ANNUAL REPORT 2015

PUBLIC SECTOR PENSION INVESTMENT BOARD

PSP INVESTMENTS

WHO WE ARE AND WHAT WE DO

CORPORATE PROFILE

PSP Investments invests funds for the pension plans of the Public Service, the Canadian Forces, the Royal Canadian Mounted Police and the Reserve Force.

The Public Sector Pension Investment Board ("PSP Investments" or the "Corporation") is a Canadian Crown corporation established to invest the amounts transferred by the Government of Canada equal to the proceeds of the net contributions since April 1, 2000, for the pension plans of the Public Service, the Canadian Forces and the Royal Canadian Mounted Police, and since March 1, 2007, for the Reserve Force Pension Plan (collectively the "Plans"). The amounts so transferred to the Corporation are to fund the liabilities under the Plans for service after the foregoing dates (the "Post-2000 Liabilities").

Its statutory objects are to manage the funds transferred to it in the best interests of the contributors and beneficiaries under the Plans and to maximize investment returns without undue risk of loss, having regard to the funding, policies and requirements of the Plans and their ability to meet their financial obligations.

TABLE OF CONTENTS

HIGHLIGHTS
FISCAL YEAR
2015

14.5%	11.7%	7.6%
TOTAL PORTFOLIO RETURN FOR FISCAL YEAR 2015.	FIVE-YEAR ANNUALIZED RETURN.	TEN-YEAR ANNUALIZED NET RETURN EXCEEDING THE RETURN OBJECTIVE OF 6.0%.

+ $16.3 billion* of cumulative net investment gains above the return objective over ten years.
+ $48.3 billion cumulative ten-year net investment income, including $14.0 billion in fiscal year 2015.
+ 20.0% increase in net assets to $112.0 billion in fiscal year 2015, including net contributions of $4.6 billion.
+ $10.6 billion in new investments and commitments to Private Markets in fiscal year 2015.

* Market value of assets as at March 31, 2015, taking into account timing and size of contributions.

FINANCIAL HIGHLIGHTS

FISCAL YEAR 2015

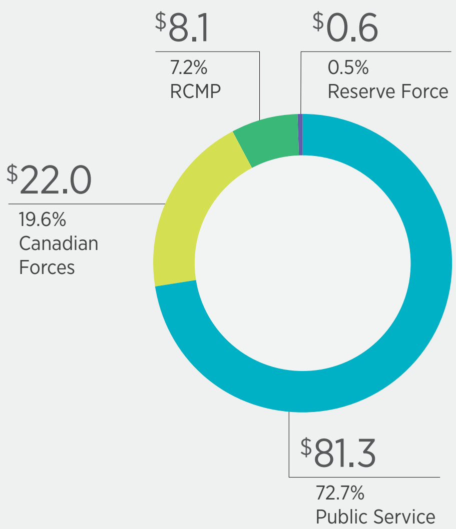
NET ASSETS

$112.0

BILLION

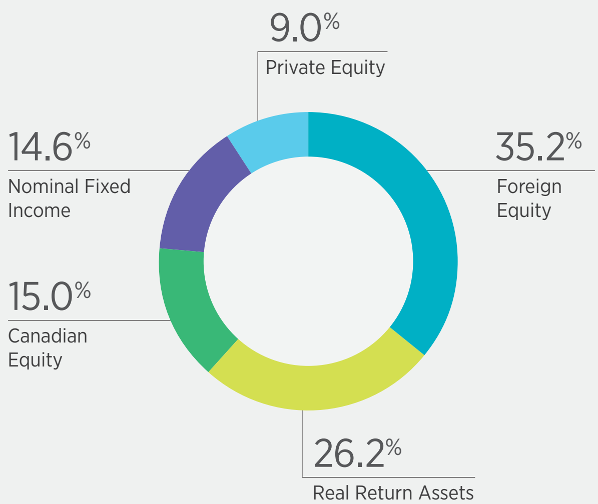
NET ASSETS PER PENSION PLAN ACCOUNT

As at March 31, 2015 ($ billions)



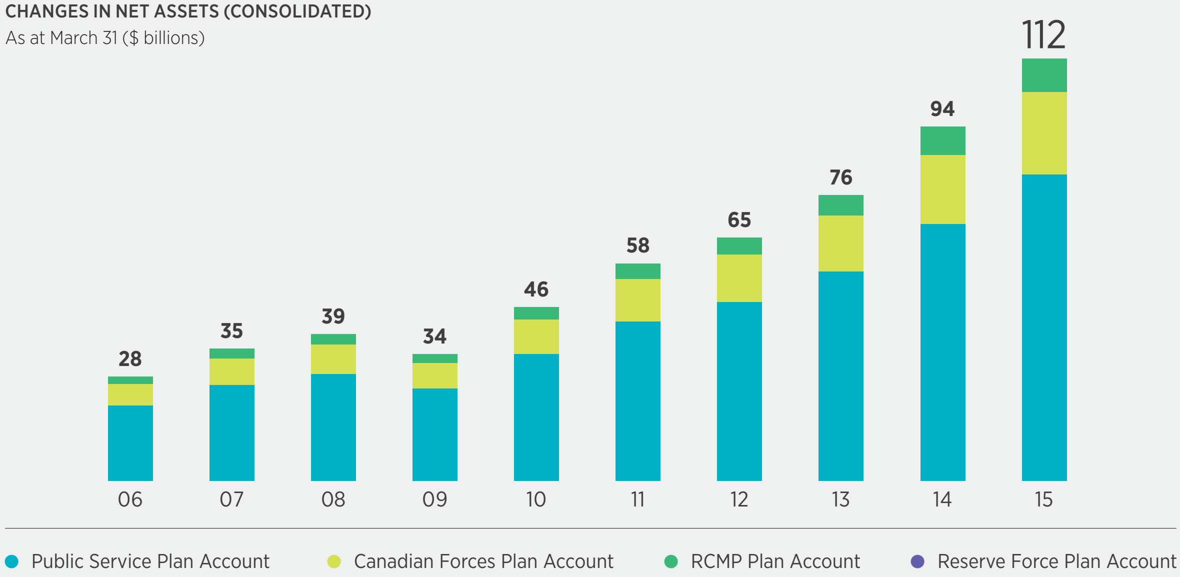
ASSET MIX

As at March 31, 2015



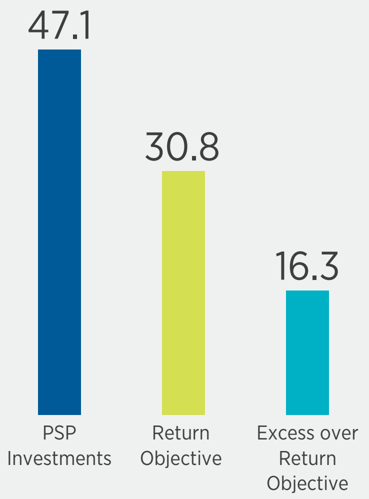
CHANGES IN NET ASSETS (CONSOLIDATED)

As at March 31 ($ billions)



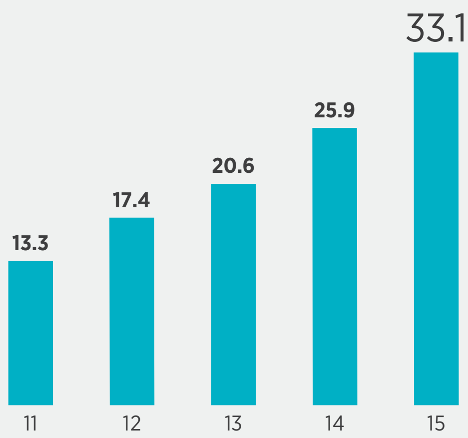
EXCESS NET INVESTMENT GAINS
10-Yr Cumulative Net Investment Gains ($ billions)
As at March 31, 2015

$16.3*
BILLION

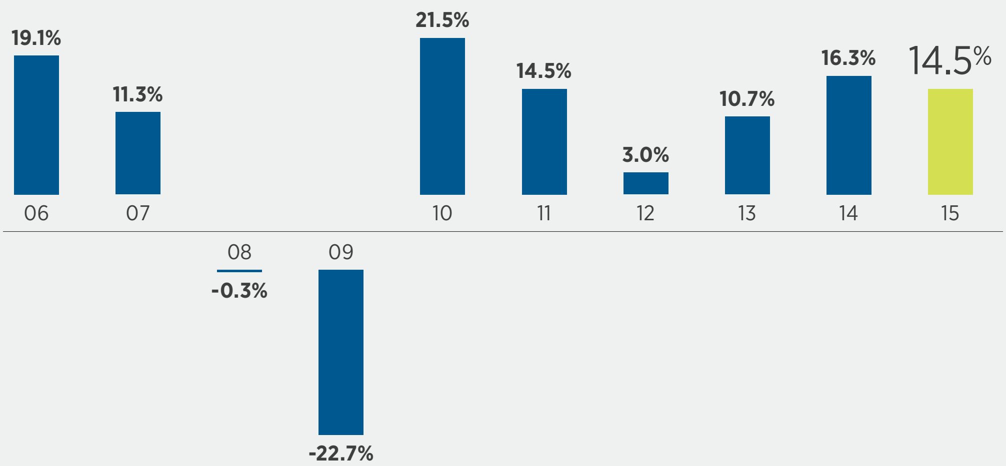


GROWTH IN PRIVATE MARKETS
As at March 31 ($ billions)

$33.1
BILLION



ANNUAL PERFORMANCE
As at March 31



* Market value of assets as at March 31, 2015, taking into account timing and size of contributions.

CORPORATE OBJECTIVES
FISCAL YEAR 2015

INVESTMENTS

Expand international network of partners with an objective of increasing the deal flow for direct investments. Grow Public Markets internal management, roll out active management of emerging markets equities.

ACHIEVEMENTS

+ Established 23 new partnerships, including 17 in Private Markets and 6 in Public Markets.
+ Completed 79 direct investments in Private Markets.
+ Internal active management of Public Markets assets increased by $4.0 billion or 23%.
+ Launched internal active Emerging Markets Equities portfolio and internalized EAFE index portfolio.

TALENT MANAGEMENT

Build leadership capacity and ensure we have the talent to execute strategic objectives. Sustain high employee engagement through actions which support a productive and positive work environment. Promote a diverse workforce and comprehensive development programs to drive corporate performance.

ACHIEVEMENTS

+ Successfully recruited new President and CEO with an excellent combination of leadership skills and experience to lead PSP Investments' evolution to a global $200-billion organization.
+ Created eight senior roles in the investment, operations and corporate functions.
+ Increased total permanent headcount by 14% to support business objectives.
+ Sustained employee engagement through measures focused on recognition, appreciative team building and career development.
+ Expanded leadership and development programs, introduced a new mentoring program and launched a new on-line learning management system offering over 100 financial and leadership courses.

ENTERPRISE RISK MANAGEMENT

Review and refine risk management processes, including crisis management capabilities, for a consistent approach to identifying, evaluating, managing, monitoring and reporting risks across all facets of the organization. Review scalability of operating cost structure with a view to maintaining a competitive total investment cost structure. Further implement environmental, social and corporate governance (ESG) investment strategy.

ACHIEVEMENTS

+ Developed a Crisis Management Framework and Procedure in which all employees are active participants.
+ Continued to operate under a competitive cost structure.
+ Implemented a new investment accounting and operations system enabling enhanced operational effectiveness and supporting greater volumes of investment activities and assets in Public Markets.
+ Became a signatory of the United Nations-supported Principles for Responsible Investment (PRI).
+ Further refined the implementation of the Responsible Investment policy by carrying out training on the identification of bribery and corruption risks in the context of investments.

STRATEGIC PLAN

Ensure individual objectives are aligned with third year of Vision 2015 and successfully complete strategic plan. With continued growth of assets, review the scalability and flexibility of the Policy Portfolio. Develop Vision 2018 and confirm alignment with Post-2000 liabilities and risk appetite.

ACHIEVEMENTS

+ Identified avenues that are expected to ensure the Policy Portfolio provides sufficient scalability and flexibility to capture investment opportunities supported by PSP Investments' competitive advantages.
+ Policy Portfolio and long-term investment strategy were reviewed with the Board. Alignment with the nature of the post-2000 liabilities and with the assumed Government risk appetite was confirmed.
+ New three-year strategic plan has been developed and will be further refined with the input of the new President and CEO.

KEY CORPORATE OBJECTIVES
FISCAL YEAR 2016

INVESTMENTS

+ Continue to grow and expand PSP Investments' strategy and capabilities across all investment groups. Develop a plan to establish a global footprint and start implementing a local presence in select markets. Establish framework for a total-portfolio management approach to leverage cross-asset class opportunities. Review construct of long-term investment strategy design to provide flexibility and scalability. Assess opportunities for new asset classes and investment strategies. Further integrate environmental, social and governance factors into the investment strategy.

TALENT MANAGEMENT

+ Roll out initiatives to instill a common "One PSP" culture. Develop global human resources strategies and practices to support international presence. Focus on specific actions to implement a diversity strategy with a particular emphasis on the role of women in the organization. Review Compensation Policy to further align with stakeholders' return objective. Advance talent strategy with regards to talent acquisition, development of management talent and succession planning.

ENHANCE SCALABILITY

+ Continue deployment of state-of-the-art enterprise technology architecture and systems to further enable operational effectiveness, improve analytical capabilities and support greater volume and variety of investment activities. Maintain a competitive cost structure. Review and assess risk-measurement methodology and risk budgeting to enhance assessment of portfolio behaviours. Pursue implementation and evolution of crisis-management capabilities.

STRATEGIC PLAN

+ Further refine and expand the Strategic Plan and implement an annual business cycle. Successfully deliver Year 1 initiatives. Build brand philosophy to position PSP Investments as an employer, partner and investor of choice.

CHAIR'S REPORT

I want to reaffirm PSP Investments' commitment to the responsible stewardship of the $112 billion in net assets under management on behalf of the Plans.

Michael P. Mueller
CHAIR

In this, my first Chair's Report, I want to reaffirm PSP Investments' commitment to the responsible stewardship of the $112 billion in net assets under management on behalf of the Plans. Our mandate "to maximize investment returns without undue risk of loss", which essentially means delivering a level of performance that will provide for the Plans' long-term sustainability — for the ultimate benefit of contributors and beneficiaries — lies at the heart of everything we do.

MEASURING UP

During fiscal year 2015, PSP Investments once again delivered on what might well be termed the *real* measure of its success, by continuing to exceed the targeted long-term investment "return objective" – currently 4.1% after inflation – required to fund the Plans' Post-2000 liabilities. Over the past 10 years, PSP Investments has outperformed the return objective by 1.6% per year. Taking into account the size and timing of contributions, that 1.6% excess return translates into a cumulative $16.3 billion of net investment gains. As a result, we estimate that the Post-2000 liabilities of the four Plans whose contributions we invest are fully funded as at March 31, 2015, assuming no changes to other factors affecting the funding of the Plans.

FISCAL YEAR 2015 HIGHLIGHTS

Our total portfolio return of 14.5% for 2015 compared favourably with the Policy Portfolio Benchmark return of 13.1%. Net investment income for the latest year amounted to $14.0 billion, which included $1.5 billion of value added above the benchmark. Consolidated net assets increased by $18.3 billion or 20% to a new high of $112.0 billion as at March 31, 2015.

The fact that we were able to achieve this strong showing in what amounted to a transition year attests to the strength and depth of the organization and its senior management team and to the quality of corporate governance. I wish to thank two individuals whose efforts were key to keeping us on course in fiscal year 2015: John Valentini provided outstanding leadership during his tenure as Interim President and CEO, continuing to drive performance and playing a lead role in the development of PSP Investments' new strategic plan while ensuring a smooth transition to our new President and CEO. Special thanks are also due to Cheryl Barker for stepping up so admirably in her role as Interim Chair over an extended period prior to my appointment. I am pleased that we will continue to benefit from John and Cheryl's presence on the senior management team and at the boardroom table, respectively.

WELCOMING A NEW PRESIDENT AND CHIEF EXECUTIVE OFFICER

I would also like to take this opportunity to formally welcome our new President and Chief Executive Officer, André Bourbonnais. André, who previously served as Senior Managing Director and Global Head of Private Investments for the Canada Pension Plan Investment Board, brings to the job a palpable excitement and passion, along with outstanding qualifications. We believe he possesses an excellent combination of leadership skills and experience to lead the next phase of PSP Investments' growth, as we begin transitioning into a global $200-billion organization.

CONSOLIDATED NET ASSETS INCREASED BY $18.3 BILLION OR 20% TO A NEW HIGH OF $112.0 BILLION AS AT MARCH 31, 2015.

The appointment of Mr. Bourbonnais, effective March 30, 2015, marked the culmination of a global search process overseen by a special five-member Board committee, which I headed, that was launched in June 2014 after our former CEO resigned to take up other pursuits.

MILESTONE 15TH ANNIVERSARY

April 1, 2015 marked the milestone 15th anniversary of PSP Investments' founding in 2000. In that short timeframe, we have come a very long way: from a small operation with a handful of employees and $2.5 billion in assets entirely invested passively in public market equities and bonds to a diversified investment organization with over 570 employees, $112.0 billion in net assets and private market investments in 35 countries.

These are certainly impressive statistics. It is, however, the remarkable people behind the numbers, the highly committed men and women one finds throughout this organization — from the front-line investment teams to the back office, from HR and IT to Finance and Administration — whose outstanding collective efforts account for the strong performance and rapid growth of PSP Investments over the past 15 years.

BLUEPRINT FOR GROWTH

With assets under management projected to reach $150 billion by 2020 and $200 billion by 2024, scaling up our capacity to effectively manage assets of such magnitude represents a significant challenge.

To that end, management, in cooperation with the Board, has been working on the development of a new strategic plan for fiscal years 2016 to 2018. It will provide a blueprint for PSP Investments' on-going growth and globalization over the next three years, while respecting the defined appetite, attitude and tolerance to risk of the Board and management. The continuation of our sustained rapid growth will entail continuing to build our internal investment teams along with the robust infrastructure and support systems that will enable us to further enhance our control of risks.

Bolstering our investment teams, increasing transaction size, cultivating innovative new investment solutions with our partners, leveraging our various investment platforms and expanding our global footprint and network will all be required elements to help drive growth and sustain a high level of performance. As well, we will carry on with the deployment of state-of-the-art enterprise technology and systems that will further enable operational effectiveness and support greater volumes of investment activities and assets.

Ensuring that PSP Investments has in place the appropriate level of risk management also is fundamental to successfully managing growth. Following approval and implementation of a comprehensive new Risk Appetite Statement during fiscal year 2014, the Board has continued to foster greater interaction with management to further enhance risk management on an enterprise-wide basis.

Another important theme of the new strategic plan will involve the on-going development and strengthening of a common corporate culture, an initiative we call "One PSP". There are several key aspects here: firstly, it is about maintaining a strong alignment of our measures of success between stakeholders, the Board and management — and cascading to the entire organization. Secondly, from an investment perspective, we intend to further develop our cross-asset, total-portfolio management processes, enabling us to, among other things, maximize the opportunity set of investments that are beneficial to the total fund. Thirdly, from an organizational perspective, we want to foster an environment that facilitates and encourages cross-functional cooperation. Our overarching goal is to optimize the integration of investment, operations and corporate functions and leverage the internal capabilities and knowledge residing in different parts of the organization, thus contributing to sound investment decisions.

TALENT DEVELOPMENT

The rapid growth of PSP Investments has also underscored the critical importance of ensuring that the Corporation has the ability to attract, develop and retain the right kind of talent in sufficient numbers. To that end, the Board continues to provide direction with regard to executive compensation, pensions, benefits and succession planning for senior roles, while supporting management initiatives with respect to talent acquisition and development.

Altogether, these are exciting and challenging times for PSP Investments, and I consider myself privileged to have been entrusted with the Chair's responsibilities as we chart a course for the next stage of our growth.

ACKNOWLEDGEMENTS

Before concluding, I would to like to thank my fellow Board members for their wise counsel and support. I also wish to acknowledge the reappointment of Diane Bean as a Director over the course of the past year, and welcome the new Chairs of several Board committees: Timothy E. Hodgson succeeded Anthony R. Gage as Chair of the Investment Committee, effective April 1, 2015; Garnet Garven succeeded Ms. Barker as Chair of the Governance Committee and Ms. Bean succeeded the undersigned as Chair of the Human Resources and Compensation Committee in June 2014.

Finally, I wish to thank all employees throughout PSP Investments for enabling us to maintain the positive momentum, as we pass the 15-year milestone en route to continued success in delivering the returns required for the sustainability of the Plans.

Michael P. Mueller
Chair

WITH ASSETS UNDER MANAGEMENT PROJECTED TO REACH $150 BILLION BY 2020 AND $200 BILLION BY 2024, SCALING UP OUR CAPACITY TO EFFECTIVELY MANAGE ASSETS OF SUCH MAGNITUDE REPRESENTS A SIGNIFICANT CHALLENGE.

PRESIDENT'S REPORT

I look forward to working with the management team and all employees to deliver on our common goals and fulfill our overarching social mission.

André Bourbonnais
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

I am honoured to take on the role of President and CEO of such a dynamic, fast-growing organization, and grateful to PSP Investments' Board of Directors for the confidence they showed in appointing me.

I intend to do my utmost to demonstrate that confidence is merited, by successfully leading PSP Investments into the next stage of its development, building on the solid foundation and strong team already in place to further enhance performance and deliver on our long-term objectives for our stakeholders.

Looking to the near future, I fully endorse the three "pillars" of the 2016-2018 strategic plan, which was developed through a collaborative effort of senior management and the Board prior to my joining at the end of March 2015.

Those pillars include striving to build a common culture or "One PSP". It is centered on collaboration to achieve common goals, while still recognizing the unique characteristics of our asset classes and of the groups that support them. The second pillar entails increased focus on two crucial attributes, robustness and agility, in order to strengthen our operational backbone to support rapid growth and facilitate timely decision-making. The third pillar, arguably the cornerstone of the new strategic plan, involves effectively managing our growth by scaling up from today's $100-billion-plus entity to become a global $200-billion investment manager.

BUILDING A STRONG COMMON CULTURE

Successfully instilling a common culture and transitioning from an entrepreneurial, compartmentalized model to "One PSP" requires an evolution of the organizational structure. Accordingly, we will be working to encourage cross-functional relationships and facilitate cross-fertilization between the highly diverse asset classes, which range from traditional Public Markets assets like stocks and bonds, to Real Estate, Natural Resources and other Private Markets investments. The next three years will undoubtedly involve expanding into still more asset classes to help us meet PSP Investments' long-term objectives — underscoring the need to work together for better alignment of our efforts to capture opportunities at the total fund level.

On another note, there is a very compelling business case for diversity and I want to underscore my determination to build a more diverse, inclusive work environment at PSP Investments. Diverse groups that can bring different perspectives to bear on an issue tend to make better decisions. We need these diverse voices to be heard and contribute to PSP Investments' success. To foster that success, we will also continue offering development opportunities to employees so that they can advance their careers within their respective departments or elsewhere in our operations.

POSITIONING PSP INVESTMENTS FOR GROWTH

Ensuring we have the ability to successfully manage a doubling in size over the next 10 years, while further enhancing investment performance, will require transitioning PSP Investments from what is essentially a Montreal-based, Canadian organization that invests abroad into a truly global institutional investor. To that end, we intend to establish a global footprint and commit to a long-term presence on the ground in select overseas markets, with the aim of developing stronger local relationships and a deeper knowledge of key foreign markets in order to avail ourselves of attractive new investment opportunities.

Looking ahead, we also see untapped potential in terms of leveraging PSP Investments' unique strengths and market knowledge to seize opportunities. This means focusing on our core competitive advantages to execute smart partnerships with like-minded investors who complement our strengths. It will also entail building a global brand; managing key relationships on a firm-wide basis; adapting our approach to talent development to support our global footprint; and creating an environment where PSP Investments' exceptional people and defining culture can flourish. Finally, we will aim to leverage the Corporation's strong presence and intimate knowledge of our dynamic home marketplace by seizing appropriate opportunities to further expand PSP Investments' portfolio of assets in Canada.

Having now had the opportunity to meet with virtually all of our employees at PSP Investments, I wish to thank them for their warm welcome to the organization. I look forward to continuing to work with the Board, the management team and all employees to deliver on our common goals and fulfill our overarching social mission — to contribute to the long-term sustainability of the public sector pension plans for the ultimate benefit of the contributors and beneficiaries going forward. It is a mission that I wholeheartedly embrace and to which I want our entire team to be committed.

André Bourbonnais
President and
Chief Executive Officer

MANAGEMENT'S DISCUSSION
OF FUND PERFORMANCE AND RESULTS

Mandate, Objective and Investment Approach

PSP INVESTMENTS' MANDATE

PSP Investments manages the assets earmarked for the funding of the Post-2000 Liabilities under the Plans. PSP Investments' statutory mandate is described in Section 4 of the *Public Sector Pension Investment Board Act* (the "Act"):

To manage the amounts transferred to it in the best interests of contributors and beneficiaries under the Plans; and to maximize returns without undue risk of loss, having regard to the funding, policies and requirements of the Plans and the ability of those Plans to meet their financial obligations.

Based on these statutory objects, PSP Investments implemented an investment approach aimed at achieving a return consistent with the funding of the Post-2000 Liabilities, with an acceptable level of risk.

