



PSP
Investments

AVIALLIANCE

St. Louis Lambert International Airport

Request for Qualifications Submission

November 01, 2019

NOTICE: The data on pages of this proposal identified by an asterisk (*) contains technical or financial information constituting trade secrets. The proposer requests that such information be used only for the evaluation of the proposal but understands that any disclosure will be limited to the extent that the City considers proper under the law. If the City enters into an agreement with this proposer, the City shall have the right to use or disclose such information as provided in the agreement, unless otherwise obligated by law.

Capitalised terms not otherwise defined in this RFQ Submission shall have the same meaning as in the Request for Qualifications received from Moelis & Company dated October 04, 2019 ("RFQ").

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Public Sector Pension Investment Board ("**PSPIB**") and AviAlliance GmbH ("**AviAlliance**") (collectively the "**Respondents**" or "**we**"), are pleased to submit this RFQ Submission for the potential public-private partnership (the "**Airport P3**") involving the St. Louis Lambert International Airport (the "**Airport**"). The Respondents, in cooperation with our potential partners United Services Automobile Association Real Estate ("**USAA RE**") and Merrick Capital Management ("**Merrick Capital**"), recognize the strategic importance of the Airport to the community of St. Louis and the partnership required to achieve the vision of a vibrant Airport as an enabler of greater economic growth and job creation in the region. We believe it is crucial that the future operator has the expertise, experience and financial capacity to ensure that it remains well managed and grows in a manner consistent with the expectations of the City, its customers, the community and other stakeholders. We are firmly committed to delivering the City's objectives in this Airport P3 and look forward to forming a long-term, constructive and mutually-beneficial partnership with the City. This includes making significant capital investments to improve facilities and services, grow the number of jobs in and around the Airport, enhance traffic and economic activity in the region, and build positive, lasting relationships with the region's community stakeholders. We are actively working to build a partnership with co-investors who share our vision and enhance our capacity to deliver a proposal for the various stakeholders associated with the Airport as described below.

Highly Credentialed Investors and Operators

PSPIB and AviAlliance are highly credentialed investors and operators, who:

- Collectively have a history of investing in and operating public infrastructure assets on a long-term and sustainable basis;
- Are uniquely positioned to deliver value for the Airport P3, given our understanding of the airport infrastructure sector in the United States gained from our ownership and management of a 40% interest in San Juan Airport, the only airport that has completed a successful public private partnership in the United States;
- Have a track record of using innovation to deliver value for airports and all stakeholders through improvements in commercial offerings, route development and marketing, and,
- Have formed a project team supported by a seasoned panel of senior advisors with over 100 years of combined industry experience in all facets of airport management, including the former Chief Operating Officer ("**COO**") of Heathrow International Airport and a former senior FAA executive.

We are delighted to have been invited to respond to the RFQ and we are enthusiastic about working with the City and the Working Group to structure a successful Airport P3 for the City of St. Louis and its communities. We believe that this Airport P3 is a transformational partnership opportunity for PSPIB and AviAlliance to invest in and operate assets that will complement our strategy in the United States, and that our extensive experience in airport infrastructure assets globally would be valuable to the City.

We stand ready to deploy significant resources to the Airport P3 and provide the City with execution speed and certainty. Our experienced in-house commercial, technical and financial teams have already commenced work plans for the Airport P3. In addition to the significant in-house resources available to us, we have engaged advisors to assist with due diligence and negotiation of the definitive documentation in an expedited manner.

Should the City wish to discuss any aspect of the RFQ Submission directly, they should contact Samuel Langleben at PSPIB (contact details in Section 6).


Martine Légaré
Senior Director, PSPIB Infrastructure Investments


Samuel Langleben
Director, PSPIB Infrastructure Investments

2. Executive Summary and Strategic Rationale



100%



PSPIB is one of Canada's largest pension investment managers with over 800 employees and C\$168 billion in assets under management ("AUM"), and is on track to reach over C\$250 billion in AUM by 2028. PSPIB invests funds for the pension plans of the Canadian Federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police and the Reserve Force.

AviAlliance, owned and managed by PSPIB, is one of the world's leading airport operators and currently owns and operates a geographically diversified portfolio of airports in San Juan ("SJU"), Athens ("ATH"), Budapest ("BUD"), Dusseldorf ("DUS") and Hamburg ("HAM"), together serving nearly 90 million passengers in 2018. AviAlliance has over 60 employees who are knowledgeable in all facets of airports operation, management and investment, including aeronautical and non-aeronautical revenue, operations, master planning and capital projects.

Given the long-term nature of PSPIB's pension liabilities, PSPIB seeks to invest in long-term assets which match its obligations; infrastructure projects such as this Airport P3 are a natural fit within our strategy. PSPIB's modus operandi is to hold, build and grow assets over the long-term, and that means capital investments to enhance services, maintain and grow the skills of its people and staff, and the building of long-standing relationships within its communities. PSPIB is firmly committed to working with the St. Louis community to build this long-term partnership. The growth and success of the Airport and the St. Louis regional economy are mutually reinforcing. For PSPIB and AviAlliance, the United States constitutes a key geography for growing our business and, as such, we will continue to dedicate substantial internal and external resources to the Airport P3.

In addition, PSPIB and AviAlliance have entered a preliminary Memorandum of Understanding with USAA RE and Merrick Capital, a Minority and Women-Owned Business Enterprise ("MWBE") investment management platform, to co-invest in the Airport P3. PSPIB believes that this prospective partnership has the potential to enhance its ability to meet the City's objectives. USAA has a strong presence in St. Louis, with close to 53,000 members living in St. Louis, nearly 89,000 in St. Louis County and over 500,000 members in Missouri. The prospective partners also have pre-existing relationships within St. Louis through the ownership of industrial real estate. As PSPIB continues to form the bidding group, there is the potential to add additional partners. The partners will be seeking proposals that may include local majority and minority participation at the vendor and equity ownership levels. Further details about PSPIB, AviAlliance, USAA RE and Merrick Capital are outlined in Section 3 and in Appendix B of this RFQ Submission. PSPIB and AviAlliance as respondents to this RFQ, note that the ultimate ownership of the consortium and final participation has not yet been determined and acknowledge that USAA RE, Merrick Capital and any additional partners will be subject to qualification by the City.

Commitment to the City's Key Objectives

The Respondents fully support the City's objectives for the Transaction as set out in the RFQ. Below we outline how we intend to support these objectives, ensuring that the Airport P3 is a success for the City and the St. Louis community.

1 Improvement of the Airport for all stakeholders, including incremental uses of the Airport's significant excess capacity

PSPIB and AviAlliance are firmly committed to making the Airport P3 a win-win for all stakeholders in the community

- **Globally Recognized Service Quality and Airport Governance:** AviAlliance has demonstrated experience of working in conjunction with government bodies to develop successful governance frameworks that enhance service quality, and create value for all stakeholders, including employees, airline partners, service providers, local businesses and community organizations
- **We will invest in the Airport's success:** This includes a transformational capital improvement program focused on:
 - **Optimizing the existing terminal and airfield space in cooperation with the Airport's airline partners;**
 - **Redeveloping the Airport's retail and concessions offering:** AviAlliance has significant experience in optimizing retail and concessions offerings. For example, AviAlliance redeveloped the retail and concessions offering at BUD by leading the design and construction of SkyCourt, a 65,000 sq. ft. retail space with over 50 shops, restaurants and bars;
 - **Commercial development of unused land:** AviAlliance is in the process of evaluating various potential options for the adjacent, well-connected land, which include potential development of cargo operations, logistics hubs and aviation facilities, and retail, office and other commercial applications. We are currently in discussions with USAA RE, which has significant expertise in real estate development, to co-invest with us and assist us with the commercialization of the unused land. PSPIB and USAA

RE also presently own important industrial real estate assets in proximity to the Airport, and as such, are familiar with the real estate market dynamics of the area; and,

- **Enhancing landside service offerings:** AviAlliance is exploring various options to enhance the commercial landside service offerings (e.g. parking, car rental, retail). AviAlliance led the introduction of online car parking products at BUD in 2013 which supported car parking revenue growth of more than 100% between 2012 and 2018.
- We expect that our capital investments in airport improvements will create thousands of temporary jobs, and the eventual enhanced Airport, new services and land development will increase employment in the Airport and surrounding area
- **PSPIB's investment thesis is rooted in enhancing the passenger experience and growing the passenger traffic flow through the Airport.** Better facilities, better services, restaurants and amenities, means more satisfied customers, more traffic, and more successful airlines, leading to more jobs, tourism and economic activity in St. Louis and Missouri

2 Net cash proceeds to the City, upfront and/or over time for non-Airport purposes

- The Respondents are well positioned to ascribe significant upfront and ongoing value to the Airport, driven by our in-depth understanding of the airport business, strong business planning capabilities and global network of relationships with key stakeholders in the sector
- PSPIB is one of the top 10 infrastructure investors globally, having invested over C\$15 billion in 48 direct investments; we have the scale and financial flexibility to deliver maximum value to the City. Furthermore, PSPIB's pension fund status, strong banking relationships and experience in infrastructure investments enable us to access capital at very competitive levels and optimize the overall capital structure of our investments
- We believe that on-going revenue sharing mechanisms or co-ownership models between the private and public sectors are key to achieving long-term alignment. AviAlliance has experience in operating airports under revenue sharing and co-ownership models such as at SJU, DUS, ATH, and HAM

3 Community and economic development in St. Louis region

PSPIB and AviAlliance are committed to building long-lasting, positive partnerships with communities and stakeholders in St. Louis

- Our guiding principles are based on (i) alignment, (ii) long-term value creation, and (iii) trust with key stakeholders and partners
- We have been focused on St. Louis since 2017. During this time, we have dedicated significant resources to this Airport P3, reached out to the major Airport airlines, and have completed numerous site visits to St. Louis as well as neighboring communities. We have met with a number of prominent representatives of the community as well as civic and business society to discuss our approach to this Airport P3. As the project progresses, we will continue to reach out to community stakeholders and engage them in our approach. The insights and the relationships we develop and nurture will be instrumental in delivering a compelling and uniquely-tailored offering to St. Louis, and will help drive the community and economic development objectives of the St. Louis region

3. Description of Respondents


a. Description of Respondents

PSPIB	Details
Country of incorporation / registration	Canada
Registration number	1163980601
Registered address	1250 René-Lévesque Blvd. West, Suite 1400, Montréal, Québec, H3B 5E9, Canada

PSPIB is a Canadian Crown corporation established to invest the employer and employee net contributions for the pension plans of the Canadian Federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police and the Reserve Force. As of March 31, 2019, PSPIB had assets under management of C\$168 billion which are invested in a diversified global portfolio across 75 industries and more than 75 countries. Assets are invested in fixed income instruments and Canadian and foreign listed equities, real estate, private equities, infrastructure and natural resources. PSPIB is rated AAA by Standard & Poor's and DBRS and has over 800 employees based in Montreal, New York City, London and Hong Kong.

PSPIB has considerable experience in investing in infrastructure assets and in working with government entities as a responsible owner of such assets globally. Since its inception in 2006, PSPIB's Infrastructure Investments group has invested C\$15.7 billion in 48 direct investments in 32 countries, and has built a high-quality portfolio of assets as illustrated in the table below. PSPIB's Infrastructure Investments group has a team of 38 investment professionals dedicated to the sector.

Select Infrastructure Investments













	<ul style="list-style-type: none"> PSPIB's airports platform that manages 5 airports serving ~90 million passengers per year 		<ul style="list-style-type: none"> PSPIB's first US airport investment; asset serves ~8 million passengers per year
	<ul style="list-style-type: none"> PSPIB's hydro-electric power generation platforms with an installed capacity of ~1.6 GW in the United States and Canada 		<ul style="list-style-type: none"> The largest independent communications infrastructure platform in France, providing mission-critical assets and services to its customers
	<ul style="list-style-type: none"> Exclusive provider of land titling and valuation services in South Australia 		<ul style="list-style-type: none"> Multimodal ports owner and operator of 8 UK commercial ports
	<ul style="list-style-type: none"> PSPIB's global renewables platform with an installed capacity of ~2.5GW serving ~1.5 million homes 		<ul style="list-style-type: none"> The largest private sector rolling stock lessor active in the continental Europe rail sector with over 430 passenger trains and over 380 freight locomotives
	<ul style="list-style-type: none"> PSPIB's strategic partnership with Pattern Energy, a leading developer and operator of wind and solar renewable assets in North America and Asia 		

Further information can be found at www.investpsp.com/en/

PSPIB has put together a diverse project team of seasoned professionals across the organization with extensive experience in the transport sector to structure a compelling partnership opportunity for the City of St. Louis.

PSP PROJECT TEAM

PSP is devoting significant resources to lead this transaction

Team Leadership	 Richard Chang <i>Managing Director</i> <ul style="list-style-type: none"> Joined PSP in 2015 Team leader focused on transport and logistics sectors globally Actively leads airport investment opportunities with AviAlliance 	 Martine Légaré <i>Senior Director</i> <ul style="list-style-type: none"> Joined PSP in 2010 Responsible for financing initiatives of our transactions and portfolio companies 	 Sam Langleben <i>Director</i> <ul style="list-style-type: none"> Joined PSP in 2018 Supports airport sector business development activities in the Americas
	 Katherine Dewar <i>Manager</i> <ul style="list-style-type: none"> Joined PSP in 2013 Day-to-day AviAlliance Asset Management responsibilities Experience in numerous airport transactions, including SJU acquisition 	 Salman Yahya <i>Manager</i> <ul style="list-style-type: none"> Joined PSP in 2017 Experience in numerous airport transactions and privatization opportunities 	 Emily Lawrence <i>Associate</i> <ul style="list-style-type: none"> Joined PSP in 2016 Day-to-day AviAlliance Asset Management responsibilities Experience in numerous airport transactions
	 Simon Le Bouthillier <i>Tax</i>	 Susanne Eversley <i>Coordination & Planning</i>	 Eme Onuoha <i>Government Affairs</i>
Support Team	 Justin To <i>Stakeholder Engagement</i>	 Dominique Perron <i>Legal</i>	 Stéphane Villemain <i>ESG</i>

PSP works as a single integrated team with AviAlliance

PSP

AviAlliance	Details
Country of incorporation / registration	Germany
Registration number	DE812388336
Registered address	Klaus-Bungert-Str 5, 40468 Dusseldorf, Germany

AviAlliance is one of the world's leading airport operators and currently owns and operates a geographically diversified portfolio of airports in San Juan, Athens, Budapest, Dusseldorf and Hamburg. In 2018, AviAlliance's airports served nearly 90 million passengers. AviAlliance is a wholly-owned subsidiary of PSPIB, which enables PSPIB to leverage the airport management and operational expertise of AviAlliance for its airport investments. AviAlliance has over 60 employees who are industry experts in all aspects of airport operations, management and investment, including aeronautical and non-aeronautical revenue, master planning and capital projects.

Airports currently operated by AviAlliance











- First successful transaction under the US FAA public private partnership program
- Through PSPIB, AviAlliance holds a 40% stake in the 8 million passenger airport



- Operator from 2002-2013 for the 43 million passenger airport
- Most recent consultancy projects focused on the energy and carbon strategy

Airports currently operated by AviAlliance

A selection of airports where AviAlliance has acted as operator or consultant

	<ul style="list-style-type: none"> Constructed by HOCHTIEF, AviAlliance's predecessor, ATH is the world's first privately financed airport project on the basis of a Build Own Operate Transfer model AviAlliance holds a 40% stake in the 24 million passenger airport 		<ul style="list-style-type: none"> 2012: Conducted Feasibility Study for the "Airport Plaza Project" 2011: Supported the coordination of the technical (construction and building) side and the operational side of Geneva Airport in relation to the project aile_EST at Geneva Airport
	<ul style="list-style-type: none"> First major airport commercialization in Central / Eastern Europe AviAlliance holds a 55% stake in the 15 million passenger airport 		<ul style="list-style-type: none"> 2013: Provided expert opinion with regards to assessment of different options to manage runway capacity from an operational, technical and economical perspective 2013: Evaluated construction cost benchmarking for new P7 car park of Zurich Airport
	<ul style="list-style-type: none"> Germany's third-largest airport operating under a public-private partnership AviAlliance holds a 30% stake alongside the City of Dusseldorf in the 24 million passenger airport 		<ul style="list-style-type: none"> 2012: Provided technical advisory services to Flughafen Zürich AG with regards to the commercialization of 100% of the share capital of ANA – Aeroportos de Portugal
	<ul style="list-style-type: none"> Germany's fifth-largest airport operating under a public-private partnership AviAlliance holds a 49% stake alongside the City of Hamburg in the 17 million passenger airport 		<ul style="list-style-type: none"> 2013: Provided peer-review of Nice Côte d'Azur Airport Terminal 1 and 2, retail revenue forecast 2014: Retail tender strategy 2014: Provided Evaluation of Prague Airport Draft Retail Development Plan, revenue forecast and identification of potential commercial upside

Governance

AviAlliance's advisory board is responsible for the overall corporate governance of AviAlliance including monitoring its operational and financial position, and performance of AviAlliance, overseeing its business strategy including approving its strategic goals, considering and approving business plans and annual budgets.

AviAlliance Advisory Board



Patrick Charbonneau
Chair of the Advisory Board
&
PSPIB Infrastructure
Managing Director

- As a Managing Director in PSPIB's Infrastructure Investments' group, Patrick Charbonneau has been involved in over 20 large-scale infrastructure transactions worth over US\$20 billion and was instrumental in negotiating and completing the acquisition of AviAlliance from HOCHTIEF in 2013
- With over 15 years of experience in the Infrastructure sector, Patrick previously held positions at PwC before joining PSPIB in 2006





Normand Boivin
Observer & Special Advisor
PSPIB Managing Director

- As a Managing Director at PSPIB, Normand oversees PSPIB's infrastructure and private equity asset management initiatives
- With over 35 years of experience in the transportation sector, Normand previously served as COO of Heathrow Airport from 2011 to 2017, as COO of the Montreal Airport from 1998-2011 and held positions at Transport Canada before joining PSPIB in 2018

Heathrow

AÉROPORTS DE
MONTREAL



Transports
Canada

Transport
Canada



James Cherry
Independent Board Member

- James previously served as the President and CEO of the Montreal Airport from 2001 until retirement in 2016
- James has over 40 years of experience as a senior officer in the aerospace, defence and transportation sectors

AÉROPORTS DE
MONTREAL

ALSTOM



BOMBARDIER

ARUP



Sandiren Curthan
PSPIB Infrastructure
Senior Director

- As a Senior Director in PSPIB's Infrastructure Investments' group, Sandiren has been involved in over 10 large-scale infrastructure transactions worth over US\$10 billion, primarily focused on the airport sector
- With over 12 years of experience in the infrastructure sector, Sandiren previously held positions at BMO Capital Markets, PwC and BNP Paribas

BMO  **Capital Markets**



BNP PARIBAS



Sir Michael Hodgkinson
Independent Board Member

- Sir Michael Hodgkinson previously served as the CEO of the British Airports Authority (BAA) from 1999 until retirement in 2003
- Michael has over 50 years of experience as a senior officer in the automotive, consumer staples and transportation sectors

BAA 

 **Transport
for London**

 **TUI GROUP**

DIAGEO



Dr. Rolf Pohlig
Independent Board Member

- Dr. Rolf Pohlig previously served as CFO of RWE from 2007 until retirement in 2012
- Rolf has almost 40 years of experience as a senior officer in the utility and pharmaceutical sectors

RWE



e-on

VEBA

PSPIB and AviAlliance adopt an active management approach, combining the expertise of AviAlliance and PSPIB. We acknowledge that the airport management approach and strategy should be well aligned with the local community and stakeholders. For this Airport P3, we have assembled a panel of seasoned industry experts to guide our approach. We are currently in the process of identifying advisors with experience in the US airline industry, a St. Louis business leader and a St. Louis civic engagement leader.

Senior Advisory Committee



Normand Boivin

Former COO of Heathrow providing operational expertise



Reginald Govan

Former senior FAA executive engaged for US Gov't and Regulatory Affairs



US Airline Industry Expert

Currently in discussions



St. Louis Business Community

Currently in discussions



St. Louis Civic Engagement

Currently in discussions

AviAlliance Senior Management



Holger Linkweiler
AviAlliance
Managing Director

- As Managing Director at AviAlliance, Holger oversees the Aviation, Investments & Financing, Legal, M&A and Technical Services departments
- Holger currently serves on the board of directors of the ATH, BUD, DUS, and SJU
- Formerly, he served on the boards of directors of HAM, and Sydney and Tirana airports
- Prior to Holger co-founding AviAlliance (formerly HOCHTIEF AirPort) in 1997, he worked for HOCHTIEF Aktiengesellschaft, the 100% shareholder in Turner Construction



Gerhard Schroeder
AviAlliance
Managing Director

- As a Managing Director at AviAlliance, Gerhard oversees the Asset Management, Commercial and Property Activities, Controlling and Accounting, Human Resources and Communications departments
- Gerhard currently serves on the board of directors for BUD, DUS, and HAM
- Prior to joining AviAlliance (formerly HOCHTIEF AirPort) in 1998, he held positions at HOCHTIEF and the Boston Consulting Group



Dr. Alexander Ising
AviAlliance Project Lead

- Dr. Alexander Ising is an Executive Director of AviAlliance, heading the Technical Services department
- Alexander currently serves on the board of directors for SJU
- He offers over 20 years of hands-on experience in airport and Capex planning, negotiating large construction contracts, project management and construction management for several airports
- Prior to joining AviAlliance (formerly HOCHTIEF AirPort) in 1997, he worked for the Department of Construction Management at HOCHTIEF Software GmbH



Further information can be found at <https://www.avialliance.com/avi-alliance.html>

PSPIB and AviAlliance recognize the strategic importance of building synergistic partnerships, which add value in areas of business planning and, more importantly, deliver on the City's objectives, including the representation of important stakeholders in St. Louis. Accordingly, PSPIB and AviAlliance are currently in discussions with the following potential team members (collectively "**Potential Team Members**").

USAA RE invests in real estate and infrastructure projects in the US and Europe, and is a wholly-owned subsidiary of USAA, one of America's leading financial services providers to members of the US military community, including 53,000 members residing in St. Louis, 89,000 members in St. Louis County and 500,000 members in the state of Missouri. USAA RE is an established investor in the real estate sector, with PSPIB Real Estate having an existing partnership with USAA RE in the industrial space, which includes one logistics facility adjacent to the Airport. Please refer to Appendix B for more details.

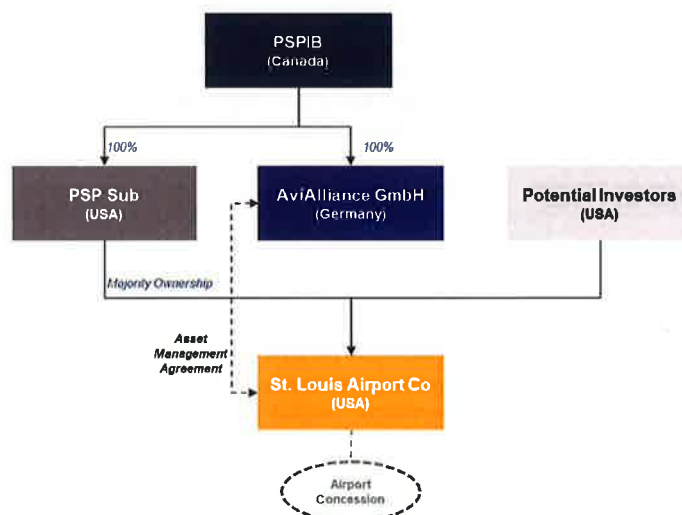
PSPIB and USAA RE have partnered to invest in a build-to-suit cold storage facility in St. Louis

Key Investment Details	Central St. Louis Presence
<ul style="list-style-type: none"> ~10,000 sq. ft. built-to-suit cold storage facility Long-term lease to Schnucks, a major local grocer serving the St. Louis community Facility has generated ~400 local jobs, helping improve the community by employing minorities and other underrepresented communities 	 <p style="text-align: center;">St. Louis Lambert International Airport</p> <p style="text-align: center;">Facility Location</p>
<ul style="list-style-type: none"> ✓ Track record of collaboration between PSPIB and USAA RE ✓ Demonstrated dedication to transportation / logistics investments serving the St. Louis community ✓ Community involvement through clean-up initiatives sponsored by General Contractor 	

Merrick Capital is an MWBE investment management platform focused on infrastructure investing in the US. The management team has extensive experience in all aspects of real estate investment and development, including airport work, asset-level finance, and funds management, and provides minority representation to the deal team's bid approach. Please refer to Appendix B for more details.

PSPIB intends to create and capitalize a new subsidiary in the United States (the "**St. Louis Airport Co**") to pursue the potential Airport P3. The ultimate ownership of the St. Louis Co will depend on the ongoing discussions with the Potential Team Members described above as well as any other potential co-investors. As the airport operator, AviAlliance is expected to enter into an asset management agreement with the St. Louis Airport Co.

The contemplated ownership structure is shown below.



Asset Management Agreement

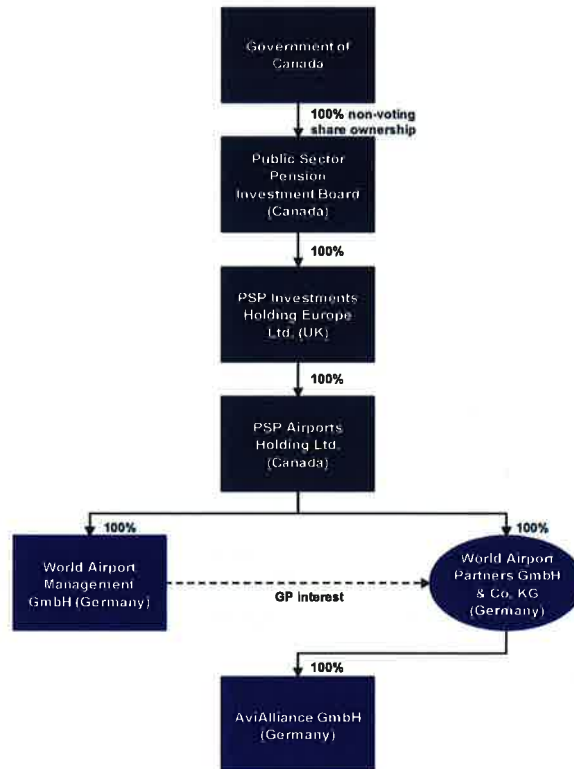
- Provision of direct support to the Airport in relation to strategic projects and business plan initiatives
- Preparation and oversight of annual business planning and budgeting
- Appointment of board members

b. Controlling Interest / Ultimate Ownership

The Government of Canada (her Majesty in right of Canada) is the ultimate sole shareholder of PSPIB. PSPIB has legal title to and full discretionary authority over the assets it manages. PSPIB is neither controlled by nor acting on behalf of the

Government of Canada, or any other foreign government. The Public Sector Pension Investment Board Act, under which PSPIB is established, expressly states that PSPIB is not an agent of Her Majesty (i.e., the Government of Canada). To the contrary, because of its investment function, PSPIB operates at arm's length from the Government of Canada.

As stated above, AviAlliance is indirectly wholly-owned by PSPIB. The following depicts the ownership structure of both PSPIB and AviAlliance:




























4. Operational and Management Capability

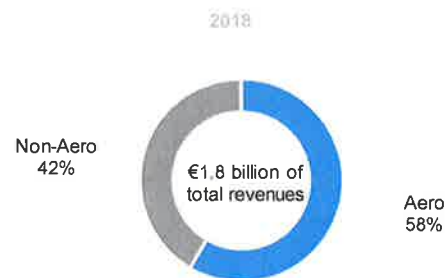
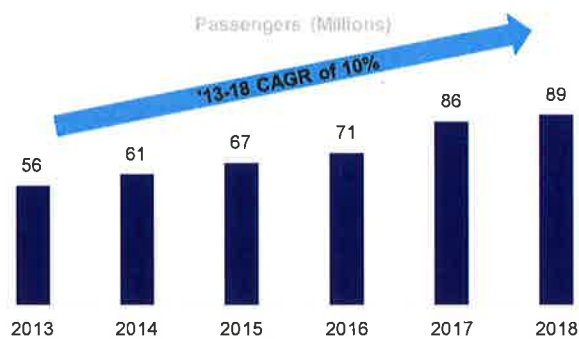
a. Operations and Maintenance Expertise

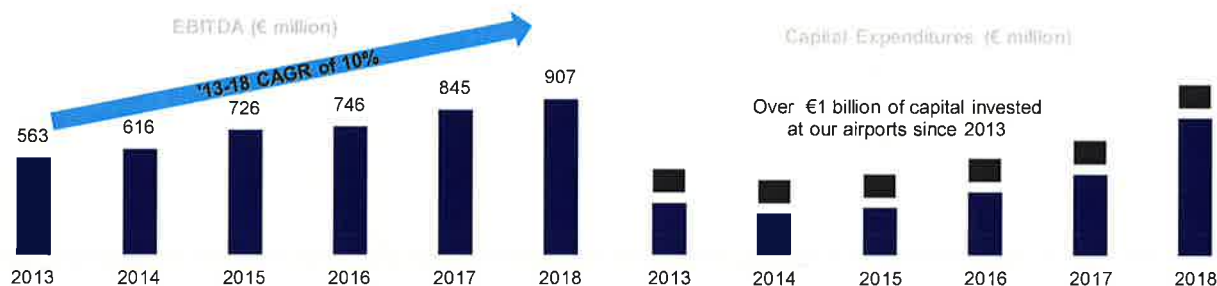
AviAlliance has substantial experience in (i) managing and improving other commercial airports, and (ii) managing facility maintenance/repair and procurement of related materials, and has familiarity with FAA regulations and procedures, airport operations, construction and maintenance standards and facilitating airport passenger growth via route development and marketing. The sections below demonstrate our experience including examples from our existing assets.

1. Managing and Improving other commercial airports

Airport Portfolio

Airport					
AviAlliance Ownership	40%	55%	30%	49%	40%
Co-Shareholders					
Total Passengers	24 million	15 million	24 million	17 million	8 million
Top 3 Airlines	  	  	  	  	  
# of Flight Routes	154	134	217	138	51
# of Runways	2	2	2	2	2
Size of Terminals	2.1 million sq. ft.	0.9 million sq. ft.	3.6 million sq. ft.	2.0 million sq. ft.	1.4 million sq. ft.





Example of investments / service enhancements at the SkyCourt Terminal Building at Budapest Airport



BUD is one of the fastest growing airports in AviAlliance's portfolio, with passenger traffic growing at a compound annual growth rate ("CAGR") of 13% in the last 5 years – to 15 million passengers in 2018. Given the steady growth in passenger traffic, AviAlliance recognized the need for an improved design to optimize passenger flow and increase commercial revenues. In 2011, AviAlliance led the design and development of a new €[REDACTED] terminal, which included SkyCourt, a 65,000 sq. ft. passenger hall comprised of over 50 shops, bars and restaurants. AviAlliance's technical and commercial experts worked closely with the management team on all aspects of the terminal construction and achieved completion on-time, on-budget and without any interruptions to the ongoing airport operations. In addition to the expanded commercial area in SkyCourt, the new terminal also offers a state-of-the-art and efficient passenger check-in process.

2. Managing facility maintenance and repair, and procurement of related materials

AviAlliance has a strong track record of successfully managing facility maintenance and repair, developed from over 20 years of maintenance planning and execution in our existing network of airports. AviAlliance's experience includes:

- Planning and delivering over 45 facility maintenance projects on-time and on-budget to optimizing asset lifecycle and condition
- Developing the procurement strategy and contractual approach for facility maintenance and repair projects to achieve optimal solutions for our airports
- Applying internationally recognized contracting models to govern the procurement process in a transparent and efficient manner
- Working collaboratively with the operational staff of airports, through secondments and regular working sessions, to ensure that our airports meet the highest standards of safety and efficiency during ongoing maintenance and repair

Example of managing facility maintenance and repair at San Juan Airport



AviAlliance's capabilities in managing facility maintenance and repair are demonstrated by our response to Hurricane Maria, a Category 5 hurricane, which affected Puerto Rico in 2017. AviAlliance performed pre-hurricane preparatory works, which enabled SJU to resume limited services within 24 hours after the storm and regular flight operations two weeks after the hurricane. In response to the storm, AviAlliance led the dedicated Airport Task Force that managed (i) the damage assessment, (ii) the development of repair strategies, (iii) the relationships with the insurers, and (iv) the procurement of repair and reconstruction works. AviAlliance also ensured that the repair work met higher building standards to enhance the resiliency of SJU against future storms.

3. Familiarity with FAA regulations and procedures, airport operations, construction and maintenance standards

PSPIB and AviAlliance have engaged Mr. Govan, former Chief Counsel at the FAA, to advise us on the FAA regulations and procedures. As Chief Counsel at the FAA, Mr. Govan completed a number of strategic projects, including negotiating the federal consent decree pertaining to the Santa Monica Airport, overseeing the revised guidance governing the use of aviation fuel tax revenue and the review of proposed changes in the governance structure of airport authorities. Prior to the FAA, Mr. Govan held various positions at Freddie Mac, Organization Resources Counsellors, United States House of Representatives, United States Senate and New York County.

Additionally, PSPIB and AviAlliance have the requisite knowledge of and expertise with FAA's airports operations, construction and maintenance standards, gained from our ownership of a 40% interest in Aerostar Airport Holdings LLC ("Aerostar"), the operator of SJU. Dr Alexander Ising and Holger Linkweiler from AviAlliance currently sit on the board of directors of Aerostar and AviAlliance personnel work closely with Aerostar's management for the preparation of the annual business plans and budgets, and provide direct support to Aerostar's management for the development and implementation of strategic projects and business plan initiatives.

4. Facilitating airport passenger growth via route development and marketing

AviAlliance is recognized for its best-in-class capabilities in facilitating passenger growth and has won multiple World Routes Marketing awards for (i) ATH in 2015, 2016 and 2019 and (ii) BUD in 2018 and 2019. AviAlliance's expertise in airline marketing is demonstrated by its ability to increase passenger traffic by double digit growth rates in its airports, even during periods of weak macroeconomic growth in Greece or when faced with external shocks such as the bankruptcy of Malév, BUD's home carrier, representing ~40% of traffic at the airport. AviAlliance works closely with the management teams of airports in:

- Conducting feasibility studies that are customized to airlines' needs
- Performing in-depth analysis of passenger profiles to optimize route offerings
- Introducing new services that are tailored to individual airlines (including differentiated offerings for LCCs)
- Partnering with local tourism boards to create effective destination marketing campaigns
- Leveraging digital marketing channels such as the airport's website, social media and other internet-based campaigns

Example of facilitating airport passenger growth via route development and marketing at ATH

AviAlliance has supported ATH in growing its passenger traffic at a CAGR of 12% during the past 5 years through the implementation of innovative airline marketing initiatives and through promoting Athens as a regional gateway. AviAlliance has worked with the management team of ATH in:

- Conducting feasibility studies with various airlines, developing targeted incentive programs and offering specialized products (e.g.: basic boarding for low cost carriers)
- Fostering closer relationships with airlines by hosting airline marketing workshops
- Creating "2board", ATH's quarterly magazine which promotes cultural events in the region of Athens
- Developing and managing regional promotional campaigns in the terminal
- Developing digital campaigns such as "#ImAnAthenian" via a smartphone application which allows participants to upload pictures from their personal Athenian experience
- Partnering with Aegean Airlines, Athens City and the Greek Tourism Board to promote Athens as an attractive year-round destination



b. Capital Improvement Experience

AviAlliance is deeply involved in the master planning and capital expenditures of each of its airports. A selected list of our capital expenditure projects is provided below:

Sample of AviAlliance's Capital Improvement Projects



Budapest Airport Runway Refurbishment

In 2019, BUD completed the refurbishment of Runway 1, which included the refurbishment of the concrete on the runway, the replacement of the instrument landing system, the replacement of concrete drainage shafts, and the replacement of electronic cabling.

The two-month renovation €4 million project was completed ahead of schedule and on-budget.

Hamburg Airport Apron Refurbishment



Hamburg Airport (HAM) is refurbishing its main apron, which comprises an area of ~3.2 million sq. ft.

In connection with this project, HAM is introducing the innovative guidance system "follow the greens" for aircraft taxiing.

To date, ~2.7 million sq. ft have been refurbished, including the area in front of the terminal and those connecting the apron to the runways.

The budget for the refurbishment sums up to €120 million, the finished sub-projects were finalized on time and within the latest budget.

Budapest Terminal Pier Expansion



In 2018, BUD commissioned a new pier to help alleviate anticipated capacity bottlenecks and to cater to the future passenger growth. The 10,000 sq. ft. new pier increases the number of boarding gates by 17 and allows for flexible operations of boarding procedures (incl. boarding by bridge, bussing or walking) and additional contact stands for wide body aircraft.

AviAlliance seconded two employees to the airport to assemble and manage the construction team.

The €25 million project was commissioned two months prior to the scheduled opening and was 3% below budget.

Ongoing Real Estate Development at Dusseldorf Airport



In 2003, AviAlliance led the acquisition of ~2.5 million sq. ft. of adjacent vacant land to the airport previously held by British forces. Since then, more than 80% of the land has been developed or is under construction. Uses of the land include the largest hotel and convention center in the State, various single user and multi-tenant office buildings, a Porsche car dealership as well as underground car parking. The creation of the Airport City contributes to the performance of the terminal concessions.

As the largest private shareholder in DUS, AviAlliance was involved in the negotiations of the € [REDACTED] acquisition of land and continues to be involved in the commercial development of the land.

SkyCourt Terminal Building at Budapest Airport



In 2011, AviAlliance led the design and development of a new € [REDACTED] terminal, which included the SkyCourt, a 65,000 sq. ft. passenger hall comprised of over 50 shops, bars and restaurants.

AviAlliance's technical and commercial experts worked closely with the management team on all aspects of the terminal construction and achieved completion on-time, on-budget and without any interruptions to the ongoing airport operations. In addition to the expanded commercial area in SkyCourt, the new terminal also offers a state-of-the-art and efficient passenger check-in process.

c. Excellence in Customer Service

PSPIB and AviAlliance have demonstrated experience in (1) maintaining productive ongoing relationships with government entities (2) providing excellent customer service to the traveling public (3) delivering safe and efficient operating conditions to airlines and (4) maintaining active public relations functions targeted at travellers, taxpayers and airport tenants.

1. Maintaining productive ongoing relationships with government entities

Through its management of community assets around the world, PSPIB has deep experience in working constructively with government agencies and regulatory bodies, and in partnership with governments globally across its diverse businesses. The table below illustrates businesses in which we maintain close working relationships with government entities.

Examples of PSPIB Working Closely with Government Entities



- Regulated airports in Germany that serve over 40 million passengers per year
- Owned in partnership with local State governments which requires frequent co-shareholder interactions



- Transelec, a regulated utility, operates over 10,000 kilometres of power transmission lines that deliver power to 97% of Chile's population



- Exclusive provider of land titling and valuation services in South Australia, which registers over 200,000 property market transactions per year
- The management of LSSA works closely with the Government of South Australia to ensure reliable and consistent quality of service to the community



- WETT, a regulated utility, operates high-voltage transmission lines in West Texas as part of a state-wide program to deliver clean, renewable energy



- PSPIB's hydro-electric power generation platform with an installed capacity of ~1.4 GW in the United States
- As an energy producer in the US, there exists a close relationship with the Federal Energy Regulatory Commission

AviAlliance works closely with government bodies in the management of all its airports within a structured governance framework, which includes representatives from AviAlliance and associated government entities. AviAlliance has worked in conjunction with government bodies to develop successful governance frameworks, which outline clear responsibilities and deliverables for all parties.

Example of the importance of productive relationships with government entities at DUS and HAM

At our German airports, the local cities are our co-shareholders, which requires close collaboration on any issues and initiatives at the airports.

Such permanent collaboration and communication ensure the safe, ecological and efficient use of the airports in Hamburg and Düsseldorf and development of local community programs which align the interests of the surrounding neighborhoods with the airport's development as well as improvement of connectivity of airports to public transportation networks such as motorways or the railway system.



Communication between governmental entities and AviAlliance is fluid both on the working and management levels, facilitating informed decision-making and allowing for constructive discussions.

There are several example projects demonstrating a fluid and close communication in Hamburg:

- Design and implementation of effective voluntary noise protection programs for more than 20,000 households and an investment volume of US\$55 million in Hamburg
- Design and implementation of new central security passenger screening systems to achieve the highest security standards while at the same time optimizing passenger throughput
- Development of a long-term master plan for the needs-based expansion of the airport's capacity (HAM FUTURE program)

This close collaboration is furthermore underlined with events like the "New Year's Reception" at DUS as well as the "Political Evening" in Hamburg.

2. Providing excellent customer service to the travelling public

AviAlliance believes that an efficient screening process, a welcoming commercial area and a well-maintained facility are crucial in enhancing customer satisfaction. AviAlliance has been recognized for providing high-quality customer service through multiple industrial awards as demonstrated below.



2017 Best Regional Airport in Europe – Hamburg



2018 Best Regional Airport in Europe – Hamburg



2018 Best Airport in Europe 15-25m Pax Category – Athens



2017 Best Airport in Europe 15-25m Pax Category – Athens



2014 Best Airport in Eastern Europe – Budapest



2015 Best Airport in Eastern Europe – Budapest



2016 Best Airport in Eastern Europe – Budapest



2017 Best Airport in Eastern Europe – Budapest

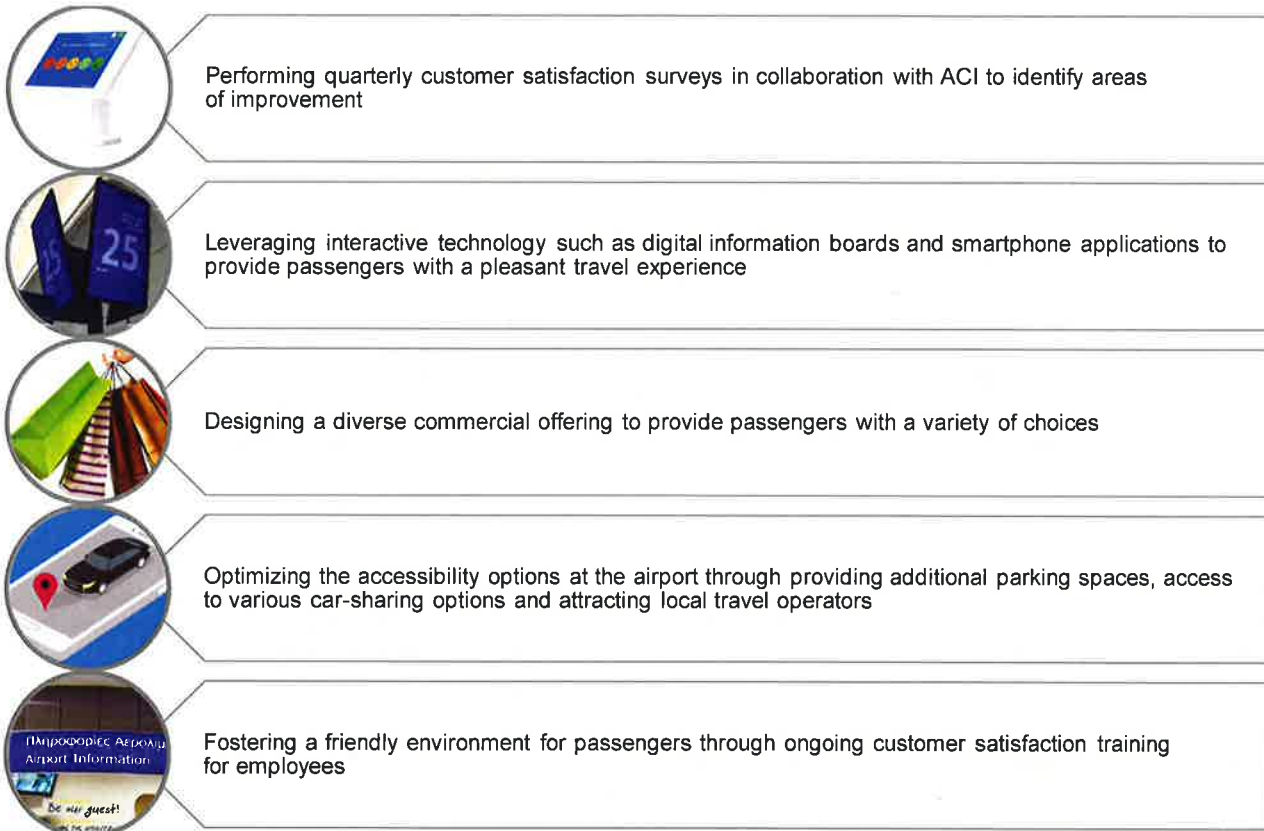


2018 Best Airport in Eastern Europe – Budapest



2019 Best Airport in Eastern Europe – Budapest

Our commitment to continuously improving our customer service standards includes:



Example of our commitment to high quality customer service at Budapest Airport



"We do not consider the enhancing of the passenger experience as a one-off project, but as an approach which continuously defines our activities, and it is apparent that we are on the right track" –Dr. Rolf Schnitzler, CEO of BUD

Record passenger traffic, more satisfied passengers during the summer peak

2019.10.18



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Not only did passenger traffic break records during the summer peak season, but passenger satisfaction has also improved significantly at Budapest Airport. Travelers especially appreciated the faster check-in and the average waiting time of 10 minutes for security screening, which is short, even by international comparison.

With AviAlliance's support, BUD has strived to achieve the highest standards in customer satisfaction. BUD's Airport Service Quality ("ASQ") score has increased every quarter in 2019 while growing year-over-year passenger traffic by 300,000. The key drivers of the increase in ASQ score include improvement in the cleanliness of washrooms and reduction in waiting times for check-in and security screening.

3. Delivering safe and efficient operating conditions to airlines

AviAlliance places the utmost emphasis on the safety and efficiency of the operating conditions for its customers (airlines, passengers and all other relevant stakeholders).

Our success is recorded in well-recognized ratings published by organizations like e.g. ACI, having developed an ASQ barometer which is the first global snapshot of airport customer experience satisfaction levels, Eurocontrol as well as the US Department of Transportation.

Key policies implemented at our airports to achieve those goals include:

- Applying the most stringent and contemporary security guidelines and best-practice industry standards, including but not limited to ICAO Annexes (9,14 and 17) as well as supporting standards and recommended practices (SARPs)
- Review and optimization of the security management

- Technology leadership
- Intensive training of staff

Safety

- Monitoring and tracking of safety incidents to identify areas of weakness and proactively prevent re-occurrence
- Leveraging portfolio of airports to ensure an incident at one airport is not repeated at another portfolio airport
- Training employees on safety standards on a regular basis
- Upholding the International Civil Aviation Organization (ICAO) and FAA regulations regarding safety procedures and required safety measures to implement

Efficiency

- Implementing a centralized resource management system that covers the allocation of all check-in counters, Flight Information Display System, gates/aircraft stands and the baggage handling system which allow for airlines to make optimal use of the available capacities and reduces the potential for inefficient split operations
- Introducing service level agreements with all airlines to monitor the operational performance and identify areas of improvement
- Scheduling major maintenance programs while optimizing the operational safety and flexibility of our airports

Example of optimizing airfield capital expenditure to enhance operational safety and flexibility at Budapest Airport

In 2018, AviAlliance worked with the management team of BUD to upgrade its ILS systems (landing system technology). The new upgraded technology has improved the reliability of the radio navigation system, enabled landings at BUD in poor visibility conditions and improved the on-time performance of airlines. The upgrades were completed on-time and on-budget.

4. Maintaining active public relations functions targeted at travelers, taxpayers and airport tenants

We value the opinions of all stakeholders and leads various initiatives to support local communities and businesses, promote cultural activities in the region and reduce our environmental impact. Examples of events our airports host on a recurring basis include:

- Chief Executive Symposium that invites more than 100 local top executives
- Runway Run which brings together the community to raise funds for local charities
- Art exhibits that display local artists
- Cultural days promoting tourism within the region
- Digital innovation and youth entrepreneurship competitions

Example of our commitment to community engagement at Athens International Airport

- In 2016, ATH, aiming to meaningfully contribute to youth employability in Greece, offered 100 young people between ages 19 and 29 the opportunity to work at the airport for a period up to 6 months, providing them with the necessary working experience and on-the-job training to support their future professional steps
- ATH's acknowledged know-how has already "travelled abroad", through various international airport projects. Through "Airport Praxis 2" the focus was on Greek youth's employability. ATH offered paid work for 100 young people in various airport company departments, providing valuable training, knowledge, and working experience. The program was the continuation of "Airport Praxis 1" that was implemented in 2014 for 70 young people



d. Safety and Security

AviAlliance's commitment to security is demonstrated by:

- Arranging regular meetings between the airport operator, the police, fire department, authorities and third parties to analyze accidents and incidents that are recorded
- Reviewing and if necessary, modifying of relevant safety manuals and programs at each airport
- Fostering a culture of continuous improvement and intensive training
- Abiding by the ICAO, FAA, TSA, FIS and customs and border protection standards and recommendations

1. Knowledge of airport safety and security management and methodologies, including TSA security plan approval process

AviAlliance operates and manages its airports in compliance with the relevant international and national safety and security regulations. This includes ongoing compliance with the applicable EASA (European Aviation Safety Agency) regulations for AviAlliance's airports in Europe and FAA regulations for the San Juan Airport in Puerto Rico. AviAlliance's airports are compliant with all EU-wide and national security standards in Europe as well as applicable TSA regulations for operating San Juan Airport as a Category X airport.

2. Experience in emergency response support

AviAlliance has extensive experience in the development, application and enforcement of Emergency Response Plans ("ERPs"). The ICAO Standard and Recommended Practices, which serves as a basis at all AviAlliance airports has aided our airports in:

- Continuous earthquake readiness and response at ATH
- Discovery of WWII bombs at HAM and safe detonation
- Hurricane preparation at SJU

3. Background in relevant traffic engineering standards, specifications, policies, practices, and processes

All of AviAlliance airports abide by ICAO Annex 14, which sets the regulatory framework to ensure safe and secure traffic operations and all local and national regulations and requirements. Contrary to the European model of traffic engineering standards, the US regulations related to traffic engineering are transferred into airport-specific Traffic Engineering Manuals. The focus of the traffic engineering standards and policies relate to signs, signals and markings for wayfinding operations, and escape routes and terminal evacuation planning.

4. Environmental management expertise

AviAlliance has over 15 years of experience in delivering projects that are compliant with environmental requirements of applicable federal, state and local laws and regulations. AviAlliance has successfully implemented certified environmental management systems at ATH and HAM, which provide reliable controlling, reporting, and planning as well as appropriate compliance systems for all environment-related matters. ATH's Environmental Management System (EMS) was successfully recertified this year with the latest version of the ISO 14001 standards. AviAlliance's airports have received the following environmental awards:



2017: Dusseldorf Upgraded to Level 3 of Airport Carbon Accreditation Program



2017: Athens Upgraded to Level 3+ of Airport Carbon Accreditation Program



Security Training at San Juan Airport



2015: Hamburg Airport named Air Quality of the Year by Hamburg Chamber of Commerce and the Department of Environment and Energy

5. Financial Capability

PSPiB is one of Canada's largest and fastest growing pension investment managers with C\$168 billion of assets under management as of March 31, 2019. PSPiB's net assets increased by nearly C\$15 billion during fiscal year 2019, consisting of net contributions of ~C\$4 billion received by PSPiB from the pension plans it manages and a net return of 7.1% in fiscal year 2019. PSPiB's net assets have increased by nearly C\$74 billion over the past 5 years driven by substantial investment returns of C\$54 billion and positive net fund transfers from the Canadian government of C\$20 billion. Based on actuarial projections, PSPiB is on track to reach over C\$250 billion of net assets by 2028. The annual report of PSPiB is provided in Appendix E.

PSPiB's Infrastructure Investments group has successfully completed some of the largest transactions in the sector, which have been profiled below, including our approach to financing the transactions and the key lenders that have provided us with debt financing for each transaction.

Profiles for PSPiB's infrastructure transactions and financing approach

Acquisition and refinancing of FirstLight Power Resources (PSPiB ownership: 100%)

FirstLight Power Resources owns and operates essential power infrastructure in Connecticut and Massachusetts and serves over 1.3 million homes in New England.

In 2016, PSPiB acquired 100% of FirstLight Power Resources, a 1.4GW hydroelectric portfolio in New England from ENGIE Group for US\$1.2 billion. PSPiB was able to complete the transaction within an expedited timeframe to ensure certainty of meeting vendor deadlines.

In 2019, PSPiB raised US\$ [REDACTED] of BBB-rated Private Placement Senior Secured Notes for the financing of Northfield Mountain, a ~1.2GW hydroelectric pumped storage facility in Massachusetts that is 100% owned by PSPiB. This was the largest single asset financing ever completed for a hydropower asset in the private placement market in the United States.

The financing allowed for the implementation of a long-term stable capital structure and was oversubscribed at 3.2 times the quantum marketed. The financing was supported by 19 high-quality institutional investors.

Acquisition and refinancing of Forth Ports (PSPiB ownership: >50%)

Forth Ports is a UK-based multimodal ports owner and operator, with ports serving as logistical gateways across the UK, connecting the UK with Europe and the rest of the world. In 2018, PSPiB led the acquisition of a 63% ownership interest in Forth Ports that it did not already own. Following financial completion, PSPiB divested minority ownership interests to other long-term investors that are well aligned with PSPiB to support the future growth of Forth Ports.

PSPiB financed the acquisition of the 63% ownership interest entirely with equity, which demonstrates PSPiB's financial capacity and flexibility. Subsequently, in 2019, PSPiB raised £ [REDACTED] in the US Private Placement market to finance certain port construction works and to optimize the capital structure of Forth Ports.

Refinancing of BUD (PSPiB ownership: 100%)

In 2017, BUD undertook its second refinancing under PSPiB ownership, raising over €1.3 billion in bank debt. BUD was able to achieve an investment grade capital structure and significantly reduce refinancing risk by staggering debt maturities and realizing material interest savings.



Acquisition and refinancing of Land Services South Australia (PSPiB ownership: [REDACTED]%)

Land Services South Australia ("LSSA") is the exclusive provider of land titling, property information and valuation services to the State of South Australia under a 40-year concession. In 2017, PSPiB, alongside a consortium of like-minded investors, was awarded the concession for A\$1.6 billion. After the acquisition, PSPiB and its partners successfully completed a smooth transition from public to private ownership, and in 2019, amended and extended A\$ [REDACTED] of bank debt to obtain a long-term capital structure for LSSA.



Acquisition of Cubico Sustainable Investments (PSPIB ownership: 50%)

Cubico is one of the world's leading renewable energy providers with 2,149 MW of operating capacity, 359 MW of in-construction capacity and a pipeline of 400 MW across the Americas and Europe. In 2015, PSPIB acquired a 33.3% ownership interest in Cubico Sustainable Investments alongside Ontario Teachers' Pension Plan. Following the initial acquisition, both PSPIB and OTPP have increased their ownership to 50% each. Since 2015, Cubico has invested over £[REDACTED]* in new developments and raised over £[REDACTED]* in bank project finance and institutional debt.

Acquisition of HOCHTIEF AirPort (PSPIB ownership: 100%)

In 2013, PSPIB acquired 100% ownership of HOCHTIEF AirPort for ~€1.1 billion which comprised ownership stakes in ATH, BUD, DUS, HAM, Tirana Airport and an unlisted position in Sydney Airport. The company was subsequently rebranded AviAlliance. The ~€1.1 billion acquisition was entirely financed with equity, which demonstrates the financial capacity and flexibility of PSPIB.

As an AAA-rated issuer with sufficient liquidity, PSPIB has the ability to finance the Airport P3 entirely with equity at the project level. However, for efficient management of our capital, we envision raising investment grade debt financing and third-party capital from local, like-minded and value-additive investors. We have the flexibility and ability to raise debt and equity capital before or after financial close by leveraging our deep, global relationships with high credit quality banks and institutional investors.

6. Contacts and Advisors

Samuel Langleben (PSPIB) is the single point of contact of the Respondents for the purposes of the Airport P3. His contact details are provided in the table below.

Key Contact

PSPIB

Samuel Langleben

Director, PSPIB Infrastructure Investments

PSP Investments

1250 boul. René-Lévesque Ouest, Bureau 1400

Montreal, QC H3B 4W8

Canada

Tel:

Mob:

Email:

Fax:

Advisors

PSPIB has engaged or expects to engage the following advisors with leading US Airport experience.

Advisor	Firm Lead	Key Workstreams
	Steven Summers	Financial
	Stephen Wainright	Business Planning: Traffic, Non-Aero, Opex, Master Planning
Holland & Knight	Roth Kehoe	Legal Due Diligence and Process Documentation
DAVIES	Steve Levin	Governance
	Reginald Govan	Government and Regulatory Affairs

We are in the process of completing our advisory team and expect to be adding a financial and tax advisor and a cargo advisor.

7. Disclosure of Conflicts

To the best of their knowledge, after reasonable inquiry, none of the Respondents, nor any of their current advisors, have any associations, current or prior dealings, relationships, and/or existing contracts with (a) the City, its employees and elected representatives, and (b) any Airlines operating at the Airport, current lessees or individuals doing business with the Airport, and suppliers of goods or services to the Airport, as it relates to this Transaction.

For transparency purposes, the Respondents wish to disclose the following:

- PSPIB, as one of Canada's largest pension investment managers with over C\$168 billion in AUM, manages a diversified global portfolio of investments across a variety of industries. As such, PSPIB's portfolio companies may from time to time have associations, current or prior dealings, relationships, and/or existing contracts with parties identified in (a) and (b) above. PSPIB is not aware of any of these associations, dealings, relationships or contracts being related to the contemplated Transaction and none of these are anticipated to relate to the contemplated Transaction.
- AviAlliance has, as a globally active airport investor and through the direct and indirect participations held in certain airports, from time to time in the ordinary course of business and/or within the context of industry events contacts with people active in the aviation industry. In particular, several airlines operating at the Airport also fly to airports in which AviAlliance holds an interest. However, none of these relationships or contacts relate to the contemplated Transaction.
- Steer, the Respondents' business planning advisor, is party to a contract whereby Steers plays the role of aviation expert to the monitoring trustee as part of the BA/AA/IB transatlantic Joint Venture, supporting Mazars as the lead trustee. Steers' duty of care pursuant to this contract is owed to the Director General, Competition of the European Commission and the US Department of Transport.
- Davies Ward Phillips & Vineberg LLP has represented a number of airlines, including [REDACTED]. Such representation has generally been with respect to Canadian legal matters and in any event has not been in connection with the Transaction.
- Holland & Knight LLP routinely represents a number of airlines and other companies operating in the aviation industry who may provide material professional services to the City or a City Advisor. Holland & Knight has confirmed that such representation is not in connection with the Transaction. [REDACTED]
- The municipal division of Citi's Global Spread Products group ("GSP"), an affiliate of Citi, the Respondents' financial advisor, has served as senior underwriter for financings for the City of St. Louis and related governmental entities and many of the carriers serving the Airport. GSP has ongoing discussions with carriers and other businesses that may conduct business with the Airport regarding financing opportunities. In addition to GSP, Citigroup Global Markets Inc. and its affiliates (together, the "Group") are engaged in a wide range of financial services and businesses (including investment management, financing, securities trading, corporate and investment banking and research). Members of the Group and businesses within the Group generally act independently of each other, both for their own account and for the account of clients. Moreover, Citi has in place certain procedures which minimize the likelihood that a conflict of interest would exist between the City of St. Louis and Citi, particularly in respect to services provided to airlines serving the Airport as clients. Among those procedures are requirements that third-party relationships be closely scrutinized and, where appropriate, disclosed to our clients.

8. Comparable Projects

Commercialization of 6 Brazilian Airports (PSPIB stake: 50%)



In 2019, PSPIB participated to the binding bid for the acquisition of a cluster of 6 airports located in Northeast Brazil. The combined traffic across the 6 airports totalled 14.5 million passengers in 2017. The commercialization was Brazil's 4th round of airport commercializations conducted by the Brazilian Civil Aviation Authority.

PSPIB / AviAlliance entered into a partnership with Patria, a local investor backed by Blackstone, to ensure local knowledge and expertise were duly incorporated into our business plan and our approach to asset management.

Diligence focused on integrating six regional airports into one system, managing the organizational structure and determining a fulsome transition plan.

Commercialization of Westchester Airport (PSPIB stake: 100%)



In 2017, PSPIB / AviAlliance explored the commercialization of Westchester Airport in Westchester County, New York. The 1.5 million passenger airport was proposed to be commercialized by Westchester County as part of the FAA's pilot public private partnership program.

PSPIB / AviAlliance partnered with the existing airport operating company, AvPORTS who would continue to manage day-to-day operations (without an equity stake) under the strategic guidance of AviAlliance to alleviate any transition concerns and provide additional in-house local knowledge.

Despite comprehensive due diligence conducted, we withdrew from the process due to uncertainty over the airline agreement and approval process.

Commercialization of Kumamoto Airport (PSPIB ownership: 50%)



In 2019, PSPIB / AviAlliance submitted a binding bid for the acquisition of Kumamoto Airport located in Southeast Japan. The 3.3 million passenger airport was being commercialized under a public private partnership model.

PSPIB and AviAlliance formed a consortium with Sumitomo advised by both international and local advisors to produce a comprehensive binding bid proposal centered on the twelve scoring criteria.

The proposal put forward ensured a strong terminal design concept, initiatives for collaboration with local communities, emphasis on safety and security, as well as a transition plan to ease the concerns of existing staff.

Commercialization of Land Services South Australia (PSPIB ownership: █%*)



In 2017, PSPIB acquired an indirect █%* ownership interest in LSSA, the exclusive provider of land titling and information services in South Australia. After the acquisition, PSPIB and its partners completed a successful transition and separation from the government, which included a respectful and fair recruiting process of over 100 existing employees.

9. Acknowledgements, Confirmation and Attestation

Our team is focused on developing a transaction approach tailored to St. Louis including a comprehensive stakeholder representation throughout. To support this objective, PSPIB together with Merrick Capital have undertaken several visits to St. Louis to meet with a wide-ranging set of local leaders from different facets of the local business and civic communities ahead of the launch of this RFQ. The learnings from these visits are reflected in our transaction approach.

As described in the Executive Summary, PSPIB and AviAlliance acknowledge the City's priorities for:

1. Improvement of Airport for all stakeholders, including incremental uses of the Airport's significant excess capacity
2. Net cash proceeds to the City, upfront and/or over time for non-Airport purposes
3. Community and economic development in St. Louis and across the region

PSPIB and AviAlliance acknowledge the following City-Related Commitments:

1. MBE / WBE Requirements with respect to Third Party Contracting

We are committed to operating our airports in a socially responsible way, including supporting and advancing the City's MBW / WBE objectives. As outlined in Section 3, PSPIB and AviAlliance are in discussions with Merrick Capital, a MWBE investment management platform. We expect that Merrick Capital principals will contribute to our team their proven ability and commitment to generate creative solutions to drive MBW / WBE participation in community development, investment and business through 3 pillars: equity, employment and education. We intend on delivering innovative solutions to meet the City's MBW / WBE objectives.

2. Retention of Current Airport Employees and Continued Compliance with Collective Bargaining Agreements

We are committed to complying with the requirements for the future employment of all current Airport employees as well as the collective bargaining agreements. We have a demonstrated track record of employment retention. For instance, we maintained all employees and employment conditions at the Athens International Airport, even in the face of a 25% traffic drop as well as a prolonged economic crisis in Greece. As outlined in Appendix C – Governance Approach, PSPIB and AviAlliance recognize the strategic importance of an airport to the local constituents and believe it is crucial that such an asset remains managed and developed in a manner consistent with the expectations of the local officials, its customers, the community and other stakeholders. Each of our airports currently operate with stand-alone management teams as we believe the most effective way of achieving these objectives is with a local management team empowered to operate in accordance with the local considerations.

PSPIB and AviAlliance further confirm the following:

3. Lack of Lender Exclusivity: We hereby confirm that we do not, and will not, have an exclusive relationship with a lender related to this Transaction.
4. Attestation to the Certification of Conflicts of Interest Policy. Please find attached as Appendix A attached hereto executed copies of the attestation required in connection with the Conflict of Interest Policy, signed by each of PSPIB and AviAlliance, as well as each of their advisors.
5. Defeasance of all Outstanding Airport Debt. We understand that the Airport debt will be defeased prior to the beginning of the Lease.

10. Additional Disclosure

Except as disclosed in Appendix D attached hereto, each of PSPIB and AviAlliance confirms that:

- i. It has not been involved in any criminal claims;
- ii. It has not been involved in any civil or litigation in excess of \$10,000,000;
- iii. It has not been involved in any civil claims or litigation having a material impact on the operations of any member of the Team;
- iv. It has not been a party to a contract under which it was obligated to provide goods or services, having a total contract or project value in excess of \$10,000,000, and which, in the last 15 years, were terminated by the counter-party for cause against it or for convenience; or
- v. It has not been involved in circumstances in the last 15 years in which it, or a team in which it was a participant, failed to close on a contract awarded to it, where such failure was not excused or where a bid, proposal, or closing security were surrendered or drawn upon because of such failure.

Disclaimer

This RFQ Submission expresses current intentions only. It is not an offer capable of acceptance or a commitment to implement any of the proposed initiatives disclosed in the RFQ Response, nor does it impose any duty or obligation to negotiate towards or conclude any binding or enforceable contract or commitment. This RFQ Submission may contain forward-looking statements, forecasts, estimates and projections ("**Forward Statements**"). Neither PSPIB, nor AviAlliance represent or warrant that such Forward Statements will be achieved or will prove to be correct.

No representation or warranty, expressed or implied, is made as to the accuracy, completeness, reasonableness, achievability, reliability or correctness of the information contained in this Presentation. To the maximum extent permitted by law, none of PSPIB and its affiliates or any of their respective directors, officers, employees or agents, nor any other person, accepts any liability arising from any use of the information contained in this Presentation.

Appendix A: Attestations Related to the Conflict of Interest Policy

APPENDIX A: CONFLICT OF INTEREST POLICY

As part of responding to a Request for Qualifications ("RFQ") and a Request for Proposal ("RFP") for a Transaction, each Respondent must certify in writing that the Respondent:

- 1) Has not retained after October 2, 2019, nor will it retain at any time during which this prohibition is effective, any City Advisor in connection with a possible Transaction.
- 2) Has not hired or retained after October 2, 2019, nor will it hire or retain at any time during which this prohibition is effective, in connection with a possible Transaction:
 - i. Any of the individuals who have been employed or retained by or through any of the City Advisors;
 - ii. Any member, shareholder, or partner in any of the City Advisors; or
 - iii. Any principal representative of an Organization;

Where such individual was doing such work on or after June 13, 2018, unless:

- a. Such hiring or retention is disclosed to the City; and
- b. The individual that is hired or retained is isolated from the Respondent's activities by an appropriate screen (i.e., the individual does not work on the Respondent's activities in connection with, or have access to information concerning, any Transaction).

All of these prohibitions terminate at the earliest of (1) a Respondent not being selected to proceed to the RFP stage; (2) a Respondent not submitting a response to the RFP and terminating its pursuit of a Transaction; (3) the City rejecting Respondent's RFP response or terminating negotiations with a Respondent; (4) a termination by the City of the pursuit of a Transaction; or (5) the closing of a Transaction.

For purposes of this policy:

- 1) "Transaction" means a Transaction as defined pursuant to Section 1.a.ii. of the Consultant Agreement dated June 13, 2018, between the City of St. Louis, Moelis & Company, LLC, McKenna & Associates, LLC, and Grow Missouri, Inc.
- 2) "Respondent" means any (i) joint venture or entity responding to an RFQ or RFP, (ii) joint venturer, partner, or member of a joint venture or entity described in clause (i), or (iii) advisor, consultant, agent, or representative retained by a joint venture or entity described in clause (i) to perform material or professional work in connection with a possible Transaction.
- 3) "City Advisor" means any entity and the principal representatives of each entity that have advised the City on a Transaction. The initial list of City Advisors and principal representatives is provided in Section VI of the RFQ.
- 4) "Organization" means any entity which has directly or indirectly provided material professional services to the City or a City Advisor in connection with a possible Transaction in the fields of law, accounting, taxation, engineering, architecture, finance, environmental services, or management.

Respondents (and potential Respondents) are encouraged to seek written guidance from the City Counselor's Office as to whether specific circumstances could present conflicts of interest, including before submitting any response to an RFQ or RFP. The City, acting through the City Counselor's Office in consultation with and with the approval of the Working Group, reserves the right to make determinations on a case-by-case basis.

Any Respondent who fails to certify or violates the terms of any certification, shall be subject to adverse consequences, including but not limited to a determination that such Respondent's response to a RFQ and/or RFP is nonresponsive or a rejection of such Respondent's responses to a RFQ and/or a RFP.

The City places a high priority on the integrity of any bidding process and avoiding the occurrence or appearance of conflicts of interest. The City expects any Respondent to be compliant with any and all laws pertaining to conflicts of interest particularly as they may relate to current or former officials or employees; this includes but is not limited to Section 105.454 RS Mo. which prohibits acts by certain elected and appointed public officials and employees and particularly paragraph 6 of section 1 of said section which states a prohibition to "Perform any service for any consideration for any person, firm or corporation after termination of his or her office of employment in relation to any case, decision, proceeding or application with respect to which he or she was directly concerned or in which he or she personally participated during the period of his or her service or employment."

ATTESTATION

On behalf of Public Sector Pension Investment Board, we hereby certify and attest that Public Sector Pension Investment Board has reviewed this Conflict of Interest Policy - Respondent's Side, understands all the terms contained herein and agrees to comply with the terms and conditions herein.



Date: October 31, 2019

Date: October 31, 2019

APPENDIX A: CONFLICT OF INTEREST POLICY

As part of responding to a Request for Qualifications ("RFQ") and a Request for Proposal ("RFP") for a Transaction, each Respondent must certify in writing that the Respondent:

- 1) Has not retained after October 2, 2019, nor will it retain at any time during which this prohibition is effective, any City Advisor in connection with a possible Transaction.
- 2) Has not hired or retained after October 2, 2019, nor will it hire or retain at any time during which this prohibition is effective, in connection with a possible Transaction:
 - i. Any of the individuals who have been employed or retained by or through any of the City Advisors;
 - ii. Any member, shareholder, or partner in any of the City Advisors; or
 - iii. Any principal representative of an Organization;

Where such individual was doing such work on or after June 13, 2018, unless:

- a. Such hiring or retention is disclosed to the City; and
- b. The individual that is hired or retained is isolated from the Respondent's activities by an appropriate screen (i.e., the individual does not work on the Respondent's activities in connection with, or have access to information concerning, any Transaction).

All of these prohibitions terminate at the earliest of (1) a Respondent not being selected to proceed to the RFP stage; (2) a Respondent not submitting a response to the RFP and terminating its pursuit of a Transaction; (3) the City rejecting Respondent's RFP response or terminating negotiations with a Respondent; (4) a termination by the City of the pursuit of a Transaction; or (5) the closing of a Transaction.

For purposes of this policy:

- 1) "Transaction" means a Transaction as defined pursuant to Section 1.a.ii. of the Consultant Agreement dated June 13, 2018, between the City of St. Louis, Moelis & Company, LLC, McKenna & Associates, LLC, and Grow Missouri, Inc.
- 2) "Respondent" means any (i) joint venture or entity responding to an RFQ or RFP, (ii) joint venturer, partner, or member of a joint venture or entity described in clause (i), or (iii) advisor, consultant, agent, or representative retained by a joint venture or entity described in clause (i) to perform material or professional work in connection with a possible Transaction.
- 3) "City Advisor" means any entity and the principal representatives of each entity that have advised the City on a Transaction. The initial list of City Advisors and principal representatives is provided in Section VI of the RFQ.
- 4) "Organization" means any entity which has directly or indirectly provided material professional services to the City or a City Advisor in connection with a possible Transaction in the fields of law, accounting, taxation, engineering, architecture, finance, environmental services, or management.


Respondents (and potential Respondents) are encouraged to seek written guidance from the City Counselor's Office as to whether specific circumstances could present conflicts of interest, including before submitting any response to an RFQ or RFP. The City, acting through the City Counselor's Office in consultation with and with the approval of the Working Group, reserves the right to make determinations on a case-by-case basis.

Any Respondent who fails to certify or violates the terms of any certification, shall be subject to adverse consequences, including but not limited to a determination that such Respondent's response to a RFQ and/or RFP is nonresponsive or a rejection of such Respondent's responses to a RFQ and/or a RFP.

The City places a high priority on the integrity of any bidding process and avoiding the occurrence or appearance of conflicts of interest. The City expects any Respondent to be compliant with any and all laws pertaining to conflicts of interest particularly as they may relate to current or former officials or employees; this includes but is not limited to Section 105.454 RS Mo. which prohibits acts by certain elected and appointed public officials and employees and particularly paragraph 6 of section 1 of said section which states a prohibition to "Perform any service for any consideration for any person, firm or corporation after termination of his or her office of employment in relation to any case, decision, proceeding or application with respect to which he or she was directly concerned or in which he or she personally participated during the period of his or her service or employment."

