, has been a hugely important aspect of what we do at the organization over the last several years. I co-chair our EI and D committee along with our head of HR. The focus on equity, inclusion and diversity is immense. The intention is to have it ingrained in the fabric of the organization and not as something that's done on the side. We're making great strides in getting there.

With respect to your question, specifically, we used to report to the board on an annual basis on the gaps that we had compared to the market in the four areas where we are specifically required to report under the Employment Equity Act. Those four groups are women, aboriginal peoples, persons with disabilities and members of visible minorities. Since November 2021, we've expanded that fairly significantly. We now present a full EI and D report to our board of directors that contains our ambition level, benchmark and progress. It also tracks several other metrics, such as senior leadership diversity, succession diversity, promotion diversity, external hires diversity, etc.

We took that comment very seriously. We have a number of other measures I didn't mention there.

● (1225)

Mr. Blake Desjarlais: Thank you very much for that, Mr. Cunningham.

To further elaborate on that and to confirm, you're saying that just recently your work included a renewed version in 2021 of some of these indicators. Is that correct?

Mr. Neil Cunningham: That's correct.

Mr. Blake Desjarlais: As part of those indicators you mentioned, there's likely some kind of inheritance from the former structure related to it. You probably kept women, aboriginal people or indigenous people and other minority groups, visible minorities, in particular. Was there any mention, particularly in the equity piece, related to the 2SLGBTQ community?

Mr. Neil Cunningham: Most definitely we have LGBTQ. We have veterans. We distinguish by multi-generational background and by educational background, as well as ethnicity. It truly is multi-faceted, to capture as much as we can.

Our EI and D council, which is made up of roughly a hundred employees, all on a volunteer basis, have split themselves into eight diversity groups, and each has different activities that they do to promote understanding and information. We do a lot of work with Black Lives Matter. Last year, we had a panel that was entitled.... I can't remember the name of it, but it was several of our Black employees speaking on a panel, largely about education and breaking down the unconscious biases, which we all acknowledge we have, in order to move forward in all of our inclusion and diversity targets.

Mr. Blake Desjarlais: Thank you, Mr. Cunningham.

As it relates to that last portion, when will this current framework be renewed for diversity and inclusion, and what does the review process look like? Will it be reporting to the board?

Mr. Neil Cunningham: It reports to the board on a constant basis. It's a new structure, if you like. We talk about it in our responsible investing report. I think you'll see a renewed focus on it in our annual report or our responsible investing report when we next publish them.

Mr. Blake Desjarlais: Chair, what's the time remaining?

The Vice-Chair (Ms. Jean Yip): You have 30 seconds left.

Mr. Blake Desjarlais: Perfect.

The most recent indicators were put in place in 2021. When will the next cycle be, and when can the board expect a review of the existing successes, or maybe not successes, of the existing framework?

Mr. Neil Cunningham: We report at least annually, but we talk about EI and D on a quarterly basis, when the board meets.

Mr. Blake Desjarlais: Are you saying there won't be a need for performance indicators on diversity and inclusion for now?

Mr. Neil Cunningham: Well, achievement of target will occur over time, so until we achieve the targets we have, we're not updating them. We look at them every year, of course, to make sure they're still relevant and how we're doing against them.

The Vice-Chair (Ms. Jean Yip): Thank you.

We are now ready to move to the second round of questioning for five minutes.

Mr. Cooper, go ahead, please.

Mr. Michael Cooper (St. Albert—Edmonton, CPC): Thank you very much, Madam Chair.

I will direct my questions to the PSP witnesses, whoever wishes to answer.

On page 2 of the report, it notes that there are PSP assets in which your investments are across 85 countries. There have been significant concerns raised about Canadian pension fund investment in Chinese state companies and Chinese state banks that have been complicit and have helped to facilitate egregious human rights abuses, including the ongoing genocide against Uighur Muslims and other very serious human rights abuses.

I would ask whoever wishes to answer to speak to PSP's investments in Chinese state enterprises and Chinese state-controlled banks.

● (1230)

Mr. Neil Cunningham: I can confirm that we don't have any investments in state-owned enterprises in China. I can refer to J.F. with respect to the Chinese banks. I don't believe we have any investments there.

One of the challenges we face as global investors is that very often we invest in indexes because we can't get the diversified risks we're looking for from direct investing. It often happens that there will be companies in indexes, and we—it's not inadvertently—automatically pick up that exposure on a completely passive basis when investing in that index in order to capture that risk-return.

It's not our practice to exclude...other than anything that is specifically excluded or on a sanctions list, or other such exclusions which would be automatic.

J.F., do you have anything you want to add to that?

Mr. Jean-François Bureau: No. You're absolutely correct, Neil.

If anything, that wouldn't be material for PSP if ever included in the index.

Mr. Michael Cooper: Okay.

So you could then confirm, at least in terms of any direct investments as far as the U.S. PLA list is concerned—which has, I think, at last count, 59 entities—that there is no direct investment from PSP in any of those sanctioned enterprises.

Mr. Neil Cunningham: That would be correct.