RETURN OBJECTIVE

The return objective is currently set at a long-term real return of 4.1% (i.e. after inflation). This return objective for the pension assets managed by PSP Investments is communicated by the Treasury Board Secretariat of Canada, which oversees the Government of Canada's ("Government") relationship with PSP Investments. This return objective is the long-term rate of return assumption currently used by the Chief Actuary of Canada to determine the level of pension contributions for the funding of the Post-2000 Liabilities under the Plans. In the absence of other factors affecting the funding of the Plans, achieving such return would maintain contributions and pension benefits at their current levels.

RISK APPETITE

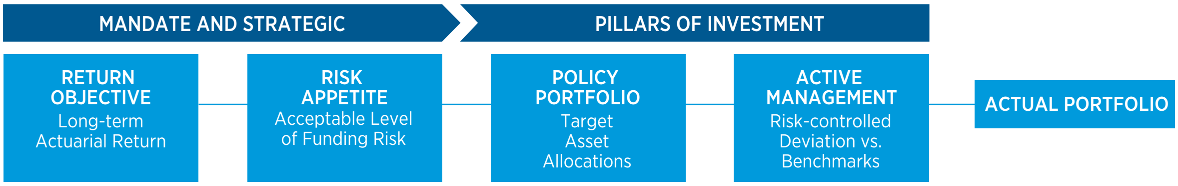
Investments that would guarantee to deliver the return objective on a risk-free basis simply do not exist. Therefore, PSP Investments must take investment risks to achieve the return objective. The Risk Appetite Statement articulates PSP Investments' appetite, attitude and tolerances to risk in pursuit of the return objective.

A key element of the Risk Appetite Statement is the Government's assumed appetite for risk ("risk appetite"), risk being defined as the possible requirement to make supplementary pension contributions to the Plans as a result of less favourable investment performance.

The risk appetite is determined by evaluating, through an asset-liability management study, the pension funding risk that would result from investing in a simple, passively managed portfolio comprised of public, liquid securities (stocks and bonds). This passive portfolio is designed to achieve the return objective with the lowest possible investment risk.

INVESTMENT APPROACH

Based on the return objective and risk appetite, PSP Investments' Board of Directors implemented an investment approach around two key pillars, as illustrated below:



FIRST PILLAR: POLICY PORTFOLIO

The first pillar of PSP Investments' approach is the Policy Portfolio, which represents the long-term target asset allocation among various asset classes approved by the Board of Directors. PSP Investments' Policy Portfolio is designed to achieve a return at least equal to the return objective over the long term, assuming a level of risk that is within the defined risk appetite. It is a diversified portfolio that is reviewed at least annually. The review includes asset-liability management studies which ensure that the Policy Portfolio is designed based on the specific characteristics of the Post-2000 Liabilities and their funding.

As an illustration, the Post-2000 Liabilities under the Plans are long-term with no liquidity expected to be required from PSP Investments for pension benefit payments before 2030. Therefore, PSP Investments can make long-term investments in assets with lower liquidity (e.g. Private Markets) than typical Public Markets assets. We expect the lower liquidity of these investments to be compensated with higher returns over time. In addition, it is recognized that the pension liabilities are sensitive to inflation. Hence, investing in assets with inflation-hedging characteristics (e.g. Real Return Assets) is expected to provide for a good match with the inflation-sensitive nature of the pension liabilities. An investment approach that better matches the liabilities' characteristics is expected to reduce the funding risk.

POLICY PORTFOLIO
As at March 31, 2015

LONG-TERM TARGET ASSET ALLOCATION

WORLD EQUITY	54%	Public Market Equity	**40%**
		Private Equity	**14%**
REAL RETURN ASSETS	33%	Real Estate	**13%**
		Infrastructure	**13%**
		World Inflation-Linked Bond	**5%**
		Natural Resources[1]	**2%**
NOMINAL FIXED INCOME	13%	Fixed Income	**11%**
		Cash & Cash Equivalents	**2%**

[1] Formerly known as Renewable Resources.

There were no changes to the Policy Portfolio in fiscal year 2015.

SECOND PILLAR: ACTIVE MANAGEMENT

Active management activities form the second pillar of PSP Investments' approach. These activities are implemented within an active risk limit and the risk appetite to generate additional returns over the Policy Portfolio. PSP Investments believes that selected active management activities can yield a significant contribution to the portfolio returns without materially impacting risk. As an illustration, PSP Investments seeks to invest in companies and securities that, based on thorough and proprietary research, offer better expected risk-adjusted returns than the overall market. This is usually accomplished by overweighting or underweighting specific sectors or securities relative to the Policy Portfolio benchmarks.

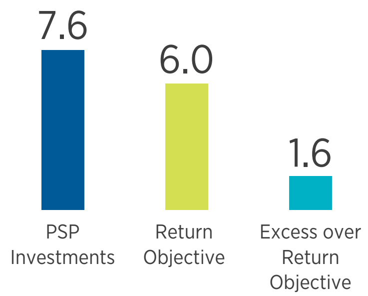
PERFORMANCE OBJECTIVES

The following objectives were established to assess the performance of the investment approach and active management:

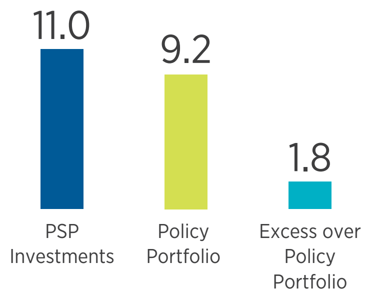
1. Investment approach: achieve an absolute return, net of expenses, at least equal to the return objective over 10-year periods;
2. Active management: achieve a return exceeding the Policy Portfolio benchmark over 4-year periods.

As of March 31, 2015, both objectives were met. 1) PSP Investments' net performance exceeded the return objective by 1.6% per year over the past 10 years. 2) Active management activities generated 1.8% of return in excess of the Policy Portfolio per year over the past four years.

1. INVESTMENT APPROACH
10-YR ANNUALIZED NET RETURN (%)
1.6% PER YEAR



2. ACTIVE MANAGEMENT[1]
4-YR ANNUALIZED RETURN (%)
1.8% PER YEAR



FISCAL YEAR 2015 ANNUAL REVIEW

The investment approach was reviewed by the Board of Directors during fiscal year 2015. Although consideration was given to adding asset classes within the Policy Portfolio, it was concluded that the current Policy Portfolio, with its target of 42% to Private Markets investments, remains effective and should enable PSP Investments to meet or exceed its long-term rate-of-return objective (4.1% after inflation), with an acceptable level of risk.

The review was based on asset-liability management studies conducted by PSP Investments using liability information provided by the Chief Actuary of Canada. The result of the studies indicate that the increased diversification and the liability-matching characteristics of the Policy Portfolio, combined with its implementation through active management activities, provides a higher likelihood of meeting the return objective over the long-term, with an equivalent or even lower level of funding risk when compared to a portfolio composed solely of public, liquid asset classes, thus within the risk appetite.

[1] The impact of active management is presented here over a four-year period, which is considered a reasonable time frame to assess the success of this approach and is consistent with PSP Investments' compensation framework. Other sections of the report focus on performance over five years, a time frame that also is commonly used in the industry. The impact of active management for the five-year period was 1.8%.

ENTERPRISE RISK MANAGEMENT
FRAMEWORK

As the manager of federal public sector pension plan assets, PSP Investments is responsible for — among other matters — acting in the best interest of the contributors and beneficiaries under the Plans and maximizing returns without undue risk of loss. 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.

The Corporation emphasizes continuous improvement of its risk management capabilities. To that end, a comprehensive Risk Appetite Statement (RAS) — developed by management and the special Risk Committee of the Board of Directors — was approved by the Board during fiscal year 2014 and is now reviewed annually.

The RAS complements other key policies and procedures that set out the guiding principles governing the Corporation's overall approach, philosophy, culture and values with respect to risk management. They include the Statement of Investment Policies, Standards and Procedures (SIP&P); the Enterprise Risk Management (ERM) Policy; the Investment Risk Management (IRM) Policy; and the Operational Risk Management (ORM) Policy.

RISK APPETITE STATEMENT

The RAS formalizes and combines the key elements of risk management at PSP Investments and clearly defines the Government's assumed appetite for risk. It outlines the appetite, attitude and tolerances to risk of the Board of Directors and management; the role of the Board versus management, as well as PSP Investments' risk governance structure. It sets basic goals, benchmarks, parameters and limits for the key risks assumed, and provides boundaries to PSP Investments' on-going activities. Additionally, the establishment for each risk area of clear metrics assigned to specific departments, along with related controls, is a critical element of the RAS framework.

The RAS emphasizes that all employees are not only active participants in risk identification, but also in risk evaluation, management, mitigation, reporting and monitoring. Furthermore, it reiterates that all investments and activities must be in accordance with applicable laws, regulations and other mandatory industry practices.

ENTERPRISE RISK MANAGEMENT POLICY

The ERM Policy provides a framework for identifying, evaluating, managing, monitoring and reporting the various investment and non-investment risks faced by the Corporation. As risk management strategies and processes — as well as the business environment — continue to evolve, PSP Investments strives to ensure that the framework remains effective.

The framework is guided by the following principles:

+ Promote a risk-aware culture involving all employees;
+ Integrate enterprise risk management into strategic and financial objectives;
+ Operationalize sound risk management processes supporting investment and non-investment activities; and
+ Ensure effective and transparent communication of emerging risk trends.

MANAGEMENT OF INVESTMENT RISKS

As part of the overall ERM Policy, PSP Investments developed an IRM Policy to support the management of risk inherent in the Corporation's investment processes. The Policy sets out an IRM framework, which aims to ensure that investment activities respect the risk philosophy of PSP Investments and are within the tolerances and limits of its risk appetite.

The IRM Policy also supplements the SIP&P. It is designed to effectively manage all investment risks related to the implementation of the Policy Portfolio and to active management activities:

+ The Policy Portfolio, as defined in the SIP&P and described on page 16, includes a strategy to mitigate risk through a diversified investment portfolio.
+ Active management is defined as the sum of investment strategies that deviate from the approved Policy Portfolio. It is designed to supplement the returns of the Policy Portfolio within an active risk budget.

MANAGEMENT OF NON-INVESTMENT RISKS

Given that the management of different categories of risk entails utilizing different approaches, all of the various risk management policies and procedures in force are regularly reviewed to ensure that they are in accordance with the guiding principles stated in the ERM Policy.

Operational risk is one of the key enterprise risks that PSP Investments is exposed to in its daily activities. PSP Investments' ORM Policy supplements the ERM Policy and is designed to mitigate sources of potential operational failure, whether internal or external.

PSP Investments' Enterprise Risk Categories

The ERM Policy defines and categorizes enterprise risks to facilitate a universal understanding of all the risks faced by PSP Investments. The Corporation's enterprise risk categories are defined as:

+ Investment Risk: The risk of loss inherent in achieving investment objectives, including market, liquidity, credit and counterparty, leverage and concentration risks.
+ Strategic Risk: The risk of not achieving strategic goals or business objectives. This risk may arise if inappropriate strategic choices are made, or if strategies or related plans are not implemented successfully.
+ Governance Risk: The risk of a lack of consistent corporate management, cohesive policies, or organizational structure alignment.
+ Stakeholder Risk: The risk of not maintaining effective relations with the sponsor of PSP Investments' pension plans and key business partners.
+ Legal and Regulatory Risk: The risk of non-compliance with applicable regulations, or changes in legislation, regulations or other mandatory industry practices.
+ Operational Risk: The risk of a direct or indirect loss resulting from inadequate or failed internal processes, people or systems, or from external events.
+ Reputational Risk: The risk that an activity undertaken by PSP Investments or its representatives or key business partners impairs its image in the community or lowers public opinion and stakeholder confidence in it.

Each risk category encompasses different types of underlying risks that must be taken into account in order to accurately identify and efficiently manage all risks inherent to PSP Investments' activities.

INVESTMENT RISK				
Market Risk	Liquidity Risk	Credit and Counterparty Risk	Leverage Risk	Concentration Risk

NON-INVESTMENT RISK		
Strategic Risk	**Governance Risk**	**Stakeholder Risk**
– Strategic Planning – Strategy Implementation	– Corporate Oversight and Management – Organizational Structure – Policies and Tolerance Levels	– Plan Sponsor Relations – Business Partner Relations
Legal and Regulatory Risk	**Operational Risk**	**Reputational Risk**
– Misinterpretation of Regulations – Change in Regulations	– People Management – Process and Information Management – Systems and Data Management – Fraud and Corruption – Business Disruption – Model and Valuation	– Corporate Visibility – Responsible Investing

Risk Management Governance

Sound internal governance forms the foundation of an effective risk management framework. Following the approval and update of the RAS, the governance sections of related risk management policies were reviewed for enhanced clarity with respect to the role of the Board of Directors, its committees and senior management.

To help ensure appropriate accountability and further clarify responsibilities for enterprise risk management, both the ERM and ORM Policies incorporate a "Three Lines of Defence" risk management as illustrated in the following table:

THREE LINES OF DEFENCE RISK MANAGEMENT FRAMEWORK

BOARD OF DIRECTORS AND BOARD COMMITTEES

SENIOR MANAGEMENT – INTERNAL COMMITTEES

First Line of Defence	Second Line of Defence	Third Line of Defence	External Audit
– Departments (Business Units and Corporate Services)	– Risk Management – Compliance – Others (e.g. Finance and Administration)	– Internal Audit	

RISK CULTURE

Given that it faces risks in all aspects of its activities, PSP Investments promotes a corporate-wide risk-aware culture and strives for a universal understanding of key risks inherent to the Corporation's activities. As outlined in the RAS as well as in the "Three Lines of Defence" framework, senior management and employees are not only active participants in risk identification, but also in risk evaluation, management, monitoring and reporting.

BOARD OF DIRECTORS OVERSIGHT

The Board of Directors establishes its risk oversight by:

+ Establishing the RAS, investment objectives, the SIP&P and the Policy Portfolio;
+ Participating in the definition of PSP Investments' risk philosophy;
+ Ensuring that PSP Investments' management has established effective enterprise risk management within the Corporation; and
+ Being apprised of material risks and how PSP Investments' management is responding to them.

In order to oversee and manage risks related to its investments and operations, senior management relies on various committees, including the Management Investment Committee, the Management Operations Committee, the Risk Steering Committee, the Valuation Committee, the New Business Activity Committee and the Information Technology Governance Committee.

CHANGE IN NET ASSETS

AND FUND PERFORMANCE

14.5%
ONE-YEAR RATE OF RETURN

$14.0
BILLION
NET INVESTMENT INCOME

$4.6
BILLION
NET CONTRIBUTIONS

$112.0 **BILLION**
NET ASSETS

11.7%
FIVE-YEAR ANNUALIZED RETURN

PERFORMANCE MEASUREMENT AND EVALUATION

Based on its Statement of Investment Policies, Standards and Procedures (SIP&P), PSP Investments evaluates its investment strategies, as well as individual investment mandates, through performance measurement.

PSP Investments measures its performance on a gross basis.

The time-weighted rate of return methodology is used to calculate returns for Public Market asset classes and the Total Portfolio while the internal rate of return methodology is used to calculate returns for the Real Estate, Private Equity, Infrastructure and Natural Resources[1] asset classes.

For the total portfolio return and for the asset class investment income and returns, performance is calculated gross of direct expenses and excludes both external investment management fees for Public Market asset classes and transaction costs for Private Market asset classes. Additionally, the Private Market asset class returns are presented net of currency hedging. Reporting performance on a gross basis allows for better comparability across the industry. PSP Investments also evaluates its cost structure to ensure the cost of delivering its return net of fees is competitive, as described on page 32.

The performance for each investment strategy and mandate is compared to an appropriate benchmark.

[1] Formerly known as Renewable Resources.

BENCHMARKS

A combined Policy Portfolio benchmark ("Policy Benchmark") is constructed using the asset class benchmarks weighted by the actual portfolio asset class weightings. The return for each asset class is compared to the relevant benchmark return, while PSP Investments' overall return is compared to the Policy Benchmark return.

The following benchmarks were used to measure relative performance for each asset class and for the Policy Benchmark return for fiscal year 2015.

ASSET CLASS	BENCHMARK
World Equity	
Canadian Equity	S&P/TSX Composite Index
Foreign Equity US Large Cap Equity EAFE Large Cap Equity Small Cap Equity Emerging Markets Equity	 S&P 500 Index MSCI EAFE Index S&P 600 Index MSCI EMF Index
Private Equity	Private Equity Fund Universe and Private Equity Cost of Capital[1]
Nominal Fixed Income	
Cash & Cash Equivalents	FTSE TMX Canada 91 Day TBill Index
Fixed Income	JP Morgan Government Bond Index Global and FTSE TMX Canada Universe Bond Index
Real Return Assets	
World Inflation-Linked Bonds	Four Country ILB Index[1]
Real Estate	Real Estate Cost of Capital[1]
Infrastructure	Inflation Adjusted Infrastructure Risk Premium and Infrastructure Cost of Capital[1]
Natural Resources[2]	Natural Resources Cost of Capital[1,2]

[1] Customized benchmark.

[2] Formerly known as Renewable Resources.

CHANGE IN NET ASSETS

The net assets of PSP Investments increased by $18.3 billion during fiscal year 2015, representing a gain of 20% and surpassing the $100-billion mark. Gains in the year were attributable to a combination of strong investment performance and net contributions. Net assets at the end of fiscal year 2015 were $112.0 billion, up from $93.7 billion at the end of the previous fiscal year.

PSP Investments generated profit and other comprehensive income of $13.7 billion during the latest fiscal year, compared to $12.6 billion in fiscal year 2014. The results for fiscal year 2015 represent a consolidated rate of return of 14.5% compared to 16.3% in the previous year. PSP Investments received $4.6 billion in net contributions during fiscal year 2015 and $5.0 billion in fiscal year 2014.

CONSOLIDATED RETURNS

The strong 14.5% investment return for fiscal year 2015 was bolstered by the continued robust performance of global equity markets.

Developed market equity indices continued to record solid gains, driven by another year of extremely accommodative monetary policy, exceptionally low bond yields and modest global economic growth. As a result, the S&P 500 posted a gain of 12.7% (29.4% in Canadian dollars), reaching an all-time high, while the MSCI EAFE index generated a return of 17.7% (13.7% in Canadian dollars). The Canadian economy underperformed as a result of the fall in crude oil prices and the return on the S&P/TSX fell well short of its US and European counterparts, with a 6.9% gain. Finally, despite ongoing concerns about the pace of growth in economies such as China and Brazil, emerging market equities managed to post solid gains over all, with the MSCI EM Index recording a 10.9% gain (15.2% in Canadian dollars).

Fixed-income markets also fared relatively well. With bond markets rallying across the globe, the JP Morgan Global Index recorded a gain of 8.5% (10.5% in Canadian dollars).

PSP Investments also benefited from the strong performance of its Private Markets asset classes, almost all of which recorded double-digit investment returns for the year. The only exception was Private Equity, which generated a still-healthy 9.4% investment return.

The fiscal year 2015 total portfolio return of 14.5% exceeded the Policy Benchmark rate of return of 13.1%, and added $1.5 billion in value over and above the Policy Benchmark return. The excess return relative to the Policy Benchmark was generated primarily by the Real Estate, Public Markets absolute-return mandates, Infrastructure and Natural Resources portfolios. The main drivers of the excess returns for each asset class are presented in further detail on pages 22 to 31 of this annual report.

Over the past five fiscal years, PSP Investments has recorded a compound annualized rate of return of 11.7%, compared to 9.9% for the Policy Portfolio Benchmark, while generating investment income of $43.3 billion and $6.3 billion of value added above the benchmark.

For the 10-year period ended March 31, 2015, PSP Investments recorded a net annualized investment return of 7.6%, equal to the Policy Portfolio return, and above the return objective of 6.0% (4.2% after inflation).

PORTFOLIO AND BENCHMARK RETURNS

As at March 31, 2015

	Fiscal Year 2015				5-year	
ASSET CLASS	**Fair Value (millions $)[1]**	**Fair Value %**	**Portfolio Returns %**	**Benchmark Returns %**	**Portfolio Returns %**	**Benchmark Returns %**
World Equity						
Canadian Equity	16,840	15.0	7.2	6.9	7.4	7.2
Foreign Equity						
US Large Cap Equity	11,178	10.0	29.5	29.4	19.6	19.6
EAFE Large Cap Equity	10,512	9.4	12.9	13.7	11.1	11.0
Small Cap Equity	8,071	7.2	25.0	24.8	21.6	21.3
Emerging Markets Equity	9,640	8.6	15.2	15.2	6.7	6.4
Private Equity	10,103	9.0	9.4	11.6	15.4	13.2
Nominal Fixed Income						
Cash & Cash Equivalents[2]	2,647	2.4	1.3	0.9	1.3	0.9
Fixed Income	13,638	12.2	9.4	10.4	6.2	6.2
Real Return Assets						
World Inflation-Linked Bonds	6,396	5.7	16.9	16.9	10.0	10.1
Real Estate	14,377	12.8	12.8	4.9	12.6	5.7
Infrastructure	7,080	6.3	10.4	6.1	7.2	6.8
Natural Resources[3]	1,536	1.4	12.2	3.6	14.3	4.7
Total	**112,018**	**100.0**	**14.5**	**13.1**	**11.7**	**9.9**

[1] The investments are classified by asset mix category as set out in the SIP&P based on the economic intent of the investment strategies of the underlying assets.

[2] Includes amounts related to absolute-return strategies.

[3] Formerly known as Renewable Resources, the Natural Resources asset class was created in fiscal year 2012. The five-year portfolio and benchmark returns presented are since inception (3.75 years).

Except as otherwise indicated, returns are time-weighted rates of return.

The internal rate of return methodology is used to calculate portfolio returns for the Real Estate, Private Equity, Infrastructure and Natural Resources asset classes.

The total portfolio return includes the performance impact of absolute-return strategies and is calculated gross of direct expenses. Private Market asset class returns are presented net of currency hedging.

[4] Formerly known as Renewable Resources.

PUBLIC MARKETS

Public Markets is composed of Canadian Equity, Foreign Equity, Fixed Income and World Inflation-Linked Bonds. Net assets in Public Markets totalled $76.3 billion at the end of fiscal year 2015, an increase of $10.2 billion from the prior fiscal year.

Public Markets recorded investment income of $10.4 billion in fiscal year 2015, for an overall return of 15.6%. The benchmark return for fiscal year 2015 was 15.2%.

This compares to an overall return of 17.8% in fiscal year 2014 versus a benchmark return of 17.4%. Over a five-year period, Public Markets recorded an annualized return of 11.8%, compared to a benchmark return of 10.7%. Since inception, Public Markets has had an overall return of 6.5% versus a benchmark return of 6.6%.

Public Markets investments are overseen by both internal and external managers using a combination of active and index-replication strategies. Net assets managed in active strategies totalled $33.5 billion at the end of fiscal year 2015, an increase of $7.5 billion from $26 billion at the end of fiscal year 2014. Internal active strategies totalled $21.7 billion at the end of fiscal year 2015, an increase of $4.0 billion from $17.7 billion at the end of fiscal year 2014.

Public Markets further built up their relationships with brokers to facilitate equity trading across 24 countries for the new internal, active Emerging Markets mandate, which was initiated in fiscal year 2015. Public Markets also funded four new external mandates during the latest fiscal year, for a total of US$1.6 billion.

TOTAL VALUE ADDED

Internal absolute-return mandates added $115 million of relative value, attributable to long/short equity strategies and equity derivatives, as well as financing strategies and long US dollar positions. External absolute-return strategies added $193 million of relative value, mainly as a result of good positioning in certain markets, such as currencies (long USD against the Euro), equities (long equities with a good geographic positioning), fixed income (tactical trading) and energy (underweight this sector). The strategies also benefitted from good individual name selection.

Active internal and external long-equity mandates also generated positive relative returns, with the internal Value Opportunity Portfolio gaining 30.1% in fiscal year 2015, contributing $35 million in relative value. The positive value added was partially offset by the underperformance of the Active Fixed Income portfolio.

Asset-backed term notes contributed $29 million of relative value, as PSP Investments continued to fully benefit from a reduction of risk on the underlying assets as they approach maturity.

15.6%

ONE-YEAR RATE OF RETURN

$10.4 BILLION INVESTMENT INCOME

$76.3 BILLION NET ASSETS

68.1% OF TOTAL NET ASSETS

11.8%

FIVE-YEAR ANNUALIZED RETURN

EQUITIES

Net assets in Public Markets equities totalled $56.3 billion at the end of fiscal year 2015, an increase of $6.9 billion from the $49.4 billion total at the end of fiscal year 2014.

Public Markets equities recorded an investment gain of $7.9 billion for a return of 16.1% in fiscal year 2015, in line with the benchmark return. During the fiscal year, Public Markets equities generated positive relative performance from internal and external long-equity mandates, partially offset by negative relative performance from internal active EAFE equities. The performance of equity markets in fiscal year 2015 varied greatly across regions. The biggest gainers were the US Large Cap portfolio and the Small Cap Equity portfolio, which returned 29.5% and 25.0%, respectively. Emerging Markets equity and EAFE Large Cap posted relatively modest returns of 15.2% and 12.9%, respectively, whereas Canadian Equity returned only 7.2%.

FIXED INCOME

Net assets in Fixed Income and World Inflation-Linked Bonds totalled $20.0 billion at the end of fiscal year 2015, compared to $16.6 billion at the end of fiscal year 2014. Overall, these fixed income portfolios earned $2.1 billion in investment income for a return of 11.7% in fiscal year 2015, compared to the benchmark return of 12.4%. The underperformance can be explained by the positioning of the Fixed Income portfolio to take advantage of rising US and global rates.

PUBLIC MARKETS INVESTMENTS ARE OVERSEEN BY BOTH INTERNAL AND EXTERNAL MANAGERS USING A COMBINATION OF ACTIVE AND INDEX-REPLICATION STRATEGIES.