ATTESTATION

On behalf of **AviAlliance GmbH**, we hereby certify and attest that AviAlliance GmbH has reviewed this Conflict of Interest Policy – Respondent's Side, understands all the terms contained herein and agrees to comply with the terms and conditions herein.



October 31, 2019

October 31, 2019

APPENDIX A: CONFLICT OF INTEREST POLICY

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 - i. Any of the individuals who have been employed or retained by or through any of the City Advisors;
 - ii. Any member, shareholder, or partner in any of the City Advisors; or
 - iii. Any principal representative of an Organization;

Where such individual was doing such work on or after June 13, 2018, unless:

- a. Such hiring or retention is disclosed to the City; and
- b. The individual that is hired or retained is isolated from the Respondent's activities by an appropriate screen (i.e., the individual does not work on the Respondent's activities in connection with, or have access to information concerning, any Transaction).

All of these prohibitions terminate at the earliest of (1) a Respondent not being selected to proceed to the RFP stage; (2) a Respondent not submitting a response to the RFP and terminating its pursuit of a Transaction; (3) the City rejecting Respondent's RFP response or terminating negotiations with a Respondent; (4) a termination by the City of the pursuit of a Transaction; or (5) the closing of a Transaction.

For purposes of this policy:

- 1) "Transaction" means a Transaction as defined pursuant to Section 1.a.ii. of the Consultant Agreement dated June 13, 2018, between the City of St. Louis, Moelis & Company, LLC, McKenna & Associates, LLC, and Grow Missouri, Inc.
- 2) "Respondent" means any (i) joint venture or entity responding to an RFQ or RFP, (ii) joint venturer, partner, or member of a joint venture or entity described in clause (i), or (iii) advisor, consultant, agent, or representative retained by a joint venture or entity described in clause (i) to perform material or professional work in connection with a possible Transaction.
- 3) "City Advisor" means any entity and the principal representatives of each entity that have advised the City on a Transaction. The initial list of City Advisors and principal representatives is provided in Section VI of the RFQ.
- 4) "Organization" means any entity which has directly or indirectly provided material professional services to the City or a City Advisor in connection with a possible Transaction in the fields of law, accounting, taxation, engineering, architecture, finance, environmental services, or management.

Respondents (and potential Respondents) are encouraged to seek written guidance from the City Counselor's Office as to whether specific circumstances could present conflicts of interest, including before submitting any response to an RFQ or RFP. The City, acting through the City Counselor's Office in consultation with and with the approval of the Working Group, reserves the right to make determinations on a case-by-case basis.

Any Respondent who fails to certify or violates the terms of any certification, shall be subject to adverse consequences, including but not limited to a determination that such Respondent's response to a RFQ and/or RFP is nonresponsive or a rejection of such Respondent's responses to a RFQ and/or a RFP.

The City places a high priority on the integrity of any bidding process and avoiding the occurrence or appearance of conflicts of interest. The City expects any Respondent to be compliant with any and all laws pertaining to conflicts of interest particularly as they may relate to current or former officials or employees; this includes but is not limited to Section 105.454 RS Mo. which prohibits acts by certain elected and appointed public officials and employees and particularly paragraph 6 of section 1 of said section which states a prohibition to "Perform any service for any consideration for any person, firm or corporation after termination of his or her office of employment in relation to any case, decision, proceeding or application with respect to which he or she was directly concerned or in which he or she personally participated during the period of his or her service or employment."

ATTESTATION

On behalf of Davies Ward Phillips & Vineberg LLP, I hereby certify and attest that Davies Ward Phillips & Vineberg LLP has reviewed this Conflict of Interest Policy - Respondent's Side, understands all the terms contained herein and agrees to comply with the terms and conditions herein.



Date: 10/31/19

APPENDIX A: CONFLICT OF INTEREST POLICY

As part of responding to a Request for Qualifications ("RFQ") and a Request for Proposal ("RFP") for a Transaction, each Respondent must certify in writing that the Respondent:

- 1) Has not retained after October 2, 2019, nor will it retain at any time during which this prohibition is effective, any City Advisor in connection with a possible Transaction.
- 2) Has not hired or retained after October 2, 2019, nor will it hire or retain at any time during which this prohibition is effective, in connection with a possible Transaction:
 - i. Any of the individuals who have been employed or retained by or through any of the City Advisors;
 - ii. Any member, shareholder, or partner in any of the City Advisors; or
 - iii. Any principal representative of an Organization;

Where such individual was doing such work on or after June 13, 2018, unless:

- a. Such hiring or retention is disclosed to the City; and
- b. The individual that is hired or retained is isolated from the Respondent's activities by an appropriate screen (i.e., the individual does not work on the Respondent's activities in connection with, or have access to information concerning, any Transaction).

All of these prohibitions terminate at the earliest of (1) a Respondent not being selected to proceed to the RFP stage; (2) a Respondent not submitting a response to the RFP and terminating its pursuit of a Transaction; (3) the City rejecting Respondent's RFP response or terminating negotiations with a Respondent; (4) a termination by the City of the pursuit of a Transaction; or (5) the closing of a Transaction.

For purposes of this policy:

- 1) "Transaction" means a Transaction as defined pursuant to Section 1.a.ii. of the Consultant Agreement dated June 13, 2018, between the City of St. Louis, Moelis & Company, LLC, McKenna & Associates, LLC, and Grow Missouri, Inc.
- 2) "Respondent" means any (i) joint venture or entity responding to an RFQ or RFP, (ii) joint venturer, partner, or member of a joint venture or entity described in clause (i), or (iii) advisor, consultant, agent, or representative retained by a joint venture or entity described in clause (i) to perform material or professional work in connection with a possible Transaction.
- 3) "City Advisor" means any entity and the principal representatives of each entity that have advised the City on a Transaction. The initial list of City Advisors and principal representatives is provided in Section VI of the RFQ.
- 4) "Organization" means any entity which has directly or indirectly provided material professional services to the City or a City Advisor in connection with a possible Transaction in the fields of law, accounting, taxation, engineering, architecture, finance, environmental services, or management.

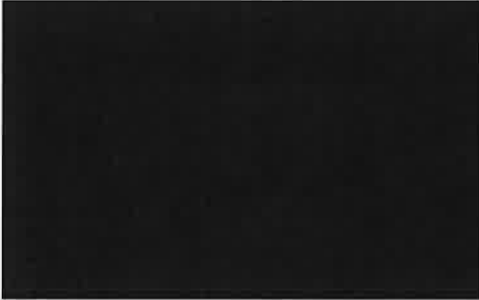
Respondents (and potential Respondents) are encouraged to seek written guidance from the City Counselor's Office as to whether specific circumstances could present conflicts of interest, including before submitting any response to an RFQ or RFP. The City, acting through the City Counselor's Office in consultation with and with the approval of the Working Group, reserves the right to make determinations on a case-by-case basis.

Any Respondent who fails to certify or violates the terms of any certification, shall be subject to adverse consequences, including but not limited to a determination that such Respondent's response to a RFQ and/or RFP is nonresponsive or a rejection of such Respondent's responses to a RFQ and/or a RFP.

The City places a high priority on the integrity of any bidding process and avoiding the occurrence or appearance of conflicts of interest. The City expects any Respondent to be compliant with any and all laws pertaining to conflicts of interest particularly as they may relate to current or former officials or employees; this includes but is not limited to Section 105.454 RS Mo. which prohibits acts by certain elected and appointed public officials and employees and particularly paragraph 6 of section 1 of said section which states a prohibition to "Perform any service for any consideration for any person, firm or corporation after termination of his or her office of employment in relation to any case, decision, proceeding or application with respect to which he or she was directly concerned or in which he or she personally participated during the period of his or her service or employment."

ATTESTATION

On behalf of Steer Davies & Gleave Limited (Steer), I hereby certify and attest that Steer has reviewed this Conflict of Interest Policy – Respondent's Side, understands all the terms contained herein and agrees to comply with the terms and conditions herein.



APPENDIX A: CONFLICT OF INTEREST POLICY

As part of responding to a Request for Qualifications ("RFQ") and a Request for Proposal ("RFP") for a Transaction, each Respondent must certify in writing that the Respondent:

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- 2) Has not hired or retained after October 2, 2019, nor will it hire or retain at any time during which this prohibition is effective, in connection with a possible Transaction:
 - i. Any of the individuals who have been employed or retained by or through any of the City Advisors;
 - ii. Any member, shareholder, or partner in any of the City Advisors; or
 - iii. Any principal representative of an Organization;

Where such individual was doing such work on or after June 13, 2018, unless:

- a. Such hiring or retention is disclosed to the City; and
- b. The individual that is hired or retained is isolated from the Respondent's activities by an appropriate screen (i.e., the individual does not work on the Respondent's activities in connection with, or have access to information concerning, any Transaction).

All of these prohibitions terminate at the earliest of (1) a Respondent not being selected to proceed to the RFP stage; (2) a Respondent not submitting a response to the RFP and terminating its pursuit of a Transaction; (3) the City rejecting Respondent's RFP response or terminating negotiations with a Respondent; (4) a termination by the City of the pursuit of a Transaction; or (5) the closing of a Transaction.

For purposes of this policy:

- 1) "Transaction" means a Transaction as defined pursuant to Section 1.a.ii. of the Consultant Agreement dated June 13, 2018, between the City of St. Louis, Moelis & Company, LLC, McKenna & Associates, LLC, and Grow Missouri, Inc.
- 2) "Respondent" means any (i) joint venture or entity responding to an RFQ or RFP, (ii) joint venturer, partner, or member of a joint venture or entity described in clause (i), or (iii) advisor, consultant, agent, or representative retained by a joint venture or entity described in clause (i) to perform material or professional work in connection with a possible Transaction.
- 3) "City Advisor" means any entity and the principal representatives of each entity that have advised the City on a Transaction. The initial list of City Advisors and principal representatives is provided in Section VI of the RFQ.
- 4) "Organization" means any entity which has directly or indirectly provided material professional services to the City or a City Advisor in connection with a possible Transaction in the fields of law, accounting, taxation, engineering, architecture, finance, environmental services, or management.

Respondents (and potential Respondents) are encouraged to seek written guidance from the City Counselor's Office as to whether specific circumstances could present conflicts of interest, including before submitting any response to an RFQ or RFP. The City, acting through the City Counselor's Office in consultation with and with the approval of the Working Group, reserves the right to make determinations on a case-by-case basis.

Any Respondent who fails to certify or violates the terms of any certification, shall be subject to adverse consequences, including but not limited to a determination that such Respondent's response to a RFQ and/or RFP is nonresponsive or a rejection of such Respondent's responses to a RFQ and/or a RFP.

The City places a high priority on the integrity of any bidding process and avoiding the occurrence or appearance of conflicts of interest. The City expects any Respondent to be compliant with any and all laws pertaining to conflicts of interest particularly as they may relate to current or former officials or employees; this includes but is not limited to Section 105.454 RS Mo. which prohibits acts by certain elected and appointed public officials and employees and particularly paragraph 6 of section 1 of said section which states a prohibition to "Perform any service for any consideration for any person, firm or corporation after termination of his or her office of employment in relation to any case, decision, proceeding or application with respect to which he or she was directly concerned or in which he or she personally participated during the period of his or her service or employment."

ATTESTATION

On behalf of Citigroup, I hereby certify and attest that Citigroup has reviewed this Conflict of Interest Policy – Respondent's Side, understands all the terms contained herein and agrees to comply with the terms and conditions herein.



October 29, 2019

APPENDIX A: CONFLICT OF INTEREST POLICY

As part of responding to a Request for Qualifications ("RFQ") and a Request for Proposal ("RFP") for a Transaction, each Respondent must certify in writing that the Respondent:

- 1) Has not retained after October 2, 2019, nor will it retain at any time during which this prohibition is effective, any City Advisor in connection with a possible Transaction.
- 2) Has not hired or retained after October 2, 2019, nor will it hire or retain at any time during which this prohibition is effective, in connection with a possible Transaction:
 - i. Any of the individuals who have been employed or retained by or through any of the City Advisors¹;
 - ii. Any member, shareholder, or partner in any of the City Advisors; or
 - iii. Any principal representative of an Organization;

Where such individual was doing such work on or after June 13, 2018, unless:

- a. Such hiring or retention is disclosed to the City; and
- b. The individual that is hired or retained is isolated from the Respondent's activities by an appropriate screen (i.e., the individual does not work on the Respondent's activities in connection with, or have access to information concerning, any Transaction).

All of these prohibitions terminate at the earliest of (1) a Respondent not being selected to proceed to the RFP stage; (2) a Respondent not submitting a response to the RFP and terminating its pursuit of a Transaction; (3) the City rejecting Respondent's RFP response or terminating negotiations with a Respondent; (4) a termination by the City of the pursuit of a Transaction; or (5) the closing of a Transaction.

For purposes of this policy:

- 1) "Transaction" means a Transaction as defined pursuant to Section 1.a.ii. of the Consultant Agreement dated June 13, 2018, between the City of St. Louis, Moelis & Company, LLC, McKenna & Associates, LLC, and Grow Missouri, Inc.
- 2) "Respondent" means any (i) joint venture or entity responding to an RFQ or RFP, (ii) joint venturer, partner, or member of a joint venture or entity described in clause (i), or (iii) advisor, consultant, agent, or representative retained by a joint venture or entity described in clause (i) to perform material or professional work in connection with a possible Transaction.
- 3) "City Advisor" means any entity and the principal representatives of each entity that have advised the City on a Transaction. The initial list of City Advisors and principal representatives is provided in Section VI of the RFQ.
- 4) "Organization" means any entity which has directly or indirectly provided material professional services to the City or a City Advisor in connection with a possible Transaction in

¹ As you are aware, earlier this year, we hired Marian O'Brien as an associate with our firm. Ms. O'Brien had previously worked for an Advisor on the Transaction. While this hiring is not specifically contrary to the certification required by the RFP, we have, consistent with our ethics obligations, disclosed that hiring to the City and walled Ms. O'Brien from any work for PSPIB or any of the Holland & Knight personnel on this project.

the fields of law, accounting, taxation, engineering, architecture, finance, environmental services, or management.

Respondents (and potential Respondents) are encouraged to seek written guidance from the City Counselor's Office as to whether specific circumstances could present conflicts of interest, including before submitting any response to an RFQ or RFP. The City, acting through the City Counselor's Office in consultation with and with the approval of the Working Group, reserves the right to make determinations on a case-by-case basis.

Any Respondent who fails to certify or violates the terms of any certification, shall be subject to adverse consequences, including but not limited to a determination that such Respondent's response to a RFQ and/or RFP is nonresponsive or a rejection of such Respondent's responses to a RFQ and/or a RFP.

The City places a high priority on the integrity of any bidding process and avoiding the occurrence or appearance of conflicts of interest. The City expects any Respondent to be compliant with any and all laws pertaining to conflicts of interest particularly as they may relate to current or former officials or employees; this includes but is not limited to Section 105.454 RS Mo. which prohibits acts by certain elected and appointed public officials and employees and particularly paragraph 6 of section 1 of said section which states a prohibition to "Perform any service for any consideration for any person, firm or corporation after termination of his or her office of employment in relation to any case, decision, proceeding or application with respect to which he or she was directly concerned or in which he or she personally participated during the period of his or her service or employment."

ATTESTATION

On behalf of Holland & Knight, LLP, I hereby certify and attest that Holland & Knight, LLP has reviewed this Conflict of Interest Policy - Respondent's Side, understands all the terms contained herein and agrees to comply with the terms and conditions herein.



APPENDIX A: CONFLICT OF INTEREST POLICY

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 - i. Any of the individuals who have been employed or retained by or through any of the City Advisors;
 - ii. Any member, shareholder, or partner in any of the City Advisors; or
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Where such individual was doing such work on or after June 13, 2018, unless:

- a. Such hiring or retention is disclosed to the City; and
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The City places a high priority on the integrity of any bidding process and avoiding the occurrence or appearance of conflicts of interest. The City expects any Respondent to be compliant with any and all laws pertaining to conflicts of interest particularly as they may relate to current or former officials or employees; this includes but is not limited to Section 105.454 RS Mo. which prohibits acts by certain elected and appointed public officials and employees and particularly paragraph 6 of section 1 of said section which states a prohibition to "Perform any service for any consideration for any person, firm or corporation after termination of his or her office of employment in relation to any case, decision, proceeding or application with respect to which he or she was directly concerned or in which he or she personally participated during the period of his or her service or employment."

ATTESTATION

On behalf of Reginald C. Govan, I hereby certify and attest that Reginald C. Govan has reviewed this Conflict of Interest Policy - Respondent's Side, understands all the terms contained herein and agrees to comply with the terms and conditions herein.



Date: November 1, 2019

Appendix B: Profiles of Potential Team Members

Introduction to USAA Real Estate

USAA Real Estate – alongside its 100+ investment partners – has a proven track record of real estate investment in all major sectors and US cities, including in the industrial and retail sectors in St. Louis, and is committed to US infrastructure investment and development.



Introduction to USAA

USAA Real Estate is supported by a parent company with financial strength and mission-driven purpose.

Founded in 1922, United Services Automobile Association ("USAA") is one of America's leading providers of insurance, banking, investment and retirement services for **over 12.8 million members of the U.S. military community.**

- With \$260B+ of AuM – and the highest possible credit ratings – USAA is well-positioned to invest in large scale infrastructure projects.
- Minorities and women are a significant share of USAA's members, making it one of the most diverse capital providers and one of Forbes' Best Large Employers for Diversity.
- Nearly 25% of USAA employees are veterans or military spouses.
- USAA's presence in St. Louis, Missouri:**
 - Nearly 53,000 USAA Members live in the City of St. Louis
 - Nearly 89,000 USAA Members live in the County of St. Louis
 - More than 500,000 USAA Members live in the State of Missouri



SERVICE. LOYALTY. HONESTY. INTEGRITY.

Introduction to Merrick Capital

Merrick Capital Management (MCM) is a diverse investment management platform focused on infrastructure investing; MCM is one of the few qualified, MWBE investment managers with **75+ years of experience** deploying billions of dollars on behalf of institutional investors.

**Kirk Sykes**

- Responsible for management of the day-to-day operations of MCM.

**Tammy Jones**

- Responsible for overseeing the underwriting and due diligence of potential investments.

**Dale Burnett**

- Responsible for community affairs and engagement for MCM.

Advisory Board

- **Thomas Glynn:** Fmr. CEO of MassPort, Fmr. U.S. Deputy Secretary of Labor
- **Duane Jackson:** Fmr. Board Member & RE Committee Chair of Massport
- **Joel Epstein:** Director of Business Planning & Analysis, Duty Free America

Merrick MWBE Initiatives

MCM principals have proven they possess the ability and commitment to generate creative solutions to drive MWBE participation in community development, investment and business. MCM has a proven track record of collaborating with diverse professionals, MWBE's, investors and community leaders through 3 pillars: equity, employment and education.

EMERGING DEVELOPER LOAN FUND

- Partnership with NYEDC and MCM Principal that provides low-interest loans to NYC real estate projects.
- Projects include mixed-income housing, mixed-use, and commercial projects.
- In just two years, EDLF has capitalized projects worth \$361M in Brooklyn and Harlem
- Expect creation of 160 local jobs and a consistent alternative to hard-money lenders.



BASIS INVESTMENT GROUP, LLC

- Basis Investment group, founded by MCM Principal, has directly lent over \$700M of capital to MWBE real estate sponsors.
- Investments in projects across multiple asset classes and geographies including New York City.

business equity initiative

- MCM Principal co-found Business Equity Initiative (BEI) CRE Program which launched with \$10M.
- Launched to address growing wealth and income inequality.
- Combines business growth, supplier partnerships, and community developments to drive MWBE opportunity.
- Focused on growing 20 Black and Latino MWBE firms providing them working capital and mentorship.



- Bayside & Massport public / private office tower development pursued in public RFP process.
- As part of bid, MCM Principal diversified an institutional GP by raising \$20M of Co-GP capital.
- Includes 51 local and national investors of color including women.

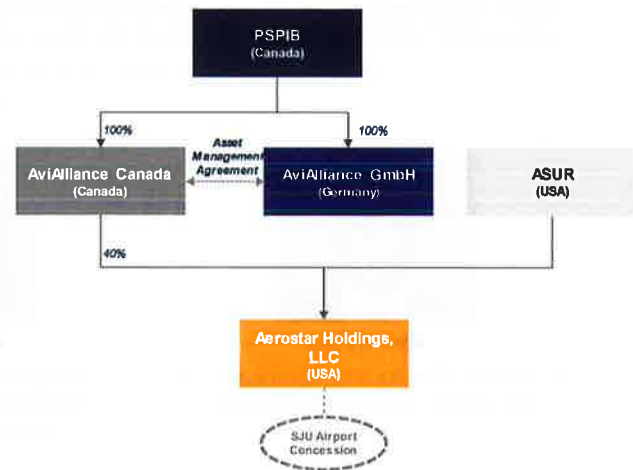
Appendix C: Governance Philosophy

In 2017, PSPIB acquired a 40% ownership interest in Aerostar, the operator of the Luis Muñoz Marín International Airport in San Juan. As illustrated in the image on the right, the ownership of Aerostar is held through AviAlliance Canada Inc., a Canadian subsidiary of PSPIB. AviAlliance manages PSPIB's 40% interest in Aerostar on behalf of PSPIB under an Asset Management Agreement ("AMA") between AviAlliance Canada Inc. and AviAlliance.

Asset Management Agreement

The AMA between AviAlliance Canada Inc. and AviAlliance includes similar responsibilities as those that are performed by AviAlliance for the airports owned by AviAlliance, which include, but are not limited to:

- Appointment of board members: PSPIB board member positions are held by AviAlliance employees
- Working closely with management of Aerostar in preparing the annual business plans and budgets
- Providing direct support to the management of Aerostar in developing and implementing strategic projects and business plan initiatives
- Providing strategic advice and assistance to PSPIB on matters related to the investment



[REDACTED]	
[REDACTED]	
1	[REDACTED]
2	[REDACTED]
3	[REDACTED]
4	[REDACTED]

PSPIB

- _____

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] *

- _____
- _____ *
- _____
- _____
- _____

- STRICTLY CONFIDENTIAL

- SJU was hit in 2017 by two major hurricanes and insurance claims (property insurance and business interruptions) were made by SJU in the amount of US\$ [REDACTED]*. These claims were amicably settled at the beginning of 2019.
- c) *Damage claims and corresponding claims against the insurance company in connection with the 1996 Fire Disaster at DUS (prior to the acquisition by AviAlliance of its equity interest in DUS)*
 - Following the 1996 fire disaster after which the airport was privatized and AviAlliance acquired its equity interest in the airport, claims by carriers, car rental firms and shops were made for damages and loss of profits.
 - All such claims (brought in German courts) have been settled and insurance companies have paid approximately € [REDACTED]* to the claiming parties.

[REDACTED]

[REDACTED]

[REDACTED]

Appendix E: Annual Report of PSPIB



PSP

**Think.
Act.
Globally.**

Public Sector Pension Investment Board
— 2019 Annual Report

Our vision is to be a leading global institutional investor that reliably delivers on its risk-return objective by focusing on a total fund perspective and always acting in the best interests of our Canadian sponsor and pension plan contributors and beneficiaries. As we pursue a larger global footprint, we will leverage our talent to deliver agile and efficient execution at scale and to become a sought-after enabler of complex global investments.

— Who we are

The Public Sector Pension Investment Board (PSP Investments or PSP) is one of Canada's largest pension investment managers, with \$168.0 billion of net assets under management as of March 31, 2019. 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, London and Hong Kong.

— What we do

PSP Investments' mandate is to manage the amounts transferred to it by the Government of Canada (the Government) for the funding of retirement benefits earned from April 1, 2000 (Post-2000 Liabilities) by members of the public sector pension plans of the federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police and since March 1, 2007, the Reserve Force (collectively the Plans). PSP Investments' statutory mandate is to:


- (a) Manage amounts that are transferred to it in the best interests of the contributors and beneficiaries, and
- (b) to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the pension plans and the ability of those plans to meet their financial obligations.

Cover photo, from left: Diane Jobin, Administrative Assistant, Private Equity; Sumita Banerjee, Director, Global Investment Partnerships Portfolio; Alexandre Gagnon-Kugler, Senior Director, Fundamental Equity Strategies, Energy, Transportation & Utilities, Global Equity Research; Éric Beaudoin, Senior IT Architect, Architecture, Practices and Technologies

All amounts in the report are in Canadian dollars unless otherwise noted.

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31	Management's discussion of fund performance and results				

A man and a woman are sitting on a red sofa in a modern office. The man is wearing a dark blazer over a light shirt and dark trousers, and the woman is wearing a white sleeveless top and dark trousers. They are both smiling and looking towards the camera. The office has a large window that provides a view of a city skyline, including the London Eye and the Shard. The floor is made of light-colored wood.

We spot the edge worldwide

PSP has grown to become an agile and sought-after enabler of complex, global investments, and an investor and manager of a \$168.0 billion portfolio. The stability of PSP Investments' return over the last years notably reflects the level of diversification embedded in the Policy Portfolio across different asset classes and geographies.

Today, we're a diverse team of international experts. Our global footprint and scope enable us to attract top talent who share our passion for pushing boundaries in pursuit of excellence—and of investment opportunities otherwise unseen.

The world in our sights

As a pension fund investment manager, PSP invests and manages assets to help meet pension obligations decades into the future. The expansion of our global footprint is key to fulfilling our long-term mandate for the benefit of the contributors and beneficiaries of the pension plans for which we invest.

Our “global” strategy is fundamental to our ability to spot the edge in investments worldwide to which we would otherwise not have access. It is also an essential component of the diversification and growth of our portfolio into private asset classes generating long-term returns—in line with our long-term outlook.

By setting up offices in strategic financial markets, we build our network of partners, strengthen local relationships, gain exceptional insight, and position ourselves to move quickly on opportunities. We have learned that combining new talent with existing PSP employees from other locations is a winning formula for instilling our uniquely connected One PSP approach and accelerating each new office’s ability to bring our edge to bear.

5
offices

75+
countries



Ottawa



Montréal



New York



London

Global connections, unique advantage

The diversity of our talent, assets and geographies leads to a continuous flow of opportunities to liaise with existing and potential partners and ultimately, to make profitable, long-term investments.

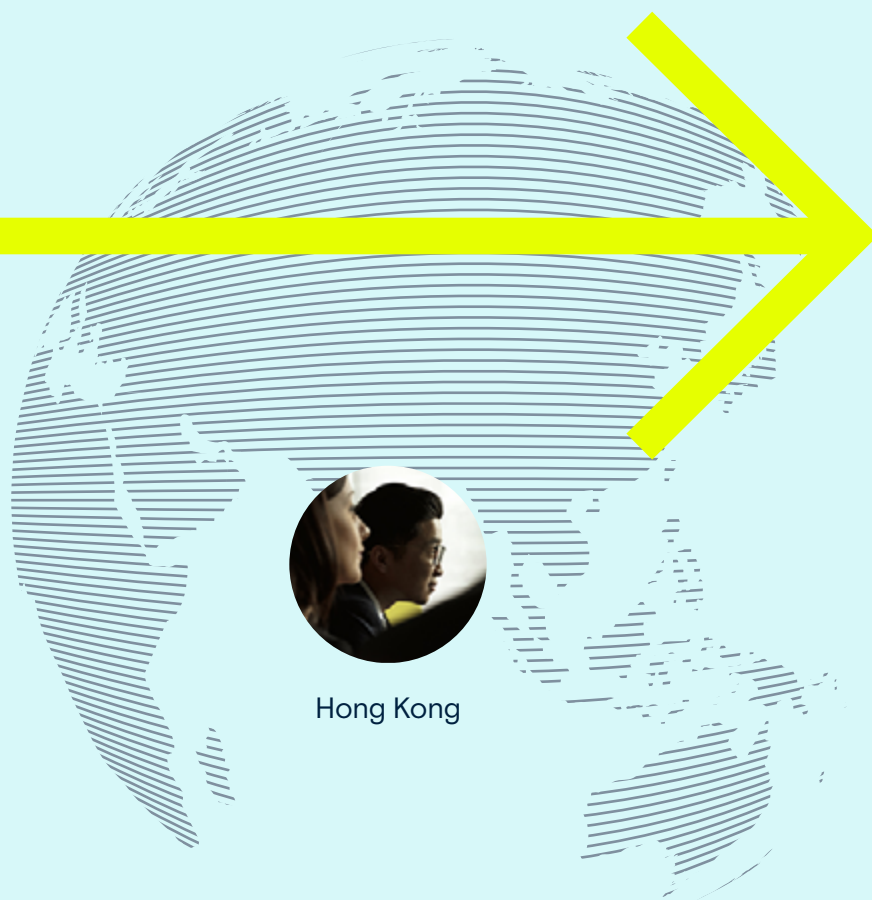
Today, PSP has talent hubs in New York, London and Hong Kong, with professionals who invest together with their Montréal colleagues in more than 75 sectors and 75 countries. Our people look to invest directly in companies or with like-minded partners in high-performing industries and innovative enterprises that are generally leaders in their sectors. At the heart of our approach are mutually beneficial, long-term relationships with other investors that continue to open up opportunities to generate sizeable international investments in growth sectors such as airports, agriculture, renewables and toll roads.

- Communications
- Materials
- Technology
- Timber
- Agriculture
- Health care
- Industrial
- Consumer discretionary

75

sectors and industries

- Energy
- Consumer staples
- Financials
- Utilities
- Residential/retirement
- Offices
- Retail
- Debt



Our offices, people and portfolio make us **global**.

Financial highlights

— Fiscal year 2019

7.1%

Total fund 1-year net portfolio return

8.8%

5-year net annualized return

10.7%

10-year net annualized return

\$48.8 Billion

of cumulative net investment gains above the return objective¹ over 10 years

\$90.1 Billion

of cumulative 10-year net performance income (excluding contributions)

\$18.8 Billion

in new investments and commitments to Private Markets and Private Debt

— Fiscal year 2019

\$168.0 Billion
Net AUM

\$3.7 Billion
Net contributions

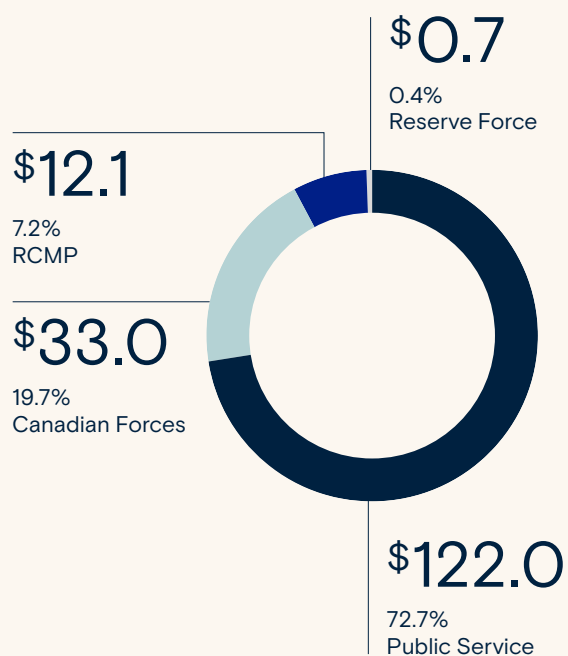
9.7%

Increase
in net AUM

¹ The Government of Canada periodically communicates a long-term rate of return objective above inflation for the pension assets managed by PSP Investments. Net AUM denotes net assets under management.

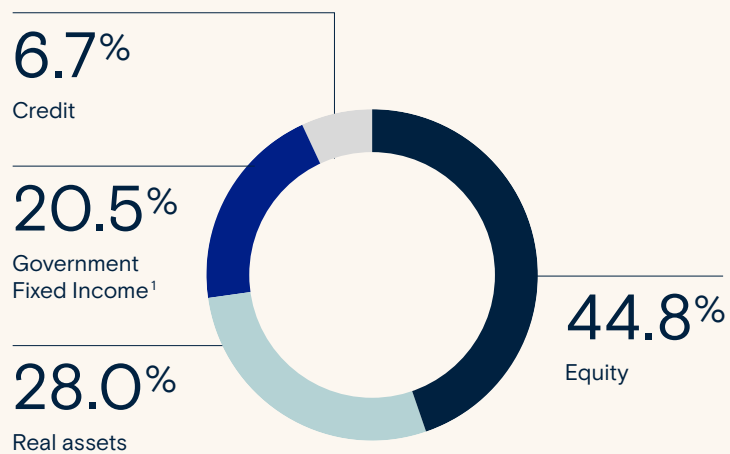
Net assets per pension plan account

As at March 31, 2019
\$ billion



Asset mix

As at March 31, 2019



¹ Includes Cash and Cash Equivalents.

Financial highlights

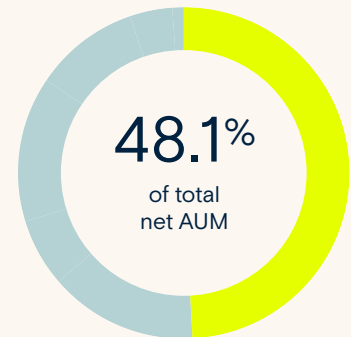
— Fiscal year 2019

Public Markets¹

\$80.8 Billion
Net AUM

4.6%
1-year
rate of return

8.0%
5-year
annualized return

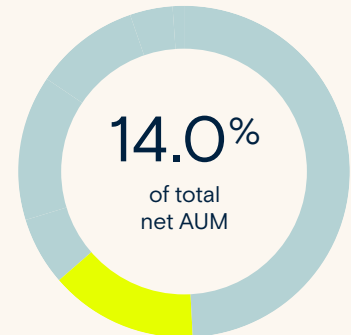


Private Equity

\$23.5 Billion
Net AUM

16.1%
1-year
rate of return

7.9%
5-year
annualized return

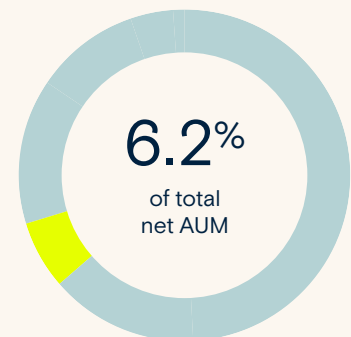


Private Debt

\$10.5 Billion
Net AUM

9.2%
1-year
rate of return

14.2%
Since inception
annualized return
(3.3 years)



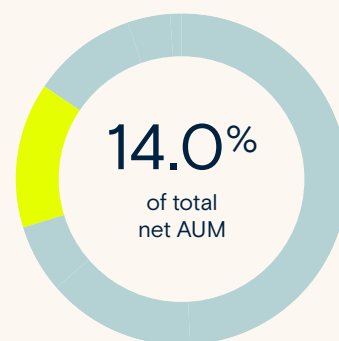
¹ Includes Public Market Equities and Government Fixed Income (excludes Cash and Cash Equivalents).
Net AUM denotes net assets under management.

Real Estate

\$23.5 Billion
Net AUM

7.6%
1-year
rate of return

11.8%
5-year
annualized return

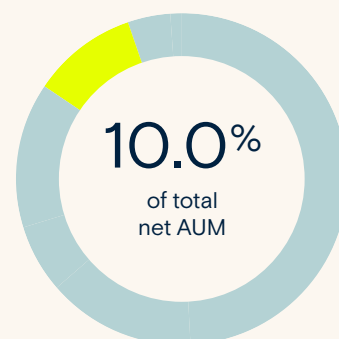


Infrastructure

\$16.8 Billion
Net AUM

7.1%
1-year
rate of return

12.7%
5-year
annualized return

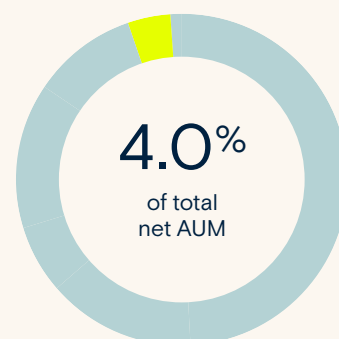


Natural Resources

\$6.8 Billion
Net AUM

11.1%
1-year
rate of return

12.0%
5-year
annualized return

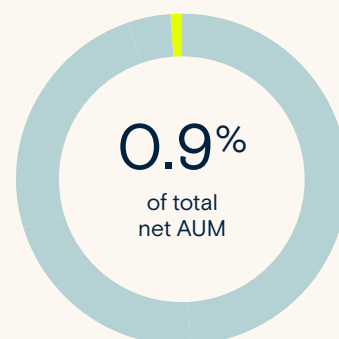


Complementary Portfolio

\$1.4 Billion
Net AUM

0.04%
1-year
rate of return

15.6%
Since inception
annualized return
(2.2 years)



The Complementary Portfolio was introduced in fiscal year 2017 to capture investment opportunities that do not fit within an existing asset class but are deemed beneficial for the total fund.

Net AUM denotes net assets under management.

Leveraging our edge



PSP Investments has grown to \$168.0 billion in net assets under management at the end of fiscal year 2019, and is on track to reach over \$250.0 billion of assets under management by 2028.

The strategy outlined in our Vision 2021 plan, launched in 2016, has supported our growth. We have dramatically scaled our investment strategies and capabilities and added new asset classes. We have also expanded our global footprint, adding three international offices to support a more global portfolio.

From an operational perspective, we have strengthened our foundation by implementing new capabilities and processes across every group to support the increased volume and complexity of transactions and related reporting. We have also repositioned our brand locally and internationally, and developed new talent strategies to accelerate our ability to attract and develop diverse global teams.

Vision 2021 accomplishments

One PSP

We implemented a total fund approach to our investment strategies, decision-making processes and risk management, while maintaining the entrepreneurial and agile culture that has historically propelled us forward.

Branding

We deployed our new branding—*Spot the edge*—across multiple platforms, positioning PSP as an employer, partner and investor of choice.

Global footprint

We now have talent hubs in New York, London and Hong Kong, in addition to our main business office in Montréal and our headquarters in Ottawa.

Scalability and efficiency

We seized opportunities to invest at scale worldwide and enhanced our operational capabilities to support our agility in executing complex transactions.

Develop our talent

We designed a Talent Value Proposition to attract, develop, reward and retain the right mix of resources worldwide. Our employee experience enables all of our people to learn and grow, embrace diversity and act collaboratively as One PSP, wherever they work in the world.

Looking forward to fiscal year 2020

We have set four priorities for the upcoming fiscal year in support of our continued evolution as a global leader among institutional investors and our progress toward our Vision 2021 goals.

Total fund strategy and management

With asset classes at allocation, it becomes increasingly important to manage our portfolio from a total fund perspective. We will launch several initiatives to enhance our decision-making at a total fund level and evolve our overall portfolio construction.

Asia


While we already had significant investments in Asia, our Hong Kong office will further enhance our exposure in the region, help develop our local network and deepen our understanding of local market forces.

Operational efficiency

After implementing several systems to support PSP's efficiency and growth over the last three years, we will focus on fully integrating and stabilizing these new systems, and improving and streamlining key operational processes.

Development and retention

With the rapid growth of our talent base, we are now focusing on development by strengthening our leadership pipeline and continuing employee engagement initiatives.



Thinking alike, and differently

Recognizing that our diversity and talent hubs in Montréal, London, New York and now Hong Kong are key to our success on the global stage, we have made inclusion and diversity (i&D) a leadership commitment.

We value and leverage our differences—whether in culture, background, experience, abilities, knowledge, language, education, or even our approach to problem solving. We believe that when everybody is included and can share their different points of view and ideas, it leads to better decisions and more creative solutions, and ultimately helps us realize the full potential of our ambitions.

Thriving on diversity

Every story matters

PSP's i&D Council, which is co-chaired by our President and CEO and Chief Human Resources Officer, oversees the efforts of eight affinity groups. Each of these volunteer networks organized at least one major activity for all PSP employees in fiscal year 2019, leveraging technology to include employees from our international offices.

Among the highlights:

Cultural and religious background

A guest speaker spoke about enabling impact through cultural fluency, which starts with being curious and learning about colleagues' stories and views.

Diversity of thought

Two workshops for managers focused on how to optimize diversity of thought within their teams to trigger innovation. Articles were also published internally to highlight the diverse backgrounds of individual employees.

Gender dynamics

Two unique sessions were aimed at empowering women—a London networking event for junior women in finance and a Montréal "Taking Charge of my Career" event that included a panel discussion featuring PSP women board members and senior executives, as well as male allies.

Indigenous people

Employees in Montréal immersed themselves in the world of Indigenous art, and its historical significance, through a private viewing and guided tour. An entire floor of the office is now dedicated to Indigenous art.

LGBTQ+

We went all in on LGBTQ+ Pride Month activities, with employees proudly showing their support by displaying "Ally" rainbow-coloured stickers and turning up *en masse* for panel discussions and talks. We also marked the occasion through our social media channels.

Multigenerational

We kicked off Gen³, a mentorship initiative that brings together three generations of employees: baby boomers, Generation X and millennials. Employees are paired with a Gen³ colleague for a three-month period, meeting on at least three occasions.

People with disabilities

At our first mental health roundtable, a guest speaker discussed the importance of dialogue and understanding on the path to treatment of mental health issues, and one of our employees gave a personal account of the issues he has faced.

Veterans

On Remembrance Day, this group made a donation to the Royal Canadian Legion, distributed poppies and created a video in which PSP's ex-servicemen and women shared their experiences transitioning to civilian life.

Proud members of PSP's LGBTQ+ affinity group

From left:

David Ouellet, François Lachance, Valérie Bergeron, Sarah Cavanagh, Nelvana Pyaneandee, and Marie-Andrée Dupuis.
Absent from the photo: Frances Lesar and Catherine Gaudreau.





— 1

Claudio Marzano, an art consultant with the Canada Council Art Bank, captivated more than 100 Montréal employees during a guided tour focused on the art and history of Canada's Indigenous Peoples.

— 2

Our London office invited 60 junior women investment bankers to a panel discussion on the importance of building an effective network in the finance industry.

From left: Lauren Chung, Manager, Private Equity; Audinga Besusparyte, Senior Director, Private Equity; Simon Marc, Managing Director and Head of Private Equity; Alex Monro, Office Manager.

— 3

The “Taking charge of my career” event in Montréal featured rewarding discussions about diversity and the careers of different women from across our offices.

Brewing business opportunities

PSP's diversity generates business opportunities that might otherwise never come our way. This happens across all of our asset classes and was especially true for the Natural Resources team in fiscal year 2019.

The opportunity to invest in Grupo Montesanto Tavares (GMT), the fourth-largest coffee producer in Brazil, was brought to us by one of our employees, Fernando Furtini. A Brazilian who decided to pursue an MBA at McGill University in Montréal after 10 years of working in the financial sector in South America, Fernando subsequently joined PSP and became a director with our Natural Resources team. Drawing on his South American experience and connections, he was able to introduce us to Ricardo Tavares, founding partner of GMT.

In June 2018, PSP bought a significant stake in GMT, which sells high-grade coffee beans to several world-renowned brands. We have since injected additional funds into the company to support its vision of becoming the largest coffee producer in Brazil. GMT's farms are 1,000 times larger than the average coffee farm. They are located in the highlands of southeast Brazil, a region recognized for producing top-quality beans suitable for higher-margin specialty coffees and where the flat land enables mechanical harvesting. What's more, all of the farms are Rainforest Alliance certified and strongly connected to the community.

GMT exemplifies the type of companies we want to invest in: well-managed market leaders with room to grow. It's also representative of how PSP benefits from our rich diversity of backgrounds, perspectives and experience.



From left: Fernando Furtini, Director, Natural Resources; Ricardo Tavares—Founder and Chairman of GMT; Ronaldo Pena—Head of Farming of GMT Farms; Leonardo Tavares—CEO of GMT Farms; Sven Olsson—Partner at IF Consultant (financial advisor of GMT in the transaction); Marc Drouin, Managing Director and Head of Natural Resources; Christian Bonneau, Senior Director, Natural Resources.

Cultivating an inclusive mindset

Inclusion at PSP is about cultivating conditions where every person feels valued and can contribute in their unique, meaningful way to creating better solutions. It's a goal for our workplace and a mindset we take to our investments.

In December 2018, Mahi Pono, a farming venture between PSP and Pomona Farming, purchased 41,000 acres of former sugarcane lands on the island of Maui. A critical step in the approach taken by Mahi Pono (which means "to farm or cultivate morally and properly") was reaching out to community stakeholders so their needs and priorities could be incorporated into a land use plan. This led to a plan that envisions multiple crops, with a focus on local consumption, and up to 100 acres being set aside for local farmers who will be able to grow crops and sell their produce at an on-site farmers' market.

By strengthening and diversifying Maui's agriculture industry, addressing community priorities, and protecting and enhancing the value of PSP's investment over the long term, the deal promises to be a win-win for all involved.

For more information on the environmental, social and governance aspects of our activities in Brazil and Hawaii, read our [2019 Responsible Investment Report](#).



Members of our Natural Resources team in Maui, from left: Marc Drouin, Managing Director and Head of Natural Resources; William MacCulloch, Manager; Christian Bonneau, Senior Director.



GEN³ experience

More than 150 people signed up for our Gen³ mentorship initiative globally, aimed at helping people better understand what it's like to be in the shoes of someone from a different generation. To make the most of these sessions, we gave participants conversation starters based on specific themes. In London, Caroline Dickie and Frances Lesar discovered that women face similar experiences in the workplace, no matter which generation they belong to. They also realized that, because millennials are accustomed to getting instant feedback through social media, we need to think carefully about how the feedback is provided to employees.



From left: Caroline Dickie, Director, International IT Service and Frances Lesar, Senior Analyst, Real Estate Investments, from our London office.

Leading the way

Collaboration is one of six cultural levers that have been translated into specific leadership behaviours to help us live our PSP values and shape our unique culture. The emphasis is on inclusiveness, shared purpose and effective relationships.

While everyone is expected to respect one another and welcome diversity, it's incumbent on our leaders to create a culture where employees can realize their unique potential and bring their whole self to work.

Empowering women has been a key theme at our board and leadership levels. That's why we were especially proud that our Board of Directors achieved gender parity in fiscal year 2019 and we saw an increasing number of women in leadership positions across the organization.

We've put in place an internship program that gives as many as 100 students a year, from diverse backgrounds and experiences, an opportunity to put into practice what they studied in the classroom. They learn from us, and we learn from them. In the summer of 2018, we hired interns in our New York office for the first time, and two of the students will be joining us full-time upon graduation in spring 2019.

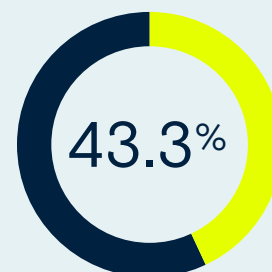


PSP recognized as one of
Montréal's Top Employers
(2019)

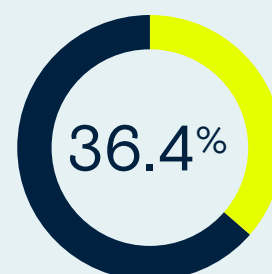
Diversity by the numbers

(All offices unless otherwise noted, based on local legislation, as at December 31, 2019)

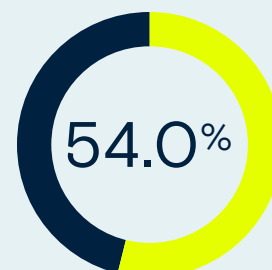
Women in total workforce



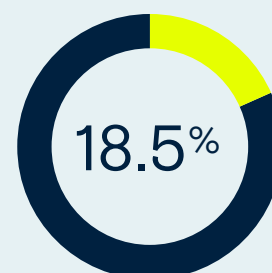
Women in senior roles



Women and visible minorities in intern roles



Members of visible minority groups as a percentage of total workforce (Canada only)



Employees self-disclose. Self-disclosure is important for understanding the diversity of our workforce. We recognize that there may be sensitivity to self-disclosure and we are exploring ways to make employees feel more comfortable about it and more likely to self-disclose.

A year of progress and renewal



During my first full year as Chair, I'm pleased to report that the Board worked effectively with management—providing disciplined support and oversight—as PSP Investments took significant strides, at both a performance and an operational level, toward the successful completion of its Vision 2021 strategic plan.

Although the fiscal year results were somewhat impacted by uncertainty in the markets following a strong, 10-year bull market, the Board maintains confidence in PSP's strategy for long-term value creation, as confirmed by its strong five- and 10-year returns of 8.8% and 10.7%, respectively.

Board activities

The Board of Directors is involved in determining the organization's strategic direction and is responsible for oversight and risk management, as well as the selection, performance evaluation and compensation of the President and CEO, who reports to the Board of Directors.

Following significant investments related to Vision 2021 and the growth of the portfolio, the Board supported management—under Neil Cunningham's leadership—as it steered the organization toward an enhanced cost-management approach, which will serve PSP well through global economic cycles.

We also supported PSP as it continued to expand its international capabilities. Following the successful opening of the New York and London offices, it built a strong plan for the opening of the Asia hub in Hong Kong. I'm pleased to say that the office opened in the fourth quarter of fiscal year 2019, with an operational ramp-up planned for fiscal year 2020.

Inclusion and Diversity

With the appointment of several new Directors, our Board was fully staffed and our Board renewal and goals around diversity and gender balance were enhanced. We're pleased to welcome Maryse Bertrand, Katherine Lee, and David C. Court to our Board, and we're already feeling energized by their expertise and fresh perspectives. **Learn more about them on pages 78 to 81 of this report.**

Inclusion and Diversity (i&D) is taking its rightful place as a key focus area across the organization, under Neil's guidance as co-chair of PSP's i&D Council. We are fortunate to set the tone with a Board of Directors that has achieved gender balance, to support PSP's continued growth, as it becomes an increasingly diverse—and inclusive—organization. I cannot overstate the importance of a wide variety of backgrounds, viewpoints and expertise necessary to facilitate PSP's geographic and sectoral expansion.

Talent

We supported the organization's continued efforts to attract, develop, reward and retain top-tier talent. The HR team has many innovative initiatives under way, which will no doubt further bolster PSP's reputation as one of the best places to work not just in Canada, but in the world. As such, PSP has been recognized once again as a Montréal Top Employer.

Risk Management

The Board also expanded the role of the Investment Committee to cover a broad range of risks, to become the Investment and Risk Committee, in recognition of our commitment to examine both in a balanced way. Certainly, with PSP's ongoing global expansion and increasing diversification, we must work even more closely with management to continue to ensure exacting oversight and guidance around these two pillars.

Responsible Investment

The Board works closely with the Responsible Investment (RI) group to ensure that PSP's responsible investment approach is aligned with our investment mandate and total fund perspective. Our role as a Board is to ensure that PSP proactively takes into consideration environmental, social and governance (ESG) risks and opportunities in every investment. We are pleased with the progress made on the various initiatives carried through in fiscal year 2019. [Learn more about responsible investment highlights on pages 28 to 30.](#)

Thank you

On behalf of the Board, I would like to thank the Governor in Council and the External Nominating Committee for their appointment of our new Board members, which brings first-rate insight and guidance to PSP. I would also like to thank all my fellow Directors for their guidance and hard work in what turned out to be a successful year.

I would like to recognize the major contributions of Diane Bean, who retired from the Board after eight years. Diane participated on several standing committees, including the Investment and Risk Committee, the Audit Committee and, finally, the Human Resources Committee, where she served as Chair from 2014

to 2018. She also chaired the special Risk Committee and contributed to the definition of the organization's risk appetite parameters and tolerance to risk.

I would also like to thank the Treasury Board of Canada Secretariat (TBS) for establishing a Funding Policy. The Policy has four objectives: to ensure sufficient assets to fund pension benefits for plan members; to limit the degree of volatility in plan funding; to keep the plans affordable and sustainable for members and the government; and to support intergenerational fairness by recognizing that the plans' costs and risks are shared between current and future generations.

Above all, the Policy provides a sound decision framework to support the funding of the pension plans, and sets the stage for a more precise communication of the Government's risk appetite.

We also welcome the plan to put in place the Asset Liability Committee (ALCO) which we believe will foster communication among TBS, the Office of the Chief Actuary (OCA) and PSP. Over the years, we have interacted regularly with both TBS and the OCA to better understand their objectives and to inform them on our investment approach and results. We strongly believe the ALCO will help to further solidify these relationships.

And finally, I would like to thank PSP's employees for continually adapting to PSP's evolution in this fast-changing landscape of innovation and disruption. Whether the markets are booming or contracting—and whether it's business as usual or ramping up for expansion—the team remains world-class in both its agility and its execution.

PSP is well positioned to successfully meet its Vision 2021 strategic plan and to prepare for the future.



Martin Glynn
Chair of the Board



Think. Act. Globally.

As PSP enters its 20th year of operations, we have very good reason to be proud of our evolution on the world stage!

Thanks to our people, we have successfully completed the third year of our Vision 2021 strategic plan, continuing our quest to be an agile and sought-after enabler of complex global transactions. Our evolving worldwide presence increasingly gives us access to a far greater pool of talent and opportunities; it also means we must work in an increasingly complex environment to excel in our shared purpose: *to contribute to the financial security of the contributors and beneficiaries who have served Canada in their careers.*

2019 results

The success of PSP's Investment approach is measured over the long term. Our 10-year return of 10.7% exceeded the Return Objective communicated by the Government of Canada (5.8%) and the return of our Reference Portfolio (9.2%), which indicates that PSP has been successful in delivering long-term value for its stakeholders. Over a five-year period, PSP's return of 8.8% has exceeded the Policy Portfolio benchmark of 8.1%, which indicates that our active management activities are generating excess returns. This is also true over a 10-year period, where the 10.7% return exceeds the Policy Portfolio benchmark of 9.6%.

Fiscal year 2019 was another strong year for PSP: our return was 7.1% net of all costs and is effectively in line with the Policy Portfolio benchmark of 7.2%. Notwithstanding some market headwinds, every one of our investment asset classes generated positive returns for the fiscal year. Net assets under management reached \$168.0 billion as at March 31, 2019.

Fiscal year 2019 was impacted by higher volatility in public markets amid concerns of a global economic slowdown. Our performance demonstrates the benefits of our strategy to diversify the portfolio across a number of public and private asset classes, to produce a strong positive overall return. Likewise, our strategic partners and platforms across all asset classes continued to generate attractive risk-adjusted investment opportunities, as we all worked together to spot the edge on investments to generate robust long-term returns.

Advancing our strategic plan

In fiscal year 2019, we achieved several milestones in each of the five pillars of our Vision 2021 strategic plan that will help us expand our capabilities and achieve our long-term objectives.

— Cultivate One PSP

In July, we appointed Eduard van Gelderen to the position of Senior Vice President and Chief Investment Officer. Eduard has the combination of market knowledge, investment expertise, international experience and leadership skills we require to evolve our total fund approach and our long-term asset allocation and investment strategy. [Read more on Eduard's vision on pages 26 and 27.](#)

— Improve our brand locally and internationally

We successfully deployed our new inspirational and aspirational brand, *Spot the Edge*, across all our platforms and business units. And once again we were recognized as one of Montréal's Top Employers. PSP is truly an amazing place to work, where every single employee contributes to a respectful and inclusive environment in which they can be true to themselves, make a lasting impact, develop their skills and grow professionally.

— Increase our global footprint

Following the opening of our New York and London offices in fiscal years 2016 and 2017, we opened our new multi-asset-class Asia hub in Hong Kong during our fourth quarter and hired our first employees there. Based on the success we experienced with our European hub, we'll staff Hong Kong with a mix of local experts and PSP expats to foster a common One PSP culture and speed up operational efficiency, while obtaining valuable market insights and building our network at the local level.

— Increase scalability and efficiency

In addition to continuing to roll out new and improved systems and processes throughout the organization to increase the efficiency and scalability of our operations, we plan to expand our Canadian debt issuance program to a global platform.

— Develop our people

At PSP, attracting, developing, rewarding and retaining our talented employees is always a top priority. During fiscal year 2019, we implemented a new and far-reaching Talent Value Proposition that included the completion of our employee development and performance management framework, the advancement of a unified corporate culture and the definition of a new talent acquisition strategy.

I'm proud that our people once again gave back to the community, donating 4,102 hours of their time to causes they support, as part of PSP Gives Back. They also donated more than \$230,000 to United Way (Centraide).



We once again affirmed our commitment to inclusion and diversity (i&D), which we lead through our i&D Council of more than 60 very committed PSP employees and of which I'm proud to continue to act as Co-chair alongside Giulia Cirillo, Senior Vice President and Chief Human Resources Officer. Our i&D strategy incorporates a wide variety of viewpoints and a respectful work environment that creates awareness while encouraging and valuing our differences. On that theme, I'd like to thank Board members Katherine Lee, Miranda Hubbs, Lynn Haight, Maryse Bertrand and Micheline Bouchard for participating in inspiring panel discussions at PSP that focused on supporting women colleagues in their career aspirations. **Learn more on pages 10 to 15.**

Responsible Investment (RI)

We consistently integrate material environmental, social and governance (ESG) risks and opportunities into our investment decisions—in line with best practices—to maximize long-term value for our stakeholders. The RI group and investment teams work in close collaboration to ensure that ESG factors are not only considered at the time of the investment but are also actively managed once we are invested. In fiscal year 2019, we embarked on a multi-year action plan to address climate change risks and opportunities across our investment strategies. As part of that plan, we further refined our assessment of climate change risk exposures at a Total Fund level and engaged with our portfolio companies to encourage climate change risk awareness. **Learn more about it in our [2019 Responsible Investment Report](#).**

Beyond Vision 2021

As we look ahead, our top priority will continue to be to hone our edge—our quest to spot a unique advantage in everything we do and in our responsiveness to investment opportunities. For the final two years of Vision 2021, we'll leverage our new capabilities as we narrow our attention to those objectives yet to be achieved. [Learn more on pages 8 and 9.](#)

We'll also continue to leverage our partnership approach, to generate investment opportunities and to mine our networks for knowledge and strategic insights. With the support of our internal business partners, we'll continue to enhance our agility and excellence in execution. Investment activities will remain prudent and focused, bearing in mind the uncertainties of the current investment climate. [Learn more on pages 23 to 25.](#)

Thank you

I'd like to thank our employees for so readily and expertly carrying out their responsibilities, while simultaneously supporting our corporate initiatives—and for constantly spotting the edge and making their voices heard.

At the Executive Committee level, I would like to thank and congratulate Darren Baccus for taking on the position of Senior Vice President and Global Head of Real Estate and Natural Resources after serving as our CLO and interim CIO, and Mélanie Bernier, for being promoted to Darren's former role as our Senior Vice President and Chief Legal Officer.

And finally, I'd like to express my deep gratitude to Martin Glynn and the entire Board of Directors for their invaluable insight and guidance—and for setting an example of the value of diversity and inclusion on the world stage.



Neil Cunningham
President and
Chief Executive Officer

Celebrating our people's successes

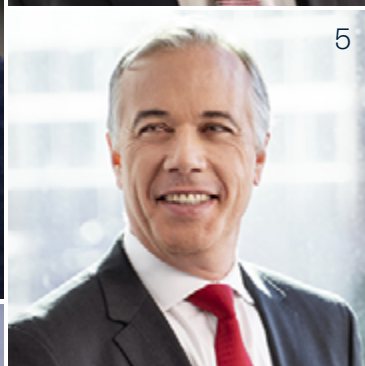
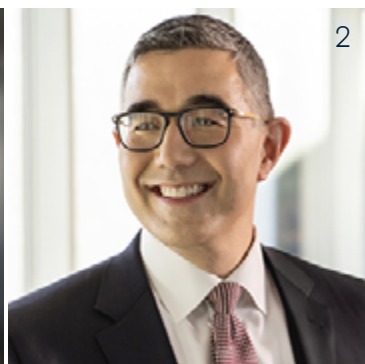
Nathalie Bernier, Senior Vice President, Strategic and Business Planning and Chief Financial Officer, was awarded Canada's "CFO of the Year" by FEI Canada, PwC Canada and Robert Half. In May, the Québec chapter of Financial Executives International (FEI) Canada named her "Financial executive of a large corporation" at its 2018 Aces of Finance.

In December, **Simon Marc, Managing Director and Head of Private Equity**, was named one of Europe's 50 most influential people in private equity.

Also, in December, **Bonnie Frank, Vice President, Enterprise Risk and Crisis Management**, was named one of Insurance Business Canada's Leading Risk Managers for 2018.

Executive Committee

- 22



Neil Cunningham— 1
President and Chief Executive Officer

Darren Baccus— 2
Senior Vice President and Global Head
of Real Estate and Natural Resources

Mélanie Bernier— 3
Senior Vice President
and Chief Legal Officer

Nathalie Bernier— 4
Senior Vice President,
Strategic and Business Planning
and Chief Financial Officer

J.F. Bureau— 5
Senior Vice President
and Chief Risk Officer

Giulia Cirillo— 6
Senior Vice President
and Chief Human Resources Officer

Alain Deschênes— 7
Senior Vice President
and Chief Operations Officer

Anik Lanthier— 8
Senior Vice President, Public Markets
and Absolute Return Strategies

David J. Scudellari— 9
Senior Vice President,
Head of Principal Debt
and Credit Investments

Guthrie Stewart— 10
Senior Vice President
and Global Head of Private Investments

Eduard van Gelderen— 11
Senior Vice President
and Chief Investment Officer

A photograph of a city street scene, likely in New York City. On the left is a tall, ornate brick building with many windows. On the right is a building with a prominent gold-domed cupola. In the foreground, a traffic light pole with a green light is visible. A yellow taxi is driving away from the camera, and a white delivery truck is also visible. A 'BIKE LANE' sign with a bicycle icon is in the lower right. The sky is clear and blue.

Acting on great ideas

Great ideas thrive in an environment where everyone is capable of and driven to spot the edge.

We hire top talent from around the world and encourage our people to think big, challenge the status quo and be collaborative with others both inside and outside our organization. Their ideas contribute to and fuel our inspired investment launchpad.

Thriving on new perspectives

Our collaborative approach is at the heart of our ability to create long-term value and is a priority wherever in the world we invest.

Across our global offices, we look for different ways to leverage our individual strengths in pursuit of common objectives. Our approach has enabled us to develop a collective instinct for honing in on opportunities that provide attractive risk-adjusted returns from a total fund perspective, rather than through the lens of any single asset class. We not only invest across the entire capital structure—which in itself

is a differentiator for PSP in the marketplace—we draw on expertise from across our asset classes to provide partners with innovative financings that meet their needs, no matter how unique or complex.

Our relationships with external partners are equally collaborative, and tap into our respective networks to take advantage of opportunities from every possible perspective. We've built an internal platform for managing these relationships, which makes it easy for employees to share information that can be helpful to their colleagues for generating new investment opportunities and for ensuring that our partners realize the full benefits of the breadth and depth of PSP's execution capabilities.

“We enter into relationships as One PSP and we invest as One PSP. Our approach makes us more relevant to potential partners and creates opportunities to get involved in unique and bespoke transactions.”

Ziv Ehrenfeld, Managing Director,
Private Debt, New York



This collaborative approach is key to forging powerful, long-term relationships with like-minded partners—and to gaining access to attractive investment opportunities around the world. It has enabled us to partner with innovative companies and financial sponsors in high-performing sectors that we target, and to build sizeable positions in platforms such as the global airport, agriculture, renewables and toll road sectors, which have in turn led to additional investment opportunities.

Powerful connections, new horizons

In fiscal year 2019, PSP acquired a stake in United Talent Agency (UTA), which represents some of the biggest names in film, television, and comedy. Through the power of our networks, we learned that UTA was looking for long-term capital partners to support its growth as it diversifies into music, sports and content production.

Simon Marc, Managing Director and Head of Private Equity at PSP's London office, said of the investment: "The entertainment industry is experiencing tremendous evolution. With demand for high-quality content greater than ever, UTA is uniquely positioned to benefit from the transformation in the sector. Our investment in UTA is a great example of PSP's ability to partner with top-tier entrepreneurs and like-minded investors."

Bringing our vision for Downsview to life

Having acquired the 370-acre Downsview Airport property in Toronto in 2018, in one of the largest-ever Canadian real estate transactions, we see its development as an opportunity to push the boundaries of collaboration, technological innovation and sustainable urban design. We look forward to hearing the ideas of local stakeholders and collaborating with them to develop a vibrant new district. Working alongside cutting-edge partners from around the world, we also expect to inject new knowledge and capabilities into our own organization.

Innovation@PSP

In an age of disruption, innovation is every PSP employee's responsibility. We have developed a common language and approach that brings us all under one umbrella. Our approach provides a holistic view of all innovation opportunities, which can range from leveraging disruptive trends in our investment strategies, to optimizing our operating model, to employing emerging technologies.

In keeping with our innovation agenda, our CIO Office is repositioning our Complementary Portfolio as an incubator. While the Complementary Portfolio is traditionally used for investments that do not fit the mandates of existing asset classes or for multi-asset transactions, we also want to use it to invest in emerging technologies and opportunities that have the potential to impact PSP in a significant way. We aim to deepen our understanding of these new developments and bring the learnings back into our organization. The best way to do that is to invest in these organizations.

Interview with our Chief Investment Officer

PSP recently appointed a new Chief Investment Officer, Eduard van Gelderen, to lead our Total Fund Strategy Group. His group oversees multi-asset class investment strategies, total fund allocations and exposures in terms of asset classes, geographies and sectors, as well as operational due diligence. Eduard also leads our responsible investment and government relations functions.



Having joined PSP in July 2018, what do you see as the organization's edge?

If you compare PSP with other investors around the globe, there are many positives working in our favour. Firstly, we're large enough to be taken seriously by our counterparties, but small and agile enough to be able to do interesting deals. Another positive is that we do not shy away from investing in deals that we truly believe in. Deep internal expertise enables us to act quickly—something that's highly valued by partners—and to look at more complex and rewarding transactions.

Why is a total fund perspective important for PSP at this time?

The organization has been highly successful in growing and managing its portfolio over the past 10 years by taking a bottom-up approach that relied on the expertise and creativity of its asset classes. While we already have a total fund strategy, it's becoming more important now for a variety of reasons: among them, most of our asset classes have achieved their target allocation; the cash from pension contributions is still positive, but is becoming marginal compared to the assets under management; and the bull market of the last few years is showing signs of fatigue. It's not that we need wholesale change at this time; rather, we want to optimize what we're already doing and find the right balance between bottom-up and top-down.

What are your priorities?

The number one priority is maintaining our focus on the long term and ensuring that our portfolio is resilient through economic cycles and can deliver on PSP's mandate. There are certain activities, such as analyzing the portfolio's sensitivities and steering the portfolio toward its long-term goals, that can only be approached from a top-down perspective.

However, thinking long term does not mean that we do not manage actively. I'd like to see a more dynamic process for rebalancing the portfolio, which will also allow us to take advantage of opportunities that arise due to market cycles within our long-term investment horizon. Again, it's not about drastically changing risk profiles or stopping strategies; but more about putting in place a stricter framework and introducing a few new activities with the long-term return objective in mind.

I'd also like to see us take a more coordinated approach to our relationships with external managers and partners. With most asset owners growing in size and looking for additional yield, there's more competition to access quality investment opportunities and we want to be the first to hear about them. The CIO Office can play a coordinating role in establishing strategic relationships with select partners that will benefit all asset classes.

Think. Act. Responsibly.

As a global pension investment manager, PSP thinks long term: we invest and manage assets today to help meet pension obligations decades into the future.

This investment horizon shapes how we view risks and opportunities. We strongly believe that environmental, social and governance factors—such as climate change, health and safety and ethical conduct—are material to long-term returns and that we need to integrate them into our investment decision-making processes.

Three years ago, we created a dedicated Responsible Investment group to strengthen our practices across all asset classes and shine a different light on our investments. Today, this group is an integral part of PSP's investment process and decisions, flagging risks related to environmental, social and governance (ESG) factors and identifying opportunities to create value.

Our investment teams and Responsible Investment group work as one to monitor investments in both public and private markets.

In a short period of time, these efforts have propelled PSP onto the world stage of responsible investing. Here are some of the past year's highlights. [To learn more, see our 2019 Responsible Investment Report.](#)

2019 highlights by theme

Climate Change

We refined our assessment of our portfolio's exposure to the impacts of climate change. This included assessing the potential physical impacts of climate change on approximately 1,200 of our real estate, infrastructure and natural resources assets, as well as the portfolio's exposure to carbon-intensive investments. These analyses helped us identify investments for which further assessments of risk mitigation strategies will be defined. We also continued to monitor our exposure to low-carbon investments. As at March 31, 2019, we had \$5 billion of direct investments in more than 130 renewable energy assets with an aggregated net power capacity of 3.5 gigawatts.

Corporate culture and conduct

We engaged with **18 public companies** on **corporate culture and conduct** to ensure that boards of directors set the right tone at the top.

Disclosure

As **meaningful disclosure** is critical to understanding ESG risks and opportunities, we joined the CDP¹ non-disclosure campaign prompting **93 companies to disclose** how they measure and manage their environmental impact.

Diversity

We continued our work with the 30% Club Canada Investor Group and our Canadian peers by engaging with **18 Canadian public companies** on increasing **board gender diversity**.

ESG best practices

We communicated to our external managers the results of our **first benchmarking exercise** of their **ESG practices**.

Health and safety

As part of a PSP-led initiative, **a dozen companies representing more than 85% of the net asset value of our internally managed Infrastructure portfolio, and a dozen companies and partners representing more than 50% of the net asset value of our Natural Resources portfolio** (100% of its net asset value in Australasia), shared **health and safety best practices**, key performance indicators, training tools and reporting practices with a view to improving their respective performance.

Say on Pay

In collaboration with other Canadian pension funds and institutional shareholders, our continued direct dialogue led to **a 6% increase in the number of TSX Composite Index companies** adopting **Say on Pay** as a practice since 2017.

How we work

At PSP, ESG factors are addressed throughout the life of every investment we make. This goes beyond simply identifying and assessing material risks and opportunities; we actively manage and monitor them as well once we decide to proceed with an investment. We use different levers to assess ESG performance over time and to ultimately protect and enhance long-term financial value. Our approach is highly collaborative, with our Responsible Investment group working as one with PSP investment teams at every stage of the investment process.

PSP ESG integration framework

	Investment Opportunity	Investment Decision	Investment Monitoring	Investment Review
Internally managed investments	Identify key ESG factors and determine due diligence scope	In-depth assessment of material ESG risks and opportunities	Monitoring of ESG risk and performance, shareholder engagement and <i>proxy voting</i> ²	Re-assessment of material ESG risks and opportunities
Externally managed investments	Define due diligence scope based on investment strategy	In-depth assessment of ESG integration practices	Engagement on ESG best practices	Re-assessment of ESG practices

¹ Previously the Carbon Disclosure Project.

² Applicable to public market investments.

Industry involvement

Forging relationships is essential for driving progress in a mindful way. We promote ESG principles through our involvement in various external programs, including the UN-supported Principles for Responsible Investment (PRI) initiative, the local PRI network, the PRI Advisory Committee on Credit Ratings, Finance Montréal's Responsible Investment Work Group, the 30% Club, the Canadian Coalition for Good Governance, the International Corporate Governance Network, CDP and the Task Force on Climate-related Financial Disclosures.

Environmental assessment

As a Crown corporation, PSP is subject to the Canadian Environmental Assessment Act, 2012 (CEAA). In analyzing the risks in any investment, we identify, monitor and mitigate environmental risks that are or could become material to long-term financial performance. We take these risks into consideration as part of the due diligence process with respect to potential investments and ongoing monitoring of investments. All applicable investments were carried out in compliance with the CEAA requirements.

Climate change

Climate change is a critical challenge of our time. At PSP, we believe that it 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. We expect to enhance investment performance by addressing climate change risks and opportunities as part of our investment strategy.

Our Board and senior management have approved a multi-year, fund-wide climate change approach based on: (1) the integration of climate change factors into our investment decisions at total portfolio, asset class and individual asset levels, (2) monitoring of the portfolio's exposure to climate change, and (3) engagement with investee companies for better climate change-related disclosures.

We support the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures ([TCFD](#)) 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 gradually enhancing disclosure about how we manage climate change-related financial risks.

PSP Investments' memberships and collaborations



See our [2019 Responsible Investment Report](#) to learn more.

Management's discussion of fund performance and results

Management's discussion of fund performance and results (the Management report) provides analysis of the operations and financial position of PSP Investments for the year ended March 31, 2019 and should be read in conjunction with the Consolidated Financial Statements and accompanying notes for the years ended March 31, 2019 and 2018. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). In this report, we use a combination of financial measures, ratios, and non-GAAP measures to assess the performance. The non-GAAP measures used in this report do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures should be considered as supplemental in nature and not as a substitute for the related financial information prepared in accordance with IFRS. This report takes into account material elements, if any, between March 31, 2019 and June 7, 2019, the date of approval of this report by the Board of Directors. Additional information about PSP Investments is available on the website (www.investpsp.com).

Forward-looking statements

From time to time, PSP Investments makes forward-looking statements that reflect management's assumptions, expectations, objectives, strategies and intentions as of the date of this report. These forward-looking statements are typically identified by future or conditional verbs or words such as "outlook", "believe", "estimate", "project", "expect", "plan", and similar terms and expressions.

By their nature, forward-looking statements require assumptions to be made and involve inherent risks and uncertainties.