Mr. Michael Cooper: You talked about indexes. Certainly, MSCI indexes are state-owned or state-directed enterprises. Many Chinese companies are included in these MSCI indexes. Essentially, what is your board doing to guard against funding or in any way supporting the very serious human rights concerns in China today?

Mr. Neil Cunningham: I think it's a technical question on whether something on the sanctions list could be included in the MSCI index. My understanding is that they would not be, but I'm not 100% sure what the process is there to keep them out of the index.

Mr. Michael Cooper: Is anyone else able to address the MSCI index?

Mr. Jean-François Bureau: If there was a restriction issued by the Canadian government, it would be respected and excluded from the index.

Mr. Michael Cooper: Okay.

Thank you. Those are my questions.

The Vice-Chair (Ms. Jean Yip): Thank you.

Ms. Shanahan, you have five minutes, please.

Mrs. Brenda Shanahan (Châteauguay—Lacolle, Lib.): Thank you very much, Chair.

I thank all the witnesses for being here this morning.

I'd like to thank you in particular, Mr. Cunningham. I don't know if this is the first time you have appeared before a parliamentary committee, but I guess one's career in public service would not be complete without doing so. Thank you very much for being here.

I want to follow up on an earlier line of questioning regarding risk in the portfolio. I can appreciate greatly that the checkmarks are there, and that the risk mitigation is in place and needs some fine tuning, but it's the risks that we don't take into account that are the most problematic.

Full disclosure: I was in client-facing investment counselling work in the 2000s. You'll recall ABCP, asset-backed commercial paper. I was at the McGill pension office at the time, and that was a big shock to all of us. Of course, we all considered it AAA. It was not.

What I'm getting to are things like stranded assets. Mr. Carney talks about that in his book. I think my colleague from the Bloc referenced it as well. They're assets that, because of climate change, have become either unusable or uninsurable or whatever. That represents a significant risk to the portfolio.

Can you talk to us about how you're identifying this risk in your portfolio?

● (1235)

Mr. Neil Cunningham: Thank you for the question. I can tell you that J-F can give you chapter and verse on the ABCP, because he was very much involved in that.

Specific to your question on how we protect against stranded assets, I'd say it's a financial filter that one puts on an investment when you're making it and when you're doing your analysis of the potential investment. By financial filter, I mean you would look at an asset to see not just what kind of cash flow you expect to get from this asset over your holding period, but also what your exit is going to look like, who the buyers will be and what you think the exit price might be. That's when you really get into the stranded asset issue.

Let's take the extreme example of a coal mine. If you were looking to invest in a coal mine, you might get a great return over a period of time, but at the end of your holding period, it may have a zero value. It may even have a negative value if you have to remediate the hole in the ground.

We take that into account in doing the full assessment of the asset. We find that we just become non-buyers or non-investors of things where we can identify a potential for it to become a stranded asset either for us or for the next buyer, who we think wouldn't pay value for it.

Mrs. Brenda Shanahan: Thank you very much for that, because the costs, of course, of cleaning up environmental damage are astronomical. I think all of us know of a case in particular even in our own regions.

Moving on from there, the PIB has been calculating its portfolio's carbon emissions since 2017.

Have you reduced your weighted carbon intensity?

Mr. Neil Cunningham: We have.

Mrs. Brenda Shanahan: Yes, okay.

Mr. Neil Cunningham: It may take me a minute to find the specific reference in my notes, but since we started measuring it in 2016 or 2017 to 2021, the reduction in the emissions is in the magnitude of 20%, but we'll get the exact number for you. I think J.-F. is looking at the notes right now. It's also continuing to reduce over time.

Mrs. Brenda Shanahan: That's very much appreciated.

I'd just like to get your views, Mr. Cunningham, especially as you will be leaving us.

What are your views on the government's policy that requires climate-related financial disclosures in the development of net-zero plans for federally regulated institutions, including financial institutions, pension funds and government agencies? Could you give us your views on that policy?

Mr. Neil Cunningham: We are very strongly in favour of all policies towards disclosure of exposures. We made a joint statement with the other—we call ourselves the "Maple Eight"—big Canadian pension plans, roughly a year ago, strongly encouraging all issuers to be aligned with TCFD standards and disclosure standards.

I really don't think I should be commenting on public policy with respect to government Crown corporations and whether that's an appropriate policy or not. I don't think it's up to me or PSP to opine on that.

The Vice-Chair (Ms. Jean Yip): Thank you.

We move to Ms. Sinclair-Desgagné for two and a half minutes.

[*Translation*]

Ms. Nathalie Sinclair-Desgagné: Thank you, Madam Chair.

Mr. Cunningham, you were saying that one of the ways to facilitate the transition to climate change mitigation is to help companies redirect their operations.

My question is very simple, and I'd like a brief response given the little time I have.

Knowing that the businesses you fund are subsidized by public funds, do you think you're going to hold them accountable and check that the money they receive is actually being used to facilitate this transition?

● (1240)

[*English*]

Mr. Neil Cunningham: I'm not sure I fully understood your question, but I will say that, as far as investing in companies to transition to a greener economy is concerned, it's pretty early days for us, and we're taking the lead from others, including Mr. Carney and the work he's doing at Brookfield, and others in terms of learning what is the best way to do this.