REAL ESTATE

Net assets of the Real Estate portfolio totalled $14.4 billion at the end of fiscal year 2015, an increase of $3.8 billion from the prior fiscal year.

Real Estate investments generated $1.5 billion in investment income, for a total return of 12.8% in fiscal year 2015, compared to a benchmark of 4.9%.

Over a five-year period, Real Estate investments generated a 12.6% annualized return, compared to a benchmark return of 5.7% for the same period. Since the inception of this asset class in October 2003, Real Estate investments have generated a 10.5% annualized return compared to a benchmark return of 6.5%.

The Real Estate group's strategy favours direct ownership and co-investment through joint ventures, which are facilitated by strong in-house capabilities and business relationships with more than 70 partners. In addition, the Real Estate group utilizes specialized funds and vehicles to gain access to specific strategies and markets. In fiscal year 2015, Real Estate continued to expand its network of partners and contacts in key markets where they intend to be long-term investors, taking into account key considerations such as demographics, urbanization, technology, growing middle class and natural resources. In developed markets, the group's focus areas are Canada, the U.S., the U.K., France, Germany, Spain, Sweden, Australia and New Zealand. In emerging markets, the current focus includes China, Brazil, Mexico and Colombia.

The strong returns in Real Estate reflect valuation increases from a number of new investments made post-financial crisis, as well as significant flows of money coming into the sector stemming from the attractiveness of this asset class to long-term institutional investors in a low-yield environment. The returns include a combination of: consistent cash flows generated by direct investments in core properties; various value-added and opportunistic initiatives undertaken with respect to specific assets; strategic investments in real estate debt instruments; indirect investments in a limited number of top-performing funds; and dispositions. Significant valuation increases were recognized during the year from the portfolio of office properties in the U.S. and Western Europe, in seniors' housing and multi-family properties in Canada and the U.S. and from investments in high-yielding and distressed real estate debt. The year-over-year increase in net assets reflects both new investments (net of dispositions) and valuation gains from existing assets.

12.8%	$1.5 BILLION INVESTMENT INCOME	$14.4 BILLION NET ASSETS	12.6%
ONE-YEAR RATE OF RETURN	12.8% OF TOTAL NET ASSETS		FIVE-YEAR ANNUALIZED RETURN

During fiscal year 2015, Real Estate significantly increased its sectoral exposure to industrial assets across various markets in Canada, the U.S., Western Europe and Emerging Markets, notably in China, Brazil and Mexico. A significant investment was made in a New Zealand portfolio that includes a diversified mix of retail and office properties. As well, this past year saw the completion of a core office building development in London. The exposure to development projects increased, with substantial commitments to a major waterfront development project in Washington, D.C., another core office building in London and a residential development program in targeted US gateway cities. In the residential-retirement sector, seniors' housing acquisitions were made in select US markets. Operating results of the Revera assets improved, and the Revera portfolio was strategically repositioned through select acquisitions and dispositions. Real Estate also took advantage of opportunities to increase its presence in student housing in a core European market, and intend to further develop this subsector. Over the course of the year, several office and mixed-use properties were sold in the U.S., Australia and Canada where the respective business plans had been achieved and markets were offering attractive valuations. The group's exposure and returns with respect to assets in emerging countries were negatively impacted by movements in the currencies of these countries, most notably the strong devaluation of the Brazilian real versus the Canadian dollar.

As at March 31, 2015, direct ownership and co-investments accounted for 86% of the assets in Real Estate, an increase from 82% at the end of the previous fiscal year.

Real Estate

DIVERSIFICATION BY GEOGRAPHY

As at March 31, 2015

United States	**39.0%**
Canada	**27.0%**
Europe	**15.9%**
Developed Asia and Australia	**9.8%**
Emerging Countries	**8.3%**

The majority of the Real Estate portfolio exposure is in North America.

Real Estate

DIVERSIFICATION BY SECTOR

As at March 31, 2015

Office	**34.8%**
Retirement/Residential	**26.2%**
Retail	**12.5%**
Industrial	**12.3%**
Health Care	**5.8%**
Real Estate Debt	**4.2%**
Other	**4.2%**

PRIVATE EQUITY

Net assets of the Private Equity portfolio totalled $10.1 billion at the end of fiscal year 2015, an increase of $1.7 billion from the prior fiscal year.

Private Equity generated $818 million of investment income, for an internal rate of return (IRR) of 9.4% in fiscal year 2015 compared to a benchmark return of 11.6%. Income generated from funds was $576 million, which represented an IRR of 10.7%. Income generated from co-investments was $242 million, for an IRR of 7.4%. The portfolio generated distributions of $1.1 billion during fiscal year 2015, from realized capital gains, return of capital, other income and a secondary sale of fund investments.

Total portfolio income for the year was largely driven by Asian investments, led by an investment in a leading South Korean life insurance business, ING Life Insurance Korea, co-underwritten alongside MBK Partners and completed in December 2013. Telesat, a leading global satellite operator, which again recorded EBITDA growth and strong cash flow generation, led our Canadian investments. US investments were weighed down by two investments: Noodles & Company, a fast casual restaurant chain, and Acelity, a global wound care and regenerative medicine company. Finally, European investments posted their best returns in the last four years, generating positive income. Performance of our funds portfolio was driven by investments in fund of funds, with a select number of key partners contributing $336 million of investment income.

9.4%
ONE-YEAR RATE OF RETURN

$818
MILLION INVESTMENT INCOME

$10.1
BILLION NET ASSETS

9.0% OF TOTAL NET ASSETS

15.4%
FIVE-YEAR ANNUALIZED RETURN

On a five-year basis, Private Equity investments generated a 15.4% annualized return, compared to a benchmark return of 13.2%. Since the inception of the asset class in July 2004, Private Equity investments generated a 9.2% annualized return compared to a benchmark return of 5.6%.

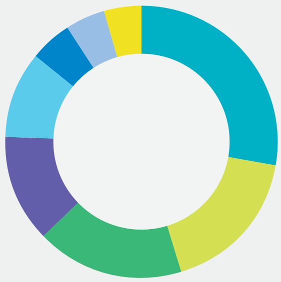
During the year, Private Equity strategically committed a total of $2.5 billion to four funds selected on the basis of their unique and specialized investment strategies, underpinned by a strong alignment of interests, preferred terms and strong potential for future co-investments.

The Private Equity direct and co-investment strategy now has thirteen investments totaling over $4 billion. It is focused on long-term investments, usually held between 5 to 10 years, and targeting individual investments of $100 million to $500 million. The portfolio is invested globally in collaboration with select strategic partners with whom PSP Investments has established close relationships and accounted for 40% of the assets of the Private Equity portfolio.

Private Equity
DIVERSIFICATION BY GEOGRAPHY
As at March 31, 2015

United States	**45.5%**
Asia	**24.2%**
Canada	**19.7%**
Europe	**10.6%**

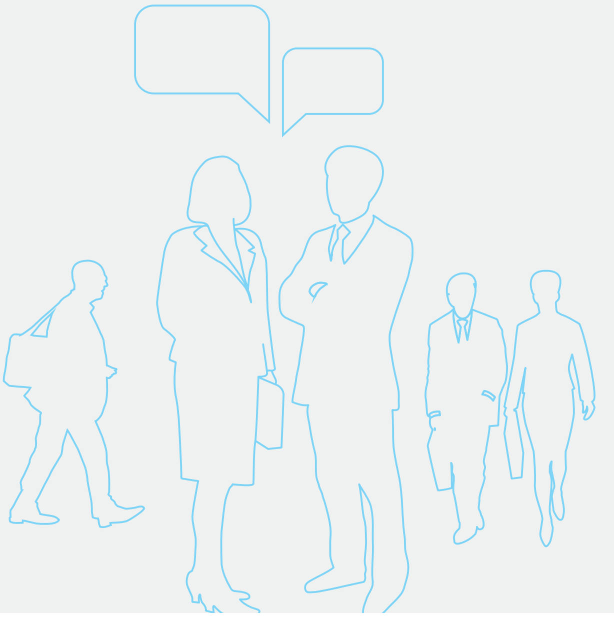
The majority of the Private Equity portfolio exposure is in North America.



Private Equity
DIVERSIFICATION BY SECTOR[1]
As at March 31, 2015

Communications	**27.8%**
Consumer Non-Cyclical	**17.6%**
Financial	**17.4%**
Consumer Cyclical	**12.8%**
Technology	**10.4%**
Energy	**5.1%**
Industrial	**4.7%**
Other	**4.2%**

[1] Excluding investments in fund of funds.



INFRASTRUCTURE

Net assets of the Infrastructure portfolio totalled $7.1 billion at the end of fiscal year 2015, an increase of $1.1 billion from the prior fiscal year.

The Infrastructure portfolio generated $604 million in investment income, for a return of 10.4% in fiscal year 2015, compared to the benchmark return of 6.1%. This income included $291 million of distributions from direct investments. The portfolio return was driven mainly by direct investments in the transportation and utilities sectors in Europe and emerging markets. Similar to last year, the movements in oil and natural gas markets created challenges for the energy sector of the portfolio.

Over a five-year period, Infrastructure investments generated a 7.2% annualized return compared to a benchmark return of 6.8% for the same period. The investment horizon of Infrastructure investments is more than 10 years. Since the inception of this asset class in June 2006, Infrastructure investments have generated a 6.9% annualized return, compared to a benchmark return of 5.3%.

10.4%
ONE-YEAR RATE OF RETURN

$604 MILLION INVESTMENT INCOME

$7.1 BILLION NET ASSETS

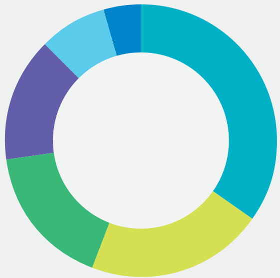
6.3% OF TOTAL NET ASSETS

7.2%
FIVE-YEAR ANNUALIZED RETURN

The year-over-year increase in net assets in Infrastructure included new direct investments totalling $1.2 billion, the majority of which are in Europe. Over the course of the fiscal year, the Infrastructure group acquired a participation in TDF, one of the largest portfolios of broadcasting and telecommunication tower infrastructure networks in France. The group also invested alongside Ontario Teachers' Pension Plan and Banco Santander S.A. in a US$2.0 billion portfolio of wind and solar assets located in seven countries. Finally, the Infrastructure group divested of a participation in an oil product pipeline in Europe.

The Infrastructure strategy remains focused on building partnerships with other financial investors and strategic operators to acquire and develop assets offering a good mix of predictable cash flows and growth prospects, while ensuring its ability to extract value while continuously assessing buying and selling opportunities.

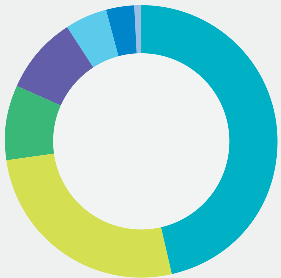
As at March 31, 2015, direct and co-investments accounted for 85% of the assets of the Infrastructure portfolio, down slightly from 89% at the end of the previous fiscal year.



Infrastructure
DIVERSIFICATION BY GEOGRAPHY
As at March 31, 2015

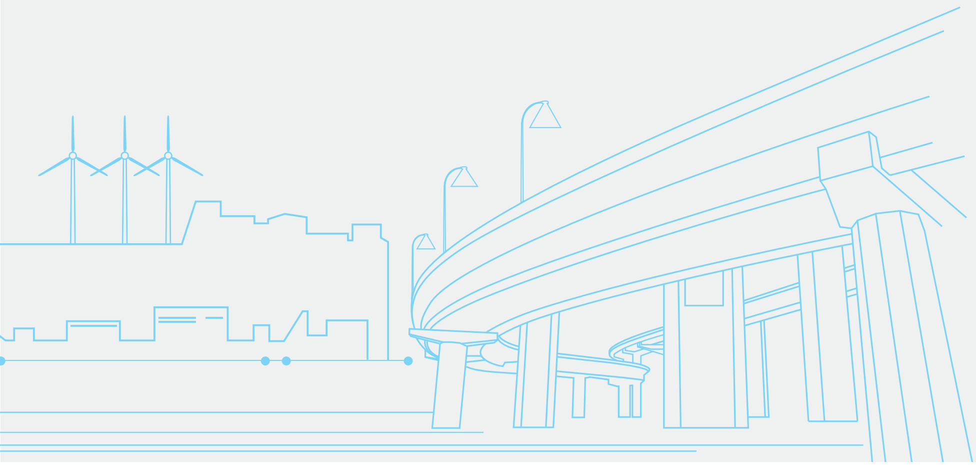
Europe	**34.9%**
North America	**21.0%**
Latin America	**17.1%**
United Kingdom	**14.5%**
Australia	**8.3%**
Asia and Others	**4.2%**

The Infrastructure portfolio is diversified mostly across the Americas and Europe.



Infrastructure
DIVERSIFICATION BY SECTOR
As at March 31, 2015

Transportation	**46.6%**
Electrical Generation and Transmission	**26.2%**
Telecom Infrastructure	**9.1%**
Oil and Gas Storage and Transport	**9.0%**
Oil and Gas Exploration and Production	**5.1%**
Water Utilities	**3.2%**
Other	**0.8%**



NATURAL RESOURCES[1]

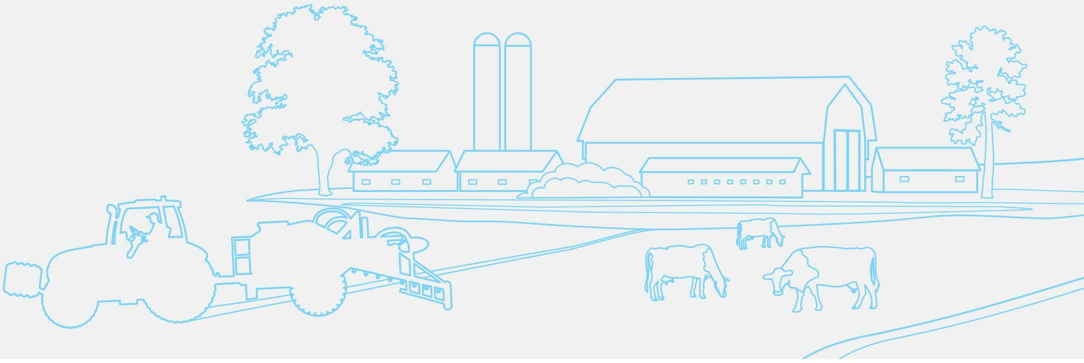
Net assets of the Natural Resources portfolio totalled $1.5 billion at the end of fiscal year 2015, an increase of $741 million from the prior fiscal year.

Natural Resources generated investment income of $125 million, for a rate of return of 12.2% in fiscal year 2015, compared to a benchmark return of 3.6%. Portfolio returns were primarily attributable to positive cash flows from the Group's timber investments, which generated cash distributions of more than $100 million during the year. While timber markets softened in the second half of the fiscal year, the Group's investments in the sector continued to produce strong cash flows thanks to their favourable position on the cost curve.

On April 1, 2015, this asset class, formerly known as Renewable Resources, was expanded to include extractable resources and, consequently, renamed Natural Resources. Since inception in June 2011, Natural Resources has generated a 14.3% annualized return, compared to a benchmark return of 4.7% for the same period.

During fiscal year 2015, the Natural Resources group increased its stake in the Kaingaroa Forest. This timber plantation totals approximately 178,000 contiguous hectares (440,000 acres) in the central North Island of New Zealand.

Also during the year, the group closed new investments in agriculture and livestock. One is a joint-venture partnership with a local Australian operator, which will serve as the Group's platform to invest in cattle assets in that country. The other is a structured investment in one of the largest global aquaculture companies, with operations diversified across several geographic regions. The Group committed $500 million to these two investments.



[1] Formerly known as Renewable Resources.

12.2%
ONE-YEAR RATE OF RETURN

$125 MILLION INVESTMENT INCOME

$1.5 BILLION NET ASSETS

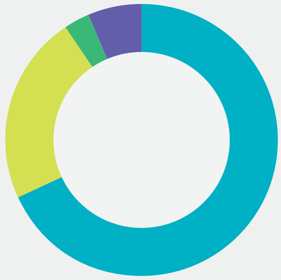
1.4% OF TOTAL NET ASSETS

14.3%
SINCE INCEPTION ANNUALIZED RETURN
(3.75 YEARS)

Natural Resources also partnered with other like-minded investors and committed to invest in a mining platform with the objective of building a diversified mid-tier mining company.

The strategy for Natural Resources continues to be focused on sizeable, direct, long-term investments in partnership with like-minded peers and best-in-class operators. In regions and sectors where finding investments of sufficient scale is a challenge, the Group will look to create platforms to acquire smaller assets.

As at March 31, 2015, direct investments accounted for 100% of the assets in the Natural Resources portfolio.

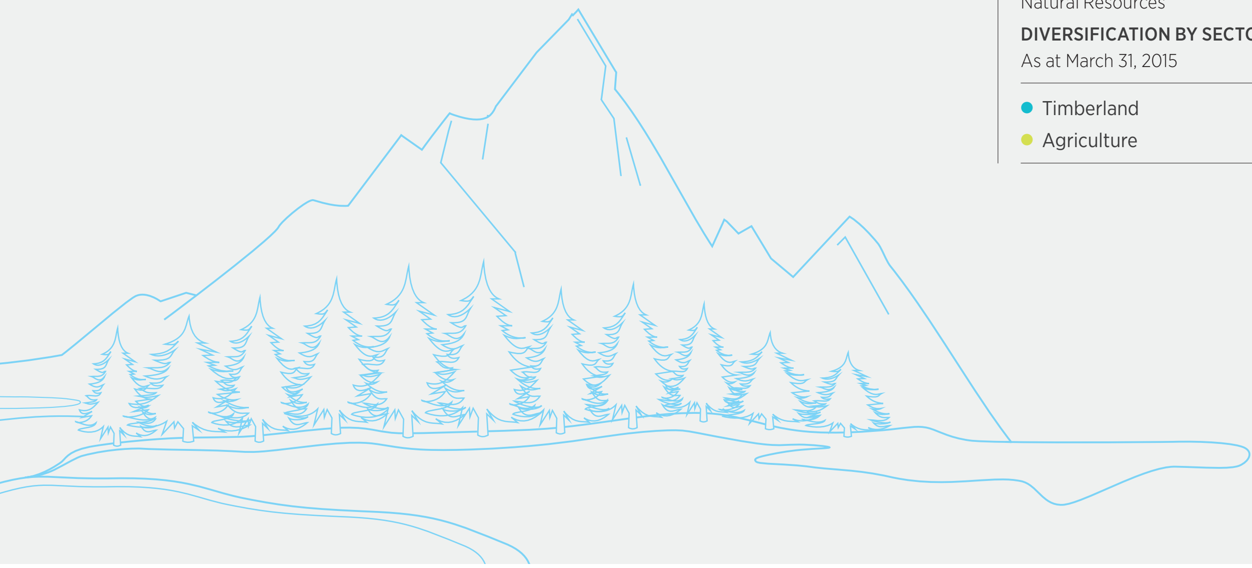


Natural Resources
DIVERSIFICATION BY GEOGRAPHY
As at March 31, 2015

Oceania	**68.2%**
Canada	**22.4%**
Latin America	**3.2%**
Other	**6.2%**

Natural Resources
DIVERSIFICATION BY SECTOR
As at March 31, 2015

Timberland	**82.8%**
Agriculture	**17.2%**



Transition to International Financial Reporting Standards (IFRS)

As required by the Accounting Standards Board of Canada, PSP Investments adopted International Financial Reporting Standards (IFRS) for the fiscal year recently completed. To that end, the March 31, 2015 Consolidated Financial Statements are the first annual financial statements prepared under IFRS. They reflect PSP Investments' accounting policies established as at March 31, 2015, and, in general, were applied retroactively to determine the IFRS opening Consolidated Statement of Financial Position as at April 1, 2013 — the first day of the comparative period presented.

As an investment entity under IFRS, PSP Investments has, generally, maintained its fair-value measurement basis consistent with that under previous Canadian accounting standards. However, the unit of account being measured at fair value has changed. Under previous Canadian accounting standards, PSP Investments consolidated the subsidiaries it formed that qualified as investment entities, while measuring their underlying investments at fair value. Upon transition to IFRS, PSP Investments no longer consolidates its subsidiaries, other than those that solely provide it with services related to its investment activities. Instead, PSP Investments measures its investments in its subsidiaries at fair value. The presentation of the Consolidated Financial Statements was adjusted accordingly.

As a result of the transition to IFRS, net assets were adjusted with respect to the re-measurement of the net defined-benefit employee pension plan liability of PSP Investments. Under IFRS, the impact of such re-measurement is recognized immediately in other comprehensive income (OCI), instead of being amortized over the average remaining service period of active employees as under previous Canadian accounting standards. Upon IFRS transition, the corresponding impact on equity amounted to a $17-million loss as at April 1, 2013, offset by a $17-million actuarial gain recorded in OCI for the period ended March 31, 2014, resulting in nil cumulative impact as at March 31, 2014. The re-measurement fluctuations are mainly due to changes in discount rates used to measure the liabilities. The discount rates are determined by market yields on high-quality corporate bonds and, as a result, can vary significantly year over year.

Other IFRS impacts consist mainly of presenting a statement of cash flows as well as additional note disclosures, as outlined in Note 18 of the Consolidated Financial Statements.

Operating Expenses and Cost Ratio

PSP Investments' total operating expenses for fiscal year 2015 increased to $243 million, compared to $216 million for fiscal year 2014. The increase in operating expenses for fiscal year 2015 is mainly related to the higher dollar level of assets being actively managed internally, as well as the increase in total assets under management. However, expressed as a percentage of average net investment assets, operating expenses for the latest year declined to 24.0 basis points, or 24.0 cents per $100 of average net investment assets. This is compared to 25.7 basis points or 25.7 cents per $100 of average net investment assets in fiscal year 2014.

For fiscal year 2015, PSP Investments' cost ratio (i.e. operating expenses and asset-management expenses as a percentage of average net investment assets) decreased to 58.8 basis points or 58.8 cents per $100 of average net investment assets from 59.3 basis points or 59.3 cents per $100 of average net investment assets in fiscal year 2014. This improvement is the result of increased efficiencies and economies of scale driven by an increase in internal management of assets and significant growth in net investment assets. 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 Markets' investment activities.

As asset levels increased sharply over the past several years, PSP Investments has been effectively managing its cost ratio, which has been on the decline — falling from 76.6 basis points (76.6 cents per $100 of average net investment assets) in fiscal year 2010 to 58.8 basis points in the latest fiscal year. The decline is primarily attributable to PSP Investments' internal active management strategy, adopted in fiscal year 2004. Assets managed internally increased to approximately $82 billion at the end of fiscal year 2015, compared to $70 billion at the end of the previous fiscal year. Over the past five fiscal years, internally managed assets have increased by approximately $51 billion, while operating expenses grew by $151 million. Based on available market data with respect to investment-implementation style, it is estimated that, for fiscal year 2015 alone, the increase of $51 billion in internally managed assets has resulted in savings ranging from $150 million to $250 million, compared to what costs would have been had PSP Investments deployed these assets with external investment managers.

INTERNAL AUDIT
AND COMPLIANCE

Internal Audit and Compliance is responsible for evaluating and improving risk management, control and governance processes, and ensuring that PSP Investments operates within a robust control environment and remains in compliance with all relevant policies, procedures and regulatory requirements.

Internal Audit

The Internal Audit function is an independent objective assurance and consulting activity designed to add value and improve the Corporation's operations. It helps to achieve PSP Investments' objectives by using a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

MANDATE

The role of the Internal Audit team involves auditing all of PSP Investments' activities, including its wholly-owned operating subsidiaries, focusing on high-risk areas and promoting sound governance, risk management and control processes, as well as providing recommendations to management and the Audit Committee of the Board of Directors that support decision making at the operational and strategic levels. This is achieved through the use of a flexible annual audit plan for PSP Investments and its wholly-owned operating subsidiaries, utilizing an appropriate risk-based methodology, including any explicit risks or control concerns identified by management or the Audit Committee.

With the support of experts from outside consulting firms, Internal Audit carried out a number of risk-based recurring and non-recurring internal audit mandates during fiscal year 2015. These mandates were undertaken as part of the annual review of PSP Investments' overall control environment as well as key internal controls, including those related to fraud risk, as required under Section 28 of the Act. The definition of internal control adhered to by PSP Investments is derived from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Integrated Framework.

Additionally, at the request of management and the Audit Committee, several advisory activities were undertaken. Recommendations issued by the Internal Audit team help PSP Investments continuously strengthen its controls and improve the efficiency of its processes.

EXTERNAL QUALITY ASSESSMENT OF PSP INVESTMENTS' INTERNAL AUDIT FUNCTION

As required by the Institute of Internal Auditors (the "IIA"), the global professional association for internal auditing, an independent consulting firm assessed PSP Investments' Internal Audit function in fiscal year 2014 and confirmed that the function operates in compliance with IIA Standards.

Compliance

The Compliance team's core activities consist of ensuring that PSP Investments' employees, business practices and behavior are fully aligned with internal policies, procedures and regulatory requirements, as well as overseeing and monitoring the Corporation's investment activities.

ETHICS

The standards of integrity and ethics that PSP Investments' employees must uphold at all times are found in the Code of Conduct for Officers, Employees and Others (the "Employee Code"). Rigorous adherence to these standards and compliance with relevant laws and statutory requirements as well as internal policies and procedures, including the Employee Code, is one of the Compliance team's main objectives.