As a result, PSP Investments cannot guarantee that any forward-looking statement will materialize and its future investment activities may vary from those outlined herein. You should not place undue importance on forward-looking statements and should not rely upon this information as of any other date.

Our mandate

PSP Investments' mandate is to manage the amounts transferred to it by the Government of Canada (the Government) for the funding of retirement benefits earned from April 1, 2000 (Post-2000 Liabilities) by members of the public sector pension plans of the federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police and since March 1, 2007, the Reserve Force (collectively the Plans). PSP Investments' statutory mandate is to:

- (a) Manage amounts that are transferred to it in the best interests of the contributors and beneficiaries, and
- (b) to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the pension plans and the ability of those plans to meet their financial obligations.

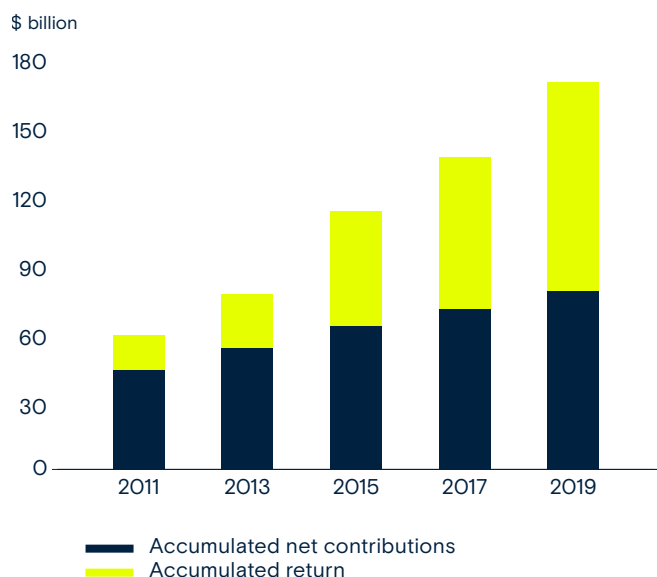
PSP Investments expects to deliver on its mandate by being a leading global investor, working together and focusing on a total fund investment approach that optimizes our ability to identify opportunities, deploy capital and capture value.

With the implementation of our strategic plan, Vision 2021, internal cooperation and insights sharing are yielding new opportunities and deal flows. The values as defined in our strategic plan, such as collaboration between asset classes, drive our global expansion and contributed to the opening of international offices. In an environment characterized by increasing competition for assets, we believe that PSP Investments' improved ability to unlock new investment opportunities gives us a market advantage.

The real test of PSP Investments' success is that we achieve our mandate over the long term and create value for the sponsor of the Plans, the Government, and manage assets in the best interest of the Plans' contributors and beneficiaries. As we will see throughout the next section, PSP Investments has been successful in realizing its mandate by having a robust investment approach aligned with the long-term Return Objective set out by the Government.

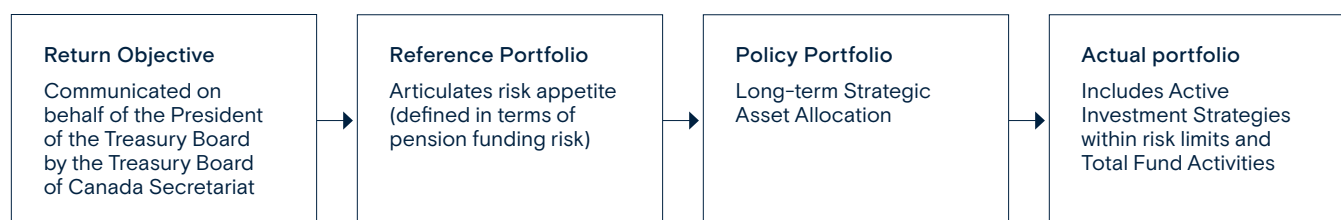
How important are investment returns in the funding of the pension plan obligations?

At the end of fiscal year 2019, fund transfers received from the Government¹ since April 1, 2000, represented approximately 45% of net AUM, with the remaining 55% representing investment returns earned by PSP Investments on those funds. As the Plans mature, the proportion of assets coming from investment returns is expected to continue growing. Having a robust investment approach aligned with our mandate and the objectives of the Government is therefore crucial for funding the Post-2000 Liabilities of the Plans.



¹ Transfers to PSP Investments from the Government consist of amounts equivalent to the proceeds of the employee and employer contributions to the Plans, less plan administrative expenses and amounts paid for benefits earned since April 1, 2000 (March 1, 2007, for the Reserve Force).

Investment framework



The chart above illustrates our investment framework.

Return Objective

The Treasury Board of Canada Secretariat (TBS), which facilitates the Government's relationship with PSP Investments, communicates a long-term real rate of Return Objective on behalf of the President of the Treasury Board to us each year. This is the means by which the Government communicates its funding objectives for the Post-2000 Liabilities.

In fiscal year 2019, PSP Investments received a real Return Objective for the next 10 years of 3.6% (up from 3.3% last year). The long-term real Return Objective remains unchanged when compared to last year at 4.0%. Our aim is to establish a long-term investment strategy which has an expected real rate of return that is at least equal to the Return Objective.

Reference Portfolio

Based on the Return Objective, PSP Investments develops a Reference Portfolio, a simple portfolio composed of publicly traded securities that could be passively managed at minimal cost. The Reference Portfolio is designed in such a way that, based on our long-term capital market assumptions, it is expected to deliver the Return Objective with minimum investment risk. Accordingly, a Reference Portfolio composed of 63% equities and 37% fixed income is expected to deliver the Return Objective over the long term, and establishes the pension funding risk deemed acceptable (risk appetite) to achieve our mandate.

Funding Policy

In pursuit of continued enhancements to governance and accountability, the Treasury Board approved a funding policy (Funding Policy) in fiscal year 2019, that provides the decision framework to support the funding of the public sector Plans, and formalizes the relationship between TBS, the Office of

the Chief Actuary and PSP Investments. Among other things, the Funding Policy prescribes the establishment of an Asset Liability Committee (ALCO). The ALCO will include departmental officials representing each of the Plans, the Department of Finance, as well as the Office of the Chief Actuary and PSP Investments. The first ALCO meetings are expected to take place over the next fiscal year.

Of significance to PSP Investments, the ALCO will recommend the funding risk targets (government risk appetite), including the Reference Portfolio. While this represents a change in governance (the Reference Portfolio being currently determined by PSP Investments' Board of Directors), we do not anticipate a significant impact on PSP's investment approach.

Policy Portfolio

The Policy Portfolio is built as a more diversified, resilient and liability-aware portfolio than the Reference Portfolio. It articulates PSP Investments' long-term target exposure to asset classes.

The objective for the Policy Portfolio is to achieve a return greater than the Reference Portfolio with a lower or equal level of pension funding risk. This is achieved by including asset classes that diversify our sources of risk and return such as Real Estate, Private Equity, Infrastructure, Natural Resources, and Private Debt.

The inclusion of these asset classes is expected to provide a higher return to the Policy Portfolio compared to the Reference Portfolio without increasing risk for three primary reasons:

- Their inclusion improves portfolio diversification and reduces the total fund pension funding risk.
- Over time, the lower liquidity of these assets is expected to be compensated with higher returns. The Plans' liabilities are long-term in nature and liquidity requirements are expected to be minimal until 2030. Since it is unlikely that PSP Investments will need to sell assets quickly, we are well positioned to capture these higher returns.
- The Plans' liabilities are sensitive to inflation. Investing in real assets that tend to offer long-term inflation protection such as real estate, infrastructure and natural resources better matches the liabilities of the Plans and lowers the risk of a deficit in the pension plans.

The Policy Portfolio is the predominant factor in determining performance and risk over time. As such, it is reviewed annually or more frequently if required. Each review includes an asset-liability study to ensure the Policy Portfolio accounts for specific characteristics of the Plans' liabilities.

PSP Investments' Board of Directors approves, and annually reviews, the Statement of Investment Policies, Standards and Procedures (SIP&P) which governs the allocation of assets under the Policy Portfolio and describes our investment approach. In addition to the allocation of assets under the Policy Portfolio, the SIP&P addresses matters such as categories of investments and loans; risk management and diversification; liquidity of investments; pledging of assets, permitted borrowings and leverage; securities lending and borrowing; valuation of investments; and proxy voting and responsible investment.

This fiscal year's review concluded that the Policy Portfolio remains robust in terms of pension funding risk relative to the Reference Portfolio while maintaining the portfolio's ability to generate higher returns than the Reference Portfolio. Therefore, as per Management's recommendation, the Board approved no changes to the Policy Portfolio.

Target asset allocation¹ Effective during fiscal year 2019



¹ PSP Investments recognized that some investment opportunities may be beneficial to the Plan Accounts without falling within the asset classes defined in the strategic asset allocation. Such investments (together the Complementary Portfolio) shall have no target weight, but shall not surpass 3% of the Plan Account's value.

Actual portfolio

The actual portfolio includes active management strategies, which are investment strategies aimed at outperforming a benchmark and total fund activities aimed at improving the total fund risk/return profile.

Active Management Strategies

Based on proprietary research, we seek to invest in companies and securities whose risk-adjusted returns are expected to outperform the market.

The objective of implementing active management strategies is for PSP Investments to achieve a return exceeding that of the Policy Portfolio while staying within Board approved active risk limits.

Total fund activities

A key priority of PSP Investments' strategic plan is to implement an investment approach that focuses on the total fund rather than only on individual asset classes. The total fund approach, implemented by the CIO group, guides our long-term investment strategy and focuses on managing total fund allocations and exposures in terms of asset classes, geographies, sectors and risk factors. The objective of the total fund approach is to complement asset classes' bottom-up perspective with top-down views, and act on them.

Hedging policy

As part of the total fund activities, PSP Investments generally maintains foreign exposure unhedged but sometimes uses hedging strategies dynamically, at the total fund level. We believe that by not systematically hedging exposure in foreign currencies, we will improve the Policy Portfolio's risk-return profile by significantly reducing hedging cost in the long term and reducing pressure on liquidity, leverage and operations. Furthermore, the Canadian dollar tends to be procyclical and positively linked to commodity prices and the global equity markets. Therefore, it is expected that foreign currencies will act as a diversifier in the Policy Portfolio (acting as a natural hedge against economic shocks on asset returns). Finally, the impact of currency fluctuation over the long term is not expected to be significant as currencies tend to fluctuate around their equilibrium value, driven by financial flows, interest rates and term of trades.

Keeping foreign currency exposure unhedged could impact short-term performance due to unexpected currency fluctuation and can be either positive or negative for PSP Investments' short-term performance. In years of major strengthening (or weakening) of the Canadian dollar, our performance will be negatively (or positively) impacted and could differ substantially from other funds that have taken a different stance on hedging.

Complementary Portfolio

In support of total fund activities, we introduced the Complementary Portfolio in fiscal year 2017. It aims to capture investment opportunities deemed beneficial from a total fund perspective but falling outside the policy portfolio's core asset classes and mandates. Another objective of this portfolio is to incubate new innovative strategies; the ultimate goal of this portfolio being to improve the long-term risk-return profile of the total fund.

Evaluating the performance of our investment approach

Benchmarks

The benchmarks in the table below were used to measure fiscal year 2019 relative performance for each asset class set out in the Statement of Investment Policies, Standards and Procedures (SIP&P) as well as for the overall Policy Portfolio.

ASSET CLASS	BENCHMARK
Equity	
Canadian Equity	S&P/TSX Composite Index
US large cap Equity	S&P 500 Index
Europe, Australia, Far East (EAFE) large cap Equity	MSCI EAFE Index
Small Cap Equity	S&P 600 Index
Developed Markets Equity	MSCI World Index
Emerging Markets (EM) Equity	MSCI EM Index
Private Equity	Private Equity Manager Universe ²
Government Fixed Income	
Cash & Cash Equivalents	FTSE Canada 91 days T-bill Index
Fixed Income	Blend of JP Morgan Government Bond Index Global, Barclays World Government Four Country (custom) ILB Index, and FTSE Government Bond Index
Credit	
Private Debt	Blend of BoA Merrill High Yield Indices (US & Euro) and S&P Leveraged Loan Indices (US & European) ²
Real Assets	
Real Estate	Customized Benchmark ^{1,2}
Infrastructure	Customized Benchmark ^{1,2}
Natural Resources	Customized Benchmark ^{1,2}
Complementary Portfolio	Policy Portfolio Benchmark

¹ The customized benchmark is determined as the sum of the asset class' Long-Term Capital Market Assumptions and a market adjustment to capture short-term market fluctuations.

² As a result of the decision to maintain foreign currency exposure unhedged, the benchmarks for Private Equity, Private Debt, Real Estate, Infrastructure and Natural Resources are set such that they remain neutral to currency movements, meaning that the actual currency return impact on private asset classes is reflected in their respective benchmark.

Our long-term results

Three objectives provide benchmarks against which we can evaluate the success of our long-term investment approach.

1. Achieve a return, net of expenses, equal to or greater than the Return Objective over 10-year periods.

This objective measures PSP Investments' success in achieving the long-term Return Objective. Over the past 10 years, PSP Investments has recorded a net annualized rate of return of 10.7%, compared to 5.8% for the Return Objective.

Considering the size and timing of contributions, this outperformance amounts to \$48.8 billion in net investment gains above the Return Objective over this 10-year period.

In the absence of other factors affecting the funding of the Plans, our achievement is expected to support the sustainability of the Plans.

2. Achieve a return, net of expenses, greater than the return of the Reference Portfolio over 10-year periods.

The Reference Portfolio reflects what the Government could achieve with a passive investment approach, taking into consideration its Return Objective. Over the last 10 years, PSP Investments' performance exceeded the performance of the Reference Portfolio of 9.2% per year. This result was achieved without incurring more pension funding risk than the Reference Portfolio.

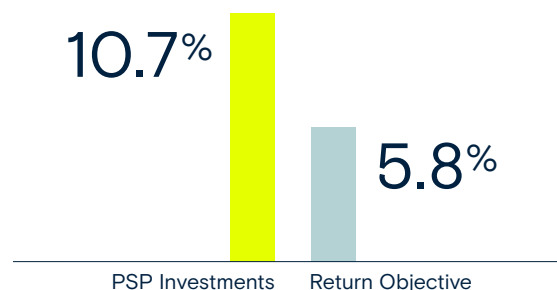
This additional 1.5% represents the value added by PSP Investments' strategic decision to build a more diversified portfolio—the Policy Portfolio—that includes less liquid asset classes, and to engage selectively in active management activities.

3. Achieve a return, net of expenses, exceeding the Policy Portfolio benchmark return over 5-year periods.

This objective is used to measure the value added by PSP Investments' active management activities. Over the last five years, these activities generated returns that exceeded the primary benchmark, the Policy Portfolio, by 0.7% per year.

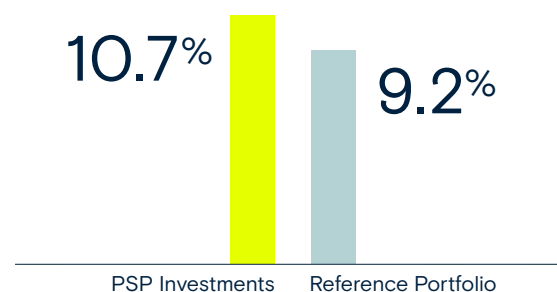
Return compared to Return Objective¹

10-year net annualized return²



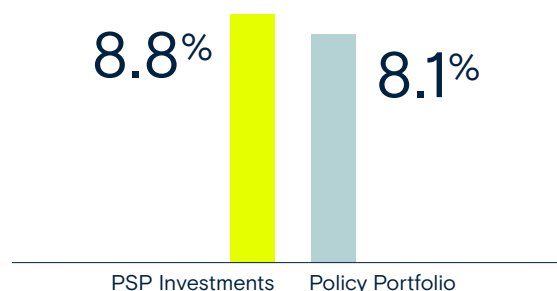
Return compared to Reference Portfolio

10-year net annualized return²



Return compared to Policy Portfolio benchmark

5-year net annualized return²



¹ The Government of Canada periodically communicates a long-term rate of return objective above inflation for the pension assets managed by PSP Investments.

² These measures may not have a standardized meaning under IFRS and may not be comparable to similar measures disclosed by our peers. The 10-year and the 5-year annualized net returns are calculated using a time-weighted return methodology. Management views the 10-year and the 5-year net annualized returns useful to evaluate the performance of our long-term investment approach and believe they are useful to the reader for the same reason.

Analysis of our results

Macroeconomics context

Economic conditions have generally been supportive of financial markets in recent years. Over the past five years, major advanced economies have been transitioning from a long period of economic recovery, to economic expansion. Excess capacity in labour markets and businesses has gradually been absorbed, and inflationary pressures have started to grow. Financial markets, in turn, benefited from the easy financial conditions and improving growth dynamics that were characteristic of this period.

However, more recently, market participants have been increasingly anticipating a return of late-cycle dynamics, which is typically characterized by greater corporate leverage, higher borrowing costs, rising wage costs and generalized price inflation. Indeed, last year we observed some signals that the global economy is entering this later stage.

The global economy started fiscal year 2019 with strong, synchronized growth in advanced countries. Energy prices and inflation both continued to rise, and the US economy was further boosted by additional fiscal stimulus. In response, major central banks in advanced economies became more hawkish, advancing their plans to unwind their balance sheets and raising policy rates at a faster-than-anticipated pace. This led to a tightening in global financial conditions.

The initial negative consequences of this financial tightening surfaced mainly in emerging markets with external debt issues. As the year progressed, other weak spots in the global economy also started to emerge. Increased global trade tensions, a slowdown in the Chinese economy and rising borrowing costs contributed to a fall in business confidence and slowing growth dynamics around the world. These factors contributed to a strong market pullback in December.

Since then, central banks have moderated their policy stances, and trade tensions have somewhat eased. This has helped to reassure financial market participants and has resulted in a recovery in risk assets during the last quarter of the fiscal year.

\$168.0 **\$153.1**
Billion
Net AUM

\$11.7
Billion
Performance income

7.1%
1-year
rate of return

7.2%
Benchmark return

8.8%
5-year
annualized return

8.1%
Benchmark return

Summary of total fund portfolio evolution

The net assets of PSP Investments increased by nearly \$15 billion during fiscal year 2019. The increase is explained by net contributions of \$3.7 billion received by PSP Investments and the net return of 7.1% in the current fiscal year. Net AUM related to Private Equity and Natural Resources increased sharply as a result of strong absolute returns and significant capital deployments. A reduction in public equities in favour of fixed income also occurred as a result of the implementation of changes in the Policy Portfolio target allocation.

The net assets of PSP Investments increased by nearly \$74.1 billion over the past 5 years on account of substantial investment returns (\$54.3 billion) and positive net fund transfers from the government (\$19.8 billion). Driven by this solid growth, all asset classes' net AUM has risen over the same period. However, public market equities' allocation has taken a reduced share of PSP's net AUM over the period as a result of the implementation of PSP's strategy to diversify into private markets. This allowed for a greater share of PSP Investments' assets under management to be invested in Private Equity, Real Estate, Infrastructure and Natural Resources and for the deployment of new allocations to Private Debt and the Complementary Portfolio. The implementation of those changes improved diversification at the total portfolio level, providing for an enhanced risk and return profile.

One of the objectives when constructing our portfolio is to ensure it is adequately diversified from a geographic perspective. The high allocation to North America reflects the size and depth of the market as well as the positive business environment. The allocation to emerging markets balances stronger growth prospects with challenges in implementing investment strategies. The opening of the Hong Kong office is expected to increase our exposure in this market and will facilitate implementation of investment strategies by developing our local network and strengthening our understanding of local market dynamics.

Total fund performance analysis

PSP Investments recorded a return of 7.1% in fiscal year 2019. Returns were driven in large part by the performance of private asset classes, with Private Equity (16.1%) and Natural Resources (11.1%) recording the highest returns. The conditions discussed in the economic review led to steady equity gains during the first two quarters followed by a global equity sell-off in the third quarter and a recovery in the fourth quarter, leading to a return of 4.3% for public equities for the fiscal year.

PSP's return was effectively in line with its Policy Portfolio benchmark for fiscal year 2019 (7.1% net of all costs against a benchmark of 7.2%) Private Equity, Private Debt, Infrastructure and Natural Resources all added value against their benchmarks, while Public Markets, Real Estate and the Complementary Portfolio recorded results that were inferior to their benchmarks.

Over the last five years, PSP's return of 8.8% was driven mainly by the strong performance of private asset classes, in particular Private Debt (14.2%), Infrastructure (12.7%), Natural Resources (12.0%) and Real Estate (11.8%). Private Equity (7.9%) was below its Policy Benchmark of 12.2%. Over the last three years, the portfolio and team have been substantially rebuilt, contributing to improved performance under the new strategy and above benchmark for the full portfolio this year. During the five-year period, public equities returned 9.3%. PSP's return of 8.8% has exceeded its Policy Portfolio Benchmark of 8.1%, with private asset classes accounting for the bulk of the value added over the Policy Portfolio Benchmark. Public equities recorded a slight overperformance against their benchmark.

Currency exposure

Given the proportion of PSP Investments' assets that are denominated in foreign currencies, currency fluctuations can have a significant short-term impact on investment returns. This was again the case in fiscal year 2019. The peaking of global growth momentum coupled with several hikes from the US Federal Reserve led to a strong rebound in the US dollar. At the same time, the slowdown in economic activity in China acted as a drag on large, open economies in Asia and Europe, leading to notable declines in the euro, the British pound and the yen. Although the US dollar appreciated against the Canadian dollar during the fiscal year, all other major currencies depreciated against the Canadian dollar. Gains from the appreciation of the US dollar outweighed losses from exposure to other major currencies, resulting in a net gain of \$1.7 billion from foreign exchange fluctuations during fiscal year 2019.

Analysis of our results by asset class

The table below presents the annual and 5-year annualized performance of the asset classes, set out in the SIP&P as well as the overall Policy Portfolio benchmark (Policy Benchmark), which is constructed using the asset class benchmarks weighted by the actual portfolio asset class weightings. To inform on our relative performance, the return of each asset class is compared to its relevant benchmark return, while PSP Investments' overall return is compared to the Policy Benchmark return. The table also presents the 5-year annualized return by asset class and for the total portfolio relative to their respective benchmark.

	FISCAL YEAR 2019						
ASSET CLASS	Net AUM (millions \$)	Net AUM (%)	Performance ² income (millions \$)	1-year rate of return (%)		5-year rate of return (%)	
				Portfolio	Benchmark	Portfolio	Benchmark
Equity							
Public Market Equities (Includes absolute- return strategies, funded through leverage)	51,035	30.4	2,226	4.3	4.5	9.3	9.0
Private Equity	23,539	14.0	3,220	16.1	12.3	7.9	12.2
Government Fixed Income							
Fixed Income	29,786	17.8	1,335	4.8	5.3	4.8	4.8
Cash and Cash Equivalents	4,603	2.7	692 ³	1.9	1.5	1.4	0.8
Credit							
Private Debt	10,475	6.2	837	9.2	5.7	14.2 ⁴	4.8
Real Assets							
Real Estate	23,538	14.0	1,714	7.6	11.8	11.8	8.1
Infrastructure	16,818	10.0	1,120	7.1	4.6	12.7	6.7
Natural Resources	6,759	4.0	574	11.1	9.2	12.0	5.3
Complementary Portfolio	1,426	0.9	(1)	0.04	7.2	15.6 ⁵	8.9
Total portfolio ¹	167,979	100.0	11,717	7.1	7.2	8.8	8.1

For Public Markets, Private Debt and Complementary Portfolio, returns are calculated based on a time-weighted rates of return methodology, while for Real Estate, Private Equity, Infrastructure and Natural Resources, the internal rate of return methodology is used to calculate returns.

¹ Total portfolio return is net of all expenses.

² This measure may not have a standardized meaning under IFRS and may not be comparable to similar measures disclosed by our peers. Total portfolio return is net of interest expenses of \$336 million, certain transaction costs of \$55 million and other expenses of \$87 million, which when added back results in arriving to Investment income of \$12,195 million as reported in the Consolidated Statement of Comprehensive Income under IFRS.

³ Includes performance income from foreign currency hedging activities.

⁴ Annualized return since inception (3.3 years).

⁵ Annualized return since inception (2.2 years).

Public Markets

Public Markets is composed of two groups: Public Markets and Absolute Return Strategies (PMARS)¹, and Fixed Income.

PMARS' investments are managed by both internal and external managers using a combination of traditional active, absolute return, and passive strategies. PMARS has an investment philosophy grounded in a risk-adjusted approach, which allows for the identification of the best opportunities in public equity and absolute return strategies. The diversified PMARS team leverages external partners to complement the internal public market value proposition. Our internal equity research platform provides ongoing market insights across the organization and across asset classes.

Fixed income is managed internally by an experienced team of investment professionals. This portfolio comprises two main strategies: Corporate Credit and Global Sovereign Interest Rates.

\$80.8
Billion
Net AUM

\$76.7
Billion
Net AUM (FY2018)

\$3.6
Billion
Performance income¹

4.6%
1-year
rate of return

4.9%
Benchmark return

8.0%
5-year
annualized return

7.9%
Benchmark return

¹ Excludes Cash and Cash Equivalents.

Summary of portfolio evolution

Public Markets ended fiscal year 2019 with a net AUM of \$80.8 billion, up from \$76.7 billion at the end of fiscal year 2018. The growth of the portfolio was driven by a combination of performance income and additional internal and external capital deployments in new and existing active strategies.

Performance analysis

Public Markets and Absolute Return Strategies (PMARS)¹

4.3%	4.5%	9.3%	9.0%
1-year rate of return	Benchmark return	5-year annualized return	Benchmark return

PMARS, with an ending AUM of \$51.0 billion (\$51.8 billion in 2018), faced a volatile and challenging environment for active investment management this fiscal year, and slightly underperformed its benchmark by 16 basis points. The following active strategies had a significant impact on PMARS' performance:

The Global Investment Partnerships Portfolio (GIPP) performed well in these difficult conditions, adding more than \$110 million in value, with one of its sub-strategies in particular (dedicated to pre-IPO deals) posting solid results. Several companies went public during the fiscal year; one investment alone added close to \$86 million in value. The pre-IPO strategy will gradually be scaled over the next fiscal years.

Internally managed long-only strategies outperformed their respective benchmarks, in large part due to stock selection, partially attributable to the contributions of the internal equity research platform. Both portfolios outperformed the median in the fund universe of similar mandates. In addition, one of PMARS' core fundamental positions saw strong value-add performance during the year. This was due to an excellent operational year for the company, coupled with its outperformance of European stock market indices, as its positive secular growth prospects compare favourably to the challenging economic outlook in Europe.

The externally managed absolute return portfolio posted positive absolute returns, but the returns were insufficient to offset the rising costs of funding as some central banks started to raise rates. Net of funding costs, the portfolio slightly detracted value. This portfolio's performance does compare favourably on a risk-adjusted basis against broad hedge fund indices.

The underperformance of the externally managed long-only portfolio was mainly attributable to two mandates, representing close to 30% of the portfolio. In both cases, stock selection proved to be weak.

Internally managed absolute return strategies underperformed and were particularly impacted by the US-China trade war and by the global growth concerns in the last few months of 2018. In an effort to optimize risk-taking decisions, global macro strategies were centralized within the PMARS group and adjustments were made to the organizational structure of this strategy.

Over five years, PMARS has had a solid return of 9.3%, outperforming its benchmark by 25 basis points, owing to a diversified portfolio of strategies with a capacity to sustain volatility, while constantly adapting to a changing environment by deploying new investment strategies and optimizing existing strategies.

Fixed Income

4.8%	5.3%	4.8%	4.8%
1-year rate of return	Benchmark return	5-year annualized return	Benchmark return

Fixed Income, with an ending AUM of \$29.8 billion (\$24.9 billion in 2018), also faced a challenging year. Global yields started the year by continuing their upward trend as global central banks were removing stimulus and the global economy continued to grow at a healthy pace.

In the third quarter of the fiscal year, the impact of tariffs, trade wars, the cumulative effects of central bank tightening, and the rise of geopolitical risk started to impact global growth. This resulted in a very volatile period for risk assets, and consequently impacted developed market sovereign yields as investors sought capital safety. As a result, all developed market sovereign yields tightened significantly and nominal bonds outperformed inflation bonds.

The internally managed active fixed-income portfolio underperformed its benchmark by 45 basis points as the active fixed income strategy was positioned for a rise in yields, specifically in Europe, and for an outperformance of inflation bonds versus nominal bonds in developed markets.

Over five years, Fixed Income slightly underperformed its benchmark by 4bps, as a result of the portfolio's opportunistic positioning to take advantage of various movements in global sovereign interest rates and credit markets.

¹ Excludes Cash and Cash Equivalents.

Private Equity

Private Equity builds strategic relationships with external fund managers and investment partners, leveraging their networks and sector and geographic expertise to source long-term direct and co-investment opportunities.

Summary of portfolio evolution

Private Equity ended fiscal year 2019 with a net AUM of \$23.5 billion, up from \$19.4 billion at the end of fiscal year 2018. The growth of the portfolio was mainly driven by acquisitions of \$6.3 billion and valuation and currency gains of \$2.0 billion. This was largely offset by dispositions and financing of \$4.2 billion following asset realizations resulting from active monetization of significant direct investments, as well as funds secondary sales.

Fiscal year 2019 was marked by another year of high deployments mostly across the US and Europe, including new direct and co-investments totalling \$3.0 billion, completed mostly with new co-investment partners. This was largely offset with a record year of dispositions, especially in the direct portfolio where our investments in Orange Life Insurance and SKY Leasing were exited, as well as Antelliq, which closed after fiscal year-end.

\$23.5
Billion
Net AUM

\$19.4
Billion
Net AUM (FY2018)

\$3.2
Billion
Performance income

16.1%
1-year
rate of return

12.3%
Benchmark return¹

7.9%
5-year
annualized return

12.2%
Benchmark return

¹ As a result of the decision to maintain foreign currency exposure unhedged, the benchmark for Private Equity is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

New co-investments were made primarily in the industrial, health care, communications and financial sectors including, among others, the acquisition of significant interests in:

- Alliant Insurance Services, a large US independent insurance broker
- Azelis, a Belgian global distributor of specialty chemicals and food ingredients
- Wittur Group, one of the world's leading independent elevator components manufacturers, headquartered in Germany.

Unfunded commitments in connection with fund investments totalled \$10.4 billion at the end of fiscal year 2019. During the year, Private Equity signed new fund commitments of \$3.5 billion through 16 new funds, mostly with existing partners.

Finally, the fiscal year 2019 activity has changed portfolio diversification by increasing exposure to the US market and the health care sector, driven by valuation gains and deployments, whereas asset realizations decreased exposure to emerging markets and the financial sector.

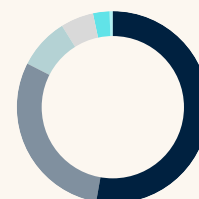
Performance analysis

Private Equity achieved strong results with a one-year rate of return of 16.1% in fiscal year 2019, compared to a benchmark return of 12.3%. Performance income reached \$3.2 billion, mainly driven by valuation gains of \$1.7 billion and distributed income of \$1.2 billion. This is a continuation of the improved performance that began with a new investment strategy implemented during fiscal year 2016.

Valuation gains were primarily attributable to direct and co-investments, particularly in the US health care sector. In addition, our investments in the US financial sector continued to benefit from continued growth and strong operating performance.

Performance income also benefited from foreign exchange gains of \$0.3 billion, which increased the one-year rate of return and the benchmark of the asset class by 1.7%.

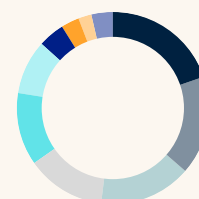
Over five years, Private Equity achieved a rate of return of 7.9%, compared to a benchmark return of 12.2%, primarily due to the past underperformance of certain investments in the communications and technology sectors.



Geographic diversification

As at March 31, 2019 (%)

53.0	US
29.5	Europe
8.8	Emerging markets
5.5	Canada
2.7	Asia
0.5	Other



Diversification by sector

As at March 31, 2019 (%)

19.9	Health care
16.7	Consumer discretionary
15.6	Financials
13.2	Industrials
12.1	Technology
9.2	Communications
4.6	Materials
3.1	Energy
2.0	Consumer staples
3.6	Other

Private Debt

Private Debt focuses on direct non-investment-grade primary and secondary credit investments in North America and Europe, in both private and public markets.

From our offices in New York, London and Montréal, our global team commits to large positions across the debt capital structure in the form of loans, bonds and preferred equity. The group balances credit quality, structure, deployment opportunity, risk-return profile, asset mix and portfolio diversification, among other considerations. In fiscal year 2019, Private Debt added a rescue financing and distressed debt capability.

\$10.5

Billion
Net AUM

\$8.9

Billion
Net AUM (FY2018)

\$837

Million
Performance income

9.2%

1-year
rate of return

5.7%

Benchmark return¹

14.2%

Since inception
annualized return
(3.3 years)

4.8%

Benchmark return

¹ As a result of the decision to maintain foreign currency exposure unhedged, the benchmark for Private Debt is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

Summary of portfolio evolution

Private Debt ended fiscal year 2019 with a net AUM of \$10.5 billion, up from \$8.9 billion at the end of fiscal year 2018. Net capital deployment of \$1.6 billion included investments in revolving credit facilities, first and second lien term loans, secured and unsecured bonds and preferred equity. This net increase reflects \$5.2 billion in acquisitions, partially offset by \$3.6 billion in dispositions driven by the higher churn of our maturing portfolio.

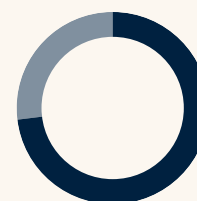
Private Debt's portfolio is well diversified across geographies, industries, equity sponsors and asset types; is heavily weighted toward floating rate exposure; and reflects the contribution of the fully ramped up Private Debt team in London.

Private Debt also collaborated with other PSP asset classes and facilitated commitments to several preferred equity investments, which were allocated to the Complementary Portfolio.

Performance analysis

Private Debt had a strong fiscal year 2019 performance with a one-year rate of return of 9.2% compared to a benchmark return of 5.7%, with the outperformance mainly driven by credit selection and fee income. Performance income of \$837 million largely consists of interest and fee income. Private Debt also benefited from foreign exchange gains of \$156 million, primarily due to significant underlying USD exposure, increasing the one-year rate of return and the benchmark of the asset class by 1.7%.

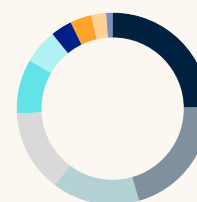
Since inception in late 2015, Private Debt achieved a rate of return of 14.2%, compared to a benchmark return of 4.8%. Over this period of time, Private Debt benefited from a broad market rally as well as from the ramp up nature of the asset class, which in early years enhanced the impact of significant fee income and valuation gains from a return perspective.



Geographic diversification

As at March 31, 2019 (%)

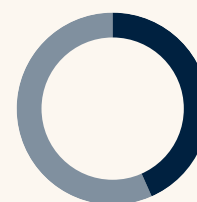
73.3	North America
26.7	Europe



Diversification by sector

As at March 31, 2019 (%)

24.9	Technology
20.9	Health care
14.6	Industrials
14.0	Consumer discretionary
9.0	Financials
5.8	Materials
3.8	Communications
3.5	Consumer staples
2.6	Energy
0.9	Real estate



Product split

As at March 31, 2019 (%)

43.6	First Lien
56.4	Non First Lien

Real Estate

Real Estate focuses on building a world-class portfolio of assets in major international cities, based on global themes such as technology, lifestyle, urbanization and demographics. The group prefers to own assets directly with first-class partners that have local expertise and share its approach to creating value and generating returns.

Real Estate also invests with select funds in specific markets or strategies where direct ownership is more challenging.

Summary of portfolio evolution

Real Estate ended fiscal year 2019 with net assets under management of \$23.5 billion, a slight increase of \$0.3 billion from the year prior. The evolution of the Real Estate portfolio was driven by \$4.1 billion in acquisitions and \$1.2 billion in valuation gains, offset by \$5.0 billion in dispositions and financing proceeds.

Real Estate's focus was on optimizing the portfolio. Net deployments were close to break-even as the group disposed of many core assets with completed business plans in the UK and European office and US multifamily sectors, as well as non-strategic assets in Brazil and the US. The group also recapitalized the student housing portfolio in London with Greystar by selling an interest to Allianz in support of Real Estate's acquisition strategy in that sector. With the low-yield

\$23.5
Billion
Net AUM

\$23.2
Billion
Net AUM (FY2018)

\$1.7
Billion
Performance income

7.6%
1-year
rate of return

11.8%
Benchmark return¹

11.8%
5-year
annualized return

8.1%
Benchmark return

¹ As a result of the decision to maintain foreign currency exposure unhedged, the benchmark for Real Estate is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

environment making it more challenging to acquire core assets, the strategy behind a number of acquisitions in North America and emerging markets was value-add or opportunistic. These acquisitions included:

- Life Science office real estate investments in the US with Longfellow
- Waller Creek Center, a development project in Austin, Texas
- Sun Life Plaza, an office complex located in Calgary with Aspen
- A multifamily portfolio in the San Francisco Bay Area with Veritas
- Raffles City, a mixed-use development in Shanghai, with Capitaland
- Industrial properties in Mexico with the PSP-owned platform Advance
- Multifamily properties in Canada with Starlight

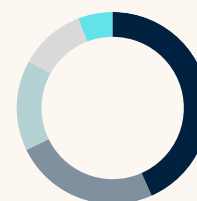
The largest single acquisition was the Downsview airport land in Toronto, which is a long-term re-development project that aligns with Real Estate's build-to-core strategy in primary and growth markets. It is expected that this site will provide unique development opportunities in future years.

Finally, an agreement to develop Cherry Park, a major Private Rented Sector (PRS) residential scheme in Stratford, UK, was entered into with Unibail-Rodamco-Westfield, and is scheduled to begin in fiscal year 2020.

Performance analysis

Real Estate achieved a one-year rate of return of 7.6% in fiscal year 2019, compared to a benchmark of 11.8% for the same period. Total performance income reached \$1.7 billion, driven by valuation gains of \$1.2 billion that were primarily attributable to the global industrial portfolio, which benefited from strong fundamentals. Other significant contributors included the Canadian multifamily portfolio, the Student Housing portfolio in London, the US residential portfolio, the mixed-used development in Washington, D.C. and the Australian office portfolio. PSP Investments' global retirement and health care platform had a challenging year as did some of the retail investments in the US, Europe and Mexico as well as some global opportunistic funds. Overall, the valuation gains included in the return for this fiscal year were not sufficient to compensate for the annual capitalization rates movements and long-term value creation embedded in the benchmark.

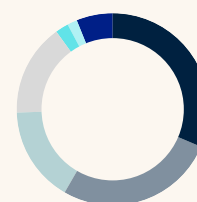
Over five years, Real Estate achieved a rate of return of 11.8%, compared to a benchmark return of 8.1%. The positive variance is primarily due to the Canadian multifamily portfolio, our global industrial portfolio, the London student housing portfolio, the Australian Office portfolio, and our global retirement and health care platform.



Geographic diversification

As at March 31, 2019 (%)

43.6	US
24.4	Canada
15.2	Western Europe
11.1	Emerging countries
5.7	Australasia



Diversification by sector

As at March 31, 2019 (%)

31.5	Residential/retirement
27.0	Office
16.0	Industrial
15.6	Retail
2.3	Health care
1.7	RE debt
5.9	Other

Infrastructure

Infrastructure invests globally on a long-term basis, primarily in the transportation, power generation, telecommunications and public utilities sectors. The Infrastructure asset class provides positive elements of inflation hedging, diversification, relative stability and illiquidity premiums that enhance the overall risk-return profile of the PSP total fund.

The group is focused on direct investments, including through industry platforms and co-investments. Platforms, one of the cornerstones of the group's strategy, provide a number of compelling advantages such as allowing us to leverage sector-specific knowledge/expertise, targeting and managing greenfield investments and expanding our reach in terms of access to key relationships/partners.

\$16.8

Billion
Net AUM

\$15.0

Billion
Net AUM (FY2018)

\$1.1

Billion
Performance income

7.1%

1-year
rate of return

4.6%

Benchmark return¹

12.7%

5-year
annualized return

6.7%

Benchmark return

¹ As a result of the decision to maintain foreign currency exposure unhedged, the benchmark for Infrastructure is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

Summary of portfolio evolution

At the end of fiscal year 2019, net assets under management totalled \$16.8 billion, up from \$15.0 billion the year prior. The growth of the portfolio was driven mainly by acquisitions of \$2.8 billion and valuation gains of \$0.8 billion. This was partially offset by dispositions and financing of \$1.6 billion and currency losses of \$0.2 billion.

Infrastructure deployment was mostly across Europe and the US, and included new direct and co-investments totalling \$1.7 billion. In addition to the return of capital from funds, Infrastructure disposed of investments which were not considered strategic totalling \$0.6 billion.

Key investments included:

- The acquisition by Roadis, PSP's road platform, of a controlling interest in two roads located in Portugal
- The acquisition of a majority interest in Forth Ports, the third-largest port operator by volume in the UK, which owns and operates eight commercial ports

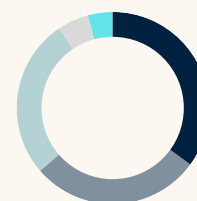
Finally, the fiscal year 2019 activity has slightly changed the portfolio geographic diversification by increasing exposure to the US market while decreasing exposure to Europe and Asia and Oceania.

Performance analysis

Infrastructure achieved a one-year rate of return of 7.1% in fiscal year 2019, compared to a benchmark return of 4.6%. Total performance income reached \$1.1 billion, driven mainly by valuation gains of \$0.8 billion primarily attributable to investments in the transportation and utilities sectors in Europe and North America, which benefited from strong organic growth and favourable market conditions.

Performance income also included a foreign exchange loss of \$0.2 billion that decreased the one-year rate of return and the benchmark of the asset class by 1.7%.

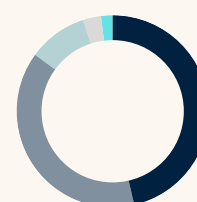
Over five years, Infrastructure achieved a solid rate of return of 12.7%, compared to a benchmark return of 6.7% primarily due to the strong performance of investments in the transportation, communications and energy sectors.



Geographic diversification

As at March 31, 2019 (%)

35.2	Europe
28.5	Emerging markets
27.0	US
5.3	Canada
4.0	Asia and Oceania



Diversification by sector

As at March 31, 2019 (%)

46.5	Industrials
38.6	Utilities
10.0	Communications
3.1	Energy
1.8	Technology

Natural Resources

Natural Resources primarily focuses on investments in real assets in agriculture and timber (mainly land, water and biological assets), which are well suited to the liability profile of the pension plans for which PSP invests. The group also invests in related opportunities, primarily in the first layer of the supply chain post the farm gate (such as logistics, distribution and processing assets) and will continue to prioritize direct, long-term investments alongside like-minded, best-in-class local operating partners.

Summary of portfolio evolution

Natural Resources closed fiscal 2019 with a net AUM of \$6.8 billion, up from \$4.8 billion at fiscal 2018 year-end. The growth of the portfolio was mainly driven by \$2.1 billion of net investment activity, predominantly in agriculture.

\$6.8

Billion
Net AUM

\$4.8

Billion
Net AUM (FY2018)

\$574

Million
Performance income

11.1%

1-year
rate of return

9.2%

Benchmark return¹

12.0%

5-year
annualized return

5.3%

Benchmark return

¹ As a result of the decision to maintain foreign currency exposure unhedged, the benchmark for Natural Resources is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

Fiscal year 2019 was marked by continued strong deployment in both Australia (\$1.1 billion) and the US (\$605 million) and a successful concerted effort to expand the group's footprint in selected regions in Latin America (\$466 million).

Significant investments in new agriculture joint ventures, alongside mostly new partners, include acquisitions in:

- Latin America: ~5,000 hectares of permanent crop operations (mainly coffee, blueberries and avocados) in Brazil and Chile;
- North America: ~16,000 hectares of irrigated agriculture land in Maui for re-development into a diversified farming operation; and
- Australia: ~44,000 hectares of cereal farms in New South Wales, supported by an in-house logistics and trading business and 840 hectares of avocado orchards in Queensland, with an integrated marketing and distribution business.

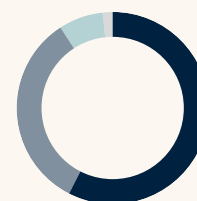
A notable development on the timber front included the strategic alliance of TimberWest and Island Timberlands, leading to the establishment of Mosaic Forest Management, which enables the shared use of facilities, enhanced forest stewardship and alignment of best practices.

Performance analysis

Natural Resources achieved strong results with a one-year rate of return of 11.1% in fiscal year 2019, compared to a benchmark return of 9.2%. Performance income reached \$574 million, mainly driven by net valuation gains of \$209 million and distributed income of \$199 million. Foreign exchange gains of \$166 million increased the one-year rate of return and the benchmark of the asset class by 3.3%.

Valuation gains and distributed income were primarily attributable to our longstanding timber investments, whereas our investments in agriculture are more nascent and most of their free cash flow is being reinvested in expansion rather than generating distributions.

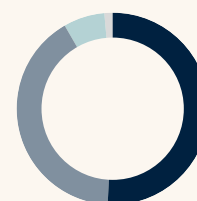
Over five years, Natural Resources achieved a rate of return of 12.0%, compared to a benchmark return of 5.3%, primarily due to strong performance from our timberland assets and early positive returns from our agriculture investments.



Geographic diversification

As at March 31, 2019 (%)

57.6	Australasia
33.3	North America
7.6	Latin America
1.5	Other



Diversification by sector

As at March 31, 2019 (%)

50.9	Agriculture
40.9	Timber
7.0	Oil and gas
1.2	Other

Complementary Portfolio

The Complementary Portfolio focuses on investments that are not within the mandate of an existing asset class but are deemed beneficial for the total fund. It provides PSP Investments with greater flexibility to capture investment opportunities that would not otherwise be pursued. While the focus so far has been on cross-asset transactions, more time will be devoted on incubator strategies, starting in fiscal year 2020. These strategies, which revolve around innovation and emerging themes, are expected to benefit PSP's medium- to long-term return through knowledge acquisition, sharing and transfer.

\$1.4

Billion
Net AUM

\$2.2

Billion
Net AUM (FY2018)

\$(0.6)

Million
Performance income

0.04%

1-year
rate of return

7.2%

Benchmark return

15.6%

Since inception
annualized return
(2.2 years)

8.9%

Benchmark return

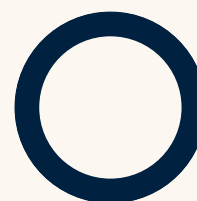
Summary of portfolio evolution

The Complementary Portfolio ended fiscal year 2019 with a net AUM of \$1.4 billion, down from \$2.2 billion at the end of fiscal year 2018. The decrease of \$0.8 billion was mainly driven by dispositions and transfers to other asset classes of \$1.0 billion and valuation losses of \$0.3 billion. This was partially offset by acquisitions of \$0.4 billion and currency gains of \$0.1 billion.

Performance analysis

In fiscal year 2019, the Complementary Portfolio generated a return of 0.04% compared to a benchmark return of 7.2%. These results were mainly driven by our publicly traded investment in the financial sector. This loss was partially compensated by small capital gains, income distributions and foreign exchange gains. Due to USD exposure, foreign exchange gains of \$0.1 billion increased the one-year rate of return of the asset class by 2.0%.

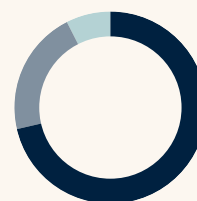
Since its introduction in January 2017, the Complementary Portfolio exceeded its benchmark by more than 6.0%, with a return of 15.6% compared to 8.9% for the benchmark. While our publicly traded investment in the financial sector negatively impacted the fiscal year 2019 return, it was the key contributor of the excess return since introduction, followed by the foreign exchange gains.



Geographic diversification

As at March 31, 2019 (%)

100.0 US



Diversification by sector

As at March 31, 2019 (%)

71.5	Financials
21.1	Consumer discretionary
7.4	Materials

Operating expenses and total cost ratio

Operating expenses

PSP Investments' total operating expenses were \$503 million or 31.7 bps (bps or basis point is a unit of measure to express the percentage of expenses in millions with AUM in billions. One basis point is 1/100th of 1%) in fiscal year 2019, compared to \$450 million or 31.7 bps in fiscal year 2018.

For fiscal year 2019, the increase in operating expenses is mainly attributable to increased headcount as well as investments in technologies and strategic plan initiatives to deliver Vision 2021.

In fiscal year 2019, salaries and employee benefits totalled \$291 million, compared to \$262 million in fiscal year 2018. PSP Investments had 844 employees at March 31, 2019; an increase of 5% from 807 employees at March 31, 2018.

Headcount rose at our primary business office in Montréal, and in New York and London. At the end of fiscal year 2019, in our international offices, we had 53 employees in London, 34 employees in New York and one employee in Hong Kong. Approximately 23% of our total salaries and benefits are denominated in foreign currencies, compared to 18% in fiscal year 2018.

Occupancy costs for fiscal year 2019 totalled \$28 million, compared to \$23 million in fiscal year 2018.

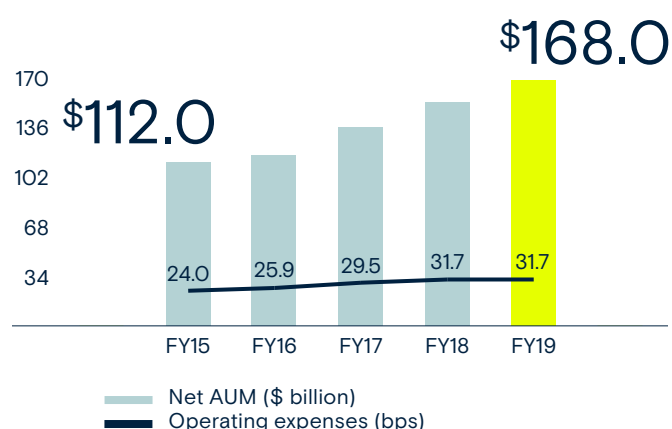
Over the past five years, PSP Investments has been building the organization and ramping up capabilities to achieve Vision 2021. The teams, strategies and portfolio have undergone significant transformations. During this time, operating expenses increased from 24.0 bps in fiscal year 2015 to 31.7 bps in fiscal year 2019. However, in the last three years, PSP Investments has seen signs of scalability in terms of a slower rate of increase in operating expenses year-over-year (12% in fiscal year 2019 versus 22% in fiscal year 2018 and 25% in fiscal year 2017). The ratio of Business Partners to Investment professionals is decreasing; 1.52 in fiscal year 2019 compared to 1.88 in fiscal year 2015. The enhanced cost-management approach that was implemented in fiscal year 2019 has helped keep the operating expenses ratio at 31.7 bps, the same level as in fiscal year 2018.

PSP Investments conducts a variety of benchmarking exercises to evaluate the cost of our investment implementation style. Survey results confirm that our operating expenses are reasonable when compared to those of our global peers.

Total cost ratio

PSP Investments' total cost ratio decreased from 69.8 bps in fiscal year 2018 to 67.3 bps in fiscal year 2019. The total cost ratio measures operating and asset-management expenses as a percentage of average net AUM. Asset management expenses include management fees paid to external asset managers and transaction costs. Transaction costs can vary significantly year-over-year, depending on the complexity and size of private market investment activities. The year-over-year decrease in the cost ratio is due to a less significant increase in management fees and transaction costs than our growth in assets under management.

Over the past five years, total costs increased from 58.8 bps in fiscal year 2015, peaked in fiscal year 2017 at 70.5 bps, and are currently at 67.3 bps in fiscal year 2019. As part of PSP Investments' Vision 2021, we have been reshaping our approach to investing. We continue to pursue internal active management, which started as early as fiscal year 2004, and we increased the allocation of the portfolio toward more private market asset classes. PSP investments believes that Private Markets offer great potential for higher long-term returns and value-add. To tap into global opportunities, we opened international offices and built a local presence in London and New York; and this year, we opened our Hong Kong office to gain better access to Asia Pacific regions. Associated costs for adopting Vision 2021 are reflected in the increases in operating expenses, transaction volumes as well as management fees.



Enterprise risk management

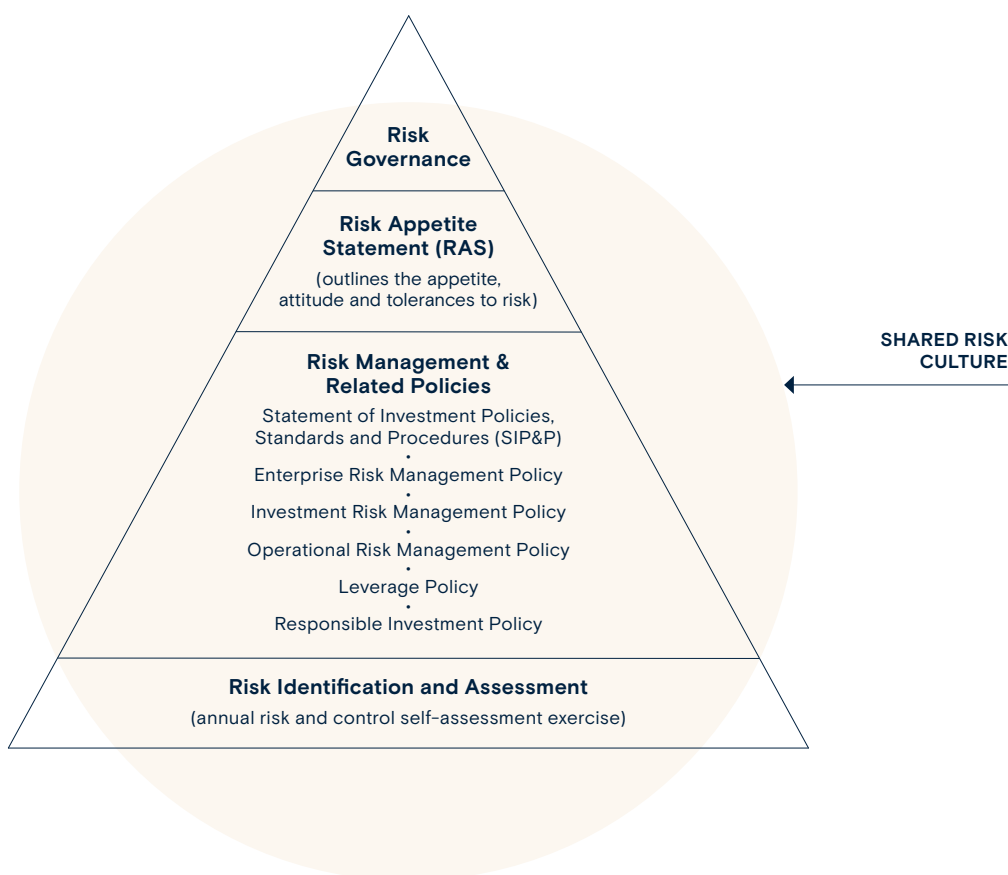
To achieve our mandate and deliver on our commitment to stakeholders, PSP Investments must take calculated risks and manage them appropriately. We follow a disciplined, integrated approach to risk management, and we strive to maintain a strong risk culture, in which all employees share responsibility for risk identification, evaluation, management, monitoring and reporting.

We made a number of organizational changes and enhancements to our risk management practices in fiscal year 2019.

Among key initiatives, we refined our total fund investment risk management approaches. To support our total fund approach, we continued to build systems for generating high-quality, multi-dimensional total fund risk views. A key area of focus was on enhancing our total fund perspective, overseeing the risk framework across asset classes and highlighting interdependencies and potential impacts on PSP Investments' total portfolio and its ongoing evolution.

Risk management framework

Our enterprise-wide risk management framework supports prudent risk-taking while striking the appropriate balance between risk and reward to achieve our strategic objectives. Each of the subsequent sections describes the elements of the framework.



Risk governance

Effective risk management starts with effective risk governance. At the top of the governance structure, the Board of Directors provides oversight. The Board reviews and approves the Risk Appetite Statement (RAS), investment objectives, the SIP&P and the Policy Portfolio. It also ensures that management has put in place an effective enterprise risk management approach and framework. The Board is regularly apprised of material risks and how management is responding to them.

Specific risk-related responsibilities are divided among Board committees and outlined in their respective [terms of reference](#).

The risk management framework is anchored in the three-lines-of-defence approach to managing risk, as shown below:

Governance Model



Three Lines of Defence Model

First line of defence Management and all employees	Second line of defence Governance, Risk, and Control functions	Third line of defence Internal Audit
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Risk Appetite Statement

The Risk Appetite Statement (RAS) specifies the level and types of risk that PSP Investments is willing to take in order to meet its strategic objectives. Reviewed annually, the RAS formalizes and combines the key elements of risk management at PSP Investments. It sets basic goals, benchmarks, parameters and limits for the risks assumed, and provides thresholds for ongoing investment activities. The RAS is summarized in the [Risk Appetite Overview](#) posted on our website and shared with all employees to promote transparency and risk culture.

Risk Management and Related Policies

PSP Investments acknowledges that it must take risks to achieve its statutory mandate and that the management of the full spectrum of risks must be integrated on an enterprise-wide basis. Key policies and procedures which outline the guiding principles governing PSP Investments' overall philosophy, values, culture and approach with respect to risk management are listed below along with the risk categories they seek to mitigate.

ENTERPRISE RISK CATEGORY	
Investment risk	Non-investment risk
<ul style="list-style-type: none"> Market risk Liquidity risk Credit and counterparty risk Concentration risk Leverage risk ESG risk 	<ul style="list-style-type: none"> Statement of Investment Policies, Standards and Procedures Investment Risk Management Policy Leverage Policy Responsible Investment Policy Strategic risk Governance risk Stakeholder risk Legal and regulatory risk Operational risk Reputational risk Operational Risk Management Policy

Risk identification and assessment

We conduct an annual, enterprise-wide risk and control self-assessment exercise to identify and evaluate key risks, and to assess the adequacy and effectiveness of mitigation activities. The exercise is a core component of the risk management framework and contributes to its ongoing refinement.

The Board participates in it, and provides a top-down complementary review, through an annual risk-identification survey.

Risks inherent to PSP Investments are identified through this exercise, while external risks are regularly monitored and the most relevant ones are integrated as appropriate. This results in a comprehensive identification of our most significant risks that takes into account the internal and external risk environments. By highlighting the organization's top risks, the exercise ultimately supports the corporate business planning process and ensures that risks are factored into PSP Investments' overall strategy.

Shared risk culture

We believe that risk management is the responsibility of every employee. Leaders promote a risk-aware culture by communicating this responsibility effectively. All employees are designated risk assessors or owners. They receive training to ensure they understand their individual and departmental roles and responsibilities. They are empowered with clear limits and guidelines to manage and report risks, and to escalate issues if necessary.

Risk Management is headed by the Senior Vice President and Chief Risk Officer who reports to the President and CEO. The Investment and Risk Committee of the Board of Directors meets quarterly with the Chief Risk Officer in in-camera meetings.

Capital management and liquidity

Capital management

The capital structure of PSP Investments consists of fund transfers and capital market debt financing.

Funds transferred

As described in our mandate, PSP Investments receives fund transfers from the Government and invests these in the best interests of the beneficiaries and contributors under their respective acts. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under their respective acts and the ability of the Plans to meet their financial obligations. The funds are invested in accordance with the Investment Risk Management policies established as an element within the enterprise risk management framework.

Capital debt program

A robust governance framework and conservative approach to borrowing allows PSP Investments to leverage the strength of our balance sheet and AAA credit rating. PSP Investments uses capital market debt financing to enhance total portfolio returns, support asset classes in the implementation of their investment strategies and generate liquidity. The borrowings consist of short-term financing via Canadian promissory note and US commercial paper programs with a combined limit of \$12 billion, as well as a Canadian senior unsecured medium-term note program. Total recourse debt outstanding is limited to 10% of PSP Investments' AUM. The programs are managed by Treasury to mitigate refinancing risk, with a balanced approach between short-term and medium-term financing.

Liquidity

Management utilizes appropriate measures and controls to monitor liquidity and meet its financial obligations as they come due. Furthermore, Management ensures that sufficient sources of liquidity are maintained for deployment in case of market disruption.

For further details on liquidity please refer to note 7.3 of the Consolidated Financial Statements.

Current and future changes in accounting standards

Current Accounting Standards

IAS 28 Investment in Associates and Joint Ventures

IAS 28 was amended, effective for annual periods beginning on or after January 1, 2018, to add a clarification that serves to elaborate and clarify that the election to measure investees at fair value is available on an investment by investment basis and is not an election that must be applied consistently to the measurement of all associates and joint ventures. PSP Investments has applied the amendments as of April 1, 2018 and there was no impact on its Consolidated Financial Statements.

IFRS 9 Financial Instruments

In 2014, the IASB completed its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9. The Standard includes requirements for recognition, derecognition, classification and measurement of financial assets and liabilities, as well as impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. PSP Investments early adopted IFRS 9 (2014) in the Consolidated Financial Statements for the year ended March 31, 2016. Significant accounting policies as they relate to recognition, derecognition, classification and measurement of financial assets and liabilities in connection with IFRS 9 are described under Note 2.3.1. There is no impact from the requirements relating to impairment and hedge accounting.

Future Accounting Standards

PSP Investments has determined that there is no material impact on its Consolidated Financial Statements arising from new standards, amendments and interpretations that have been issued by the IASB but that are not yet effective.

Governance

PSP Investments is committed to upholding the high standards of corporate governance and ethical conduct expected of a Crown corporation of the Government of Canada. We believe that good governance strengthens our decision-making, processes and controls, and is essential for fulfilling our statutory mandate.

Good governance starts with our Board of Directors, which sets the tone for a culture of integrity, accountability and compliance. The Governance Committee of the Board is specifically charged with monitoring governance matters and ensuring that PSP Investments meets robust standards, in keeping with evolving regulatory requirements and stakeholder expectations.

One of the Governance Committee's primary responsibilities is succession planning for Board members. Directors play an active role in guiding the organization and we need to support the external nominating committee and Government in ensuring we have a full contingent of individuals qualified to govern a leading global institutional investor such as ours. We are pleased to have successfully onboarded our three newest directors, Maryse Bertrand, Katherine Lee and David C. Court.

For the first time in PSP Investments' history, we now have gender balance on the Board. The Board is also functioning at full capacity with no vacant positions.

The Governance Committee is also responsible for ensuring that the Board and its Committees are functioning effectively. To this end, revised [Terms of Reference](#) were adopted in fiscal year 2019. This included expanding the responsibilities of the Investment Committee (now called the Investment and Risk Committee) to include risk management.

In this section, we discuss key governance activities undertaken in fiscal year 2019 and provide an overview of our governance framework and practices.

Governance framework

PSP Investments is a Crown corporation that operates at arm's length from the Government of Canada. Our governance framework is outlined in the *Public Sector Pension Investment Board Act* (the Act) and includes our statutory mandate, the responsibilities of our Board and our accountability to the Government and to pension plan contributors and beneficiaries.

Board responsibilities

PSP Investments' operations and activities are overseen by a Board of Directors composed of 11 independent directors who perform three vital functions:

- **Decision-making** – the Act provides for a number of decisions that cannot be delegated to management; where appropriate, the Board makes such decisions with advice from management;
- **Oversight** – supervising the management and overseeing risks of PSP Investments;
- **Insight** – advising management on matters such as markets, strategy, stakeholder relations, human resources and negotiating tactics.

The Board's specific responsibilities include:

- Determining the organization's strategic direction in collaboration with senior management;
- Selecting and appointing the President and CEO and annually reviewing his or her performance;
- Reviewing and approving the Statement of Investment Policies, Standards and Procedures (SIP&P) for each pension plan on an annual basis;
- Ensuring that risks are properly identified, evaluated, managed, monitored and reported;
- Approving benchmarks for measuring investment performance;
- Establishing and monitoring compliance with codes of conduct for directors and employees;
- Approving human resources and compensation policies, and establishing appropriate performance evaluation processes for Board members, the President and CEO, and other senior management members;
- Approving quarterly and annual financial statements for each pension plan and for PSP Investments as a whole; and
- Establishing Terms of Reference for the Board, Board committees, and Board and committee chairs.

Board committees

The Board fulfills its obligations directly and through four standing committees:

- **Investment and Risk Committee** – oversees PSP Investments' investment and risk management functions.
- **Audit Committee** – reviews financial statements and the adequacy and effectiveness of internal control systems, and oversees the internal audit function.
- **Governance Committee** – monitors governance matters and develops related policies, and oversees application of the codes of conduct for employees and directors.
- **Human Resources and Compensation Committee** – ensures policies and procedures are in place to manage the human resources function efficiently and effectively, and to offer all employees fair and competitive compensation aligned with performance and risk targets.

Learn more

[About our Board of Directors](#)
[Board Committees](#)

Accountability and reporting

PSP Investments reports to the ministers responsible for the four pension plans through its quarterly financial statements and annual report. The annual report must also be made available to pension plan contributors and is tabled in each House of Parliament by the President of the Treasury Board.

Our President and CEO, and the Chair of the Board, are required to meet once a year with advisory committees appointed to oversee the pension plans. We are also required to hold an annual public meeting. The most recent meeting was held in Ottawa on November 21, 2018.

Pursuant to the *Financial Administration Act* (FAA), PSP Investments must undergo a yearly external audit. The Auditor General of Canada and Deloitte LLP serve as our joint external auditors and are responsible for conducting special examinations at least once every 10 years. The last special examination was performed in fiscal year 2011. More information is available in the Reports section of our website.

Ethics and compliance

PSP Investments' success, and our ability to fulfill our underlying social mission of contributing to the long-term sustainability of the public sector pension plans, depends on preserving the corporation's exemplary reputation.

In most situations, our personal values and integrity guide us to the correct decisions and actions. However, we have also developed a Code of Conduct for PSP Investments' Officers, Employees and Consultants and a separate Code of Conduct for Directors. The codes provide a practical framework to help individuals better understand PSP Investments' principles, values and expected business practices and behaviours.

Code of Conduct for Officers, Employees and Consultants

The Code of Conduct for PSP Investments' Officers, Employees and Consultants includes guidelines related to acting with integrity and honesty, compliance with applicable laws, conflicts of interests, fraud and corruption, confidential information, personal trading, gifts and more. Each year, employees must confirm in writing their commitment to complying with the Code. They are encouraged to report any suspected wrongdoings, without fear of retaliation, to their immediate supervisor, the PSP Investments Compliance Officer, or through an anonymous whistleblower reporting tool.

Code of Conduct for Directors

The Code of Conduct for Directors integrates various legislative requirements relating to professional ethics and conduct. In particular, it is intended to assist directors in identifying, minimizing and resolving real or potential conflicts of interest, so they can effectively exercise their duties on behalf of PSP Investments while maintaining their independence and integrity. Each year, directors must confirm in writing their commitment to complying with this Code.

Learn more

[Code of Conduct for Officers, Employees and Consultants](#)
[Code of Conduct for Directors](#)

Board procedures and effectiveness

PSP Investments' Board plays an active role in decision-making and management oversight, and in providing strategic input.

Some of the Board's authority is delegated to management. For example, the Board has delegated to the President and CEO the authority to manage and direct the day-to-day affairs of PSP Investments. It also delegates certain powers and responsibilities to its four Board committees.

There is frequent discussion at the Board and Board committee levels between directors and management. Board members and senior management hold an annual strategy session for in-depth discussions on investments and risk-related topics. This year's strategic session focused primarily on lessons learned from the opening of international offices and objectives for future international expansion.

All regular Board and Board committee meetings include *in camera* sessions without members of management present. The Board has individual *in camera* meetings with the President and CEO. The Audit Committee has private meetings with each

of the internal and external auditors, and with the Chief Financial Officer, while the Investment and Risk Committee meets privately with the Chief Risk Officer and the Chief Investment Officer.

The Board and Board committees may consult with external advisors. During fiscal year 2019, the Human Resources and Compensation Committee sought the services of an external consultant.

The Governance Committee oversees the formal process for evaluating the performance of the Board Chair, the chairs of Board committees, individual directors and the Board as a whole. All directors, as well as the President and CEO, and certain senior management members, participate in the evaluation process. The Chair of the Governance Committee presents evaluation results to the Board. The ensuing discussions focus on achievements and expectations, and on concerns and opportunities for improvement. Any measures deemed necessary are subsequently implemented.

Fiscal year 2019 key activities

Investment and Risk Committee	<ul style="list-style-type: none"> Reviewed and approved 10 investments. Approved changes to the Risk Appetite Statement. Reviewed the governance for cross asset class transactions.
Audit Committee	<ul style="list-style-type: none"> Reviewed internal control procedures in preparation for the potential future launch of a global debt program. Increased focus on cost containment measures as part of the annual budget process. Approved a recent term debt issuance.
Governance Committee	<ul style="list-style-type: none"> Reviewed Board and Committee responsibilities and recommended to the Board new Terms of Reference for the Board, its committees and the Board and committee chairs. Supported management in enhancing PSP Investments' responsible investment strategy and disclosure practices. Approved a new Code of Conduct to come into effect in fiscal year 2020. Onboarded three new directors.
Human Resources and Compensation Committee	<ul style="list-style-type: none"> Conducted a full review of succession planning for the CEO and Officers. Supported the assessment and continuous improvement and operationalization of PSP Investments' compensation framework and incentive plans, including the implementation of a compensation framework for PSP's Hong Kong presence. Supported the implementation of a new Canadian group insurance plan for all employees.

PSP Investments' Board of Directors
met **9 times** in fiscal year 2019.
Board committees met for a total of **29 times**.

Director appointment process

Directors are appointed by the Governor in Council on the recommendation of the President of the Treasury Board of Canada for terms of up to four years. When their term expires, they may be reappointed for an additional term or continue in office until a successor is appointed.

Candidates are selected from a list of qualified Canadian residents proposed by an external nominating committee established by the President of the Treasury Board of Canada. The Nominating Committee operates separately from the Board, the President of the Treasury Board of Canada and the Treasury Board Secretariat.

The appointment process is designed to ensure that the Board has a full contingent of high-calibre directors with proven financial ability and relevant work experience. The Governance Committee regularly reviews and updates desirable and actual competencies and experiences to ensure that decisions are made with a view to having a Board that can provide the oversight and guidance needed for PSP Investments to fulfill its mandate.

Director orientation and education

Newly appointed directors participate in a structured orientation program that introduces them to PSP Investments' culture and operations, so they can contribute effectively as Board members.

The Governance Committee has created a director education program to support ongoing professional development. Through this program, directors are allocated an education and training budget to be used primarily for taking courses, attending conferences and procuring reading material to strengthen their understanding of investment management and other areas. Directors report annually on their individual development plans.

On occasion, outside speakers are invited to make presentations that contribute to the individual and collective expertise of Board members.

Board members

PSP Investments' Board is composed of 11 independent, professional directors who bring a wealth of experience and expertise to their role. The biographies of PSP Investments' directors can be found on pages **78-81**.

Remuneration

The Board's approach to director remuneration reflects the requirements of the Act. The Board reviews remuneration once every two years and considers changes based on recommendations prepared by the Governance Committee. No changes to director remuneration were approved in fiscal year 2019.

Directors were compensated as follows:

	\$
Annual retainer for the Board Chair	200,000
Annual retainer for each director other than the Board Chair	60,000
Annual retainer for each Board Committee Chair	15,000
Attendance fee for each Board meeting	1,500 ¹
Attendance fee for each committee meeting	1,500 ¹
Travel fees for a director attending a Board meeting in person, if his or her primary or secondary residence is outside Québec or Ontario	1,500

¹ A single meeting fee will be paid to a director who attends concurrent meetings of the Board and a committee.

Total fiscal year 2019 remuneration for directors was \$1,217,565. Directors are not entitled to additional remuneration in the form of retirement benefits or short-term or long-term incentives. The following tables provide details:

Meeting attendance

	Board of Directors		Investment and Risk Committee		Audit Committee		Governance Committee		Human Resources and Compensation Committee	
	Regular	Special	Regular	Special	Regular	Special	Regular	Special	Regular	Special
Number of meetings Fiscal Year 2019 ¹	8	1	5	6	6		5	1	5	1
Diane Bean ²	4/5	0/1	2/2	4/5	3/3					
Maryse Bertrand ³	5/5		3/3	4/4					3/3	
Micheline Bouchard	8/8	1/1	5/5	6/6			5/5	1/1	5/5	1/1
David C. Court ⁴	3/3		2/3	1/1						
Léon Courville	8/8	1/1	5/5	6/6	3/3		5/5	1/1	5/5	1/1
Garnet Garven	8/8	1/1	5/5	6/6	6/6		5/5	1/1		
Martin Glynn ⁵	8/8	1/1	5/5	6/6						
Lynn Haight	8/8	1/1	5/5	6/6	6/6		5/5	1/1		
Timothy E. Hodgson	8/8	1/1	5/5	6/6					5/5	1/1
Miranda C. Hubbs ⁶	8/8	1/1	5/5	6/6	2/2				4/4	
Katherine Lee ⁷	5/6		3/4	4/4	3/4					
William A. MacKinnon	7/8	1/1	4/5	6/6	5/6					

¹ Certain Committee meetings were held concurrently with Board of Directors meetings. All directors are members of the Investment and Risk Committee.