I hope that answered your question. I don't have metrics.

[*Translation*]

Ms. Nathalie Sinclair-Desgagné: My question was really about accountability. It's important to ensure that our assets, once invested, are well properly and that the carbon footprint is well recorded.

In terms of measures, I read in the annual report that the Scope 3 parameter on greenhouse gas emissions was not included in the greenhouse gas emissions report.

Once those assets are invested, it's important to ensure that they are used to facilitate the transition.

[*English*]

Mr. Neil Cunningham: My apologies for not understanding earlier.

I will say that there will be measures when we invest in a transitional asset. When I said it's early days, it's because we haven't done it yet, but that use of proceeds that you're talking about is extremely important. In fact, when we invest in a climate change envelope, the use of proceeds will probably be the most important aspect of whether we make the investment in those transitions.

[*Translation*]

Ms. Nathalie Sinclair-Desgagné: Thank you.

I would now like to come back to the question asked by my colleague Ms. Shanahan—

[*English*]

The Vice-Chair (Ms. Jean Yip): I'm sorry, Ms. Sinclair-Desgagné, the time is up, and we move to Mr. Desjarlais.

Mr. Blake Desjarlais: Thank you, Madam Chair.

I want to address this next question to Mr. Hayes, the deputy auditor general.

The report that was outlined talked about the lack of targets for inclusion, equity and diversity within PSP. We just heard from Mr. Cunningham that there were, in fact, some performance indicators or targets.

Can you just describe for me what the report published by the Auditor General states is the issue, exactly, related to how we measure or hold accountable that framework?

Mr. Andrew Hayes: Thank you.

In simple terms, they have strategic objectives to achieve. The issue we brought forward was that the targets should be more precise, specific or measurable.

What you might have heard from Mr. Cunningham—and he may be able to elaborate here—is that since the work that we have reported on, some action has been taken. We can't speak to the action that has been taken. That might be something we would look at when we go in next for either our financial audit work that's coming up or are planning later in the fall.

Mr. Cunningham might be able to add some colour there.

Mr. Blake Desjarlais: Thank you very much.

Mr. Cunningham, could you respond directly to whether or not what the Auditor General's report is stating related to the lack of clarity on targets has been achieved by the new plan? What are those targets?

Mr. Neil Cunningham: Sure.

Not to sound flippant, but we take the OAG's recommendations very seriously. When this came up in the audit we said that we need to have some more specific targets. We do and that's what we reported in November. Every November we'll update the targets and report to our board of directors on progress.

Mr. Blake Desjarlais: To be clear, are they currently in place as of that date?

Mr. Neil Cunningham: They are.

Mr. Blake Desjarlais: Will the next review period for the board be—in April?

Mr. Neil Cunningham: Officially, it's in November. This will be an annual process.

Mr. Blake Desjarlais: Excellent.

I will follow up on that for the indicators themselves. Is the process that the board reviews the work of the internal group, which comprises folks internal to the corporation, including yourself who is a co-chair of the existing system?

The Vice-Chair (Ms. Jean Yip): Give a short answer, please.

Mr. Neil Cunningham: Not quite.

We have the EI and D council of 100 employees, which is really educational for the whole organization. Then we have our human resources team who tracks the achievement of the various diversity targets and initiatives.

It's the latter that reports to the board.

● (1245)

The Vice-Chair (Ms. Jean Yip): Thank you.

We'll go to Ms. Bradford for five minutes, please.

Ms. Valerie Bradford (Kitchener South—Hespeler, Lib.): I would like to thank our witnesses for coming before us today. I congratulate you on a lovely, clean audit and great returns with low risk. As a former financial planner, I find this very reassuring.

I would also like to congratulate Mr. Cunningham on your pending, well-deserved retirement. After 19 years that's practically a life sentence. I think we can all be grateful that you did not escape early for good performance. I wish you all the best in your retirement.

This is directed to the PSPIB. It operates at arm's length from the federal government. It's not part of the federal public administration. It makes its own investment decisions. How does that ownership structure help you achieve your mandate?

I'm not sure which one of the witnesses would like to address that.

Mr. Martin Glynn: I'll take that. It's Martin Glynn here. I'm the chair.

Yes, we have a very arm's-length relationship with the government, but a very good one. We have a number of mechanisms to make sure that we're on track respecting and understanding their risk appetite. We liaise with the chief actuary and many other parties.

From a point of view of independence, we have our own board of directors. There's an independent nominating committee that nominates new ones, with a search firm that assists. The result is that we have excellent candidates who are all competent and financially expert. It allows for a very high level of governance at the board.

That's essentially how we operate. It's a high-water mark of how boards in the public sector can relate.

We're very pleased with our structure, and with the co-operative and supportive nature of our relationship with TBS and the other ministries.

Ms. Valerie Bradford: The fund's long-term target rate of return is at least 4%, and you've comfortably exceeded that, so what happens to the delta? In other words, what impact does exceeding that target have on members and the government? Would the contribution rates possibly be lowered temporarily in the future?

What are your thoughts on that?

Mr. Neil Cunningham: Do you want me to take that, Martin?