PSP Investments takes the Employee Code seriously. Violators are subject to appropriate disciplinary measures, including termination of employment or engagement. The Employee Code also contains a whistleblowing and non-retaliation provision designed to encourage and protect employees and other individuals subject to its provisions, who step forward and report fraudulent or inappropriate activities.

The Compliance Officer is responsible for the Employee Code's procedures and reports quarterly to the Governance Committee of the Board, which is responsible for monitoring its application. The Employee Code may be consulted on PSP Investments' website at **www.investpsp.ca**.

INVESTMENT COMPLIANCE, OVERSIGHT AND ADVISORY

In addition to its responsibilities for monitoring daily trading activity, overseeing regulatory filings and providing periodic reports to the Audit Committee of the Board, the Compliance team works in conjunction with the Legal Affairs Department to keep abreast of regulatory changes and implement whatever controls might be required to support PSP Investments' operations.

FRAUD AND CORRUPTION PREVENTION

Integrity is one of PSP Investments' core values. As such, PSP Investments has a zero tolerance policy with respect to fraud and corruption. Fraud of any kind, including insider trading, collusion, falsification of records or information, asset misappropriation and other fraudulent activities, is strictly prohibited. Likewise, any form of corruption, including the abuse of position or the payment or acceptance, directly or indirectly, of any form of bribe, is strictly forbidden.

The Internal Audit and Compliance team plays an active role in preventing, detecting, mitigating, investigating, and responding to fraud and corruption risks and incidents. It oversees a rigorous enterprise-wide control environment encompassing the various laws, regulations, rules, policies and procedures applicable to PSP Investments, utilizing explicit internal controls that extend throughout all departments. These controls are framed by PSP Investments' Fraud and Corruption Prevention Procedure and its related policies, procedures and tools.

RISK MANAGEMENT

Risk Management Department

The Risk Management Department, headed by the Chief Risk Officer, supports PSP Investments' activities and is responsible for the independent oversight of both investment and non-investment risks within the boundaries of PSP Investments' risk appetite, by establishing effective practices and processes. The Risk Management department's mandate is derived from PSP Investments' Enterprise Risk Management (ERM) Policy established by the Board of Directors.

Fiscal Year 2015 Accomplishments

In line with the rapid growth of assets under management and the evolving environment within which PSP Investments operates, the department continues to enhance its core responsibilities and expertise and to proactively implement industry-recognized risk management practices.

During fiscal year 2015, PSP Investments undertook the following initiatives designed to further improve and enhance the management of the various types of risks.

INVESTMENT RISKS

+ Private Markets risk: Formalized an annual review process for all private market investments risk ratings, increased the number of internally rated investments with investment specific covenants, and enhanced existing monitoring tools.
+ Liquidity risk: Enhanced the liquidity framework through the development of a Contingency Funding Plan.
+ Credit and counterparty risk: Revisited and amended agreements with various counterparties in order to ensure optimal management of credit related exposure.
+ Leverage risk: Monitored the effectiveness of a detailed framework implemented the previous year.
+ Market risk: Enhanced robustness of valuation processes and further refined active risk measurement and attribution through improved derivative positions reporting, sensitivity analysis and exposure reports.
+ Concentration risk: Continued to enhance our comprehensive view of PSP Investments' aggregated portfolio across all asset classes.

NON-INVESTMENT RISKS

+ Risk Assessment: A Risk and Control Self-Assessment (RCSA) update was undertaken with all departments to ensure that our most significant risks, their key impacts, mitigation factors and the adequacy of the mitigation environment are identified and evaluated. Once presented to the Board of Directors, PSP Investments' top risks are communicated across the organization to ensure all employees have a consistent understanding of the risks inherent in our core activities and how they could hinder our ability to achieve our business objectives. Along with PSP Investments' RAS, the RCSA is designed to raise risk awareness and encourage open discussions about the risks inherent to our activities.
+ Crisis Management: During fiscal year 2015, a Crisis Management Framework and Procedure were developed to define an enterprise-wide approach to crisis management at PSP Investments. The Crisis Management Procedure complements existing crisis management processes and guides. It provides a consistent process for identifying, communicating and managing crises across the Corporation and defines the roles and responsibilities of the different teams involved in crisis management.
+ Fraud Prevention: The Fraud Risk Management Program was further formalized during fiscal year 2015, through initiatives such as the implementation of continuous monitoring and auditing techniques on certain processes and activities that represent a higher risk of fraud, and the identification, review and testing of specific anti-fraud controls.
+ Responsible Investing: Training sessions were given to the Investment teams to increase awareness of environmental, social and governance risks, including bribery and corruption risks, which supplemented the mandatory Fraud and Corruption Risk Awareness training session for all employees.

RISK MANAGEMENT TOOLS AND PROCESSES

The use of risk data and information is key to the department's ability to provide the monitoring and management reporting capabilities required to support daily risk management activities. The Risk Management Department continues to build on existing processes, tools and systems to meet new requirements and implement effective risk management practices.

In addition to ongoing automation of valuation and risk processes, recent enhancements to services include the development of profit-and-loss decomposition reports, as well as an increased fundamental analysis of the Corporation's investment risk profile.

RISK MANAGEMENT MONITORING AND REPORTING

The Risk Management Department ensures that key metrics are monitored and reported regularly to senior management and the Board of Directors. Complementary metrics are tracked for both Public and Private Markets on an ongoing basis, and brought to the attention of senior management and the Board of Directors as may be required.

PUBLIC MARKETS RISK

The Public Markets Risk team monitors and reports on all aspects of investment risk for publicly traded securities. Essentially, the team is responsible for market, credit and counterparty risk. Market risk activities include measuring the value-at-risk related to the Policy Portfolio and active management, and performing portfolio stress tests, sensitivity analyses and monitoring risk metrics relevant to specific portfolios. In addition to aggregated risk figures, a thorough decomposition of various risk factors is performed for Public Markets portfolios for continuous improvement of portfolio analytics and reporting. The Public Markets Risk team is also responsible for active risk limit allocation for all Public Markets asset classes.

Credit and counterparty risk activities involve reviewing the credit ratings of all counterparties, and the evolution of credit ratings of all credit-sensitive financial securities. A formal fundamental credit analysis is performed on all counterparties and brokers. Regulation and country risk form part of the analysis and review process for a complete risk view. Market signals and a daily early-warning-signal monitoring tools add an additional layer of review and monitoring for prompt alerts of credit risk deterioration of any counterparty, broker or issuer above threshold levels. As part of these activities, the team employs the concept of Potential Future Exposure (PFE) to account for potential volatility of its over-the-counter derivatives. It should also be noted that there has been a steady increase in processing derivatives through clearinghouses, which reduces PSP Investments' risk toward specific counterparties.

PRIVATE MARKETS RISK

Private Markets Risk is overseen by a dedicated team within the Risk Management department responsible for risk analysis of Private Markets assets.

The Private Markets Risk team performs fundamental analysis for all significant Private Markets investments and assigns an internal risk rating to investments. The team also monitors these internal risk ratings of investments to ensure they reflect the current risk profile of each investment.

In order to develop and maintain thorough market knowledge of each sector of PSP Investments' Private Markets assets, the Risk Management team monitors industry events that may have an impact on the Corporation's investments.

LEVERAGE AND CONCENTRATION RISKS

In addition to the activities detailed above, the Risk Management Department also tracks total leverage and its sub-components against pre-determined thresholds to ensure the best use of PSP Investments' balance sheet.

Concentration risk is monitored and managed by reviewing concentration evolution over time and by sector, market, country or other parameters versus predetermined thresholds. An automated reporting structure has been implemented for on-demand aggregate views of exposures, while safeguarding drill-down capabilities.

LIQUIDITY RISK AND TREASURY

As an integrated part of the risk management function, the Treasury department is responsible for the monitoring and management of liquidity, corporate leverage and currency exposure. The team ensures that investments held meet high standards in terms of their liquidity and credit profiles, and that leverage and currency hedging activities are within limits and guidelines established by PSP Investments and detailed within the Corporation's RAS.

CORPORATE RISK

The Corporate Risk team is primarily focused on operational risks and other non-investment risks.

The Corporate Risk team ensures the management of identified risks is aligned to both business objectives and the strategic plan, and that PSP Investments' risk management framework is aligned to industry standards. The team is also responsible for the development and refinement of sound risk management processes for the implementation of successful enterprise and operational risk management programs.

GOVERNANCE

Effective governance is essential to safeguard the capital transferred to PSP Investments and to ensure that appropriate objectives are pursued and achieved, consistent with the fulfillment of the Corporation's statutory mandate. This section describes PSP Investments' governance framework, including its mandate, the roles of the Board of Directors and Board committees and key governance policies and practices that guide the Corporation's activities and behaviour.

Mandate

PSP Investments is a Crown corporation created in 1999 by Act of Parliament (the *Public Sector Pension Investment Board Act*, or the "Act"). PSP Investments' mandate is twofold: managing the funds transferred to it by the Government of Canada for the Canadian Forces, the Reserve Force, the Public Service and the Royal Canadian Mounted Police (RCMP) pension plans (the "Plans") in the best interests of the contributors and beneficiaries; and investing 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 Plans and their ability to meet their financial obligations.

Effective April 1, 2000, the Government of Canada created three new pension fund accounts (the "Pension Funds"), one for each of the Public Service, the Canadian Forces and the RCMP Plans. On March 1, 2007, the Government established the Reserve Force Pension Plan and created a Pension Fund for it as well. Employer and employee contributions in respect of service after the date of creation of a particular Pension Fund ("post-funding service") are credited to the relevant Pension Fund. Amounts equal to the net balances credited to these Pension Funds (that is contributions minus benefits payments for post-funding service, and plan administration expenses) are transferred to separate accounts maintained at PSP Investments (the "Pension Plan Accounts") for each of the Pension Funds, to be invested in accordance with the approved investment policy and strategy.

The Government of Canada manages and administers the Plans. The President of the Treasury Board of Canada is responsible for the Public Service Pension Plan, the Minister of National Defence for the Canadian Forces Pension Plan and the Reserve Force Pension Plan, and the Minister of Public Safety and Emergency Preparedness for the RCMP Pension Plan. Pursuant to the Act, PSP Investments is the sole investment manager of the amounts transferred to the Pension Plan Accounts. Pursuant to the legislation governing the Plans, the Government of Canada may at any time call upon the net assets of PSP Investments allocated to a Pension Plan Account for amounts required for the purpose of paying benefits under the relevant Plan in respect of post-funding service or for the purpose of reducing any non-permitted surplus in the Pension Fund of such Plan.

Board of Directors

In accordance with the Act, PSP Investments' operations and activities are overseen by a Board of Directors composed of 11 members, including the Chair of the Board. Directors are appointed by the Governor in Council on the recommendation of the President of the Treasury Board of Canada to hold office during good behaviour for a term not exceeding four years. Candidates for directorships 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 "External Nominating Committee") pursuant to the Act. The External Nominating Committee operates separately from the Board of Directors, the President of the Treasury Board of Canada and the Treasury Board Secretariat of Canada. Members of the Senate, the House of Commons and provincial legislatures, as well as employees of PSP Investments or the Government of Canada and those entitled to benefits from the Plans, are disqualified from serving as Directors. The Chair of the Board is designated from among the Directors by the Governor in Council on the recommendation of the President of the Treasury Board of Canada, after consultation with the Board of Directors, the Minister of National Defence and the Minister of Public Safety. On the expiry of the term of an incumbent Director, the incumbent may be reappointed and, in any event, continues in office until a successor is appointed.

On October 30, 2014, in accordance with the process outlined above, Mr. Michael P. Mueller was designated by the Governor in Council as Chair of the Board. Mr. Mueller succeeded Ms. Cheryl Barker, who had served as Interim Chair since March 2012 and remains a Board member. Also during fiscal year 2015, Ms. Diane Bean's term was extended for an additional four years. On March 31, 2015, the Board was composed of the following 11 Directors:

+ Michael P. Mueller, Chair
+ Cheryl Barker
+ Diane Bean
+ Micheline Bouchard
+ Léon Courville
+ Anthony R. Gage
+ Garnet Garven
+ Martin J. Glynn
+ Lynn Haight
+ Timothy E. Hodgson
+ William A. MacKinnon

Canadian securities regulators have defined the concept of "independent director" applicable to publicly-listed issuers as an individual who has no direct or indirect material relationship with the issuer. A "material relationship" has been defined as a relationship which could, in the view of the issuer's board of directors, be reasonably expected to interfere with the exercise of an individual's independent judgment. Those regulations do not apply to PSP Investments, given that it is not a publicly-listed issuer. However, based on the same definitions, all Directors of PSP Investments would be considered independent directors.

Accountability

PSP Investments is a Crown corporation with a unique governance and accountability regime which is set out in the Act. The Act provides that PSP Investments operates at arm's length from the Government of Canada and imposes on it reporting obligations to the Government of Canada and the contributors to the Plans.

The Board of Directors is responsible for the selection, appointment, performance evaluation and compensation of the President and CEO, who reports to the Board of Directors. PSP Investments reports to the ministers responsible for the Plans through its quarterly financial statements and annual report. The annual report must also be made available to contributors to the Plans and is tabled in each House of Parliament by the President of the Treasury Board of Canada, who is responsible for the Act.

The President and CEO and the Chair of the Board are required to meet once a year with advisory committees appointed to oversee the Plans. PSP Investments is also required to hold an annual public meeting. The most recent annual meeting was held on November 20, 2014, in Ottawa. PSP Investments also communicates on an ongoing basis with the Chief Actuary of the Office of the Superintendent of Financial Institutions Canada, Treasury Board Secretariat of Canada officials and other Government of Canada officials in the execution of its statutory mandate.

Pursuant to the *Financial Administration Act* (FAA), the Auditor General of Canada and Deloitte LLP were appointed to serve as joint external auditors of PSP Investments for fiscal year 2015. The Auditor General of Canada is funded directly by Parliament and costs are paid from an annual appropriation. This funding mechanism ensures its independence from the organizations that it audits. For Deloitte LLP, PSP Investments has a formal process to evaluate the impacts of non-audit services on auditor independence. In fiscal year 2015, fees paid to Deloitte LLP totalled approximately $2.3 million, of which approximately $2.2 million were for audit and audit-related services and $0.1 million for non-audit services.

The external auditors are also responsible for conducting Special Examinations as stipulated in the FAA at least once every 10 years. PSP Investments' joint auditors conducted a Special Examination in fiscal year 2011 to determine if PSP Investments' financial and management controls, information systems and management practices were maintained in a manner that provides reasonable assurance that they met the requirements of the FAA. The report on such Special Examination formed part of the annual report for fiscal year 2011 as required by the Act.

Director Commitment, Experience and Competencies

The Board of Directors plays an active role in guiding PSP Investments. Therefore, a substantial time commitment is expected of Directors, particularly the Chair of the Board and the Chairs of Board committees, for meetings, preparation for meetings and travel.

All Directors of PSP Investments must have an excellent understanding of the role of a director and possess a general knowledge of pensions and, as a group, broad knowledge of investment management and its related risks.

The Governance Committee regularly updates its Board experience and competencies matrix in order to identify and manage any needs at the Board level. This review is useful for the Board Chair when communicating desired candidate profiles to the External Nominating Committee. The table presented on the next page illustrates the experience and competencies of each Director.

Directors' Experience and Competencies

Directors	EXPERIENCE				COMPETENCIES												
					Investment Management												
	CEO	C-Suite or equivalent position	Other Directorships	International Experience	Real Estate	Infrastructure	Private Equity	Public Markets	Investment Risk Management	Credit Risk Management	Operations Risk Management	Finance	Accounting	Human Resources	Governance	Pension Governance	Pension Finance
Cheryl Barker	•	•	•		•						•	•	•	•	•	•	•
Diane Bean		•	•	•							•	•		•	•	•	•
Micheline Bouchard	•	•	•	•		•						•		•	•	•	•
Léon Courville	•		•	•			•	•	•	•		•			•		•
Anthony R. Gage	•		•		•	•	•	•	•	•		•	•			•	•
Garnet Garven	•	•	•		•			•				•			•	•	•
Martin J. Glynn	•	•	•	•			•		•	•	•	•		•	•		•
Lynn Haight		•	•	•	•	•	•	•	•	•	•	•	•		•	•	•
Timothy E. Hodgson	•	•	•	•		•	•	•	•	•	•	•	•	•	•	•	•
William A. MacKinnon	•	•	•	•							•	•	•	•	•		
Michael P. Mueller	•	•	•	•			•	•	•	•		•		•			

Biographies of all Directors can be found beginning on page 71.

Conduct of Board and Committee Meetings

Board members' deep knowledge of the Corporation allows them to exercise management oversight and provide insight, where appropriate, in terms of strategy. This leads to active discussion at the Board and committee levels between Directors and management.

All regular Board and committee meetings include in-camera sessions, where no member of management is in attendance. As discussed below, the Audit Committee also has in-camera meetings with each of the internal and external auditors. In addition, the Board has individual in-camera meetings with the President and CEO and the Investment Committee has individual in-camera meetings with the Chief Risk Officer.

Each year, strategic meetings are held to discuss PSP Investments' strategic plan and hold in-depth discussions on other investment and risk management-related topics.

In order to fulfill their duties set out in the Act and in their respective Terms of Reference, the Board and its committees may use external advisors. This was the case for the Board as a whole as well as for the Human Resources and Compensation Committee and the special CEO Search Committee during fiscal year 2015. While the Board and its committees take into account the independent recommendations of such advisors, final decisions are solely those of the Board or the committee in question, as the case may be.

Assessment of Board Performance

A formal process to evaluate the performance of the Chair of the Board, the Chairs of Board committees, individual Directors and the Board as a whole is overseen by the Governance Committee. Every Director, as well as the President and CEO and certain members of senior management, participate in the evaluation process. The Chair of the Governance Committee presents the results of the evaluation to the Board of Directors. Ensuing discussions focus on concerns and opportunities for improvement, what is working properly and what has improved since previous assessments, following which any measures deemed necessary are implemented.

Roles and Responsibilities of the Board of Directors and Board Committees

BOARD OF DIRECTORS

In order to ensure that PSP Investments' statutory mandate is met, the Board of Directors, in addition to the requirements of the Act, has defined its role to include, among other responsibilities, the following:

+ Appointment and termination of the President and CEO;
+ Annual review and approval of proposed amendments to the written Statement of Investment Policies, Standards and Procedures (SIP&P) for each Pension Plan Account;
+ Approval of strategies for achieving investment performance objectives and benchmarks against which to measure performance;
+ Adoption of appropriate policies for the proper conduct and management of PSP Investments, including a Code of Conduct for Officers, Employees and Others ("Employee Code"), and a Code of Conduct for Directors ("Director Code");
+ Approval of a Risk Appetite Statement;
+ Ensuring that effective enterprise, investment and operations risk policies are in place;
+ Approval of human resources and compensation policies;
+ Establishment of appropriate performance evaluation processes for the Board of Directors, the President and CEO and other members of senior management;
+ Approval of the remuneration of all officers, including the President and CEO; and
+ Approval of quarterly and annual financial statements for each Pension Plan Account and for PSP Investments as a whole.

The appointment of a President and CEO is a critical element of the Board's responsibilities. During fiscal year 2015, when the former President and CEO resigned, the Board oversaw the successful transition to an Interim President and CEO and the subsequent appointment of Mr. André Bourbonnais as new President and CEO, effective March 30, 2015.

The Terms of Reference describing the roles and responsibilities of the Board of Directors and its committees, the Chair of the Board and the Chair of a committee may be viewed in their entirety on PSP Investments' website **www.investpsp.ca**.

BOARD COMMITTEES

The Board of Directors has established the following four standing committees to assist in the fulfillment of its obligations:

+ Investment Committee
+ Governance Committee
+ Audit Committee
+ Human Resources and Compensation Committee

In addition to its standing committees, the Board of Directors established a special CEO Search Committee during fiscal year 2015 that was wound-up on January 13, 2015.

INVESTMENT COMMITTEE

The Investment Committee is responsible for overseeing the investment management function of PSP Investments. The Investment Committee's duties assigned to it by the Board or provided for in the Act include the following:

+ Approving all investment proposals and related borrowings above thresholds delegated by the Board to management for approval;
+ Making annual and other recommendations to the Board of Directors on the SIP&P for each Pension Plan Account;
+ Overseeing PSP Investments' investment risks and ensuring that an appropriate control environment is in place to govern the management of investment risks; and
+ Approving the engagement of external investment managers having discretionary authority to invest PSP Investments' assets under management.

The Investment Committee is composed of all members of the Board of Directors and was chaired in fiscal year 2015 by Mr. Anthony R. Gage. Mr. Timothy E. Hodgson was designated by the Board as the successor to Mr. Gage as Chair of the Investment Committee, effective April 1, 2015.

AUDIT COMMITTEE

The Audit Committee's role is generally to review financial statements and the adequacy and effectiveness of PSP Investments' systems of internal controls. This includes internal controls over the accounting and financial-reporting systems within PSP Investments, as well as internal information system controls and security. Many of the duties of the Audit Committee are set out in the Act. These duties include:

+ Reviewing quarterly and annual financial statements for each Pension Plan Account and for PSP Investments as a whole, recommending them to the Board for approval and discussing any letters to management regarding any significant concerns on the part of the joint external auditors;
+ Meeting separately with PSP Investments' joint external auditors and internal auditors, without management present, to discuss and review specific issues related to the Audit Committee;
+ Overseeing PSP Investments' operational risks and ensuring that an appropriate control environment is in place to govern the management of operational risks inherent to PSP Investments' activities;
+ Ensuring that internal audits are conducted in respect of PSP Investments and its subsidiaries; and
+ Adopting and maintaining an appropriate whistle-blowing mechanism for reporting fraudulent, illegal or inappropriate activities.

On March 31, 2015, the Audit Committee was composed of the following Directors[1]:

+ William A. MacKinnon, Chair
+ Anthony R. Gage
+ Lynn Haight
+ Garnet Garven
+ Timothy E. Hodgson

All Audit Committee members are financially literate with accounting or finance expertise, and possess the requisite experience and knowledge to read and understand PSP Investments' and the Pension Plan Accounts' financial statements and properly fulfill their role. For more information on the experience of each Audit Committee member, as well as their occupations and education, please see the Directors' Experience and Competencies table on page 41 and the Directors' biographies beginning on page 71.

[1] Ms. Cheryl Barker ceased to be a member of the Audit Committee on November 13, 2014.

GOVERNANCE COMMITTEE

The Governance Committee's role is generally to assist the Board of Directors in monitoring governance matters at PSP Investments and developing related policies. The Governance Committee has responsibility for the application of the Director Code and the Employee Code. The Governance Committee's duties also include the following:

+ Monitoring and assessing the relationship between the Board of Directors and management, defining the limits to management's responsibilities and ensuring that the Board of Directors functions independently of management;
+ Reviewing at least every two years, with the assistance and input of the President and CEO and the Chair of the Board of PSP Investments, the Terms of Reference for the Board of Directors and the committees of the Board, and recommending to the Board such amendments as may be necessary or advisable;
+ Developing and recommending to the Board of Directors for approval new or amended by-laws and governance-related policies, including the Director Code and the Employee Code;
+ Developing target recruitment skill sets and other recruiting capabilities to facilitate the identification by the independent External Nominating Committee of suitable candidates for appointment as Directors of PSP Investments;
+ Overseeing the implementation of procedures for assessing the effectiveness of the Board of Directors as a whole, as well as the performance of individual Directors; and
+ Overseeing PSP Investments' governance risks and ensuring that an appropriate governance framework is in place.

On March 31, 2015, the Governance Committee was composed of the following Directors[1,2,3]:

+ Garnet Garven, Chair[4]
+ Léon Courville
+ Lynn Haight

HUMAN RESOURCES AND COMPENSATION COMMITTEE

The Board of Directors strongly believes in the importance of human resources to the success of PSP Investments. Accordingly, the Human Resources and Compensation Committee assists the Board of Directors in ensuring that the necessary policies and procedures are in place to efficiently and effectively manage PSP Investments' human resources and to offer all employees fair and competitive compensation aligned with performance. The Human Resources and Compensation Committee is therefore responsible for:

+ Making recommendations to the Board of Directors regarding PSP Investments' human resources, training and compensation policies, and periodically reviewing such policies and recommending changes as necessary;
+ Reviewing annually, on an aggregate basis, the total compensation of all employees of PSP Investments;
+ Reviewing annually the performance evaluations of the President and CEO and other officers of PSP Investments and making recommendations to the Board on the remuneration of these individuals;
+ Overseeing PSP Investments' human resources risks and ensuring that an appropriate governance environment is in place to manage human resources risks inherent to PSP Investments' activities; and
+ Reviewing and reporting to the Board on PSP Investments' succession planning.

[1] Ms. Cheryl Barker ceased to be a member and Chair of the Governance Committee on June 6, 2014.
[2] Following his appointment as Board Chair, Mr. Michael P. Mueller ceased to be a member of the Governance Committee on October 30, 2014.
[3] Ms. Micheline Bouchard and Mr. Martin Glynn were appointed members of the Governance Committee effective April 1, 2015.
[4] Mr. Garnet Garven was appointed Chair of the Governance Committee on June 6, 2014

On March 31, 2015, the Human Resources and Compensation Committee was composed of the following Directors[1]:

+ Diane Bean, Chair[2]
+ Cheryl Barker[3]
+ Léon Courville
+ Micheline Bouchard
+ Martin J. Glynn

All Human Resources and Compensation Committee members are knowledgeable about issues related to human resources, talent management and executive compensation. Understanding of such issues was gained by professional experience as former chief executives or senior officers with oversight of human resources functions. For more information on the experience of each committee member, as well as their occupations and education, please see their biographies on page 71.