² Ms. Bean's term as director ended on October 30, 2018.

³ Ms. Bertrand was appointed to the Board of Directors on September 7, 2018.

⁴ Mr. Court was appointed to the Board of Directors on October 30, 2018.

⁵ Mr. Glynn is an ex-officio member of the Audit Committee, Governance Committee and Human Resources and Compensation Committee.

⁶ Ms. Hubbs became a member of the Human Resources and Compensation Committee on August 1, 2018 and ceased to be a member of the Audit Committee on the same date.

⁷ Ms. Lee was appointed to the Board of Directors on June 25, 2018.

Directors' compensation for fiscal year 2019

	Annual Retainer \$	Chair of a Committee/ Annual Retainer \$	Boards/ Committees Meeting Fees ¹ \$	Travel Fees \$	Total \$
Diane Bean	34,891		19,500		54,391
Maryse Bertrand	33,913		22,500		56,413
Micheline Bouchard	60,000	15,000	46,500		121,500
David C. Court	25,272		12,000	1,500	38,772
Léon Courville	60,000		46,500		106,500
Garnet Garven	60,000	15,000	46,500	10,500	132,000
Martin Glynn	200,000			10,500	210,500
Lynn Haight	60,000		46,500		106,500
Timothy E. Hodgson	60,000	15,000	39,000		114,000
Miranda C. Hubbs	60,000		39,000		99,000
Katherine Lee	45,989		22,500		68,489
William A. MacKinnon	60,000	15,000	34,500		109,500

¹ A single meeting fee is awarded for Board and Committee meetings held concurrently.

Report of the Human Resources — and Compensation Committee

The Human Resources and Compensation Committee assists the Board of Directors with human resources matters, including talent management and compensation.

HRCC Governance Process

The Human Resources and Compensation Committee (HRCC) is composed of directors who are knowledgeable about human resources-related issues. At the end of fiscal year 2019, committee members were:

- Maryse Bertrand
- Micheline Bouchard (Chair)
- Miranda C. Hubbs
- Léon Courville
- Timothy E. Hodgson

The HRCC's Terms of Reference, available on PSP's corporate website in the "Board of Directors" section, describe the HRCC's

duties and responsibilities, the key areas of which are listed below:

- Appointment of the Chief Executive Officer ("CEO") and other officers
- Performance assessment and compensation of the CEO and other officers
- Compensation of non-officer employees
- Compensation framework
- Succession planning
- Employee benefits and human resources policies
- Pension plans and supplemental employee retirement plans
- Disclosure

The Board of Directors ensures that PSP Investments' executive compensation and incentives are consistent with PSP Investments' Compensation Policy. In order to verify alignment, the services of Hugessen Consulting ("Hugessen"), an independent compensation consulting firm, were retained in fiscal year 2019 to assist the HRCC in its review of executive compensation. Hugessen reports solely to the HRCC.

Compensation framework

To successfully fulfill its mandate, PSP Investments must strive to attract, develop, reward and retain top talent from the investment and finance industries. The employee value proposition, with compensation as a cornerstone, must be compelling to successfully compete for highly-skilled professionals with the right capabilities. It must also reflect industry best practices and be aligned with stakeholders' best interests.

In 2017, following a comprehensive review, PSP Investments launched a new compensation framework, including a new Total Incentive Plan, which focused on the following three (3) primary objectives:

- Make incentives less formulaic and more subject to informed discretion
- Solidify alignment with stakeholders' long-term interests
- Ensure alignment with our five-year corporate strategy, Vision 2021

The Total Incentive Plan, which includes annual and deferred compensation elements, is further described in this section. Fiscal year 2019 is the third year in which annual awards were determined under this plan.

Moreover, to implement a pay-for-performance approach, the Board established a Compensation Policy that is designed to maintain total compensation at a fair and competitive level, while also ensuring that compensation plans are aligned with PSP Investments' strategic plan and integrated with business performance measurement. PSP Investments' Compensation Policy provides balanced performance-based compensation and is effectively designed to reward prudent risk-taking. Total compensation is primarily comprised of base salary, a total incentive (split between annual and deferred cash), benefits and pension.

Compensation discussion and analysis

Compensation discussion and analysis summarizes the foundational principles of our compensation and incentive plans, reviews the elements of our compensation framework and provides details on performance results and remuneration paid to Named Executive Officers (NEOs), including:

- Neil Cunningham – President and CEO
- David J. Scudellari – Senior Vice President, Head of Principal Debt and Credit Investments
- Guthrie Stewart – Senior Vice President, Global Head of Private Investments
- Anik Lanthier – Senior Vice President, Public Markets and Absolute Return Strategies
- Darren Baccus – Senior Vice President, Global Head of Real Estate and Natural Resources

Principles of our compensation framework

PSP Investments' compensation framework is designed to attract and retain key employees, reward performance and reinforce business strategies and priorities. Specifically, the framework is designed to:

Promote enterprise-wide collaboration	<ul style="list-style-type: none"> • All permanent employees participate in the total incentive plan • Total fund investment performance is a component of incentive compensation at all levels • Performance measure weights are aligned with the ability to impact results and vary based on level and group
Be sufficiently competitive to attract and retain the right people	<ul style="list-style-type: none"> • Compensation and incentive structures are aligned with relevant markets for talent, based on level, group and location • Total direct compensation (i.e. base salaries and target incentive) is competitive, with the flexibility to pay above or below based on the principles of pay for performance.
Enable individual differentiation	<ul style="list-style-type: none"> • Emphasize individual and group performance to ensure behaviors are aligned with PSP Investments' vision and values • Allow for discretion at every level of evaluation
Adapt to changing circumstances	<ul style="list-style-type: none"> • Enable the HRCC, Board of Directors and President and CEO to ensure pay for performance outcomes are adapted to PSP Investments' changing environment and unique conditions
Align pay with performance	<ul style="list-style-type: none"> • Establish alignment with the stakeholders' key measures of success, including the long-term rate of return objective • Include both relative and absolute total fund performance as part of the incentive framework • For senior management, ensure a significant portion of total compensation is deferred and "at risk", or subject to performance conditions
Discourage short-term risk taking	<ul style="list-style-type: none"> • Investment performance is measured over five- and seven-year retrospective periods • Deferred component (PDFU) extends the period for incentives "at risk" for three years after the grant date

The alignment of PSP Investments' compensation framework with Vision 2021 is expected to span several years. Fiscal year 2019's investment performance benchmarks and value-added objectives are consistent with those for fiscal year 2018 and a thorough review is planned in fiscal year 2020 given the arrival of Eduard van Gelderen, PSP Investments' new Chief Investment Officer, in July 2018. The benchmarks and value-added objectives currently ensure that compensation levels are aligned and competitive with market; any planned review will incorporate these objectives.

Pay level benchmarking process

Given the diversity in skills, capabilities and competencies PSP Investments requires to fulfill its mandate, executive and non-executive compensation levels, programs and practices are evaluated by comparing them with those of peer organizations operating in similar markets and vary by employee group and location. Peers include pension funds, investment management organizations, banks, insurance companies, as well as other relevant employers in the location being benchmarked. For target levels of investment performance, we position total direct compensation near the median of our peers. We have the option to pay above this level for exceptional performance or below it for less than optimal performance.

Risk management

Our compensation program reflects our responsibility to our sponsor and to Plan contributors and beneficiaries.

Incentives are aligned with the long-term investment mandate and strategy and were developed in consideration of the target return and risk appetite.

Key risk mitigating features in the compensation program include:

- **Significant pay “at risk”** – A large portion of pay for executives and other senior positions comes in the form of incentives. All deferred compensation is adjusted upward or downward based on total fund return over the vesting period.
- **Long-term horizon** – Investment performance is measured over 5, 7 and 10-year periods and aligned with PSP Investments’ long-term total fund return objectives. Once granted, the deferred portion of incentive compensation continues to vest over a subsequent 3-year period; this effectively aligns pay with performance over an 8 to 10-year period.
- **Maximum payouts** – Each performance measure in the total incentive formula as well as the final total incentive multiplier are subject to an absolute maximum.
- **Robust benchmark investment return targets** – Benchmarks and value-added objectives, which are used to calculate performance within the total incentive plan, reflect an appropriate balance of risk and return and are aligned with the Board of Directors-approved investment strategy and risk limits.
- **HRCC discretion to govern pay** – The HRCC uses its discretion to adjudicate annual and longer-term performance compared to pre-defined targets and expectations, as necessary. It also has the ultimate discretion to adjust pay levels to ensure they are aligned with PSP Investments’ performance and are reasonable from an overall cost perspective.

Compensation framework

Salary

Purpose:

- To provide a base level of compensation for services rendered.

Reviewed annually and increased, as necessary, based on a variety of factors, including competitiveness with market, importance of the role to the organization, scarcity of talent, experience and scope of responsibilities.

Total incentive

Purpose:

- To reward contributions to the achievement of superior and sustained organizational performance.
- To attract and retain talent.
- To align the interests of employees with PSP Investments’ stakeholders.

The Total Incentive Plan generates an incentive award each year that is split into an annual cash payment and a deferred cash award.

The total incentive is based on performance relating to various components: group objectives, total fund investment performance and, where applicable, asset class investment performance. The applicable performance components are weighted according to level and position. Individual performance is used as a modifier and individual performance scores are determined upon review of individual objectives relative to predetermined goals. For more senior positions, a greater emphasis is placed on total fund investment performance.

PSP Investments’ overall performance scores are determined at the end of each fiscal year. They are based on the achievement of each component, as well as discretionary adjustments for other relevant factors that are determined by the President and CEO, and the HRCC.

All employees participate in the same incentive plan and each employee has a target incentive opportunity based on his or her group and level. All employees can earn up to a maximum of two (2) times their target incentive opportunity.

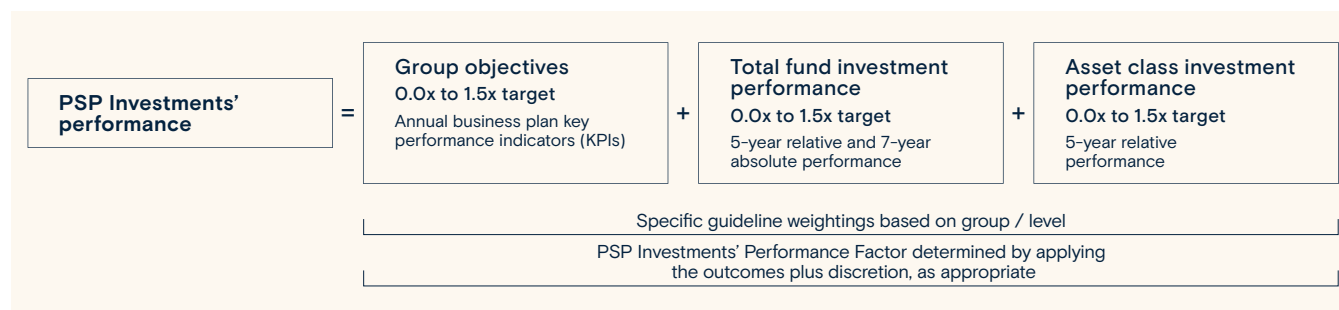
Once the total incentive award for each employee has been determined, the value is split between annual and deferred cash. The split between annual and deferred cash is based on position level: from cash only for lower position levels to both cash and deferred for higher position levels.

The value of deferred cash fluctuates with the annual rate of return of the total fund and is paid out on a one-third per year basis over three years. For senior management, a portion of deferred cash is subject to additional performance conditions and paid out at the end of three fiscal years, based on the achievement of absolute total fund return.

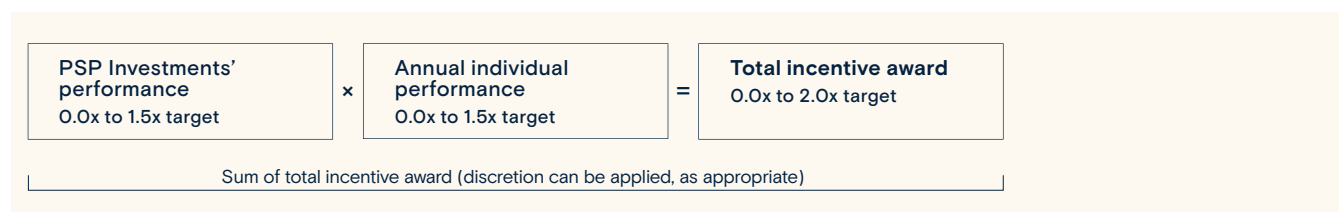
Below is an illustration of the framework of the total incentive program:

Total incentive plan framework¹

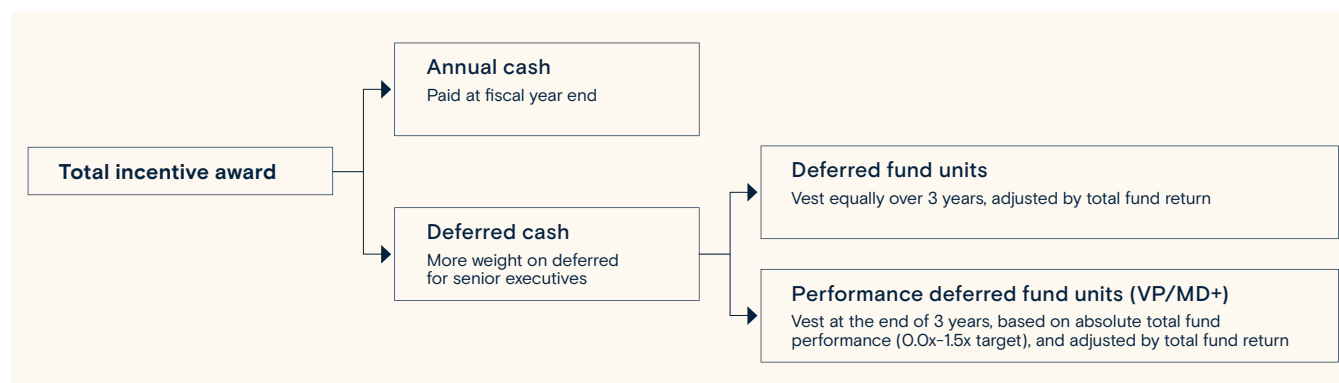
STEP 1



STEP 2



STEP 3



Note: As a result of the implementation of the new incentive program in fiscal year 2017, additional incentive payments may be made to honour historical grants, such as those authorized prior to fiscal year 2017, and other entitlements.

¹ The incentive amounts and the payment thereof are subject to restrictions and conditions as per the total incentive plan provisions.

Restricted Fund Units

Purpose:

- To attract, retain and reward key employees, on a selective basis.

Restricted Fund Units (RFUs) may be awarded in special circumstances warranted by superior performance or market-related considerations, such as on hire awards to off-set the loss of outstanding equity/awards and the demand or need to attract talent.

RFUs vest and are paid in three equal annual instalments, unless the employee elects to defer payment until the end of the three-year period.

The ultimate value paid to participants is adjusted to reflect the total fund return over the vesting period.

Other benefits

Purpose:

- To provide competitive group benefits and retirement savings programs.

Group benefits:

Based on their respective locations, employees have access to comprehensive benefits, including health and dental care, long-term disability, critical illness, life insurance, accidental death and dismemberment, and access to an employee-assistance program.

Retirement savings:

Defined Benefit (DB) Pension Plan – Closed to new entrants as of January 1, 2014. Since January 1, 2017, Canada-based eligible employees contribute 7.25% of base salary. The benefit is calculated on the basis of 2.0% of the average of the employee's three best consecutive years of salary.

Defined Contribution (DC) Pension Plan – Canada-based eligible employees hired on or after January 1, 2014 are automatically enrolled in the DC Pension Plan, to which they may contribute between 5.0% and 7.0% of base salary (which is fully matched by PSP Investments).

Canadian employees may contribute up to the maximum contribution allowable under the Canadian *Income Tax Act* (ITA).

DB or DC Supplemental Employee Retirement Plan (the "SERPs") – The SERPs have been established for Canada-based eligible employees enrolled in either the DB Pension Plan or the DC Pension Plan, as unfunded arrangements, to provide benefits in excess of the DB Pension Plan or the DC Pension Plan, where such benefits are limited under the Canadian ITA.

Employees based outside of Canada are eligible to participate in defined contribution pension plans that were established based on local regulations and are aligned with market practices.

Perquisites:

Executives are provided with a perquisites allowance and are eligible to an annual preventive health assessment.

Pay mix

Based on the compensation framework, the target pay mix for the President and CEO and senior vice presidents in asset classes is weighted significantly toward variable compensation, as outlined in the table below.

The President and CEO's target incentive is 400% of base salary, split 40% into annual cash paid out in the current year ("short-term incentive") and 60% into deferred awards ("long-term incentive"). Within the deferred portion, 50% is allocated to performance-based deferred fund units that cliff-vest and pay out after three years (while earning total fund return). The other 50% is allocated to time-vested deferred fund units that vest one-third per year over three years (while earning total fund return).

For senior vice presidents in asset classes, the target incentive is 350% of base salary, split 50% into annual cash paid out in the current year ("short-term incentive") and 50% into deferred awards ("long-term incentive"). Within the deferred portion, 40% is allocated to performance-based deferred fund units that cliff-vest and pay out after three years (while earning total fund return). The other 60% is allocated to time-vested deferred fund units that vest one-third per year over three years (while earning total fund return).

	% of target total compensation		
	Base salary	Short-term incentive	Long-term incentive
President and CEO	20	32	48
Senior Vice Presidents in Asset Classes	22	39	39

Fiscal 2019 results: performance outcomes and compensation decisions

Our compensation program includes two key investment performance elements:

1. The absolute total fund performance measured against the return objective over a rolling 7-year period
2. The relative performance of the total fund and major asset classes measured against their respective benchmarks over a rolling 5-year period

Absolute total fund performance

Since fiscal year 2013, PSP Investments has generated a net return on investment of 10.0%, which is higher than the long-term return objective.

Relative total fund and asset class performance

Long-term value creation is often a function of the ability to consistently deliver investment returns above a defined benchmark. For fiscal year 2019, our 5-year relative investment performance for the purpose of compensation is summarized in relation to each sector's respective target, as follows:

INVESTMENT SECTOR	5-YEAR RELATIVE INVESTMENT PERFORMANCE ²
Total Fund	Above threshold but below maximum target
Active Fixed Income	Above threshold but below maximum target
Infrastructure	Exceeded target
Natural Resources	Exceeded target
Private Equity	Below threshold
Private Debt ¹	Exceeded target
Public Markets and Absolute Return Strategies	Above threshold but below maximum target
Real Estate	Exceeded target

¹ Asset class created in fiscal year 2016. From inception date of December 11, 2015.

² Threshold refers to the excess performance required to achieve the performance multiplier above 0.0x.
Target refers to the excess performance required to achieve the maximum performance multiplier of 1.5x.

Compensation decisions made in fiscal year 2019

On an annual basis, Board members and the President and CEO agree on the key financial and non-financial objectives that will be used to measure the President and CEO's individual performance. At the end of each fiscal year, Board members evaluate the President and CEO's performance relative to these objectives and assign an overall performance rating. When determining the President and CEO's total direct compensation, the Board considers both the President and CEO's individual performance and PSP Investments' organizational performance.

For fiscal year 2019, the President and CEO's personal objectives – in addition to superior investment performance – were aligned with PSP Investments' strategy, mission and values, including:

- One PSP
- Branding
- Global footprint
- Scalability and efficiency
- Develop our talent
- Strive for excellence
- Delegate responsibility and embrace empowerment
- Act with integrity
- Act as one team
- Be results driven

In a manner similar to that used to calculate total direct compensation for the President and CEO, each senior officer also establishes annual individual performance goals. At fiscal year-end, his or her performance is evaluated in relation to goal achievement. The evaluation of individual goals and other performance measures informs recommendations regarding total direct compensation for senior officers that are presented to the Board for approval.

Compensation disclosure

PSP Investments strives to conform to leading practices for compensation disclosure of public pension funds.

The following tables illustrate NEOs selected and ranked by grant value in fiscal year 2019. The total compensation payout value received in fiscal year 2019 is also illustrated and includes cash received from former plans, new plans and any transitional arrangements.

Total direct compensation (grant value)

	Base salary	Annual cash	Deferred cash (grant)	Total direct compensation (grant) ¹
Neil Cunningham ²	500,000	1,211,520	1,817,280	3,528,800
David J. Scudellari ³	450,000	1,294,453	1,294,453	3,038,906
Guthrie Stewart ²	350,000	950,355	950,355	2,250,710
Anik Lanthier ²	350,000	876,549	876,549	2,103,098
Darren Baccus ^{2,4}	325,000	477,852	477,852	1,280,704

¹ Total direct compensation granted includes both annual cash and deferred cash earned for fiscal year 2019. The incentive framework was effective April 1, 2016 for Canadian-based NEOs and effective April 1, 2017 for NEOs outside of Canada.

² All amounts reported in CAD.

³ All amounts reported in USD.

⁴ Mr. Baccus was appointed Senior Vice President and Global Head of Real Estate and Natural Resources on November 1, 2018. He previously held the position of Senior Vice President and Chief Legal Officer.

Total direct compensation (payout value)

	Base salary	Annual cash	Deferred cash / LTIP (payout of previous grants)	Special RFUs (payout of previous grants)	Special cash	Total direct compensation (payout)
Neil Cunningham ¹	500,000	1,211,520	1,416,959	0	0	3,128,479
David J. Scudellari ²	450,000	1,294,453	235,386	110,511	0	2,090,350
Guthrie Stewart ¹	350,000	950,355	868,381	0	0	2,168,736
Anik Lanthier ^{1,3}	350,000	876,549	795,742	331,534	0	2,353,825
Darren Baccus ^{1,4}	325,000	477,852	82,660	0	114,488	1,000,000

¹ All amounts reported in CAD.

² All amounts reported in USD.

³ Ms. Lanthier elected to defer her FY2017 RFU grant payment until March 31, 2019.

⁴ Mr. Baccus was appointed Senior Vice President and Global Head of Real Estate and Natural Resources on November 1, 2018. Compensation components such as annual cash and deferred cash reflect his tenure as former Senior Vice President and Chief Legal Officer up to October 31, 2018. Mr. Baccus was awarded a discretionary cash bonus pursuant to his employment agreement included under "Special cash".

Comprehensive fiscal year 2019 total compensation

	Fiscal year	Base salary (A)	STIP / Annual cash payout (B)	Deferred cash / LTIP grant (C)	Sub-total compensation (grant value) (A+B+C)	Restricted fund unit / Special cash grants (D)	Pension and SERP Plans (E)	Total compensation (grant value) (A+B+C+D+E)	Other compensation ¹ (F)	Deferred cash + LTIP + RFU payout (G)	Total compensation (payout value) (A+B+F+G)
Neil Cunningham² President and Chief Executive Officer	2019	500,000	1,211,520	1,817,280	3,528,800	0	364,400	3,893,200	44,871	1,416,959	3,173,350
	2018	371,923	1,068,636	1,164,801	2,605,360	0	85,000	2,690,360	32,147	1,331,872	2,804,578
	2017	350,000	919,830	919,830	2,189,660	0	145,500	2,335,160	31,918	1,261,015	2,562,763
David J. Scudellari³ Senior Vice President, Head of Principal Debt and Credit Investments	2019	450,000	1,294,453	1,294,453	3,038,906	0	19,885	3,058,791	26,484	345,897	2,116,834
	2018	350,000	1,098,672	1,098,672	2,547,344	675,000	18,077	3,240,421	698,487	103,163	2,250,322
	2017	350,000	n/a	n/a	350,000	250,000	22,274	622,274	1,678,029	93,982	2,122,011
Guthrie Stewart² Senior Vice President and Global Head of Private Investments	2019	350,000	950,355	950,355	2,250,710	0	23,155	2,273,865	32,366	868,381	2,201,102
	2018	350,000	1,000,213	1,000,213	2,350,426	0	17,500	2,367,926	31,576	628,318	2,010,107
	2017	350,000	1,016,756	1,016,756	2,383,512	250,000	18,130	2,651,642	413,172	0	1,779,928
Anik Lanthier^{2, 4} Senior Vice President, Public Markets and Absolute Return Strategies	2019	350,000	876,549	876,549	2,103,098	0	114,300	2,217,398	30,948	1,127,276	2,384,773
	2018	335,000	925,396	925,395	2,185,791	0	142,100	2,327,891	28,295	632,412	1,921,103
	2017	300,000	807,509	807,508	1,915,017	382,101	26,500	2,323,618	160,344	510,390	1,778,243
Darren Baccus^{2, 5} Senior Vice President and Global Head of Real Estate and Natural Resources	2019	325,000	477,852	477,852	1,280,704	114,488	22,750	1,417,942	148,706	82,660	1,034,218
	2018	325,000	301,617	301,617	928,234	500,000	22,750	1,450,984	531,911	16,841	1,175,369
	2017	108,750	76,710	76,710	262,170	296,595	7,438	566,203	308,965	0	494,425

¹ "Other compensation" includes the perquisites allowance, the annual flexible dollar allocation, the annual health-and-lifestyle assessment and the employer-paid premiums for life, accidental death and dismemberment, disability, health and dental care coverage, as well as other special cash or amounts in accordance with contractual arrangements, where applicable.

² All amounts reported in CAD.

³ All amounts reported in USD.

⁴ Ms. Lanthier elected to defer her FY2017 RFU grant payment until March 31, 2019.

⁵ Mr. Baccus was hired on December 1, 2016. Pursuant to his employment agreement, Mr. Baccus was entitled to a guaranteed annual cash compensation of no less than 700,000 for FY2017 and FY2018, and a discretionary cash bonus for FY2017, FY2018 and FY2019, which are included as part of "Other compensation". Mr. Baccus was appointed Senior Vice President and Global Head of Real Estate and Natural Resources on November 1, 2018. Compensation components such as annual cash and deferred cash reflect his tenure as former Senior Vice President and Chief Legal Officer up to October 31, 2018.

Long-term incentives granted

The following table shows the estimated future payouts to PSP Investments' NEOs.

	Award type	Fiscal year 2019 grant	Vesting period	Estimated future payouts		
				FY2020	FY2021	FY2022
Neil Cunningham ²	Deferred cash ¹ RFU	1,817,280 0	3 years 3 years	302,880 0	302,880 0	1,211,520 0
David J. Scudellari ³	Deferred cash ¹ RFU	1,294,453 0	3 years 3 years	258,891 0	258,891 0	776,671 0
Guthrie Stewart ²	Deferred cash ¹ RFU	950,355 0	3 years 3 years	190,071 0	190,071 0	570,213 0
Anik Lanthier ²	Deferred cash ¹ RFU	876,549 0	3 years 3 years	175,310 0	175,310 0	525,930 0
Darren Baccus ²	Deferred cash ¹ RFU	477,852 0	3 years 3 years	95,570 0	95,570 0	286,711 0

¹ Deferred cash: Actual payouts will be adjusted upward or downward to reflect PSP Investments' total fund rate of return over performance vesting periods (no total fund return has been included in the table above and no PDFU multiplier has been applied - i.e. assumes target performance).

² All amounts reported in CAD.

³ All amounts reported in USD.

Long-term incentives cumulative value

The total cumulative value of all long-term incentive awards granted but not yet vested or paid to PSP Investments' NEOs (as at March 31, 2019) is shown in the following table.

	Plan	Awards paying out at the end of fiscal year			Total
		2020	2021	2022	
Neil Cunningham ²	Deferred cash ¹	1,078,122	1,020,994	1,211,520	3,310,636
	RFU	0	0	0	0
	TOTAL	1,078,122	1,020,994	1,211,520	3,310,636
David J. Scudellari ³	Deferred cash ¹	478,625	918,094	776,672	2,173,391
	RFU	0	0	0	0
	TOTAL	478,625	918,094	776,672	2,173,391
Guthrie Stewart ²	Deferred cash ¹	1,000,167	790,199	570,213	2,360,579
	RFU	0	0	0	0
	TOTAL	1,000,167	790,199	570,213	2,360,579
Anik Lanthier ²	Deferred cash ¹	844,893	730,547	525,930	2,101,370
	RFU	0	0	0	0
	TOTAL	844,893	730,547	525,930	2,101,370
Darren Baccus ²	Deferred cash ¹	201,920	276,541	286,711	765,172
	RFU	0	0	0	0
	TOTAL	201,920	276,541	286,711	765,172

¹ Deferred cash: Actual payouts will be adjusted upward or downward to reflect PSP Investments' total fund rate of return over performance vesting periods (no total fund return has been included in the table above and no PDFU multiplier has been applied - i.e. assumes target performance).

² All amounts reported in CAD.

³ All amounts reported in USD.

Retirement benefits

Defined contribution pension plan (Canada) and Safe Harbor 401(k) plan (United States)

	Plan type	Accumulated value at beginning of year	Compensatory increase ¹	Non-compensatory increase ²	Accumulated value at year end
<i>All amounts reported are in USD</i>					
David J. Scudellari	Safe Harbor 401(k)	103,792	19,885	34,372	158,049
<i>All amounts reported are in CAD</i>					
Guthrie Stewart	Defined Contribution	94,903	23,155	30,869	148,927
Darren Baccus	Defined Contribution	61,749	22,750	30,018	114,517

¹ Represents employer contributions. For Canadian-based NEOs, refers to contributions under both the DC Pension Plan and the DC Supplemental Employee Retirement Plan.

² Represents employee contributions and regular investment earnings on employer and employee contributions. For Canadian-based NEOs, refers to contributions and investment earnings under both the DC Pension Plan and the DC Supplemental Employee Retirement Plan.

Defined benefit pension plan (Canada)

	Number of years of credited service ¹	Annual benefit		Accrued obligation at beginning of year ^{2,4}	Compensatory increase ⁵	Non-compensatory increase ⁶	Accrued obligation at year end ^{2,7}
		At year end ²	At age 65 ^{2,3}				
Neil Cunningham	11.4	89,300	126,500	1,413,900	364,400	(152,800)	1,625,500
Anik Lanthier	12.9	83,700	209,400	1,384,200	114,300	(106,100)	1,392,400

¹ Number of credited years of service used for both the DB Employee Pension Plan and the DB Supplemental Employee Retirement Plan.

² Sum of benefits accrued under the DB Employee Pension Plan and the DB Supplemental Employee Retirement Plan.

³ For the purpose of calculating the annual benefits payable at age 65, the final average earnings are calculated as at March 31, 2019.

⁴ Accrued obligation using a discount rate of 3.5%. The obligations are calculated as at March 31, 2018 using the assumptions and methods that were used for the accounting disclosures as at December 31, 2017.

⁵ Includes employer service cost at the beginning of the year, the impact arising from the difference between actual pensionable earnings and those anticipated at the prior year end and the impact of amendments to the pension plans if any.

⁶ Includes employee contributions and benefit payments (if any) made in the year, changes in assumptions, non-pay-related experience and the interest cost for the year.

⁷ Accrued obligation using a discount rate of 4.0%. The obligations are calculated as at March 31, 2019 using the assumptions and methods that were used for the accounting disclosures as at December 31, 2018.

Post-employment policies

Pursuant to his employment agreement, in the event of dismissal other than for “cause”, the President and CEO’s severance pay is set at 24 months of base salary at the time of departure plus the annual cash portion of his target incentive, in addition to 60,000 which is equivalent to 24 months of perquisites. Severance pay also includes continuous coverage under the group insurance plan for up to 24 months, with the exception of disability coverage, accidental death and dismemberment, as well as other optional coverage.

For senior vice presidents, severance pay is set at 12 months of base salary at the time of departure plus the annual cash portion of the target incentive. One month of base salary plus the annual cash portion of the target incentive is added for each completed year of service, up to a total maximum of 18 months. Severance pay also includes continuous group insurance coverage, such as health care, dental and life insurance for up to 18 months.

In the event of a voluntary departure, no severance amounts are payable to the President and CEO or to senior vice presidents.

The table below shows the potential payments that would be made upon termination (without cause) to PSP Investments’ highest-paid NEOs, excluding any amounts that would become payable as per applicable incentive plan provisions.

	Years of service ¹	Severance	Resignation
Neil Cunningham ²	14.8	2,660,000	0
David J. Scudellari ³	3.4	1,546,875	0
Guthrie Stewart ²	3.6	1,203,125	0
Anik Lanthier ²	12.9	1,443,750	0
Darren Baccus ²	2.3	1,042,708	0

¹ Assumes a notional termination as at March 31, 2019.

² All amounts reported in CAD.

³ All amounts reported in USD.

Directors' biographies



Martin Glynn

Chair of the Board

Board member since
January 30, 2014

Committee Membership:
Investment and Risk Committee

Martin Glynn is a Board member of two public companies: Sun Life Financial Inc. and Husky Energy Inc. He also serves as a Board member of St Andrews Applied Research Limited (StAAR Limited) and is a member of the advisory board of Balfour Pacific Capital Inc. Until his retirement in 2006, Mr. Glynn held progressively senior positions with HSBC, including President and CEO of HSBC Bank Canada from 1999 to 2003, and President and CEO of HSBC Bank USA from 2003 to 2006. He remains active in professional and community circles. From 2009 to 2010, he was the Jarislowsky Fellow in Business Management at the Haskayne School of Business, University of Calgary. Mr. Glynn holds a BA Honours (Economics) from Carleton University and an MBA (Finance and International Business) from the University of British Columbia.



Maryse Bertrand

Board member since
September 7, 2018

Committee Membership:
Governance Committee¹
Human Resources and Compensation Committee
Investment and Risk Committee

Maryse Bertrand is a Board member at the National Bank of Canada, Gildan Activewear Inc. and Metro Inc. and the Vice-Chair of the Board of McGill University. She is a former director of the Caisse de dépôt et placement du Québec. She was Strategic advisor and special counsel to Borden Ladner Gervais S.E.N.C., s.r.l., and a Vice-president, Real Estate Services, Legal Services and General-counsel at CBC/Radio-Canada. She was a partner of Davies Ward Phillips and Vineberg S.E.N.C., s.r.l., where she specialized in M&A and Corporate Finance and where she served on the National Management Committee of the firm. She was named as Advocatus emeritus (Ad. E.) in 2007 by the Québec Bar in recognition of her exceptional contribution to the legal profession. Ms. Bertrand has a law degree from McGill University and a Master in Risk Management from New York University, Stern School of Business.



Micheline Bouchard

Board member since
September 29, 2011

Committee Membership:
Governance Committee
Human Resources and
Compensation Committee – Chair
Investment and Risk Committee

Micheline Bouchard is a member of the Board of Directors of the Canada Foundation for Innovation and WinTerra Global Technologies. She has extensive experience as a director with public and private companies and volunteer boards. Past board memberships include TELUS Corporation, Banque Nationale de Paris, Ford Motor Company of Canada, London Insurance Group Inc. and Harry Winston. Ms. Bouchard was Global Corporate Vice President of Motorola, Inc. in the US after having served as President and CEO of Motorola, Inc. (Canada). She holds a BSc (Engineering Physics) and an MASc (Electrical Engineering) from the École Polytechnique, the engineering school affiliated with the Université de Montréal. She has been awarded five honorary doctorates from Canadian universities and been named one of the top 100 of Canada's Most Powerful Women (2015). Ms. Bouchard is a Member of the Order of Canada and of the Ordre national du Québec, and a Certified Member of the Institute of Corporate Directors.

¹ Appointed as a member of the Governance Committee effective April 1, 2019.



David C. Court

Board member since
October 30, 2018

Committee Membership:
Audit Committee
Investment and Risk Committee

David C. Court is a Director Emeritus at McKinsey & Company. Mr. Court was previously McKinsey's Global Director of Technology, Digitization and Communications, led McKinsey's global practice in harnessing digital data and advanced analytics from 2011 to 2015, and was a member of the firm's Board of Directors and its Global Operating Committee. Mr. Court is a director of Brookfield Business Partners, Canadian Tire Corporation, National Geographic's International Council of Advisors and the Smith Business School at Queen's University. He also chairs the advisory board of Georgian Partners, a venture capital firm specializing in analytics and artificial intelligence. Mr. Court holds a BCom from Queen's University and an MBA from Harvard Business School where he was a Baker Scholar.



Léon Courville

Board member since
March 5, 2007

Committee Membership:
Governance Committee
Human Resources and Compensation Committee
Investment and Risk Committee

Léon Courville has devoted his entire career to the sciences of management and finance, serving as a professor and researcher at universities in Canada and the US before being appointed President of the National Bank of Canada. He enjoys an active "retirement" as a corporate director, an Associate Professor at the École des Hautes Études Commerciales (HEC) (the business school affiliated with the Université de Montréal) and as proprietor of the vineyard, Domaine Les Brome - Léon Courville, which he founded in 1999. Mr. Courville is a Board member of the Institut de tourisme et d'hôtellerie du Québec and of the Institut économique de Montréal, and Chairman of the Canadian Derivatives Institute. His research and publications have garnered awards and bursaries in Canada and abroad, including the Coopers & Lybrand Award for *The Storm: Navigating the New Economy*. Mr. Courville holds a PhD (Economics) from Carnegie Mellon University.



Garnet Garven

Board member since
September 29, 2011

Committee Membership
Audit Committee
Governance Committee – Chair
Investment and Risk Committee

Garnet Garven is Dean Emeritus of the Paul J. Hill School of Business and of the Kenneth Levene Graduate School of Business at the University of Regina. He is a Management Board member of the Pension Budget Reserve Fund at the Organization for Economic Cooperation and Development in Paris and a member of Canada's Accounting Standards Board. More recently, he was a Senior Fellow at Canada's Public Policy Forum. He has served as Deputy Minister to the Premier of Saskatchewan and Cabinet Secretary. He holds a B.Admin. from the University of Regina, an MBA (Finance) from the University of Saskatchewan and an Honorary CPA. Mr. Garven was a Research Fellow in Corporate Governance at the Ivey Business School, Western University. He is a founding Director of Greystone Managed Investments and former Chair and CEO of the Saskatchewan Workers' Compensation Board.



Lynn Haight

Board member since
January 14, 2010

Committee Membership
Audit Committee
Governance Committee
Investment and Risk Committee

Lynn Haight is the Chair of the Independent Audit and Oversight Committee of the United Nations High Commission for Refugees in Geneva, and a member of the Board of Green Shield Canada and of the independent Advisory Board of UNESCO. She recently concluded her term as Chair of the Consortium Board of the Consultative Group of International Agricultural Research Centers in Washington. Ms. Haight sits on the Board of the Somerville College Foundation at the University of Oxford. She was previously COO and CFO of the Foresters International Insurance Organization, Vice President, US Fixed Annuities, and Chief Accountant of Manulife Financial Corp and Chair of the World Agroforestry Centre in Nairobi and of the Sectoral Advisory Group for business services to the Canadian Minister of International Trade. Ms. Haight holds an MA Honours from the University of Oxford. She is a Fellow of the Chartered Professional Accountants of Canada and of the Institute of Chartered Accountants in England and Wales. She is also a Certified Corporate Director.



Timothy E. Hodgson

Board member since
December 17, 2013

Committee Membership
Human Resources and Compensation Committee
Investment and Risk Committee – Chair

Timothy E. Hodgson is Managing Partner of Alignvest Management Corporation. He is the Chairman of Alignvest Acquisition II Corporation, and also serves on the board of Meg Energy Corporation and Hydro One. He was Special Advisor to Bank of Canada Governor Mark Carney from 2010 to 2012. Mr. Hodgson spent much of his early career with Goldman Sachs Group, Inc. and served as CEO at Goldman Sachs Canada, Inc. from 2005 to 2010. He has previously served on the boards of directors of The Global Risk Institute, KGS-Alpha Capital Markets, Bridgepoint Health, The Richard Ivey School of Business and NEXT Canada. Mr. Hodgson holds an MBA from Ivey Business School, and a BCom from the University of Manitoba. Mr. Hodgson obtained his CPA, CA designation in 1986 and has been named a Fellow of the Chartered Professional Accountants of Canada. He is also a member of the Institute of Corporate Directors.



Miranda C. Hubbs

Board member since
August 15, 2017

Committee Membership
Human Resources and Compensation Committee
Investment and Risk Committee

Miranda C. Hubbs is currently a Director of Nutrien, Imperial Oil, and Canadian Red Cross. She has previously served on the boards of directors of Agrium Inc. and Spectra Energy Corp. She is a founding member and National Co-Chair of the Canadian Red Cross Tiffany Circle-Women Leading Through Philanthropy. Ms. Hubbs holds a BSc from Western University and an MBA from Schulich School of Business at York University. She is a CFA charter holder and a National Association of Corporate Directors Governance Fellow. Prior to her retirement in 2011, Ms. Hubbs was Executive Vice President and Managing Director of McLean Budden Limited, one of Canada's largest institutional asset managers. She also worked as an energy research analyst and investment banker with Gordon Capital Corporation, a large Canadian brokerage firm.



Katherine Lee

Board member since
June 25, 2018

Committee Membership

Audit Committee
Investment and Risk Committee

Katherine Lee is currently a Corporate Director of BCE and Colliers International Group. She was the President and CEO of GE Capital Canada (a leading global provider of financial and fleet management solutions to mid-market companies operating in a broad range of economic sectors). Prior to this role, Ms. Lee served as CEO of GE Capital Real Estate in Canada from 2002 to 2010, building it to a full debt and equity operating company. Ms. Lee joined GE in 1994, where she held a number of positions, including Director, Mergers & Acquisitions for GE Capital's Pension Fund Advisory Services based in San Francisco, and Managing Director of GE Capital Real Estate Korea based in Seoul and Tokyo. Ms. Lee earned a Bachelor of Commerce degree from the University of Toronto. She is a Chartered Professional Accountant and Chartered Accountant. She is active in the community, championing women's networks and Asia-Pacific forums.



William A. MacKinnon

Board member since
January 14, 2010

Committee Membership

Audit Committee – Chair
Investment and Risk Committee

William A. MacKinnon is very active in professional and community circles and serves on the boards of the Toronto Foundation, as Chair, and of Roy Thomson Hall in Toronto. He is a former Board member of TELUS Corporation. An accountant by profession, Mr. MacKinnon joined KPMG LLP Canada in 1968, became a Partner in 1977 and was CEO from 1999 until his retirement at the end of 2008. For several years, he served on the KPMG International Board of Directors. Mr. MacKinnon holds a BCom from the University of Manitoba. He obtained his CPA, CA designation in 1971 and, in 1994, was named a Fellow of the Chartered Professional Accountants of Canada.

Consolidated 10-year financial review

(\$ million)	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
CHANGE IN NET ASSETS¹										
Net investment income (loss)	11,616	13,975	15,553	1,098	13,966	12,793	7,194	1,888	7,043	7,605
Operating expenses	503	450	370	295	243	216	184	148	114	92
Other comprehensive income (loss)	(3)	(14)	(4)	4	(15)	17	–	–	–	–
Comprehensive income (loss)	11,110	13,511	15,179	807	13,708	12,594	7,010	1,740	6,929	7,513
Fund transfers	3,749	3,921	3,622	3,987	4,554	4,997	4,635	4,733	4,814	4,980
Increase (decrease) in net assets	14,859	17,432	18,801	4,794	18,262	17,591	11,645	6,473	11,743	12,493
NET ASSETS UNDER MANAGEMENT										
Equity										
Public Market Equities ²	51,035	51,813	55,227	47,511	56,276	49,466	40,165	32,950	32,834	23,659
Private Equity	23,539	19,382	15,868	12,520	10,103	8,425	6,924	6,444	5,582	5,426
Government Fixed Income³	34,389	27,783	24,043	24,603	22,646	18,383	15,433	14,144	11,956	10,001
Credit	10,475	8,857	4,418	640	–	–	–	–	–	–
Real Assets										
Real Estate ⁴	23,538	23,245	20,551	20,356	14,377	10,650	9,427	7,055	5,312	5,118
Infrastructure	16,818	14,972	11,149	8,701	7,080	6,011	3,854	3,607	2,356	2,073
Natural Resources	6,759	4,833	3,711	2,470	1,536	795	382	325	–	–
Complementary Portfolio	1,426	2,201	656	–	–	–	–	–	–	–
Net AUM	167,979	153,086	135,623	116,801	112,018	93,730	76,185	64,525	58,040	46,277
PERFORMANCE (%)										
Annual rate of return (net of expenses)	7.1	9.8	12.8	0.7	14.2	15.9	10.3	2.6	14.1	21.1
Benchmark	7.2	8.7	11.9	0.3	13.1	13.9	8.6	1.6	12.7	19.8

¹ Figures for and after 2014 are presented in accordance with International Financial Reporting Standards (IFRS).

Figures prior to 2014 are presented in accordance with Canadian accounting standards applicable during the respective periods and have not been restated in accordance with IFRS.

² Includes amounts related to absolute return strategies, funded through leverage.

³ Includes Cash & Cash Equivalents.

⁴ Since 2013, amounts related to real estate debt strategies have been reported under Real Estate.

— Financial Statements

and Notes to the Financial Statements

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Management's Responsibility for Financial Reporting

The consolidated financial statements of the Public Sector Pension Investment Board ("PSP Investments") as well as the financial statements of the Public Service, the Canadian Forces, the Royal Canadian Mounted Police, and the Reserve Force Pension Plan Accounts (the "financial statements") have been prepared by management and approved by the Board of Directors. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and incorporated into the CPA Canada Handbook. Management is responsible for the contents of these financial statements and the financial information contained in the annual report.

On a yearly basis, we certify that the internal controls over financial reporting and disclosure controls and procedures are adequately designed and are operating effectively. We report any significant deficiencies to the Audit Committee ("Committee") of the Board of Directors of PSP Investments.

In this regard, investments of PSP Investments held during the years ended March 31, 2018 and March 31, 2019 were in accordance with the *Public Sector Pension Investment Board Act* (the "Act") and the Statement of Investment Policies, Standards and Procedures (the "SIP&P").



Neil Cunningham
President and CEO

May 14, 2019

In addition, PSP Investments maintains records and systems of internal control and supporting procedures to provide reasonable assurance that PSP Investments' assets are safeguarded and controlled, and that transactions are in accordance with the applicable provisions of Part X of the *Financial Administration Act* and, as appropriate, the Act, the accompanying regulations, the by-laws, and the SIP&P.

The Committee assists the Board of Directors in discharging its responsibility to approve the annual financial statements. The Committee meets regularly with both management and the external auditors to discuss the scope and findings of audits and other work that the external auditors may be requested to perform from time to time, to review financial information, and to discuss the effectiveness of internal controls. The Committee reviews the annual financial statements and recommends them to the Board of Directors for approval.

PSP Investments' external "joint" auditors, the Office of the Auditor General of Canada and Deloitte LLP (the "External Auditors"), have conducted independent audit of the financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The External Auditors have full and unrestricted access to management and the Committee to discuss findings related to the integrity of PSP Investments' financial reporting and the adequacy of internal control systems.



Nathalie Bernier
Senior Vice President, Strategic and Business Planning
and Chief Financial Officer

May 14, 2019

Investment Certificate

The *Public Sector Pension Investment Board Act* (the “Act”) requires that a certificate be signed by a director on behalf of the Board of Directors, stating that the investments of the Public Sector Pension Investment Board (“PSP Investments”) held during the financial year were in accordance with the Act and PSP Investments’ investment policies, standards and procedures. Accordingly, the Investment Certificate follows:

“The investments of PSP Investments held during the year ended March 31, 2019, were in accordance with the Act and PSP Investments’ Statement of Investment Policies, Standards and Procedures”.

A handwritten signature in dark ink, appearing to read 'M Glynn', is positioned above the printed name.

Martin Glynn
Chair of the Board
May 14, 2019

— Public Sector Pension Investment Board

Consolidated Financial Statements

Independent Auditors' Report

To the President of the Treasury Board

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Public Sector Pension Investment Board (PSP Investments), which comprise the consolidated statements of financial position as at March 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of PSP Investments as at March 31, 2019 and 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of PSP Investments in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing PSP Investments' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting

unless management either intends to liquidate PSP Investments or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing PSP Investments' financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PSP Investments' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related

to events or conditions that may cast significant doubt on PSP Investments' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause PSP Investments to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the consolidated financial statements, we have audited transactions of the Public Sector Pension Investment Board and its wholly owned subsidiaries coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are the applicable provisions of Part X of the *Financial Administration Act*

and regulations, the *Public Sector Pension Investment Board Act* and regulations and the by-laws of the Public Sector Pension Investment Board and its wholly owned subsidiaries.

In our opinion, the transactions of the Public Sector Pension Investment Board and its wholly owned subsidiaries that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Public Sector Pension Investment Board and its wholly owned subsidiaries' compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Public Sector Pension Investment Board and its wholly owned subsidiaries to comply with the specified authorities.

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the consolidated financial statements are in compliance with the specified authorities referred to above.



Mélanie Cabana, CPA auditor, CA
Principal
for the Interim Auditor General of Canada

Montréal, Canada
14 May 2019



Montréal, Canada
14 May 2019

¹ CPA auditor, CA, public accountancy permit No. A121444

Consolidated Statements of Financial Position

As at

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Assets		
Investments (Note 4.1)	199,022	178,958
Other assets	193	181
Total assets	199,215	179,139
Liabilities		
Trade payable and other liabilities	319	273
Investment-related liabilities (Note 4.1)	16,924	13,679
Borrowings (Notes 4.1, 8.2)	14,119	12,193
Total liabilities	31,362	26,145
Net assets	167,853	152,994
Equity		
Statutory rights held by the Government of Canada with respect to: (Note 9.1)		
Public Service Pension Plan Account	121,974	111,066
Canadian Forces Pension Plan Account	33,012	30,145
Royal Canadian Mounted Police Pension Plan Account	12,130	11,095
Reserve Force Pension Plan Account	737	688
Total equity	167,853	152,994
Total liabilities and equity	199,215	179,139

The accompanying notes are an integral part of the Consolidated Financial Statements.

On behalf of the Board of Directors:



Martin Glynn
Chair of the Board



William A. Mackinnon
Chair of the Audit Committee

Consolidated Statements of Comprehensive Income

For the years ended March 31

(Canadian \$ millions)	2019	2018
Investment income	12,195	14,420
Investment-related expenses (Note 11)	(579)	(445)
Net investment income	11,616	13,975
Operating expenses (Note 12)	(503)	(450)
Net income	11,113	13,525
Other comprehensive loss		
Remeasurement of the net defined benefit liability	(3)	(14)
Comprehensive income	11,110	13,511

Consolidated Statements of Changes in Equity

For the years ended March 31

(Canadian \$ millions)	2019	2018
Fund transfers		
Balance at beginning of period	73,731	69,810
Fund transfers received during the period (Note 9.3)	3,749	3,921
Balance at end of period	77,480	73,731
Retained earnings		
Balance at beginning of period	79,263	65,752
Comprehensive income	11,110	13,511
Balance at end of period	90,373	79,263
Total equity	167,853	152,994

The accompanying notes are an integral part of the Consolidated Financial Statements.

Consolidated Statements of Cash Flows

For the years ended March 31

(Canadian \$ millions)	2019	2018
Cash flows from operating activities		
Net income	11,113	13,525
Adjustments for non-cash items:		
Depreciation of equipment (Note 12)	33	31
Effect of exchange rate changes on cash and cash equivalents	(33)	18
Unrealized losses (gains) on borrowings	189	(189)
	11,302	13,385
Net changes in operating assets and liabilities		
Increase in investments	(17,479)	(19,748)
Decrease (increase) in other assets	4	(9)
Increase in trade payable and other liabilities	44	28
Increase in investment-related liabilities	3,257	1,303
Net cash flows used in operating activities	(2,872)	(5,041)
Cash flow from financing activities		
Proceeds from borrowings	33,711	27,325
Repayment of borrowings	(31,987)	(25,747)
Fund transfers received (Note 9)	3,749	3,921
Net cash flows provided by financing activities	5,473	5,499
Cash flow from investing activities		
Acquisitions of equipment	(43)	(45)
Net cash flows used in investing activities	(43)	(45)
Net change in cash and cash equivalents	2,558	413
Effect of exchange rate changes on cash and cash equivalents	33	(18)
Cash and cash equivalents at the beginning of the period	4,225	3,830
Cash and cash equivalents at the end of the period^A	6,816	4,225
Supplementary disclosure of cash flow information		
Interest paid	(310)	(198)

^A As at March 31, 2019, cash and cash equivalents were comprised of \$6,796 million (March 31, 2018 – \$4,212 million) held for investment purposes and included in Note 4.1, as well as \$20 million (March 31, 2018 – \$13 million) held for administrative purposes and included in Other assets.

The accompanying notes are an integral part of the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

For the years ended March 31, 2019 and 2018

1 — Corporate Information

The Public Sector Pension Investment Board (“PSP Investments”) is a Crown corporation created under the *Public Sector Pension Investment Board Act* (the “Act”) to manage and invest amounts that are transferred to it pursuant to the *Superannuation Acts* (defined below), for the funds (as defined in the Act) of the pension plans established under the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act* (“CFSA”), the *Royal Canadian Mounted Police Superannuation Act* (collectively the “*Superannuation Acts*”), and certain regulations under the CFSA (the “CFSA Regulations”). The pension plans established under the *Superannuation Acts* consist of the Public Service pension plan, the Canadian Forces pension plan, and the Royal Canadian Mounted Police pension plan, and the pension plan established under the CFSA Regulations is the Reserve Force pension plan. They are herein referred to individually as a “Plan” and collectively as the “Plans”.

The funds for which amounts are currently transferred to PSP Investments by the Government of Canada (individually a “Fund” and collectively the “Funds”) relate to pension obligations under the Plans for service on or after April 1, 2000, and in the case of the Reserve Force Plan, for service on or after March 1, 2007 (collectively “Post-2000 Service”). The accounts managed by PSP Investments for the Funds are herein referred to individually as a “Plan Account” and collectively as the “Plan Accounts”.

PSP Investments is responsible for managing amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. The amounts are to be invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans and the ability of the Plans to meet their financial obligations.

Pursuant to the *Superannuation Acts*, the Government of Canada, which administers the Plans and their respective Funds, may at any time call upon the net assets of PSP Investments allocated to each Fund’s Plan Account for amounts required for the purpose of paying benefits under the relevant Plan in respect of Post-2000 Service, or generally, for the purpose of reducing any non-permitted surplus in the Fund of such Plan.

PSP Investments and the majority of its subsidiaries are exempt from Part I tax under paragraphs 149(1)(d) and 149(1)(d.2) of the *Income Tax Act* (Canada), respectively.

PSP Investments’ registered office is located at 1 Rideau Street, Ottawa, Ontario, Canada and its principal business office is at 1250 René-Lévesque Boulevard West, Montreal, Quebec, Canada.

2 — Significant Accounting Policies

The significant accounting policies that have been applied in the preparation of these Consolidated Financial Statements are summarized below and have been used throughout all periods presented.

2.1. Basis of Presentation

The Consolidated Financial Statements of PSP Investments have been prepared in accordance with International *Financial Reporting Standards* (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

PSP Investments qualifies as an investment entity as defined under IFRS 10 *Consolidated Financial Statements* and, consequently, does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. Instead, PSP Investments measures its investments in subsidiaries at fair value through profit or loss (“FVTPL”) in accordance with IFRS 9 *Financial Instruments* (“IFRS 9”), including those that are formed by PSP Investments and that qualify as investment entities (“investment entity subsidiaries”). PSP Investments also measures its investments in associates, joint ventures and financial assets and financial liabilities at FVTPL in accordance with IAS 28 *Investments in Associates and Joint Ventures* and IFRS 9.

These Consolidated Financial Statements present the financial position and results of operations of PSP Investments and its subsidiaries that solely provide it with services that relate to its investment activities. They reflect the economic activity of PSP Investments as it pertains to the investment of the net contributions transferred to it for the Funds. Accordingly, they do not reflect all of the assets or the details of the pension contributions, payments and liabilities under the Plans.

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 14, 2019.

Plan Accounts

PSP Investments maintains records of net contributions for each Fund, as well as the allocation of its investments and the results of its operations to each of the Plan Accounts. Separate financial statements for each Plan Account are prepared.

2 — Significant Accounting Policies

(continued)

2.2. Investment Entity Status

PSP Investments has determined that it meets the mandatory items of the definition of an investment entity under IFRS 10 on the basis of the facts and circumstances as at the end of the period. They are as follows:

(i) Mandate and business purpose

As further described in Note 1, PSP Investments' mandate is to manage and invest the amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. Consequently, PSP Investments' business purpose is to invest with a view of achieving a maximum rate of return from capital appreciation and income from investments, without undue risk of loss.

(ii) Performance evaluation

PSP Investments measures and evaluates the performance of its investments on a fair value basis.

In addition to the mandatory items of the definition, IFRS 10 also outlines certain typical characteristics of an investment entity, the absence of any of which does not necessarily preclude an entity from qualifying as an investment entity. One of these characteristics is that an investment entity should have investors that are not related parties of the entity.

As described in Note 14, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

Should any changes occur in the facts and circumstances, PSP Investments will evaluate the impact of any such changes on its investment entity status.

2.3. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below.

2.3.1. Financial Instruments

(i) Classification

Financial assets representing investments are managed, together with related financial liabilities, according to the entity's business model to maximize the rate of return. The performance of such financial instruments is evaluated on a fair value basis and they are classified at FVTPL. They are described in detail in Note 4.1.

Borrowings, as described under Note 8, are financial liabilities that are designated to be measured at FVTPL since they are part of the portfolios of investments that are managed together and whose performance is evaluated on a fair value basis.

(ii) Recognition

Financial assets and financial liabilities are recorded at the date upon which PSP Investments becomes a party to the associated contractual provisions. In the case of traded financial assets, they are recorded as of the trade date.

(iii) Initial and subsequent measurement

All financial assets and financial liabilities are recorded in the Consolidated Statements of Financial Position at fair value and continue to be measured as such on a recurring basis. After initial measurement, subsequent changes in the fair value of financial assets and financial liabilities classified at FVTPL are recorded in the Consolidated Statements of Comprehensive Income.

If fair value changes in financial liabilities designated to be measured at FVTPL result from fluctuations in PSP Investments' own credit risk, they are recorded in other comprehensive income. All other changes in fair value are recorded in investment income.

(iv) Derecognition

A financial asset (or, where applicable, a part thereof) is derecognized when the following conditions are met:

- The rights to receive cash flows from the asset have expired, or
- PSP Investments has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows to a third party,

and

- PSP Investments has transferred substantially all the risks and rewards of the asset, or
- In cases where PSP Investments has neither transferred nor retained substantially all the risks and rewards of the asset, it has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

2 — Significant Accounting Policies

(continued)

2.3. Summary of Significant Accounting Policies

(continued)

2.3.2. Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At initial recognition, PSP Investments evaluates the facts and circumstances related to a transaction to confirm that the transaction price represents the fair value of an asset or a liability. At each subsequent reporting date, market prices are used to determine fair value where an active market exists (such as a recognized securities exchange), as they reflect actual and regularly occurring market transactions on an arm's length basis. If quoted market prices are not available, then fair value is estimated using valuation techniques based on inputs existing at the end of the reporting period that are derived from observable market data.

Valuation techniques are generally applied to investments in private markets, alternative investments, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 4.

2.3.3. Functional and Presentation Currency

The functional and presentation currency of PSP Investments and its consolidated subsidiaries is the Canadian dollar, which is the currency of the primary economic environment in which each entity within the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars.

2.3.4. Foreign Currency Translation

Foreign currency transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities that are denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the end of the reporting period.

Foreign currency transaction gains and losses on all monetary assets and liabilities are included in investment income.

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or pledged as collateral, or recognize securities borrowed or received as collateral. Cash collateral received is recognized as described in Note 4.1.9.

The securities lending and borrowing programs require collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standard securities lending and borrowing programs. PSP Investments and its counterparties are authorized to sell, repledge or otherwise use collateral held. The same securities or equivalent securities must be returned to the counterparty at the end of the contract, unless an event of default occurs.

2.3.6. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements and Related Collateral

PSP Investments is party to repurchase and reverse repurchase agreements. Such agreements involve the sale of securities by one counterparty with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Securities sold or purchased under the repurchase and reverse repurchase agreements respectively, including related collateral, are not derecognized or recognized as all risks and rewards of ownership related to such securities are not transferred. As such, in the case where PSP Investments is the counterparty selling securities under such agreements, all income (loss) related to such securities continues to be reported in investment income and obligations to repurchase the securities sold are accounted for as investment-related liabilities. The difference between the fair value of the securities sold and the repurchase price is recorded as interest expense within investment-related expenses. In the case where PSP Investments is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income.

Transactions under repurchase and reverse repurchase agreements involve pledging collateral consisting of cash or securities deemed acceptable by the counterparties. Collateral transactions are conducted under terms that are usual and customary in standard repurchase arrangements. Such terms require the relevant counterparty to pledge additional collateral based on the changes in the fair value of the existing collateral pledged as well as the related securities sold or purchased. The counterparties are authorized to sell, repledge or otherwise use collateral held. The securities pledged as collateral must be returned to the relevant counterparty at the end of the contract, unless an event of default occurs.

2 — Significant Accounting Policies

(continued)

2.3. Summary of Significant Accounting Policies

(continued)

2.3.7. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset with the net amount reported in the Consolidated Statements of Financial Position only if PSP Investments has a current legally enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.3.8. Equity

The statutory rights of the Government of Canada pursuant to the *Superannuation Acts* are described under Note 1 and are classified as equity instruments on the following basis:

- Under such rights the Government of Canada is entitled to PSP Investments' net assets at any time for the purposes set out in the *Superannuation Acts*. Such rights do not contain any additional obligations for PSP Investments to deliver amounts to the Government of Canada.
- Such rights are the most subordinate claim on PSP Investments' net assets.
- The total expected cash flows attributable to such rights, at any time, is solely based on the fair value of the net assets of PSP Investments at that time. Further, the fair value of the net assets of PSP Investments in its entirety represents the amounts that the Government of Canada may call upon at any time.

2.3.9. Investment Income

Investment income is made up of interest, dividends, gains (losses) on the disposal of financial assets and financial liabilities as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of financial assets held and financial liabilities outstanding at the end of the reporting period. Interest is recognized, on a consistent basis, using the prescribed rates until maturity. Dividends are recognized when the right to receive them has been obtained, generally on the ex-dividend date.

2.3.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, as described in Note 4.1.7, transaction costs, external investment management fees and other (net).

Transaction costs are incremental costs directly attributable to the acquisition, due diligence, issue, or disposal of a financial asset or financial liability, and they are expensed as incurred.

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets as outlined in Note 11.

2.3.11. Fund Transfers

Amounts are recorded for the Funds in their respective Plan Account when received from the Government of Canada.

2.4. Significant Accounting Judgments, Estimates and Assumptions

In preparing the Consolidated Financial Statements, management makes certain judgments, estimates and assumptions that can affect the amounts reported therein. Significant judgments include those related to the determination of the investment entity status as described in Note 2.2.

Management also makes estimates and assumptions in the measurement, risk assessment and related disclosures surrounding investments in private markets and certain fixed income securities. The main assumptions made by management regarding measurement of financial instruments are outlined in Note 4.2.3 and those regarding the assessment of risk are outlined in Note 7.

Although estimates and assumptions reflect management's best judgment, actual results may differ from such estimates due to the uncertainties involved in using them.

3 — Current and Future Changes In Accounting Standards

3.1. Current Accounting Standards

IAS 28 Investment in Associates and Joint Ventures

IAS 28 was amended, effective for annual periods beginning on or after January 1, 2018, to add a clarification that serves to elaborate and clarify that the election to measure investees at fair value is available on an investment by investment basis and is not an election that must be applied consistently to the measurement of all associates and joint ventures. PSP Investments has applied the amendments as of April 1, 2018 and there was no impact on its Consolidated Financial Statements.

IFRS 9 Financial Instruments

In 2014, the IASB completed its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9. The Standard includes requirements for recognition, derecognition, classification and measurement of financial assets and liabilities, as well as impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. PSP Investments early adopted IFRS 9 (2014) in the Consolidated Financial Statements for the year ended March 31, 2016.

Significant accounting policies as they relate to recognition, derecognition, classification and measurement of financial assets and liabilities in connection with IFRS 9 are described under Note 2.3.1. There is no impact from the requirements relating to impairment and hedge accounting.

3.2. Future Accounting Standards

PSP Investments has determined that there is no material impact on its Consolidated Financial Statements arising from new standards, amendments and interpretations that have been issued by the IASB, but that are not yet effective.

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are aggregated, in the following table, in classes that reflect their respective exposure as well as investment sectors. Their fair values were as follows, as at:

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Public markets		
Canadian equity	3,394	4,262
Foreign equity	32,424	34,652
Private markets		
Real estate	28,142	26,693
Private equity	20,234	16,265
Infrastructure	20,099	17,842
Natural resources	7,513	5,339
Fixed income		
Cash and money market securities	11,904	11,376
Government and corporate bonds	26,249	22,613
Inflation-linked bonds	14,017	12,357
Private debt securities	15,644	14,126
Alternative investments	10,039	8,748
	189,659	174,273
Investment-related assets		
Amounts receivable from pending trades	1,176	1,115
Interest receivable	498	420
Dividends receivable	143	133
Securities purchased under reverse repurchase agreements	5,970	1,867
Derivative-related assets	1,576	1,150
	9,363	4,685
Investments representing financial assets at FVTPL	199,022	178,958
Investment-related liabilities		
Amounts payable from pending trades	(956)	(1,164)
Interest payable	(69)	(56)
Securities sold short	(6,298)	(6,577)
Collateral payable	(3,012)	(3,573)
Securities sold under repurchase agreements	(5,627)	(575)
Derivative-related liabilities	(962)	(1,734)
Investment-related liabilities representing financial liabilities at FVTPL	(16,924)	(13,679)
Borrowings		
Capital market debt financing	(14,119)	(12,193)
Borrowings representing financial liabilities designated at FVTPL	(14,119)	(12,193)
Net investments	167,979	153,086

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.1. Public Markets

Public markets consist of Canadian and foreign investments in the following securities: common shares, American depository receipts, global depository receipts, participation notes, preferred shares, income trust units, exchange-traded funds units, pooled funds units, and securities convertible into common shares of publicly listed issuers.

Direct investments in Canadian and foreign equities are measured at fair value using quoted prices in active markets and are based on the most representative price within the bid-ask spread.

In the case of investments in pooled funds, fair value is measured using unit values obtained from each of the funds' administrators, which are derived from the fair value of the underlying investments in each pooled fund. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and natural resources.

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financing.

Private equity investments are comprised of fund investments with similar objectives, co-investments in private entities as well as direct equity positions.

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing.

Natural resources investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas. Natural resources investments are presented net of all third-party financing.

The process for fair value measurement of private markets investments is described in Note 4.2.2 and the valuation techniques together with the significant inputs used are described in Note 4.2.3.

4.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and private debt securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Consolidated Statements of Cash Flows and amounted to \$6,796 million as at March 31, 2019 (March 31, 2018 – \$4,212 million). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds, floating rate notes, asset-backed term notes and mortgage-backed securities. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

Private debt securities are fixed income securities of private companies held directly or through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt and primary and secondary investments in leveraged loans. Private debt securities also include third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products in the real estate sector.

Fair values of government and most corporate bonds, inflation-linked bonds and mortgage-backed securities are based on prices obtained from third-party pricing sources. Such prices are determined using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

The fair values of certain corporate bonds, private debt securities and asset-backed term notes are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

The fair value measurement of fund investments included as part of private debt securities is described in Note 4.2.2.

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.4. Alternative Investments

Alternative investments consist mainly of units of funds that hold a mix of equity, fixed income and derivative instruments as well as hedge funds. The fair value of these investments is determined based on the fair values reported by the funds' administrators or general partners and reflects the fair value of the underlying equity, fixed income or derivative instruments, as applicable. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.5. Amounts Receivable and Payable from Pending Trades

Amounts receivable from pending trades consist of proceeds on sales of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

Amounts payable from pending trades consist of the cost of purchases of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

The fair value of amounts receivable and payable from pending trades reflects the value at which their underlying original sale or purchase transactions were undertaken.

4.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which due to their short-term maturity, approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.11, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

4.1.8. Securities Sold Short

Securities sold short reflect PSP Investments' obligation to purchase securities pursuant to short selling transactions. In such transactions, PSP Investments sells securities it does not own with an obligation to purchase similar securities on the market to cover its position.

Using quoted market prices that are based on the most representative price within the bid-ask spread, the fair value of securities sold short is measured using the same method as the similar long positions presented within public markets and fixed income.

4.1.9. Collateral Payable

As part of securities lending and certain OTC derivative transactions, cash collateral is received and reinvested by PSP Investments. PSP Investments recognizes cash collateral received with a corresponding payable. The payable balance reflects the obligation of the transferee to return cash collateral to the transferor at the end of the transaction in the absence of an event of default by the transferor.

4.1.10. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements

As described in Note 2.3.6, PSP Investments is party to repurchase and reverse repurchase agreements. Obligations to repurchase or resell the securities sold or purchased under such agreements are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value.

4.1.11. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 8.2. Short-term promissory notes are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.12. Derivative-Related Assets and Liabilities

Derivative financial instruments are financial contracts that are settled at a future date. The value of such instruments is derived from changes in the value of the underlying assets, interest or exchange rates. Derivative financial instruments do not, typically, require an initial net investment. In certain cases, they require an initial net investment that is less than what would be required to hold the underlying position directly. Derivative financial instruments can be listed or traded OTC. OTC instruments consist of those that are bilaterally negotiated and settled, and those that are cleared (OTC-cleared) by a central clearing party (CCP).

PSP Investments uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

PSP Investments uses the following types of derivative financial instruments:

Swaps

Swaps are transactions whereby two counterparties exchange cash flow streams with each other based on predetermined conditions that include a notional amount and a term. Swaps are used to increase returns or to adjust exposures of certain assets without directly purchasing or selling the underlying assets.

Futures

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a predefined price and predefined future date. Futures are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Forwards

Forwards are contracts involving the sale by one party and the purchase by another party of a predefined amount of an underlying instrument, at a predefined price and at a predefined date in the future. Forwards are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Options

Options are contracts where the seller gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index, commodity, currency, interest rate, credit or other financial instrument, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

Warrants are options to purchase an underlying asset which is in the form of a transferable security and which can be listed on an exchange or traded OTC.

Rights are securities giving shareholders entitlement to purchase new shares issued by a corporation at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

Determination of Fair Value of Derivative Financial Instruments

Listed derivative financial instruments are recorded at fair value using quoted market prices that are based on the most representative price within the bid-ask spread. OTC-cleared derivatives are recorded at fair value using prices obtained from the CCP. OTC derivatives are valued using appropriate valuation techniques such as discounted cash flows. These techniques use significant inputs that are observable in the market such as current market yields.