Mr. Martin Glynn: Please do.

Mr. Neil Cunningham: Written into the rules is the concept of a non-permitted surplus, which is now at 125% of the long-term funding requirement for the firm. If we were to exceed that 125% funding, there are mechanisms that kick in. The time doesn't allow me to go through all of them, but basically there's the possibility of a contribution holiday or other action that the minister has the final word on regarding what action would be taken.

Ms. Valerie Bradford: Thank you.

I will address the next couple of questions to the deputy auditor general.

According to your report, PSP investments had a procedure for validating the models used to value its financial instruments and measure the associated risk, but this procedure did not include a model risk assessment methodology or other model risk management procedures.

Can you explain in greater detail the nature of the problem identified and the measures that should be taken?

Mr. Andrew Hayes: I'm going to start with some high-level answers to that, then I might turn Madam Cabana or Ms. Loutsiv to expand.

What we found—and we reported this in paragraphs 30 and 31—was there was work to be done to set the procedures for risk assessment and to identify how the procedures for model development, ownership and maintenance, independent validation, monitoring and reporting would be done. It's not to say that they don't have a model validation procedure; it's just that there were improvements that could be made in these areas and we felt that with improvements in these areas, there could be consistency across the corporations, business units and investment units.

Ms. Cabana, would you like to add to that?

● (1250)

Ms. Mélanie Cabana: I can give some examples to put it more concretely for you. One of the areas where we think it should be strengthened was, for example, when we say the model risk assessment methodology is to help classify the different models, because they're not equally critical. Also, it should define and clarify ownership, so who has the ownership of the models.

The procedure was there; it just needed some enhancement, because the model is very important for PSP.

The Vice-Chair (Ms. Jean Yip): Thank you.

We now move to Mr. Bragdon for five minutes, please.

Mr. Richard Bragdon (Tobique—Mactaquac, CPC): Thank you, Madam Chair.

Thank you to each of the presenters today for the great work that you've done and the good reports coming out as they relate to the pension and the funds. How we wish that all statements and reports had these kinds of returns and growth projections. I want to commend you on that.

Mr. Cunningham, I believe it is you who is moving toward retirement. All that usually means is a new chapter begins, and you'll probably even get busier. It seems that way with a lot of people who move into that next chapter. Congratulations on a successful career.

I have a couple of questions I'd like to start off with. I believe I'll start with you, Mr. Hayes, or you can direct it where you wish.

With respect to corporate risk management, you found that PSP investments had not fully implemented a risk-based compliance program. Can you explain what a risk-based compliance program is? To follow up on that, what facets of the compliance program were not implemented by PSP investments?

Mr. Andrew Hayes: I'll start with describing a risk-based compliance program, and then maybe Ms. Cabana can add to this.

What we would expect is that the corporation would have taken an inventory of the various legal instruments, whether it's laws, policies, regulations, directives, etc., that apply to them. Ultimately, there would be an assessment of whether or not the responsibilities are well understood for who owns that, risk mitigation assessments, the implementation policies and practices and ultimately reporting to the board on the carrying out of this function.

Ms. Cabana might be able to give you some specifics as to what we have seen, but, ultimately, having this information gives the board an understanding of how the corporation is addressing compliance risks.

Ms. Mélanie Cabana: I can maybe add one thing. What we noticed during our audit is that the assessment had started through the different asset classes, so the different business lines. It was not completed. That was the purpose of our recommendation, to make sure this gets completed.

Mr. Richard Bragdon: Good. Thank you.

According to your report, PSP investments had a procedure for validating the models used to value its financial instruments and measure the associated risk, but this procedure did not include a model risk assessment methodology or other model risk management procedures.

Can you explain in greater detail the nature of the problem identified and the measures that should be taken to correct it?

Mr. Andrew Hayes: I will again leave that question to Ms. Cabana or Ms. Loutsiv, if they want to add to that.

Ms. Mélanie Cabana: Victoria, do you want to go?

Ms. Victoria Loutsiv (Partner, Deloitte): Yes, thank you.

During the time of the examination we confirmed that the procedure was in place and that procedures specifically addressed the requirements for model validations. However, we found that the procedure did not include risk assessment methodology that would enable classification and assessment of criticality and materiality of the models.

We determined that was an important documentation observation, and we included that in our observation.

Mr. Richard Bragdon: I have one more in this segment.

How important is model risk validation for valuing financial instruments in measuring the associated risk?

Ms. Victoria Loutsiv: It's fairly important. It's a good governance process.

What we have confirmed through a special examination assessment is that a model validation process is in place. It's conducted by a risk management group, and all models that are critical material are subject to model validation, which is independent verification.

● (1255)

Mr. Richard Bragdon: Thank you.

I have one quick question here for the public sector in regard to the aspect of pension investment, perhaps for you, Mr. Glynn.

You mentioned a reference portfolio as a measure of how well your portfolio is performing. Is this reference portfolio constructed by your organization or by a third party?

Mr. Martin Glynn: I think I'll allow Neil to answer that.

Mr. Neil Cunningham: Sure. It's given to us by Treasury Board.

Mr. Richard Bragdon: Okay. How do you construct or select this reference portfolio, or is that done totally through them?