CEO SEARCH COMMITTEE

Following the resignation of the former President and CEO in June 2014, the Board of Directors established a special CEO Search Committee to assist with the identification, selection and recommendation of candidates for the President and CEO position. The CEO Search Committee worked extensively with a recruitment firm that assisted in identifying candidates.

Up to its wind-up on January 13, 2015, the special CEO Search Committee was composed of the following Directors:

+ Michael P. Mueller, Chair
+ Diane Bean
+ Cheryl Barker
+ Léon Courville
+ Timothy E. Hodgson

Code of Conduct for Directors

The Director Code together with the Employee Code were developed to establish and maintain a culture that guides decision-making throughout the Corporation. The purpose of the Director Code goes beyond complying with minimum statutory requirements; it reflects the expectation that Directors will have the highest level of integrity and ethical standards. The Director Code is designed to provide a workable process for identifying, minimizing and resolving potential conflicts of interest. Derived from the Act and the *Conflict of Interest Act*, the Director Code sets out in detail Directors' statutory and fiduciary duties relating to conflicts of interest and helps ensure that Directors have a full understanding and appreciation of PSP Investments' principles and values. Ultimately, the Director Code aims to assist Directors in determining appropriate business practices and behaviour.

Among other stipulations, the Director Code:

+ Requires Directors to give written notice to the Board of Directors of the nature and extent of their interest in a transaction or proposed transaction;
+ Prohibits Directors from voting on a resolution or participating in a discussion in any circumstances where they have a conflict of interest;
+ Requires the disclosure of any other business activity in which they participate that directly or indirectly affects PSP Investments' activities or is in competition with PSP Investments' activities;
+ Prohibits the acceptance of certain types of gifts;
+ Prohibits any form of fraud, bribery or corrupt practice and requires the immediate reporting of any knowledge of such activity to the Chair of the Governance Committee; and
+ Requires the Directors to pre-clear all personal trading of securities, except exempt trades, and to report quarterly to a PSP Investments' auditor on their personal trading activities.

The Governance Committee is responsible for monitoring the application of the Director Code. The Director Code may be viewed in its entirety on PSP Investments' website **www.investpsp.ca**.

[1] Mr. Michael P. Mueller ceased to be Chair and a member of the Human Resources and Compensation Committee on June 6, 2014.
[2] Ms. Diane Bean was appointed Chair of the Human Resources and Compensation Committee on June 6, 2014.
[3] Ms. Cheryl Barker was appointed a member of the Human Resources and Compensation Committee on November 13, 2014.

Director Education and Orientation

The Act requires the External Nominating Committee to have regard to the desirability of having on the Board of Directors a sufficient number of Directors with proven financial ability or relevant work experience such that PSP Investments will be able to effectively achieve its mandate. The Act also requires Directors with relevant expertise to use their knowledge or skills in exercising their duties.

To enhance Directors' financial knowledge and skills, PSP Investments created a Director Education Program. Each Director is allocated an individual education and training budget to be used primarily to strengthen their understanding of investment management. Directors are required to report annually on the nature of their individual development plans and the status with respect to implementation. As well as providing individual courses, conferences and reading material, the Director Education Program provides on occasion for the staging of group educational forums within Board of Directors meetings. During these sessions, speakers are invited to make presentations on a variety of topics that contribute to the individual and collective expertise of Board members. Topics covered during fiscal year 2015 included the state of the Canadian, European, Asian and emerging markets economies and opportunities in certain sectors such as real estate and natural resources.

Furthermore, newly appointed Directors are expected to complete an in-house Orientation Program. The purpose of the Orientation Program is to provide newcomers with the information necessary to acquaint them with the operations and culture of the Corporation and enable them to contribute effectively to the Board of Directors as soon as possible after their appointment.

Both the Director Education Program and the Orientation Program are monitored by the Governance Committee.

Directors' Compensation

The approach to Director compensation adopted by the Board of Directors reflects the requirements of the Act. The first requirement is that the Board should include a sufficient number of Directors with proven financial ability or relevant work experience such that PSP Investments will be able to effectively achieve its mandate. The second requirement is that Directors' compensation should be set "having regard to the remuneration received by persons having similar responsibilities and engaged in similar activities".

The Board reviews Directors' compensation once every two years and considers any changes that may be warranted based on a report and recommendations provided by the Governance Committee. Although the Governance Committee initiated a compensation review in fiscal year 2015 which did result in some amendments, the remuneration paid to Directors for the latest fiscal year remained largely unchanged from the scale adopted back in fiscal year 2012. The following compensation for Directors was in force for fiscal year 2015:

+ Annual retainer for the Chair of the Board: $150,000
+ Annual retainer for each Director other than the Chair of the Board: $30,000
+ Annual retainer for each Chair of a committee of the Board: $10,000[1]
+ Attendance fee for each Board meeting: $1,500[1,2,3]
+ Attendance fee for each committee meeting: $1,500[1,2,3]
+ Travel fees for each Director who attends a meeting in person if the Director's primary residence is outside Québec or Ontario, or in any case where a Board of Directors or committee meeting is held in a location outside Québec and requires a Director to travel more than three hours away from his or her primary residence: $1,500.

[1] The Chair of the Board is not entitled to any meeting fees or annual retainer as Chair of a committee of the Board.
[2] $500 for a meeting of less than one hour.
[3] A single meeting fee will be paid to a Director who attends meetings of the Board of Directors and the Investment Committee held concurrently.

Directors of PSP Investments are not entitled to additional compensation in the form of retirement benefits or short-term or long-term incentives.

During fiscal year 2015, the Board of Directors approved an amendment to PSP Investments' compensation framework to provide that, on an exceptional basis, the Board may approve additional special remuneration for the Chair of the Board or the Directors for participation in special committees of the Board and/or involvement in special projects that warrant additional remuneration. In fiscal year 2015, special remuneration was awarded to the Chair and to members of the special CEO Search Committee.

Following a compensation review conducted in fiscal year 2015, the Board also agreed to the following remuneration changes to take effect as of April 1, 2015:

+ Increase of annual retainer for each Director by $5,000, to $35,000;
+ Increase of annual retainer for each Chair of a Committee of the Board by $5,000, to $15,000; and
+ Increase of annual retainer for the Board Chair by $10,000, to $160,000.

The Board met 15 times during fiscal year 2015 and its Committees held 38 meetings. This translated into remuneration for Directors of $1,055,720. The following tables illustrate and break down the above-mentioned information.

Attendance of Directors Board and Committee Meetings Fiscal Year 2015

	Board of Directors		Investment Committee		Audit Committee		Governance Committee		Human Resources and Compensation Committee		CEO Search Committee[1]
Number of meetings Fiscal Year 2015	Regular	Special	Regular	Special	Regular	Special	Regular	Special	Regular	Special	Regular
	8	7	5	8	5	1	4	1	5	1	8
Cheryl Barker[2]	8/8	7/7	5/5	8/8	4/4	1/1	1/1		1/1		8/8
Diane Bean	8/8	7/7	5/5	8/8					5/5	1/1	7/8
Micheline Bouchard	8/8	7/7	5/5	7/8					5/5	1/1	
Léon Courville	8/8	7/7	5/5	8/8			4/4	1/1	5/5	1/1	8/8
Anthony R. Gage	8/8	7/7	5/5	8/8	5/5	1/1					
Garnet Garven	8/8	7/7	5/5	8/8	5/5	1/1	4/4	1/1			
Martin J. Glynn	8/8	6/7	5/5	7/8					5/5	0/1	
Lynn Haight	8/8	5/7	5/5	7/8	5/5	0/1	4/4	0/1			
Timothy E. Hodgson	8/8	7/7	5/5	8/8	5/5	1/1					8/8
William A. MacKinnon	8/8	7/7	5/5	8/8	5/5	1/1					
Michael P. Mueller[3]	8/8	7/7	5/5	8/8			2/2	1/1	2/2		8/8

1 The CEO Search Committee was created on June 21, 2014 and wound up on January 13, 2015.

2 Ms. Cheryl Barker became a Human Resources and Compensation Committee member on November 13, 2014 and ceased to be a member of the Governance Committee on June 6, 2014 and a member of the Audit Committee on November 13, 2014.

3 Mr. Michael P. Mueller ceased to be a member of the Human Resources and Compensation Committee on June 6, 2014 and a member of the Governance Committee on October 30, 2014.

Remuneration of Directors Fiscal Year 2015[1]

NAME	Remuneration[1]					
	Annual Retainer	Chair of a Committee/ Annual Retainer	Boards/ Committees[2] Meeting Fees	Travel Fees	Special Remuneration[3]	Total
Cheryl Barker	$99,456	–	$25,500[4]	$15,000	$12,000	$151,956
Diane Bean	$30,000	$8,159	$55,000	–	$4,500	$97,659
Micheline Bouchard	$30,000	–	$38,500	–	–	$68,500
Léon Courville	$30,000	–	$62,500	–	$4,500	$97,000
Anthony R. Gage	$30,000	$10,000	$41,500	$10,500	–	$92,000
Garnet Garven	$30,000	$8,159	$47,500	$10,500	–	$96,159
Martin J. Glynn	$30,000	–	$36,000	$6,000	–	$72,000
Lynn Haight	$30,000	–	$42,500	–	–	$72,500
Timothy E. Hodgson	$30,000	–	$58,000	–	$4,500	$92,500
William A. MacKinnon	$30,000	$10,000	$41,500	–	–	$81,500
Michael P. Mueller	$80,543	$5,403	$32,500[5]	–	$15,500	$133,946

1 In FY2015, in addition to their total remuneration, Directors received an allowance of $1,000 to cover computer and office supply related expenses as meeting materials are delivered electronically only.

2 A single meeting was awarded for Board and Committee meetings held jointly.

3 In FY2015, special remuneration was awarded to the Chair and members of the special CEO Search Committee in recognition of their time commitment.

4 The Board and committee meeting fees were paid to Ms. Barker during the period that she was not the Interim Chair of the Board. Ms. Barker ceased to be the Interim Chair of the Board on October 30, 2014.

5 The Board and committee meeting fees were paid to Mr. Mueller during the period that he was not the Chair of the Board. Mr. Mueller was appointed Chair of the Board on October 30, 2014.

INVESTMENT GOVERNANCE

OVERSIGHT

As a long-term investor, PSP Investments believes in the importance of establishing strong governance oversight of its investments. PSP Investments uses its ownership positions to promote good corporate governance practices by exercising its proxy voting rights and actively engaging with companies through service providers, individually and through collaborative initiatives with other like-minded institutional investors.

Proxy Voting

PSP Investments has adopted Proxy Voting Guidelines (the "Guidelines") addressing the areas of corporate governance with respect to which it may be requested to vote on from time to time, as well as the principles on which PSP Investments will rely in determining a response to such requests. PSP Investments will give due consideration to corporate governance principles when assessing the merits of an issue and will exercise its voting rights with a view to maximizing the value of its shareholdings.

As part of the active management of its proxy voting, PSP Investments reviews proxy circulars and research from service providers when voting the equities held in accounts managed internally as well as those in segregated accounts managed by external managers.

PSP Investments last amended the Guidelines in fiscal year 2014, primarily to further articulate our expectations of issuers regarding the shareholder democratic process.

The Guidelines may be viewed on PSP Investments' website **www.investpsp.ca**.

PROXY VOTING ACTIVITIES

Most proposals at shareholder meetings are submitted by the company's management and relate to the election of directors, the appointment of auditors and other matters that arise in the normal course of business.

PSP Investments strives to vote all the shares held in its portfolio. However in limited circumstances, PSP Investments chooses not to vote due to share-blocking restrictions that apply in some jurisdictions. Share-blocking is the practice under which shares, when voted, can be temporarily blocked from trading for a certain period of time leading up to and, sometimes, following the shareholders' meeting date. PSP Investments does not support share-blocking restrictions, because they restrict our ability to vote our shares and obstruct our portfolio-management abilities. In fiscal year 2015, PSP Investments exercised its voting rights at 3,252 meetings. PSP Investments was not able to exercise its voting rights at 2% of the meetings of public companies in our portfolio.

PSP Investments voted against or abstained from management's recommendations on 8% of the 35,347 proposed resolutions in fiscal year 2015. The issues on which PSP Investments voted against management's recommendation or abstained on such resolutions are shown in the table below, followed by a description of each of the categories involved:

ISSUES
Fiscal Year 2015

Board Independence and Effectiveness	**40%**
Compensation	**21%**
Capital Structure	**12%**
Shareholder Proposals	**10%**
Auditors Irregularities	**6%**
Amendments to Articles	**4%**
Anti-takeover Protection and M&A	**1%**
Other	**6%**

BOARD INDEPENDENCE AND EFFECTIVENESS

PSP Investments believes that a strong independent board of directors is best positioned to successfully direct and control a company in a way that ensures the creation of long-term shareholder value. During the latest fiscal year, PSP Investments withheld its votes from selected nominees seeking election as directors because of non-independence issues, non-separation of the roles of Chair and CEO, poor attendance records and director time-commitment issues.

COMPENSATION

PSP Investments believes that compensation incentives to executives should be suitably structured to enhance shareholder value while rewarding performance that meets or exceeds stated objectives. During the latest fiscal year, PSP Investments voted against several compensation plans that were misaligned with performance or that failed to adequately disclose performance conditions.

CAPITAL STRUCTURE

PSP Investments is generally supportive of changes to a company's capital structure, provided there are sound business reasons for the proposed changes. In the latest fiscal year, PSP Investments voted against certain changes to capital structures because of dilution issues not justified by business considerations.

SHAREHOLDER PROPOSALS

Shareholder-initiated proxy proposals can be a useful and relevant means of addressing concerns and effecting change at companies that underperform or have poor environmental, social and governance practices. PSP Investments reviews all shareholder proposals on a case-by-case basis. PSP Investments generally supports shareholder proposals that increase the board of directors' level of accountability to shareholders and serve the company's financial interest, without putting excessive constraints on the company, its board of directors or its management. In the latest fiscal year, PSP Investments supported shareholder proposals relating to compensation, majority voting for the election of directors, and additional disclosure with respect to risks. Examples of shareholder proposals supported are provided on page 51.

AUDITORS IRREGULARITIES

PSP Investments supports the election of auditors where they meet generally accepted independence standards and the integrity of an audit has not been compromised. On a limited number of occasions during the past fiscal year, PSP Investments voted against auditors who, in the opinion of PSP Investments, did not meet these standards.

AMENDMENT TO ARTICLES

From time to time, PSP Investments is asked to consider resolutions regarding amendments to the articles of a company. Examples of amendments that PSP Investments was called to vote on included amendments to articles that would limit the right to call a special meeting, or that would change the jurisdiction of incorporation of a company. All resolutions amending articles are reviewed on a case-by-case basis in light of the proposed changes to the company's governance structure. PSP Investments generally votes against amendments to articles that reduce shareholders' rights.

ANTI-TAKEOVER PROTECTION AND M&A

PSP Investments always evaluates takeover-protection policies and proposals as well as shareholder rights plans on a case-by-case basis. During the past fiscal year, PSP Investments voted against takeover proposals, policies and shareholder rights plans where it felt they were not structured to maximize shareholder value or compromised the rights of shareholders.

EXAMPLES OF SHAREHOLDER PROPOSALS SUPPORTED

In fiscal year 2015, PSP Investments voted on 877 shareholder proposals, and supported 39% of these proposals.

SHAREHOLDER PROPOSALS	FOR VOTES	RATIONALE
Compensation related proposals	80 proposals	We support proposals that would increase compensation disclosure and further align the interest of executives with shareholders.
Report on sustainability and other environmental matters	37 proposals	We support proposals that seek to increase Board of Directors' level of accountability to shareholders on sustainability and environmental matters.
Political contributions and expenditures report	27 proposals	We encourage the full and transparent disclosure of company practices regarding political contributions. When this disclosure is not found, we will support shareholder proposals requesting greater disclosure.
Majority vote for the election of directors	23 proposals	Electing directors is the most fundamental right for shareholders and thus we should have the opportunity to vote for or withhold from a director candidate.
Independent Board Chair and separation of Chair and CEO	17 proposals	We believe that the Chair of the Board should be an independent director.

Responsible Investing

PSP Investments recognizes that a broad range of financial and non-financial considerations can be relevant in terms of making investment decisions. PSP Investments has adopted a Responsible Investment Policy which embodies its belief that responsible corporate behaviour with respect to environmental, social and governance (ESG) factors can generally have a positive influence on long-term financial performance. Examples of ESG factors are:

ENVIRONMENT	– Carbon emissions – Natural resource consumption – Waste/pollution – Climate change/extreme weather related events
SOCIAL	– Labour and human capital development – Health and safety – Human rights and community – Product impact (safety, quality, responsible sourcing)
GOVERNANCE	– Business ethics and regulatory compliance – Anti-corruption and bribery – Executive compensation – Governance structure

In analyzing the risks inherent in any investment, PSP Investments looks to identify, monitor and mitigate ESG issues such as those highlighted above that are, or could become, material to long-term financial performance.

Consideration of ESG risks is part of the due-diligence process with respect to potential investments and to the assessment of the practices of external managers. The integration of ESG factors is well established across asset classes: these risks are discussed in the business plans of the various asset classes and are addressed in each investment recommendation submitted to the Investment Committee, the President and Chief Executive Officer or other approving officers. The monitoring of ESG risks also is part of an ongoing dialogue with external managers, boards of directors and senior management of the private and public companies in which PSP Investments invests.

PSP Investments' Responsible Investment Policy may be viewed on PSP Investments' website **www.investpsp.ca**.

PRIVATE ASSET CLASSES – ESG INTEGRATION

For all Real Estate, Private Equity, Infrastructure and Natural Resources[1] investments, our investment teams look to identify any ESG risks and ensure that such risks are appropriately managed at the business entity or asset-class level, by exercising due diligence and, where appropriate, seeking the advice of experts. The integration of ESG factors extends throughout the life of the investment with active monitoring.

Below are some examples of PSP Investments' assets strongly committed to further enhancing their performance with respect to environmental, social and governance considerations — a number of which have been singled out for awards in the past year.

In 2014, a Montreal office tower jointly owned by PSP Investments and the Oxford Property Group was awarded the coveted LEED® Gold Certification. LEED® (short for Leadership in Energy and Environmental Design), is a rating system recognized in 150 countries as the international standard of excellence for "green" buildings. Known by its civic address — 1250 René-Lévesque Blvd. West — the tower houses the principal business office of PSP Investments as well as offices of other leading corporations and professional firms.

Transelec S.A., an infrastructure investment located in Chile, received the Carlos Vial Espantoso Award in 2014. This award recognizes companies that manage to combine productivity and fairness though reliable working conditions.

PSP Investments-owned AviAlliance GmbH (formerly Hochtief Airport GmbH) holds minority positions in six strategically situated airports: Hamburg, Dusseldorf, Sydney, Athens, Budapest, and Tirana. All portfolio airports participate in a comprehensive certification program focused on the active management of carbon emissions.

[1] Formerly known as Renewable Resources.

PSP Investments also holds a significant position in Kaingaroa Timberlands, one of the largest contiguous softwood plantations in the Southern Hemisphere. Kaingaroa Timberlands is Forest Stewardship Council (FSC®) certified.

TimberWest, jointly owned by PSP Investments and British Columbia Investment Management Corporation, is Western Canada's largest private timberland company. Committed to sustainable forest management, TimberWest's forest lands were the first in Canada to be independently certified in 2000 under the Sustainable Forestry Initiative (SFI®).

PUBLIC MARKETS – ESG INTEGRATION

PSP Investments invests both actively and passively in publicly traded companies and fixed income securities. The degree of integration of ESG factors into investment decision-making will vary depending on the investment strategy. As an active and engaged investor, PSP Investments believes that direct engagement with companies and collaborative initiatives with other like-minded institutional investors is the best way to influence behaviours and improve ESG practices.

DIRECT ENGAGEMENT ACTIVITIES

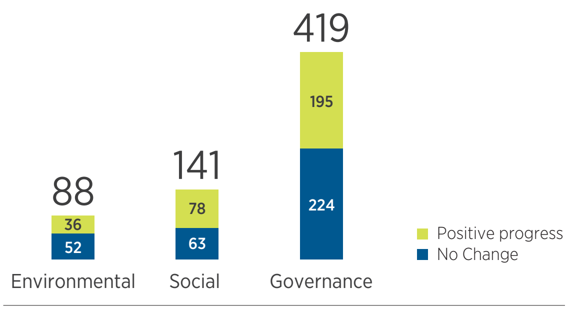
With the assistance of a service provider, PSP Investments actively engages in dialogue with public companies with a view to improving their ESG practices. Public companies are selected for engagement based on a process that takes into account elements such as a company's ability to create shareholder value, the prospects for successful engagement and the ESG issues at hand. The intensity of PSP Investments' involvement with public companies evolves over time: some engagements entail one or two meetings over a period of months, while others are more complex and entail multiple meetings with board members and senior management over several years. PSP Investments tracks its engagement objectives primarily in the context of issues where it feels changes in behavior are warranted. Often there are multiple ESG issues to be addressed within the same company, each of which may require different levels of effort and engagement approaches as well as different contact points.

When undertaking extensive engagements, a five-step milestone approach is used to guide the engagement process and assess the success of the engagements:

MILESTONE 0	New Objective
MILESTONE 1	Raised Concerns
MILESTONE 2	Acknowledgement of Issue
MILESTONE 3	Develop Credible Strategy/ Set Stretching Targets
MILESTONE 4	Strategy Implemented

In fiscal year 2015, PSP Investments made progress in delivering engagement objectives across regions and themes. The following graph depicts the progress that has been made through the achievement of new milestones for the respective objectives:

ENGAGEMENT OBJECTIVES
Fiscal year 2015 (number of issues)



In fiscal year 2015, PSP Investments directly engaged with 362 public companies held in PSP Investments' portfolios. The engagements are undertaken globally.

PSP Investments engages with public companies on a range of ESG issues. Below is a breakdown of PSP Investments' engagement activities by issue followed by a description of each category on the next page:

ENGAGEMENT BY COUNTRY OR REGION
Fiscal Year 2015

United States	**31%**
Europe	**30%**
Asia Pacific, Australia and New Zealand	**25%**
Emerging Markets	**9%**
Canada	**5%**

ENGAGEMENTS
Fiscal Year 2015

Governance	**69%**
Social	**20%**
Environmental	**11%**

GOVERNANCE ISSUES

Governance can be defined as the framework of rules and practices by which a board of directors ensures accountability and transparency in the company's relationship with its shareholders. PSP Investments engaged with public companies on a number of governance issues during the past fiscal year. Examples of issues raised were director independence, majority voting, separation of Chair and CEO roles, succession planning, committee structures, performance-linked compensation, disclosure quality and risk management, including bribery and corruption risk.

GOVERNANCE

Example of an engagement with a Canadian oil and gas company

Engagement objective

+ Development of a best practice policy on bribery and corruption

What we achieved

We had several meetings with the company on a variety of governance and social factors, including the company's anti-bribery and corruption practices. We were pleased to learn that the company recently strengthened its controls in this area. Examples of bribery and corruption prevention improvements that were recently implemented include an increase of the frequency of monitoring of payment systems and a tightening of the expense review process for employees working in foreign operations. New code of conduct training for employees operating in foreign jurisdictions was also recently rolled out.

SOCIAL ISSUES

PSP Investments engaged public companies on a variety of social issues, including labour and community relations particularly in troubled regions and health and safety concerns.

Example of an engagement with an Asian manufacturing company

Engagement objective

+ Improve working conditions and employee relations policies to meet international standards

What we achieved

Following a series of incidents, we engaged with the company with the intent of improving its working environment, conditions and its approach to managing employees. Several remedial measures have been implemented to address labor issues and create a sustainable culture. We are encouraged by the progress that has been made. Although some issues and challenges around working conditions remain, the company is taking human capital management seriously.

ENVIRONMENTAL ISSUES

PSP Investments met with a significant number of public companies on environmental-related issues in fiscal year 2015. These engagements focused mainly on climate change, water stress, oil and gas, mineral and metals extraction, forestry and biodiversity.

Example of an engagement with a global mining company

Engagement objectives

+ Encourage the company to evaluate its portfolio under different climate change scenarios and communicate its finding publicly
+ Implement a water risk management strategy with a particular focus on water stressed assets.

What we achieved

There is a growing awareness that a changing climate and its impacts represent a physical risk to mining operations and installations. We worked closely with a mining company to evaluate its portfolio under different climate change scenarios. The company confirmed that all existing and future projects, including water management, will be tested against these scenarios. We are pleased with the progress made by the company in terms of disclosure and actions towards climate change.

ENVIRONMENT ASSESSMENT

As a crown corporation, PSP Investments is subject to the *Canadian Environmental Assessment Act*, 2012. In fiscal year 2015, PSP Investments did not pursue any investment where it was determined that significant adverse environmental effects were likely.

Collaborative Initiatives

In addition to its direct-engagement efforts with public companies, PSP Investments participates in collaborative governance initiatives and engagements with other like-minded institutional investors to strengthen its voice with regard to ESG issues.

PRINCIPLES FOR RESPONSIBLE INVESTMENTS

In fiscal year 2015, PSP Investments became a signatory to the United-Nations supported Principles for Responsible Investment (PRI). As a signatory, PSP Investments is guided by the PRI's six principles for responsible investment:

PRINCIPLE 1	We will incorporate ESG issues into investment analysis and decision-making processes.
PRINCIPLE 2	We will be active owners and incorporate ESG issues into our ownership policies and practices.
PRINCIPLE 3	We will seek appropriate disclosure on ESG issues by the entities in which we invest.
PRINCIPLE 4	We will promote acceptance and implementation of the Principles within the investment industry.
PRINCIPLE 5	We will work together to enhance our effectiveness in implementing the Principles.
PRINCIPLE 6	We will each report on our activities and progress towards implementing the Principles.