Notional Values and Fair Values of Derivative-Related Assets and Liabilities

Notional values of derivative financial instruments are not recorded as assets or liabilities as they represent the face amount of the contract. Except for credit derivatives, notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions disclosed below. Rather, they serve as the basis upon which the cash flows and the fair value of the contracts are determined.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

(Canadian \$ millions)	March 31, 2019			March 31, 2018		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	3,478	—	—	3,794	—	—
Warrants and rights	1	1	—	3	3	—
Options: Purchased	5,125	171	—	10,589	252	—
Written	4,610	—	(79)	7,217	—	(144)
OTC						
Swaps	26,159	641	(189)	26,774	146	(649)
Options: Purchased	672	23	—	1,525	44	—
Written	541	—	(31)	853	—	(32)
Currency derivatives						
Listed						
Futures	301	—	—	121	—	—
OTC						
Forwards	19,873	117	(52)	27,751	198	(419)
Swaps	6,588	18	(36)	3,003	1	(56)
Options: Purchased	6,439	52	—	8,278	57	—
Written	5,893	—	(48)	8,502	—	(50)
Interest rate derivatives						
Listed						
Futures	11,150	—	—	14,600	—	—
Options: Purchased	47,905	34	—	49,524	18	—
Written	43,920	—	(28)	42,835	—	(15)
OTC						
Forwards	593	10	(16)	—	—	—
Swaps	25,558	245	(264)	14,597	175	(145)
Options: Purchased	54,045	263	—	49,904	249	—
Written	51,142	—	(209)	52,207	—	(209)
OTC-cleared						
Swaps	55,783	—	—	65,171	—	—
Credit derivatives						
OTC						
Credit default swaps: Purchased	668	—	(10)	1,243	—	(15)
Written ^A	90	1	—	235	2	—
Options: Purchased	—	—	—	644	5	—
OTC-cleared						
Credit default swaps: Purchased	821	—	—	1,241	—	—
Written ^A	—	—	—	602	—	—
Total		1,576	(962)		1,150	(1,734)

^A PSP Investments, through written credit default swaps, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the written credit default swaps as shown in the table above.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

(Canadian \$ millions)	March 31, 2019			March 31, 2018		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Listed derivatives	116,490	206	(107)	128,683	273	(159)
OTC derivatives	198,261	1,370	(855)	195,516	877	(1,575)
OTC-cleared derivatives	56,604	–	–	67,014	–	–
Total		1,576	(962)		1,150	(1,734)

The terms to maturity based on notional value for the derivatives were as follows as at:

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Less than 3 months	94,331	125,971
3 to 12 months	162,586	119,957
Over 1 year	114,438	145,285

4.2. Fair Value Hierarchy

4.2.1. Classification

Financial assets and financial liabilities described under Note 4.1 are classified within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
 - (i) Quoted prices for similar assets or liabilities in active markets.
 - (ii) Quoted prices for identical or similar assets or liabilities in markets that are not active.
 - (iii) Inputs other than quoted prices that are observable for the asset or liability.
 - (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

The classification within the levels of the hierarchy is established at the time of the initial determination of fair value of the asset or liability and reviewed at the end of each reporting period. PSP Investments determines whether a transfer between levels has occurred and recognizes such transfer at the beginning of the reporting period.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2019 classified within the fair value hierarchy:

(Canadian \$ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	2,471	862	61	3,394
Foreign equity	28,570	2,178	1,676	32,424
Private markets				
Real estate	–	–	28,142	28,142
Private equity	–	–	20,234	20,234
Infrastructure	–	–	20,099	20,099
Natural resources	–	–	7,513	7,513
Fixed income				
Cash and money market securities	–	11,904	–	11,904
Government and corporate bonds	–	26,211	38	26,249
Inflation-linked bonds	–	14,017	–	14,017
Private debt securities	–	–	15,644	15,644
Alternative investments	–	2,124	7,915	10,039
	31,041	57,296	101,322	189,659
Investment-related assets				
Amounts receivable from pending trades	–	1,176	–	1,176
Interest receivable	–	498	–	498
Dividends receivable	–	143	–	143
Securities purchased under reverse repurchase agreements	–	5,970	–	5,970
Derivative-related assets	130	1,446	–	1,576
	130	9,233	–	9,363
Investments representing financial assets at FVTPL	31,171	66,529	101,322	199,022
Investment-related liabilities				
Amounts payable from pending trades	–	(956)	–	(956)
Interest payable	–	(69)	–	(69)
Securities sold short	(3,919)	(2,379)	–	(6,298)
Collateral payable	–	(3,012)	–	(3,012)
Securities sold under repurchase agreements	–	(5,627)	–	(5,627)
Derivative-related liabilities	(107)	(855)	–	(962)
Investment-related liabilities representing financial liabilities at FVTPL	(4,026)	(12,898)	–	(16,924)
Borrowings				
Capital market debt financing	–	(14,119)	–	(14,119)
Borrowings representing financial liabilities designated at FVTPL	–	(14,119)	–	(14,119)
Net investments	27,145	39,512	101,322	167,979

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2018 classified within the fair value hierarchy:

(Canadian \$ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	3,400	862	–	4,262
Foreign equity	29,531	3,227	1,894	34,652
Private markets				
Real estate	–	–	26,693	26,693
Private equity	–	–	16,265	16,265
Infrastructure	–	–	17,842	17,842
Natural resources	–	–	5,339	5,339
Fixed income				
Cash and money market securities	–	11,376	–	11,376
Government and corporate bonds	–	22,438	175	22,613
Inflation-linked bonds	–	12,357	–	12,357
Private debt securities	–	–	14,126	14,126
Alternative investments	–	1,668	7,080	8,748
	32,931	51,928	89,414	174,273
Investment-related assets				
Amounts receivable from pending trades	–	1,115	–	1,115
Interest receivable	–	420	–	420
Dividends receivable	–	133	–	133
Securities purchased under reverse repurchase agreements	–	1,867	–	1,867
Derivative-related assets	200	950	–	1,150
	200	4,485	–	4,685
Investments representing financial assets at FVTPL	33,131	56,413	89,414	178,958
Investment-related liabilities				
Amounts payable from pending trades	–	(1,164)	–	(1,164)
Interest payable	–	(56)	–	(56)
Securities sold short	(5,069)	(1,508)	–	(6,577)
Collateral payable	–	(3,573)	–	(3,573)
Securities sold under repurchase agreements	–	(575)	–	(575)
Derivative-related liabilities	(159)	(1,575)	–	(1,734)
Investment-related liabilities representing financial liabilities at FVTPL	(5,228)	(8,451)	–	(13,679)
Borrowings				
Capital market debt financing	–	(12,193)	–	(12,193)
Borrowings representing financial liabilities designated at FVTPL	–	(12,193)	–	(12,193)
Net investments	27,903	35,769	89,414	153,086

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2019.

During the year ended March 31, 2018, listed equity securities with a fair value of \$43 million, classified as Level 2 as at March 31, 2017 were transferred to Level 1 as a result of trading restrictions having expired.

4 — Financial Assets and Financial Liabilities

(continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

The valuation process is monitored and governed by an internal valuation committee (“VC”). This committee is responsible for overseeing all aspects of fair value determination. This includes establishing valuation methodologies and procedures for each type of investment and ensuring they are complied with. Valuation methodologies established are based on widely recognized practices that are consistent with professional appraisal standards. Such standards include, among others, the *International Private Equity and Venture Capital Valuation Guidelines*, the *Canadian Uniform Standards of Professional Appraisal Practice* and the *Uniform Standards of Professional Appraisal Practice* in the United States of America.

The fair value of investments classified as Level 3 is determined at least annually. Quarterly, the fair value is reviewed and adjusted, as appropriate, to reflect the impact of any significant market or investment-specific events or circumstances. For each investment, the relevant valuation methodology is applied consistently over time as appropriate in the prevailing circumstances. The appropriateness of significant changes in valuation methodologies is reviewed by the VC.

In cases where the services of third-party appraisers are used, management ensures their independence and that valuation methods used are consistent with professional appraisal standards outlined above. In validating the work performed by appraisers, management ensures that the assumptions used correspond to financial information and forecasts of the underlying investment.

With respect to fund investments classified as Level 3, the annual fair value is generally determined based on audited financial statements received from the fund's general partner. In certain cases fair value is obtained from information provided by the fund's administrators and is reviewed by Management to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2019:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian \$ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	61	Net asset value method (NAV) ^A	N/A	N/A
Foreign equity	Direct investments	1,676	NAV ^A	N/A	N/A
Private markets					
Real estate	Direct and co-investments	26,307	Discounted cash flow (DCF)	Discount rate ^{B, C}	4.10% – 20.00% (7.55%)
				Terminal capitalization rate ^{B, C}	4.25% – 10.25% (5.92%)
			Direct capitalization	Capitalization rate ^{B, D}	2.50% – 8.98% (5.57%)
				Stabilized occupancy rate ^{D, E}	93.00% – 100.00% (98.22%)
			Sales comparison approach	Price per square foot ^{D, E}	\$0.95 – \$2,057.93 (\$281.99)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	1,835	NAV ^A	N/A	N/A
Other private markets	Direct and co-investments	33,792	DCF	Discount rate ^B	6.00% – 12.50% (8.79%)
			Market comparables	N/A	N/A
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	14,054	NAV ^A	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	29	DCF	Discount rate ^B	52.50%
	Asset-backed term notes	9	Third-party pricing ^A	N/A	N/A
Private debt securities	Direct and co-investments	10,797	DCF	Discount rate ^B	5.54% – 18.76% (9.77%)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	4,847	NAV ^A	N/A	N/A
Alternative investments	Fund investments	7,915	NAV ^A	N/A	N/A
Total		101,322			

^A In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

^B An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

^C An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

^D There is no predictable direct relationship between this input and any other significant unobservable input.

^E An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2018:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian \$ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets Foreign equity	Direct investments	1,894	Net asset value method (NAV) ^A	N/A	N/A
Private markets Real estate	Direct and co-investments	25,048	Discounted cash flow (DCF)	Discount rate ^{B, C} Terminal capitalization rate ^{B, C}	5.00% – 22.10% (7.94%) 4.25% – 9.75% (5.92%)
			Direct capitalization	Capitalization rate ^{B, D} Stabilized occupancy rate ^{D, E}	2.75% – 9.09% (5.30%) 94.00% – 100.00% (98.29%)
			Sales comparison approach	Price per square foot ^{D, E}	\$27.50 – \$1,107.92 (\$90.83)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	1,645	NAV ^A	N/A	N/A
Other private markets	Direct and co-investments	27,221	DCF	Discount rate ^B	6.00% – 12.70% (8.94%)
			Market comparables	N/A	N/A
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	12,225	NAV ^A	N/A	N/A
Fixed income Corporate bonds	Convertible bonds	164	DCF	Discount rate ^B	4.70% – 10.00% (7.40%)
	Asset-backed term notes	11	Third-party pricing ^A	N/A	N/A
Private debt securities	Direct and co-investments	10,160	DCF	Discount rate ^B	5.90% – 17.25% (9.79%)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	3,966	NAV ^A	N/A	N/A
Alternative investments	Fund investments	7,080	NAV ^A	N/A	N/A
Total		89,414			

^A In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

^B An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

^C An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

^D There is no predictable direct relationship between this input and any other significant unobservable input.

^E An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2019:

(Canadian \$ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)	Transfer out of Level 3	Closing Balance
Public markets	1,894	555	(675)	–	430	(467)	–	1,737
Private markets	66,139	14,873	(9,473)	–	1,898	2,639	(88)	75,988
Fixed income	14,301	5,785	(4,504)	(59)	152	7	–	15,682
Alternative investments	7,080	879	(552)	–	44	464	–	7,915
Derivative-related receivables/payables (net)	–	–	–	–	–	–	–	–
Total	89,414	22,092	(15,204)	(59)	2,524	2,643	(88)	101,322

As at March 31, 2018, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2019, the investment was transferred to Level 1 as the related securities became publicly traded.

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2018:

(Canadian \$ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains	Transfer out of Level 3	Closing Balance
Public markets	295	657	(57)	–	6	993	–	1,894
Private markets	55,427	9,836	(4,487)	–	1,115	4,261	(13)	66,139
Fixed income	9,426	7,820	(3,204)	(26)	218	67	–	14,301
Alternative investments	6,491	1,336	(935)	–	79	109	–	7,080
Derivative-related receivables/payables (net)	–	17	–	(17)	–	–	–	–
Total	71,639	19,666	(8,683)	(43)	1,418	5,430	(13)	89,414

As at March 31, 2017, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2018, the investment was transferred to Level 2 as the related securities became publicly traded. The securities held by PSP Investments are unregistered and can only be sold upon their registration.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2019 (March 31, 2018 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 2.3.5, 2.3.6 and 7.2.1. The following table illustrates the fair values of such collateral, as well as the securities under the lending and borrowing programs and the securities under the repurchase and reverse repurchase agreements, as at:

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Securities lending and borrowing		
Securities lent	7,988	11,554
Collateral held ^A	8,419	12,295
Securities borrowed	3,921	5,105
Collateral pledged ^B	4,040	5,285
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	5,665	584
Collateral pledged	5,650	584
Securities purchased under reverse repurchase agreements	6,001	1,883
Collateral held ^C	5,991	1,876
Derivative contracts		
Collateral pledged	915	1,779
Collateral held ^D	556	3

^A The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to \$2,982 million as at March 31, 2019 (March 31, 2018 – \$3,505 million) and securities amounted to \$5,437 million as at March 31, 2019 (March 31, 2018 – \$8,790 million). All cash collateral is reinvested.

^B The minimum fair value of collateral required is equal to 100% of the fair value of the securities borrowed.

^C The collateral received is in the form of securities of which \$2,379 million has been used in connection with short selling transactions as at March 31, 2019 (March 31, 2018 – \$1,508 million) and \$16 million has been used in connection with securities sold under repurchase agreements (March 31, 2018 – nil).

^D As part of collateral held, cash amounted to \$8 million as at March 31, 2019 (March 31, 2018 – \$2 million) and securities amounted to \$548 million as at March 31, 2019 (March 31, 2018 – \$1 million). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

As an investment entity, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. PSP Investments measures its investments in its subsidiaries, joint ventures and associates at FVTPL as described in Note 2.1.

For purposes of preparing this note, management assesses control, joint control and significant influence as follows:

(i) *Control and significant influence*

PSP Investments determines that it has control over an investee when it is exposed, or has rights, to variable returns from its investment in an entity and has the ability to affect those returns through its power over the investee.

In certain cases, PSP Investments does not have control over an investee but has the power to participate in the financial and operating policy decisions of the investee. In such cases, PSP Investments determines that it has significant influence over the investee.

In the context of control or significant influence, power over an investee is obtained through voting rights conveyed by PSP Investments' ownership interest, other contractual arrangements, or a combination thereof.

(ii) *Joint control*

PSP Investments determines that it is party to a joint venture arrangement when it has joint control over an investee and has rights to the net assets of the investee. Joint control is established through a contractual arrangement which requires the unanimous consent of the parties sharing control for the activities that significantly affect the returns of the arrangement.

Generally, decision making regarding such activities is governed through voting rights conveyed by the ownership interest of each party. In certain cases, it is governed solely through contractual arrangements or in conjunction with the ownership interest of each party.

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2019, 108 investment entity subsidiaries were incorporated in North America, 17 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2018 – 103 in North America, 23 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 81 investees directly or through its investment entity subsidiaries as at March 31, 2019 (March 31, 2018 – 80 investees).

The following tables present, in descending order, the most significant investees held directly or indirectly by PSP Investments where it has control, joint control or significant influence.

Entity's Name	March 31, 2019		
	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
AviAlliance GmbH	Europe	100	Controlled investee
Revera Inc.	North America	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Forth Ports Limited	Europe	51	Jointly controlled investee
TDF S.A.S.	Europe	22	Associate
Roccapina Fund, L.P.	North America	100	Controlled investee
Big Box Properties	North America	49	Jointly controlled investee

Entity's Name	March 31, 2018		
	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
Revera Inc.	North America	100	Controlled investee
AviAlliance GmbH	Europe	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
Roccapina Fund, L.P.	North America	100	Controlled investee
TDF S.A.S.	Europe	22	Associate
Cubico Sustainable Investments Limited	Global	50	Jointly controlled investee
Big Box Properties	North America	49	Jointly controlled investee

In addition to the above, PSP Investments consolidates wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services consist of investment management and financing of private market investments within the context of PSP Investments' capital market debt program described in Note 8.2.

6.2. Structured Entities

PSP Investments holds interests in partnerships and funds mainly in the context of its investments in private markets. Given their nature, such entities commonly have the characteristics of a structured entity as defined by IFRS. These entities are held as investments and do not expose PSP Investments to additional risks or returns compared to interests held in non-structured entities.

Information regarding structured entities is included, as applicable, within disclosures of investment risk management under Note 7, guarantees and indemnities under Note 16 and commitments under Note 17.

7 — Investment Risk Management

PSP Investments is required to act in the best interests of the contributors and beneficiaries under the Plans and for maximizing returns without undue risk of loss. In pursuit of this objective, PSP Investments established an Enterprise Risk Management Policy (ERM Policy). The ERM Policy provides a framework for identifying, evaluating, managing, mitigating, monitoring and reporting the investment and non-investment risks to which PSP Investments is exposed.

As part of the overall ERM policy, the objective of the Investment Risk Management Policy (IRM Policy) is to support the management of risk inherent to the investment decision making process. The IRM Policy outlines a framework detailing how investment activities should comply with PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite. The IRM Policy also supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), whose objective is to effectively manage investment risks related to the implementation of PSP Investments' various investment strategies. Investment risks include market, credit and liquidity risks.

7.1. Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of an adverse financial outcome due to changes in the factors that drive that value, such as changes in market prices, changes caused by factors specific to the individual investment, volatility in share and commodity prices, interest rate, foreign exchange or other factors affecting similar securities traded in the market.

7.1.1. Measurement of Market Risk

The absolute annualized volatility of the total portfolio is used as the primary measure of market risk. The absolute volatility is a statistical measure of the size of changes in investment returns of a given investment or portfolio of investments. It is used to illustrate the potential loss of value in an investment or portfolio of investments as a result of fluctuations in market prices.

PSP Investments uses seven years' worth of market returns scaled to a twelve-month holding period to calculate the absolute volatility. For investments that are not actively traded, the calculation of the absolute volatility uses securities with similar risk attributes as a proxy.

The absolute volatility is statistically valid under normal market conditions and does not specifically consider losses from severe market events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

The following table shows the absolute volatility of the total portfolio expressed as a percentage of net investments as at the end of the period:

	March 31, 2019 (%)	March 31, 2018 (%)
Absolute volatility	7.3	7.2

Stress Testing

Although the absolute volatility is a widely accepted risk measure, it is complemented by other risk measurement methodologies that provide greater insight on market risk. PSP Investments uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of PSP Investments' net asset values. The terms to maturity of the classes of financial instruments, outlined in Note 4.1, with the most significant exposure to interest rate risk were as follows as at:

	March 31, 2019					
(Canadian \$ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	11,904 ^A	11,904
Government and corporate bonds	1,191	12,115	6,018	4,892	2,033 ^B	26,249
Inflation-linked bonds	–	2,289	7,830	3,898	–	14,017
Private debt securities	84	2,549	6,009	2,084	4,918 ^C	15,644
Total fixed income	1,275	16,953	19,857	10,874	18,855	67,814

	March 31, 2018					
(Canadian \$ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	11,376 ^A	11,376
Government and corporate bonds	3,495	8,277	5,218	3,427	2,196 ^B	22,613
Inflation-linked bonds	–	4,102	4,411	3,844	–	12,357
Private debt securities	3	1,426	6,998	1,541	4,158 ^C	14,126
Total fixed income	3,498	13,805	16,627	8,812	17,730	60,472

^A Due to their short-term maturity, these investments are not significantly exposed to interest rate risk.

^B Certain fixed income securities are not significantly exposed to interest rate risk as their prescribed rates are variable.

^C Information in connection with the terms to maturity of fund and certain directly held investments included as part of private debt securities is not available.

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounting to \$111,806 million as at March 31, 2019 (\$105,053 million as at March 31, 2018) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in 4.1.4, which amounted to \$10,039 million as at March 31, 2019 (\$8,748 million as at March 31, 2018), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the absolute volatility calculation described in Note 7.1.1.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 8.2.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through holding of investments (i.e. direct and indirect holdings of securities, units in pooled funds and units in limited partnerships) or investment-related liabilities in various currencies. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies.

The underlying foreign currency exposures of net investments were as follows as at:

Currency	March 31, 2019		March 31, 2018	
	Fair Value (Canadian \$ millions)	% of Total	Fair Value (Canadian \$ millions)	% of Total
US Dollar	87,178	63.6	82,368	68.4
Euro	20,423	14.9	12,202	10.1
British Pound	7,918	5.8	2,953	2.5
Australian Dollar	3,015	2.2	2,637	2.2
Japanese Yen	2,779	2.0	3,554	3.0
Hong Kong Dollar	2,578	1.9	2,397	2.0
Mexican Peso	2,410	1.8	1,956	1.6
Brazilian Real	1,602	1.2	2,156	1.8
Indian Rupee	1,595	1.2	1,377	1.1
South Korean Won	1,322	1.0	2,612	2.2
Swiss Franc	919	0.7	798	0.7
New Taiwan Dollar	917	0.7	1,029	0.9
Others	4,297	3.0	4,342	3.5
Total	136,953	100.0	120,381	100.0

As at March 31, 2019, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of \$21,604 million for the Plan Account (US\$13,656 million, €1,984 million, £103 million, 22 million South African rands, 3 million Brazilian reals, 13,553 million Colombian pesos, 2,653 million Mexican pesos and 16 million Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2018, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of \$23,374 million (US\$14,668 million, €2,541 million, £180 million, 22 million South African rands, 13,553 million Colombian pesos and 1,439 million Mexican pesos) which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities purchased under reverse repurchase agreements, is unable to meet its financial obligations.

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation for public issuers and counterparties, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings. For private issuers, PSP Investments assigns internal credit ratings to issuers and measures the combined risk profile against set targets. To assign risk ratings to issuers, PSP Investments uses methodologies comparable to those used by recognized rating agencies.

As at March 31, 2019, PSP Investments' maximum exposure to credit risk amounted to \$73 billion (March 31, 2018 – \$62 billion). This amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating for credit-sensitive securities. The concentration of credit risk by credit rating was as follows as at:

Credit Rating	March 31, 2019 (%)	March 31, 2018 (%)
AAA-AA	48.4	51.2
A	23.6	20.9
BBB	2.3	2.5
BB or below	25.1	24.4
No rating ^A	0.6	1.0
Total	100.0	100.0

^A Includes securities for public issuers and counterparties, that are either not rated by credit rating agencies or rated by a single credit rating agency.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts, securities lending and borrowing as well as securities repurchase and reverse repurchase agreements. In order to minimize counterparty risk, PSP Investments requires that counterparties provide adequate collateral and meet its credit rating requirements. PSP Investments frequently monitors the credit rating of its counterparties as determined by recognized credit rating agencies. With respect to derivative contracts, PSP Investments has the ability to terminate all trades with most counterparties whose credit rating is downgraded below its requirements.

For OTC derivatives, PSP Investments' policy also requires the use of the International Swaps and Derivative Association (ISDA) Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted. In the case of OTC-cleared derivatives, trading activities are regulated between parties under terms that are customary to such transactions.

As a credit mitigation technique, the ISDA Master Agreement contractually binds counterparties to close-out netting provisions in the case of default by one of the counterparties. Additionally, the Credit Support Annex (CSA) to the ISDA Master Agreement enables PSP Investments to realize any collateral placed with it in the case of default of the counterparty. The CSA also requires PSP Investments to contribute further collateral when requested. All collateral transactions under the CSA are in cash, high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. Counterparties are generally authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held in the form of securities but does reinvest all cash collateral, with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing agreements as well as securities repurchase and reverse repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 2.3.5 and 2.3.6 describe collateral requirements in securities lending and borrowing programs as well as securities repurchase and reverse repurchase agreements.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 5.

In the case of the securities lending program, PSP Investments' exposure to counterparty risk is further mitigated as the custodian of the securities lent assumes the risk that a counterparty will be unable to meet its obligations associated with the collateral requirements.

Management is responsible for counterparty risk monitoring and mitigation as well as maintaining a comprehensive, disciplined, and enterprise-wide process for tracking and managing counterparty risk. As such, management measures counterparty risk on an ongoing basis, evaluates and tracks the creditworthiness of current counterparties and mitigates counterparty risk through collateral management.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Consolidated Statements of Financial Position. Securities repurchase and reverse repurchase agreements described in Notes 2.3.6 and 5 are subject to similar arrangements however they are not offset as the conditions for offsetting are not met.

The following tables present the financial assets and liabilities described above:

Financial Assets

(Canadian \$ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Consolidated Statements of Financial Position	Less: Related Amounts Not Set Off in the Consolidated Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2019						
Reverse repurchase agreements	5,970	–	5,970 ^A	3,884	2,085	1
OTC-derivatives	1,376	6	1,370 ^B	762	534	74
Total	7,346	6	7,340	4,646	2,619	75
March 31, 2018						
Reverse repurchase agreements	1,867	–	1,867 ^A	496	1,371	–
OTC-derivatives	917	40	877 ^B	870	1	6
Total	2,784	40	2,744	1,366	1,372	6

Financial Liabilities

(Canadian \$ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Consolidated Statements of Financial Position	Less: Related Amounts Not Set Off in the Consolidated Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2019						
Repurchase agreements	5,627	–	5,627 ^A	3,884	1,741	2
OTC-derivatives	861	6	855 ^B	756	93	6
Collateral payable	8	–	8 ^C	6	–	2
Total	6,496	6	6,490	4,646	1,834	10
March 31, 2018						
Repurchase agreements	575	–	575 ^A	496	79	–
OTC-derivatives	1,615	40	1,575 ^B	869	705	1
Collateral payable	2	–	2 ^C	1	–	1
Total	2,192	40	2,152	1,366	784	2

^A As described in Note 4.1.10.

^B As described in Note 4.1.12.

^C As described in Note 4.1.9. The balance consists of cash collateral received with respect to certain OTC derivative transactions, and is included in Note 4.1 as part of collateral payable.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

Liquidity risk corresponds to the risk that PSP Investments will not be able to meet its financial obligations on a timely basis, with sufficient and readily available cash resources. PSP Investments' cash position is monitored on a daily basis. In general, investments in cash, money market securities, floating rate notes, bonds and public equities are expected to be highly liquid as they will be invested in securities that are actively traded. Management utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. A liquidity report taking into consideration future forecasted cash flows is prepared and presented to senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, sufficient sources of liquidity are maintained for deployment in case of market disruption.

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 8.2 provides additional information on the usage of the capital market debt program. Furthermore, PSP Investments maintains credit facilities for general corporate purposes. Note 8.1 provides additional information with respect to such credit facilities.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4.1.12.

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2019 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities^A				
Amounts payable from pending trades	(956)	–	–	(956)
Interest payable	(67)	(2)	–	(69)
Securities sold short	(6,298)	–	–	(6,298)
Collateral payable	(3,012)	–	–	(3,012)
Securities sold under repurchase agreements	(5,627)	–	–	(5,627)
Capital market debt financing	(4,735)	(2,127)	(7,257)	(14,119)
Trade payable and other liabilities	(72)	(122)	(125)	(319)
Total	(20,767)	(2,251)	(7,382)	(30,400)
(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	660	554	362	1,576
Derivative-related liabilities ^A	(235)	(350)	(377)	(962)
Total	425	204	(15)	614

^A Liabilities are presented in the earliest period in which the counterparty can request payment.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

Financial Liabilities (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2018 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities^A				
Amounts payable from pending trades	(1,164)	–	–	(1,164)
Interest payable	(54)	(2)	–	(56)
Securities sold short	(6,577)	–	–	(6,577)
Collateral payable	(3,573)	–	–	(3,573)
Securities sold under repurchase agreements	(575)	–	–	(575)
Capital market debt financing	(4,731)	(1,589)	(5,873)	(12,193)
Trade payable and other liabilities	(170)	–	(103)	(273)
Total	(16,844)	(1,591)	(5,976)	(24,411)
Derivative-related financial instruments				
Derivative-related assets	500	241	409	1,150
Derivative-related liabilities ^A	(828)	(477)	(429)	(1,734)
Total	(328)	(236)	(20)	(584)

^A Liabilities are presented in the earliest period in which the counterparty can request payment.

8 — Borrowings

8.1. Credit Facilities

PSP Investments maintains a revolving credit facility in the amount of \$2 billion and a demand line of credit in the amount of \$1 billion (together “the Credit Facilities”).

The Credit Facilities are for general corporate purposes and are available in either Canadian or US currencies. Subject to customary terms and conditions, these Credit Facilities are available at variable interest rates such as the prime rate and the US base rate.

These Credit Facilities were not drawn upon as at March 31, 2019 and March 31, 2018.

8.2. Capital Market Debt Financing

PSP Investments’ capital market debt program consists of the private placement of short-term promissory notes as well as medium-term notes issued by PSP Capital Inc., a wholly owned subsidiary of PSP Investments. The capital raised is primarily used to finance private market investments. It is unconditionally and irrevocably guaranteed by PSP Investments in accordance with its corporate leverage policy. The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed \$12 billion for issuances in Canada and the United States combined.

PSP Investments’ capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2019 and March 31, 2018.

The following outlines the terms as well as the fair value of the notes issued under the capital market debt program as at:

(Canadian \$ millions)	March 31, 2019		March 31, 2018	
	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 1.79% and 2.20% and maturing within 56 and 365 days of issuance (March 31, 2018 – between 1.16% and 1.85%, maturing within 26 and 364 days)	652	648	948	944
Short-term US Dollar promissory notes, bearing interest between 2.45% and 2.84% and maturing within 21 and 365 days of issuance (March 31, 2018 – between 1.39% and 2.17%, maturing within 28 and 365 days)	6,247	6,214	5,389	5,376
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	947	965	1,000	1,023
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	942	997	985	1,026
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	1,250	1,238	1,250	1,213
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	1,000	1,003	965	945
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	1,750	1,742	1,710	1,666
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	1,250	1,312	–	–
Total	14,038	14,119	12,247	12,193

Unrealized losses in connection with borrowings amounted to \$189 million for the year ended March 31, 2019 (unrealized gains of \$189 million for the year ended March 31, 2018).

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

Interest expense, for the years ended March 31, was as follows:

(Canadian \$ millions)	2019	2018
Short-term promissory notes	150	77
Medium-term notes	143	116
Total	293	193

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2019.

(Canadian \$ millions)	Opening balance	Proceeds from borrowing	Repayment of borrowings	Non-cash changes		Closing balance
				Foreign exchange losses	Fair value ^A losses	
Capital market debt financing	12,193	33,711	(31,987)	24	178	14,119
Credit facilities	–	–	–	–	–	–
Borrowings	12,193	33,711	(31,987)	24	178	14,119

^A Includes interest on short-term promissory notes, which added to cost approximates their fair value.

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2018.

(Canadian \$ millions)	Opening balance	Proceeds from borrowing	Repayment of borrowings	Non-cash changes		Closing balance
				Foreign exchange gains	Fair value ^A gains	
Capital market debt financing	10,807	27,291	(25,713)	(37)	(155)	12,193
Credit facilities	–	34	(34)	–	–	–
Borrowings	10,807	27,325	(25,747)	(37)	(155)	12,193

^A Includes interest on short-term promissory notes, which added to cost approximates their fair value.

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

9.2. Shares Issued

Pursuant to the Act, PSP Investments issued 10 shares having a par value of \$10 each to the President of the Treasury Board, to be held on behalf of Her Majesty in Right of Canada. The Act does not attribute any voting, dividend, residual or other rights to these shares.

9.3. Fund Transfers

PSP Investments received fund transfers from the Government of Canada for the Funds for the years ended March 31 as follows:

(Canadian \$ millions)	2019	2018
Public Service Pension Fund	2,838	2,814
Canadian Forces Pension Fund	679	827
Royal Canadian Mounted Police Pension Fund	232	280
Reserve Force Pension Fund	–	–
Total	3,749	3,921

10 — Segment Information

Investment Segments

In order to fulfil its mandate, PSP Investments manages a diversified global portfolio composed of investments in various asset classes and has implemented an investment approach that focuses in the total fund approach rather than only on individual asset classes. The total fund approach guides the long-term investment strategy and focuses on managing total fund allocations and exposures in terms of asset classes, sectors and risk factors.

Accordingly, PSP Investments' investment segments are presented below to reflect the way in which asset classes are managed and how results are reviewed by the entity's senior management for purposes of performance management and decision making. These investment segments include their respective share of investment-related assets and investment-related liabilities as well as borrowings, which are reported separately by nature of the underlying investments as disclosed in Note 4.1. Further, to support PSP Investments' investment approach, a Complementary Portfolio is managed in addition to the individual asset classes' portfolios, which enables PSP Investments to capture investment opportunities that fit the mandate but that are outside the scope of the individual asset classes' investment framework.

Investment segments consist of investments held through direct and co-ownership positions as well as through fund managers and include:

- Public Markets – invests in public market equities, government and corporate fixed income.
- Real Estate – invests in real estate assets mainly in retirement and residential, office, retail and other industrial sectors.
- Private Equity – invests in private entities with similar objectives.
- Infrastructure – invests in private entities with a focus on assets in transportation, power generation, telecommunications and other regulated businesses.
- Natural Resources – invests in real assets with a focus on assets in timberlands, agriculture and upstream oil and gas.
- Private Debt – invests in non-investment grade primary and secondary credit investments.
- Complementary Portfolio – focuses on investments that are not within the mandate of existing asset classes but are deemed beneficial for the total fund.

The following tables present net investments by investment segment as at:

	March 31, 2019								
(Canadian \$ millions)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^A	Total
	80,821	23,538	23,539	16,818	6,759	10,475	1,426	4,603	167,979

	March 31, 2018								
(Canadian \$ millions)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^A	Total
	76,669	23,245	19,382	14,972	4,833	8,857	2,201	2,927	153,086

^A Includes cash and money market securities not managed within the operating segments.

10 — Segment Information (continued)

Investment Segments (continued)

The following table presents net income from operations by investment segment for the year ended March 31, 2019.

(Canadian \$ millions)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^c	Total
Investment income ^A	3,447	1,887	3,220	1,212	606	837	(1)	987	12,195
Expenses ^B	(397)	(256)	(99)	(176)	(67)	(60)	(13)	(14)	(1,082)
Net income	3,050	1,631	3,121	1,036	539	777	(14)	973	11,113

^A As described in Note 11, embedded within investment income are other fees paid by certain pooled fund investments and management fees not paid directly by PSP Investments.

^B Includes all investment-related and operating expenses as disclosed in Notes 11 and 12, respectively.

^C Includes cash and money market securities not managed within the operating segments.

The following table presents net income from operations by investment segment for the year ended March 31, 2018.

(Canadian \$ millions)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^c	Total
Investment income ^A	6,328	2,928	2,074	2,348	469	567	536	(830)	14,420
Expenses ^B	(360)	(199)	(78)	(141)	(50)	(40)	(13)	(14)	(895)
Net income	5,968	2,729	1,996	2,207	419	527	523	(844)	13,525

^A As described in Note 11, embedded within investment income are other fees paid by certain pooled fund investments and management fees not paid directly by PSP Investments.

^B Includes all investment-related and operating expenses as disclosed in Notes 11 and 12, respectively.

^C Includes cash and money market securities not managed within the operating segments.

11 — Investment-Related Expenses

Investment-related expenses are comprised of the following for the years ended March 31:

(Canadian \$ millions)	2019	2018
Interest expense	336	213
Transaction costs	128	139
External investment management fees ^A	28	41
Other (net)	87	52
Total	579	445

^A Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to \$236 million for the year ended March 31, 2019 (\$161 million for the year ended March 31, 2018). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.2% and 2.5% of the total invested and/or committed amount, totaled \$330 million for the year ended March 31, 2019 (\$312 million for the year ended March 31, 2018). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

Operating expenses consisted of the following for the years ended March 31:

(Canadian \$ millions)	2019	2018
Salaries and employee benefits	291	262
Professional and consulting fees	77	72
Premises and equipment	31	26
Market data and business applications	37	31
Depreciation of equipment	33	31
Custodial fees	5	5
Other operating expenses	29	23
Total	503	450

13 — Allocation of Comprehensive Income

PSP Investments' comprehensive income is allocated to each Plan Account as follows:

13.1. Investment Income

The investment income is allocated proportionately based upon the net investments of each Plan Account at the time the income was incurred.

13.2. Expenses

The Act requires that the costs of operation of PSP Investments be charged to the Plan Accounts. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged, in consultation with the Minister of National Defence and the Minister of Public Safety and Emergency Preparedness. An allocation policy was developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, based upon the net investments of each Plan Account at the time the expense was incurred.

Operating expenses and other comprehensive income, excluding the direct cost of investment activities listed above, for the years ended March 31, were allocated in proportion to the annual amount of net investments of each Plan Account as follows:

(%)	2019	2018
Public Service Pension Plan Account	72.6	72.6
Canadian Forces Pension Plan Account	19.7	19.7
Royal Canadian Mounted Police Pension Plan Account	7.3	7.2
Reserve Force Pension Plan Account	0.4	0.5
Total	100.0	100.0

Expenses are paid by PSP Investments by way of advances from the Public Service Pension Plan Account, which are reimbursed by the other Plan Accounts on a quarterly basis.

14 — Related Party Transactions

14.1. Certain Investees

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 16 and 17, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income as those with unrelated parties.

Transactions between PSP Investments and its consolidated subsidiaries as well as related balances are eliminated upon consolidation and, therefore, are not disclosed in this note.

14.2. The Government of Canada and Government-Related Entities

Since PSP Investments is a Crown corporation as described in Note 1, it is considered to be related to the Government of Canada as well as other entities that are controlled, jointly controlled or significantly influenced by the Government of Canada (together "government-related entities").

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the funds transfers outlined in Note 9.3.

(ii) Government-Related Entities

PSP Investments may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1. Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on net assets and comprehensive income as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

14.3. Compensation of Key Management Personnel

Members of key management personnel are related parties of PSP Investments. Key management personnel are those persons having authority and responsibility for planning, directing and controlling PSP Investments' activities, directly or indirectly and consist of members of the Board of Directors, PSP Investments' senior management team and officers. Compensation earned by key management personnel for the years ended March 31 was recorded in the Consolidated Statements of Comprehensive Income and was as follows:

(Canadian \$ millions)	2019	2018
Short-term compensation and other benefits	15	20
Long-term compensation and other benefits	9	5
Total	24	25

As disclosed in Note 16, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

15 — Capital Management

As an investment company, PSP Investments' objectives in managing its capital are:

- To invest fund transfers, outlined in Note 9.3, in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under the *Superannuation Acts* and the ability of the Plans to meet their financial obligations. The funds are also invested in accordance with the Investment Risk Management policies which are outlined in Note 7.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSP Investments has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 8.2 provides information on the capital market debt financing and Note 7.3 provides information on PSP Investments' liquidity.

The capital structure of PSP Investments consists of fund transfers and capital market debt financing. PSP Investments has no externally imposed restrictions on capital.

16 — Guarantees and Indemnities

PSP Investments provides indemnification to its Directors, its Officers, its vice-presidents and to certain PSP Investments representatives who are asked to serve on boards of directors (or like bodies) or investment advisory boards (or like bodies) of entities in which PSP Investments or its investment entity subsidiaries have made an investment or have a financial interest. As a result, but subject to the Act, PSP Investments may be required to indemnify these representatives for costs incurred, such as claims, actions or litigation in connection with the exercise of their duties, unless the liability of such a representative relates to a failure to act honestly and in good faith. To date, PSP Investments has not received any claims or made any payment for such indemnities.

In certain cases, PSP Investments also provides indemnification to third parties in the normal course of business. As a result, PSP Investments may be required to indemnify such third parties in connection with the performance of their contractual obligations. To date, PSP Investments has not received any claims nor made any payments for such indemnities.

PSP Investments unconditionally and irrevocably guarantees all credit facilities, as well as short-term promissory notes and medium-term notes issued by PSP Capital Inc., as described in Note 8.

In certain investment transactions, PSP Investments and its investment entity subsidiaries provided guarantees, indemnifications or issued letters of credit to third parties, the most significant of which are as follows:

- As at March 31, 2019 and 2018, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to \$2,602 million as at March 31, 2019 (March 31, 2018 – \$2,550 million) plus applicable interest and other related costs. The arrangements mature between July 2019 and November 2029 as of March 31, 2019 (March 31, 2018 – between November 2018 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling \$54 million as at March 31, 2019 (March 31, 2018 – \$53 million) in relation to investment transactions.

17 — Commitments

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The commitments were as follows as at:

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Foreign equity	–	5
Real estate	2,442	2,292
Private equity	10,296	11,342
Infrastructure	2,674	3,879
Natural resources	418	457
Private debt securities	4,141	3,758
Alternative investments	2,074	2,232
Total	22,045	23,965

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2019 (March 31, 2018 – 2035).

— Public Service Pension Plan Account

Financial Statements

Independent Auditors' Report

To the President of the Treasury Board

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Sector Pension Investment Board – Public Service Pension Plan Account (the Public Service Pension Plan Account), which comprise the statements of financial position as at March 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Public Service Pension Plan Account as at March 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Public Service Pension Plan Account in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Public Service Pension Plan Account's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Public

Service Pension Plan Account or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Public Service Pension Plan Account's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Public Service Pension Plan Account's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit

evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Public Service Pension Plan Account's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Public Service Pension Plan Account to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the Public Sector Pension Investment Board – Public Service Pension Plan Account coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are the applicable provisions of Part X of the *Financial Administration Act* and regulations,

the *Public Sector Pension Investment Board Act* and regulations and the by-laws of the Public Sector Pension Investment Board and its wholly owned subsidiaries.

In our opinion, the transactions of the Public Sector Pension Investment Board – Public Service Pension Plan Account that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Public Sector Pension Investment Board – Public Service Pension Plan Account's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Public Sector Pension Investment Board – Public Service Pension Plan Account to comply with the specified authorities.

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.



Mélanie Cabana, CPA auditor, CA
Principal
for the Interim Auditor General of Canada

Montréal, Canada
14 May 2019



Montréal, Canada
14 May 2019

¹ CPA auditor, CA, public accountancy permit No. A121444

Statements of Financial Position

As at

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Assets		
Investments (Note 4.1)	144,624	129,877
Other assets	140	131
Due from the Canadian Forces Pension Plan Account	–	24
Due from the Royal Canadian Mounted Police Pension Plan Account	–	9
Due from the Reserve Force Pension Plan Account	–	1
Total assets	144,764	130,042
Liabilities		
Trade payable and other liabilities	232	199
Investment-related liabilities (Note 4.1)	12,298	9,928
Borrowings (Notes 4.1, 8.2)	10,260	8,849
Total liabilities	22,790	18,976
Net assets	121,974	111,066
Equity (Note 9)	121,974	111,066
Total liabilities and equity	144,764	130,042

The accompanying notes are an integral part of the Financial Statements.

On behalf of the Board of Directors:



Martin Glynn
Chair of the Board



William A. Mackinnon
Chair of the Audit Committee

Statements of Comprehensive Income

For the years ended March 31

(Canadian \$ millions)	2019	2018
Investment income	8,858	10,465
Investment-related expenses (Note 11)	(420)	(323)
Net investment income	8,438	10,142
Operating expenses (Note 12)	(365)	(327)
Net income	8,073	9,815
Other comprehensive loss		
Remeasurement of the net defined benefit liability	(3)	(10)
Comprehensive income	8,070	9,805

Statements of Changes in Equity

For the years ended March 31

(Canadian \$ millions)	2019	2018
Fund transfers		
Balance at beginning of period	53,498	50,684
Fund transfers received during the period (Note 9.2)	2,838	2,814
Balance at end of period	56,336	53,498
Retained earnings		
Balance at beginning of period	57,568	47,763
Comprehensive income	8,070	9,805
Balance at end of period	65,638	57,568
Total equity	121,974	111,066

The accompanying notes are an integral part of the Financial Statements.

Statements of Cash Flows

For the years ended March 31

(Canadian \$ millions)	2019	2018
Cash flows from operating activities		
Net income	8,073	9,815
Adjustments for non-cash items:		
Depreciation of equipment (Note 12)	24	23
Effect of exchange rate changes on cash and cash equivalents	(24)	13
Unrealized losses (gains) on borrowings	137	(137)
	8,210	9,714
Net changes in operating assets and liabilities		
Increase in investments	(12,866)	(14,285)
Decrease (increase) in other assets	2	(6)
Increase in trade payable and other liabilities	32	20
Increase in investment-related liabilities	2,380	942
Net cash flows used in operating activities	(2,242)	(3,615)
Cash flow from financing activities		
Proceeds from borrowings	24,490	19,832
Repayment of borrowings	(23,225)	(18,689)
Repayments of amounts due from:		
Canadian Forces Pension Plan Account	104	102
Royal Canadian Mounted Police Pension Plan Account	38	38
Reserve Force Pension Plan Account	2	2
Advances to:		
Canadian Forces Pension Plan Account	(81)	(105)
Royal Canadian Mounted Police Pension Plan Account	(30)	(39)
Reserve Force Pension Plan Account	(2)	(2)
Fund transfers received (Note 9)	2,838	2,814
Net cash flows provided by financing activities	4,134	3,953
Cash flow from investing activities		
Acquisitions of equipment	(30)	(33)
Net cash flows used in investing activities	(30)	(33)
Net change in cash and cash equivalents	1,862	305
Effect of exchange rate changes on cash and cash equivalents	24	(13)
Cash and cash equivalents at the beginning of the period	3,066	2,774
Cash and cash equivalents at the end of the period^A	4,952	3,066
Supplementary disclosure of cash flow information		
Interest paid	(225)	(144)

^A As at March 31, 2019, cash and cash equivalents were comprised of \$4,938 million (March 31, 2018 – \$3,057 million) held for investment purposes and included in Note 4.1, as well as \$14 million (March 31, 2018 – \$9 million) held for administrative purposes and included in Other assets.

The accompanying notes are an integral part of the Financial Statements.

Notes to the Financial Statements

For the years ended March 31, 2019 and 2018

1 — Corporate Information

The Public Sector Pension Investment Board (“PSP Investments”) is a Crown corporation created under the *Public Sector Pension Investment Board Act* (the “Act”) to manage and invest amounts that are transferred to it pursuant to the *Superannuation Acts* (defined below), for the funds (as defined in the Act) of the pension plans established under the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act* (“CFSA”), the *Royal Canadian Mounted Police Superannuation Act* (collectively the “*Superannuation Acts*”), and certain regulations under the CFSA (the “CFSA Regulations”). The pension plans established under the *Superannuation Acts* consist of the Public Service pension plan (the “Plan”), the Canadian Forces pension plan, and the Royal Canadian Mounted Police pension plan, and the pension plan established under the CFSA Regulations is the Reserve Force pension plan. The Plan and the other pension plans are herein referred to collectively as the “Plans”.

The fund for which amounts are currently transferred to PSP Investments by the Government of Canada (the “Fund”) relates to pension obligations under the Plan for service on or after April 1, 2000 (“Post-2000 Service”). The account managed by PSP Investments for the Fund is herein referred to as the “Plan Account”. PSP Investments maintains records of the net contributions for the Fund, as well as the allocation of its investments and the results of its operations for the Fund in the Plan Account. PSP Investments also manages a plan account for the funds of the other Plans, and these and the Plan Account are collectively referred to herein as the “Plan Accounts”.

PSP Investments is responsible for managing amounts that are transferred to it for the Fund in the best interests of the beneficiaries and contributors under the *Public Service Superannuation Act*. The amounts are to be invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plan and the Plan’s ability to meet its financial obligations.

Pursuant to the *Public Service Superannuation Act*, the Government of Canada, which administers the Plan and the Fund, may at any time call upon the net assets of PSP Investments allocated to the Fund’s Plan Account for amounts required for the purpose of paying benefits under the Plan in respect of Post-2000 Service, or generally, for the purpose of reducing any non-permitted surplus in the Fund.

PSP Investments and the majority of its subsidiaries are exempt from Part I tax under paragraphs 149(1)(d) and 149(1)(d.2) of the *Income Tax Act* (Canada), respectively.

PSP Investments’ registered office is located at 1 Rideau Street, Ottawa, Ontario, Canada and its principal business office is at 1250 René-Lévesque Boulevard West, Montreal, Quebec, Canada.

2 — Significant Accounting Policies

The significant accounting policies that have been applied in the preparation of these Financial Statements are summarized below and have been used throughout all periods presented.

2.1. Basis of Presentation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

PSP Investments qualifies as an investment entity as defined under IFRS 10 *Consolidated Financial Statements* and, consequently, does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. Instead, PSP Investments measures its investments in subsidiaries at fair value through profit or loss (“FVTPL”) in accordance with IFRS 9 *Financial Instruments* (“IFRS 9”), including those that are formed by PSP Investments and that qualify as investment entities (“investment entity subsidiaries”). PSP Investments also measures its investments in associates, joint ventures and financial assets and financial liabilities at FVTPL in accordance with IAS 28 *Investments in Associates and Joint Ventures* and IFRS 9.

These Financial Statements present the Plan Account’s financial position and results of operations of PSP Investments and its subsidiaries that solely provide it with services that relate to its investment activities, as allocated to the Plan Account. They reflect the economic activity of PSP Investments as it pertains to the investment of the net contributions transferred to it for the Fund in respect of Post-2000 Service. Accordingly, they do not reflect all of the assets or the details of the pension contributions, payments and liabilities under the Plan.

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 14, 2019.

2 — Significant Accounting Policies

(continued)

2.2. Investment Entity Status

PSP Investments has determined that it meets the mandatory items of the definition of an investment entity under IFRS 10 on the basis of the facts and circumstances as at the end of the period. They are as follows:

(i) Mandate and business purpose

As further described in Note 1, PSP Investments' mandate is to manage and invest the amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. Consequently, PSP Investments' business purpose is to invest with a view of achieving a maximum rate of return from capital appreciation and income from investments, without undue risk of loss.

(ii) Performance evaluation

PSP Investments measures and evaluates the performance of its investments on a fair value basis.

In addition to the mandatory items of the definition, IFRS 10 also outlines certain typical characteristics of an investment entity, the absence of any of which does not necessarily preclude an entity from qualifying as an investment entity. One of these characteristics is that an investment entity should have investors that are not related parties of the entity.

As described in Note 14, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

Should any changes occur in the facts and circumstances, PSP Investments will evaluate the impact of any such changes on its investment entity status.

2.3. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below.

2.3.1. Financial Instruments

(i) Classification

Financial assets representing investments are managed, together with related financial liabilities, according to the entity's business model to maximize the rate of return. The performance of such financial instruments is evaluated on a fair value basis and they are classified at FVTPL. They are described in detail in Note 4.1.

Borrowings, as described under Note 8, are financial liabilities that are designated to be measured at FVTPL since they are part of the portfolios of investments that are managed together and whose performance is evaluated on a fair value basis.

(ii) Recognition

Financial assets and financial liabilities are recorded at the date upon which PSP Investments becomes a party to the associated contractual provisions. In the case of traded financial assets, they are recorded as of the trade date.

(iii) Initial and subsequent measurement

All financial assets and financial liabilities are recorded in the Statements of Financial Position at fair value and continue to be measured as such on a recurring basis. After initial measurement, subsequent changes in the fair value of financial assets and financial liabilities classified at FVTPL are recorded in the Statements of Comprehensive Income.

If fair value changes in financial liabilities designated to be measured at FVTPL result from fluctuations in PSP Investments' own credit risk, they are recorded in other comprehensive income. All other changes in fair value are recorded in investment income.

(iv) Derecognition

A financial asset (or, where applicable, a part thereof) is derecognized when the following conditions are met:

- The rights to receive cash flows from the asset have expired, or
- PSP Investments has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows to a third party,

and

- PSP Investments has transferred substantially all the risks and rewards of the asset, or
- In cases where PSP Investments has neither transferred nor retained substantially all the risks and rewards of the asset, it has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

2 — Significant Accounting Policies

(continued)

2.3. Summary of Significant Accounting Policies

(continued)

2.3.2. Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At initial recognition, PSP Investments evaluates the facts and circumstances related to a transaction to confirm that the transaction price represents the fair value of an asset or a liability. At each subsequent reporting date, market prices are used to determine fair value where an active market exists (such as a recognized securities exchange), as they reflect actual and regularly occurring market transactions on an arm's length basis. If quoted market prices are not available, then fair value is estimated using valuation techniques based on inputs existing at the end of the reporting period that are derived from observable market data.

Valuation techniques are generally applied to investments in private markets, alternative investments, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 4.

2.3.3. Functional and Presentation Currency

The functional and presentation currency of PSP Investments and its consolidated subsidiaries is the Canadian dollar, which is the currency of the primary economic environment in which each entity within the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars.

2.3.4. Foreign Currency Translation

Foreign currency transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities that are denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the end of the reporting period.

Foreign currency transaction gains and losses on all monetary assets and liabilities are included in investment income.

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or pledged as collateral, or recognize securities borrowed or received as collateral. Cash collateral received is recognized as described in Note 4.1.9.

The securities lending and borrowing programs require collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standard securities lending and borrowing programs. PSP Investments and its counterparties are authorized to sell, repledge or otherwise use collateral held. The same securities or equivalent securities must be returned to the counterparty at the end of the contract, unless an event of default occurs.

2.3.6. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements and Related Collateral

PSP Investments is party to repurchase and reverse repurchase agreements. Such agreements involve the sale of securities by one counterparty with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Securities sold or purchased under the repurchase and reverse repurchase agreements respectively, including related collateral, are not derecognized or recognized as all risks and rewards of ownership related to such securities are not transferred. As such, in the case where PSP Investments is the counterparty selling securities under such agreements, all income (loss) related to such securities continues to be reported in investment income and obligations to repurchase the securities sold are accounted for as investment-related liabilities. The difference between the fair value of the securities sold and the repurchase price is recorded as interest expense within investment-related expenses. In the case where PSP Investments is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income.

Transactions under repurchase and reverse repurchase agreements involve pledging collateral consisting of cash or securities deemed acceptable by the counterparties. Collateral transactions are conducted under terms that are usual and customary in standard repurchase arrangements. Such terms require the relevant counterparty to pledge additional collateral based on the changes in the fair value of the existing collateral pledged as well as the related securities sold or purchased. The counterparties are authorized to sell, repledge or otherwise use collateral held. The securities pledged as collateral must be returned to the relevant counterparty at the end of the contract, unless an event of default occurs.

2 — Significant Accounting Policies

(continued)

2.3. Summary of Significant Accounting Policies

(continued)

2.3.7. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset with the net amount reported in the Statements of Financial Position only if PSP Investments has a current legally enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.3.8. Equity

The statutory rights of the Government of Canada pursuant to the *Superannuation Acts* are described under Note 1 and are classified as equity instruments on the following basis:

- Under such rights the Government of Canada is entitled to PSP Investments' net assets at any time for the purposes set out in the *Superannuation Acts*. Such rights do not contain any additional obligations for PSP Investments to deliver amounts to the Government of Canada.
- Such rights are the most subordinate claim on PSP Investments' net assets.
- The total expected cash flows attributable to such rights, at any time, is solely based on the fair value of the net assets of PSP Investments at that time. Further, the fair value of the net assets of PSP Investments in its entirety represents the amounts that the Government of Canada may call upon at any time.

2.3.9. Investment Income

Investment income is made up of interest, dividends, gains (losses) on the disposal of financial assets and financial liabilities as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of financial assets held and financial liabilities outstanding at the end of the reporting period. Interest is recognized, on a consistent basis, using the prescribed rates until maturity. Dividends are recognized when the right to receive them has been obtained, generally on the ex-dividend date.

2.3.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, as described in Note 4.1.7, transaction costs, external investment management fees and other (net).

Transaction costs are incremental costs directly attributable to the acquisition, due diligence, issue, or disposal of a financial asset or financial liability, and they are expensed as incurred.

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets as outlined in Note 11.

2.3.11. Fund Transfers

Amounts are recorded for the Fund when received from the Government of Canada.

2.4. Significant Accounting Judgments, Estimates and Assumptions

In preparing the Financial Statements, management makes certain judgments, estimates and assumptions that can affect the amounts reported therein. Significant judgments include those related to the determination of the investment entity status as described in Note 2.2.

Management also makes estimates and assumptions in the measurement, risk assessment and related disclosures surrounding investments in private markets and certain fixed income securities. The main assumptions made by management regarding measurement of financial instruments are outlined in Note 4.2.3 and those regarding the assessment of risk are outlined in Note 7.

Although estimates and assumptions reflect management's best judgment, actual results may differ from such estimates due to the uncertainties involved in using them.

3 — Current and Future Changes in Accounting Standards

3.1. Current Accounting Standards

IAS 28 Investment in Associates and Joint Ventures

IAS 28 was amended, effective for annual periods beginning on or after January 1, 2018, to add a clarification that serves to elaborate and clarify that the election to measure investees at fair value is available on an investment by investment basis and is not an election that must be applied consistently to the measurement of all associates and joint ventures. PSP Investments has applied the amendments as of April 1, 2018 and there was no impact on its Consolidated Financial Statements.

IFRS 9 Financial Instruments

In 2014, the IASB completed its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9. The Standard includes requirements for recognition, derecognition, classification and measurement of financial assets and liabilities, as well as impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. PSP Investments early adopted IFRS 9 (2014) in its *Consolidated Financial Statements* for the year ended March 31, 2016.

Significant accounting policies as they relate to recognition, derecognition, classification and measurement of financial assets and liabilities in connection with IFRS 9 are described under Note 2.3.1. There is no impact from the requirements relating to impairment and hedge accounting.

3.2. Future Accounting Standards

PSP Investments has determined that there is no material impact on its Consolidated Financial Statements arising from new standards, amendments and interpretations that have been issued by the IASB, but that are not yet effective.

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are aggregated, in the following table, in classes that reflect their respective exposure as well as investment sectors. Their fair values were as follows, as at:

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Public markets		
Canadian equity	2,466	3,093
Foreign equity	23,562	25,148
Private markets		
Real estate	20,450	19,372
Private equity	14,704	11,804
Infrastructure	14,605	12,949
Natural resources	5,460	3,875
Fixed income		
Cash and money market securities	8,650	8,256
Government and corporate bonds	19,075	16,411
Inflation-linked bonds	10,185	8,967
Private debt securities	11,368	10,252
Alternative investments	7,295	6,349
	137,820	126,476
Investment-related assets		
Amounts receivable from pending trades	855	809
Interest receivable	362	305
Dividends receivable	104	97
Securities purchased under reverse repurchase agreements	4,338	1,355
Derivative-related assets	1,145	835
	6,804	3,401
Investments representing financial assets at FVTPL	144,624	129,877
Investment-related liabilities		
Amounts payable from pending trades	(695)	(845)
Interest payable	(50)	(41)
Securities sold short	(4,577)	(4,774)
Collateral payable	(2,188)	(2,593)
Securities sold under repurchase agreements	(4,089)	(417)
Derivative-related liabilities	(699)	(1,258)
Investment-related liabilities representing financial liabilities at FVTPL	(12,298)	(9,928)
Borrowings		
Capital market debt financing	(10,260)	(8,849)
Borrowings representing financial liabilities designated at FVTPL	(10,260)	(8,849)
Net investments	122,066	111,100

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.1. Public Markets

Public markets consist of Canadian and foreign investments in the following securities: common shares, American depository receipts, global depository receipts, participation notes, preferred shares, income trust units, exchange-traded funds units, pooled funds units, and securities convertible into common shares of publicly listed issuers.

Direct investments in Canadian and foreign equities are measured at fair value using quoted prices in active markets and are based on the most representative price within the bid-ask spread.

In the case of investments in pooled funds, fair value is measured using unit values obtained from each of the funds' administrators, which are derived from the fair value of the underlying investments in each pooled fund. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and natural resources.

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financing.

Private equity investments are comprised of fund investments with similar objectives, co-investments in private entities as well as direct equity positions.

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing.

Natural resources investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas. Natural resources investments are presented net of all third-party financing.

The process for fair value measurement of private markets investments is described in Note 4.2.2 and the valuation techniques together with the significant inputs used are described in Note 4.2.3.

4.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and private debt securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Statements of Cash Flows and amounted to \$ 4,938 million as at March 31, 2019 (March 31, 2018 – \$3,057 million). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds, floating rate notes, asset-backed term notes and mortgage-backed securities. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

Private debt securities are fixed income securities of private companies held directly or through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt and primary and secondary investments in leveraged loans. Private debt securities also include third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products in the real estate sector.

Fair values of government and most corporate bonds, inflation-linked bonds and mortgage-backed securities are based on prices obtained from third-party pricing sources. Such prices are determined using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

The fair values of certain corporate bonds, private debt securities and asset-backed term notes are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

The fair value measurement of fund investments included as part of private debt securities is described in Note 4.2.2.

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.4. Alternative Investments

Alternative investments consist mainly of units of funds that hold a mix of equity, fixed income and derivative instruments as well as hedge funds. The fair value of these investments is determined based on the fair values reported by the funds' administrators or general partners and reflects the fair value of the underlying equity, fixed income or derivative instruments, as applicable. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.5. Amounts Receivable and Payable from Pending Trades

Amounts receivable from pending trades consist of proceeds on sales of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

Amounts payable from pending trades consist of the cost of purchases of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

The fair value of amounts receivable and payable from pending trades reflects the value at which their underlying original sale or purchase transactions were undertaken.

4.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which due to their short-term maturity, approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.11, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

4.1.8. Securities Sold Short

Securities sold short reflect PSP Investments' obligation to purchase securities pursuant to short selling transactions. In such transactions, PSP Investments sells securities it does not own with an obligation to purchase similar securities on the market to cover its position.

Using quoted market prices that are based on the most representative price within the bid-ask spread, the fair value of securities sold short is measured using the same method as the similar long positions presented within public markets and fixed income.

4.1.9. Collateral Payable

As part of securities lending and certain OTC derivative transactions, cash collateral is received and reinvested by PSP Investments. PSP Investments recognizes cash collateral received with a corresponding payable. The payable balance reflects the obligation of the transferee to return cash collateral to the transferor at the end of the transaction in the absence of an event of default by the transferor.

4.1.10. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements

As described in Note 2.3.6, PSP Investments is party to repurchase and reverse repurchase agreements. Obligations to repurchase or resell the securities sold or purchased under such agreements are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value.

4.1.11. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 8.2. Short-term promissory notes are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.12. Derivative-Related Assets and Liabilities

Derivative financial instruments are financial contracts that are settled at a future date. The value of such instruments is derived from changes in the value of the underlying assets, interest or exchange rates. Derivative financial instruments do not, typically, require an initial net investment. In certain cases, they require an initial net investment that is less than what would be required to hold the underlying position directly. Derivative financial instruments can be listed or traded OTC. OTC instruments consist of those that are bilaterally negotiated and settled, and those that are cleared (OTC-cleared) by a central clearing party (CCP).

PSP Investments uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

PSP Investments uses the following types of derivative financial instruments:

Swaps

Swaps are transactions whereby two counterparties exchange cash flow streams with each other based on predetermined conditions that include a notional amount and a term. Swaps are used to increase returns or to adjust exposures of certain assets without directly purchasing or selling the underlying assets.

Futures

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a predefined price and predefined future date. Futures are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Forwards

Forwards are contracts involving the sale by one party and the purchase by another party of a predefined amount of an underlying instrument, at a predefined price and at a predefined date in the future. Forwards are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Options

Options are contracts where the seller gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index, commodity, currency, interest rate, credit or other financial instrument, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

Warrants are options to purchase an underlying asset which is in the form of a transferable security and which can be listed on an exchange or traded OTC.

Rights are securities giving shareholders entitlement to purchase new shares issued by a corporation at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

Determination of Fair Value of Derivative Financial Instruments

Listed derivative financial instruments are recorded at fair value using quoted market prices that are based on the most representative price within the bid-ask spread. OTC-cleared derivatives are recorded at fair value using prices obtained from the CCP. OTC derivatives are valued using appropriate valuation techniques such as discounted cash flows. These techniques use significant inputs that are observable in the market such as current market yields.

Notional Values and Fair Values of Derivative-Related Assets and Liabilities

Notional values of derivative financial instruments are not recorded as assets or liabilities as they represent the face amount of the contract. Except for credit derivatives, notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions disclosed below. Rather, they serve as the basis upon which the cash flows and the fair value of the contracts are determined.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

(Canadian \$ millions)	March 31, 2019			March 31, 2018		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	2,528	—	—	2,754	—	—
Warrants and rights	1	1	—	2	2	—
Options: Purchased	3,724	124	—	7,684	183	—
Written	3,350	—	(57)	5,238	—	(104)
OTC						
Swaps	19,009	465	(137)	19,430	105	(471)
Options: Purchased	488	17	—	1,106	32	—
Written	393	—	(23)	619	—	(23)
Currency derivatives						
Listed						
Futures	219	—	—	87	—	—
OTC						
Forwards	14,441	85	(38)	20,140	144	(304)
Swaps	4,787	13	(26)	2,180	1	(41)
Options: Purchased	4,679	38	—	6,007	42	—
Written	4,282	—	(35)	6,171	—	(36)
Interest rate derivatives						
Listed						
Futures	8,102	—	—	10,595	—	—
Options: Purchased	34,811	25	—	35,942	13	—
Written	31,916	—	(20)	31,087	—	(11)
OTC						
Forwards	431	7	(12)	—	—	—
Swaps	18,573	178	(192)	10,594	127	(105)
Options: Purchased	39,273	191	—	36,217	181	—
Written	37,162	—	(152)	37,889	—	(152)
OTC-cleared						
Swaps	40,536	—	—	47,297	—	—
Credit derivatives						
OTC						
Credit default swaps: Purchased	486	—	(7)	902	—	(11)
Written ^A	66	1	—	171	2	—
Options: Purchased	—	—	—	468	3	—
OTC-cleared						
Credit default swaps: Purchased	596	—	—	900	—	—
Written ^A	—	—	—	437	—	—
Total		1,145	(699)		835	(1,258)

^A PSP Investments, through written credit default swaps, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the written credit default swaps as shown in the table above.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

(Canadian \$ millions)	March 31, 2019			March 31, 2018		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Listed derivatives	84,651	150	(77)	93,389	198	(115)
OTC derivatives	144,070	995	(622)	141,894	637	(1,143)
OTC-cleared derivatives	41,132	—	—	48,634	—	—
Total		1,145	(699)		835	(1,258)

The terms to maturity based on notional value for the derivatives were as follows as at:

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Less than 3 months	68,548	91,422
3 to 12 months	118,146	87,057
Over 1 year	83,159	105,438

4.2. Fair Value Hierarchy

4.2.1. Classification

Financial assets and financial liabilities described under Note 4.1 are classified within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
 - (i) Quoted prices for similar assets or liabilities in active markets.
 - (ii) Quoted prices for identical or similar assets or liabilities in markets that are not active.
 - (iii) Inputs other than quoted prices that are observable for the asset or liability.
 - (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

The classification within the levels of the hierarchy is established at the time of the initial determination of fair value of the asset or liability and reviewed at the end of each reporting period. PSP Investments determines whether a transfer between levels has occurred and recognizes such transfer at the beginning of the reporting period.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2019 classified within the fair value hierarchy:

(Canadian \$ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	1,795	626	45	2,466
Foreign equity	20,761	1,584	1,217	23,562
Private markets				
Real estate	—	—	20,450	20,450
Private equity	—	—	14,704	14,704
Infrastructure	—	—	14,605	14,605
Natural resources	—	—	5,460	5,460
Fixed income				
Cash and money market securities	—	8,650	—	8,650
Government and corporate bonds	—	19,047	28	19,075
Inflation-linked bonds	—	10,185	—	10,185
Private debt securities	—	—	11,368	11,368
Alternative investments	—	1,543	5,752	7,295
	22,556	41,635	73,629	137,820
Investment-related assets				
Amounts receivable from pending trades	—	855	—	855
Interest receivable	—	362	—	362
Dividends receivable	—	104	—	104
Securities purchased under reverse repurchase agreements	—	4,338	—	4,338
Derivative-related assets	94	1,051	—	1,145
	94	6,710	—	6,804
Investments representing financial assets at FVTPL	22,650	48,345	73,629	144,624
Investment-related liabilities				
Amounts payable from pending trades	—	(695)	—	(695)
Interest payable	—	(50)	—	(50)
Securities sold short	(2,848)	(1,729)	—	(4,577)
Collateral payable	—	(2,188)	—	(2,188)
Securities sold under repurchase agreements	—	(4,089)	—	(4,089)
Derivative-related liabilities	(77)	(622)	—	(699)
Investment-related liabilities representing financial liabilities at FVTPL	(2,925)	(9,373)	—	(12,298)
Borrowings				
Capital market debt financing	—	(10,260)	—	(10,260)
Borrowings representing financial liabilities designated at FVTPL	—	(10,260)	—	(10,260)
Net investments	19,725	28,712	73,629	122,066

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2018 classified within the fair value hierarchy:

(Canadian \$ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	2,467	626	–	3,093
Foreign equity	21,432	2,342	1,374	25,148
Private markets				
Real estate	–	–	19,372	19,372
Private equity	–	–	11,804	11,804
Infrastructure	–	–	12,949	12,949
Natural resources	–	–	3,875	3,875
Fixed income				
Cash and money market securities	–	8,256	–	8,256
Government and corporate bonds	–	16,284	127	16,411
Inflation-linked bonds	–	8,967	–	8,967
Private debt securities	–	–	10,252	10,252
Alternative investments	–	1,211	5,138	6,349
	23,899	37,686	64,891	126,476
Investment-related assets				
Amounts receivable from pending trades	–	809	–	809
Interest receivable	–	305	–	305
Dividends receivable	–	97	–	97
Securities purchased under reverse repurchase agreements	–	1,355	–	1,355
Derivative-related assets	145	690	–	835
	145	3,256	–	3,401
Investments representing financial assets at FVTPL	24,044	40,942	64,891	129,877
Investment-related liabilities				
Amounts payable from pending trades	–	(845)	–	(845)
Interest payable	–	(41)	–	(41)
Securities sold short	(3,679)	(1,095)	–	(4,774)
Collateral payable	–	(2,593)	–	(2,593)
Securities sold under repurchase agreements	–	(417)	–	(417)
Derivative-related liabilities	(115)	(1,143)	–	(1,258)
Investment-related liabilities representing financial liabilities at FVTPL	(3,794)	(6,134)	–	(9,928)
Borrowings				
Capital market debt financing	–	(8,849)	–	(8,849)
Borrowings representing financial liabilities designated at FVTPL	–	(8,849)	–	(8,849)
Net investments	20,250	25,959	64,891	111,100

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2019.

During the year ended March 31, 2018, listed equity securities with a fair value of \$31 million, classified as Level 2 as at March 31, 2017 were transferred to Level 1 as a result of trading restrictions having expired.

4 — Financial Assets and Financial Liabilities

(continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

The valuation process is monitored and governed by an internal valuation committee ("VC"). This committee is responsible for overseeing all aspects of fair value determination. This includes establishing valuation methodologies and procedures for each type of investment and ensuring they are complied with. Valuation methodologies established are based on widely recognized practices that are consistent with professional appraisal standards. Such standards include, among others, the *International Private Equity and Venture Capital Valuation Guidelines*, the *Canadian Uniform Standards of Professional Appraisal Practice* and the *Uniform Standards of Professional Appraisal Practice* in the United States of America.

The fair value of investments classified as Level 3 is determined at least annually. Quarterly, the fair value is reviewed and adjusted, as appropriate, to reflect the impact of any significant market or investment-specific events or circumstances. For each investment, the relevant valuation methodology is applied consistently over time as appropriate in the prevailing circumstances. The appropriateness of significant changes in valuation methodologies is reviewed by the VC.

In cases where the services of third-party appraisers are used, management ensures their independence and that valuation methods used are consistent with professional appraisal standards outlined above. In validating the work performed by appraisers, management ensures that the assumptions used correspond to financial information and forecasts of the underlying investment.

With respect to fund investments classified as Level 3, the annual fair value is generally determined based on audited financial statements received from the fund's general partner. In certain cases fair value is obtained from information provided by the fund's administrators and is reviewed by Management to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2019:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian \$ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	45	Net asset value method (NAV) ^A	N/A	N/A
Foreign equity	Direct investments	1,217	NAV ^A	N/A	N/A
Private markets					
Real estate	Direct and co-investments	19,117	Discounted cash flow (DCF)	Discount rate ^{B, C}	4.10% – 20.00% (7.55%)
				Terminal capitalization rate ^{B, C}	4.25% – 10.25% (5.92%)
			Direct capitalization	Capitalization rate ^{B, D}	2.50% – 8.98% (5.57%)
				Stabilized occupancy rate ^{D, E}	93.00% – 100.00% (98.22%)
			Sales comparison approach	Price per square foot ^{D, E}	\$0.95 – \$2,057.93 (\$281.99)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	1,333	NAV ^A	N/A	N/A
Other private markets	Direct and co-investments	24,556	DCF	Discount rate ^B	6.00% – 12.50% (8.79%)
			Market comparables	N/A	N/A
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	10,213	NAV ^A	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	21	DCF	Discount rate ^B	52.50%
	Asset-backed term notes	7	Third-party pricing ^A	N/A	N/A
Private debt securities	Direct and co-investments	7,846	DCF	Discount rate ^B	5.54% – 18.76% (9.77%)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	3,522	NAV ^A	N/A	N/A
Alternative investments	Fund investments	5,752	NAV ^A	N/A	N/A
Total		73,629			

^A In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

^B An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

^C An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

^D There is no predictable direct relationship between this input and any other significant unobservable input.

^E An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2018:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian \$ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets Foreign equity	Direct investments	1,374	Net asset value method (NAV) ^A	N/A	N/A
Private markets Real estate	Direct and co-investments	18,178	Discounted cash flow (DCF)	Discount rate ^{B, C}	5.00% – 22.10% (7.94%)
				Terminal capitalization rate ^{B, C}	4.25% – 9.75% (5.92%)
			Direct capitalization	Capitalization rate ^{B, D}	2.75% – 9.09% (5.30%)
				Stabilized occupancy rate ^{D, E}	94.00% – 100.00% (98.29%)
			Sales comparison approach	Price per square foot ^{D, E}	\$27.50 – \$1,107.92 (\$90.83)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
Other private markets	Fund investments	1,194	NAV ^A	N/A	N/A
	Direct and co-investments	19,756	DCF	Discount rate ^B	6.00% – 12.70% (8.94%)
			Market comparables	N/A	N/A
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	8,872	NAV ^A	N/A	N/A
Fixed income Corporate bonds	Convertible bonds	119	DCF	Discount rate ^B	4.70% – 10.00% (7.40%)
	Asset-backed term notes	8	Third-party pricing ^A	N/A	N/A
Private debt securities	Direct and co-investments	7,374	DCF	Discount rate ^B	5.90% – 17.25% (9.79%)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	2,878	NAV ^A	N/A	N/A
Alternative investments	Fund investments	5,138	NAV ^A	N/A	N/A
Total		64,891			

^A In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

^B An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

^C An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

^D There is no predictable direct relationship between this input and any other significant unobservable input.