Mr. Neil Cunningham: It's done totally by them, and it is meant to reflect their view of the risk that they are willing for us to take, which I guess is the best way of describing it. It comes in the form of three or four categories of public equities and categories of fixed income, which are domestic and global, with specific percentages attached to it.

Mr. Richard Bragdon: Thank you very much.

Those are all the questions I have, Madam Chair.

The Vice-Chair (Ms. Jean Yip): Thank you.

Now we move to Mr. Cooper for five minutes.

Mr. Michael Cooper: Thank you, Madam Chair.

I will direct my questions to the PSP witnesses.

I want to ask about investments in the Canadian energy sector. I know a great emphasis has been placed upon ESG, but we know that here in Canada we have the safest, cleanest and most ethical oil and gas in the world. Significant opportunities have been identified in the energy sector. We know that oil is in a multi-year bull market, and in terms of maximizing profits in what is likely to be at least a four- to six-year bull cycle, there is significant opportunity in terms of Canadian oil and gas.

Among those who have recognized this is Eric Nuttall, who is the senior portfolio manager with Ninepoint Partners. He has said that among the best opportunities in the world are here in Canada. In particular he is most excited about smaller oil and gas companies, given their depressed valuations.

Could the PSP witnesses speak to that?

Mr. Neil Cunningham: Thank you for the question, Mr. Cooper, which sounds like an investment recommendation that we should be looking into.

The reality is that we don't have a specific oil and gas asset group to invest in the sector specifically, and that's more because of the historical volatility, the size of the investments and the skill you require in order to invest in some of those junior oil and gas companies you're referring to.

By the same token, we also, as I said earlier, do not have exclusions for oil and gas or other industry, because we think there are circumstances when an investment does make sense. I described earlier the financial filter that one would put on any investment where the cash flows that one expects to return—to get from them—and the residual value at the end of your investment period would factor into it.

To the extent that there are opportunities in the Canadian oil patch, whether it's in public entities or private ones, we are potential and actual participants without a bias one way or the other, but taking those long-term factors into account, including the improvement that companies have made and will make in terms of environmental footprint from their activities.

Mr. Michael Cooper: Thank you for that.

I just wanted to say that obviously the overriding mandate of the board is to get the best rate of return. I hope—and I take it from your answer—that the significant opportunities that exist are not going to be forgone as a result of, for example, ESG.

● (1300)

Mr. Neil Cunningham: Well, ESG is taken into account in everything we do, so it's not just the “E”, not just the “S” and not just the “G”. It's all of them. That's a significant part of all our investing decision-making, so I guess the short answer to your question is yes.

Mr. Michael Cooper: Yes? The short answer to my question is yes to what?

Mr. Neil Cunningham: Maybe it's no. We won't exclude an investment because of a factor which appears to be.... It's the mitigation, I guess, that is the question, so yes, everything is on the table in terms of a potential investment if it meets the investment screens I've described.

Mr. Michael Cooper: Thank you, Madam Chair.

The Vice-Chair (Ms. Jean Yip): Thank you.

We move now to Mr. Fragiskatos for five minutes, please.

Mr. Peter Fragiskatos (London North Centre, Lib.): Thank you, Madam Chair, and thank you to all of you. Congratulations again.

I'm new to the committee, so perhaps it's my good fortune to come across a group and sit in on a meeting where the audit is so complimentary. Mr. Lawrence has gone, but he spoke about his experiences on a committee and how it's not always certain what you're going to find, but this is good. This is very refreshing.

This first question will go to Mr. Hayes. I note that in the report it's pointed out that there are 147 subsidiaries of the board, six that are wholly owned. The report notes that the audits of the subsidiaries did not take place. It would be hard to do the 147, but what about the six wholly owned subsidiaries and doing audits there. Was there anything preventing you legally from carrying that out or was it a question of resources? What held back that audit from going forward?

Mr. Andrew Hayes: Thank you for the question. I might ask Ms. Cabana to expand on this.

We are appointed as of right in the Financial Administration Act as the auditor or joint auditor of all Crown corporations, including the parent Crown corporations and wholly owned subsidiaries. We do have the opportunity to waive the appointment for those corporations. We typically do not waive, but in some cases there are some subsidiaries that we do not audit. I believe there are some in this portfolio that we do not audit.

Ms. Cabana, could you add to that?

Ms. Mélanie Cabana: Yes, there are some subsidiaries that we do not audit, that we waived our rights on PSP.... What I could say about the wholly owned subsidiaries is that while we didn't audit the subsidiaries themselves, we did include a portion in the special examination where we looked at the governance practices of PSP related to the wholly owned subsidiaries.

Ms. Mélanie Cabana: It was mostly a decision in scope. The special examination was large enough as it was, so we decided to go the route with the governance practices instead of of going into the wholly owned subsidiaries.

Mr. Peter Fragiskatos: I did see that there was an audit done and, as you point out here in the answer—the report also underlines this—there was an audit done of the systems and practices used by the board to audit the wholly owned subsidiaries themselves.

This is for Mr. Cunningham.

