



ABOUT PSP

The Public Sector Pension Investment Board (PSP or PSP Investments) is one of Canada's largest pension investment managers with \$204.5 billion of net assets under management as of March 31, 2021. It invests the assets for the retirement of over 900,000 current and retired members to meet the pension plan obligations of the federal Public Service, the Canadian Armed Forces, the Royal Canadian Mounted Police, and the Reserve Force.



THE CHALLENGE

- Need to convert traditional ESG reviews into data-driven insights
- Requirement to scale proprietary ESG data and monitor holdings over time
- Demand to incorporate ESG factors that drive value today and in the future



THE SOLUTION

- Creation of a proprietary ESG composite scoring methodology
- Customization, outsourced data management, and personalized support



THE RESULTS

- Greater ESG precision, real-time analytics, and composite scoring
- Accelerated convergence between fundamental and ESG analysis
- Real-time insight into factors impacting intangibles and enterprise value

PSP Investments Builds ESG Composite Score with FactSet and Truvalue Labs' Workflow Solutions

Public Sector Pension Investment Board incorporates dynamic materiality into its responsible investment framework with FactSet and Truvalue Labs' workflow solutions.

THE CHALLENGE

At the center of PSP's responsible investment approach is the investment belief that identifying, monitoring, and capitalizing on ESG factors is material to long-term investment performance.

The Responsible Investment group at PSP recognized that its responsible investment framework must facilitate a greater understanding of not only the ESG factors driving enterprise value today, but those most likely to do so tomorrow and into the future.

Based on this clear need, PSP faced many challenges. First, they required advanced technology to develop an ESG Composite score that could both capture and translate the needs of the investment teams and transform a desktop ESG review into decision-useful, data-driven insight. They also needed to design a data-driven scoring solution that could scale PSP's ESG integration process across the firm and monitor holdings over time. In addition, they had to help translate data previously available in hundreds of pages of traditional research and sustainability reports into quantitative data that could be centralized and aggregated. Finally, they needed to account for the dynamic nature of the materiality of ESG factors in the due diligence process.

THE SOLUTION

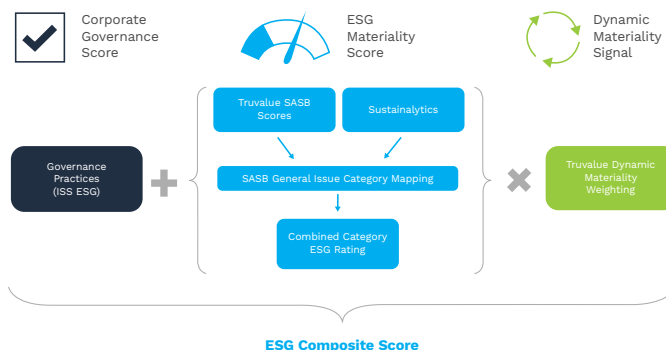
The Responsible Investment group leveraged FactSet’s innovative data solutions to develop a proprietary scoring methodology that would do two things: track the ESG performance of PSP’s public markets portfolio and identify opportunities to mitigate risk and create value.

PSP’s proprietary ESG Composite score can systematically identify material ESG risks and opportunities. It can also dynamically measure the relative importance of these categories based on Truvalue Labs’ artificial intelligence (AI) screening tool, which monitors the materiality of these ESG risks and opportunities through an algorithm that captures stakeholder sentiment. To ensure both AI and screening tools are as accurate and timely as possible, Truvalue Labs extracts, analyzes, and generates scores from millions of documents each month collected from more than 100,000 data sources in over 13 languages. Sources include news, trade journals, non-governmental organizations (NGOs), watchdog groups, trade blogs, industry reports, and more.

FactSet’s Universal Screening and data warehousing tools were used to help develop a highly customized score, which is composed of two building blocks. The first provides a quantitative assessment of corporate governance practices using ISS ESG data. The second generates a dynamic measure of ESG performance (i.e., an ESG materiality score). With a focus on SASB Standards’ General Issue Category mapping, PSP combined ESG data (i.e., aligned material categories) from Truvalue Labs and Sustainalytics to create comparable scores from both providers.

As a final step, PSP used industry-relative ESG category performance data and Truvalue Labs’ proprietary Dynamic Materiality calculation to weigh the ESG scores. Dynamic Materiality is the concept that companies, industries, and sectors have unique ESG materiality signatures that evolve over time and are determined by factors such as shifts in business models, changing consumer preferences, emerging technologies, and new regulations. This stands in contrast to the view that materiality is relatively static and can be defined by a company. By incorporating dynamic materiality into real-time analysis, users can make objective weighting decisions when combining scores and ensure that the most salient issues are receiving the most attention. Both the dynamic weightings and the ESG scores are updated daily to capture real-time changes in stakeholder sentiment.

Building Blocks of the ESG Composite Score



Source: FactSet

The real paradigm shift in the ESG Composite scoring methodology came from the dynamic weighting of each material ESG category, which is based on Truvalue Labs’ AI-driven Dynamic Materiality calculation. The score was designed to quantitatively recreate the Responsible Investment group’s ESG due diligence process.

Each issuer received a unique Corporate Governance and ESG Materiality score that could be analyzed separately and combined in a single reading using the ESG Composite score. All data was integrated into the FactSet Workstation, making it easy to generate custom reports on each investment portfolio relative to their respective benchmark. The scores could also be examined based on a specific corporate governance pillar, or on the SASB Standards’ five dimensions (Environment, Social Capital, Human Capital, Business Model and Innovation, and Leadership and Governance) and 26 sustainability-related business issues (i.e., General Issue Categories). In this case, by tracking the ESG Composite score decomposition for each of the five dimensions, it became clear that Social and Human Capital were crucial in fully understanding enterprise value.

As a result of capabilities provided by FactSet and Truvalue Labs, PSP is leveraging dynamic materiality to produce innovative ESG data and transform disclosure narratives into decision-useful insights.

THE RESULTS

Since implementing a proprietary ESG Composite score based on the SASB Standards' materiality framework and other measures of dynamic materiality, PSP's ability to scale and integrate ESG data has reached an entirely new level.

PSP was able to accelerate convergence between its fundamental and ESG analysis and access real-time information on factors impacting intangibles and enterprise value for the first time. In addition, the ESG Composite score was used to benchmark issuers and portfolios and act as a complementary dimension to fundamental analysis, capturing trends and momentum akin to analysis traditionally performed on financial information.

The ability to generate data-driven insights helped PSP identify new investment ideas, support issuer selection, and contribute to alpha generation, ultimately delivering enhanced knowledge sharing across the organization.

As a result of these new capabilities, PSP is leveraging dynamic materiality to produce innovative ESG data and transform disclosure narratives into decision-useful insights.

DISCOVER SOLUTIONS

FactSet creates data and technology solutions for investment professionals around the world, providing instant access to financial data and analytics that investors use to make crucial decisions.

Truvalue Labs SASB Scores DataFeed

Monitor both positive and negative ESG events daily.

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Truvalue Labs SASB Spotlight DataFeed

Review daily headlines, story summaries, and scores for ESG controversies and opportunities.

[GET STARTED](#)