^E An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2019:

(Canadian \$ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses) ^A	Transfer out of Level 3	Closing Balance
Public markets	1,374	403	(490)	–	312	(337)	–	1,262
Private markets	48,000	10,804	(6,882)	–	1,379	1,982	(64)	55,219
Fixed income	10,379	4,205	(3,272)	(43)	110	17	–	11,396
Alternative investments	5,138	639	(401)	–	32	344	–	5,752
Derivative-related receivables/payables (net)	–	–	–	–	–	–	–	–
Total	64,891	16,051	(11,045)	(43)	1,833	2,006	(64)	73,629

^A Includes Plan Account allocation adjustments.

As at March 31, 2018, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2019, the investment was transferred to Level 1 as the related securities became publicly traded.

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2018:

(Canadian \$ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains ^A	Transfer out of Level 3	Closing Balance
Public markets	215	477	(42)	–	5	719	–	1,374
Private markets	40,242	7,138	(3,256)	–	808	3,077	(9)	48,000
Fixed income	6,844	5,675	(2,325)	(19)	158	46	–	10,379
Alternative investments	4,712	970	(679)	–	58	77	–	5,138
Derivative-related receivables/payables (net)	–	13	–	(13)	–	–	–	–
Total	52,013	14,273	(6,302)	(32)	1,029	3,919	(9)	64,891

^A Includes Plan Account allocation adjustments.

As at March 31, 2017, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2018, the investment was transferred to Level 2 as the related securities became publicly traded. The securities held by PSP Investments are unregistered and can only be sold upon their registration.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2019 (March 31, 2018 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 2.3.5, 2.3.6 and 7.2.1. The following table illustrates the fair values of the Plan Account's allocated collateral, as well as the securities under the lending and borrowing programs and the securities under the repurchase and reverse repurchase agreements, as at:

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Securities lending and borrowing		
Securities lent	5,805	8,385
Collateral held ^A	6,118	8,923
Securities borrowed	2,849	3,705
Collateral pledged ^B	2,936	3,835
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	4,116	424
Collateral pledged	4,106	424
Securities purchased under reverse repurchase agreements	4,361	1,367
Collateral held ^C	4,354	1,362
Derivative contracts		
Collateral pledged	665	1,291
Collateral held ^D	404	2

^A The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to \$2,167 million for the Plan Account as at March 31, 2019 (March 31, 2018 – \$2,544 million) and securities amounted to \$3,951 million as at March 31, 2019 (March 31, 2018 – \$6,379 million). All cash collateral is reinvested.

^B The minimum fair value of collateral required is equal to 100% of the fair value of the securities borrowed.

^C The collateral received is in the form of securities of which \$1,729 million has been used in connection with short selling transactions as at March 31, 2019 (March 31, 2018 – \$1,094 million) and \$12 million has been used in connection with securities sold under repurchase agreements (March 31, 2018 – nil).

^D As part of collateral held, cash amounted to \$6 million as at March 31, 2019 (March 31, 2018 – \$1 million) and securities amounted to \$398 million as at March 31, 2019 (March 31, 2018 – \$1 million). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

As an investment entity, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. PSP Investments measures its investments in its subsidiaries, joint ventures and associates at FVTPL as described in Note 2.1.

For purposes of preparing this note, management assesses control, joint control and significant influence as follows:

(i) *Control and significant influence*

PSP Investments determines that it has control over an investee when it is exposed, or has rights, to variable returns from its investment in an entity and has the ability to affect those returns through its power over the investee.

In certain cases, PSP Investments does not have control over an investee but has the power to participate in the financial and operating policy decisions of the investee. In such cases, PSP Investments determines that it has significant influence over the investee.

In the context of control or significant influence, power over an investee is obtained through voting rights conveyed by PSP Investments' ownership interest, other contractual arrangements, or a combination thereof.

(ii) *Joint control*

PSP Investments determines that it is party to a joint venture arrangement when it has joint control over an investee and has rights to the net assets of the investee. Joint control is established through a contractual arrangement which requires the unanimous consent of the parties sharing control for the activities that significantly affect the returns of the arrangement.

Generally, decision making regarding such activities is governed through voting rights conveyed by the ownership interest of each party. In certain cases, it is governed solely through contractual arrangements or in conjunction with the ownership interest of each party.

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2019, 108 investment entity subsidiaries were incorporated in North America, 17 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2018 – 103 in North America, 23 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 81 investees directly or through its investment entity subsidiaries as at March 31, 2019 (March 31, 2018 – 80 investees).

The following tables present, in descending order, the most significant investees held directly or indirectly by PSP Investments where it has control, joint control or significant influence.

Entity's Name	March 31, 2019		
	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
AviAlliance GmbH	Europe	100	Controlled investee
Revera Inc.	North America	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Forth Ports Limited	Europe	51	Jointly controlled investee
TDF S.A.S.	Europe	22	Associate
Roccapina Fund, L.P.	North America	100	Controlled investee
Big Box Properties	North America	49	Jointly controlled investee

Entity's Name	March 31, 2018		
	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
Revera Inc.	North America	100	Controlled investee
AviAlliance GmbH	Europe	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
Roccapina Fund, L.P.	North America	100	Controlled investee
TDF S.A.S.	Europe	22	Associate
Cubico Sustainable Investments Limited	Global	50	Jointly controlled investee
Big Box Properties	North America	49	Jointly controlled investee

In addition to the above, PSP Investments consolidates wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services consist of investment management and financing of private market investments within the context of PSP Investments' capital market debt program described in Note 8.2.

6.2. Structured Entities

PSP Investments holds interests in partnerships and funds mainly in the context of its investments in private markets. Given their nature, such entities commonly have the characteristics of a structured entity as defined by IFRS. These entities are held as investments and do not expose PSP Investments to additional risks or returns compared to interests held in non-structured entities.

Information regarding structured entities is included, as applicable, within disclosures of investment risk management under Note 7, guarantees and indemnities under Note 16 and commitments under Note 17.

7 — Investment Risk Management

PSP Investments is required to act in the best interests of the contributors and beneficiaries under the Plans and for maximizing returns without undue risk of loss. In pursuit of this objective, PSP Investments established an Enterprise Risk Management Policy (ERM Policy). The ERM Policy provides a framework for identifying, evaluating, managing, mitigating, monitoring and reporting the investment and non-investment risks to which PSP Investments is exposed.

As part of the overall ERM policy, the objective of the Investment Risk Management Policy (IRM Policy) is to support the management of risk inherent to the investment decision making process. The IRM Policy outlines a framework detailing how investment activities should comply with PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite. The IRM Policy also supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), whose objective is to effectively manage investment risks related to the implementation of PSP Investments' various investment strategies. Investment risks include market, credit and liquidity risks.

7.1. Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of an adverse financial outcome due to changes in the factors that drive that value, such as changes in market prices, changes caused by factors specific to the individual investment, volatility in share and commodity prices, interest rate, foreign exchange or other factors affecting similar securities traded in the market.

7.1.1. Measurement of Market Risk

The absolute annualized volatility of the total portfolio is used as the primary measure of market risk. The absolute volatility is a statistical measure of the size of changes in investment returns of a given investment or portfolio of investments. It is used to illustrate the potential loss of value in an investment or portfolio of investments as a result of fluctuations in market prices.

PSP Investments uses seven years' worth of market returns scaled to a twelve-month holding period to calculate the absolute volatility. For investments that are not actively traded, the calculation of the absolute volatility uses securities with similar risk attributes as a proxy.

The absolute volatility is statistically valid under normal market conditions and does not specifically consider losses from severe market events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

The following table shows the absolute volatility of the total portfolio expressed as a percentage of net investments as at the end of the period:

	March 31, 2019 (%)	March 31, 2018 (%)
Absolute volatility	7.3	7.2

Stress Testing

Although the absolute volatility is a widely accepted risk measure, it is complemented by other risk measurement methodologies that provide greater insight on market risk. PSP Investments uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of the Plan Account's net asset values. The terms to maturity of the classes of financial instruments, outlined in Note 4.1, with the most significant exposure to interest rate risk were as follows as at:

	March 31, 2019					
(Canadian \$ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	8,650 ^A	8,650
Government and corporate bonds	866	8,804	4,373	3,555	1,477 ^B	19,075
Inflation-linked bonds	–	1,663	5,689	2,833	–	10,185
Private debt securities	61	1,853	4,366	1,514	3,574 ^C	11,368
Total fixed income	927	12,320	14,428	7,902	13,701	49,278

	March 31, 2018					
(Canadian \$ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	8,256 ^A	8,256
Government and corporate bonds	2,537	6,007	3,787	2,487	1,593 ^B	16,411
Inflation-linked bonds	–	2,977	3,201	2,789	–	8,967
Private debt securities	2	1,034	5,079	1,119	3,018 ^C	10,252
Total fixed income	2,539	10,018	12,067	6,395	12,867	43,886

^A Due to their short-term maturity, these investments are not significantly exposed to interest rate risk.

^B Certain fixed income securities are not significantly exposed to interest rate risk as their prescribed rates are variable.

^C Information in connection with the terms to maturity of fund and certain directly held investments included as part of private debt securities is not available.

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounted to \$81,247 million as at March 31, 2019 (\$76,241 million as at March 31, 2018) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in 4.1.4, which amounted to \$7,295 million as at March 31, 2019 (\$6,349 million as at March 31, 2018), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the absolute volatility calculation described in Note 7.1.1.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 8.2.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through holding of investments (i.e. direct and indirect holdings of securities, units in pooled funds and units in limited partnerships) or investment-related liabilities in various currencies. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

Currency	March 31, 2019		March 31, 2018	
	Fair Value (Canadian \$ millions)	% of Total	Fair Value (Canadian \$ millions)	% of Total
US Dollar	63,350	63.6	59,778	68.4
Euro	14,841	14.9	8,856	10.1
British Pound	5,754	5.8	2,143	2.5
Australian Dollar	2,191	2.2	1,914	2.2
Japanese Yen	2,020	2.0	2,579	3.0
Hong Kong Dollar	1,873	1.9	1,739	2.0
Mexican Peso	1,751	1.8	1,420	1.6
Brazilian Real	1,164	1.2	1,565	1.8
Indian Rupee	1,159	1.2	999	1.1
South Korean Won	960	1.0	1,895	2.2
Swiss Franc	668	0.7	579	0.7
New Taiwan Dollar	667	0.7	747	0.9
Others	3,122	3.0	3,151	3.5
Total	99,520	100.0	87,365	100.0

As at March 31, 2019, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of \$15,699 million for the Plan Account (US\$9,923 million, €1,442 million, £75 million, 16 million South African rands, 2 million Brazilian reals, 9,849 million Colombian pesos, 1,927 million Mexican pesos and 12 million Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2018, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of \$16,964 million for the Plan Account (US\$10,645 million, €1,844 million, £130 million, 16 million South African rands, 9,836 million Colombian pesos and 1,045 million Mexican pesos) which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities purchased under reverse repurchase agreements, is unable to meet its financial obligations.

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation for public issuers and counterparties, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings. For private issuers, PSP Investments assigns internal credit ratings to issuers and measures the combined risk profile against set targets. To assign risk ratings to issuers, PSP Investments uses methodologies comparable to those used by recognized rating agencies.

As at March 31, 2019, the Plan Account's maximum exposure to credit risk amounted to \$54 billion (March 31, 2018 – \$46 billion). This amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating for credit-sensitive securities. The concentration of credit risk by credit rating was as follows as at:

Credit Rating	March 31, 2019 (%)	March 31, 2018 (%)
AAA-AA	48.4	51.2
A	23.6	20.9
BBB	2.3	2.5
BB or below	25.1	24.4
No rating ^A	0.6	1.0
Total	100.0	100.0

^A Includes securities for public issuers and counterparties, that are either not rated by credit rating agencies or rated by a single credit rating agency.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts, securities lending and borrowing as well as securities repurchase and reverse repurchase agreements. In order to minimize counterparty risk, PSP Investments requires that counterparties provide adequate collateral and meet its credit rating requirements. PSP Investments frequently monitors the credit rating of its counterparties as determined by recognized credit rating agencies. With respect to derivative contracts, PSP Investments has the ability to terminate all trades with most counterparties whose credit rating is downgraded below its requirements.

For OTC derivatives, PSP Investments' policy also requires the use of the International Swaps and Derivative Association (ISDA) Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted. In the case of OTC-cleared derivatives, trading activities are regulated between parties under terms that are customary to such transactions.

As a credit mitigation technique, the ISDA Master Agreement contractually binds counterparties to close-out netting provisions in the case of default by one of the counterparties. Additionally, the Credit Support Annex (CSA) to the ISDA Master Agreement enables PSP Investments to realize any collateral placed with it in the case of default of the counterparty. The CSA also requires PSP Investments to contribute further collateral when requested. All collateral transactions under the CSA are in cash, high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. Counterparties are generally authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held in the form of securities but does reinvest all cash collateral, with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing agreements as well as securities repurchase and reverse repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 2.3.5 and 2.3.6 describe collateral requirements in securities lending and borrowing programs as well as securities repurchase and reverse repurchase agreements.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 5.

In the case of the securities lending program, PSP Investments' exposure to counterparty risk is further mitigated as the custodian of the securities lent assumes the risk that a counterparty will be unable to meet its obligations associated with the collateral requirements.

Management is responsible for counterparty risk monitoring and mitigation as well as maintaining a comprehensive, disciplined, and enterprise-wide process for tracking and managing counterparty risk. As such, management measures counterparty risk on an ongoing basis, evaluates and tracks the creditworthiness of current counterparties and mitigates counterparty risk through collateral management.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Statements of Financial Position. Securities repurchase and reverse repurchase agreements described in Notes 2.3.6 and 5 are subject to similar arrangements however they are not offset as the conditions for offsetting are not met.

The following tables present the financial assets and liabilities described above:

Financial Assets

(Canadian \$ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2019						
Reverse repurchase agreements	4,338	–	4,338 ^A	2,823	1,514	1
OTC-derivatives	999	4	995 ^B	553	388	54
Total	5,337	4	5,333	3,376	1,902	55
March 31, 2018						
Reverse repurchase agreements	1,355	–	1,355 ^A	360	995	–
OTC-derivatives	666	29	637 ^B	632	1	4
Total	2,021	29	1,992	992	996	4

Financial Liabilities

(Canadian \$ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2019						
Repurchase agreements	4,089	–	4,089 ^A	2,823	1,265	1
OTC-derivatives	626	4	622 ^B	549	68	5
Collateral payable	5	–	5	4	–	1
Total	4,720	4	4,716	3,376	1,333	7
March 31, 2018						
Repurchase agreements	417	–	417 ^A	360	57	–
OTC-derivatives	1,172	29	1,143 ^B	631	511	1
Collateral payable	2	–	2 ^C	1	–	1
Total	1,591	29	1,562	992	568	2

^A As described in Note 4.1.10.

^B As described in Note 4.1.12.

^C As described in Note 4.1.9. The balance consists of cash collateral received with respect to certain OTC derivative transactions, and is included in Note 4.1 as part of collateral payable.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

Liquidity risk corresponds to the risk that PSP Investments will not be able to meet its financial obligations on a timely basis, with sufficient and readily available cash resources. PSP Investments' cash position is monitored on a daily basis. In general, investments in cash, money market securities, floating rate notes, bonds and public equities are expected to be highly liquid as they will be invested in securities that are actively traded. Management utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. A liquidity report taking into consideration future forecasted cash flows is prepared and presented to senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, sufficient sources of liquidity are maintained for deployment in case of market disruption.

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 8.2 provides additional information on the usage of the capital market debt program. Furthermore, PSP Investments maintains credit facilities for general corporate purposes. Note 8.1 provides additional information with respect to such credit facilities.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4.1.12.

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2019 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities^A				
Amounts payable from pending trades	(695)	—	—	(695)
Interest payable	(48)	(2)	—	(50)
Securities sold short	(4,577)	—	—	(4,577)
Collateral payable	(2,188)	—	—	(2,188)
Securities sold under repurchase agreements	(4,089)	—	—	(4,089)
Capital market debt financing	(3,441)	(1,545)	(5,274)	(10,260)
Trade payable and other liabilities	(52)	(89)	(91)	(232)
Total	(15,090)	(1,636)	(5,365)	(22,091)
(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	479	403	263	1,145
Derivative-related liabilities ^A	(171)	(254)	(274)	(699)
Total	308	149	(11)	446

^A Liabilities are presented in the earliest period in which the counterparty can request payment.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

Financial Liabilities (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2018 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities^A				
Amounts payable from pending trades	(845)	–	–	(845)
Interest payable	(39)	(2)	–	(41)
Securities sold short	(4,774)	–	–	(4,774)
Collateral payable	(2,593)	–	–	(2,593)
Securities sold under repurchase agreements	(417)	–	–	(417)
Capital market debt financing	(3,434)	(1,153)	(4,262)	(8,849)
Trade payable and other liabilities	(126)	–	(73)	(199)
Total	(12,228)	(1,155)	(4,335)	(17,718)

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	363	175	297	835
Derivative-related liabilities ^A	(601)	(346)	(311)	(1,258)
Total	(238)	(171)	(14)	(423)

^A Liabilities are presented in the earliest period in which the counterparty can request payment.

8 — Borrowings

8.1. Credit Facilities

PSP Investments maintains a revolving credit facility in the amount of \$2 billion and a demand line of credit in the amount of \$1 billion (together “the Credit Facilities”).

The Credit Facilities are for general corporate purposes and are available in either Canadian or US currencies. Subject to customary terms and conditions, these Credit Facilities are available at variable interest rates such as the prime rate and the US base rate.

These Credit Facilities were not drawn upon as at March 31, 2019 and 2018.

8.2. Capital Market Debt Financing

PSP Investments’ capital market debt program consists of the private placement of short-term promissory notes as well as medium-term notes issued by PSP Capital Inc., a wholly owned subsidiary of PSP Investments. The capital raised is primarily used to finance private market investments. It is unconditionally and irrevocably guaranteed by PSP Investments in accordance with its corporate leverage policy. The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed \$12 billion for issuances in Canada and the United States combined.

PSP Investments’ capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2019 and 2018.

The following outlines the terms as well as the fair value of the notes issued under the capital market debt program allocated to the Plan Account as at:

	March 31, 2019		March 31, 2018	
	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
(Canadian \$ millions)				
Short-term Canadian Dollar promissory notes, bearing interest between 1.79% and 2.20% and maturing within 56 and 365 days of issuance (March 31, 2018 – between 1.16% and 1.85%, maturing within 26 and 364 days)	474	471	688	685
Short-term US Dollar promissory notes, bearing interest between 2.45% and 2.84% and maturing within 21 and 365 days of issuance (March 31, 2018 – between 1.39% and 2.17%, maturing within 28 and 365 days)	4,540	4,515	3,911	3,902
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	688	702	726	742
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	685	724	715	744
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	908	900	907	881
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	727	729	700	686
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	1,272	1,265	1,241	1,209
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	908	954	–	–
Total	10,202	10,260	8,888	8,849

Unrealized losses in connection with borrowings amounted to \$137 million for the year ended March 31, 2019 (unrealized gains of \$137 million for the year ended March 31, 2018).

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

Interest expense, for the years ended March 31, was as follows:

(Canadian \$ millions)	2019	2018
Short-term promissory notes	109	56
Medium-term notes	104	84
Total	213	140

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2019.

(Canadian \$ millions)	Opening balance	Proceeds from borrowing	Repayment of borrowings	Non-cash changes		Closing balance
				Foreign exchange losses	Fair value ^A losses	
Capital market debt financing	8,849	24,490	(23,225)	17	129	10,260
Credit facilities	—	—	—	—	—	—
Borrowings	8,849	24,490	(23,225)	17	129	10,260

^A Includes interest on short-term promissory notes, which added to cost approximates their fair value.

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2018.

(Canadian \$ millions)	Opening balance	Proceeds from borrowing	Repayment of borrowings	Non-cash changes		Closing balance
				Foreign exchange gains	Fair value ^A gains	
Capital market debt financing	7,846	19,807	(18,664)	(27)	(113)	8,849
Credit facilities	—	25	(25)	—	—	—
Borrowings	7,846	19,832	(18,689)	(27)	(113)	8,849

^A Includes interest on short-term promissory notes, which added to cost approximates their fair value.

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

9.2. Fund Transfers

PSP Investments received fund transfers from the Government of Canada of \$2,838 million for the year ended March 31, 2019 (\$2,814 million for the year ended March 31, 2018) for the Fund, recorded in the Plan Account.

10 — Segment Information

Investment Segments

In order to fulfil its mandate, PSP Investments manages a diversified global portfolio composed of investments in various asset classes and has implemented an investment approach that focuses in the total fund approach rather than only on individual asset classes. The total fund approach guides the long-term investment strategy and focuses on managing total fund allocations and exposures in terms of asset classes, sectors and risk factors.

Accordingly, PSP Investments' investment segments are presented below to reflect the way in which asset classes are managed and how results are reviewed by the entity's senior management for purposes of performance management and decision making. These investment segments include their respective share of investment-related assets and investment-related liabilities as well as borrowings, which are reported separately by nature of the underlying investments as disclosed in Note 4.1. Further, to support PSP Investments' investment approach, a Complementary Portfolio is managed in addition to the individual asset classes' portfolios, which enables PSP Investments to capture investment opportunities that fit the mandate but that are outside the scope of the individual asset classes' investment framework.

Investment segments consist of investments held through direct and co-ownership positions as well as through fund managers and include:

- Public Markets – invests in public market equities, government and corporate fixed income.
- Real Estate – invests in real estate assets mainly in retirement and residential, office, retail and other industrial sectors.
- Private Equity – invests in private entities with similar objectives.
- Infrastructure – invests in private entities with a focus on assets in transportation, power generation, telecommunications and other regulated businesses.
- Natural Resources – invests in real assets with a focus on assets in timberlands, agriculture and upstream oil and gas.
- Private Debt – invests in non-investment grade primary and secondary credit investments.
- Complementary Portfolio – focuses on investments that are not within the mandate of existing asset classes but are deemed beneficial for the total fund.

The following tables present net investments by investment segment as at:

	March 31, 2019								
(Canadian \$ millions)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^A	Total
	58,730	17,105	17,105	12,221	4,912	7,612	1,036	3,345	122,066

	March 31, 2018								
(Canadian \$ millions)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^A	Total
	55,641	16,870	14,066	10,866	3,507	6,428	1,598	2,124	111,100

^A Includes cash and money market securities not managed within the operating segments.

10 — Segment Information (continued)

Investment Segments (continued)

The following table presents net income from operations by investment segment for the year ended March 31, 2019.

(Canadian \$ millions)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^c	Total
Investment income ^A	2,504	1,371	2,339	880	440	608	(1)	717	8,858
Expenses ^B	(288)	(186)	(72)	(127)	(49)	(44)	(9)	(10)	(785)
Net income	2,216	1,185	2,267	753	391	564	(10)	707	8,073

^A As described in Note 11, embedded within investment income are other fees paid by certain pooled fund investments and management fees not paid directly by PSP Investments.

^B Includes all investment-related and operating expenses as disclosed in Notes 11 and 12, respectively.

^C Includes cash and money market securities not managed within the operating segments.

The following table presents net income from operations by investment segment for the year ended March 31, 2018.

(Canadian \$ millions)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^c	Total
Investment income ^A	4,592	2,125	1,505	1,704	340	411	390	(602)	10,465
Expenses ^B	(262)	(144)	(57)	(102)	(37)	(29)	(9)	(10)	(650)
Net income	4,330	1,981	1,448	1,602	303	382	381	(612)	9,815

^A As described in Note 11, embedded within investment income are other fees paid by certain pooled fund investments and management fees not paid directly by PSP Investments.

^B Includes all investment-related and operating expenses as disclosed in Notes 11 and 12, respectively.

^C Includes cash and money market securities not managed within the operating segments.

11 — Investment-Related Expenses

Investment-related expenses allocated to the Plan Account are comprised of the following for the years ended March 31:

(Canadian \$ millions)	2019	2018
Interest expense	244	155
Transaction costs	93	101
External investment management fees ^A	20	29
Other (net)	63	38
Total	420	323

^A Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to \$172 million for the year ended March 31, 2019 (\$116 million for the year ended March 31, 2018). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.2% and 2.5% of the total invested and/or committed amount, totaled \$240 million for the year ended March 31, 2019 (\$226 million for the year ended March 31, 2018). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

Operating expenses allocated to the Plan Account consisted of the following for the years ended March 31:

(Canadian \$ millions)	2019	2018
Salaries and employee benefits	211	190
Professional and consulting fees	56	52
Premises and equipment	23	19
Market data and business applications	27	23
Depreciation of equipment	24	23
Custodial fees	4	3
Other operating expenses	20	17
Total	365	327

13 — Allocation of Comprehensive Income

PSP Investments' comprehensive income is allocated to each Plan Account as follows:

13.1. Investment Income

The investment income is allocated proportionately based upon the net investments of each Plan Account at the time the income was incurred.

13.2. Expenses

The Act requires that the costs of operation of PSP Investments be charged to the Plan Accounts. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged, in consultation with the Minister of National Defence and the Minister of Public Safety and Emergency Preparedness. An allocation policy was developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, based upon the net investments of each Plan Account at the time the expense was incurred.

Operating expenses and other comprehensive income, excluding the direct cost of investment activities listed above, for the years ended March 31, were allocated in proportion to the annual amount of net investments of each Plan Account as follows:

(%)	2019	2018
Public Service Pension Plan Account	72.6	72.6
Canadian Forces Pension Plan Account	19.7	19.7
Royal Canadian Mounted Police Pension Plan Account	7.3	7.2
Reserve Force Pension Plan Account	0.4	0.5
Total	100.0	100.0

Expenses are paid by PSP Investments by way of advances from the Public Service Pension Plan Account, which are reimbursed by the other Plan Accounts on a quarterly basis.

14 — Related Party Transactions

14.1. Certain Investees

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 16 and 17, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income as those with unrelated parties.

Transactions between PSP Investments and its consolidated subsidiaries as well as related balances are eliminated upon consolidation and, therefore, are not disclosed in this note.

14.2. The Government of Canada and Government-Related Entities

Since PSP Investments is a Crown corporation as described in Note 1, it is considered to be related to the Government of Canada as well as other entities that are controlled, jointly controlled or significantly influenced by the Government of Canada (together "government-related entities").

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the funds transfers outlined in Note 9.2.

(ii) Government-Related Entities

PSP Investments may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1. Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on net assets and comprehensive income as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

14.3. Compensation of Key Management Personnel

Members of key management personnel are related parties of PSP Investments. Key management personnel are those persons having authority and responsibility for planning, directing and controlling PSP Investments' activities, directly or indirectly and consist of members of the Board of Directors, PSP Investments' senior management team and officers. Compensation earned by key management personnel allocated to the Plan Account for the years ended March 31 was recorded in the Statements of Comprehensive Income and was as follows:

(Canadian \$ millions)	2019	2018
Short-term compensation and other benefits	11	14
Long-term compensation and other benefits	6	4
Total	17	18

As disclosed in Note 16, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

15 — Capital Management

As an investment company, PSP Investments' objectives in managing its capital are:

- To invest fund transfers, outlined in Note 9.2, in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under the *Superannuation Acts* and the ability of the Plans to meet their financial obligations. The funds are also invested in accordance with the Investment Risk Management policies which are outlined in Note 7.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSP Investments has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 8.2 provides information on the capital market debt financing and Note 7.3 provides information on PSP Investments' liquidity.

The capital structure of PSP Investments consists of fund transfers and capital market debt financing. PSP Investments has no externally imposed restrictions on capital.

16 — Guarantees and Indemnities

PSP Investments provides indemnification to its Directors, its Officers, its vice-presidents and to certain PSP Investments representatives who are asked to serve on boards of directors (or like bodies) or investment advisory boards (or like bodies) of entities in which PSP Investments or its investment entity subsidiaries have made an investment or have a financial interest. As a result, but subject to the Act, PSP Investments may be required to indemnify these representatives for costs incurred, such as claims, actions or litigation in connection with the exercise of their duties, unless the liability of such a representative relates to a failure to act honestly and in good faith. To date, PSP Investments has not received any claims or made any payment for such indemnities.

In certain cases, PSP Investments also provides indemnification to third parties in the normal course of business. As a result, PSP Investments may be required to indemnify such third parties in connection with the performance of their contractual obligations. To date, PSP Investments has not received any claims nor made any payments for such indemnities.

PSP Investments unconditionally and irrevocably guarantees all credit facilities, as well as short-term promissory notes and medium-term notes issued by PSP Capital Inc., as described in Note 8.

In certain investment transactions, PSP Investments and its investment entity subsidiaries provided guarantees, indemnifications or issued letters of credit to third parties, the most significant of which are as follows:

- As at March 31, 2019 and 2018, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to \$2,602 million as at March 31, 2019 (March 31, 2018 – \$2,550 million), of which \$1,891 million has been allocated to the Plan Account (March 31, 2018 – \$1,851 million) plus applicable interest and other related costs. The arrangements mature between July 2019 and November 2029 as of March 31, 2019 (March 31, 2018 – between November 2018 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling \$54 million as at March 31, 2019 (March 31, 2018 – \$53 million), of which \$39 million has been allocated to the Plan Account (March 31, 2018 – \$38 million) in relation to investment transactions.

17 — Commitments

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at:

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Foreign equity	–	3
Real estate	1,774	1,664
Private equity	7,482	8,231
Infrastructure	1,943	2,815
Natural resources	304	332
Private debt securities	3,009	2,727
Alternative investments	1,507	1,620
Total	16,019	17,392

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2019 (March 31, 2018 – 2035).

— Canadian Forces Pension Plan Account

Financial Statements

Independent Auditors' Report

To the Minister of National Defence

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Sector Pension Investment Board – Canadian Forces Pension Plan Account (the Canadian Forces Pension Plan Account), which comprise the statements of financial position as at March 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Canadian Forces Pension Plan Account as at March 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Canadian Forces Pension Plan Account in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Canadian Forces Pension Plan Account's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the

Canadian Forces Pension Plan Account or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Canadian Forces Pension Plan Account's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Canadian Forces Pension Plan Account's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit

evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Canadian Forces Pension Plan Account's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Canadian Forces Pension Plan Account to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the Public Sector Pension Investment Board – Canadian Forces Pension Plan Account coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are the applicable provisions of Part X of the *Financial Administration Act* and

regulations, the *Public Sector Pension Investment Board Act* and regulations and the by-laws of the Public Sector Pension Investment Board and its wholly owned subsidiaries.

In our opinion, the transactions of the Public Sector Pension Investment Board – Canadian Forces Pension Plan Account that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Public Sector Pension Investment Board – Canadian Forces Pension Plan Account's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Public Sector Pension Investment Board – Canadian Forces Pension Plan Account to comply with the specified authorities.

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.



Mélanie Cabana, CPA auditor, CA
Principal
for the Interim Auditor General of Canada

Montréal, Canada
14 May 2019



Montréal, Canada
14 May 2019

¹ CPA auditor, CA, public accountancy permit No. A121444

Statements of Financial Position

As at

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Assets		
Investments (Note 4.1)	39,141	35,288
Other assets	38	36
Total assets	39,179	35,324
Liabilities		
Trade payable and other liabilities	62	54
Investment-related liabilities (Note 4.1)	3,328	2,697
Borrowings (Notes 4.1, 8.2)	2,777	2,404
Due to the Public Service Pension Plan Account	–	24
Total liabilities	6,167	5,179
Net assets	33,012	30,145
Equity (Note 9)	33,012	30,145
Total liabilities and equity	39,179	35,324

The accompanying notes are an integral part of the Financial Statements.

On behalf of the Board of Directors:



Martin Glynn
Chair of the Board



William A. Mackinnon
Chair of the Audit Committee

Statements of Comprehensive Income

For the years ended March 31

(Canadian \$ millions)	2019	2018
Investment income	2,402	2,844
Investment-related expenses (Note 11)	(114)	(88)
Net investment income	2,288	2,756
Operating expenses (Note 12)	(99)	(88)
Net income	2,189	2,668
Other comprehensive loss		
Remeasurement of the net defined benefit liability	(1)	(3)
Comprehensive income	2,188	2,665

Statements of Changes in Equity

For the years ended March 31

(Canadian \$ millions)	2019	2018
Fund transfers		
Balance at beginning of period	14,503	13,676
Fund transfers received during the period (Note 9.2)	679	827
Balance at end of period	15,182	14,503
Retained earnings		
Balance at beginning of period	15,642	12,977
Comprehensive income	2,188	2,665
Balance at end of period	17,830	15,642
Total equity	33,012	30,145

The accompanying notes are an integral part of the Financial Statements.

Statements of Cash Flows

For the years ended March 31

(Canadian \$ millions)	2019	2018
Cash flows from operating activities		
Net income	2,189	2,668
Adjustments for non-cash items:		
Depreciation of equipment (Note 12)	7	6
Effect of exchange rate changes on cash and cash equivalents	(6)	4
Unrealized losses (gains) on borrowings	37	(38)
	2,227	2,640
Net changes in operating assets and liabilities		
Increase in investments	(3,348)	(3,957)
Decrease (increase) in other assets	1	(2)
Increase in trade payable and other liabilities	7	6
Increase in investment-related liabilities	633	262
Net cash flows used in operating activities	(480)	(1,051)
Cash flow from financing activities		
Proceeds from borrowings	6,634	5,389
Repayment of borrowings	(6,301)	(5,074)
Repayment to the Public Service Pension Plan Account	(104)	(102)
Advances from the Public Service Pension Plan Account	81	105
Fund transfers received (Note 9)	679	827
Net cash flows provided by financing activities	989	1,145
Cash flow from investing activities		
Acquisitions of equipment	(9)	(9)
Net cash flows used in investing activities	(9)	(9)
Net change in cash and cash equivalents	500	85
Effect of exchange rate changes on cash and cash equivalents	7	(4)
Cash and cash equivalents at the beginning of the period	834	753
Cash and cash equivalents at the end of the period^A	1,341	834
Supplementary disclosure of cash flow information		
Interest paid	(61)	(39)

^A As at March 31, 2019, cash and cash equivalents were comprised of \$1,337 million (March 31, 2018 – \$830 million) held for investment purposes and included in Note 4.1, as well as \$4 million (March 31, 2018 – \$4 million) held for administrative purposes and included in Other assets.

The accompanying notes are an integral part of the Financial Statements.

Notes to the Financial Statements

For the years ended March 31, 2019 and 2018

1 — Corporate Information

The Public Sector Pension Investment Board (“PSP Investments”) is a Crown corporation created under the *Public Sector Pension Investment Board Act* (the “Act”) to manage and invest amounts that are transferred to it pursuant to the *Superannuation Acts* (defined below), for the funds (as defined in the Act) of the pension plans established under the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act* (“CFSA”), the *Royal Canadian Mounted Police Superannuation Act* (collectively the “*Superannuation Acts*”), and certain regulations under the CFSA (the “CFSA Regulations”). The pension plans established under the *Superannuation Acts* consist of the Public Service pension plan, the Canadian Forces pension plan (the “Plan”), and the Royal Canadian Mounted Police pension plan, and the pension plan established under the CFSA Regulations is the Reserve Force pension plan. The Plan and the other pension plans are herein referred to collectively as the “Plans”.

The fund for which amounts are currently transferred to PSP Investments by the Government of Canada (the “Fund”) relates to pension obligations under the Plan for service on or after April 1, 2000 (“Post-2000 Service”). The account managed by PSP Investments for the Fund is herein referred to as the “Plan Account”. PSP Investments maintains records of the net contributions for the Fund, as well as the allocation of its investments and the results of its operations for the Fund in the Plan Account. PSP Investments also manages a plan account for the funds of the other Plans, and these and the Plan Account are collectively referred to herein as the “Plan Accounts”.

PSP Investments is responsible for managing amounts that are transferred to it for the Fund in the best interests of the beneficiaries and contributors under the *Canadian Forces Superannuation Act*. The amounts are to be invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plan and the Plan’s ability to meet its financial obligations.

Pursuant to the *Canadian Forces Superannuation Act*, the Government of Canada, which administers the Plan and the Fund, may at any time call upon the net assets of PSP Investments allocated to the Fund’s Plan Account for amounts required for the purpose of paying benefits under the Plan in respect of Post-2000 Service, or generally, for the purpose of reducing any non-permitted surplus in the Fund.

PSP Investments and the majority of its subsidiaries are exempt from Part I tax under paragraphs 149(1)(d) and 149(1)(d.2) of the *Income Tax Act* (Canada), respectively.

PSP Investments’ registered office is located at 1 Rideau Street, Ottawa, Ontario, Canada and its principal business office is at 1250 René-Lévesque Boulevard West, Montreal, Quebec, Canada.

2 — Significant Accounting Policies

The significant accounting policies that have been applied in the preparation of these Financial Statements are summarized below and have been used throughout all periods presented.

2.1. Basis of Presentation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

PSP Investments qualifies as an investment entity as defined under IFRS 10 *Consolidated Financial Statements* and, consequently, does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. Instead, PSP Investments measures its investments in subsidiaries at fair value through profit or loss (“FVTPL”) in accordance with IFRS 9 *Financial Instruments* (“IFRS 9”), including those that are formed by PSP Investments and that qualify as investment entities (“investment entity subsidiaries”). PSP Investments also measures its investments in associates, joint ventures and financial assets and financial liabilities at FVTPL in accordance with IAS 28 *Investments in Associates and Joint Ventures* and IFRS 9.

These Financial Statements present the Plan Account’s financial position and results of operations of PSP Investments and its subsidiaries that solely provide it with services that relate to its investment activities, as allocated to the Plan Account. They reflect the economic activity of PSP Investments as it pertains to the investment of the net contributions transferred to it for the Fund in respect of Post-2000 Service. Accordingly, they do not reflect all of the assets or the details of the pension contributions, payments and liabilities under the Plan.

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 14, 2019.

2 — Significant Accounting Policies

(continued)

2.2. Investment Entity Status

PSP Investments has determined that it meets the mandatory items of the definition of an investment entity under IFRS 10 on the basis of the facts and circumstances as at the end of the period. They are as follows:

(i) Mandate and business purpose

As further described in Note 1, PSP Investments' mandate is to manage and invest the amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. Consequently, PSP Investments' business purpose is to invest with a view of achieving a maximum rate of return from capital appreciation and income from investments, without undue risk of loss.

(ii) Performance evaluation

PSP Investments measures and evaluates the performance of its investments on a fair value basis.

In addition to the mandatory items of the definition, IFRS 10 also outlines certain typical characteristics of an investment entity, the absence of any of which does not necessarily preclude an entity from qualifying as an investment entity. One of these characteristics is that an investment entity should have investors that are not related parties of the entity.

As described in Note 14, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

Should any changes occur in the facts and circumstances, PSP Investments will evaluate the impact of any such changes on its investment entity status.

2.3. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below.

2.3.1. Financial Instruments

(i) Classification

Financial assets representing investments are managed, together with related financial liabilities, according to the entity's business model to maximize the rate of return. The performance of such financial instruments is evaluated on a fair value basis and they are classified at FVTPL. They are described in detail in Note 4.1.

Borrowings, as described under Note 8, are financial liabilities that are designated to be measured at FVTPL since they are part of the portfolios of investments that are managed together and whose performance is evaluated on a fair value basis.

(ii) Recognition

Financial assets and financial liabilities are recorded at the date upon which PSP Investments becomes a party to the associated contractual provisions. In the case of traded financial assets, they are recorded as of the trade date.

(iii) Initial and subsequent measurement

All financial assets and financial liabilities are recorded in the Statements of Financial Position at fair value and continue to be measured as such on a recurring basis. After initial measurement, subsequent changes in the fair value of financial assets and financial liabilities classified at FVTPL are recorded in the Statements of Comprehensive Income.

If fair value changes in financial liabilities designated to be measured at FVTPL result from fluctuations in PSP Investments' own credit risk, they are recorded in other comprehensive income. All other changes in fair value are recorded in investment income.

(iv) Derecognition

A financial asset (or, where applicable, a part thereof) is derecognized when the following conditions are met:

- The rights to receive cash flows from the asset have expired, or
- PSP Investments has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows to a third party,

and

- PSP Investments has transferred substantially all the risks and rewards of the asset, or
- In cases where PSP Investments has neither transferred nor retained substantially all the risks and rewards of the asset, it has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

2 — Significant Accounting Policies

(continued)

2.3. Summary of Significant Accounting Policies

(continued)

2.3.2. Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At initial recognition, PSP Investments evaluates the facts and circumstances related to a transaction to confirm that the transaction price represents the fair value of an asset or a liability. At each subsequent reporting date, market prices are used to determine fair value where an active market exists (such as a recognized securities exchange), as they reflect actual and regularly occurring market transactions on an arm's length basis. If quoted market prices are not available, then fair value is estimated using valuation techniques based on inputs existing at the end of the reporting period that are derived from observable market data.

Valuation techniques are generally applied to investments in private markets, alternative investments, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 4.

2.3.3. Functional and Presentation Currency

The functional and presentation currency of PSP Investments and its consolidated subsidiaries is the Canadian dollar, which is the currency of the primary economic environment in which each entity within the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars.

2.3.4. Foreign Currency Translation

Foreign currency transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities that are denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the end of the reporting period.

Foreign currency transaction gains and losses on all monetary assets and liabilities are included in investment income.

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or pledged as collateral, or recognize securities borrowed or received as collateral. Cash collateral received is recognized as described in Note 4.1.9.

The securities lending and borrowing programs require collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standard securities lending and borrowing programs. PSP Investments and its counterparties are authorized to sell, repledge or otherwise use collateral held. The same securities or equivalent securities must be returned to the counterparty at the end of the contract, unless an event of default occurs.

2.3.6. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements and Related Collateral

PSP Investments is party to repurchase and reverse repurchase agreements. Such agreements involve the sale of securities by one counterparty with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Securities sold or purchased under the repurchase and reverse repurchase agreements respectively, including related collateral, are not derecognized or recognized as all risks and rewards of ownership related to such securities are not transferred. As such, in the case where PSP Investments is the counterparty selling securities under such agreements, all income (loss) related to such securities continues to be reported in investment income and obligations to repurchase the securities sold are accounted for as investment-related liabilities. The difference between the fair value of the securities sold and the repurchase price is recorded as interest expense within investment-related expenses. In the case where PSP Investments is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income.

Transactions under repurchase and reverse repurchase agreements involve pledging collateral consisting of cash or securities deemed acceptable by the counterparties. Collateral transactions are conducted under terms that are usual and customary in standard repurchase arrangements. Such terms require the relevant counterparty to pledge additional collateral based on the changes in the fair value of the existing collateral pledged as well as the related securities sold or purchased. The counterparties are authorized to sell, repledge or otherwise use collateral held. The securities pledged as collateral must be returned to the relevant counterparty at the end of the contract, unless an event of default occurs.

2 — Significant Accounting Policies

(continued)

2.3. Summary of Significant Accounting Policies

(continued)

2.3.7. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset with the net amount reported in the Statements of Financial Position only if PSP Investments has a current legally enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.3.8. Equity

The statutory rights of the Government of Canada pursuant to the *Superannuation Acts* are described under Note 1 and are classified as equity instruments on the following basis:

- Under such rights the Government of Canada is entitled to PSP Investments' net assets at any time for the purposes set out in the *Superannuation Acts*. Such rights do not contain any additional obligations for PSP Investments to deliver amounts to the Government of Canada.
- Such rights are the most subordinate claim on PSP Investments' net assets.
- The total expected cash flows attributable to such rights, at any time, is solely based on the fair value of the net assets of PSP Investments at that time. Further, the fair value of the net assets of PSP Investments in its entirety represents the amounts that the Government of Canada may call upon at any time.

2.3.9. Investment Income

Investment income is made up of interest, dividends, gains (losses) on the disposal of financial assets and financial liabilities as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of financial assets held and financial liabilities outstanding at the end of the reporting period. Interest is recognized, on a consistent basis, using the prescribed rates until maturity. Dividends are recognized when the right to receive them has been obtained, generally on the ex-dividend date.

2.3.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, as described in Note 4.1.7, transaction costs, external investment management fees and other (net).

Transaction costs are incremental costs directly attributable to the acquisition, due diligence, issue, or disposal of a financial asset or financial liability, and they are expensed as incurred.

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets as outlined in Note 11.

2.3.11. Fund Transfers

Amounts are recorded for the Fund when received from the Government of Canada.

2.4. Significant Accounting Judgments, Estimates and Assumptions

In preparing the Financial Statements, management makes certain judgments, estimates and assumptions that can affect the amounts reported therein. Significant judgments include those related to the determination of the investment entity status as described in Note 2.2.

Management also makes estimates and assumptions in the measurement, risk assessment and related disclosures surrounding investments in private markets and certain fixed income securities. The main assumptions made by management regarding measurement of financial instruments are outlined in Note 4.2.3 and those regarding the assessment of risk are outlined in Note 7.

Although estimates and assumptions reflect management's best judgment, actual results may differ from such estimates due to the uncertainties involved in using them.

3 — Current and Future Changes in Accounting Standards

3.1. Current Accounting Standards

IAS 28 Investment in Associates and Joint Ventures

IAS 28 was amended, effective for annual periods beginning on or after January 1, 2018, to add a clarification that serves to elaborate and clarify that the election to measure investees at fair value is available on an investment by investment basis and is not an election that must be applied consistently to the measurement of all associates and joint ventures. PSP Investments has applied the amendments as of April 1, 2018 and there was no impact on its Consolidated Financial Statements.

IFRS 9 Financial Instruments

In 2014, the IASB completed its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9. The Standard includes requirements for recognition, derecognition, classification and measurement of financial assets and liabilities, as well as impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. PSP Investments early adopted IFRS 9 (2014) in its *Consolidated Financial Statements* for the year ended March 31, 2016.

Significant accounting policies as they relate to recognition, derecognition, classification and measurement of financial assets and liabilities in connection with IFRS 9 are described under Note 2.3.1. There is no impact from the requirements relating to impairment and hedge accounting.

3.2. Future Accounting Standards

PSP Investments has determined that there is no material impact on its Consolidated Financial Statements arising from new standards, amendments and interpretations that have been issued by the IASB, but that are not yet effective.

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are aggregated, in the following table, in classes that reflect their respective exposure as well as investment sectors. Their fair values were as follows, as at:

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Public markets		
Canadian equity	668	841
Foreign equity	6,377	6,833
Private markets		
Real estate	5,535	5,263
Private equity	3,979	3,207
Infrastructure	3,953	3,518
Natural resources	1,477	1,053
Fixed income		
Cash and money market securities	2,340	2,243
Government and corporate bonds	5,162	4,459
Inflation-linked bonds	2,757	2,437
Private debt securities	3,077	2,785
Alternative investments	1,975	1,725
	37,300	34,364
Investment-related assets		
Amounts receivable from pending trades	231	220
Interest receivable	98	83
Dividends receivable	28	26
Securities purchased under reverse repurchase agreements	1,174	368
Derivative-related assets	310	227
	1,841	924
Investments representing financial assets at FVTPL	39,141	35,288
Investment-related liabilities		
Amounts payable from pending trades	(188)	(230)
Interest payable	(14)	(11)
Securities sold short	(1,238)	(1,296)
Collateral payable	(592)	(705)
Securities sold under repurchase agreements	(1,107)	(113)
Derivative-related liabilities	(189)	(342)
Investment-related liabilities representing financial liabilities at FVTPL	(3,328)	(2,697)
Borrowings		
Capital market debt financing	(2,777)	(2,404)
Borrowings representing financial liabilities designated at FVTPL	(2,777)	(2,404)
Net investments	33,036	30,187

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.1. Public Markets

Public markets consist of Canadian and foreign investments in the following securities: common shares, American depository receipts, global depository receipts, participation notes, preferred shares, income trust units, exchange-traded funds units, pooled funds units, and securities convertible into common shares of publicly listed issuers.

Direct investments in Canadian and foreign equities are measured at fair value using quoted prices in active markets and are based on the most representative price within the bid-ask spread.

In the case of investments in pooled funds, fair value is measured using unit values obtained from each of the funds' administrators, which are derived from the fair value of the underlying investments in each pooled fund. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and natural resources.

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financing.

Private equity investments are comprised of fund investments with similar objectives, co-investments in private entities as well as direct equity positions.

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing.

Natural resources investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas. Natural resources investments are presented net of all third-party financing.

The process for fair value measurement of private markets investments is described in Note 4.2.2 and the valuation techniques together with the significant inputs used are described in Note 4.2.3.

4.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and private debt securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Statements of Cash Flows and amounted to \$1,337 million as at March 31, 2019 (March 31, 2018 – \$830 million). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds, floating rate notes, asset-backed term notes and mortgage-backed securities. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

Private debt securities are fixed income securities of private companies held directly or through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt and primary and secondary investments in leveraged loans. Private debt securities also include third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products in the real estate sector.

Fair values of government and most corporate bonds, inflation-linked bonds and mortgage-backed securities are based on prices obtained from third-party pricing sources. Such prices are determined using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

The fair values of certain corporate bonds, private debt securities and asset-backed term notes are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

The fair value measurement of fund investments included as part of private debt securities is described in Note 4.2.2.

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.4. Alternative Investments

Alternative investments consist mainly of units of funds that hold a mix of equity, fixed income and derivative instruments as well as hedge funds. The fair value of these investments is determined based on the fair values reported by the funds' administrators or general partners and reflects the fair value of the underlying equity, fixed income or derivative instruments, as applicable. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.5. Amounts Receivable and Payable from Pending Trades

Amounts receivable from pending trades consist of proceeds on sales of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

Amounts payable from pending trades consist of the cost of purchases of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

The fair value of amounts receivable and payable from pending trades reflects the value at which their underlying original sale or purchase transactions were undertaken.

4.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which due to their short-term maturity, approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.11, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

4.1.8. Securities Sold Short

Securities sold short reflect PSP Investments' obligation to purchase securities pursuant to short selling transactions. In such transactions, PSP Investments sells securities it does not own with an obligation to purchase similar securities on the market to cover its position.

Using quoted market prices that are based on the most representative price within the bid-ask spread, the fair value of securities sold short is measured using the same method as the similar long positions presented within public markets and fixed income.

4.1.9. Collateral Payable

As part of securities lending and certain OTC derivative transactions, cash collateral is received and reinvested by PSP Investments. PSP Investments recognizes cash collateral received with a corresponding payable. The payable balance reflects the obligation of the transferee to return cash collateral to the transferor at the end of the transaction in the absence of an event of default by the transferor.

4.1.10. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements

As described in Note 2.3.6, PSP Investments is party to repurchase and reverse repurchase agreements. Obligations to repurchase or resell the securities sold or purchased under such agreements are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value.

4.1.11. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 8.2. Short-term promissory notes are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.12. Derivative-Related Assets and Liabilities

Derivative financial instruments are financial contracts that are settled at a future date. The value of such instruments is derived from changes in the value of the underlying assets, interest or exchange rates. Derivative financial instruments do not, typically, require an initial net investment. In certain cases, they require an initial net investment that is less than what would be required to hold the underlying position directly. Derivative financial instruments can be listed or traded OTC. OTC instruments consist of those that are bilaterally negotiated and settled, and those that are cleared (OTC-cleared) by a central clearing party (CCP).

PSP Investments uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

PSP Investments uses the following types of derivative financial instruments:

Swaps

Swaps are transactions whereby two counterparties exchange cash flow streams with each other based on predetermined conditions that include a notional amount and a term. Swaps are used to increase returns or to adjust exposures of certain assets without directly purchasing or selling the underlying assets.

Futures

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a predefined price and predefined future date. Futures are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Forwards

Forwards are contracts involving the sale by one party and the purchase by another party of a predefined amount of an underlying instrument, at a predefined price and at a predefined date in the future. Forwards are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Options

Options are contracts where the seller gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index, commodity, currency, interest rate, credit or other financial instrument, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

Warrants are options to purchase an underlying asset which is in the form of a transferable security and which can be listed on an exchange or traded OTC.

Rights are securities giving shareholders entitlement to purchase new shares issued by a corporation at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

Determination of Fair Value of Derivative Financial Instruments

Listed derivative financial instruments are recorded at fair value using quoted market prices that are based on the most representative price within the bid-ask spread. OTC-cleared derivatives are recorded at fair value using prices obtained from the CCP. OTC derivatives are valued using appropriate valuation techniques such as discounted cash flows. These techniques use significant inputs that are observable in the market such as current market yields.

Notional Values and Fair Values of Derivative-Related Assets and Liabilities

Notional values of derivative financial instruments are not recorded as assets or liabilities as they represent the face amount of the contract. Except for credit derivatives, notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions disclosed below. Rather, they serve as the basis upon which the cash flows and the fair value of the contracts are determined.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

(Canadian \$ millions)	March 31, 2019			March 31, 2018		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	684	—	—	748	—	—
Warrants and rights	—	—	—	1	1	—
Options: Purchased	1,008	34	—	2,088	50	—
Written	907	—	(16)	1,423	—	(28)
OTC						
Swaps	5,145	126	(37)	5,280	29	(128)
Options: Purchased	132	4	—	301	9	—
Written	106	—	(6)	168	—	(6)
Currency derivatives						
Listed						
Futures	59	—	—	24	—	—
OTC						
Forwards	3,909	23	(10)	5,472	39	(83)
Swaps	1,296	4	(7)	591	—	(11)
Options: Purchased	1,266	10	—	1,633	11	—
Written	1,159	—	(10)	1,676	—	(10)
Interest rate derivatives						
Listed						
Futures	2,193	—	—	2,879	—	—
Options: Purchased	9,422	7	—	9,765	4	—
Written	8,637	—	(5)	8,447	—	(3)
OTC						
Forwards	117	2	(3)	—	—	—
Swaps	5,027	48	(52)	2,878	34	(29)
Options: Purchased	10,629	52	—	9,840	49	—
Written	10,059	—	(41)	10,295	—	(41)
OTC-cleared						
Swaps	10,971	—	—	12,851	—	—
Credit derivatives						
OTC						
Credit default swaps: Purchased	131	—	(2)	245	—	(3)
Written ^A	17	—	—	46	—	—
Options: Purchased	—	—	—	127	1	—
OTC-cleared						
Credit default swaps: Purchased	162	—	—	245	—	—
Written ^A	—	—	—	119	—	—
Total		310	(189)		227	(342)

^A PSP Investments, through written credit default swaps, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the written credit default swaps as shown in the table above.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

(Canadian \$ millions)	March 31, 2019			March 31, 2018		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Listed derivatives	22,910	41	(21)	25,375	55	(31)
OTC derivatives	38,993	269	(168)	38,552	172	(311)
OTC-cleared derivatives	11,133	—	—	13,215	—	—
Total		310	(189)		227	(342)

The terms to maturity based on notional value for the derivatives were as follows as at:

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Less than 3 months	18,552	24,840
3 to 12 months	31,977	23,654
Over 1 year	22,507	28,648

4.2. Fair Value Hierarchy

4.2.1. Classification

Financial assets and financial liabilities described under Note 4.1 are classified within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
 - (i) Quoted prices for similar assets or liabilities in active markets.
 - (ii) Quoted prices for identical or similar assets or liabilities in markets that are not active.
 - (iii) Inputs other than quoted prices that are observable for the asset or liability.
 - (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

The classification within the levels of the hierarchy is established at the time of the initial determination of fair value of the asset or liability and reviewed at the end of each reporting period. PSP Investments determines whether a transfer between levels has occurred and recognizes such transfer at the beginning of the reporting period.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2019 classified within the fair value hierarchy:

(Canadian \$ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	486	170	12	668
Foreign equity	5,618	429	330	6,377
Private markets				
Real estate	—	—	5,535	5,535
Private equity	—	—	3,979	3,979
Infrastructure	—	—	3,953	3,953
Natural resources	—	—	1,477	1,477
Fixed income				
Cash and money market securities	—	2,340	—	2,340
Government and corporate bonds	—	5,155	7	5,162
Inflation-linked bonds	—	2,757	—	2,757
Private debt securities	—	—	3,077	3,077
Alternative investments	—	418	1,557	1,975
	6,104	11,269	19,927	37,300
Investment-related assets				
Amounts receivable from pending trades	—	231	—	231
Interest receivable	—	98	—	98
Dividends receivable	—	28	—	28
Securities purchased under reverse repurchase agreements	—	1,174	—	1,174
Derivative-related assets	26	284	—	310
	26	1,815	—	1,841
Investments representing financial assets at FVTPL	6,130	13,084	19,927	39,141
Investment-related liabilities				
Amounts payable from pending trades	—	(188)	—	(188)
Interest payable	—	(14)	—	(14)
Securities sold short	(770)	(468)	—	(1,238)
Collateral payable	—	(592)	—	(592)
Securities sold under repurchase agreements	—	(1,107)	—	(1,107)
Derivative-related liabilities	(21)	(168)	—	(189)
Investment-related liabilities representing financial liabilities at FVTPL	(791)	(2,537)	—	(3,328)
Borrowings				
Capital market debt financing	—	(2,777)	—	(2,777)
Borrowings representing financial liabilities designated at FVTPL	—	(2,777)	—	(2,777)
Net investments	5,339	7,770	19,927	33,036

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2018 classified within the fair value hierarchy:

(Canadian \$ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	671	170	–	841
Foreign equity	5,823	636	374	6,833
Private markets				
Real estate	–	–	5,263	5,263
Private equity	–	–	3,207	3,207
Infrastructure	–	–	3,518	3,518
Natural resources	–	–	1,053	1,053
Fixed income				
Cash and money market securities	–	2,243	–	2,243
Government and corporate bonds	–	4,425	34	4,459
Inflation-linked bonds	–	2,437	–	2,437
Private debt securities	–	–	2,785	2,785
Alternative investments	–	329	1,396	1,725
	6,494	10,240	17,630	34,364
Investment-related assets				
Amounts receivable from pending trades	–	220	–	220
Interest receivable	–	83	–	83
Dividends receivable	–	26	–	26
Securities purchased under reverse repurchase agreements	–	368	–	368
Derivative-related assets	40	187	–	227
	40	884	–	924
Investments representing financial assets at FVTPL	6,534	11,124	17,630	35,288
Investment-related liabilities				
Amounts payable from pending trades	–	(230)	–	(230)
Interest payable	–	(11)	–	(11)
Securities sold short	(1,000)	(296)	–	(1,296)
Collateral payable	–	(705)	–	(705)
Securities sold under repurchase agreements	–	(113)	–	(113)
Derivative-related liabilities	(31)	(311)	–	(342)
Investment-related liabilities representing financial liabilities at FVTPL	(1,031)	(1,666)	–	(2,697)
Borrowings				
Capital market debt financing	–	(2,404)	–	(2,404)
Borrowings representing financial liabilities designated at FVTPL	–	(2,404)	–	(2,404)
Net investments	5,503	7,054	17,630	30,187

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2019.

During the year ended March 31, 2018, listed equity securities with a fair value of \$9 million, classified as Level 2 as at March 31, 2017 were transferred to Level 1 as a result of trading restrictions having expired.

4 — Financial Assets and Financial Liabilities

(continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

The valuation process is monitored and governed by an internal valuation committee ("VC"). This committee is responsible for overseeing all aspects of fair value determination. This includes establishing valuation methodologies and procedures for each type of investment and ensuring they are complied with. Valuation methodologies established are based on widely recognized practices that are consistent with professional appraisal standards. Such standards include, among others, the *International Private Equity and Venture Capital Valuation Guidelines*, the *Canadian Uniform Standards of Professional Appraisal Practice* and the *Uniform Standards of Professional Appraisal Practice* in the United States of America.

The fair value of investments classified as Level 3 is determined at least annually. Quarterly, the fair value is reviewed and adjusted, as appropriate, to reflect the impact of any significant market or investment-specific events or circumstances. For each investment, the relevant valuation methodology is applied consistently over time as appropriate in the prevailing circumstances. The appropriateness of significant changes in valuation methodologies is reviewed by the VC.

In cases where the services of third-party appraisers are used, management ensures their independence and that valuation methods used are consistent with professional appraisal standards outlined above. In validating the work performed by appraisers, management ensures that the assumptions used correspond to financial information and forecasts of the underlying investment.

With respect to fund investments classified as Level 3, the annual fair value is generally determined based on audited financial statements received from the fund's general partner. In certain cases fair value is obtained from information provided by the fund's administrators and is reviewed by Management to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2019:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian \$ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	12	Net asset value method (NAV) ^A	N/A	N/A
Foreign equity	Direct investments	330	NAV ^A	N/A	N/A
Private markets					
Real estate	Direct and co-investments	5,174	Discounted cash flow (DCF)	Discount rate ^{B, C}	4.10% – 20.00% (7.55%)
				Terminal capitalization rate ^{B, C}	4.25% – 10.25% (5.92%)
			Direct capitalization	Capitalization rate ^{B, D}	2.50% – 8.98% (5.57%)
				Stabilized occupancy rate ^{D, E}	93.00% – 100.00% (98.22%)
			Sales comparison approach	Price per square foot ^{D, E}	\$0.95 – \$2,057.93 (\$281.99)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	361	NAV ^A	N/A	N/A
Other private markets	Direct and co-investments	6,646	DCF	Discount rate ^B	6.00% – 12.50% (8.79%)
			Market comparables	N/A	N/A
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	2,763	NAV ^A	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	6	DCF	Discount rate ^B	52.50%
	Asset-backed term notes	1	Third-party pricing ^A	N/A	N/A
Private debt securities	Direct and co-investments	2,124	DCF	Discount rate ^B	5.54% – 18.76% (9.77%)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	953	NAV ^A	N/A	N/A
Alternative investments	Fund investments	1,557	NAV ^A	N/A	N/A
Total		19,927			

^A In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

^B An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

^C An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

^D There is no predictable direct relationship between this input and any other significant unobservable input.

^E An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2018:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian \$ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets Foreign equity	Direct investments	374	Net asset value method (NAV) ^A	N/A	N/A
Private markets Real estate	Direct and co-investments	4,939	Discounted cash flow (DCF)	Discount rate ^{B, C}	5.00% – 22.10% (7.94%)
				Terminal capitalization rate ^{B, C}	4.25% – 9.75% (5.92%)
			Direct capitalization	Capitalization rate ^{B, D}	2.75% – 9.09% (5.30%)
				Stabilized occupancy rate ^{D, E}	94.00% – 100.00% (98.29%)
			Sales comparison approach	Price per square foot ^{D, E}	\$27.50 – \$1,107.92 (\$90.83)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
Other private markets	Fund investments	324	NAV ^A	N/A	N/A
	Direct and co-investments	5,367	DCF	Discount rate ^B	6.00% – 12.70% (8.94%)
			Market comparables	N/A	N/A
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	2,411	NAV ^A	N/A	N/A
Fixed income Corporate bonds	Convertible bonds	32	DCF	Discount rate ^B	4.70% – 10.00% (7.40%)
	Asset-backed term notes	2	Third-party pricing ^A	N/A	N/A
Private debt securities	Direct and co-investments	2,003	DCF	Discount rate ^B	5.90% – 17.25% (9.79%)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	782	NAV ^A	N/A	N/A
Alternative investments	Fund investments	1,396	NAV ^A	N/A	N/A
Total		17,630			

^A In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

^B An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

^C An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

^D There is no predictable direct relationship between this input and any other significant unobservable input.

^E An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2019:

(Canadian \$ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses) ^A	Transfer out of Level 3	Closing Balance
Public markets	374	109	(133)	–	85	(93)	–	342
Private markets	13,041	2,927	(1,864)	–	373	484	(17)	14,944
Fixed income	2,819	1,137	(886)	(12)	30	(4)	–	3,084
Alternative investments	1,396	173	(108)	–	9	87	–	1,557
Derivative-related receivables/payables (net)	–	–	–	–	–	–	–	–
Total	17,630	4,346	(2,991)	(12)	497	474	(17)	19,927

^A Includes Plan Account allocation adjustments.

As at March 31, 2018, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2019, the investment was transferred to Level 1 as the related securities became publicly traded.

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2018:

(Canadian \$ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains ^A	Transfer out of Level 3	Closing Balance
Public markets	58	129	(11)	–	1	197	–	374
Private markets	10,907	1,940	(886)	–	221	862	(3)	13,041
Fixed income	1,855	1,543	(632)	(5)	42	16	–	2,819
Alternative investments	1,277	263	(184)	–	16	24	–	1,396
Derivative-related receivables/payables (net)	–	3	–	(3)	–	–	–	–
Total	14,097	3,878	(1,713)	(8)	280	1,099	(3)	17,630

^A Includes Plan Account allocation adjustments.

As at March 31, 2017, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2018, the investment was transferred to Level 2 as the related securities became publicly traded. The securities held by PSP Investments are unregistered and can only be sold upon their registration.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2019 (March 31, 2018 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 2.3.5, 2.3.6 and 7.2.1. The following table illustrates the fair values of the Plan Account's allocated collateral, as well as the securities under the lending and borrowing programs and the securities under the repurchase and reverse repurchase agreements, as at:

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Securities lending and borrowing		
Securities lent	1,571	2,278
Collateral held ^A	1,655	2,424
Securities borrowed	772	1,007
Collateral pledged ^B	794	1,042
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	1,114	115
Collateral pledged	1,111	115
Securities purchased under reverse repurchase agreements	1,180	371
Collateral held ^C	1,178	370
Derivative contracts		
Collateral pledged	180	351
Collateral held ^D	109	1

^A The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to \$586 million for the Plan Account as at March 31, 2019 (March 31, 2018 – \$691 million) and securities amounted to \$1,069 million as at March 31, 2019 (March 31, 2018 – \$1,733 million). All cash collateral is reinvested.

^B The minimum fair value of collateral required is equal to 100% of the fair value of the securities borrowed.

^C The collateral received is in the form of securities of which \$468 million has been used in connection with short selling transactions as at March 31, 2019 (March 31, 2018 – \$297 million) and \$3 million has been used in connection with securities sold under repurchase agreements (March 31, 2018 – nil).

^D As part of collateral held, cash amounted to \$1 million as at March 31, 2019 (March 31, 2018 – \$1 million) and securities amounted to \$108 million as at March 31, 2019 (March 31, 2018 – \$134 thousand). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

As an investment entity, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. PSP Investments measures its investments in its subsidiaries, joint ventures and associates at FVTPL as described in Note 2.1.

For purposes of preparing this note, management assesses control, joint control and significant influence as follows:

(i) *Control and significant influence*

PSP Investments determines that it has control over an investee when it is exposed, or has rights, to variable returns from its investment in an entity and has the ability to affect those returns through its power over the investee.

In certain cases, PSP Investments does not have control over an investee but has the power to participate in the financial and operating policy decisions of the investee. In such cases, PSP Investments determines that it has significant influence over the investee.

In the context of control or significant influence, power over an investee is obtained through voting rights conveyed by PSP Investments' ownership interest, other contractual arrangements, or a combination thereof.

(ii) *Joint control*

PSP Investments determines that it is party to a joint venture arrangement when it has joint control over an investee and has rights to the net assets of the investee. Joint control is established through a contractual arrangement which requires the unanimous consent of the parties sharing control for the activities that significantly affect the returns of the arrangement.

Generally, decision making regarding such activities is governed through voting rights conveyed by the ownership interest of each party. In certain cases, it is governed solely through contractual arrangements or in conjunction with the ownership interest of each party.

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2019, 108 investment entity subsidiaries were incorporated in North America, 17 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2018 – 103 in North America, 23 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 81 investees directly or through its investment entity subsidiaries as at March 31, 2019 (March 31, 2018 – 80 investees).

The following tables present, in descending order, the most significant investees held directly or indirectly by PSP Investments where it has control, joint control or significant influence.

Entity's Name	March 31, 2019		
	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
AviAlliance GmbH	Europe	100	Controlled investee
Revera Inc.	North America	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Forth Ports Limited	Europe	51	Jointly controlled investee
TDF S.A.S.	Europe	22	Associate
Roccapina Fund, L.P.	North America	100	Controlled investee
Big Box Properties	North America	49	Jointly controlled investee

Entity's Name	March 31, 2018		
	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
Revera Inc.	North America	100	Controlled investee
AviAlliance GmbH	Europe	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
Roccapina Fund, L.P.	North America	100	Controlled investee
TDF S.A.S.	Europe	22	Associate
Cubico Sustainable Investments Limited	Global	50	Jointly controlled investee
Big Box Properties	North America	49	Jointly controlled investee

In addition to the above, PSP Investments consolidates wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services consist of investment management and financing of private market investments within the context of PSP Investments' capital market debt program described in Note 8.2.

6.2. Structured Entities

PSP Investments holds interests in partnerships and funds mainly in the context of its investments in private markets. Given their nature, such entities commonly have the characteristics of a structured entity as defined by IFRS. These entities are held as investments and do not expose PSP Investments to additional risks or returns compared to interests held in non-structured entities.

Information regarding structured entities is included, as applicable, within disclosures of investment risk management under Note 7, guarantees and indemnities under Note 16 and commitments under Note 17.

7 — Investment Risk Management

PSP Investments is required to act in the best interests of the contributors and beneficiaries under the Plans and for maximizing returns without undue risk of loss. In pursuit of this objective, PSP Investments established an Enterprise Risk Management Policy (ERM Policy). The ERM Policy provides a framework for identifying, evaluating, managing, mitigating, monitoring and reporting the investment and non-investment risks to which PSP Investments is exposed.

As part of the overall ERM policy, the objective of the Investment Risk Management Policy (IRM Policy) is to support the management of risk inherent to the investment decision making process. The IRM Policy outlines a framework detailing how investment activities should comply with PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite. The IRM Policy also supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), whose objective is to effectively manage investment risks related to the implementation of PSP Investments' various investment strategies. Investment risks include market, credit and liquidity risks.

7.1. Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of an adverse financial outcome due to changes in the factors that drive that value, such as changes in market prices, changes caused by factors specific to the individual investment, volatility in share and commodity prices, interest rate, foreign exchange or other factors affecting similar securities traded in the market.

7.1.1. Measurement of Market Risk

The absolute annualized volatility of the total portfolio is used as the primary measure of market risk. The absolute volatility is a statistical measure of the size of changes in investment returns of a given investment or portfolio of investments. It is used to illustrate the potential loss of value in an investment or portfolio of investments as a result of fluctuations in market prices.

PSP Investments uses seven years' worth of market returns scaled to a twelve-month holding period to calculate the absolute volatility. For investments that are not actively traded, the calculation of the absolute volatility uses securities with similar risk attributes as a proxy.

The absolute volatility is statistically valid under normal market conditions and does not specifically consider losses from severe market events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

The following table shows the absolute volatility of the total portfolio expressed as a percentage of net investments as at the end of the period:

	March 31, 2019 (%)	March 31, 2018 (%)
Absolute volatility	7.3	7.2

Stress Testing

Although the absolute volatility is a widely accepted risk measure, it is complemented by other risk measurement methodologies that provide greater insight on market risk. PSP Investments uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of PSP Investments' net asset values. The terms to maturity of the classes of financial instruments, outlined in Note 4.1, with the most significant exposure to interest rate risk were as follows as at:

	March 31, 2019					
(Canadian \$ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	2,340 ^A	2,340
Government and corporate bonds	234	2,383	1,184	961	400 ^B	5,162
Inflation-linked bonds	–	450	1,540	767	–	2,757
Private debt securities	17	501	1,182	410	967 ^C	3,077
Total fixed income	251	3,334	3,906	2,138	3,707	13,336

	March 31, 2018					
(Canadian \$ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	2,243 ^A	2,243
Government and corporate bonds	689	1,632	1,029	676	433 ^B	4,459
Inflation-linked bonds	–	809	870	758	–	2,437
Private debt securities	1	281	1,379	304	820 ^C	2,785
Total fixed income	690	2,722	3,278	1,738	3,496	11,924

^A Due to their short-term maturity, these investments are not significantly exposed to interest rate risk.

^B Certain fixed income securities are not significantly exposed to interest rate risk as their prescribed rates are variable.

^C Information in connection with the terms to maturity of fund and certain directly held investments included as part of private debt securities is not available.

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounted to \$21,989 million as at March 31, 2019 (\$20,715 million as at March 31, 2018) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in 4.1.4, which amounted to \$1,975 million as at March 31, 2019 (\$1,725 million as at March 31, 2018), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the absolute volatility calculation described in Note 7.1.1.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 8.2.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through holding of investments (i.e. direct and indirect holdings of securities, units in pooled funds and units in limited partnerships) or investment-related liabilities in various currencies. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

Currency	March 31, 2019		March 31, 2018	
	Fair Value (Canadian \$ millions)	% of Total	Fair Value (Canadian \$ millions)	% of Total
US Dollar	17,145	63.6	16,242	68.4
Euro	4,017	14.9	2,406	10.1
British Pound	1,557	5.8	582	2.5
Australian Dollar	593	2.2	520	2.2
Japanese Yen	546	2.0	701	3.0
Hong Kong Dollar	508	1.9	473	2.0
Mexican Peso	474	1.8	386	1.6
Brazilian Real	315	1.2	425	1.8
Indian Rupee	314	1.2	272	1.1
South Korean Won	260	1.0	515	2.2
Swiss Franc	181	0.7	157	0.7
New Taiwan Dollar	180	0.7	203	0.9
Others	845	3.0	856	3.5
Total	26,935	100.0	23,738	100.0

As at March 31, 2019, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of \$4,249 million for the Plan Account (US\$2,686 million, €390 million, £21 million, 4 million South African rands, 1 million Brazilian reals, 2,665 million Colombian pesos, 522 million Mexican pesos and 3 million Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2018, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of \$4,609 million for the Plan Account (US\$2,892 million, €501 million, £36 million, 4 million South African rands, 2,672 million Colombian pesos and 284 million Mexican pesos) which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities purchased under reverse repurchase agreements, is unable to meet its financial obligations.