First of all, sir—and I suppose I could have begun with this question—what are the six wholly owned subsidiaries of the board? This is for the record and my understanding as well.

● (1305)

Mr. Neil Cunningham: Can you name them all, J.-F.?

Mr. Jean-François Bureau: Neil, I was trying to go from memory.

We have PSP Capital, for one, which is wholly owned, the subsidiary that is used to issue our debt, be it commercial paper or bonds.

There are other various subsidiaries that are held for jurisdictional and legal purposes, but in terms of investment, Neil, short of certain assets—I'm going from memory, but to be honest with you—I can't recall the names and the roles of each one.

Mélanie, would you have them in your notes?

Mr. Peter Fragiskatos: It's fine, but perhaps the board could follow up with a list of those six. Perhaps it's a bit unfair. There are 147, but I figured that, since there are six that are wholly owned by the board, maybe that list would be readily available. It's not a judgment or anything. Someone from your side can follow up.

I ask because I'm curious to understand what systems and practices the board uses to exercise oversight of these subsidiaries or even subsidiaries in general terms.

What are some key...? Are general standard best practices used or are there specific things that you use as an organization to ensure best practices? I ask that also because there are lessons here. I think—

The Vice-Chair (Ms. Jean Yip): Thank you, Mr. Fragiskatos.

We now move to Ms. Sinclair-Desgagné for two and a half minutes.

[*Translation*]

Ms. Nathalie Sinclair-Desgagné: Thank you very much, Madam Chair.

I have the numbers with me with respect to the PSP Investments carbon footprint issue over the six years it was measured. It went from 99 tonnes in 2016 to 101 tonnes in 2021. So there hasn't been a decrease. Obviously, this is the carbon footprint. If investments increased, it's important to consider the carbon intensity, which has basically decreased since 2016. However, there was quite a significant increase between 2020 and 2021.

Is this just another news story, or is there a genuine desire to reduce the carbon intensity of PSP Investments?

I would ask you to be very brief, Mr. Cunningham.

[*English*]

Mr. Neil Cunningham: The short answer is yes, we are working to reduce, and when we release our climate investment strategy in the next little while, you'll see very specific targets towards investing in green assets, etc.

Sometimes the measure of a carbon footprint can be a bit tricky in that our numbers can move with our AUM, moving up and down as it tends to do over time. The short-term movement, in my view of anything in our portfolio, carbon footprint included, is less meaningful than what you see over a longer period of time. I would stress that the longer period is indicative of what efforts are being made.

[*Translation*]

Ms. Nathalie Sinclair-Desgagné: Thank you.

I would like to use the little time I have left to mention, on behalf of the taxpayers we represent, that the investment advice of our dear Conservative friends is sometimes a little out of date.

Mr. Cunningham, setting tangible and measurable net-zero targets can have a beneficial impact. In addition, it is essential to disclose the climate change risks, as requested by the Task Force on Climate-related Financial Disclosures. This is one of the best practices internationally right now. We would love to see PSP Investments embrace this.

How much time do I have left, Madam Chair?

[*English*]

The Vice-Chair (Ms. Jean Yip): Give a short answer, please.

Mr. Neil Cunningham: I'm not sure I heard the question in there. I definitely heard the commentary.

We are committed to TCFD best practices. As I said earlier, the risks are apparent. It's a very nebulous area, though, in that the taxonomies are in flux and being negotiated or discussed, as we speak, for what's green and what's not green.

Probably the most important aspect of this is that moving to net zero is not something that pension funds can do alone in moving everything in that direction. It takes the entire market and all of the participants to be moving in that direction. We're very much aligned with that direction.

● (1310)

The Vice-Chair (Ms. Jean Yip): Thank you.

We move to Mr. Desjarlais for two and a half minutes.

Mr. Blake Desjarlais: Thank you, Madam Chair.

According to the OAG's report, PSP investments had not systematically integrated the objectives of the United Nations 2030 agenda for sustainable development in its investment activities. There is a quote from the OAG that says, “There is an opportunity for the corporation to enhance its reporting on the sustainability impacts of its investment activities.”

Do you plan to give greater consideration to the goals of the United Nations 2030 agenda for sustainable development? If so, could you elaborate on how PSP is tracking and monitoring its progress to ensure that PSP's investment activities contribute to each of the 18 goals?

Mr. Neil Cunningham: We certainly appreciate the importance of UN SDGs, but we've not implemented them specifically into our investment strategies. Incorporating those SDGs into an investment strategy poses several challenges, including measurement of the alignment of investments and the mandate of the UN SDGs and their specific considerations.

To meet these challenges, we should not just look at how ESG risks and opportunities affect the risk return profile of the investments, but also how a responsible investment portfolio affects the broader objectives of society or the SDGs. Our long-standing responsible investing approach overlaps with many of the UN SDGs, such as climate action, responsible consumption and production, and gender equality. Our disclosure is focused on how we incorporate ESG considerations in our investment activities to meet our mandate and drive long-term value for contributors and beneficiaries.

Mr. Blake Desjarlais: Thank you for that.

This question is for Deputy Auditor General Hayes.