CANADIAN COALITION FOR GOOD GOVERNANCE

PSP Investments also is an active member of the Canadian Coalition for Good Governance (CCGG), which represents 46 institutional investors managing assets of over $2.5 trillion. CCGG, on behalf of its members, engages with the boards of directors of approximately 50 Canadian issuers each year. Discussion topics include all aspects of corporate governance. The CCGG engagements are in addition to PSP Investments' direct engagement activities discussed above.

CDP

PSP Investments is a signatory of the CDP, formerly known as the Carbon Disclosure Project. The CDP acts on behalf of 822 institutional investors, representing over US$95 trillion in assets under management, to encourage public companies to disclose how they are managing climate change risks and opportunities that may be affecting their businesses. In 2014, the CDP sent questionnaires to over 5,000 of the world's largest companies, including 200 Canadian companies. We are encouraged by the growing number of respondents to the CDP questionnaires and invite companies to continue to improve their climate disclosure scores and performance.

Since fiscal year 2010, PSP Investments also has been a signatory of the CDP Water program, which enables institutional investors to better understand the business risks and opportunities associated with water scarcity and other water-related risks by increasing the availability of high-quality information on this issue.

EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

PSP Investments recently became a supporter of the Extractive Industries Transparency Initiative (EITI). The EITI is a global standard to promote open and accountable management of natural resources. It seeks to strengthen government and company systems, inform public debate, and enhance trust. In each implementing country it is supported by a coalition of governments, companies and civil society working together. Thirty-two countries are compliant with EITI requirements and over 90 of the world's largest oil, gas and mining companies have chosen to become EITI Supporting Companies.

The multi-stakeholder EITI process ensures better disclosure of taxes and other payments made by oil, gas and mining companies to governments, allowing for a better accountability of resource-driven economic development. By supporting the EITI, PSP Investments joins its voice to over 80 institutional investors, with an estimated US$19 trillion in total assets, in declaring its support for the EITI and its principles of improving governance and transparency in the extractive sector.

OTHER COLLABORATIVE INITIATIVES

The Corporation is a member of the Pension Investment Association of Canada (PIAC). PIAC's mission is to promote sound investment practices and good governance for the benefit of pension plan sponsors and beneficiaries.

Additionally, PSP Investments has long been an active participant in collaborative initiatives by groups of limited partners to facilitate improvement with respect to the consistency of reporting, the uniformity of information made available and governance best practices. The Corporation was part of a group of more than 40 limited partners that developed an ESG disclosure framework for Private Equity investments. The framework is designed to help limited partners and general partners work together to define reasonable expectations and set appropriate standards for ESG disclosure.

Public Consultations

During fiscal year 2015, PSP Investments responded to more than 10 public requests in Canada and abroad for consultations on governance-related topics. Examples of public consultations to which PSP Investments responded are found below.

National Policy 25-201 Guidance for Proxy Advisory Firms

On June 18, 2014, PSP Investments provided comments on proposed National Policy 25-201, which would provide guidance for proxy advisory firms. PSP Investments indicated in its response that it does not believe that the proposed approach would lead to meaningful changes, since proxy advisory firms operating in Canada already have similar policies and practices in place and disclose them publicly. Notwithstanding our continued belief that regulation of proxy advisory firms is not required, we were satisfied that the proposed policy is limited to providing guidance on practices and disclosure and is not intended to be prescriptive.

National Instrument 58-101 Disclosure of Corporate Governance Practices

On July 3, 2014, PSP Investments responded to a request for comments from the Canadian Securities Administrators (CSA) on National Instrument 58-101 – Disclosure of Corporate Governance Practices, regarding the disclosure of women on boards and in senior management roles. In a response similar to that elicited by an earlier Ontario Securities Commission (OSC) consultation, we supported the proposed "comply-or-explain" approach, but invited the CSA to enhance the requirements to include a requirement for issuers to set and disclose targets and establish a timeline to achieve those targets with respect to the representation of women on the board. On October 15, 2014, the CSA announced the coming into force of new rules, effective December 31, 2014, which require non-venture issuers to provide annual disclosure in their proxy circulars or annual information forms (or provide an explanation for the absence of disclosure) regarding the following:

+ Director term limits and other mechanisms of renewal of the board;
+ Policies regarding the representation of women on the board;
+ The board's or the nominating committee's consideration of the representation of women in the director identification and selection process;
+ The issuer's consideration of the representation of women in executive officer positions when making executive officer appointments;
+ Targets regarding the representation of women on the board and in executive officer positions; and Numbers of women on the board and in executive officer positions.

Malaysian Code for Institutional Investors

PSP Investments responded to a public consultation by the Minority Shareholder Watchdog Group (MSWG) and the Securities Commission of Malaysia on the newly proposed Code for Institutional Investors. We welcomed the development of the code which, similarly to the UK Stewardship Code, will consist of a set of principles calling on institutional investors to discharge their stewardship responsibilities through proactive engagement and voting activities and will operate on a comply-or-explain basis. We supported most of its principles. However, we noted our concerns about some inappropriate or too prescriptive guidance notes.

HUMAN RESOURCES AND COMPENSATION COMMITTEE

CHAIR'S REPORT

The continued dramatic growth of PSP Investments underscores the need to ensure that our compensation, benefits, succession-planning and talent-development policies — key responsibilities of the Human Resources and Compensation Committee (HRCC) — are competitive with those of peer organizations, while remaining closely aligned with the Corporation's business objectives and long-term obligations to stakeholders.

SUCCESSION PLANNING AND TALENT MANAGEMENT

From a human resources perspective, fiscal year 2015 was a particularly busy one, which saw not only a record number of new hires across the organization but also the search for a new President and Chief Executive Officer. The HRCC welcomes the appointment of André Bourbonnais, who brings to our organization valuable expertise — particularly in the area of private investments — that will further enhance PSP Investments' capabilities, and is clearly committed to building an even stronger, more diverse team.

We were pleased as well that, faced with a pace of organic growth that would test the capabilities of many larger and longer-established HR departments, PSP Investments' Human Resources team was able to increase the total permanent headcount by 14% in support of business objectives, in addition to filling a number of positions through promotions and lateral moves involving existing employees. This attests to the success not only of the Corporation's recruiting initiatives, but also its employee engagement, development and succession-planning programs. Over the course of the year, the reach of our succession-planning initiatives was extended to encompass more levels of the organization. A number of high-potential individuals were identified and appropriate career-development plans put in place.

The HRCC continued to support the HR team in its efforts to build on the high level of engagement that was evident a year earlier, when PSP Investments attained survey scores equivalent to Aon Hewitt's "Best Employers in Canada". Fiscal year 2015 initiatives included the pilot of a new internal mentoring program, continued leadership development and training programs, and the launch of a new on-line learning management system.

As outlined on page 60, the Committee remains strongly committed to PSP Investments' on-going diversity action plan, and supports the adoption of more proactive strategies around the recruitment, development, career progression and retention of women at all levels of the organization.

Executive compensation

In today's highly competitive market for qualified people, PSP Investments' pay-for-performance approach to compensation is designed to help attract and retain talented employees and reward outstanding performance, while discouraging undue risk-taking. A review and benchmarking analysis of current executive compensation programs, last modified in April 2013, was carried out during fiscal year 2015. With the arrival of PSP Investments' new President and CEO, work is ongoing with the objective of having the proposed changes to the compensation framework likely take effect as of April 1, 2016, subject to Board approval. The underlying objectives of those changes will be to: ensure continued strong alignment of PSP Investments' executive compensation regime with the long-term expectations of stakeholders; be less formulaic; encourage behaviour consistent with achieving the target asset mix spelled out in the Policy Portfolio; and facilitate a more collaborative environment across all asset classes in keeping with the 'One PSP' approach.

Employee Pension Plans

Employee pension plan changes introduced during the prior fiscal year — most notably a defined-contribution plan for new hires as of January 1, 2014, which provides the Corporation with more control over the risks associated with its employee benefits — were seamlessly implemented and have had no noticeable impact on PSP Investments' ability to recruit and retain top-quality talent.

The HRCC is pleased with the fiscal year 2015 achievements, especially in the context of PSP Investments' rapid growth and change in leadership. The Committee is confident that the review and benchmarking of executive compensation programs and the changes to pensions will continue to ensure strong alignment with PSP Investments' long-term objectives.

In conclusion, I wish to thank Committee members for their wisdom and express our gratitude to the Corporation's Human Resources team for their excellent work in support of our objectives.

Diane Bean
Chair, Human Resources and Compensation Committee

DIVERSITY

PSP Investments believes that diverse teams make better decisions, and that better decisions provide better business results. Accordingly, the Human Resources and Compensation Committee (HRCC) strongly encourages measures to provide an inclusive environment where talented people of all backgrounds can realize their full potential and contribute to our collective success, as part of a versatile workforce that is representative of the contributors and beneficiaries we serve as well as the global business partners we engage with.

The Corporation's Diversity Policy, created in 2008, supports this commitment, as does its on-going diversity action plan and its Diversity Committee, which was established to consult employees on diversity and equity matters and includes a representative from the senior management team. PSP Investments performs an annual workforce analysis to measure progress made towards achieving equitable representation of four designated groups within its ranks: women, members of visible minorities, Aboriginal peoples and persons with disabilities. Key indicators on diversity are reported on a semi-annual basis to the HRCC and senior management. Tracking the composition of PSP Investments' workforce allows for the implementation of actions and corrective measures. Among those, PSP Investments has recently redesigned a number of its office floors to make them more accessible to people with physical disabilities and, in the context of PSP Investments' annual Diversity Week, external speakers addressed PSP Investments' employees on the different aspects of diversity.

While gender diversity has been a main area of focus for the past several years, the proportionate representation of women in management has remained largely unchanged. Consequently, increasing the number of women in senior roles is a strategic priority and was the focus of several new initiatives during fiscal year 2015. Among these, we created mentoring relationships that included a number of senior and high potential women, and partnered with the *Association des Femmes en Finance du Québec* to offer memberships to women in middle management and senior roles at PSP Investments. Furthermore, PSP Investments has been a member of Catalyst, a leading nonprofit organization that aims to expand opportunities for women and business, for over three years.

PSP Investments, with the support of the HRCC and the Board, remains committed to implementing corporate initiatives that will continue to move PSP Investments towards a fair and balanced representation of members of the designated groups in our workforce, particularly with respect to women.

COMPENSATION

The Board of Directors approves PSP Investments' compensation framework as well as total compensation for the President and Chief Executive Officer and other officers upon recommendation by the Human Resources and Compensation Committee (HRCC). Other compensation matters, including the total aggregate compensation for all of the Corporation's employees, are the responsibility of the HRCC.

In a highly competitive market for qualified personnel, PSP Investments' Compensation Policy is designed to attract and retain talented employees, reward performance and reinforce business strategies and priorities. The Board of Directors recognizes the fundamental value of a motivated and committed team and strongly believes that the recruitment and retention of high-performing employees is critical to achieving PSP Investments' objectives.

To that end, the Board of Directors has established a Compensation Policy that aims to maintain total compensation at a fair and competitive level. 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 responsible risk-taking. Total compensation is comprised of base salary, short-term and long-term incentives, benefits, pension and other remuneration.

The Corporation's Performance Management and Professional Development process also contributes to improving business performance and employee engagement.

PSP Investments is committed to ensuring that its compensation framework is designed to reduce the potential for excessive risk-taking and is aligned with the Corporation's strategic objectives and investment policies. The Corporation also aims to follow compensation practices that are comparable to industry standards. As such, PSP Investments has undertaken a comprehensive analysis of its compensation framework during the past fiscal year in order to integrate and adequately support the development of the Corporation's business strategy for the next three years.

As stipulated in its Act, PSP Investments is subject to a Special Examination at least once every 10 years. In the course of the latest Special Examination, performed by the Office of the Auditor General of Canada and Deloitte LLP in fiscal year 2011, the Examiners reviewed PSP Investments' compensation framework and practices. They concluded that the short-term and long-term incentive programs are comparable to industry practices, are designed to reduce the potential for excessive risk-taking and are aligned with the Corporation's strategic objectives and investment policies. PSP Investments' compensation programs and policies are also consistent with the G20 Working Group recommendations that are based on the Financial Stability Forum Principles for Sound Compensation Practices.

Moreover, PSP Investments regularly reviews compensation levels by using the benchmarking data of a select group of peers — Canadian organizations in the pension fund and investment management industry, the financial services industry and other similar industries appropriate for the positions being benchmarked.

The main comparator group in fiscal year 2015 was comprised of the following pension funds: Alberta Investment Management Corporation, British Columbia Investment Management Corporation, *Caisse de dépôt et placement du Québec*, Canada Pension Plan Investment Board, Ontario Municipal Employees Retirement System and the Ontario Teachers' Pension Plan. These organizations were selected based on three main criteria: the size of the assets under management, their business sector (pension fund investment) and the commonality of the talent pool.

Data from these peer organizations are gathered periodically and on an ad hoc basis using compensation surveys published by well-established, specialized compensation consulting firms, such as Towers Watson's Investment Management Compensation Survey and General Industry Middle Management, Professional and Support Compensation Survey, as well as Mercer's Canadian Investment Management Compensation Survey and Canadian Benchmark Database.

To remain competitive, PSP Investments strives to offer:

1) Base salaries around the median of the comparator group;
2) Incentive compensation with potential payouts around the median of the comparator group and superior payouts for superior performance; and
3) Benefits that are competitive.

The Board of Directors continually ensures that PSP Investments' executive compensation is consistent with PSP Investments' Compensation Policy. For this purpose, the services of independent compensation consulting firms were retained in fiscal year 2015 to assist the HRCC in its review of executive compensation. These compensation consulting firms report solely to the HRCC when executing their mandates.

PRINCIPLES OF PSP INVESTMENTS' COMPENSATION FRAMEWORK

PSP Investments believes that its compensation framework should be driven by a pay-for-performance approach that:

+ Rewards long-term performance (see *Figure A* on the next page);
+ Discourages short-term decision-making and undue risk-taking;
+ Establishes incentive compensation as the largest component of target total compensation for executives (see *Figure B* on the next page);
+ Ensures that total fund investment performance is a component of incentive compensation at all levels of PSP Investments, in order to encourage and reinforce the benefits of teamwork.

FY2015-FY2016 COMPENSATION REVIEW

In the course of fiscal year 2015, PSP Investments initiated an extensive review of its compensation policy and programs with the objectives of ensuring continued strong alignment between the compensation framework and stakeholders' long-term expectations, being less formulaic, encouraging the right behaviours, and fostering a more collaborative approach across the Organization. This review will be pursued in fiscal year 2016 with the arrival of PSP Investments' new President and CEO for a likely implementation, subject to Board approval, in fiscal year 2017.

FIGURE A: **SEVEN YEARS OF INVESTMENT PERFORMANCE ARE MEASURED BY THE STIP AND THE LTIP**

Both the Short-Term Incentive Plan (STIP) and the Long-Term Incentive Plan (LTIP) are built around rolling four-year periods spanning a total of seven years of investment performance.

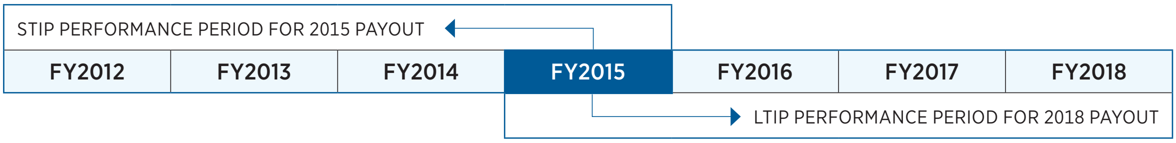


FIGURE B: **COMPENSATION MIX OF TOTAL COMPENSATION FOR FISCAL YEAR 2015 (TARGET AWARDS)**

Consistent with PSP Investments' pay-for-performance approach, total compensation for the President and Chief Executive Officer and for Senior Vice President positions is composed primarily of incentive compensation tied to the performance of PSP Investments and, where applicable, to the investment performance of a particular asset class.

The following tables present the compensation mix for the President and CEO and for the Senior Vice-President positions (Investment):

PRESIDENT AND CHIEF EXECUTIVE OFFICER

Long-term Incentive Compensation	**42%**
Short-term Incentive Compensation	**30%**
Base Salary	**28%**

SENIOR VICE PRESIDENT POSITIONS – INVESTMENT

Long-term Incentive Compensation	**41%**
Base Salary	**31%**
Short-term Incentive Compensation	**28%**

BASE SALARY

Base salary reviews take place annually and any changes are effective from the beginning of each fiscal year. Adjustments to the base salary may also occur during the year to reflect significant changes in responsibility, market conditions or exceptional circumstances.

The annual budget for base salary increases in fiscal year 2015 was consistent with PSP Investments' comparator group and in accordance with the Compensation Policy.

INCENTIVE PLANS

Annually, PSP Investments reviews its incentive plans to ensure that total compensation remains competitive with the main comparator group and reflects PSP Investments' principles and objectives of attracting, retaining and motivating employees to achieve sustained high performance. The fiscal year 2015 review, conducted with the support and advice of an independent compensation consulting firm, focused on an analysis of performance measures and levels (benchmarks and value-added objectives). The Corporation also participated in the CEM Global Leaders 2014 Performance Targets Survey.

A review conducted in the course of fiscal year 2013 led to the addition in fiscal year 2014 of a new Corporate Objectives component in the STIP for executives, along with a reduction of the maximum payout opportunity for the Total Fund performance component under both the STIP and LTIP for executives and investment professionals.

These measures aimed to ensure that compensation payouts remain in line with those of peer organizations, even in periods of sustained superior performance.

The following plans comprise incentive compensation at PSP Investments:

1) A STIP, to recognize performance results for the current year and the previous three years;

2) An LTIP, based on four-year, forward-looking cycles with possible payouts after the fourth year, to recognize long-term results; and

3) A Restricted Fund Unit Plan (RFU), designed to support retention of key employees.

SHORT-TERM INCENTIVE PLAN

PSP Investments' STIP is designed to: (i) reward participants for the achievement of superior and sustained individual contributions and for PSP Investments' overall performance; (ii) help attract and retain high-calibre employees; and (iii) align the interests of participants with PSP Investments' stakeholders. PSP Investments' permanent salaried employees and any other employees designated by the President and CEO are eligible to participate in the STIP.

The STIP is a cash-based plan with a target incentive award based on a percentage of base salary. At the beginning of each fiscal year, each participant in the STIP is advised of his or her short-term incentive target amount. The target incentive amount, the performance measures and the weighting given to each measure will vary according to the participant's position level. The target incentive amount is measured on the achievement of individual objectives as well as on investment performance, which may include any combination of (i) the total fund investment performance of PSP Investments; (ii) the investment performance of a particular asset class; or (iii) the investment performance of a portfolio. Investment performance is measured against relative or absolute benchmarks (total fund, asset classes, portfolios) and thresholds below which no payments are made.

For the first four years of participation in the STIP, participants will go through a transition period building up to a rolling sequence of four consecutive years of performance. The investment performance measure is calculated on the current year as well as up to three preceding years of investment performance, depending on the number of years an employee has participated in the STIP.

The STIP provides that the investment performance of each year is independently weighted. A greater weight is given to performance of the current year in order to more closely link shorter-term contribution and rewards, while still taking into account the investment performance of the previous three years. Investment performance floors and maximum levels are applied according to the STIP calculation methodology, in order to ensure that the results of a single year's investment performance do not unduly impact the overall calculation. The HRCC reviews the annual incentive compensation payment process for all eligible employees on an aggregate basis and ensures that payments are calculated in accordance with the terms of the STIP. In addition, the Board of Directors approves the annual incentive compensation payable to PSP Investments' senior management and officers.

Fiscal Year 2015 Performance

For fiscal year 2015, investment performance by asset class for STIP purposes has been summarized in the table below:

ASSET CLASS	1-YEAR[1]	4-YEAR[1]
Public Markets	Exceeded target	Exceeded target
Private Equity	Below target	Below target but above threshold
Real Estate	Exceeded target	Exceeded target
Infrastructure	Exceeded target	Exceeded target
Natural Resources[2]	Exceeded target	Not applicable
Total Fund	Exceeded target	Exceeded target

[1] For the purpose of describing the performance level, a multiplier of target ranging between 0.95 and 1.05 shall be considered as achieving target.
[2] Formerly known as Renewable Resources.

The results of the individual objective component of the STIP were achieved and, therefore, generated, on an aggregate basis, the right for eligible employees to receive an incentive award.

The total incentive amount paid under the STIP was $37.5 million in fiscal year 2015 (536 employees), $36.5 million in fiscal year 2014 (465 employees), and $29.9 million in fiscal year 2013 (404 employees).

LONG-TERM INCENTIVE PLAN

PSP Investments' LTIP is designed to: (i) reward participants for the achievement of superior and sustained investment performance by PSP Investments; (ii) attract and retain high-calibre employees; and (iii) align the interests of participants with those of PSP Investments' stakeholders.

The LTIP is a cash-based plan that pays a percentage of base salary to participants holding senior positions, solely taking into account the achievement of investment performance on the assets managed by PSP Investments. It requires above-threshold performance over a four-year period before a payout is earned.

At the beginning of each fiscal year, each participant in the LTIP is advised of his or her target incentive amount. This target incentive amount is measured on a forward-looking, four-year investment performance, which may include any combination of: (i) the total fund investment performance of PSP Investments and (ii) for investment professionals, the investment performance of a particular asset class. The target incentive level, performance measures and the weighting given to each measure depend on the participant's position level.

The incentive amount payable is determined at the end of the four-year performance period based on the amount by which the total fund actual value added and (if applicable) the asset class actual value added exceeded the incentive thresholds. In addition, the incentive amount calculated for the participant is either increased or decreased based on the total fund rate of return over the four-year performance period.

The HRCC reviews the long-term incentive compensation process for all eligible employees on an aggregate basis and ensures that the grants are calculated in accordance with the terms of the LTIP. In addition, the Board of Directors approves long-term incentive grants and payable awards to PSP Investments' senior management and officers.

LONG-TERM INCENTIVE PLAN PAYMENTS

In fiscal year 2015, the four-year total fund investment performance of PSP Investments as well as that of the various asset classes was above the incentive threshold and, therefore, payouts were earned for those components of the LTIP for eligible participants.

ASSET CLASS	4-YEAR[1]
Public Markets	Exceeded target
Private Equity	Achieved target
Real Estate	Exceeded target
Infrastructure	Exceeded target
Natural Resources[2]	Not applicable
Total Fund	Exceeded target

[1] For the purpose of describing the performance level, a multiplier of target ranging between 0.95 and 1.05 shall be considered as achieving target.
[2] Formerly known as Renewable Resources.

The total incentive amount paid under the LTIP was $18.8 million in fiscal year 2015 (88 employees), $17.5 million in fiscal year 2014 (73 employees), and $15.2 million in fiscal year 2013 (55 employees).

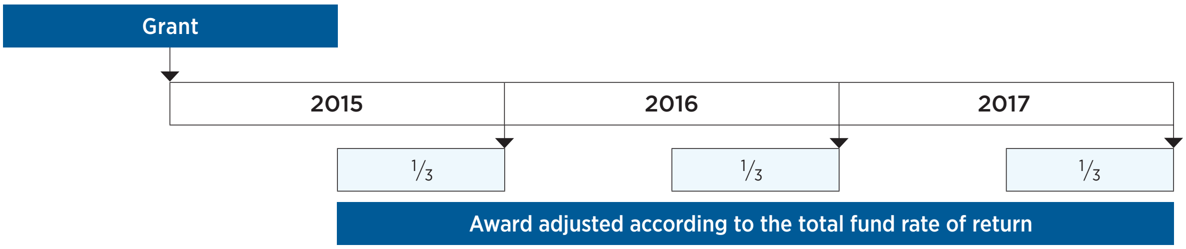
RESTRICTED FUND UNIT PLAN

PSP Investments' Restricted Fund Unit (RFU) Plan is an incentive component of total compensation designed to retain key individuals in the organization.

Under the RFU Plan, grants of restricted fund units can be made to the President and Chief Executive Officer and, upon recommendation of the President and Chief Executive Officer, to other members of the senior management team and other key senior employees based on performance or market-related considerations. The HRCC reviews and approves all grants of restricted fund units. In addition, the Board of Directors approves grants to the senior management of PSP Investments.

Restricted fund units are a nominal investment whose value fluctuates in accordance with the total fund performance over a three-year period. One third of the award vests and is paid each year over this period, unless the participants elected to defer payment. Participants may elect to defer payment of RFUs until the end of the third fiscal year following the grant, as long as their election is made prior to the end of the fiscal year of the year of the grant (see *Figure C* below).

FIGURE C: **RESTRICTED FUND UNIT PLAN FRAMEWORK**



The total incentive amount paid under the RFU in fiscal year 2015 to recognize the contributions of key individuals to the performance of PSP Investments was $1.1 million. The amount paid in fiscal year 2014 was $2.7 million, while fiscal year 2013 payments amounted to $4.5 million.

GROUP INSURANCE BENEFITS

The Group Insurance Plan provides the following group insurance benefits: health and dental care, long-term disability, critical illness, life insurance, accidental death and dismemberment, and an employee-assistance program. The Group Insurance Plan is intended to ensure a proper balance between employee needs and competitiveness with the peer group.