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation for public issuers and counterparties, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings. For private issuers, PSP Investments assigns internal credit ratings to issuers and measures the combined risk profile against set targets. To assign risk ratings to issuers, PSP Investments uses methodologies comparable to those used by recognized rating agencies.

As at March 31, 2019, the Plan Account's maximum exposure to credit risk amounted to \$14 billion (March 31, 2018 – \$12 billion). This amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating for credit-sensitive securities. The concentration of credit risk by credit rating was as follows as at:

Credit Rating	March 31, 2019 (%)	March 31, 2018 (%)
AAA-AA	48.4	51.2
A	23.6	20.9
BBB	2.3	2.5
BB or below	25.1	24.4
No rating ^A	0.6	1.0
Total	100.0	100.0

^A Includes securities for public issuers and counterparties, that are either not rated by credit rating agencies or rated by a single credit rating agency.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts, securities lending and borrowing as well as securities repurchase and reverse repurchase agreements. In order to minimize counterparty risk, PSP Investments requires that counterparties provide adequate collateral and meet its credit rating requirements. PSP Investments frequently monitors the credit rating of its counterparties as determined by recognized credit rating agencies. With respect to derivative contracts, PSP Investments has the ability to terminate all trades with most counterparties whose credit rating is downgraded below its requirements.

For OTC derivatives, PSP Investments' policy also requires the use of the International Swaps and Derivative Association (ISDA) Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted. In the case of OTC-cleared derivatives, trading activities are regulated between parties under terms that are customary to such transactions.

As a credit mitigation technique, the ISDA Master Agreement contractually binds counterparties to close-out netting provisions in the case of default by one of the counterparties. Additionally, the Credit Support Annex (CSA) to the ISDA Master Agreement enables PSP Investments to realize any collateral placed with it in the case of default of the counterparty. The CSA also requires PSP Investments to contribute further collateral when requested. All collateral transactions under the CSA are in cash, high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. Counterparties are generally authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held in the form of securities but does reinvest all cash collateral, with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing agreements as well as securities repurchase and reverse repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 2.3.5 and 2.3.6 describe collateral requirements in securities lending and borrowing programs as well as securities repurchase and reverse repurchase agreements.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 5.

In the case of the securities lending program, PSP Investments' exposure to counterparty risk is further mitigated as the custodian of the securities lent assumes the risk that a counterparty will be unable to meet its obligations associated with the collateral requirements.

Management is responsible for counterparty risk monitoring and mitigation as well as maintaining a comprehensive, disciplined, and enterprise-wide process for tracking and managing counterparty risk. As such, management measures counterparty risk on an ongoing basis, evaluates and tracks the creditworthiness of current counterparties and mitigates counterparty risk through collateral management.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Statements of Financial Position. Securities repurchase and reverse repurchase agreements described in Notes 2.3.6 and 5 are subject to similar arrangements however they are not offset as the conditions for offsetting are not met.

The following tables present the financial assets and liabilities described above:

Financial Assets

(Canadian \$ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2019						
Reverse repurchase agreements	1,174	–	1,174 ^A	764	410	–
OTC-derivatives	270	1	269 ^B	150	105	14
Total	1,444	1	1,443	914	515	14
March 31, 2018						
Reverse repurchase agreements	368	–	368 ^A	98	270	–
OTC-derivatives	180	8	172 ^B	171	–	1
Total	548	8	540	269	270	1

Financial Liabilities

(Canadian \$ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2019						
Repurchase agreements	1,107	–	1,107 ^A	764	343	–
OTC-derivatives	169	1	168 ^B	149	18	1
Collateral payable	1	–	1 ^C	1	–	–
Total	1,277	1	1,276	914	361	1
March 31, 2018						
Repurchase agreements	113	–	113 ^A	98	15	–
OTC-derivatives	319	8	311 ^B	171	140	–
Total	432	8	424	269	155	–

^A As described in Note 4.1.10.

^B As described in Note 4.1.12.

^C As described in Note 4.1.9. The balance consists of cash collateral received with respect to certain OTC derivative transactions, and is included in Note 4.1 as part of collateral payable.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

Liquidity risk corresponds to the risk that PSP Investments will not be able to meet its financial obligations on a timely basis, with sufficient and readily available cash resources. PSP Investments' cash position is monitored on a daily basis. In general, investments in cash, money market securities, floating rate notes, bonds and public equities are expected to be highly liquid as they will be invested in securities that are actively traded. Management utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. A liquidity report taking into consideration future forecasted cash flows is prepared and presented to senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, sufficient sources of liquidity are maintained for deployment in case of market disruption.

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 8.2 provides additional information on the usage of the capital market debt program. Furthermore, PSP Investments maintains credit facilities for general corporate purposes. Note 8.1 provides additional information with respect to such credit facilities.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4.1.12.

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2019 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities^A				
Amounts payable from pending trades	(188)	—	—	(188)
Interest payable	(14)	—	—	(14)
Securities sold short	(1,238)	—	—	(1,238)
Collateral payable	(592)	—	—	(592)
Securities sold under repurchase agreements	(1,107)	—	—	(1,107)
Capital market debt financing	(931)	(418)	(1,428)	(2,777)
Trade payable and other liabilities	(14)	(23)	(25)	(62)
Total	(4,084)	(441)	(1,453)	(5,978)
Derivative-related financial instruments				
Derivative-related assets	130	109	71	310
Derivative-related liabilities ^A	(46)	(69)	(74)	(189)
Total	84	40	(3)	121

^A Liabilities are presented in the earliest period in which the counterparty can request payment.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

Financial Liabilities (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2018 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities^A				
Amounts payable from pending trades	(230)	–	–	(230)
Interest payable	(11)	–	–	(11)
Securities sold short	(1,296)	–	–	(1,296)
Collateral payable	(705)	–	–	(705)
Securities sold under repurchase agreements	(113)	–	–	(113)
Capital market debt financing	(933)	(313)	(1,158)	(2,404)
Trade payable and other liabilities	(32)	–	(22)	(54)
Total	(3,320)	(313)	(1,180)	(4,813)

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	99	48	80	227
Derivative-related liabilities ^A	(163)	(94)	(85)	(342)
Total	(64)	(46)	(5)	(115)

^A Liabilities are presented in the earliest period in which the counterparty can request payment.

8 — Borrowings

8.1. Credit Facilities

PSP Investments maintains a revolving credit facility in the amount of \$2 billion and a demand line of credit in the amount of \$1 billion (together “the Credit Facilities”).

The Credit Facilities are for general corporate purposes and are available in either Canadian or US currencies. Subject to customary terms and conditions, these Credit Facilities are available at variable interest rates such as the prime rate and the US base rate.

These Credit Facilities were not drawn upon as at March 31, 2019 and 2018.

8.2. Capital Market Debt Financing

PSP Investments’ capital market debt program consists of the private placement of short-term promissory notes as well as medium-term notes issued by PSP Capital Inc., a wholly owned subsidiary of PSP Investments. The capital raised is primarily used to finance private market investments. It is unconditionally and irrevocably guaranteed by PSP Investments in accordance with its corporate leverage policy. The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed \$12 billion for issuances in Canada and the United States combined.

PSP Investments’ capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2019 and 2018.

The following outlines the terms as well as the fair value of the notes issued under the capital market debt program allocated to the Plan Account as at:

	March 31, 2019		March 31, 2018	
(Canadian \$ millions)	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 1.79% and 2.20% and maturing within 56 and 365 days of issuance (March 31, 2018 – between 1.16% and 1.85%, maturing within 26 and 364 days)	128	127	187	186
Short-term US Dollar promissory notes, bearing interest between 2.45% and 2.84% and maturing within 21 and 365 days of issuance (March 31, 2018 – between 1.39% and 2.17%, maturing within 28 and 365 days)	1,229	1,222	1,063	1,060
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	186	189	197	202
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	185	197	194	202
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	246	243	246	239
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	197	198	191	186
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	344	343	337	329
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	246	258	–	–
Total	2,761	2,777	2,415	2,404

Unrealized losses in connection with borrowings amounted to \$37 million for the year ended March 31, 2019 (unrealized gains of \$38 million for the year ended March 31, 2018).

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

Interest expense, for the years ended March 31, was as follows:

(Canadian \$ millions)	2019	2018
Short-term promissory notes	30	15
Medium-term notes	28	23
Total	58	38

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2019.

(Canadian \$ millions)	Opening balance	Proceeds from borrowing	Repayment of borrowings	Non-cash changes		Closing balance
				Foreign exchange losses	Fair value ^A losses	
Capital market debt financing	2,404	6,634	(6,301)	5	35	2,777
Credit facilities	—	—	—	—	—	—
Borrowings	2,404	6,634	(6,301)	5	35	2,777

^A Includes interest on short-term promissory notes, which added to cost approximates their fair value.

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2018.

(Canadian \$ millions)	Opening balance	Proceeds from borrowing	Repayment of borrowings	Non-cash changes		Closing balance
				Foreign exchange gains	Fair value ^A gains	
Capital market debt financing	2,127	5,382	(5,067)	(8)	(30)	2,404
Credit facilities	—	7	(7)	—	—	—
Borrowings	2,127	5,389	(5,074)	(8)	(30)	2,404

^A Includes interest on short-term promissory notes, which added to cost approximates their fair value.

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

9.2. Fund Transfers

PSP Investments received fund transfers from the Government of Canada of \$679 million for the year ended March 31, 2019 (\$827 million for the year ended March 31, 2018) for the Fund, recorded in the Plan Account.

10 — Segment Information

Investment Segments

In order to fulfil its mandate, PSP Investments manages a diversified global portfolio composed of investments in various asset classes and has implemented an investment approach that focuses in the total fund approach rather than only on individual asset classes. The total fund approach guides the long-term investment strategy and focuses on managing total fund allocations and exposures in terms of asset classes, sectors and risk factors.

Accordingly, PSP Investments' investment segments are presented below to reflect the way in which asset classes are managed and how results are reviewed by the entity's senior management for purposes of performance management and decision making. These investment segments include their respective share of investment-related assets and investment-related liabilities as well as borrowings, which are reported separately by nature of the underlying investments as disclosed in Note 4.1. Further, to support PSP Investments' investment approach, a Complementary Portfolio is managed in addition to the individual asset classes' portfolios, which enables PSP Investments to capture investment opportunities that fit the mandate but that are outside the scope of the individual asset classes' investment framework.

Investment segments consist of investments held through direct and co-ownership positions as well as through fund managers and include:

- Public Markets – invests in public market equities, government and corporate fixed income.
- Real Estate – invests in real estate assets mainly in retirement and residential, office, retail and other industrial sectors.
- Private Equity – invests in private entities with similar objectives.
- Infrastructure – invests in private entities with a focus on assets in transportation, power generation, telecommunications and other regulated businesses.
- Natural Resources – invests in real assets with a focus on assets in timberlands, agriculture and upstream oil and gas.
- Private Debt – invests in non-investment grade primary and secondary credit investments.
- Complementary Portfolio – focuses on investments that are not within the mandate of existing asset classes but are deemed beneficial for the total fund.

The following tables present net investments by investment segment as at:

	March 31, 2019								
(Canadian \$ millions)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^A	Total
	15,896	4,629	4,630	3,308	1,329	2,060	280	905	33,037

	March 31, 2018								
(Canadian \$ millions)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^A	Total
	15,119	4,584	3,822	2,952	953	1,746	434	577	30,187

^A Includes cash and money market securities not managed within the operating segments.

10 — Segment Information (continued)

Investment Segments (continued)

The following table presents net income from operations by investment segment for the year ended March 31, 2019.

(Canadian \$ millions)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^c	Total
Investment income ^A	678	372	634	239	119	165	1	194	2,402
Expenses ^B	(78)	(50)	(19)	(35)	(13)	(12)	(3)	(3)	(213)
Net income	600	322	615	204	106	153	(2)	191	2,189

^A As described in Note 11, embedded within investment income are other fees paid by certain pooled fund investments and management fees not paid directly by PSP Investments.

^B Includes all investment-related and operating expenses as disclosed in Notes 11 and 12, respectively.

^C Includes cash and money market securities not managed within the operating segments.

The following table presents net income from operations by investment segment for the year ended March 31, 2018.

(Canadian \$ millions)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^c	Total
Investment income ^A	1,248	577	409	463	93	112	106	(164)	2,844
Expenses ^B	(70)	(39)	(15)	(28)	(10)	(8)	(3)	(3)	(176)
Net income	1,178	538	394	435	83	104	103	(167)	2,668

^A As described in Note 11, embedded within investment income are other fees paid by certain pooled fund investments and management fees not paid directly by PSP Investments.

^B Includes all investment-related and operating expenses as disclosed in Notes 11 and 12, respectively.

^C Includes cash and money market securities not managed within the operating segments.

11 — Investment-Related Expenses

Investment-related expenses allocated to the Plan Account are comprised of the following for the years ended March 31:

(Canadian \$ millions)	2019	2018
Interest expense	66	42
Transaction costs	25	27
External investment management fees ^A	6	8
Other (net)	17	11
Total	114	88

^A Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to \$46 million for the year ended March 31, 2019 (\$31 million for the year ended March 31, 2018). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.2% and 2.5% of the total invested and/or committed amount, totaled \$65 million for the year ended March 31, 2019 (\$62 million for the year ended March 31, 2018). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

Operating expenses allocated to the Plan Account consisted of the following for the years ended March 31:

(Canadian \$ millions)	2019	2018
Salaries and employee benefits	57	52
Professional and consulting fees	15	14
Premises and equipment	6	5
Market data and business applications	7	6
Depreciation of equipment	7	6
Custodial fees	1	1
Other operating expenses	6	4
Total	99	88

13 — Allocation of Comprehensive Income

PSP Investments' comprehensive income is allocated to each Plan Account as follows:

13.1. Investment Income

The investment income is allocated proportionately based upon the net investments of each Plan Account at the time the income was incurred.

13.2. Expenses

The Act requires that the costs of operation of PSP Investments be charged to the Plan Accounts. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged, in consultation with the Minister of National Defence and the Minister of Public Safety and Emergency Preparedness. An allocation policy was developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, based upon the net investments of each Plan Account at the time the expense was incurred.

Operating expenses and other comprehensive income, excluding the direct cost of investment activities listed above, for the years ended March 31, were allocated in proportion to the annual amount of net investments of each Plan Account as follows:

(%)	2019	2018
Public Service Pension Plan Account	72.6	72.6
Canadian Forces Pension Plan Account	19.7	19.7
Royal Canadian Mounted Police Pension Plan Account	7.3	7.2
Reserve Force Pension Plan Account	0.4	0.5
Total	100.0	100.0

Expenses are paid by PSP Investments by way of advances from the Public Service Pension Plan Account, which are reimbursed by the other Plan Accounts on a quarterly basis.

14 — Related Party Transactions

14.1. Certain Investees

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 16 and 17, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income as those with unrelated parties.

Transactions between PSP Investments and its consolidated subsidiaries as well as related balances are eliminated upon consolidation and, therefore, are not disclosed in this note.

14.2. The Government of Canada and Government-Related Entities

Since PSP Investments is a Crown corporation as described in Note 1, it is considered to be related to the Government of Canada as well as other entities that are controlled, jointly controlled or significantly influenced by the Government of Canada (together "government-related entities").

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the funds transfers outlined in Note 9.2.

(ii) Government-Related Entities

PSP Investments may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1. Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on net assets and comprehensive income as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

14.3. Compensation of Key Management Personnel

Members of key management personnel are related parties of PSP Investments. Key management personnel are those persons having authority and responsibility for planning, directing and controlling PSP Investments' activities, directly or indirectly and consist of members of the Board of Directors, PSP Investments' senior management team and officers. Compensation earned by key management personnel allocated to the Plan Account for the years ended March 31 was recorded in the Statements of Comprehensive Income and was as follows:

(Canadian \$ thousands)	2019	2018
Short-term compensation and other benefits	2,926	3,899
Long-term compensation and other benefits	1,844	945
Total	4,770	4,844

As disclosed in Note 16, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

15 — Capital Management

As an investment company, PSP Investments' objectives in managing its capital are:

- To invest fund transfers, outlined in Note 9.2, in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under the *Superannuation Acts* and the ability of the Plans to meet their financial obligations. The funds are also invested in accordance with the Investment Risk Management policies which are outlined in Note 7.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSP Investments has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 8.2 provides information on the capital market debt financing and Note 7.3 provides information on PSP Investments' liquidity.

The capital structure of PSP Investments consists of fund transfers and capital market debt financing. PSP Investments has no externally imposed restrictions on capital.

16 — Guarantees and Indemnities

PSP Investments provides indemnification to its Directors, its Officers, its vice-presidents and to certain PSP Investments representatives who are asked to serve on boards of directors (or like bodies) or investment advisory boards (or like bodies) of entities in which PSP Investments or its investment entity subsidiaries have made an investment or have a financial interest. As a result, but subject to the Act, PSP Investments may be required to indemnify these representatives for costs incurred, such as claims, actions or litigation in connection with the exercise of their duties, unless the liability of such a representative relates to a failure to act honestly and in good faith. To date, PSP Investments has not received any claims or made any payment for such indemnities.

In certain cases, PSP Investments also provides indemnification to third parties in the normal course of business. As a result, PSP Investments may be required to indemnify such third parties in connection with the performance of their contractual obligations. To date, PSP Investments has not received any claims nor made any payments for such indemnities.

PSP Investments unconditionally and irrevocably guarantees all credit facilities, as well as short-term promissory notes and medium-term notes issued by PSP Capital Inc., as described in Note 8.

In certain investment transactions, PSP Investments and its investment entity subsidiaries provided guarantees, indemnifications or issued letters of credit to third parties, the most significant of which are as follows:

- As at March 31, 2019, and 2018 PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to \$2,602 million as at March 31, 2019 (March 31, 2018 – \$2,550 million), of which \$512 million has been allocated to the Plan Account (March 31, 2018 – \$503 million) plus applicable interest and other related costs. The arrangements mature between July 2019 and November 2029 as of March 31, 2019 (March 31, 2018 – between November 2018 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling \$54 million as at March 31, 2019 (March 31, 2018 – \$53 million), of which \$11 million has been allocated to the Plan Account (March 31, 2018 – \$10 million) in relation to investment transactions.

17 — Commitments

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at:

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Foreign equity	–	1
Real estate	480	452
Private equity	2,025	2,237
Infrastructure	526	765
Natural resources	82	90
Private debt securities	815	741
Alternative investments	408	440
Total	4,336	4,726

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2019 (March 31, 2018 – 2035).

— Royal Canadian Mounted Police Pension Plan Account

Financial Statements

Independent Auditors' Report

To the Minister of Public Safety and Emergency Preparedness

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Sector Pension Investment Board – Royal Canadian Mounted Police Pension Plan Account (the Royal Canadian Mounted Police Pension Plan Account), which comprise the statements of financial position as at March 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Royal Canadian Mounted Police Pension Plan Account as at March 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Royal Canadian Mounted Police Pension Plan Account in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Royal Canadian Mounted Police Pension Plan Account's ability to continue as a going concern, disclosing, as

applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Royal Canadian Mounted Police Pension Plan Account or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Royal Canadian Mounted Police Pension Plan Account's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Royal Canadian Mounted Police Pension Plan Account's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Royal Canadian Mounted Police Pension Plan Account's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Royal Canadian Mounted Police Pension Plan Account to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the Public Sector Pension Investment Board – Royal Canadian Mounted Police Pension Plan Account coming to our notice for compliance with specified authorities. The specified authorities against which compliance was

audited are the applicable provisions of Part X of the *Financial Administration Act* and regulations, the *Public Sector Pension Investment Board Act* and regulations and the by-laws of the Public Sector Pension Investment Board and its wholly owned subsidiaries.

In our opinion, the transactions of the Public Sector Pension Investment Board – Royal Canadian Mounted Police Pension Plan Account that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Public Sector Pension Investment Board – Royal Canadian Mounted Police Pension Plan Account's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Public Sector Pension Investment Board – Royal Canadian Mounted Police Pension Plan Account to comply with the specified authorities.

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.



Mélanie Cabana, CPA auditor, CA
Principal
for the Interim Auditor General of Canada

Montréal, Canada
14 May 2019



Montréal, Canada
14 May 2019

¹ CPA auditor, CA, public accountancy permit No. A121444

Statements of Financial Position

As at

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Assets		
Investments (Note 4.1)	14,383	12,987
Other assets	14	13
Total assets	14,397	13,000
Liabilities		
Trade payable and other liabilities	23	19
Investment-related liabilities (Note 4.1)	1,224	992
Borrowings (Notes 4.1, 8.2)	1,020	885
Due to the Public Service Pension Plan Account	–	9
Total liabilities	2,267	1,905
Net assets	12,130	11,095
Equity (Note 9)	12,130	11,095
Total liabilities and equity	14,397	13,000

The accompanying notes are an integral part of the Financial Statements.

On behalf of the Board of Directors:



Martin Glynn
Chair of the Board



William A. Mackinnon
Chair of the Audit Committee

Statements of Comprehensive Income

For the years ended March 31

(Canadian \$ millions)	2019	2018
Investment income	881	1,046
Investment-related expenses (Note 11)	(42)	(32)
Net investment income	839	1,014
Operating expenses (Note 12)	(36)	(33)
Net income	803	981
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability	–	(1)
Comprehensive income	803	980

Statements of Changes in Equity

For the years ended March 31

(Canadian \$ millions)	2019	2018
Fund transfers		
Balance at beginning of period	5,400	5,120
Fund transfers received during the period (Note 9.2)	232	280
Balance at end of period	5,632	5,400
Retained earnings		
Balance at beginning of period	5,695	4,715
Comprehensive income	803	980
Balance at end of period	6,498	5,695
Total equity	12,130	11,095

The accompanying notes are an integral part of the Financial Statements.

Statements of Cash Flows

For the years ended March 31

(Canadian \$ millions)	2019	2018
Cash flows from operating activities		
Net income	803	981
Adjustments for non-cash items:		
Depreciation of equipment (Note 12)	2	2
Effect of exchange rate changes on cash and cash equivalents	(3)	1
Unrealized losses (gains) on borrowings	14	(14)
	816	970
Net changes in operating assets and liabilities		
Increase in investments	(1,208)	(1,436)
Decrease (increase) in other assets	1	-
Increase in trade payable and other liabilities	4	2
Increase in investment-related liabilities	231	94
Net cash flows used in operating activities	(156)	(370)
Cash flow from financing activities		
Proceeds from borrowings	2,437	1,980
Repayment of borrowings	(2,317)	(1,865)
Repayment to the Public Service Pension Plan Account	(38)	(38)
Advances from the Public Service Pension Plan Account	30	39
Fund transfers received (Note 9)	232	280
Net cash flows provided by financing activities	344	396
Cash flow from investing activities		
Acquisitions of equipment	(4)	(4)
Net cash flows used in investing activities	(4)	(4)
Net change in cash and cash equivalents	184	22
Effect of exchange rate changes on cash and cash equivalents	2	(1)
Cash and cash equivalents at the beginning of the period	306	285
Cash and cash equivalents at the end of the period^A	492	306
Supplementary disclosure of cash flow information		
Interest paid	(22)	(14)

^A As at March 31, 2019, cash and cash equivalents were comprised of \$490 million (March 31, 2018 – \$305 million) held for investment purposes and included in Note 4.1, as well as \$2 million (March 31, 2018 – \$1 million) held for administrative purposes and included in Other assets.

The accompanying notes are an integral part of the Financial Statements.

Notes to the Financial Statements

For the years ended March 31, 2019 and 2018

1 — Corporate Information

The Public Sector Pension Investment Board (“PSP Investments”) is a Crown corporation created under the *Public Sector Pension Investment Board Act* (the “Act”) to manage and invest amounts that are transferred to it pursuant to the *Superannuation Acts* (defined below), for the funds (as defined in the Act) of the pension plans established under the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act* (“CFSA”), the *Royal Canadian Mounted Police Superannuation Act* (collectively the “*Superannuation Acts*”), and certain regulations under the CFSA (the “CFSA Regulations”). The pension plans established under the *Superannuation Acts* consist of the Public Service pension plan, the Canadian Forces pension plan, and the Royal Canadian Mounted Police pension plan (the “Plan”), and the pension plan established under the CFSA Regulations is the Reserve Force pension plan. The Plan and the other pension plans are herein referred to collectively as the “Plans”.

The fund for which amounts are currently transferred to PSP Investments by the Government of Canada (the “Fund”) relates to pension obligations under the Plan for service on or after April 1, 2000 (“Post-2000 Service”). The account managed by PSP Investments for the Fund is herein referred to as the “Plan Account”. PSP Investments maintains records of the net contributions for the Fund, as well as the allocation of its investments and the results of its operations for the Fund in the Plan Account. PSP Investments also manages a plan account for the funds of the other Plans, and these and the Plan Account are collectively referred to herein as the “Plan Accounts”.

PSP Investments is responsible for managing amounts that are transferred to it for the Fund in the best interests of the beneficiaries and contributors under the *Royal Canadian Mounted Police Superannuation Act*. The amounts are to be invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plan and the Plan’s ability to meet its financial obligations.

Pursuant to the *Royal Canadian Mounted Police Superannuation Act*, the Government of Canada, which administers the Plan and the Fund, may at any time call upon the net assets of PSP Investments allocated to the Fund’s Plan Account for amounts required for the purpose of paying benefits under the Plan in respect of Post 2000 Service, or generally, for the purpose of reducing any non-permitted surplus in the Fund.

PSP Investments and the majority of its subsidiaries are exempt from Part I tax under paragraphs 149(1)(d) and 149(1)(d.2) of the *Income Tax Act* (Canada), respectively.

PSP Investments’ registered office is located at 1 Rideau Street, Ottawa, Ontario, Canada and its principal business office is at 1250 René-Lévesque Boulevard West, Montreal, Quebec, Canada.

2 — Significant Accounting Policies

The significant accounting policies that have been applied in the preparation of these Financial Statements are summarized below and have been used throughout all periods presented.

2.1. Basis of Presentation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

PSP Investments qualifies as an investment entity as defined under IFRS 10 *Consolidated Financial Statements* and, consequently, does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. Instead, PSP Investments measures its investments in subsidiaries at fair value through profit or loss (“FVTPL”) in accordance with IFRS 9 *Financial Instruments* (“IFRS 9”), including those that are formed by PSP Investments and that qualify as investment entities (“investment entity subsidiaries”). PSP Investments also measures its investments in associates, joint ventures and financial assets and financial liabilities at FVTPL in accordance with IAS 28 *Investments in Associates and Joint Ventures* and IFRS 9.

These Financial Statements present the Plan Account’s financial position and results of operations of PSP Investments and its subsidiaries that solely provide it with services that relate to its investment activities, as allocated to the Plan Account. They reflect the economic activity of PSP Investments as it pertains to the investment of the net contributions transferred to it for the Fund in respect of Post-2000 Service. Accordingly, they do not reflect all of the assets or the details of the pension contributions, payments and liabilities under the Plan.

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 14, 2019.

2 — Significant Accounting Policies

(continued)

2.2. Investment Entity Status

PSP Investments has determined that it meets the mandatory items of the definition of an investment entity under IFRS 10 on the basis of the facts and circumstances as at the end of the period. They are as follows:

(i) Mandate and business purpose

As further described in Note 1, PSP Investments' mandate is to manage and invest the amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. Consequently, PSP Investments' business purpose is to invest with a view of achieving a maximum rate of return from capital appreciation and income from investments, without undue risk of loss.

(ii) Performance evaluation

PSP Investments measures and evaluates the performance of its investments on a fair value basis.

In addition to the mandatory items of the definition, IFRS 10 also outlines certain typical characteristics of an investment entity, the absence of any of which does not necessarily preclude an entity from qualifying as an investment entity. One of these characteristics is that an investment entity should have investors that are not related parties of the entity.

As described in Note 14, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

Should any changes occur in the facts and circumstances, PSP Investments will evaluate the impact of any such changes on its investment entity status.

2.3. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below.

2.3.1. Financial Instruments

(i) Classification

Financial assets representing investments are managed, together with related financial liabilities, according to the entity's business model to maximize the rate of return. The performance of such financial instruments is evaluated on a fair value basis and they are classified at FVTPL. They are described in detail in Note 4.1.

Borrowings, as described under Note 8, are financial liabilities that are designated to be measured at FVTPL since they are part of the portfolios of investments that are managed together and whose performance is evaluated on a fair value basis.

(ii) Recognition

Financial assets and financial liabilities are recorded at the date upon which PSP Investments becomes a party to the associated contractual provisions. In the case of traded financial assets, they are recorded as of the trade date.

(iii) Initial and subsequent measurement

All financial assets and financial liabilities are recorded in the Statements of Financial Position at fair value and continue to be measured as such on a recurring basis. After initial measurement, subsequent changes in the fair value of financial assets and financial liabilities classified at FVTPL are recorded in the Statements of Comprehensive Income.

If fair value changes in financial liabilities designated to be measured at FVTPL result from fluctuations in PSP Investments' own credit risk, they are recorded in other comprehensive income. All other changes in fair value are recorded in investment income.

(iv) Derecognition

A financial asset (or, where applicable, a part thereof) is derecognized when the following conditions are met:

- The rights to receive cash flows from the asset have expired, or
- PSP Investments has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows to a third party,

and

- PSP Investments has transferred substantially all the risks and rewards of the asset, or
- In cases where PSP Investments has neither transferred nor retained substantially all the risks and rewards of the asset, it has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

2 — Significant Accounting Policies

(continued)

2.3. Summary of Significant Accounting Policies

(continued)

2.3.2. Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At initial recognition, PSP Investments evaluates the facts and circumstances related to a transaction to confirm that the transaction price represents the fair value of an asset or a liability. At each subsequent reporting date, market prices are used to determine fair value where an active market exists (such as a recognized securities exchange), as they reflect actual and regularly occurring market transactions on an arm's length basis. If quoted market prices are not available, then fair value is estimated using valuation techniques based on inputs existing at the end of the reporting period that are derived from observable market data.

Valuation techniques are generally applied to investments in private markets, alternative investments, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 4.

2.3.3. Functional and Presentation Currency

The functional and presentation currency of PSP Investments and its consolidated subsidiaries is the Canadian dollar, which is the currency of the primary economic environment in which each entity within the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars.

2.3.4. Foreign Currency Translation

Foreign currency transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities that are denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the end of the reporting period.

Foreign currency transaction gains and losses on all monetary assets and liabilities are included in investment income.

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or pledged as collateral, or recognize securities borrowed or received as collateral. Cash collateral received is recognized as described in Note 4.1.9.

The securities lending and borrowing programs require collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standard securities lending and borrowing programs. PSP Investments and its counterparties are authorized to sell, repledge or otherwise use collateral held. The same securities or equivalent securities must be returned to the counterparty at the end of the contract, unless an event of default occurs.

2.3.6. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements and Related Collateral

PSP Investments is party to repurchase and reverse repurchase agreements. Such agreements involve the sale of securities by one counterparty with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Securities sold or purchased under the repurchase and reverse repurchase agreements respectively, including related collateral, are not derecognized or recognized as all risks and rewards of ownership related to such securities are not transferred. As such, in the case where PSP Investments is the counterparty selling securities under such agreements, all income (loss) related to such securities continues to be reported in investment income and obligations to repurchase the securities sold are accounted for as investment-related liabilities. The difference between the fair value of the securities sold and the repurchase price is recorded as interest expense within investment-related expenses. In the case where PSP Investments is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income.

Transactions under repurchase and reverse repurchase agreements involve pledging collateral consisting of cash or securities deemed acceptable by the counterparties. Collateral transactions are conducted under terms that are usual and customary in standard repurchase arrangements. Such terms require the relevant counterparty to pledge additional collateral based on the changes in the fair value of the existing collateral pledged as well as the related securities sold or purchased. The counterparties are authorized to sell, repledge or otherwise use collateral held. The securities pledged as collateral must be returned to the relevant counterparty at the end of the contract, unless an event of default occurs.

2 — Significant Accounting Policies

(continued)

2.3. Summary of Significant Accounting Policies

(continued)

2.3.7. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset with the net amount reported in the Statements of Financial Position only if PSP Investments has a current legally enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.3.8. Equity

The statutory rights of the Government of Canada pursuant to the *Superannuation Acts* are described under Note 1 and are classified as equity instruments on the following basis:

- Under such rights the Government of Canada is entitled to PSP Investments' net assets at any time for the purposes set out in the *Superannuation Acts*. Such rights do not contain any additional obligations for PSP Investments to deliver amounts to the Government of Canada.
- Such rights are the most subordinate claim on PSP Investments' net assets.
- The total expected cash flows attributable to such rights, at any time, is solely based on the fair value of the net assets of PSP Investments at that time. Further, the fair value of the net assets of PSP Investments in its entirety represents the amounts that the Government of Canada may call upon at any time.

2.3.9. Investment Income

Investment income is made up of interest, dividends, gains (losses) on the disposal of financial assets and financial liabilities as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of financial assets held and financial liabilities outstanding at the end of the reporting period. Interest is recognized, on a consistent basis, using the prescribed rates until maturity. Dividends are recognized when the right to receive them has been obtained, generally on the ex-dividend date.

2.3.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, as described in Note 4.1.7, transaction costs, external investment management fees and other (net).

Transaction costs are incremental costs directly attributable to the acquisition, due diligence, issue, or disposal of a financial asset or financial liability, and they are expensed as incurred.

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets as outlined in Note 11.

2.3.11. Fund Transfers

Amounts are recorded for the Fund when received from the Government of Canada.

2.4. Significant Accounting Judgments, Estimates and Assumptions

In preparing the Financial Statements, management makes certain judgments, estimates and assumptions that can affect the amounts reported therein. Significant judgments include those related to the determination of the investment entity status as described in Note 2.2.

Management also makes estimates and assumptions in the measurement, risk assessment and related disclosures surrounding investments in private markets and certain fixed income securities. The main assumptions made by management regarding measurement of financial instruments are outlined in Note 4.2.3 and those regarding the assessment of risk are outlined in Note 7.

Although estimates and assumptions reflect management's best judgment, actual results may differ from such estimates due to the uncertainties involved in using them.

3 — Current and Future Changes in Accounting Standards

3.1. Current Accounting Standards

IAS 28 Investment in Associates and Joint Ventures

IAS 28 was amended, effective for annual periods beginning on or after January 1, 2018, to add a clarification that serves to elaborate and clarify that the election to measure investees at fair value is available on an investment by investment basis and is not an election that must be applied consistently to the measurement of all associates and joint ventures. PSP Investments has applied the amendments as of April 1, 2018 and there was no impact on its Consolidated Financial Statements.

IFRS 9 Financial Instruments

In 2014, the IASB completed its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9. The Standard includes requirements for recognition, derecognition, classification and measurement of financial assets and liabilities, as well as impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. PSP Investments early adopted IFRS 9 (2014) in its *Consolidated Financial Statements* for the year ended March 31, 2016.

Significant accounting policies as they relate to recognition, derecognition, classification and measurement of financial assets and liabilities in connection with IFRS 9 are described under Note 2.3.1. There is no impact from the requirements relating to impairment and hedge accounting.

3.2. Future Accounting Standards

PSP Investments has determined that there is no material impact on its Consolidated Financial Statements arising from new standards, amendments and interpretations that have been issued by the IASB, but that are not yet effective.

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are aggregated, in the following table, in classes that reflect their respective exposure as well as investment sectors. Their fair values were as follows, as at:

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Public markets		
Canadian equity	245	309
Foreign equity	2,343	2,515
Private markets		
Real estate	2,034	1,937
Private equity	1,462	1,181
Infrastructure	1,453	1,295
Natural resources	543	387
Fixed income		
Cash and money market securities	861	826
Government and corporate bonds	1,897	1,641
Inflation-linked bonds	1,013	897
Private debt securities	1,130	1,025
Alternative investments	725	635
	13,706	12,648
Investment-related assets		
Amounts receivable from pending trades	85	81
Interest receivable	36	30
Dividends receivable	10	9
Securities purchased under reverse repurchase agreements	432	136
Derivative-related assets	114	83
	677	339
Investments representing financial assets at FVTPL	14,383	12,987
Investment-related liabilities		
Amounts payable from pending trades	(69)	(84)
Interest payable	(5)	(4)
Securities sold short	(456)	(477)
Collateral payable	(218)	(259)
Securities sold under repurchase agreements	(406)	(42)
Derivative-related liabilities	(70)	(126)
Investment-related liabilities representing financial liabilities at FVTPL	(1,224)	(992)
Borrowings		
Capital market debt financing	(1,020)	(885)
Borrowings representing financial liabilities designated at FVTPL	(1,020)	(885)
Net investments	12,139	11,110

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.1. Public Markets

Public markets consist of Canadian and foreign investments in the following securities: common shares, American depository receipts, global depository receipts, participation notes, preferred shares, income trust units, exchange-traded funds units, pooled funds units, and securities convertible into common shares of publicly listed issuers.

Direct investments in Canadian and foreign equities are measured at fair value using quoted prices in active markets and are based on the most representative price within the bid-ask spread.

In the case of investments in pooled funds, fair value is measured using unit values obtained from each of the funds' administrators, which are derived from the fair value of the underlying investments in each pooled fund. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and natural resources.

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financing.

Private equity investments are comprised of fund investments with similar objectives, co-investments in private entities as well as direct equity positions.

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing.

Natural resources investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas. Natural resources investments are presented net of all third-party financing.

The process for fair value measurement of private markets investments is described in Note 4.2.2 and the valuation techniques together with the significant inputs used are described in Note 4.2.3.

4.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and private debt securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Statements of Cash Flows and amounted to \$490 million as at March 31, 2019 (March 31, 2018 – \$305 million). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds, floating rate notes, asset-backed term notes and mortgage-backed securities. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

Private debt securities are fixed income securities of private companies held directly or through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt and primary and secondary investments in leveraged loans. Private debt securities also include third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products in the real estate sector.

Fair values of government and most corporate bonds, inflation-linked bonds and mortgage-backed securities are based on prices obtained from third-party pricing sources. Such prices are determined using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

The fair values of certain corporate bonds, private debt securities and asset-backed term notes are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

The fair value measurement of fund investments included as part of private debt securities is described in Note 4.2.2.

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.4. Alternative Investments

Alternative investments consist mainly of units of funds that hold a mix of equity, fixed income and derivative instruments as well as hedge funds. The fair value of these investments is determined based on the fair values reported by the funds' administrators or general partners and reflects the fair value of the underlying equity, fixed income or derivative instruments, as applicable. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.5. Amounts Receivable and Payable from Pending Trades

Amounts receivable from pending trades consist of proceeds on sales of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

Amounts payable from pending trades consist of the cost of purchases of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

The fair value of amounts receivable and payable from pending trades reflects the value at which their underlying original sale or purchase transactions were undertaken.

4.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which due to their short-term maturity, approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.11, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

4.1.8. Securities Sold Short

Securities sold short reflect PSP Investments' obligation to purchase securities pursuant to short selling transactions. In such transactions, PSP Investments sells securities it does not own with an obligation to purchase similar securities on the market to cover its position.

Using quoted market prices that are based on the most representative price within the bid-ask spread, the fair value of securities sold short is measured using the same method as the similar long positions presented within public markets and fixed income.

4.1.9. Collateral Payable

As part of securities lending and certain OTC derivative transactions, cash collateral is received and reinvested by PSP Investments. PSP Investments recognizes cash collateral received with a corresponding payable. The payable balance reflects the obligation of the transferee to return cash collateral to the transferor at the end of the transaction in the absence of an event of default by the transferor.

4.1.10. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements

As described in Note 2.3.6, PSP Investments is party to repurchase and reverse repurchase agreements. Obligations to repurchase or resell the securities sold or purchased under such agreements are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value.

4.1.11. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 8.2. Short-term promissory notes are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.12. Derivative-Related Assets and Liabilities

Derivative financial instruments are financial contracts that are settled at a future date. The value of such instruments is derived from changes in the value of the underlying assets, interest or exchange rates. Derivative financial instruments do not, typically, require an initial net investment. In certain cases, they require an initial net investment that is less than what would be required to hold the underlying position directly. Derivative financial instruments can be listed or traded OTC. OTC instruments consist of those that are bilaterally negotiated and settled, and those that are cleared (OTC-cleared) by a central clearing party (CCP).

PSP Investments uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

PSP Investments uses the following types of derivative financial instruments:

Swaps

Swaps are transactions whereby two counterparties exchange cash flow streams with each other based on predetermined conditions that include a notional amount and a term. Swaps are used to increase returns or to adjust exposures of certain assets without directly purchasing or selling the underlying assets.

Futures

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a predefined price and predefined future date. Futures are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Forwards

Forwards are contracts involving the sale by one party and the purchase by another party of a predefined amount of an underlying instrument, at a predefined price and at a predefined date in the future. Forwards are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Options

Options are contracts where the seller gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index, commodity, currency, interest rate, credit or other financial instrument, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

Warrants are options to purchase an underlying asset which is in the form of a transferable security and which can be listed on an exchange or traded OTC.

Rights are securities giving shareholders entitlement to purchase new shares issued by a corporation at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

Determination of Fair Value of Derivative Financial Instruments

Listed derivative financial instruments are recorded at fair value using quoted market prices that are based on the most representative price within the bid-ask spread. OTC-cleared derivatives are recorded at fair value using prices obtained from the CCP. OTC derivatives are valued using appropriate valuation techniques such as discounted cash flows. These techniques use significant inputs that are observable in the market such as current market yields.

Notional Values and Fair Values of Derivative-Related Assets and Liabilities

Notional values of derivative financial instruments are not recorded as assets or liabilities as they represent the face amount of the contract. Except for credit derivatives, notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions disclosed below. Rather, they serve as the basis upon which the cash flows and the fair value of the contracts are determined.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

(Canadian \$ millions)	March 31, 2019			March 31, 2018		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	251	—	—	275	—	—
Warrants and rights	—	—	—	—	—	—
Options: Purchased	370	12	—	769	18	—
Written	333	—	(6)	524	—	(11)
OTC						
Swaps	1,890	47	(14)	1,943	11	(47)
Options: Purchased	49	2	—	111	3	—
Written	39	—	(2)	62	—	(3)
Currency derivatives						
Listed						
Futures	22	—	—	9	—	—
OTC						
Forwards	1,436	8	(4)	2,014	14	(30)
Swaps	476	1	(3)	218	—	(4)
Options: Purchased	465	4	—	601	4	—
Written	426	—	(3)	617	—	(4)
Interest rate derivatives						
Listed						
Futures	806	—	—	1,060	—	—
Options: Purchased	3,462	2	—	3,594	1	—
Written	3,174	—	(2)	3,109	—	(1)
OTC						
Forwards	43	1	(1)	—	—	—
Swaps	1,846	18	(19)	1,059	13	(10)
Options: Purchased	3,906	19	—	3,622	18	—
Written	3,696	—	(15)	3,788	—	(15)
OTC-cleared						
Swaps	4,031	—	—	4,730	—	—
Credit derivatives						
OTC						
Credit default swaps: Purchased	48	—	(1)	90	—	(1)
Written ^A	7	—	—	17	—	—
Options: Purchased	—	—	—	47	1	—
OTC-cleared						
Credit default swaps: Purchased	59	—	—	90	—	—
Written ^A	—	—	—	43	—	—
Total		114	(70)		83	(126)

^A PSP Investments, through written credit default swaps, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the written credit default swaps as shown in the table above.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

(Canadian \$ millions)	March 31, 2019			March 31, 2018		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Listed derivatives	8,418	14	(8)	9,340	19	(12)
OTC derivatives	14,327	100	(62)	14,189	64	(114)
OTC-cleared derivatives	4,090	—	—	4,863	—	—
Total		114	(70)		83	(126)

The terms to maturity based on notional value for the derivatives were as follows as at:

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Less than 3 months	6,817	9,142
3 to 12 months	11,749	8,706
Over 1 year	8,269	10,544

4.2. Fair Value Hierarchy

4.2.1. Classification

Financial assets and financial liabilities described under Note 4.1 are classified within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
 - (i) Quoted prices for similar assets or liabilities in active markets.
 - (ii) Quoted prices for identical or similar assets or liabilities in markets that are not active.
 - (iii) Inputs other than quoted prices that are observable for the asset or liability.
 - (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

The classification within the levels of the hierarchy is established at the time of the initial determination of fair value of the asset or liability and reviewed at the end of each reporting period. PSP Investments determines whether a transfer between levels has occurred and recognizes such transfer at the beginning of the reporting period.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2019 classified within the fair value hierarchy:

(Canadian \$ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	179	62	4	245
Foreign equity	2,065	156	122	2,343
Private markets				
Real estate	—	—	2,034	2,034
Private equity	—	—	1,462	1,462
Infrastructure	—	—	1,453	1,453
Natural resources	—	—	543	543
Fixed income				
Cash and money market securities	—	861	—	861
Government and corporate bonds	—	1,894	3	1,897
Inflation-linked bonds	—	1,013	—	1,013
Private debt securities	—	—	1,130	1,130
Alternative investments	—	154	571	725
	2,244	4,140	7,322	13,706
Investment-related assets				
Amounts receivable from pending trades	—	85	—	85
Interest receivable	—	36	—	36
Dividends receivable	—	10	—	10
Securities purchased under reverse repurchase agreements	—	432	—	432
Derivative-related assets	9	105	—	114
	9	668	—	677
Investments representing financial assets at FVTPL	2,253	4,808	7,322	14,383
Investment-related liabilities				
Amounts payable from pending trades	—	(69)	—	(69)
Interest payable	—	(5)	—	(5)
Securities sold short	(284)	(172)	—	(456)
Collateral payable	—	(218)	—	(218)
Securities sold under repurchase agreements	—	(406)	—	(406)
Derivative-related liabilities	(8)	(62)	—	(70)
Investment-related liabilities representing financial liabilities at FVTPL	(292)	(932)	—	(1,224)
Borrowings				
Capital market debt financing	—	(1,020)	—	(1,020)
Borrowings representing financial liabilities designated at FVTPL	—	(1,020)	—	(1,020)
Net investments	1,961	2,856	7,322	12,139

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2018 classified within the fair value hierarchy:

(Canadian \$ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	247	62	–	309
Foreign equity	2,143	234	138	2,515
Private markets				
Real estate	–	–	1,937	1,937
Private equity	–	–	1,181	1,181
Infrastructure	–	–	1,295	1,295
Natural resources	–	–	387	387
Fixed income				
Cash and money market securities	–	826	–	826
Government and corporate bonds	–	1,628	13	1,641
Inflation-linked bonds	–	897	–	897
Private debt securities	–	–	1,025	1,025
Alternative investments	–	121	514	635
	2,390	3,768	6,490	12,648
Investment-related assets				
Amounts receivable from pending trades	–	81	–	81
Interest receivable	–	30	–	30
Dividends receivable	–	9	–	9
Securities purchased under reverse repurchase agreements	–	136	–	136
Derivative-related assets	14	69	–	83
	14	325	–	339
Investments representing financial assets at FVTPL	2,404	4,093	6,490	12,987
Investment-related liabilities				
Amounts payable from pending trades	–	(84)	–	(84)
Interest payable	–	(4)	–	(4)
Securities sold short	(368)	(109)	–	(477)
Collateral payable	–	(259)	–	(259)
Securities sold under repurchase agreements	–	(42)	–	(42)
Derivative-related liabilities	(12)	(114)	–	(126)
Investment-related liabilities representing financial liabilities at FVTPL	(380)	(612)	–	(992)
Borrowings				
Capital market debt financing	–	(885)	–	(885)
Borrowings representing financial liabilities designated at FVTPL	–	(885)	–	(885)
Net investments	2,024	2,596	6,490	11,110

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2019.

During the year ended March 31, 2018, listed equity securities with a fair value of \$3 million, classified as Level 2 as at March 31, 2017 were transferred to Level 1 as a result of trading restrictions having expired.

4 — Financial Assets and Financial Liabilities

(continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

The valuation process is monitored and governed by an internal valuation committee ("VC"). This committee is responsible for overseeing all aspects of fair value determination. This includes establishing valuation methodologies and procedures for each type of investment and ensuring they are complied with. Valuation methodologies established are based on widely recognized practices that are consistent with professional appraisal standards. Such standards include, among others, the *International Private Equity and Venture Capital Valuation Guidelines*, the *Canadian Uniform Standards of Professional Appraisal Practice* and the *Uniform Standards of Professional Appraisal Practice* in the United States of America.

The fair value of investments classified as Level 3 is determined at least annually. Quarterly, the fair value is reviewed and adjusted, as appropriate, to reflect the impact of any significant market or investment-specific events or circumstances. For each investment, the relevant valuation methodology is applied consistently over time as appropriate in the prevailing circumstances. The appropriateness of significant changes in valuation methodologies is reviewed by the VC.

In cases where the services of third-party appraisers are used, management ensures their independence and that valuation methods used are consistent with professional appraisal standards outlined above. In validating the work performed by appraisers, management ensures that the assumptions used correspond to financial information and forecasts of the underlying investment.

With respect to fund investments classified as Level 3, the annual fair value is generally determined based on audited financial statements received from the fund's general partner. In certain cases fair value is obtained from information provided by the fund's administrators and is reviewed by Management to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2019:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian \$ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	4	Net asset value method (NAV) ^A	N/A	N/A
Foreign equity	Direct investments	122	NAV ^A	N/A	N/A
Private markets					
Real estate	Direct and co-investments	1,901	Discounted cash flow (DCF)	Discount rate ^{B, C}	4.10% – 20.00% (7.55%)
				Terminal capitalization rate ^{B, C}	4.25% – 10.25% (5.92%)
			Direct capitalization	Capitalization rate ^{B, D}	2.50% – 8.98% (5.57%)
				Stabilized occupancy rate ^{D, E}	93.00% – 100.00% (98.22%)
			Sales comparison approach	Price per square foot ^{D, E}	\$0.95 – \$2,057.93 (\$281.99)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	133	NAV ^A	N/A	N/A
Other private markets	Direct and co-investments	2,442	DCF	Discount rate ^B	6.00% – 12.50% (8.79%)
			Market comparables	N/A	N/A
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	1,016	NAV ^A	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	2	DCF	Discount rate ^B	52.50%
	Asset-backed term notes	1	Third-party pricing ^A	N/A	N/A
Private debt securities	Direct and co-investments	780	DCF	Discount rate ^B	5.54% – 18.76% (9.77%)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	350	NAV ^A	N/A	N/A
Alternative investments	Fund investments	571	NAV ^A	N/A	N/A
Total		7,322			

^A In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

^B An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

^C An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

^D There is no predictable direct relationship between this input and any other significant unobservable input.

^E An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2018:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian \$ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets Foreign equity	Direct investments	138	Net asset value method (NAV) ^A	N/A	N/A
Private markets Real estate	Direct and co-investments	1,818	Discounted cash flow (DCF)	Discount rate ^{B, C} Terminal capitalization rate ^{B, C}	5.00% – 22.10% (7.94%) 4.25% – 9.75% (5.92%)
			Direct capitalization	Capitalization rate ^{B, D} Stabilized occupancy rate ^{D, E}	2.75% – 9.09% (5.30%) 94.00% – 100.00% (98.29%)
			Sales comparison approach	Price per square foot ^{D, E}	\$27.50 – \$1,107.92 (\$90.83)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	119	NAV ^A	N/A	N/A
Other private markets	Direct and co-investments	1,976	DCF	Discount rate ^B	6.00% – 12.70% (8.94%)
			Market comparables	N/A	N/A
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	887	NAV ^A	N/A	N/A
Fixed income Corporate bonds	Convertible bonds	12	DCF	Discount rate ^B	4.70% – 10.00% (7.40%)
	Asset-backed term notes	1	Third-party pricing ^A	N/A	N/A
Private debt securities	Direct and co-investments	737	DCF	Discount rate ^B	5.90% – 17.25% (9.79%)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	288	NAV ^A	N/A	N/A
Alternative investments	Fund investments	514	NAV ^A	N/A	N/A
Total		6,490			

^A In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

^B An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

^C An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

^D There is no predictable direct relationship between this input and any other significant unobservable input.

^E An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2019:

(Canadian \$ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses) ^A	Transfer out of Level 3	Closing Balance
Public markets	138	40	(49)	–	31	(34)	–	126
Private markets	4,800	1,075	(685)	–	137	170	(5)	5,492
Fixed income	1,038	418	(326)	(4)	11	(4)	–	1,133
Alternative investments	514	63	(40)	–	3	31	–	571
Derivative-related receivables/payables (net)	–	–	–	–	–	–	–	–
Total	6,490	1,596	(1,100)	(4)	182	163	(5)	7,322

^A Includes Plan Account allocation adjustments.

As at March 31, 2018, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2019, the investment was transferred to Level 1 as the related securities became publicly traded.

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2018:

(Canadian \$ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains ^A	Transfer out of Level 3	Closing Balance
Public markets	21	48	(4)	–	–	73	–	138
Private markets	4,021	713	(324)	–	81	310	(1)	4,800
Fixed income	684	566	(233)	(2)	17	6	–	1,038
Alternative investments	472	97	(68)	–	5	8	–	514
Derivative-related receivables/payables (net)	–	1	–	(1)	–	–	–	–
Total	5,198	1,425	(629)	(3)	103	397	(1)	6,490

^A Includes Plan Account allocation adjustments.

As at March 31, 2017, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2018, the investment was transferred to Level 2 as the related securities became publicly traded. The securities held by PSP Investments are unregistered and can only be sold upon their registration.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2019 (March 31, 2018 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 2.3.5, 2.3.6 and 7.2.1. The following table illustrates the fair values of the Plan Account's allocated collateral, as well as the securities under the lending and borrowing programs and the securities under the repurchase and reverse repurchase agreements, as at:

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Securities lending and borrowing		
Securities lent	577	839
Collateral held ^A	609	892
Securities borrowed	283	370
Collateral pledged ^B	292	384
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	410	42
Collateral pledged	408	42
Securities purchased under reverse repurchase agreements	434	137
Collateral held ^C	433	136
Derivative contracts		
Collateral pledged	66	129
Collateral held ^D	41	–

^A The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to \$216 million for the Plan Account as at March 31, 2019 (March 31, 2018 – \$254 million) and securities amounted to \$393 million as at March 31, 2019 (March 31, 2018 – \$638 million). All cash collateral is reinvested.

^B The minimum fair value of collateral required is equal to 100% of the fair value of the securities borrowed.

^C The collateral received is in the form of securities of which \$172 million has been used in connection with short selling transactions as at March 31, 2019 (March 31, 2018 – \$110 million) and \$1 million has been used in connection with securities sold under repurchase agreements (March 31, 2018 – nil).

^D As part of collateral held, cash amounted to \$1 million as at March 31, 2019 (March 31, 2018 – \$174 thousand) and securities amounted to \$40 million as at March 31, 2019 (March 31, 2018 – \$49 thousand). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

As an investment entity, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. PSP Investments measures its investments in its subsidiaries, joint ventures and associates at FVTPL as described in Note 2.1.

For purposes of preparing this note, management assesses control, joint control and significant influence as follows:

(i) *Control and significant influence*

PSP Investments determines that it has control over an investee when it is exposed, or has rights, to variable returns from its investment in an entity and has the ability to affect those returns through its power over the investee.

In certain cases, PSP Investments does not have control over an investee but has the power to participate in the financial and operating policy decisions of the investee. In such cases, PSP Investments determines that it has significant influence over the investee.

In the context of control or significant influence, power over an investee is obtained through voting rights conveyed by PSP Investments' ownership interest, other contractual arrangements, or a combination thereof.

(ii) *Joint control*

PSP Investments determines that it is party to a joint venture arrangement when it has joint control over an investee and has rights to the net assets of the investee. Joint control is established through a contractual arrangement which requires the unanimous consent of the parties sharing control for the activities that significantly affect the returns of the arrangement.

Generally, decision making regarding such activities is governed through voting rights conveyed by the ownership interest of each party. In certain cases, it is governed solely through contractual arrangements or in conjunction with the ownership interest of each party.

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2019, 108 investment entity subsidiaries were incorporated in North America, 17 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2018 – 103 in North America, 23 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 81 investees directly or through its investment entity subsidiaries as at March 31, 2019 (March 31, 2018 – 80 investees).

The following tables present, in descending order, the most significant investees held directly or indirectly by PSP Investments where it has control, joint control or significant influence.

Entity's Name	March 31, 2019		
	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
AviAlliance GmbH	Europe	100	Controlled investee
Revera Inc.	North America	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Forth Ports Limited	Europe	51	Jointly controlled investee
TDF S.A.S.	Europe	22	Associate
Roccapina Fund, L.P.	North America	100	Controlled investee
Big Box Properties	North America	49	Jointly controlled investee

Entity's Name	March 31, 2018		
	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
Revera Inc.	North America	100	Controlled investee
AviAlliance GmbH	Europe	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
Roccapina Fund, L.P.	North America	100	Controlled investee
TDF S.A.S.	Europe	22	Associate
Cubico Sustainable Investments Limited	Global	50	Jointly controlled investee
Big Box Properties	North America	49	Jointly controlled investee

In addition to the above, PSP Investments consolidates wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services consist of investment management and financing of private market investments within the context of PSP Investments' capital market debt program described in Note 8.2.

6.2. Structured Entities

PSP Investments holds interests in partnerships and funds mainly in the context of its investments in private markets. Given their nature, such entities commonly have the characteristics of a structured entity as defined by IFRS. These entities are held as investments and do not expose PSP Investments to additional risks or returns compared to interests held in non-structured entities.

Information regarding structured entities is included, as applicable, within disclosures of investment risk management under Note 7, guarantees and indemnities under Note 16 and commitments under Note 17.

7 — Investment Risk Management

PSP Investments is required to act in the best interests of the contributors and beneficiaries under the Plans and for maximizing returns without undue risk of loss. In pursuit of this objective, PSP Investments established an Enterprise Risk Management Policy (ERM Policy). The ERM Policy provides a framework for identifying, evaluating, managing, mitigating, monitoring and reporting the investment and non-investment risks to which PSP Investments is exposed.

As part of the overall ERM policy, the objective of the Investment Risk Management Policy (IRM Policy) is to support the management of risk inherent to the investment decision making process. The IRM Policy outlines a framework detailing how investment activities should comply with PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite. The IRM Policy also supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), whose objective is to effectively manage investment risks related to the implementation of PSP Investments' various investment strategies. Investment risks include market, credit and liquidity risks.

7.1. Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of an adverse financial outcome due to changes in the factors that drive that value, such as changes in market prices, changes caused by factors specific to the individual investment, volatility in share and commodity prices, interest rate, foreign exchange or other factors affecting similar securities traded in the market.

7.1.1. Measurement of Market Risk

The absolute annualized volatility of the total portfolio is used as the primary measure of market risk. The absolute volatility is a statistical measure of the size of changes in investment returns of a given investment or portfolio of investments. It is used to illustrate the potential loss of value in an investment or portfolio of investments as a result of fluctuations in market prices.

PSP Investments uses seven years' worth of market returns scaled to a twelve-month holding period to calculate the absolute volatility. For investments that are not actively traded, the calculation of the absolute volatility uses securities with similar risk attributes as a proxy.

The absolute volatility is statistically valid under normal market conditions and does not specifically consider losses from severe market events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

The following table shows the absolute volatility of the total portfolio expressed as a percentage of net investments as at the end of the period:

	March 31, 2019 (%)	March 31, 2018 (%)
Absolute volatility	7.3	7.2

Stress Testing

Although the absolute volatility is a widely accepted risk measure, it is complemented by other risk measurement methodologies that provide greater insight on market risk. PSP Investments uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of the Plan's Account net asset values. The terms to maturity of the classes of financial instruments, outlined in Note 4.1, with the most significant exposure to interest rate risk were as follows as at:

	March 31, 2019					
(Canadian \$ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	861 ^A	861
Government and corporate bonds	86	875	435	354	147 ^B	1,897
Inflation-linked bonds	–	165	566	282	–	1,013
Private debt securities	6	184	434	151	355 ^C	1,130
Total fixed income	92	1,224	1,435	787	1,363	4,901

	March 31, 2018					
(Canadian \$ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	826 ^A	826
Government and corporate bonds	253	601	379	249	159 ^B	1,641
Inflation-linked bonds	–	298	320	279	–	897
Private debt securities	–	104	508	112	301 ^C	1,025
Total fixed income	253	1,003	1,207	640	1,286	4,389

^A Due to their short-term maturity, these investments are not significantly exposed to interest rate risk.

^B Certain fixed income securities are not significantly exposed to interest rate risk as their prescribed rates are variable.

^C Information in connection with the terms to maturity of fund and certain directly held investments included as part of private debt securities is not available.

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounted to \$8,079 million as at March 31, 2019 (\$7,624 million as at March 31, 2018) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in 4.1.4, which amounted to \$725 million as at March 31, 2019 (\$635 million as at March 31, 2018), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the absolute volatility calculation described in Note 7.1.1.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 8.2.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through holding of investments (i.e. direct and indirect holdings of securities, units in pooled funds and units in limited partnerships) or investment-related liabilities in various currencies. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

Currency	March 31, 2019		March 31, 2018	
	Fair Value (Canadian \$ millions)	% of Total	Fair Value (Canadian \$ millions)	% of Total
US Dollar	6,300	63.6	5,978	68.4
Euro	1,475	14.9	886	10.1
British Pound	572	5.8	214	2.5
Australian Dollar	218	2.2	191	2.2
Japanese Yen	201	2.0	258	3.0
Hong Kong Dollar	186	1.9	174	2.0
Mexican Peso	174	1.8	142	1.6
Brazilian Real	116	1.2	156	1.8
Indian Rupee	115	1.2	100	1.1
South Korean Won	96	1.0	190	2.2
Swiss Franc	66	0.7	58	0.7
New Taiwan Dollar	66	0.7	75	0.9
Others	311	3.0	315	3.5
Total	9,896	100.0	8,737	100.0

As at March 31, 2019, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of \$1,561 million for the Plan Account (US\$987 million, €143 million, £7 million, 2 million South African rands, 979 million Colombian pesos, 192 million Mexican pesos and 1 million Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2018, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of \$1,696 million for the Plan Account (US\$1,065 million, €185 million, £13 million, 2 million South African rands, 984 million Colombian pesos and 104 million Mexican pesos) which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities purchased under reverse repurchase agreements, is unable to meet its financial obligations.

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation for public issuers and counterparties, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings. For private issuers, PSP Investments assigns internal credit ratings to issuers and measures the combined risk profile against set targets. To assign risk ratings to issuers, PSP Investments uses methodologies comparable to those used by recognized rating agencies.

As at March 31, 2019, the Plan Account's maximum exposure to credit risk amounted to \$5 billion (March 31, 2018 – \$4 billion). This amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating for credit-sensitive securities. The concentration of credit risk by credit rating was as follows as at:

Credit Rating	March 31, 2019 (%)	March 31, 2018 (%)
AAA-AA	48.4	51.2
A	23.6	20.9
BBB	2.3	2.5
BB or below	25.1	24.4
No rating ^A	0.6	1.0
Total	100.0	100.0

^A Includes securities for public issuers and counterparties, that are either not rated by credit rating agencies or rated by a single credit rating agency.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts, securities lending and borrowing as well as securities repurchase and reverse repurchase agreements. In order to minimize counterparty risk, PSP Investments requires that counterparties provide adequate collateral and meet its credit rating requirements. PSP Investments frequently monitors the credit rating of its counterparties as determined by recognized credit rating agencies. With respect to derivative contracts, PSP Investments has the ability to terminate all trades with most counterparties whose credit rating is downgraded below its requirements.

For OTC derivatives, PSP Investments' policy also requires the use of the International Swaps and Derivative Association (ISDA) Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted. In the case of OTC-cleared derivatives, trading activities are regulated between parties under terms that are customary to such transactions.

As a credit mitigation technique, the ISDA Master Agreement contractually binds counterparties to close-out netting provisions in the case of default by one of the counterparties. Additionally, the Credit Support Annex (CSA) to the ISDA Master Agreement enables PSP Investments to realize any collateral placed with it in the case of default of the counterparty. The CSA also requires PSP Investments to contribute further collateral when requested. All collateral transactions under the CSA are in cash, high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. Counterparties are generally authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held in the form of securities but does reinvest all cash collateral with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing agreements as well as securities repurchase and reverse repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 2.3.5 and 2.3.6 describe collateral requirements in securities lending and borrowing programs as well as securities repurchase and reverse repurchase agreements.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 5.

In the case of the securities lending program, PSP Investments' exposure to counterparty risk is further mitigated as the custodian of the securities lent assumes the risk that a counterparty will be unable to meet its obligations associated with the collateral requirements.

Management is responsible for counterparty risk monitoring and mitigation as well as maintaining a comprehensive, disciplined, and enterprise-wide process for tracking and managing counterparty risk. As such, management measures counterparty risk on an ongoing basis, evaluates and tracks the creditworthiness of current counterparties and mitigates counterparty risk through collateral management.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Statements of Financial Position. Securities repurchase and reverse repurchase agreements described in Notes 2.3.6 and 5 are subject to similar arrangements however they are not offset as the conditions for offsetting are not met.

The following tables present the financial assets and liabilities described above:

Financial Assets

(Canadian \$ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2019						
Reverse repurchase agreements	432	—	432 ^A	281	151	—
OTC-derivatives	100	—	100 ^B	56	39	5
Total	532	—	532	337	190	5
March 31, 2018						
Reverse repurchase agreements	136	—	136 ^A	36	100	—
OTC-derivatives	67	3	64 ^B	63	—	1
Total	203	3	200	99	100	1

Financial Liabilities

(Canadian \$ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2019						
Repurchase agreements	406	—	406 ^A	281	125	—
OTC-derivatives	62	—	62 ^B	55	6	1
Collateral payable	1	—	1 ^C	1	—	—
Total	469	—	469	337	131	1
March 31, 2018						
Repurchase agreements	42	—	42 ^A	36	6	—
OTC-derivatives	117	3	114 ^B	63	51	—
Collateral payable	—	—	—	—	—	—
Total	159	3	156	99	57	—

^A As described in Note 4.1.10.

^B As described in Note 4.1.12.

^C As described in Note 4.1.9. The balance consists of cash collateral received with respect to certain OTC derivative transactions, and is included in Note 4.1 as part of collateral payable.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

Liquidity risk corresponds to the risk that PSP Investments will not be able to meet its financial obligations on a timely basis, with sufficient and readily available cash resources. PSP Investments' cash position is monitored on a daily basis. In general, investments in cash, money market securities, floating rate notes, bonds and public equities are expected to be highly liquid as they will be invested in securities that are actively traded. Management utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. A liquidity report taking into consideration future forecasted cash flows is prepared and presented to senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, sufficient sources of liquidity are maintained for deployment in case of market disruption.

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 8.2 provides additional information on the usage of the capital market debt program. Furthermore, PSP Investments maintains credit facilities for general corporate purposes. Note 8.1 provides additional information with respect to such credit facilities.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4.1.12.

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2019 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities^A				
Amounts payable from pending trades	(69)	—	—	(69)
Interest payable	(5)	—	—	(5)
Securities sold short	(456)	—	—	(456)
Collateral payable	(218)	—	—	(218)
Securities sold under repurchase agreements	(406)	—	—	(406)
Capital market debt financing	(342)	(154)	(524)	(1,020)
Trade payable and other liabilities	(5)	(9)	(9)	(23)
Total	(1,501)	(163)	(533)	(2,197)
(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	48	40	26	114
Derivative-related liabilities ^A	(17)	(25)	(28)	(70)
Total	31	15	(2)	44

^A Liabilities are presented in the earliest period in which the counterparty can request payment.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

Financial Liabilities (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2018 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities^A				
Amounts payable from pending trades	(84)	–	–	(84)
Interest payable	(4)	–	–	(4)
Securities sold short	(477)	–	–	(477)
Collateral payable	(259)	–	–	(259)
Securities sold under repurchase agreements	(42)	–	–	(42)
Capital market debt financing	(343)	(116)	(426)	(885)
Trade payable and other liabilities	(11)	–	(8)	(19)
Total	(1,220)	(116)	(434)	(1,770)

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	36	17	30	83
Derivative-related liabilities ^A	(60)	(35)	(31)	(126)
Total	(24)	(18)	(1)	(43)

^A Liabilities are presented in the earliest period in which the counterparty can request payment.

8 — Borrowings

8.1. Credit Facilities

PSP Investments maintains a revolving credit facility in the amount of \$2 billion and a demand line of credit in the amount of \$1 billion (together “the Credit Facilities”).

The Credit Facilities are for general corporate purposes and are available in either Canadian or US currencies. Subject to customary terms and conditions, these Credit Facilities are available at variable interest rates such as the prime rate and the US base rate.

These Credit Facilities were not drawn upon as at March 31, 2019 and 2018.

8.2. Capital Market Debt Financing

PSP Investments’ capital market debt program consists of the private placement of short-term promissory notes as well as medium-term notes issued by PSP Capital Inc., a wholly owned subsidiary of PSP Investments. The capital raised is primarily used to finance private market investments. It is unconditionally and irrevocably guaranteed by PSP Investments in accordance with its corporate leverage policy. The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed \$12 billion for issuances in Canada and the United States combined.

PSP Investments’ capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2019 and 2018.

The following outlines the terms as well as the fair value of the notes issued under the capital market debt program allocated to the Plan Account as at:

	March 31, 2019		March 31, 2018	
	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
(Canadian \$ millions)				
Short-term Canadian Dollar promissory notes, bearing interest between 1.79% and 2.20% and maturing within 56 and 365 days of issuance (March 31, 2018 – between 1.16% and 1.85%, maturing within 26 and 364 days)	47	47	69	69
Short-term US Dollar promissory notes, bearing interest between 2.45% and 2.84% and maturing within 21 and 365 days of issuance (March 31, 2018 – between 1.39% and 2.17%, maturing within 28 and 365 days)	451	449	391	390
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	69	70	72	74
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	68	72	72	75
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	91	90	91	88
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	72	72	70	69
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	126	126	124	120
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	90	94	–	–
Total	1,014	1,020	889	885

Unrealized losses in connection with borrowings amounted to \$14 million for the year ended March 31, 2019 (unrealized gains of \$14 million for the year ended March 31, 2018).

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

Interest expense, for the years ended March 31, was as follows:

(Canadian \$ millions)	2019	2018
Short-term promissory notes	11	6
Medium-term notes	10	8
Total	21	14

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2019.

(Canadian \$ millions)	Opening balance	Proceeds from borrowing	Repayment of borrowings	Non-cash changes		Closing balance
				Foreign exchange losses	Fair value ^A losses	
Capital market debt financing	885	2,437	(2,317)	2	13	1,020
Credit facilities	–	–	–	–	–	–
Borrowings	885	2,437	(2,317)	2	13	1,020

^A Includes interest on short-term promissory notes, which added to cost approximates their fair value.

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2018.

(Canadian \$ millions)	Opening balance	Proceeds from borrowing	Repayment of borrowings	Non-cash changes		Closing balance
				Foreign exchange gains	Fair value ^A gains	
Capital market debt financing	784	1,978	(1,863)	(3)	(11)	885
Credit facilities	–	2	(2)	–	–	–
Borrowings	784	1,980	(1,865)	(3)	(11)	885

^A Includes interest on short-term promissory notes, which added to cost approximates their fair value.

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

9.2. Fund Transfers

PSP Investments received fund transfers from the Government of Canada of \$232 million for the year ended March 31, 2019 (\$280 million for the year ended March 31, 2018) for the Fund, recorded in the Plan Account.

10 — Segment Information

Investment Segments

In order to fulfil its mandate, PSP Investments manages a diversified global portfolio composed of investments in various asset classes and has implemented an investment approach that focuses in the total fund approach rather than only on individual asset classes. The total fund approach guides the long-term investment strategy and focuses on managing total fund allocations and exposures in terms of asset classes, sectors and risk factors.

Accordingly, PSP Investments' investment segments are presented below to reflect the way in which asset classes are managed and how results are reviewed by the entity's senior management for purposes of performance management and decision making. These investment segments include their respective share of investment-related assets and investment-related liabilities as well as borrowings, which are reported separately by nature of the underlying investments as disclosed in Note 4.1. Further, to support PSP Investments' investment approach, a Complementary Portfolio is managed in addition to the individual asset classes' portfolios, which enables PSP Investments to capture investment opportunities that fit the mandate but that are outside the scope of the individual asset classes' investment framework.

Investment segments consist of investments held through direct and co-ownership positions as well as through fund managers and include:

- Public Markets – invests in public market equities, government and corporate fixed income.
- Real Estate – invests in real estate assets mainly in retirement and residential, office, retail and other industrial sectors.
- Private Equity – invests in private entities with similar objectives.
- Infrastructure – invests in private entities with a focus on assets in transportation, power generation, telecommunications and other regulated businesses.
- Natural Resources – invests in real assets with a focus on assets in timberlands, agriculture and upstream oil and gas.
- Private Debt – invests in non-investment grade primary and secondary credit investments.
- Complementary Portfolio – focuses on investments that are not within the mandate of existing asset classes but are deemed beneficial for the total fund.