Do you think it would be beneficial to have a more systematic approach to tracking how PSP investment activities contribute to each of the SDGs? If so, what kind of oversight and performance measures could this achieve on behalf of Canadians?

Mr. Andrew Hayes: As an office, we've taken the position that we will look at the SDGs and how they're implemented across the board, whether it's the government or in Crown corporations. We are actively encouraging all of the entities that we audit to consider the SDGs in a manner that will contribute to the commitments made by the government.

How these can be incorporated into the investment decisions is a question for management. I believe, though, that in order to advance progress on many of the SDGs, there needs to be a whole-of-society approach to committing to action.

The Vice-Chair (Ms. Jean Yip): Thank you, Mr. Hayes.

We now go to Mr. Cooper for five minutes.

Mr. Michael Cooper: I don't have any further questions, Madam Chair.

I don't know if Mr. Bragdon has any.

The Vice-Chair (Ms. Jean Yip): Okay.

Mr. Bragdon, you have five minutes.

Mr. Richard Bragdon: According to the Office of the Auditor General, for the strategic objective related to branding itself as a global pension investment manager, the corporation had performance indicators but no specific targets to measure whether the objective would be achieved. Whether or not there were performance indicators in the first place, I guess would be the first question.

Mr. Martin Glynn: Neil, do you want to take that?

Mr. Neil Cunningham: I want to make sure I understand your question, Mr. Bragdon.

● (1315)

Mr. Richard Bragdon: Sure.

Mr. Neil Cunningham: The lack of performance indicators was....

Let me say this; I'll approach it a different way.

I would say the organization as a whole has sharpened its game in terms of KPIs in general, and the report of the OAG, as I said earlier, highlighted to us that in certain areas we needed to sharpen our game, and we have. We took the recommendations very seriously.

Mr. Richard Bragdon: I think they were looking for specific targets to measure whether the objective would be achieved, so I guess sharpening those is kind of where you're going. Are you putting in mechanisms to do that?

Mr. Neil Cunningham: That's correct.

Mr. Richard Bragdon: When will the new performance indicators be in place for the corporation's strategic objective of branding itself as a global pension and investment manager?

Mr. Neil Cunningham: That's an interesting question, because that was a comment directed specifically to an objective of our previous strategic plan, and last year we approved a new strategic plan, in which that specific branding objective is not one of our specific targets.

I will say that our plan has three pillars and 10 shifts, as we call them, for things we want to accomplish in order to be the organization that can manage not just the over $200 billion we have entrusted to us today but the $300 billion and more that we will go to over time. We do have measures in place and are adopting more as we get further into the plan for all the aspects of that strategic plan. Therefore, the specific comment related to one of those strategies in the previous plan is not relevant to our going forward, but the concept of having measurable objectives in every aspect of our strategic plan we have incorporated into it.

Mr. Richard Bragdon: Okay.

I have no further questions, Madam Chair.

Thank you.

The Vice-Chair (Ms. Jean Yip): Thank you.

We will move to Ms. Shanahan for five minutes.

Mrs. Brenda Shanahan: I may get in a little extra time or I'll be happy to share it with my colleague from the Bloc.

That's wonderful, Chair. Thank you.

Again thank you to everyone who is here today.

I'm going to go on a bit of a philosophical bent. Bear with me, but it does have to do with Mr. Carney's book, *Value(s)*, in which he raises some very interesting questions around what we as a society consider valuable and how we measure value and where we find value.

Mr. Cunningham, I would love to have your views on that direction of thought, because I think that we are having a moment—well, more than a moment—given the lessons we are learning from the pandemic and the climate change crisis we are facing, as to what is valuable to society.

Mr. Neil Cunningham: Thanks for that question.

If you got through Mark's book, I congratulate you, because it is truly a tome in very small print, and there's a lot in it.

When you get into values, that strays from the strict mandate that we, as a pension fund, are intended to have. It was mentioned earlier that we have a very specific mandate with respect to long-term returns, and we practise best practices as part of it because we believe those are an essential part of long-term returns.

A lot of public policy and public behaviour goes into the values, which I would say is beyond the scope of what one can expect a pension fund to do.

Mrs. Brenda Shanahan: Would you talk to us, Mr. Cunningham, or perhaps another member of your team, about the idea of building long-term value and how we need to open up the scope of what that means? We addressed it earlier regarding stranded assets, regarding unknown risks.

I'll just share with you that I used to do the retirement workshop for the folks at McGill who were getting ready for retirement. Of course, the big concern was how much money they would have in their pension fund. If we knew it was a hybrid pension fund, oh, my gosh, it was just crazy how we had to do the calculations around defined benefit and the defined pension part. All that to say that in the retirement workshop, we would come to the conclusion that if you were to lose everything today, what would you have? It would be the place where you live and the fact that you could grow a garden and you could continue living.

I'm taking you to an existential place, Mr. Cunningham. I really would like to hear your views, because you are doing a terrific job on the nuts and bolts of looking after that pension, and it's a credit to what you're doing, but is it not time to think out of the box?

● (1320)

Mr. Neil Cunningham: Once again, you're bordering on our mandate. I'm saying the analogy you gave that someone would have their home, their garden and their pension is our objective in what we do.