OTHER REMUNERATION

PSP Investments' executives are provided with a perquisites allowance. In addition, PSP Investments offers its executives a health-and-lifestyle assessment.

RETIREMENT PLANS

All eligible PSP Investments employees participate in one of the Public Sector Pension Investment Board Pension Plans (the "Employee Pension Plans") and, as applicable, to one of the Supplemental Employee Retirement Plans (the "SERPs").

The Employee Defined Benefit (DB) Pension Plan provides partially indexed post-retirement pension benefits for each year of participation, calculated on the basis of 2% of the participant's average of the best consecutive three years of salary. Benefits payable under the DB Pension Plan are limited by the *Income Tax Act* (Canada). The DB SERP has been established for all eligible employees enrolled in the DB Pension Plan, as an unfunded arrangement, to provide defined benefits in excess of the Employee DB Pension Plan, where such benefits are so limited. Employees participating in the DB Pension Plan and the DB SERP contribute 5.75% of their base salary, up to the maximum contribution allowable under the *Income Tax Act* (Canada). This contribution was increased from 5% on January 1, 2015 and will represent a 50/50 cost-sharing ratio by January 1, 2017.

PSP Investments implemented the Employee Defined Contribution (DC) Pension Plan on January 1, 2014, as a means to provide the Corporation with more control over its long-term pension costs while remaining competitive and offering flexibility to participants.

All eligible employees hired on or after January 1, 2014 are automatically enrolled in the new DC Pension Plan, to which they can contribute between 5% and 7% of base salary. All employee contributions are fully matched by PSP Investments.

During fiscal year 2015, eligible participants in the DB Pension Plan were offered a second — and final — opportunity to join the new DC Pension Plan effective January 1, 2015, on a voluntary and irrevocable basis.

Retirement Benefits

Defined Contribution Pension plan

NAME	Accumulated Value at Beginning of Year	Compensatory	Accumulated Value at End of Year
André Bourbonnais[1]	$0	$0	$0

[1] Mr. Bourbonnais is a participant in the DC Pension Plan and the DC Supplemental Employee Retirement Plan. Mr. Bourbonnais was hired on March 30, 2015 and therefore no contributions were registered with the custodian under the Defined Contribution Pension Plan at March 31, 2015.

Defined Benefit Pension Plan

NAME	Number of Years of Credited Service[1]	Annual Benefit		Accrued Obligation at Beginning of Year (Final Regulations)[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	7.4	$47,300	$103,100	$585,000	$48,900	$160,800	$794,700
John Valentini	10.0	$77,600	$174,000	$885,200	$219,000	$336,200	$1,440,400
Daniel Garant	6.6	$43,200	$149,200	$449,900	$42,200	$178,000	$670,100
Bruno Guilmette	9.4	$57,600	$154,500	$629,500	$31,300	$228,300	$889,100

[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 Employee DB 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, 2015.

[4] Accrued obligation using a discount rate of 5.10%. The obligations are calculated as at March 31, 2014 using the assumptions and methods that were used for the accounting disclosures as at December 31, 2013.

[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 made in the year, change in assumptions, non-pay-related experience and the interest cost for the year.

[7] Accrued obligation using a discount rate of 4.20%. The obligations are calculated as at March 31, 2015 using the assumptions and methods that were used for the accounting disclosures as at December 31, 2014.

Summary Compensation Table

NAME	Fiscal Year	Base Salary	Short-term Incentive Plan	Long-term Incentive Plan	Restricted Fund Units	Benefits and Other Compensation	Pension and SERP Plans	Total Compensation
André Bourbonnais[1] President and Chief Executive Officer	2015 2014 2013	$3,846	$0	$0	$0	$3,057,481	$0	$3,061,327
Neil Cunningham Senior Vice President, Real Estate Investments[3]	2015 2014 2013	$320,000 $320,000 $320,000	$849,584 $889,392 $1,074,608	$1,239,300 $1,215,000 $1,170,000	$70,070 $181,816 $343,344	$26,145 $25,971 $25,736	$48,900 $65,800 $81,800	$2,553,999 $2,697,979 $3,015,488
John Valentini[2] Executive Vice President, Chief Operating Officer and Chief Financial Officer	2015 2014 2013	$431,250 $375,000 $375,000	$685,651 $532,500 $668,250	$656,250 $621,250 $621,250	$0 $86,109 $256,130	$534,249 $30,978 $30,743	$219,000 $62,200 $53,200	$2,526,400 $1,708,037 $2,004,573
Daniel Garant Senior Vice President, Public Market Investments[3]	2015 2014 2013	$330,000 $330,000 $330,000	$667,921 $718,922 $1,035,237	$1,079,010 $1,213,144 $1,192,500	$144,519 $247,014 $431,682	$24,627 $23,722 $23,636	$42,200 $64,200 $83,500	$2,288,277 $2,597,002 $3,096,555
Bruno Guilmette Senior Vice President, Infrastructure Investments[3]	2015 2014 2013	$306,000 $306,000 $306,000	$683,956 $718,259 $663,096	$1,089,327 $671,395 $824,305	$0 $90,340 $249,314	$26,143 $25,970 $25,734	$31,300 $50,200 $41,500	$2,136,726 $1,862,164 $2,109,949

1 Mr. Bourbonnais was appointed President and Chief Executive Officer as of March 30, 2015. His annual base salary is $500,000. With the exception of the base salary he earned, amounts shown were paid in accordance with his employment agreement. They include a signing bonus of $3,000,000 that was paid to partially offset accrued incentive compensation forfeited upon leaving his former employer. In addition, pursuant to his employment agreement, Mr. Bourbonnais was given a guarantee that his total direct compensation payments for each of fiscal years 2016, 2017 and 2018, in respect of base salary and total incentive plan payments, will be no less than $2,500,000 per year (the "Compensation Guarantee").

2 Mr. Valentini was appointed Interim President and Chief Executive Officer from June 22, 2014 until March 29, 2015 inclusively. For fiscal year 2015, compensation components such as base salary, short-term incentive, benefits and other compensation, as well as pension plan include adjustments to his compensation in order to reflect additional responsibilities he undertook during that period.

3 Further to a market study, the Senior Vice President title was introduced in fiscal year 2013 for positions formerly known as First Vice President.

Long-Term Incentive Plan Awards Granted for Fiscal Year 2015

The following table shows the range of future potential payouts. Payments will be based on PSP Investments' total fund investment and asset class performance.

NAME	Award Type	Fiscal Year 2015 Grant	Vesting Period	Estimated Future Payouts[1] Threshold[2]	Target	Maximum
André Bourbonnais[3]	LTIP RFU	$0 $0	4 years 3 years	$0 n/a	$0 $0	$0 $0
Neil Cunningham	LTIP RFU	$288,000 $0	4 years 3 years	$0 n/a	$288,000 $0	$1,296,000 $0
John Valentini	LTIP RFU	$262,500 $0	4 years 3 years	$0 n/a	$262,500 $0	$656,250 $0
Daniel Garant	LTIP RFU	$297,000 $0	4 years 3 years	$0 n/a	$297,000 $0	$1,336,500 $0
Bruno Guilmette	LTIP RFU	$275,400 $0	4 years 3 years	$0 n/a	$275,400 $0	$1,239,300 $0

1 Actual payouts will be adjusted upwards or downwards by PSP Investments' compounded rate of return over the performance vesting periods.

2 Threshold refers to the minimum amount payable for a certain level of performance, below which level no award is payable.

3 Pursuant to his employment agreement, Mr. Bourbonnais was also awarded a $1,000,000 RFU grant for fiscal year 2017 and a $500,000 RFU grant for fiscal year 2018.

Long-Term Incentive Plan Awards Cumulative Value

The total cumulative value[1] as at March 31, 2015 of all long-term incentive awards granted but not yet vested or paid to PSP Investments' five highest-paid officers is shown in the following table.

NAME	Plan	Awards Paying Out at the End of Fiscal Year 2016	2017	2018	Total
André Bourbonnais	LTIP RFU	$0 $0	$0 $333,333	$0 $500,000	$0 $833,333
Neil Cunningham	LTIP RFU	$1,087,200 $0	$800,640 $0	$512,640 $0	$2,400,480 $0
John Valentini	LTIP RFU	$656,250 $0	$656,250 $0	$409,500 $0	$1,722,000 $0
Daniel Garant	LTIP RFU	$785,565 $100,000	$536,085 $100,000	$389,070 $100,000	$1,710,720 $300,000
Bruno Guilmette	LTIP RFU	$985,932 $0	$761,481 $0	$486,081 $0	$2,233,494 $0

[1] LTIPs' accumulated values are estimated using actual total fund and asset class performance for those years where performance is known, and a multiplier of one (1.0x) is applied for future years. RFUs' accumulated values reflect PSP Investments' total fund rate of return for fiscal years 2014 and 2015, where applicable, but no returns for future years.

Post-Employment Policies

Pursuant to his employment agreement, in the event of dismissal, other than for "serious reason", the President and CEO's severance pay is set at 24 months of base salary at the time of departure and target short-term incentive compensation ("base termination pay"), plus $60,000 which is equivalent to 24 months of perquisites. Severance pay also includes a lump-sum equivalent to two times the percentage of annual base salary he elected to contribute to PSP Investment's DC pension plan. With the exception of disability coverage, the group insurance plan is to be maintained during the 24-month severance period. Should such a dismissal occur in fiscal years 2016, 2017 or 2018, base termination pay shall be the greater of the amount set out above or any unpaid amounts of the Compensation Guarantee (as disclosed under the Summary Compensation Table). On a voluntary departure, no severance amounts are payable to the President and CEO.

For Senior Vice Presidents, the severance pay is set at 12 months of base salary and target STIP award, plus one month of salary and target STIP award (one-twelfth of the full-year target STIP award) for every year of service, up to a maximum of 18 months. Insured benefits such as health, dental and life insurance are continued during the severance period.

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

NAME	Years of Service[1]	Severance	Resignation
André Bourbonnais[2]	0.0	See above[2]	See above[2]
Neil Cunningham	10.8	$912,000	$0
John Valentini	10.0	$1,068,750	$0
Daniel Garant	6.6	$940,500	$0
Bruno Guilmette	9.4	$872,100	$0

[1] Assumes a notional termination as at March 31, 2015.

[2] For the President and CEO, please refer to the severance arrangements described above in the first paragraph under Post-Employment Policies.

DIRECTORS'
BIOGRAPHIES

MICHAEL P. MUELLER
Chair of the Board

Member:
Investment Committee

Board member since
December 18, 2006

Mr. Mueller is a member of the Boards of Annidis Corporation, Magor Communications Corp., Pediapharm, Smarter Alloys and Emily's House children's hospice. From 2003 to 2005, he was President and CEO of MDS Capital Corporation. Mr. Mueller previously held a series of senior executive positions at TD Bank, including Vice Chairman and Global Head of Investment and Corporate Banking. He is a former member of the Boards of Directors of the Scarborough Hospital (past Chair), the Scarborough Hospital Foundation, AIM Therapeutics Inc., Biovest Corp. 1, Budco, TM BioScience, MDS Capital and the Canadian Medical Discoveries Funds I and II. Mr. Mueller holds a Bachelor of Science degree from Western University and an MBA from York University.

CHERYL BARKER
Corporate Director

Member:
Investment Committee / Human Resources and Compensation Committee

Board member since
December 18, 2006

Ms. Barker is a member of the Board of Directors and Chair of the Audit Committee of Canada Media Fund. She also serves as a Trustee and Chair of the Audit Committee of Lanesborough REIT. She was President of Manitoba Telecom Services Inc. (MTS) from 2004 until her retirement in 2006. Ms. Barker's career at MTS spanned 19 years, during which she served in a variety of key positions, including President and COO of MTS Communications Inc.; Chair, President and CEO of Bell Intrigna Inc.; and CFO and Treasurer of MTS. A Chartered Accountant (CA), Ms. Barker holds a Bachelor of Science degree as well as a Certificate in Education from the University of Manitoba.

DIANE BEAN
Corporate Director

Member:
Investment Committee / Human Resources and Compensation Committee – Chair

Board member since
June 18, 2010

Ms. Bean is a member of the Boards of Directors of Manulife International Ltd (Asia), The Insurance Company of the West Indies, and Roy Thomson Hall/Massey Hall (2004-2014), and was founding Co-Chair of the Toronto Region Immigrant Employment Council. Until her retirement in 2011, she was Executive Vice President of Manulife Financial where, over a period of 30 years, she also served as Regional Executive in Canada, the United States, Asia and Europe, and held senior positions in IT, Business Development, Corporate Communications and, most recently, as head of Global HR. Ms. Bean holds a Bachelor of Commerce degree from the University of Toronto.

DIRECTORS' BIOGRAPHIES

MICHELINE BOUCHARD
Corporate Director

Member:
Investment Committee / Human Resources and Compensation Committee / Governance Committee

Board member since September 29, 2011

Ms. Bouchard is a member of the Board of Directors of Telus. She has extensive experience as a director with public and private companies and volunteer boards. Past Board memberships include Harry Winston Diamond Corp., Banque Nationale de Paris, Ford Motor Canada, London Insurance Group and Home Capital/Home Trust. Ms. Bouchard was Global Corporate Vice President of Motorola Inc. in the U.S., after having served as President and CEO of Motorola Canada Inc. She holds a Bachelor's degree in Applied Sciences (Engineering Physics) and a Master's degree in Applied Sciences (Electrical Engineering) from École Polytechnique. As well, she has been awarded five honorary doctorates from major Canadian universities. Ms. Bouchard is a Member of the Order of Canada, a Member of the National Order of Quebec and a Certified Member of the Institute of Corporate Directors.

LÉON COURVILLE
Corporate Director

Member:
Investment Committee / Governance Committee / Human Resources and Compensation Committee

Board member since March 5, 2007

Mr. 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 United States before being appointed President of the National Bank of Canada. He is enjoying an active "retirement" as a corporate director, an Associate Professor at l'École des Hautes Études Commerciales and proprietor of the Domaine Les Brome vineyard, which he founded in 1999. Mr. Courville is a member of the Boards of Directors of the Institut de tourisme et d'hôtellerie du Québec and the Institut économique de Montréal, and Chairman of the Institute of Structured Finance and Derivative Instruments. His research and publications have garnered awards and bursaries in Canada and abroad, including the Coopers & Lybrand Award for his work entitled "The Storm – Navigating the New Economy". Mr. Courville holds a Ph.D. in Economics from Carnegie-Mellon University.

ANTHONY R. GAGE
Corporate Director

Member:
Investment Committee / Audit Committee

Board member since June 27, 2006

Head of the Management Committee of JEA Pension System Solutions and Chairman of the University of Victoria Properties Investments Inc., Mr. Gage also is a past member of the Board of Governors of the University of Victoria and a former Chair of the Board of Phillips, Hager & North Investment Management. His career at Phillips, Hager & North, where he served as President and CEO from 1994 to 1999, spanned more than 20 years. Previously, Mr. Gage was Assistant Vice President and Director of Confed Investment Counseling, the pension fund management arm of Confederation Life. Mr. Gage holds a Bachelor of Arts (Economics) from the University of Victoria, an MBA (Finance) from the University of British Columbia and a Chartered Director designation from McMaster University. He is also a Chartered Financial Analyst (CFA).

GARNET GARVEN

Corporate Director

Member:

Investment Committee /
Audit Committee /
Governance Committee – Chair

Board member since
September 29, 2011

Mr. Garven is Dean Emeritus of the Paul J. Hill School of Business and the Kenneth Levene Graduate School of Business at the University of Regina. Most recently he served as Senior Fellow at Canada's Public Policy Forum, a national think tank based in Ottawa. He previously served as Deputy Minister to the Premier, Cabinet Secretary and Head of the Saskatchewan Public Service. He holds a Bachelor of Administration from the University of Regina, an MBA in Finance from the University of Saskatchewan and an Honourary CPA from the Chartered Professional Accountants of Canada. Mr. Garven was a Research Fellow in corporate governance at the Richard Ivey School of Business – University of Western Ontario. A founding director of the Investment Corporation of Saskatchewan (now Greystone Managed Investments Inc.) and former Chairman and CEO of the Saskatchewan Workers' Compensation Board, he has served on a variety of other public, private and not-for-profit boards. He is a recipient of the Queen Elizabeth II Diamond Jubilee Medal for leadership in business education and public policy.

MARTIN J. GLYNN

Corporate Director

Member:

Investment Committee /
Human Resources and
Compensation Committee /
Governance Committee

Board member since
January 30, 2014

Mr. Glynn is a member of the Boards of two public companies, Sun Life Financial Inc. and Husky Energy Inc. He also serves as Chairman of UBC Investment Management Trust Inc. and is a member of the Boards of the VGH & UBC Hospital Foundation and SOI Group Limited at the University of St. Andrews. 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. Mr. Glynn holds a BA Honours in Economics from Carleton University and an MBA (Finance and International Business) from the University of British Columbia. From 2009 to 2010, he was the Jarislowsky Fellow in Business Management at the Haskayne School of Business, University of Calgary.

DIRECTORS' BIOGRAPHIES

LYNN HAIGHT
Corporate Director

Member:
Investment Committee / Audit Committee / Governance Committee

Board member since January 14, 2010

Ms. Haight is a member of the Board of Directors and Chair of the World Bank's Consultative Group on International Agricultural Research (CGIAR) and a member of the Board of Green Shield Canada. She is Vice Chair of the Independent Audit and Oversight Panel of the United Nations High Commission for Refugees. She also sits on the Board of the Somerville College Foundation at Oxford University. Ms. Haight retired in 2009 as Chief Operating Officer and Chief Financial Officer of the Foresters International Insurance Organization. She previously served as Vice President, U.S. Fixed Annuities, and Chief Accountant of Manulife Financial. She has also served as a Trustee and Chair of the Audit Committee of the Ontario Arts Council, Chair of Foresters Holdings Europe, Chair of Tafelmusik Baroque Orchestra, Chair of the World Agroforestry Centre in Nairobi, Kenya, and Chair of the Sectoral Advisory Group for business services to the federal Minister of Trade. Ms. Haight holds an MA Honours from Oxford. She is a Fellow of the Canadian Institute of Chartered Accountants, a Fellow of the Institute of Chartered Accountants in England and Wales, a Fellow of the Canadian Association of Management Consultants and a Certified Corporate Director.

TIMOTHY E. HODGSON
Corporate Director

Member:
Investment Committee – Chair / Audit Committee

Board member since December 17, 2013

Mr. Hodgson is Managing Partner of Alignvest Management Corporation. From 2010 to 2012, he was Special Advisor to Governor Mark Carney at the Bank of Canada. Previously, Mr. Hodgson was at Goldman Sachs, where he served as Chief Executive Officer of its Canadian subsidiary, Goldman Sachs Canada, Inc. from 2005 to 2010. Mr. Hodgson currently sits on the Boards of KGS-Alpha Capital Markets, the Global Risk Institute, the Bridgepoint Health Corporation, the Ivey Business School and The Next36. He is a past member of the Board of Goldman Sachs Canada, Inc. Mr. Hodgson holds an MBA from the Ivey Business School at Western University in London, Ontario, and a Bachelor of Commerce from the University of Manitoba. He is a Chartered Accountant (CA) and a member of the Institute of Corporate Directors.

WILLIAM A. MACKINNON
Corporate Director

Member:
Investment Committee / Audit Committee – Chair

Board member since January 14, 2010

Mr. MacKinnon is a member of the Boards of Telus, Pioneer Energy and Novadaq Technologies. Very active in professional and community circles, he is also a member of the Boards of the Toronto Community Foundation, the Roy Thomson Hall and the St. Stephen's Community House. Mr. MacKinnon joined KPMG Canada in 1968, became a Partner in 1977 and was the firm's Chief Executive Officer from 1999 until his retirement at the end of 2008. As well, he served on the KPMG International Board of Directors. Mr. MacKinnon holds a Bachelor of Commerce degree from the University of Manitoba. He obtained his Chartered Accountant (CA) designation in 1971 and became a FCA in 1994.

Reflects Board Committee memberships as at April 1, 2015.

SENIOR MANAGEMENT
AND OFFICERS

ANDRÉ BOURBONNAIS
President and Chief Executive Officer

JOHN VALENTINI
Executive Vice President, Chief Operating Officer and Chief Financial Officer

GUY ARCHAMBAULT
Senior Vice President, Human Resources

NEIL CUNNINGHAM
Senior Vice President, Real Estate Investments

ALAIN DESCHÊNES
Senior Vice President, Operations and Technology

DANIEL GARANT
Senior Vice President, Public Market Investments and Interim Senior Vice President, Private Equity

BRUNO GUILMETTE
Senior Vice President, Infrastructure Investments

MARC LACOURCIÈRE
Senior Vice President and Chief Legal Officer

STÉPHANIE LACHANCE
Vice President, Responsible Investment and Corporate Secretary

Consolidated Ten Year Financial Review

($ millions)	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
CHANGE IN NET ASSETS[1]										
Net investment income (loss)	**$ 13,966**	$12,793	$ 7,194	$ 1,888	$ 7,043	$ 7,605	$ (9,493)	$ (197)	$ 3,414	$ 4,097
Operating expenses	**243**	216	184	148	114	92	86	77	52	39
Other comprehensive income (loss)	**(15)**	17								
Profit and comprehensive income (loss)	**$ 13,708**	$12,594	$ 7,010	$ 1,740	$ 6,929	$ 7,513	$ (9,579)	$ (274)	$ 3,362	$ 4,058
Fund transfers	**$ 4,554**	$ 4,997	$ 4,635	$ 4,733	$ 4,814	$ 4,980	$ 4,431	$ 4,237	$ 3,990	$ 4,197
Increase/(decrease) in net assets	**$ 18,262**	$17,591	$11,645	$ 6,473	$11,743	$12,493	$ (5,148)	$ 3,963	$ 7,352	$ 8,255
NET INVESTMENT ASSETS										
Investments										
World Equity										
Canadian Equity	**$ 16,840**	$16,731	$15,425	$14,464	$18,665	$13,547	$ 8,815	$11,538	$10,328	$ 9,346
Foreign Equity:										
US Large Cap Equity	**11,178**	9,097	7,163	5,294	3,829	2,111	926	1,763	2,498	2,618
EAFE Large Cap Equity	**10,512**	9,000	6,745	4,760	3,052	2,043	1,043	1,831	1,720	3,217
Small Cap Equity	**8,071**	6,535	4,738	3,641	3,221	1,977	781	1,930	2,936	2,006
Emerging Markets Equity	**9,640**	8,116	6,163	4,787	4,062	2,987	2,122	2,726	2,501	1,943
Private Equity	**10,103**	8,425	6,924	6,444	5,582	5,426	4,191	3,972	1,669	301
Nominal Fixed Income										
Cash & Cash Equivalents[2,3]	**2,647**	1,756	1,456	1,597	1,254	1,892	73	533	468	967
Fixed Income	**13,638**	11,578	9,481	8,569	7,685	6,958	6,358	7,097	7,089	5,243
Real Return Assets										
World Inflation-Linked Bonds	**6,396**	5,036	4,427	3,982	3,022	2,145	2,389	2,211	1,714	421
Real Estate[3]	**14,377**	10,650	9,427	7,055	5,312	5,118	4,653	4,029	3,596	1,584
Infrastructure	**7,080**	6,011	3,854	3,607	2,356	2,073	2,446	1,343	479	–
Natural Resources[4]	**1,536**	795	382	325	–	–	–	–	–	–
Net investments	**$112,018**	**$93,730**	**$76,185**	**$64,525**	**$58,040**	**$46,277**	**$33,797**	**$38,973**	**$34,998**	**$27,646**
PERFORMANCE (%)										
Annual rate of return	**14.5**	**16.3**	**10.7**	**3.0**	**14.5**	**21.5**	**(22.7)**	**(0.3)**	**11.3**	**19.1**
Benchmark	**13.1**	13.9	8.6	1.6	12.7	19.8	(17.6)	1.2	10.1	18.0

The ten year annualized net return is 7.6% (or 5.8% after inflation) exceeding the return objective of 6.0% (or 4.2% after inflation) for the period.

[1] 2014 and 2015 figures are presented in accordance with International Financial Reporting Standards (IFRS). Figures prior to 2014 are presented are in accordance with previous 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.

[3] Since 2013, amounts related to real estate debt strategies are reported under Real Estate.

[4] Formerly known as Renewable Resources.

FINANCIAL STATEMENTS

AND NOTES TO THE FINANCIAL STATEMENTS

TABLE OF CONTENTS

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 Forces Pension Plan Accounts (the "financial statements") have been prepared by management and approved by the Board of Directors. The 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 the financial statements and the financial information contained in the annual report.

On a yearly basis, we certify that the design of the internal control regarding financial information is sufficient and that the design and functioning of the financial information disclosure controls and procedures are effective. We report any significant deficiencies to the Audit Committee (the "Committee") of the Board of Directors of PSP Investments.

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 *Public Sector Pension Investment Board Act* (the "Act"), the accompanying regulations, the by-laws, and the Statement of Investment Policies, Standards and Procedures (the "SIP&P").

In this regard, investments of PSP Investments held during the year ended March 31, 2015 were in accordance with the Act 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 adequacy 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 an independent examination 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.

André Bourbonnais
President and
Chief Executive Officer
May 14, 2015

John Valentini
Executive Vice President,
Chief Operating Officer and Chief Financial Officer
May 14, 2015

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, 2015, were in accordance with the Act and PSP Investments’ Statement of Investment Policies, Standards and Procedures”.