The following tables present net investments by investment segment as at:

	March 31, 2019								
(Canadian \$ millions)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^A	Total
	5,840	1,701	1,701	1,215	488	757	103	333	12,138

	March 31, 2018								
(Canadian \$ millions)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^A	Total
	5,564	1,687	1,407	1,086	351	643	160	212	11,110

^A Includes cash and money market securities not managed within the operating segments.

10 — Segment Information (continued)

Investment Segments (continued)

The following table presents net income from operations by investment segment for the year ended March 31, 2019.

(Canadian \$ millions)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^c	Total
Investment income ^A	249	136	233	87	44	61	–	71	881
Expenses ^B	(29)	(18)	(7)	(13)	(5)	(4)	(1)	(1)	(78)
Net income	220	118	226	74	39	57	(1)	70	803

^A As described in Note 11, embedded within investment income are other fees paid by certain pooled fund investments and management fees not paid directly by PSP Investments.

^B Includes all investment-related and operating expenses as disclosed in Notes 11 and 12, respectively.

^C Includes cash and money market securities not managed within the operating segments.

The following table presents net income from operations by investment segment for the year ended March 31, 2018.

(Canadian \$ millions)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^c	Total
Investment income ^A	459	212	151	170	34	41	39	(60)	1,046
Expenses ^B	(26)	(14)	(6)	(10)	(4)	(3)	(1)	(1)	(65)
Net income	433	198	145	160	30	38	38	(61)	981

^A As described in Note 11, embedded within investment income are other fees paid by certain pooled fund investments and management fees not paid directly by PSP Investments.

^B Includes all investment-related and operating expenses as disclosed in Notes 11 and 12, respectively.

^C Includes cash and money market securities not managed within the operating segments.

11 — Investment-Related Expenses

Investment-related expenses allocated to the Plan Account are comprised of the following for the years ended March 31:

(Canadian \$ millions)	2019	2018
Interest expense	25	15
Transaction costs	9	10
External investment management fees ^A	2	3
Other (net)	6	4
Total	42	32

^A Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to \$17 million for the year ended March 31, 2019 (\$12 million for the year ended March 31, 2018). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.2% and 2.5% of the total invested and/or committed amount, totaled \$24 million for the year ended March 31, 2019 (\$23 million for the year ended March 31, 2018). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

Operating expenses allocated to the Plan Account consisted of the following for the years ended March 31:

(Canadian \$ millions)	2019	2018
Salaries and employee benefits	21,151	19,045
Professional and consulting fees	5,568	5,231
Premises and equipment	2,268	1,863
Market data and business applications	2,677	2,287
Depreciation of equipment	2,362	2,241
Custodial fees	387	331
Other operating expenses	2,058	1,679
Total	36,471	32,677

13 — Allocation of Comprehensive Income

PSP Investments' comprehensive income is allocated to each Plan Account as follows:

13.1. Investment Income

The investment income is allocated proportionately based upon the net investments of each Plan Account at the time the income was incurred.

13.2. Expenses

The Act requires that the costs of operation of PSP Investments be charged to the Plan Accounts. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged, in consultation with the Minister of National Defence and the Minister of Public Safety and Emergency Preparedness. An allocation policy was developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, based upon the net investments of each Plan Account at the time the expense was incurred.

Operating expenses and other comprehensive income, excluding the direct cost of investment activities listed above, for the years ended March 31, were allocated in proportion to the annual amount of net investments of each Plan Account as follows:

(%)	2019	2018
Public Service Pension Plan Account	72.6	72.6
Canadian Forces Pension Plan Account	19.7	19.7
Royal Canadian Mounted Police Pension Plan Account	7.3	7.2
Reserve Force Pension Plan Account	0.4	0.5
Total	100.0	100.0

Expenses are paid by PSP Investments by way of advances from the Public Service Pension Plan Account, which are reimbursed by the other Plan Accounts on a quarterly basis.

14 — Related Party Transactions

14.1. Certain Investees

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 16 and 17, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income as those with unrelated parties.

Transactions between PSP Investments and its consolidated subsidiaries as well as related balances are eliminated upon consolidation and, therefore, are not disclosed in this note.

14.2. The Government of Canada and Government-Related Entities

Since PSP Investments is a Crown corporation as described in Note 1, it is considered to be related to the Government of Canada as well as other entities that are controlled, jointly controlled or significantly influenced by the Government of Canada (together "government-related entities").

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the funds transfers outlined in Note 9.2.

(ii) Government-Related Entities

PSP Investments may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1. Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on net assets and comprehensive income as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

14.3. Compensation of Key Management Personnel

Members of key management personnel are related parties of PSP Investments. Key management personnel are those persons having authority and responsibility for planning, directing and controlling PSP Investments' activities, directly or indirectly and consist of members of the Board of Directors, PSP Investments' senior management team and officers. Compensation earned by key management personnel allocated to the Plan Account for the years ended March 31 was recorded in the Statements of Comprehensive Income and was as follows:

(Canadian \$ millions)	2019	2018
Short-term compensation and other benefits	1,075	1,435
Long-term compensation and other benefits	678	348
Total	1,753	1,783

As disclosed in Note 16, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

15 — Capital Management

As an investment company, PSP Investments' objectives in managing its capital are:

- To invest fund transfers, outlined in Note 9.2, in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under the *Superannuation Acts* and the ability of the Plans to meet their financial obligations. The funds are also invested in accordance with the Investment Risk Management policies which are outlined in Note 7.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSP Investments has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 8.2 provides information on the capital market debt financing and Note 7.3 provides information on PSP Investments' liquidity.

The capital structure of PSP Investments consists of fund transfers and capital market debt financing. PSP Investments has no externally imposed restrictions on capital.

16 — Guarantees and Indemnities

PSP Investments provides indemnification to its Directors, its Officers, its vice-presidents and to certain PSP Investments representatives who are asked to serve on boards of directors (or like bodies) or investment advisory boards (or like bodies) of entities in which PSP Investments or its investment entity subsidiaries have made an investment or have a financial interest. As a result, but subject to the Act, PSP Investments may be required to indemnify these representatives for costs incurred, such as claims, actions or litigation in connection with the exercise of their duties, unless the liability of such a representative relates to a failure to act honestly and in good faith. To date, PSP Investments has not received any claims or made any payment for such indemnities.

In certain cases, PSP Investments also provides indemnification to third parties in the normal course of business. As a result, PSP Investments may be required to indemnify such third parties in connection with the performance of their contractual obligations. To date, PSP Investments has not received any claims nor made any payments for such indemnities.

PSP Investments unconditionally and irrevocably guarantees all credit facilities, as well as short-term promissory notes and medium-term notes issued by PSP Capital Inc., as described in Note 8.

In certain investment transactions, PSP Investments and its investment entity subsidiaries provided guarantees, indemnifications or issued letters of credit to third parties, the most significant of which are as follows:

- As at March 31, 2019 and 2018, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to \$2,602 million as at March 31, 2019 (March 31, 2018 – \$2,550 million), of which \$188 million has been allocated to the Plan Account (March 31, 2018 – \$185 million) plus applicable interest and other related costs. The arrangements mature between July 2019 and November 2029 as of March 31, 2019 (March 31, 2018 – between November 2018 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling \$54 million as at March 31, 2019 (March 31, 2018 – \$53 million), of which \$4 million has been allocated to the Plan Account (March 31, 2018 – \$4 million) in relation to investment transactions.

17 — Commitments

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at:

(Canadian \$ millions)	March 31, 2019	March 31, 2018
Foreign equity	–	–
Real estate	177	166
Private equity	744	823
Infrastructure	193	282
Natural resources	30	33
Private debt securities	299	273
Alternative investments	150	162
Total	1,593	1,739

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2019 (March 31, 2018 – 2035).

— Reserve Force Pension Plan Account

Financial Statements

Independent Auditors' Report

To the Minister of National Defence

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Sector Pension Investment Board – Reserve Force Pension Plan Account (the Reserve Force Pension Plan Account), which comprise the statements of financial position as at March 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Reserve Force Pension Plan Account as at March 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Reserve Force Pension Plan Account in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Reserve Force Pension Plan Account's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate

the Reserve Force Pension Plan Account or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Reserve Force Pension Plan Account's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Reserve Force Pension Plan Account's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on

the Reserve Force Pension Plan Account's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Reserve Force Pension Plan Account to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the Public Sector Pension Investment Board – Reserve Force Pension Plan Account coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are the applicable provisions of Part X of the *Financial Administration Act* and regulations, the *Public Sector Pension Investment Board Act* and regulations

and the by-laws of the Public Sector Pension Investment Board and its wholly owned subsidiaries.

In our opinion, the transactions of the Public Sector Pension Investment Board – Reserve Force Pension Plan Account that came to our notice during the audit of the financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in IFRSs have been applied on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Public Sector Pension Investment Board – Reserve Force Pension Plan Account's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Public Sector Pension Investment Board – Reserve Force Pension Plan Account to comply with the specified authorities.

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the financial statements are in compliance with the specified authorities referred to above.



Mélanie Cabana, CPA auditor, CA
Principal
for the Interim Auditor General of Canada

Montréal, Canada
14 May 2019



Montréal, Canada
14 May 2019

¹ CPA auditor, CA, public accountancy permit No. A121444

Statements of Financial Position

As at

(Canadian \$ thousands)	March 31, 2019	March 31, 2018
Assets		
Investments (Note 4.1)	874,172	805,673
Other assets	850	767
Total assets	875,022	806,440
Liabilities		
Trade payable and other liabilities	1,470	1,228
Investment-related liabilities (Note 4.1)	74,335	61,585
Borrowings (Notes 4.1, 8.2)	62,013	54,893
Due to the Public Service Pension Plan Account	–	548
Total liabilities	137,818	118,254
Net assets	737,204	688,186
Equity (Note 9)	737,204	688,186
Total liabilities and equity	875,022	806,440

The accompanying notes are an integral part of the Financial Statements.

On behalf of the Board of Directors:



Martin Glynn
Chair of the Board



William A. Mackinnon
Chair of the Audit Committee

Statements of Comprehensive Income

For the years ended March 31

(Canadian \$ thousands)	2019	2018
Investment income	53,873	65,296
Investment-related expenses (Note 11)	(2,577)	(2,028)
Net investment income	51,296	63,268
Operating expenses (Note 12)	(2,262)	(2,070)
Net income	49,034	61,198
Other comprehensive loss		
Remeasurement of the net defined benefit liability	(16)	(65)
Comprehensive income	49,018	61,133

Statements of Changes in Equity

For the years ended March 31

(Canadian \$ thousands)	2019	2018
Fund transfers		
Balance at beginning of period	329,631	329,631
Fund transfers received during the period (Note 9.2)	-	-
Balance at end of period	329,631	329,631
Retained earnings		
Balance at beginning of period	358,555	297,422
Comprehensive income	49,018	61,133
Balance at end of period	407,573	358,555
Total equity	737,204	688,186

The accompanying notes are an integral part of the Financial Statements.

Statements of Cash Flows

For the years ended March 31

(Canadian \$ thousands)	2019	2018
Cash flows from operating activities		
Net income	49,034	61,198
Adjustments for non-cash items:		
Depreciation of equipment (Note 12)	147	142
Effect of exchange rate changes on cash and cash equivalents	(142)	92
Unrealized losses (gains) on borrowings	835	(868)
	49,874	60,564
Net changes in operating assets and liabilities		
Increase in investments	(57,613)	(69,089)
Decrease (increase) in other assets	38	(40)
Increase in trade payable and other liabilities	166	125
Increase in investment-related liabilities	12,806	4,287
Net cash flows (used in) provided by operating activities	5,271	(4,153)
Cash flow from financing activities		
Proceeds from borrowings	150,216	124,558
Repayment of borrowings	(143,985)	(118,819)
Repayment to the Public Service Pension Plan Account	(2,380)	(2,404)
Advances from the Public Service Pension Plan Account	1,831	2,441
Net cash flows provided by financing activities	5,682	5,776
Cash flow from investing activities		
Acquisitions of equipment	(186)	(206)
Net cash flows used in investing activities	(186)	(206)
Net change in cash and cash equivalents	10,767	1,417
Effect of exchange rate changes on cash and cash equivalents	142	(92)
Cash and cash equivalents at the beginning of the period	19,027	17,702
Cash and cash equivalents at the end of the period^A	29,936	19,027
Supplementary disclosure of cash flow information		
Interest paid	(1,387)	(908)

^A As at March 31, 2019, cash and cash equivalents were comprised of \$29,851 thousand (March 31, 2018 – \$18,962 thousand) held for investment purposes and included in Note 4.1, as well as \$85 thousand (March 31, 2018 – \$65 thousand) held for administrative purposes and included in Other assets.

The accompanying notes are an integral part of the Financial Statements.

Notes to the Financial Statements

For the years ended March 31, 2019 and 2018

1 — Corporate Information

The Public Sector Pension Investment Board (“PSP Investments”) is a Crown corporation created under the *Public Sector Pension Investment Board Act* (the “Act”) to manage and invest amounts that are transferred to it pursuant to the *Superannuation Acts* (defined below), for the funds (as defined in the Act) of the pension plans established under the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act* (“CFSA”), the *Royal Canadian Mounted Police Superannuation Act* (collectively the “*Superannuation Acts*”), and certain regulations under the CFSA (the “CFSA Regulations”). The pension plans established under the *Superannuation Acts* consist of the Public Service pension plan, the Canadian Forces pension plan, and the Royal Canadian Mounted Police pension plan, and the pension plan established under the CFSA Regulations is the Reserve Force pension plan (the “Plan”). The Plan and the other pension plans are herein referred to collectively as the “Plans”.

The fund for which amounts are currently transferred to PSP Investments by the Government of Canada (the “Fund”) relates to pension obligations under the Plan for service on or after March 1, 2007 (“Post-2007 Service”). The account managed by PSP Investments for the Fund is herein referred to as the “Plan Account”. PSP Investments maintains records of the net contributions for the Fund, as well as the allocation of its investments and the results of its operations for the Fund in the Plan Account. PSP Investments also manages a plan account for the funds of the other Plans, and these and the Plan Account are collectively referred to herein as the “Plan Accounts”.

PSP Investments is responsible for managing amounts that are transferred to it for the Fund in the best interests of the beneficiaries and contributors under the CFSA Regulations. The amounts are to be invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plan and the Plan’s ability to meet its financial obligations.

Pursuant to the CFSA and the CFSA Regulations, the Government of Canada, which administers the Plan and the Fund, may at any time call upon the net assets of PSP Investments allocated to the Fund’s Plan Account for amounts required for the purpose of paying benefits under the Plan in respect of Post-2007 Service.

PSP Investments and the majority of its subsidiaries are exempt from Part I tax under paragraphs 149(1)(d) and 149(1)(d.2) of the *Income Tax Act* (Canada), respectively.

PSP Investments’ registered office is located at 1 Rideau Street, Ottawa, Ontario, Canada and its principal business office is at 1250 René-Lévesque Boulevard West, Montreal, Quebec, Canada.

2 — Significant Accounting Policies

The significant accounting policies that have been applied in the preparation of these Financial Statements are summarized below and have been used throughout all periods presented.

2.1. Basis of Presentation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

PSP Investments qualifies as an investment entity as defined under IFRS 10 *Consolidated Financial Statements* and, consequently, does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. Instead, PSP Investments measures its investments in subsidiaries at fair value through profit or loss (“FVTPL”) in accordance with IFRS 9 *Financial Instruments* (“IFRS 9”), including those that are formed by PSP Investments and that qualify as investment entities (“investment entity subsidiaries”). PSP Investments also measures its investments in associates, joint ventures and financial assets and financial liabilities at FVTPL in accordance with IAS 28 *Investments in Associates and Joint Ventures* and IFRS 9.

These Financial Statements present the Plan Account’s financial position and results of operations of PSP Investments and its subsidiaries that solely provide it with services that relate to its investment activities, as allocated to the Plan Account. They reflect the economic activity of PSP Investments as it pertains to the investment of the net contributions transferred to it for the Fund in respect of Post-2007 Service. Accordingly, they do not reflect all of the assets or the details of the pension contributions, payments and liabilities under the Plan.

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 14, 2019.

2 — Significant Accounting Policies

(continued)

2.2. Investment Entity Status

PSP Investments has determined that it meets the mandatory items of the definition of an investment entity under IFRS 10 on the basis of the facts and circumstances as at the end of the period. They are as follows:

(i) Mandate and business purpose

As further described in Note 1, PSP Investments' mandate is to manage and invest the amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. Consequently, PSP Investments' business purpose is to invest with a view of achieving a maximum rate of return from capital appreciation and income from investments, without undue risk of loss.

(ii) Performance evaluation

PSP Investments measures and evaluates the performance of its investments on a fair value basis.

In addition to the mandatory items of the definition, IFRS 10 also outlines certain typical characteristics of an investment entity, the absence of any of which does not necessarily preclude an entity from qualifying as an investment entity. One of these characteristics is that an investment entity should have investors that are not related parties of the entity.

As described in Note 14, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

Should any changes occur in the facts and circumstances, PSP Investments will evaluate the impact of any such changes on its investment entity status.

2.3. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these Financial Statements are set out below.

2.3.1. Financial Instruments

(i) Classification

Financial assets representing investments are managed, together with related financial liabilities, according to the entity's business model to maximize the rate of return. The performance of such financial instruments is evaluated on a fair value basis and they are classified at FVTPL. They are described in detail in Note 4.1.

Borrowings, as described under Note 8, are financial liabilities that are designated to be measured at FVTPL since they are part of the portfolios of investments that are managed together and whose performance is evaluated on a fair value basis.

(ii) Recognition

Financial assets and financial liabilities are recorded at the date upon which PSP Investments becomes a party to the associated contractual provisions. In the case of traded financial assets, they are recorded as of the trade date.

(iii) Initial and subsequent measurement

All financial assets and financial liabilities are recorded in the Statements of Financial Position at fair value and continue to be measured as such on a recurring basis. After initial measurement, subsequent changes in the fair value of financial assets and financial liabilities classified at FVTPL are recorded in the Statements of Comprehensive Income.

If fair value changes in financial liabilities designated to be measured at FVTPL result from fluctuations in PSP Investments' own credit risk, they are recorded in other comprehensive income. All other changes in fair value are recorded in investment income.

(iv) Derecognition

A financial asset (or, where applicable, a part thereof) is derecognized when the following conditions are met:

- The rights to receive cash flows from the asset have expired, or
- PSP Investments has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows to a third party,

and

- PSP Investments has transferred substantially all the risks and rewards of the asset, or
- In cases where PSP Investments has neither transferred nor retained substantially all the risks and rewards of the asset, it has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

2 — Significant Accounting Policies

(continued)

2.3. Summary of Significant Accounting Policies

(continued)

2.3.2. Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At initial recognition, PSP Investments evaluates the facts and circumstances related to a transaction to confirm that the transaction price represents the fair value of an asset or a liability. At each subsequent reporting date, market prices are used to determine fair value where an active market exists (such as a recognized securities exchange), as they reflect actual and regularly occurring market transactions on an arm's length basis. If quoted market prices are not available, then fair value is estimated using valuation techniques based on inputs existing at the end of the reporting period that are derived from observable market data.

Valuation techniques are generally applied to investments in private markets, alternative investments over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 4.

2.3.3. Functional and Presentation Currency

The functional and presentation currency of PSP Investments and its consolidated subsidiaries is the Canadian dollar, which is the currency of the primary economic environment in which each entity within the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars.

2.3.4. Foreign Currency Translation

Foreign currency transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities that are denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the end of the reporting period.

Foreign currency transaction gains and losses on all monetary assets and liabilities are included in investment income.

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or pledged as collateral, or recognize securities borrowed or received as collateral. Cash collateral received is recognized as described in Note 4.1.9.

The securities lending and borrowing programs require collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standard securities lending and borrowing programs. PSP Investments and its counterparties are authorized to sell, repledge or otherwise use collateral held. The same securities or equivalent securities must be returned to the counterparty at the end of the contract, unless an event of default occurs.

2.3.6. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements and Related Collateral

PSP Investments is party to repurchase and reverse repurchase agreements. Such agreements involve the sale of securities by one counterparty with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Securities sold or purchased under the repurchase and reverse repurchase agreements respectively, including related collateral, are not derecognized or recognized as all risks and rewards of ownership related to such securities are not transferred. As such, in the case where PSP Investments is the counterparty selling securities under such agreements, all income (loss) related to such securities continues to be reported in investment income and obligations to repurchase the securities sold are accounted for as investment-related liabilities. The difference between the fair value of the securities sold and the repurchase price is recorded as interest expense within investment-related expenses. In the case where PSP Investments is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income.

Transactions under repurchase and reverse repurchase agreements involve pledging collateral consisting of cash or securities deemed acceptable by the counterparties. Collateral transactions are conducted under terms that are usual and customary in standard repurchase arrangements. Such terms require the relevant counterparty to pledge additional collateral based on the changes in the fair value of the existing collateral pledged as well as the related securities sold or purchased. The counterparties are authorized to sell, repledge or otherwise use collateral held. The securities pledged as collateral must be returned to the relevant counterparty at the end of the contract, unless an event of default occurs.

2 — Significant Accounting Policies

(continued)

2.3. Summary of Significant Accounting Policies

(continued)

2.3.7. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset with the net amount reported in the Statements of Financial Position only if PSP Investments has a current legally enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.3.8. Equity

The statutory rights of the Government of Canada pursuant to the *Superannuation Acts* are described under Note 1 and are classified as equity instruments on the following basis:

- Under such rights the Government of Canada is entitled to PSP Investments' net assets at any time for the purposes set out in the *Superannuation Acts*. Such rights do not contain any additional obligations for PSP Investments to deliver amounts to the Government of Canada.
- Such rights are the most subordinate claim on PSP Investments' net assets.
- The total expected cash flows attributable to such rights, at any time, is solely based on the fair value of the net assets of PSP Investments at that time. Further, the fair value of the net assets of PSP Investments in its entirety represents the amounts that the Government of Canada may call upon at any time.

2.3.9. Investment Income

Investment income is made up of interest, dividends, gains (losses) on the disposal of financial assets and financial liabilities as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of financial assets held and financial liabilities outstanding at the end of the reporting period. Interest is recognized, on a consistent basis, using the prescribed rates until maturity. Dividends are recognized when the right to receive them has been obtained, generally on the ex-dividend date.

2.3.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, as described in Note 4.1.7, transaction costs, external investment management fees and other (net).

Transaction costs are incremental costs directly attributable to the acquisition, due diligence, issue, or disposal of a financial asset or financial liability, and they are expensed as incurred.

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets as outlined in Note 11.

2.3.11. Fund Transfers

Amounts are recorded for the Fund when received from the Government of Canada.

2.4. Significant Accounting Judgments, Estimates and Assumptions

In preparing the Financial Statements, management makes certain judgments, estimates and assumptions that can affect the amounts reported therein. Significant judgments include those related to the determination of the investment entity status as described in Note 2.2.

Management also makes estimates and assumptions in the measurement, risk assessment and related disclosures surrounding investments in private markets and certain fixed income securities. The main assumptions made by management regarding measurement of financial instruments are outlined in Note 4.2.3 and those regarding the assessment of risk are outlined in Note 7.

Although estimates and assumptions reflect management's best judgment, actual results may differ from such estimates due to the uncertainties involved in using them.

3 — Current and Future Changes in Accounting Standards

3.1. Current Accounting Standards

IAS 28 Investment in Associates and Joint Ventures

IAS 28 was amended, effective for annual periods beginning on or after January 1, 2018, to add a clarification that serves to elaborate and clarify that the election to measure investees at fair value is available on an investment by investment basis and is not an election that must be applied consistently to the measurement of all associates and joint ventures. PSP Investments has applied the amendments as of April 1, 2018 and there was no impact on its Consolidated Financial Statements.

IFRS 9 Financial Instruments

In 2014, the IASB completed its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9. The Standard includes requirements for recognition, derecognition, classification and measurement of financial assets and liabilities, as well as impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. PSP Investments early adopted IFRS 9 (2014) in its *Consolidated Financial Statements* for the year ended March 31, 2016.

Significant accounting policies as they relate to recognition, derecognition, classification and measurement of financial assets and liabilities in connection with IFRS 9 are described under Note 2.3.1. There is no impact from the requirements relating to impairment and hedge accounting.

3.2. Future Accounting Standards

PSP Investments has determined that there is no material impact on its Consolidated Financial Statements arising from new standards, amendments and interpretations that have been issued by the IASB, but that are not yet effective.

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are aggregated, in the following table, in classes that reflect their respective exposure as well as investment sectors. Their fair values were as follows, as at:

(Canadian \$ thousands)	March 31, 2019	March 31, 2018
Public markets		
Canadian equity	14,908	19,187
Foreign equity	142,418	156,005
Private markets		
Real estate	123,609	120,170
Private equity	88,875	73,227
Infrastructure	88,282	80,326
Natural resources	33,001	24,035
Fixed income		
Cash and money market securities	52,285	51,214
Government and corporate bonds	115,295	101,805
Inflation-linked bonds	61,565	55,630
Private debt securities	68,712	63,595
Alternative investments	44,097	39,383
	833,047	784,577
Investment-related assets		
Amounts receivable from pending trades	5,167	5,022
Interest receivable	2,189	1,891
Dividends receivable	628	598
Securities purchased under reverse repurchase agreements	26,220	8,406
Derivative-related assets	6,921	5,179
	41,125	21,096
Investments representing financial assets at FVTPL	874,172	805,673
Investment-related liabilities		
Amounts payable from pending trades	(4,200)	(5,240)
Interest payable	(304)	(251)
Securities sold short	(27,661)	(29,612)
Collateral payable	(13,228)	(16,087)
Securities sold under repurchase agreements	(24,716)	(2,589)
Derivative-related liabilities	(4,226)	(7,806)
Investment-related liabilities representing financial liabilities at FVTPL	(74,335)	(61,585)
Borrowings		
Capital market debt financing	(62,013)	(54,893)
Borrowings representing financial liabilities designated at FVTPL	(62,013)	(54,893)
Net investments	737,824	689,195

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.1. Public Markets

Public markets consist of Canadian and foreign investments in the following securities: common shares, American depository receipts, global depository receipts, participation notes, preferred shares, income trust units, exchange-traded funds units, pooled funds units, and securities convertible into common shares of publicly listed issuers.

Direct investments in Canadian and foreign equities are measured at fair value using quoted prices in active markets and are based on the most representative price within the bid-ask spread.

In the case of investments in pooled funds, fair value is measured using unit values obtained from each of the funds' administrators, which are derived from the fair value of the underlying investments in each pooled fund. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and natural resources.

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financing.

Private equity investments are comprised of fund investments with similar objectives, co-investments in private entities as well as direct equity positions.

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing.

Natural resources investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas. Natural resources investments are presented net of all third-party financing.

The process for fair value measurement of private markets investments is described in Note 4.2.2 and the valuation techniques together with the significant inputs used are described in Note 4.2.3.

4.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and private debt securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Statements of Cash Flows and amounted to \$29,851 thousand as at March 31, 2019 (March 31, 2018 – \$18,962 thousand). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds, floating rate notes, asset-backed term notes and mortgage-backed securities. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

Private debt securities are fixed income securities of private companies held directly or through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt and primary and secondary investments in leveraged loans. Private debt securities also include third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products in the real estate sector.

Fair values of government and most corporate bonds, inflation-linked bonds and mortgage-backed securities are based on prices obtained from third-party pricing sources. Such prices are determined using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

The fair values of certain corporate bonds, private debt securities and asset-backed term notes are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

The fair value measurement of fund investments included as part of private debt securities is described in Note 4.2.2.

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.4. Alternative Investments

Alternative investments consist mainly of units of funds that hold a mix of equity, fixed income and derivative instruments as well as hedge funds. The fair value of these investments is determined based on the fair values reported by the funds' administrators or general partners and reflects the fair value of the underlying equity, fixed income or derivative instruments, as applicable. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.5. Amounts Receivable and Payable from Pending Trades

Amounts receivable from pending trades consist of proceeds on sales of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

Amounts payable from pending trades consist of the cost of purchases of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

The fair value of amounts receivable and payable from pending trades reflects the value at which their underlying original sale or purchase transactions were undertaken.

4.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which due to their short-term maturity, approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.11, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

4.1.8. Securities Sold Short

Securities sold short reflect PSP Investments' obligation to purchase securities pursuant to short selling transactions. In such transactions, PSP Investments sells securities it does not own with an obligation to purchase similar securities on the market to cover its position.

Using quoted market prices that are based on the most representative price within the bid-ask spread, the fair value of securities sold short is measured using the same method as the similar long positions presented within public markets and fixed income.

4.1.9. Collateral Payable

As part of securities lending and certain OTC derivative transactions, cash collateral is received and reinvested by PSP Investments. PSP Investments recognizes cash collateral received with a corresponding payable. The payable balance reflects the obligation of the transferee to return cash collateral to the transferor at the end of the transaction in the absence of an event of default by the transferor.

4.1.10. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements

As described in Note 2.3.6, PSP Investments is party to repurchase and reverse repurchase agreements. Obligations to repurchase or resell the securities sold or purchased under such agreements are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value.

4.1.11. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 8.2. Short-term promissory notes are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.12. Derivative-Related Assets and Liabilities

Derivative financial instruments are financial contracts that are settled at a future date. The value of such instruments is derived from changes in the value of the underlying assets, interest or exchange rates. Derivative financial instruments do not, typically, require an initial net investment. In certain cases, they require an initial net investment that is less than what would be required to hold the underlying position directly. Derivative financial instruments can be listed or traded OTC. OTC instruments consist of those that are bilaterally negotiated and settled, and those that are cleared (OTC-cleared) by a central clearing party (CCP).

PSP Investments uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

PSP Investments uses the following types of derivative financial instruments:

Swaps

Swaps are transactions whereby two counterparties exchange cash flow streams with each other based on predetermined conditions that include a notional amount and a term. Swaps are used to increase returns or to adjust exposures of certain assets without directly purchasing or selling the underlying assets.

Futures

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a predefined price and predefined future date. Futures are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Forwards

Forwards are contracts involving the sale by one party and the purchase by another party of a predefined amount of an underlying instrument, at a predefined price and at a predefined date in the future. Forwards are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Options

Options are contracts where the seller gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index, commodity, currency, interest rate, credit or other financial instrument, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

Warrants are options to purchase an underlying asset which is in the form of a transferable security and which can be listed on an exchange or traded OTC.

Rights are securities giving shareholders entitlement to purchase new shares issued by a corporation at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

Determination of Fair Value of Derivative Financial Instruments

Listed derivative financial instruments are recorded at fair value using quoted market prices that are based on the most representative price within the bid-ask spread. OTC-cleared derivatives are recorded at fair value using prices obtained from the CCP. OTC derivatives are valued using appropriate valuation techniques such as discounted cash flows. These techniques use significant inputs that are observable in the market such as current market yields.

Notional Values and Fair Values of Derivative-Related Assets and Liabilities

Notional values of derivative financial instruments are not recorded as assets or liabilities as they represent the face amount of the contract. Except for credit derivatives, notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions disclosed below. Rather, they serve as the basis upon which the cash flows and the fair value of the contracts are determined.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

(Canadian \$ thousands)	March 31, 2019			March 31, 2018		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	15,279	—	—	17,080	—	—
Warrants and rights	6	6	—	12	13	—
Options: Purchased	22,510	750	—	47,672	1,134	—
Written	20,249	—	(347)	32,490	—	(647)
OTC						
Swaps	114,901	2,809	(832)	120,538	656	(2,923)
Options: Purchased	2,951	100	—	6,866	198	—
Written	2,377	—	(134)	3,838	—	(145)
Currency derivatives						
Listed						
Futures	1,323	—	—	543	—	—
OTC						
Forwards	87,289	513	(227)	124,937	893	(1,889)
Swaps	28,938	79	(159)	13,521	3	(252)
Options: Purchased	28,283	230	—	37,266	260	—
Written	25,882	—	(212)	38,275	—	(225)
Interest rate derivatives						
Listed						
Futures	48,970	—	—	65,728	—	—
Options: Purchased	210,417	150	—	222,958	82	—
Written	192,914	—	(121)	192,844	—	(66)
OTC						
Forwards	2,604	45	(72)	—	—	—
Swaps	112,261	1,077	(1,160)	65,718	788	(651)
Options: Purchased	237,383	1,157	—	224,667	1,120	—
Written	224,627	—	(916)	235,039	—	(941)
OTC-cleared						
Swaps	245,018	—	—	293,400	—	—
Credit derivatives						
OTC						
Credit default swaps: Purchased	2,934	1	(46)	5,598	—	(67)
Written ^A	396	4	—	1,059	9	—
Options: Purchased	—	—	—	2,902	23	—
OTC-cleared						
Credit default swaps: Purchased	3,607	—	—	5,586	—	—
Written ^A	—	—	—	2,710	—	—
Total		6,921	(4,226)		5,179	(7,806)

^A PSP Investments, through written credit default swaps, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the written credit default swaps as shown in the table above.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

(Canadian \$ thousands)	March 31, 2019			March 31, 2018		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Listed derivatives	511,668	906	(468)	579,327	1,229	(713)
OTC derivatives	870,826	6,015	(3,758)	880,224	3,950	(7,093)
OTC-cleared derivatives	248,625	—	—	301,696	—	—
Total		6,921	(4,226)		5,179	(7,806)

The terms to maturity based on notional value for the derivatives were as follows as at:

(Canadian \$ thousands)	March 31, 2019	March 31, 2018
Less than 3 months	414,333	567,125
3 to 12 months	714,136	540,048
Over 1 year	502,650	654,074

4.2. Fair Value Hierarchy

4.2.1. Classification

Financial assets and financial liabilities described under Note 4.1 are classified within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
 - (i) Quoted prices for similar assets or liabilities in active markets.
 - (ii) Quoted prices for identical or similar assets or liabilities in markets that are not active.
 - (iii) Inputs other than quoted prices that are observable for the asset or liability.
 - (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

The classification within the levels of the hierarchy is established at the time of the initial determination of fair value of the asset or liability and reviewed at the end of each reporting period. PSP Investments determines whether a transfer between levels has occurred and recognizes such transfer at the beginning of the reporting period.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2019 classified within the fair value hierarchy:

(Canadian \$ thousands)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	10,858	3,785	265	14,908
Foreign equity	125,488	9,566	7,364	142,418
Private markets				
Real estate	—	—	123,609	123,609
Private equity	—	—	88,875	88,875
Infrastructure	—	—	88,282	88,282
Natural resources	—	—	33,001	33,001
Fixed income				
Cash and money market securities	—	52,285	—	52,285
Government and corporate bonds	—	115,126	169	115,295
Inflation-linked bonds	—	61,565	—	61,565
Private debt securities	—	—	68,712	68,712
Alternative investments	—	9,331	34,766	44,097
	136,346	251,658	445,043	833,047
Investment-related assets				
Amounts receivable from pending trades	—	5,167	—	5,167
Interest receivable	—	2,189	—	2,189
Dividends receivable	—	628	—	628
Securities purchased under reverse repurchase agreements	—	26,220	—	26,220
Derivative-related assets	570	6,351	—	6,921
	570	40,555	—	41,125
Investments representing financial assets at FVTPL	136,916	292,213	445,043	874,172
Investment-related liabilities				
Amounts payable from pending trades	—	(4,200)	—	(4,200)
Interest payable	—	(304)	—	(304)
Securities sold short	(17,212)	(10,449)	—	(27,661)
Collateral payable	—	(13,228)	—	(13,228)
Securities sold under repurchase agreements	—	(24,716)	—	(24,716)
Derivative-related liabilities	(468)	(3,758)	—	(4,226)
Investment-related liabilities representing financial liabilities at FVTPL	(17,680)	(56,655)	—	(74,335)
Borrowings				
Capital market debt financing	—	(62,013)	—	(62,013)
Borrowings representing financial liabilities designated at FVTPL	—	(62,013)	—	(62,013)
Net investments	119,236	173,545	445,043	737,824

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2018 classified within the fair value hierarchy:

(Canadian \$ thousands)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	15,307	3,880	–	19,187
Foreign equity	132,952	14,526	8,527	156,005
Private markets				
Real estate	–	–	120,170	120,170
Private equity	–	–	73,227	73,227
Infrastructure	–	–	80,326	80,326
Natural resources	–	–	24,035	24,035
Fixed income				
Cash and money market securities	–	51,214	–	51,214
Government and corporate bonds	–	101,017	788	101,805
Inflation-linked bonds	–	55,630	–	55,630
Private debt securities	–	–	63,595	63,595
Alternative investments	–	7,509	31,874	39,383
	148,259	233,776	402,542	784,577
Investment-related assets				
Amounts receivable from pending trades	–	5,022	–	5,022
Interest receivable	–	1,891	–	1,891
Dividends receivable	–	598	–	598
Securities purchased under reverse repurchase agreements	–	8,406	–	8,406
Derivative-related assets	902	4,277	–	5,179
	902	20,194	–	21,096
Investments representing financial assets at FVTPL	149,161	253,970	402,542	805,673
Investment-related liabilities				
Amounts payable from pending trades	–	(5,240)	–	(5,240)
Interest payable	–	(251)	–	(251)
Securities sold short	(22,824)	(6,788)	–	(29,612)
Collateral payable	–	(16,087)	–	(16,087)
Securities sold under repurchase agreements	–	(2,589)	–	(2,589)
Derivative-related liabilities	(713)	(7,093)	–	(7,806)
Investment-related liabilities representing financial liabilities at FVTPL	(23,537)	(38,048)	–	(61,585)
Borrowings				
Capital market debt financing	–	(54,893)	–	(54,893)
Borrowings representing financial liabilities designated at FVTPL	–	(54,893)	–	(54,893)
Net investments	125,624	161,029	402,542	689,195

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2019.

During the year ended March 31, 2018, listed equity securities with a fair value of \$193 thousand, classified as Level 2 as at March 31, 2017 were transferred to Level 1 as a result of trading restrictions having expired.

4 — Financial Assets and Financial Liabilities

(continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

The valuation process is monitored and governed by an internal valuation committee (“VC”). This committee is responsible for overseeing all aspects of fair value determination. This includes establishing valuation methodologies and procedures for each type of investment and ensuring they are complied with. Valuation methodologies established are based on widely recognized practices that are consistent with professional appraisal standards. Such standards include, among others, the *International Private Equity and Venture Capital Valuation Guidelines*, the *Canadian Uniform Standards of Professional Appraisal Practice* and the *Uniform Standards of Professional Appraisal Practice* in the United States of America.

The fair value of investments classified as Level 3 is determined at least annually. Quarterly, the fair value is reviewed and adjusted, as appropriate, to reflect the impact of any significant market or investment-specific events or circumstances. For each investment, the relevant valuation methodology is applied consistently over time as appropriate in the prevailing circumstances. The appropriateness of significant changes in valuation methodologies is reviewed by the VC.

In cases where the services of third-party appraisers are used, management ensures their independence and that valuation methods used are consistent with professional appraisal standards outlined above. In validating the work performed by appraisers, management ensures that the assumptions used correspond to financial information and forecasts of the underlying investment.

With respect to fund investments classified as Level 3, the annual fair value is generally determined based on audited financial statements received from the fund's general partner. In certain cases fair value is obtained from information provided by the fund's administrators and is reviewed by Management to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2019:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian \$ thousands)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	265	Net asset value method (NAV) ^A	N/A	N/A
Foreign equity	Direct investments	7,364	NAV ^A	N/A	N/A
Private markets					
Real estate	Direct and co-investments	115,549	Discounted cash flow (DCF)	Discount rate ^{B, C}	4.10% – 20.00% (7.55%)
				Terminal capitalization rate ^{B, C}	4.25% – 10.25% (5.92%)
			Direct capitalization	Capitalization rate ^{B, D}	2.50% – 8.98% (5.57%)
				Stabilized occupancy rate ^{D, E}	93.00% – 100.00% (98.22%)
			Sales comparison approach	Price per square foot ^{D, E}	\$0.95 – \$2,057.93 (\$281.99)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	8,060	NAV ^A	N/A	N/A
Other private markets	Direct and co-investments	148,427	DCF	Discount rate ^B	6.00% – 12.50% (8.79%)
			Market comparables	N/A	N/A
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	61,731	NAV ^A	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	129	DCF	Discount rate ^B	52.50%
	Asset-backed term notes	40	Third-party pricing ^A	N/A	N/A
Private debt securities	Direct and co-investments	47,425	DCF	Discount rate ^B	5.54% – 18.76% (9.77%)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	21,287	NAV ^A	N/A	N/A
Alternative investments	Fund investments	34,766	NAV ^A	N/A	N/A
Total		445,043			

^A In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

^B An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

^C An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

^D There is no predictable direct relationship between this input and any other significant unobservable input.

^E An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2018:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian \$ thousands)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets Foreign equity	Direct investments	8,527	Net asset value method (NAV) ^A	N/A	N/A
Private markets Real estate	Direct and co-investments	112,766	Discounted cash flow (DCF)	Discount rate ^{B, C} Terminal capitalization rate ^{B, C}	5.00% – 22.10% (7.94%) 4.25% – 9.75% (5.92%)
			Direct capitalization	Capitalization rate ^{B, D} Stabilized occupancy rate ^{D, E}	2.75% – 9.09% (5.30%) 94.00% – 100.00% (98.29%)
			Sales comparison approach	Price per square foot ^{D, E}	\$27.50 – \$1,107.92 (\$90.83)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	7,404	NAV ^A	N/A	N/A
Other private markets	Direct and co-investments	122,551	DCF	Discount rate ^B	6.00% – 12.70% (8.94%)
			Market comparables	N/A	N/A
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	55,037	NAV ^A	N/A	N/A
Fixed income Corporate bonds	Convertible bonds	740	DCF	Discount rate ^B	4.70% – 10.00% (7.40%)
	Asset-backed term notes	48	Third-party pricing ^A	N/A	N/A
Private debt securities	Direct and co-investments	45,741	DCF	Discount rate ^B	5.90% – 17.25% (9.79%)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	17,854	NAV ^A	N/A	N/A
Alternative investments	Fund investments	31,874	NAV ^A	N/A	N/A
Total		402,542			

^A In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

^B An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

^C An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

^D There is no predictable direct relationship between this input and any other significant unobservable input.

^E An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2019:

(Canadian \$ thousands)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses) ^A	Transfer out of Level 3	Closing Balance
Public markets	8,527	2,457	(2,997)	–	1,896	(2,256)	2	7,629
Private markets	297,758	66,185	(42,046)	–	8,444	3,820	(394)	333,767
Fixed income	64,383	25,841	(20,082)	(264)	681	(1,678)	–	68,881
Alternative investments	31,874	3,913	(2,484)	–	200	1,263	–	34,766
Derivative-related receivables/payables (net)	–	–	–	–	–	–	–	–
Total	402,542	98,396	(67,609)	(264)	11,221	1,149	(392)	445,043

^A Includes Plan Account allocation adjustments.

As at March 31, 2018, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2019, the investment was transferred to Level 1 as the related securities became publicly traded.

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2018:

(Canadian \$ thousands)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains ^A	Transfer out of Level 3	Closing Balance
Public markets	1,367	3,021	(264)	–	30	4,373	–	8,527
Private markets	256,625	44,816	(20,444)	–	5,060	11,760	(59)	297,758
Fixed income	43,638	35,538	(14,646)	(118)	1,000	(1,029)	–	64,383
Alternative investments	30,049	6,088	(4,259)	–	359	(363)	–	31,874
Derivative-related receivables/payables (net)	–	78	–	(78)	–	–	–	–
Total	331,679	89,541	(39,613)	(196)	6,449	14,741	(59)	402,542

^A Includes Plan Account allocation adjustments.

As at March 31, 2017, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2018, the investment was transferred to Level 2 as the related securities became publicly traded. The securities held by PSP Investments are unregistered and can only be sold upon their registration.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2019 (March 31, 2018 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 2.3.5, 2.3.6 and 7.2.1. The following table illustrates the fair values of the Plan Account's allocated collateral, as well as the securities under the lending and borrowing programs and the securities under the repurchase and reverse repurchase agreements, as at:

(Canadian \$ thousands)	March 31, 2019	March 31, 2018
Securities lending and borrowing		
Securities lent	35,088	52,016
Collateral held ^A	36,980	55,349
Securities borrowed	17,222	22,981
Collateral pledged ^B	17,746	23,794
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	24,881	2,631
Collateral pledged	24,818	2,628
Securities purchased under reverse repurchase agreements	26,360	8,477
Collateral held ^C	26,314	8,444
Derivative contracts		
Collateral pledged	4,018	8,009
Collateral held ^D	2,442	14

^A The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to \$13,099 thousand for the Plan Account as at March 31, 2019 (March 31, 2018 – \$15,779 thousand) and securities amounted to \$23,881 thousand as at March 31, 2019 (March 31, 2018 – \$39,570 thousand). All cash collateral is reinvested.

^B The minimum fair value of collateral required is equal to 100% of the fair value of the securities borrowed.

^C The collateral received is in the form of securities of which \$10,449 thousand has been used in connection with short selling transactions as at March 31, 2019 (March 31, 2018 – \$6,788 thousand) and \$69 thousand has been used in connection with securities sold under repurchase agreements (March 31, 2018 – nil).

^D As part of collateral held, cash amounted to \$33 thousand as at March 31, 2019 (March 31, 2018 – \$11 thousand) and securities amounted to \$2,409 thousand as at March 31, 2019 (March 31, 2018 – \$3 thousand). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

As an investment entity, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. PSP Investments measures its investments in its subsidiaries, joint ventures and associates at FVTPL as described in Note 2.1.

For purposes of preparing this note, management assesses control, joint control and significant influence as follows:

(i) *Control and significant influence*

PSP Investments determines that it has control over an investee when it is exposed, or has rights, to variable returns from its investment in an entity and has the ability to affect those returns through its power over the investee.

In certain cases, PSP Investments does not have control over an investee but has the power to participate in the financial and operating policy decisions of the investee. In such cases, PSP Investments determines that it has significant influence over the investee.

In the context of control or significant influence, power over an investee is obtained through voting rights conveyed by PSP Investments' ownership interest, other contractual arrangements, or a combination thereof.

(ii) *Joint control*

PSP Investments determines that it is party to a joint venture arrangement when it has joint control over an investee and has rights to the net assets of the investee. Joint control is established through a contractual arrangement which requires the unanimous consent of the parties sharing control for the activities that significantly affect the returns of the arrangement.

Generally, decision making regarding such activities is governed through voting rights conveyed by the ownership interest of each party. In certain cases, it is governed solely through contractual arrangements or in conjunction with the ownership interest of each party.

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2019, 108 investment entity subsidiaries were incorporated in North America, 17 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2018 – 103 in North America, 23 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 81 investees directly or through its investment entity subsidiaries as at March 31, 2019 (March 31, 2018 – 80 investees).

The following tables present, in descending order, the most significant investees held directly or indirectly by PSP Investments where it has control, joint control or significant influence.

Entity's Name	March 31, 2019		
	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
AviAlliance GmbH	Europe	100	Controlled investee
Revera Inc.	North America	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Forth Ports Limited	Europe	51	Jointly controlled investee
TDF S.A.S.	Europe	22	Associate
Roccapina Fund, L.P.	North America	100	Controlled investee
Big Box Properties	North America	49	Jointly controlled investee

Entity's Name	March 31, 2018		
	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
Revera Inc.	North America	100	Controlled investee
AviAlliance GmbH	Europe	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
Roccapina Fund, L.P.	North America	100	Controlled investee
TDF S.A.S.	Europe	22	Associate
Cubico Sustainable Investments Limited	Global	50	Jointly controlled investee
Big Box Properties	North America	49	Jointly controlled investee

In addition to the above, PSP Investments consolidates wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services consist of investment management and financing of private market investments within the context of PSP Investments' capital market debt program described in Note 8.2.

6.2. Structured Entities

PSP Investments holds interests in partnerships and funds mainly in the context of its investments in private markets. Given their nature, such entities commonly have the characteristics of a structured entity as defined by IFRS. These entities are held as investments and do not expose PSP Investments to additional risks or returns compared to interests held in non-structured entities.

Information regarding structured entities is included, as applicable, within disclosures of investment risk management under Note 7, guarantees and indemnities under Note 16 and commitments under Note 17.

7 — Investment Risk Management

PSP Investments is required to act in the best interests of the contributors and beneficiaries under the Plans and for maximizing returns without undue risk of loss. In pursuit of this objective, PSP Investments established an Enterprise Risk Management Policy (ERM Policy). The ERM Policy provides a framework for identifying, evaluating, managing, mitigating, monitoring and reporting the investment and non-investment risks to which PSP Investments is exposed.

As part of the overall ERM policy, the objective of the Investment Risk Management Policy (IRM Policy) is to support the management of risk inherent to the investment decision making process. The IRM Policy outlines a framework detailing how investment activities should comply with PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite. The IRM Policy also supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), whose objective is to effectively manage investment risks related to the implementation of PSP Investments' various investment strategies. Investment risks include market, credit and liquidity risks.

7.1. Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of an adverse financial outcome due to changes in the factors that drive that value, such as changes in market prices, changes caused by factors specific to the individual investment, volatility in share and commodity prices, interest rate, foreign exchange or other factors affecting similar securities traded in the market.

7.1.1. Measurement of Market Risk

The absolute annualized volatility of the total portfolio is used as the primary measure of market risk. The absolute volatility is a statistical measure of the size of changes in investment returns of a given investment or portfolio of investments. It is used to illustrate the potential loss of value in an investment or portfolio of investments as a result of fluctuations in market prices.

PSP Investments uses seven years' worth of market returns scaled to a twelve-month holding period to calculate the absolute volatility. For investments that are not actively traded, the calculation of the absolute volatility uses securities with similar risk attributes as a proxy.

The absolute volatility is statistically valid under normal market conditions and does not specifically consider losses from severe market events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

The following table shows the absolute volatility of the total portfolio expressed as a percentage of net investments as at the end of the period:

	March 31, 2019 (%)	March 31, 2018 (%)
Absolute volatility	7.3	7.2

Stress Testing

Although the absolute volatility is a widely accepted risk measure, it is complemented by other risk measurement methodologies that provide greater insight on market risk. PSP Investments uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of PSP Investments' net asset values. The terms to maturity of the classes of financial instruments, outlined in Note 4.1, with the most significant exposure to interest rate risk were as follows as at:

	March 31, 2019					
(Canadian \$ thousands)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	52,285 ^A	52,285
Government and corporate bonds	5,233	53,213	26,433	21,487	8,929 ^B	115,295
Inflation-linked bonds	–	10,051	34,391	17,123	–	61,565
Private debt securities	371	11,196	26,391	9,151	21,603 ^C	68,712
Total fixed income	5,604	74,460	87,215	47,761	82,817	297,857

	March 31, 2018					
(Canadian \$ thousands)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	51,214 ^A	51,214
Government and corporate bonds	15,734	37,263	23,494	15,428	9,886 ^B	101,805
Inflation-linked bonds	–	18,469	19,857	17,304	–	55,630
Private debt securities	16	6,417	31,505	6,938	18,719 ^C	63,595
Total fixed income	15,750	62,149	74,856	39,670	79,819	272,244

^A Due to their short-term maturity, these investments are not significantly exposed to interest rate risk.

^B Certain fixed income securities are not significantly exposed to interest rate risk as their prescribed rates are variable.

^C Information in connection with the terms to maturity of fund and certain directly held investments included as part of private debt securities is not available.

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounting to \$491,093 thousands as at March 31, 2019 (\$472,950 thousands as at March 31, 2018) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in 4.1.4, which amounted to \$44,097 thousands as at March 31, 2019 (\$39,383 thousands as at March 31, 2018), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the absolute volatility calculation described in Note 7.1.1.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 8.2.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through holding of investments (i.e. direct and indirect holdings of securities, units in pooled funds and units in limited partnerships) or investment-related liabilities in various currencies. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

Currency	March 31, 2019		March 31, 2018	
	Fair Value (Canadian \$ thousands)	% of Total	Fair Value (Canadian \$ thousands)	% of Total
US Dollar	382,917	63.6	370,823	68.4
Euro	89,705	14.9	54,933	10.1
British Pound	34,777	5.8	13,295	2.5
Australian Dollar	13,243	2.2	11,873	2.2
Japanese Yen	12,208	2.0	15,998	3.0
Hong Kong Dollar	11,323	1.9	10,790	2.0
Mexican Peso	10,587	1.8	8,807	1.6
Brazilian Real	7,036	1.2	9,707	1.8
Indian Rupee	7,005	1.2	6,199	1.1
South Korean Won	5,808	1.0	11,758	2.2
Swiss Franc	4,035	0.7	3,592	0.7
New Taiwan Dollar	4,029	0.7	4,633	0.9
Others	18,872	3.0	19,550	3.5
Total	601,545	100.0	541,958	100.0

As at March 31, 2019, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of \$94,893 thousand for the Plan Account (US\$59,981 thousand, €8,713 thousand, £450 thousand, 97 thousand South African rands, 13 thousand Brazilian reals, 59,527 thousand Colombian pesos, 11,652 thousand Mexican pesos and 69 thousand Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2018, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of \$105,232 thousand for the Plan Account (US\$66,036 thousand, €11,439 thousand, £808 thousand, 99 thousand South African rands, 61,014 thousand Colombian pesos and 6,480 thousand Mexican pesos) which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities purchased under reverse repurchase agreements, is unable to meet its financial obligations.

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation for public issuers and counterparties, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings. For private issuers, PSP Investments assigns internal credit ratings to issuers and measures the combined risk profile against set targets. To assign risk ratings to issuers, PSP Investments uses methodologies comparable to those used by recognized rating agencies.

As at March 31, 2019, the Plan Account's maximum exposure to credit risk amounted to \$322 million (March 31, 2018 – \$279 million). This amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating for credit-sensitive securities. The concentration of credit risk by credit rating was as follows as at:

Credit Rating	March 31, 2019 (%)	March 31, 2018 (%)
AAA-AA	48.4	51.2
A	23.6	20.9
BBB	2.3	2.5
BB or below	25.1	24.4
No rating ^A	0.6	1.0
Total	100.0	100.0

^A Includes securities for public issuers and counterparties, that are either not rated by credit rating agencies or rated by a single credit rating agency.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts, securities lending and borrowing as well as securities repurchase and reverse repurchase agreements. In order to minimize counterparty risk, PSP Investments requires that counterparties provide adequate collateral and meet its credit rating requirements. PSP Investments frequently monitors the credit rating of its counterparties as determined by recognized credit rating agencies. With respect to derivative contracts, PSP Investments has the ability to terminate all trades with most counterparties whose credit rating is downgraded below its requirements.

For OTC derivatives, PSP Investments' policy also requires the use of the International Swaps and Derivative Association (ISDA) Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted. In the case of OTC-cleared derivatives, trading activities are regulated between parties under terms that are customary to such transactions.

As a credit mitigation technique, the ISDA Master Agreement contractually binds counterparties to close-out netting provisions in the case of default by one of the counterparties. Additionally, the Credit Support Annex (CSA) to the ISDA Master Agreement enables PSP Investments to realize any collateral placed with it in the case of default of the counterparty. The CSA also requires PSP Investments to contribute further collateral when requested. All collateral transactions under the CSA are in cash, high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. Counterparties are generally authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held in the form of securities but does reinvest all cash collateral, with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing agreements as well as securities repurchase and reverse repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 2.3.5 and 2.3.6 describe collateral requirements in securities lending and borrowing programs as well as securities repurchase and reverse repurchase agreements.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 5.

In the case of the securities lending program, PSP Investments' exposure to counterparty risk is further mitigated as the custodian of the securities lent assumes the risk that a counterparty will be unable to meet its obligations associated with the collateral requirements.

Management is responsible for counterparty risk monitoring and mitigation as well as maintaining a comprehensive, disciplined, and enterprise-wide process for tracking and managing counterparty risk. As such, management measures counterparty risk on an ongoing basis, evaluates and tracks the creditworthiness of current counterparties and mitigates counterparty risk through collateral management.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Statements of Financial Position. Securities repurchase and reverse repurchase agreements described in Notes 2.3.6 and 5 are subject to similar arrangements however they are not offset as the conditions for offsetting are not met.

The following tables present the financial assets and liabilities described above:

Financial Assets

(Canadian \$ thousands)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2019						
Reverse repurchase agreements	26,220	–	26,220 ^A	17,060	9,156	4
OTC-derivatives	6,042	27	6,015 ^B	3,346	2,345	324
Total	32,262	27	32,235	20,406	11,501	328
March 31, 2018						
Reverse repurchase agreements	8,406	–	8,406 ^A	2,234	6,172	–
OTC-derivatives	4,129	179	3,950 ^B	3,919	3	28
Total	12,535	179	12,356	6,153	6,175	28

Financial Liabilities

(Canadian \$ thousands)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2019						
Repurchase agreements	24,716	–	24,716 ^A	17,060	7,648	8
OTC-derivatives	3,785	27	3,758 ^B	3,320	408	30
Collateral payable	33	–	33 ^C	26	–	7
Total	28,534	27	28,507	20,406	8,056	45
March 31, 2018						
Repurchase agreements	2,589	–	2,589 ^A	2,234	355	–
OTC-derivatives	7,272	179	7,093 ^B	3,912	3,176	5
Collateral payable	11	–	11 ^C	7	–	4
Total	9,872	179	9,693	6,153	3,531	9

^A As described in Note 4.1.10.

^B As described in Note 4.1.12.

^C As described in Note 4.1.9. The balance consists of cash collateral received with respect to certain OTC derivative transactions, and is included in Note 4.1 as part of collateral payable.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

Liquidity risk corresponds to the risk that PSP Investments will not be able to meet its financial obligations on a timely basis, with sufficient and readily available cash resources. PSP Investments' cash position is monitored on a daily basis. In general, investments in cash, money market securities, floating rate notes, bonds and public equities are expected to be highly liquid as they will be invested in securities that are actively traded. Management utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. A liquidity report taking into consideration future forecasted cash flows is prepared and presented to senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, sufficient sources of liquidity are maintained for deployment in case of market disruption.

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 8.2 provides additional information on the usage of the capital market debt program. Furthermore, PSP Investments maintains credit facilities for general corporate purposes. Note 8.1 provides additional information with respect to such credit facilities.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4.1.12.

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2019 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian \$ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities^A				
Amounts payable from pending trades	(4,200)	—	—	(4,200)
Interest payable	(296)	(8)	—	(304)
Securities sold short	(27,661)	—	—	(27,661)
Collateral payable	(13,228)	—	—	(13,228)
Securities sold under repurchase agreements	(24,716)	—	—	(24,716)
Capital market debt financing	(20,797)	(9,340)	(31,876)	(62,013)
Trade payable and other liabilities	(339)	(559)	(572)	(1,470)
Total	(91,237)	(9,907)	(32,448)	(133,592)
(Canadian \$ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	2,901	2,434	1,586	6,921
Derivative-related liabilities ^A	(1,031)	(1,540)	(1,655)	(4,226)
Total	1,870	894	(69)	2,695

^A Liabilities are presented in the earliest period in which the counterparty can request payment.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

Financial Liabilities (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2018 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian \$ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities^A				
Amounts payable from pending trades	(5,240)	–	–	(5,240)
Interest payable	(242)	(9)	–	(251)
Securities sold short	(29,612)	–	–	(29,612)
Collateral payable	(16,087)	–	–	(16,087)
Securities sold under repurchase agreements	(2,589)	–	–	(2,589)
Capital market debt financing	(21,299)	(7,152)	(26,442)	(54,893)
Trade payable and other liabilities	(763)	–	(465)	(1,228)
Total	(75,832)	(7,161)	(26,907)	(109,900)

(Canadian \$ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	2,254	1,085	1,840	5,179
Derivative-related liabilities ^A	(3,730)	(2,146)	(1,930)	(7,806)
Total	(1,476)	(1,061)	(90)	(2,627)

^A Liabilities are presented in the earliest period in which the counterparty can request payment.

8 — Borrowings

8.1. Credit Facilities

PSP Investments maintains a revolving credit facility in the amount of \$2 billion and a demand line of credit in the amount of \$1 billion (together “the Credit Facilities”).

The Credit Facilities are for general corporate purposes and are available in either Canadian or US currencies. Subject to customary terms and conditions, these Credit Facilities are available at variable interest rates such as the prime rate and the US base rate.

These Credit Facilities were not drawn upon as at March 31, 2019 and 2018.

8.2. Capital Market Debt Financing

PSP Investments’ capital market debt program consists of the private placement of short-term promissory notes as well as medium-term notes issued by PSP Capital Inc., a wholly owned subsidiary of PSP Investments. The capital raised is primarily used to finance private market investments. It is unconditionally and irrevocably guaranteed by PSP Investments in accordance with its corporate leverage policy. The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed \$12 billion for issuances in Canada and the United States combined.

PSP Investments’ capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2019 and 2018.

The following outlines the terms as well as the fair value of the notes issued under the capital market debt program allocated to the Plan Account as at:

	March 31, 2019		March 31, 2018	
(Canadian \$ thousands)	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 1.79% and 2.20% and maturing within 56 and 365 days of issuance (March 31, 2018 – between 1.16% and 1.85%, maturing within 26 and 364 days)	2,863	2,844	4,266	4,248
Short-term US Dollar promissory notes, bearing interest between 2.45% and 2.84% and maturing within 21 and 365 days of issuance (March 31, 2018 – between 1.39% and 2.17%, maturing within 28 and 365 days)	27,441	27,293	24,261	24,203
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	4,160	4,241	4,502	4,605
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	4,138	4,378	4,435	4,618
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	5,490	5,435	5,628	5,462
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	4,392	4,405	4,344	4,255
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	7,687	7,653	7,698	7,502
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	5,490	5,764	–	–
Total	61,661	62,013	55,134	54,893

Unrealized losses in connection with borrowings amounted to \$835 thousand for the year ended March 31, 2019 (unrealized gains of \$868 thousand for the year ended March 31, 2018).

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

Interest expense, for the years ended March 31, was as follows:

(Canadian \$ thousands)	2019	2018
Short-term promissory notes	668	351
Medium-term notes	637	525
Total	1,305	876

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2019.

(Canadian \$ thousands)	Opening balance	Proceeds from borrowing	Repayment of borrowings	Non-cash changes		Closing balance
				Foreign exchange losses	Fair value ^A losses	
Capital market debt financing	54,893	150,216	(143,985)	100	789	62,013
Credit facilities	–	–	–	–	–	–
Borrowings	54,893	150,216	(143,985)	100	789	62,013

^A Includes interest on short-term promissory notes, which added to cost approximates their fair value.

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2018.

(Canadian \$ thousands)	Opening balance	Proceeds from borrowing	Repayment of borrowings	Non-cash changes		Closing balance
				Foreign exchange gains	Fair value ^A gains	
Capital market debt financing	50,035	124,400	(118,661)	(175)	(706)	54,893
Credit facilities	–	158	(158)	–	–	–
Borrowings	50,035	124,558	(118,819)	(175)	(706)	54,893

^A Includes interest on short-term promissory notes, which added to cost approximates their fair value.

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

9.2. Fund Transfers

PSP Investments did not receive any fund transfers from the Government of Canada for the year ended March 31, 2019 (no transfers for the year ended March 31, 2018) for the Fund.

10 — Segment Information

Investment Segments

In order to fulfil its mandate, PSP Investments manages a diversified global portfolio composed of investments in various asset classes and has implemented an investment approach that focuses in the total fund approach rather than only on individual asset classes. The total fund approach guides the long-term investment strategy and focuses on managing total fund allocations and exposures in terms of asset classes, sectors and risk factors.

Accordingly, PSP Investments' investment segments are presented below to reflect the way in which asset classes are managed and how results are reviewed by the entity's senior management for purposes of performance management and decision making. These investment segments include their respective share of investment-related assets and investment-related liabilities as well as borrowings, which are reported separately by nature of the underlying investments as disclosed in Note 4.1. Further, to support PSP Investments' investment approach, a Complementary Portfolio is managed in addition to the individual asset classes' portfolios, which enables PSP Investments to capture investment opportunities that fit the mandate but that are outside the scope of the individual asset classes' investment framework.

Investment segments consist of investments held through direct and co-ownership positions as well as through fund managers and include:

- Public Markets – invests in public market equities, government and corporate fixed income.
- Real Estate – invests in real estate assets mainly in retirement and residential, office, retail and other industrial sectors.
- Private Equity – invests in private entities with similar objectives.
- Infrastructure – invests in private entities with a focus on assets in transportation, power generation, telecommunications and other regulated businesses.
- Natural Resources – invests in real assets with a focus on assets in timberlands, agriculture and upstream oil and gas.
- Private Debt – invests in non-investment grade primary and secondary credit investments.
- Complementary Portfolio – focuses on investments that are not within the mandate of existing asset classes but are deemed beneficial for the total fund.

The following tables present net investments by investment segment as at:

	March 31, 2019								
(Canadian \$ thousands)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^A	Total
	354,995	103,388	103,392	73,870	29,688	46,010	6,263	20,218	737,824

	March 31, 2018								
(Canadian \$ thousands)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^A	Total
	345,166	104,649	87,258	67,404	21,758	39,874	9,909	13,177	689,195

^A Includes cash and money market securities not managed within the operating segments.

10 — Segment Information (continued)

Investment Segments (continued)

The following table presents net income from operations by investment segment for the year ended March 31, 2019.

(Canadian \$ thousands)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^c	Total
Investment income ^A	14,898	8,407	14,346	5,400	2,700	3,729	(4)	4,397	53,873
Expenses ^B	(1,755)	(1,152)	(446)	(792)	(302)	(270)	(59)	(63)	(4,839)
Net income	13,143	7,255	13,900	4,608	2,398	3,459	(63)	4,334	49,034

^A As described in Note 11, embedded within investment income are other fees paid by certain pooled fund investments and management fees not paid directly by PSP Investments.

^B Includes all investment-related and operating expenses as disclosed in Notes 11 and 12, respectively.

^C Includes cash and money market securities not managed within the operating segments.

The following table presents net income from operations by investment segment for the year ended March 31, 2018.

(Canadian \$ thousands)	Public Markets	Real Estate	Private Equity	Infrastructure	Natural Resources	Private Debt	Complementary Portfolio	Other ^c	Total
Investment income ^A	28,858	13,182	9,337	10,571	2,112	2,553	2,418	(3,735)	65,296
Expenses ^B	(1,621)	(920)	(363)	(653)	(233)	(185)	(60)	(63)	(4,098)
Net income	27,237	12,262	8,974	9,918	1,879	2,368	2,358	(3,798)	61,198

^A As described in Note 11, embedded within investment income are other fees paid by certain pooled fund investments and management fees not paid directly by PSP Investments.

^B Includes all investment-related and operating expenses as disclosed in Notes 11 and 12, respectively.

^C Includes cash and money market securities not managed within the operating segments.

11 — Investment-Related Expenses

Investment-related expenses allocated to the Plan Account are comprised of the following for the years ended March 31:

(Canadian \$ thousands)	2019	2018
Interest expense	1,497	968
Transaction costs	569	635
External investment management fees ^A	125	185
Other (net)	386	240
Total	2,577	2,028

^A Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to \$1,038 thousand for the year ended March 31, 2019 (\$723 thousand for the year ended March 31, 2018). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.2% and 2.5% of the total invested and/or committed amount, totaled \$1,451 thousand for the year ended March 31, 2019 (\$1,407 thousand for the year ended March 31, 2018). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

Operating expenses allocated to the Plan Account consisted of the following for the years ended March 31:

(Canadian \$ thousands)	2019	2018
Salaries and employee benefits	1,312	1,207
Professional and consulting fees	345	331
Premises and equipment	141	118
Market data and business applications	166	145
Depreciation of equipment	147	142
Custodial fees	24	21
Other operating expenses	127	106
Total	2,262	2,070

13 — Allocation of Comprehensive Income

PSP Investments' comprehensive income is allocated to each Plan Account as follows:

13.1. Investment Income

The investment income is allocated proportionately based upon the net investments of each Plan Account at the time the income was incurred.

13.2. Expenses

The Act requires that the costs of operation of PSP Investments be charged to the Plan Accounts. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged, in consultation with the Minister of National Defence and the Minister of Public Safety and Emergency Preparedness. An allocation policy was developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, based upon the net investments of each Plan Account at the time the expense was incurred.

Operating expenses and other comprehensive income, excluding the direct cost of investment activities listed above, for the years ended March 31, were allocated in proportion to the annual amount of net investments of each Plan Account as follows:

(%)	2019	2018
Public Service Pension Plan Account	72.6	72.6
Canadian Forces Pension Plan Account	19.7	19.7
Royal Canadian Mounted Police Pension Plan Account	7.3	7.2
Reserve Force Pension Plan Account	0.4	0.5
Total	100.0	100.0

Expenses are paid by PSP Investments by way of advances from the Public Service Pension Plan Account, which are reimbursed by the other Plan Accounts on a quarterly basis.

14 — Related Party Transactions

14.1. Certain Investees

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 16 and 17, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income as those with unrelated parties.

Transactions between PSP Investments and its consolidated subsidiaries as well as related balances are eliminated upon consolidation and, therefore, are not disclosed in this note.

14.2. The Government of Canada and Government-Related Entities

Since PSP Investments is a Crown corporation as described in Note 1, it is considered to be related to the Government of Canada as well as other entities that are controlled, jointly controlled or significantly influenced by the Government of Canada (together "government-related entities").

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the funds transfers outlined in Note 9.2.

(ii) Government-Related Entities

PSP Investments may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1. Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on net assets and comprehensive income as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

14.3. Compensation of Key Management Personnel

Members of key management personnel are related parties of PSP Investments. Key management personnel are those persons having authority and responsibility for planning, directing and controlling PSP Investments' activities, directly or indirectly and consist of members of the Board of Directors, PSP Investments' senior management team and officers. Compensation earned by key management personnel allocated to the Plan Account for the years ended March 31 was recorded in the Statements of Comprehensive Income and was as follows:

(Canadian \$ thousands)	2019	2018
Short-term compensation and other benefits	66	89
Long-term compensation and other benefits	41	22
Total	107	111

As disclosed in Note 16, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

15 — Capital Management

As an investment company, PSP Investments' objectives in managing its capital are:

- To invest fund transfers, outlined in Note 9.2, in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under the *Superannuation Acts* and the ability of the Plans to meet their financial obligations. The funds are also invested in accordance with the Investment Risk Management policies which are outlined in Note 7.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSP Investments has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 8.2 provides information on the capital market debt financing and Note 7.3 provides information on PSP Investments' liquidity.

The capital structure of PSP Investments consists of fund transfers and capital market debt financing. PSP Investments has no externally imposed restrictions on capital.

16 — Guarantees and Indemnities

PSP Investments provides indemnification to its Directors, its Officers, its vice-presidents and to certain PSP Investments representatives who are asked to serve on boards of directors (or like bodies) or investment advisory boards (or like bodies) of entities in which PSP Investments or its investment entity subsidiaries have made an investment or have a financial interest. As a result, but subject to the Act, PSP Investments may be required to indemnify these representatives for costs incurred, such as claims, actions or litigation in connection with the exercise of their duties, unless the liability of such a representative relates to a failure to act honestly and in good faith. To date, PSP Investments has not received any claims or made any payment for such indemnities.

In certain cases, PSP Investments also provides indemnification to third parties in the normal course of business. As a result, PSP Investments may be required to indemnify such third parties in connection with the performance of their contractual obligations. To date, PSP Investments has not received any claims nor made any payments for such indemnities.

PSP Investments unconditionally and irrevocably guarantees all credit facilities, as well as short-term promissory notes and medium-term notes issued by PSP Capital Inc., as described in Note 8.

In certain investment transactions, PSP Investments and its investment entity subsidiaries provided guarantees, indemnifications or issued letters of credit to third parties, the most significant of which are as follows:

- As at March 31, 2019 and 2018, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to \$2,602 million as at March 31, 2019 (March 31, 2018 – \$2,550 million), of which \$11,429 thousand has been allocated to the Plan Account (March 31, 2018 – \$11,482 thousand) plus applicable interest and other related costs. The arrangements mature between July 2019 and November 2029 as of March 31, 2019 (March 31, 2018 – between November 2018 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling \$54 million as at March 31, 2019 (March 31, 2018 – \$53 million), of which \$239 thousand has been allocated to the Plan Account (March 31, 2018 – \$236 thousand) in relation to investment transactions.

17 — Commitments

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at:

(Canadian \$ thousands)	March 31, 2019	March 31, 2018
Foreign equity	–	21
Real estate	10,725	10,320
Private equity	45,225	51,062
Infrastructure	11,744	17,465
Natural resources	1,837	2,055
Private debt securities	18,190	16,920
Alternative investments	9,110	10,047
Total	96,831	107,890

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2019 (March 31, 2018 – 2035).

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12/02/2019
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Gentlemen,

We wanted to supplement our response dated November 1, 2019 to your Request For Qualifications. Question 10 of Part 7 required disclosure of any litigation involving \$10 million or more, without reference to a time period.



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AVIALLIANCE

Legal Department

12/02/2019

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