We spent time on our mandate specifically to say how much does that line "for the long-term benefit of our beneficiaries," or wording to that effect, actually mean?

There is no explicit social purpose in the mandate for how we manage the money. I don't think I can express my personal view here when I'm representing PSP.

Mrs. Brenda Shanahan: Excellent.

Could you talk to us about the leadership role that PSP would play, then, internationally? I think you are a major player, certainly in Canada, North America. Talk to us about that leadership role.

Mr. Neil Cunningham: That's a good one, and that is completely appropriate.

I made reference earlier that a little over a year ago the Maple Eight pension funds made a joint statement for the first time ever. I'm proud to say we were the leaders to get it going, where we encouraged all public markets, issuers and participants to follow TCFD and SASB, the Sustainable Accounting Standards Board, requirements for reporting on their largely environmental but also social footprint, the objective being that there's a bit of what I'll call a "bully pulpit", if you want. Once people are forced to disclose, they will want to improve their scores, and so we'll have greater adoption of the principles and then greater movement toward bettering one's score in whatever is good measure—

Mrs. Brenda Shanahan: I'll thank you, Mr. Cunningham, because I do want to share some time with Madam Sinclair-Desgagné.

The Vice-Chair (Ms. Jean Yip): Thank you. Your time is actually up, but we will give some time to Ms. Sinclair-Desgagné.

Go ahead for two and a half minutes, please.

[*Translation*]

Ms. Nathalie Sinclair-Desgagné: Thank you very much, Madam Chair.

I'd like to thank my colleague Mrs. Shanahan for wanting to share her time with me.

Mr. Cunningham, my question is very simple and very direct.

I understand that this can't be done overnight, but can you commit, as some of your peers have done, including the Caisse de dépôt et placement du Québec and the Canada Pension Plan Investment Board, to achieving net-zero emissions by 2050, for example? Can you make that commitment here and now?

Mr. Neil Cunningham: Thank you for the question.

[*English*]

Not to steal thunder from an announcement that we will be making in the near term, we will be announcing that we are completely aligned with global net zero by 2050 in terms of the approach we're taking to investing in climate change. We will have some very specific shorter- term targets that are achievable with respect to green assets, green bonds, transition assets and others, so you will see specific targets in the near future.

[*Translation*]

Ms. Nathalie Sinclair-Desgagné: I understand that you can't give us too much information in advance, but can I ask you when this announcement will be made?

● (1325)

[*English*]

Mr. Neil Cunningham: The timing is not yet determined. It will be sooner rather than later. I know that's not what you're hoping to hear in terms of specifics, but it will be sooner rather than later. I also want to be careful that I don't get into disclosure issues, because as I said earlier, we just launched this week a green bond issuance, which has implications around this area. Especially with my CFO on the line, I certainly don't want to say something that he's going to say I shouldn't have disclosed when we're in a quiet period on selling the bonds.

[*Translation*]

Ms. Nathalie Sinclair-Desgagné: Thank you.

I'd like to ask you one last question, Mr. Cunningham.

Have you done a climate change risk analysis? You mentioned the physical risks, but I'm also thinking about risks of non-compliance with regulations, systemic risks, all types of climate-related risks.

Have you done a short-, medium- and long-term analysis of the risks associated with the investment funds?

Mr. Neil Cunningham: Mr. Bureau, could I ask you to answer that question about the risks?

Mr. Jean-François Bureau: I'm certainly willing to answer it.

Thank you for the question, Ms. Sinclair-Desgagné.

It's important to understand that public investments are very liquid investments. That means they can be bought or sold very quickly. On the other hand, an analysis of all the risks is done for each private investment.

The risk review includes all environmental, social and governance risks, or ESG risks. Our management team, at the level of the vice-president for responsible investment, makes a point of reporting their findings to us, which are listed in the risk register, which is submitted to the designated committee for approval, and the ESG risks associated with each investment are then taken into account.

Ms. Nathalie Sinclair-Desgagné: Can you commit to following the best practice methods and standards recommended by the Task Force on Climate-related Financial Disclosures?

[*English*]

The Vice-Chair (Ms. Jean Yip): We need a very short answer, please.

[*Translation*]

Mr. Jean-François Bureau: As Mr. Cunningham said earlier, we're going to make some commitments.

Mr. Cunningham didn't want to give a specific date, but I can assure you that it will be before he retires.

Ms. Nathalie Sinclair-Desgagné: I'd like to thank the witnesses very much for taking part in our work.

[*English*]

The Vice-Chair (Ms. Jean Yip): I'd like to thank the witnesses for coming, and I wish Mr. Cunningham all the best in his upcoming retirement.

Mr. Martin Glynn: Thank you for having us. We're very proud to represent PSP and to be able to talk about PSP with you at this session.

The Vice-Chair (Ms. Jean Yip): Thank you very much.

On Thursday, due to unforeseen circumstances, the study of health resources for indigenous communities will be rescheduled. We will be attending to committee business and reviewing recommendations for “Report 5: Lessons Learned from Canada's Record on Climate Change”.

Seeing no other business, is it the will of the committee to adjourn the meeting?

Some hon. members: Agreed.