Michael P. Mueller
Chair of the Board
May 14, 2015

PUBLIC SECTOR PENSION INVESTMENT BOARD

CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditors' Report

To the President of the Treasury Board

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Public Sector Pension Investment Board (PSP Investments), which comprise the consolidated statements of financial position as at March 31, 2015, March 31, 2014 and April 1, 2013 and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended March 31, 2015 and March 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PSP Investments as at March 31, 2015, March 31, 2014 and April 1, 2013, and its financial performance and its cash flows for the years ended March 31, 2015 and March 31, 2014 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of new standards as explained in notes 2 and 18 to the consolidated financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of PSP Investments and its wholly-owned subsidiaries that have come to our notice during our audits of the consolidated financial statements have, in all significant respects, been in accordance with 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 PSP Investments and its wholly-owned subsidiaries.

Deloitte LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A116129

May 14, 2015
Montréal, Canada

Clyde M. MacLellan, FCPA, FCA
Assistant Auditor General for the Auditor General of Canada

May 14, 2015
Ottawa, Canada

Consolidated Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2015**	March 31, 2014 (Note 18)	April 1, 2013 (Note 18)
Assets			
Investments (Note 5.1)	**$ 124,491**	$ 103,494	$ 84,019
Other assets	**144**	127	83
Total assets	**$ 124,635**	$ 103,621	$ 84,102
Liabilities			
Trade payable and other liabilities	**$ 195**	$ 152	$ 154
Investment-related liabilities (Note 5.1)	**5,060**	3,522	2,939
Borrowings (Notes 5.1, 9)	**7,413**	6,242	4,895
Total liabilities	**$ 12,668**	$ 9,916	$ 7,988
Net assets	**$ 111,967**	$ 93,705	$ 76,114
Equity			
Statutory rights held by the Government of Canada with respect to: (Note 10.1)			
Public Service Pension Plan Account	**$ 81,348**	$ 68,168	$ 55,470
Canadian Forces Pension Plan Account	**21,991**	18,352	14,869
Royal Canadian Mounted Police Pension Plan Account	**8,076**	6,720	5,373
Reserve Force Pension Plan Account	**552**	465	402
Total equity	**$ 111,967**	$ 93,705	$ 76,114
Total liabilities and equity	**$ 124,635**	$ 103,621	$ 84,102

The accompanying notes are an integral part of the Consolidated Financial Statements.

On behalf of the Board of Directors:

Michael P. Mueller
Chair of the Board

William A. MacKinnon
Chair of the Audit Committee

Consolidated Statements of Profit or Loss and Other Comprehensive Income

For the years ended March 31

(Canadian $ millions)	2015	2014 (Note 18)
Investment income	**$ 14,266**	$ 13,050
Investment-related expenses (Note 11)	**$ 300**	$ 257
Net investment income	**$ 13,966**	$ 12,793
Operating expenses (Note 12)	**$ 243**	$ 216
Profit	**$ 13,723**	$ 12,577
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability (Note 18)	**$ (15)**	$ 17
Profit and other comprehensive income (loss)	**$ 13,708**	$ 12,594

Consolidated Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	2015	2014
Fund transfers		
Balance at beginning of period	**$ 57,647**	$ 52,650
Fund transfers received during the period (Note 10.3)	**4,554**	4,997
Balance at end of period	**$ 62,201**	$ 57,647
Retained earnings		
Balance at beginning of period	**$ 36,058**	$ 23,464
Profit and other comprehensive income (loss)	**13,708**	12,594
Balance at end of period	**$ 49,766**	$ 36,058
Total equity	**$ 111,967**	$ 93,705

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)	2015	2014
Cash flows from operating activities		
Profit	$ 13,723	$ 12,577
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	16	14
Effect of exchange rate changes on cash and cash equivalents	(55)	55
Unrealized losses on borrowings	174	22
	$ 13,858	$ 12,668
Net changes in operating assets and liabilities		
Increase in investments	$ (20,946)	$ (19,531)
Decrease (Increase) in other assets	17	(22)
Increase in trade payable and other liabilities	28	15
Increase in investment-related liabilities	1,538	583
Net cash used in operating activities	$ (5,505)	$ (6,287)
Cash flow from financing activities		
Proceeds from borrowings	$ 14,240	$ 13,250
Repayment of borrowings	(13,243)	(11,925)
Fund transfers received	4,554	4,997
Net cash flows provided by financing activities	$ 5,551	$ 6,322
Cash flow from investing activities		
Acquisitions of property, plant and equipment	$ (39)	$ (36)
Net cash flows used in investing activities	$ (39)	$ (36)
Net change in cash and cash equivalents	$ 7	$ (1)
Effect of exchange rate changes on cash and cash equivalents	55	(55)
Cash and cash equivalents at the beginning of the period	809	865
Cash and cash equivalents at the end of the period	$ 871	$ 809
Cash and cash equivalents are comprised of:		
Cash and cash equivalents held for investment purposes[A]	$ 858	$ 807
Cash held for administrative purposes[B]	13	2
Cash and cash equivalents at the end of the period	$ 871	$ 809
Supplementary disclosure of cash flow information		
Interest paid	$ (84)	$ (107)

[A] Cash and cash equivalents held for investment purposes are presented as part of fixed income in Note 5.1. Cash equivalents represent short-term deposits with a maturity of 90 days or less and are held for purposes of meeting short-term cash commitments. Cash equivalents are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

[B] Cash held for administrative purposes is included in other assets.

The accompanying notes are an integral part of the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2015

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 Act*s (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 Act*s 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 Act*s. 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 Act*s, 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 440 Laurier street West, Ottawa, Ontario, Canada and its principal business office is at 1250 René Lévesque boulevard West, Montreal, Quebec, Canada.

2 FIRST-TIME ADOPTION OF IFRS

These are PSP Investments' first Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards ("IFRS"). PSP Investments previously prepared consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The date of transition to IFRS was April 1, 2013.

PSP Investments' IFRS accounting policies as presented in Note 3 have been applied in preparing the Consolidated Financial Statements for the year ended March 31, 2015, the comparative information and the opening Consolidated Statement of Financial Position at the date of transition.

PSP Investments has applied IFRS 1 *First-Time Adoption of International Financial Reporting Standards* in preparing these IFRS Consolidated Financial Statements. IFRS 1 sets out the procedures that PSP Investments must follow when it adopts IFRS for the first time as the basis for preparing its Consolidated Financial Statements. PSP Investments is required to establish its IFRS accounting policies as at March 31, 2015 and, in general, apply these retrospectively to determine the IFRS opening Consolidated Statement of Financial Position at its date of transition, April 1, 2013. IFRS 1 provides a number of mandatory exceptions and optional exemptions to this general principle. The effects of the transition to IFRS on equity and on profit (loss) and other comprehensive income (loss) are presented in Note 18.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied in the preparation of these Consolidated Financial Statements are summarized below. The Consolidated Financial Statements have been prepared using accounting policies specified by IFRS in effect at the end of the reporting period. These accounting policies have been used throughout all periods presented.

3.1. BASIS OF PRESENTATION

The Consolidated Financial Statements of PSP Investments have been prepared in accordance with 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*, 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 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, 2015.

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.

3.2. 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 on April 1, 2013, the date of its transition to IFRS. 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 Act*s. 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.

3 SIGNIFICANT ACCOUNTING POLICIES
(continued)

3.3. INTERESTS IN OTHER ENTITIES

Management assesses control, joint control and significant influence with respect to the investees disclosed in Note 7 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.

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Consolidated Financial Statements are set out below.

3.4.1. 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 5.1.

Borrowings under the capital market debt financing program, as described under Note 9, 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. Purchases and sales 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 Statement of Profit or Loss and Other 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 (loss).

(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.

3 SIGNIFICANT ACCOUNTING POLICIES
(continued)

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.2. 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 real estate, private equity, infrastructure and renewable resources, 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 5.

3.4.3. 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 the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars. Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

3.4.4. Foreign Currency Translation

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.

Financial assets and financial 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 financial instruments are included in investment income (loss).

3.4.5. 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 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 recognize securities borrowed.

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.

3.4.6. Securities sold under Repurchase Agreements and Related Collateral

PSP Investments is party to agreements which involve the sale of securities with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Securities sold under the repurchase agreements are not derecognized as PSP Investments retains all related risks and rewards of ownership. As such, all related income (loss) continues to be reported in investment income (loss) and obligations to repurchase the securities sold are accounted for as investment-related liabilities.

Securities sold under 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. 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. PSP Investments does not sell, repledge or otherwise use collateral held.

3.4.7. 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 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.8. Equity

The statutory rights of the Government of Canada pursuant to the *Superannuation Act*s 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 Act*s. 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.

3.4.9. Investment Income

Investment income (loss) is made up of interest, dividends, gains (losses) on the disposal of investments as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the reporting period. Interest is recognized as earned. Dividends are recognized on the ex-dividend date. Distributions from pooled funds, limited partnerships or from direct investments and co-investments are recognized as interest, dividend or realized gains (losses) as appropriate. Co-investments are investments in private entities where the investment is made in conjunction with an external manager with whom PSP Investments already has committed and delegated funds.

3.4.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, as described in Note 5.1.7, 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 are expensed as they are incurred. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets and other fixed income securities as outlined in Note 11.

Other (net) includes dividend expense related to securities sold short and securities lending income net of fees on securities borrowed.

3.4.11. Fund Transfers

Amounts are received from the Government of Canada for the Funds and are recorded in their respective Plan Account.

3.5. 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 3.2 as well as the determination of control, joint control and significant influence as described in Note 3.3.

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 5.2.3 and those regarding the assessment of risk are outlined in Note 8.

Although estimates and assumptions reflect management's best judgment, actual results may differ from such estimates due to the uncertainties involved in using them.

4 CURRENT AND FUTURE CHANGES IN ACCOUNTING STANDARDS

4.1. CURRENT ACCOUNTING STANDARDS ADOPTED BEFORE THE EFFECTIVE DATE

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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted.

PSP Investments has adopted IFRS 9 in these Consolidated Financial Statements prepared in accordance with IFRS for the year ended March 31, 2015. Significant accounting policies in connection with IFRS 9 are described under Note 3.4.1. Additional information regarding the implementation of IFRS 9 in the year of first-time adoption of IFRS is presented under Note 18.1.

4.2. FUTURE ACCOUNTING STANDARDS

A number of new standards, amendments and interpretations have been issued by the IASB, but are not yet effective. The following relates to one or more of PSP Investments' significant accounting policies or disclosures:

IFRS 11 Joint Arrangements

IFRS 11 was amended, effective in annual periods beginning on or after January 1, 2016, to add new guidance on the accounting for acquisitions of interests in a joint operation that constitutes a business. Acquirers of such interests shall apply all of the principles in business combinations accounting in IFRS 3 *Business Combinations*, and other IFRS, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRS in relation to business combinations. Management is currently assessing the impact of adopting this amendment.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1. 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, 2015**	March 31, 2014	April 1, 2013
Public markets			
Canadian equity	**$ 8,271**	$ 9,118	$ 9,224
Foreign equity	**33,322**	27,728	20,949
Private markets			
Real estate	**17,010**	12,567	10,896
Private equity	**10,017**	8,077	7,020
Infrastructure	**7,752**	6,534	4,458
Renewable resources	**2,290**	1,185	420
Fixed income			
Cash and money market securities	**3,891**	3,866	3,604
Government and corporate bonds	**18,229**	17,080	11,211
Inflation-linked bonds	**6,429**	4,991	4,377
Other fixed income securities	**7,690**	7,401	7,857
Alternative investments	**5,512**	3,012	1,792
	$ 120,413	$ 101,559	$ 81,808
Investment-related assets			
Amounts receivable from pending trades	**$ 2,013**	$ 734	$ 1,121
Interest receivable	**212**	218	152
Dividends receivable	**98**	83	67
Derivative-related assets	**1,755**	900	871
	$ 4,078	$ 1,935	$ 2,211
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	**$ 124,491**	$ 103,494	$ 84,019
Investment-related liabilities			
Amounts payable from pending trades	**$ (1,604)**	$ (948)	$ (1,104)
Interest payable	**(32)**	(16)	(24)
Securities sold short	**(534)**	(715)	(468)
Securities sold under repurchase agreements	**–**	(632)	(609)
Derivative-related liabilities	**(2,890)**	(1,211)	(734)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	**$ (5,060)**	$ (3,522)	$ (2,939)
Borrowings			
Capital market debt financing	**$ (7,413)**	$ (6,242)	$ (4,895)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	**$ (7,413)**	$ (6,242)	$ (4,895)
NET INVESTMENTS	**$ 112,018**	$ 93,730	$ 76,185

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.1. 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 market prices 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 to ensure reasonableness. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

5.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and renewable 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 financings. As at March 31, 2015, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSP Investments was $5,471 million (March 31, 2014 – $4,209 million and April 1, 2013 – $3,496 million).

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 financings. As at March 31, 2015, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSP Investments was $1,436 million (March 31, 2014 – $1,644 million and April 1, 2013 – $277 million).

Renewable resources investments are mainly comprised of direct investments and partnerships in timberlands and agriculture.

The fair value of private markets investments is determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

5.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and other fixed income 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. 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. Inflation-linked bonds are fixed income securities that earn inflation adjusted returns.

Other fixed income securities consist of asset-backed securities, floating rate notes as well as private debt investments.

Fair values of government and corporate bonds, inflation-linked bonds, floating rate notes 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.

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009. Potential margin calls on the ABTNs are supported by funding facilities, as described in Note 16.

Private debt investments are mainly in the real estate sector in the form of third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products. They also include real estate debt funds where significant portions of the value are attributed to the underlying real estate assets.

Private debt investments also include debt securities of private companies or other entities such as venture capital organizations, held mainly through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt.

The fair values of ABTNs as well as private debt investments are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

The fair value measurement of fund investments included as part of private debt investments is described in Note 5.2.2.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.4. 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 to ensure reasonableness. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

5.1.5. 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.

5.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which approximates fair value.

5.1.7. Interest Payable

With respect to the borrowings described in Note 5.1.10, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

5.1.8. 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.

5.1.9. Securities Sold under Repurchase Agreements

As described in Note 3.4.6, PSP Investments is party to agreements which involve the sale of securities with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Obligations to repurchase the securities sold under repurchase agreements are recorded at cost plus accrued interest, which approximates fair value.

5.1.10. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 9. Short-term promissory notes are recorded at cost plus accrued interest, which 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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. 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 the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity, 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.

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.

Collateralized Debt Obligations

Collateralized debt obligations are a type of asset-backed security that is constructed from a portfolio of credit-related assets. Collateralized debt obligations are usually divided into several tranches with different credit risk levels and corresponding interest payments. Any losses are applied first to the more junior tranches (lowest risk rating) before moving up in seniority.

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.

The fair value of collateralized debt obligations is determined using valuation techniques that incorporate significant inputs that are not observable in the market. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

(Canadian $ millions)	March 31, 2015 Notional Value	March 31, 2015 Fair Value Assets	March 31, 2015 Fair Value Liabilities	March 31, 2014 Notional Value	March 31, 2014 Fair Value Assets	March 31, 2014 Fair Value Liabilities	April 1, 2013 Notional Value	April 1, 2013 Fair Value Assets	April 1, 2013 Fair Value Liabilities
Equity and commodity derivatives									
Listed									
Futures	$ 680	$ –	$ –	$ 1,401	$ –	$ –	$ 846	$ –	$ –
Warrants and rights	2	6	–	5	5	–	2	–	–
Options:									
Purchased	552	18	–	689	20	–	2,570	27	–
Written	535	–	(8)	414	–	(17)	1,002	–	(15)
OTC									
Forwards	381	30	(59)	–	–	–	–	–	–
Total return swaps	16,450	261	(63)	13,555	212	(22)	9,935	166	(50)
Options:									
Purchased	4,064	181	–	5,486	308	–	1,257	164	–
Written	4,120	–	(174)	6,091	–	(352)	1,237	–	(145)
Currency derivatives									
Listed									
Futures	156	–	–	70	–	–	42	–	–
OTC									
Forwards	44,345	484	(1,468)	31,004	153	(452)	34,291	342	(334)
Swaps	3,176	25	(325)	3,554	9	(125)	1,063	24	(29)
Options:									
Purchased	11,570	410	–	4,021	33	–	5,199	78	–
Written	11,733	–	(391)	3,505	–	(16)	4,850	–	(67)
Interest rate derivatives									
Listed									
Futures	7,749	–	–	2,432	–	–	1,330	–	–
Options:									
Purchased	48,307	15	–	26,476	18	–	5,055	4	–
Written	49,789	–	(9)	27,766	–	(9)	4,967	–	(3)
OTC									
Bond forwards	2,880	–	(5)	701	–	–	846	5	(6)
Interest rate swaps	8,270	134	(164)	11,853	40	(86)	11,562	23	(39)
Total return swaps	–	–	–	–	–	–	2	–	–
Swaptions	46,414	182	(189)	31,545	82	(70)	2,811	7	(5)
Options:									
Purchased	5,555	4	–	10,160	15	–	1,761	10	–
Written	1,801	–	(3)	15,038	–	(15)	2,784	–	(10)
OTC-cleared									
Interest rate swaps	12,225	–	–	1,531	–	–	–	–	–
Credit derivatives[A]									
OTC									
Purchased	1,256	–	(22)	2,134	1	(46)	1,914	17	(17)
Sold	599	5	(10)	548	4	(1)	934	4	(14)
OTC-cleared									
Purchased	614	–	–	972	–	–	–	–	–
Sold	1,160	–	–	1,405	–	–	–	–	–
Total		$ 1,755	$ (2,890)		$ 900	$ (1,211)		$ 871	$ (734)

[A] Credit derivatives include credit default swaps and collateralized debt obligations. PSP Investments, through sold credit derivatives, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the sold credit derivatives as shown in the table above.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2015			March 31, 2014			April 1, 2013		
		Fair Value			Fair Value			Fair Value	
(Canadian $ millions)	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities
Listed derivatives	$ 107,770	$ 39	$ (17)	$ 59,253	$ 43	$ (26)	$ 15,814	$ 31	$ (18)
OTC derivatives	162,614	1,716	(2,873)	139,195	857	(1,185)	80,446	840	(716)
OTC-cleared derivatives	13,999	–	–	3,908	–	–	–	–	–
Total		$ 1,755	$ (2,890)		$ 900	$ (1,211)		$ 871	$ (734)

The term to maturity based on notional value for the derivatives was as follows as at:

(Canadian $ millions)	March 31, 2015
Less than 3 months	$ 105,555
3 to 12 months	124,805
Over 1 year	54,023

5.2. FAIR VALUE HIERARCHY

5.2.1. Classification

Financial assets and financial liabilities described under Note 5.1 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 of 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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2015 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 7,532	$ 739	$ –	$ –	$ 8,271
Foreign equity	27,968	5,354	–	–	33,322
Private markets					
Real estate	–	–	17,010	–	17,010
Private equity	–	–	10,017	–	10,017
Infrastructure	–	–	7,752	–	7,752
Renewable resources	–	–	2,290	–	2,290
Fixed income					
Cash and money market securities	–	2,408	–	1,483	3,891
Government and corporate bonds	–	18,229	–	–	18,229
Inflation-linked bonds	–	6,429	–	–	6,429
Other fixed income securities	–	2,396	5,294	–	7,690
Alternative investments	–	1,410	4,102	–	5,512
	$ 35,500	$ 36,965	$ 46,465	$ 1,483	$ 120,413
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 2,013	$ 2,013
Interest receivable	–	–	–	212	212
Dividends receivable	–	–	–	98	98
Derivative-related assets	39	1,716	–	–	1,755
	$ 39	$ 1,716	$ –	$ 2,323	$ 4,078
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 35,539	$ 38,681	$ 46,465	$ 3,806	$ 124,491
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (1,604)	$ (1,604)
Interest payable	–	–	–	(32)	(32)
Securities sold short	(534)	–	–	–	(534)
Securities sold under repurchase agreements	–	–	–	–	–
Derivative-related liabilities	(17)	(2,866)	(7)	–	(2,890)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (551)	$ (2,866)	$ (7)	$ (1,636)	$ (5,060)
Borrowings					
Capital market debt financing	$ –	$ (7,413)	$ –	$ –	$ (7,413)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (7,413)	$ –	$ –	$ (7,413)
NET INVESTMENTS	$ 34,988	$ 28,402	$ 46,458	$ 2,170	$ 112,018

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2014 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 8,459	$ 659	$ –	$ –	$ 9,118
Foreign equity	22,126	5,602	–	–	27,728
Private markets					
Real estate	–	–	12,567	–	12,567
Private equity	–	–	8,077	–	8,077
Infrastructure	–	–	6,534	–	6,534
Renewable resources	–	–	1,185	–	1,185
Fixed income					
Cash and money market securities	–	–	–	3,866	3,866
Government and corporate bonds	–	17,080	–	–	17,080
Inflation-linked bonds	–	4,991	–	–	4,991
Other fixed income securities	–	3,063	4,338	–	7,401
Alternative investments	–	1,125	1,887	–	3,012
	$ 30,585	$ 32,520	$ 34,588	$ 3,866	$ 101,559
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 734	$ 734
Interest receivable	–	–	–	218	218
Dividends receivable	–	–	–	83	83
Derivative-related assets	43	857	–	–	900
	$ 43	$ 857	$ –	$ 1,035	$ 1,935
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 30,628	$ 33,377	$ 34,588	$ 4,901	$ 103,494
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (948)	$ (948)
Interest payable	–	–	–	(16)	(16)
Securities sold short	(715)	–	–	–	(715)
Securities sold under repurchase agreements	–	(632)	–	–	(632)
Derivative-related liabilities	(26)	(1,185)	–	–	(1,211)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (741)	$ (1,817)	$ –	$ (964)	$ (3,522)
Borrowings					
Capital market debt financing	$ –	$ (6,242)	$ –	$ –	$ (6,242)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (6,242)	$ –	$ –	$ (6,242)
NET INVESTMENTS	$ 29,887	$ 25,318	$ 34,588	$ 3,937	$ 93,730

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at April 1, 2013 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 9,224	$ –	$ –	$ –	$ 9,224
Foreign equity	15,907	5,042	–	–	20,949
Private markets					
Real estate	–	–	10,896	–	10,896
Private equity	–	–	7,020	–	7,020
Infrastructure	–	–	4,458	–	4,458
Renewable resources	–	–	420	–	420
Fixed income					
Cash and money market securities	–	–	–	3,604	3,604
Government and corporate bonds	–	11,211	–	–	11,211
Inflation-linked bonds	–	4,377	–	–	4,377
Other fixed income securities	–	3,398	4,459	–	7,857
Alternative investments	–	885	907	–	1,792
	$ 25,131	$ 24,913	$ 28,160	$ 3,604	$ 81,808
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 1,121	$ 1,121
Interest receivable	–	–	–	152	152
Dividends receivable	–	–	–	67	67
Derivative-related assets	31	839	1	–	871
	$ 31	$ 839	$ 1	$ 1,340	$ 2,211
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 25,162	$ 25,752	$ 28,161	$ 4,944	$ 84,019
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (1,104)	$ (1,104)
Interest payable	–	–	–	(24)	(24)
Securities sold short	(468)	–	–	–	(468)
Securities sold under repurchase agreements	–	(609)	–	–	(609)
Derivative-related liabilities	(18)	(712)	(4)	–	(734)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (486)	$ (1,321)	$ (4)	$ (1,128)	$ (2,939)
Borrowings					
Capital market debt financing	$ –	$ (4,895)	$ –	$ –	$ (4,895)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (4,895)	$ –	$ –	$ (4,895)
NET INVESTMENTS	$ 24,676	$ 19,536	$ 28,157	$ 3,816	$ 76,185

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

As at March 31, 2014, listed foreign equity securities held by a non-listed fund, were classified as Level 2. During the year ended March 31, 2015, the listed securities with a fair value of $482 million were transferred to PSP Investments and classified as Level 1 as at March 31, 2015.

During the year ended March 31, 2014, listed Canadian equity securities with a fair value of $627 million classified as Level 1 were transferred to a non-listed fund held by PSP Investments. Consequently, the securities were classified as Level 2 as at March 31, 2014.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.2. 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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. 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, 2015:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	**$15,460**	Discounted cash flow (DCF)	Discount rate [A, B]	6.00% – 26.00% (8.21%)
				Terminal capitalization rate [A, B]	4.00% – 12.00% (6.36%)
			Direct capitalization	Capitalization rate [A, C]	3.25% – 9.25% (6.72%)
				Stabilized occupancy rate [C, D]	93.00% – 98.50% (96.49%)
			Net asset value method (NAV) [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 1,550**	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	**$13,005**	DCF	Discount rate [A]	5.69% – 13.40% (9.49%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 7,054**	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	**$ 1,389**	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	**$ 1,037**	DCF	Discount rate [A]	9.50% – 13.40% (11.22%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 2,868**	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	**$ 4,102**	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	**$ (7)**	Third-party pricing [E]	N/A	N/A
TOTAL		**$46,458**			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $190 million.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. 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, 2014:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	$10,744	DCF	Discount rate A, B	5.50% – 26.00% (8.50%)
				Terminal capitalization rate A, B	4.00% – 10.25% (6.28%)
			Direct capitalization	Capitalization rate A, C	4.00% – 9.50% (8.12%)
				Stabilized occupancy rate C, D	94.50% – 100% (97.58%)
			NAV E	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 1,823	NAV E	N/A	N/A
Other private markets	Direct and co-investments	$10,489	DCF	Discount rate A	6.25% – 13.50% (9.68%)
			Market comparables	N/A	N/A
			NAV E	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 5,307	NAV E	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	$ 1,514	Third-party pricing E	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 1,052	DCF	Discount rate A	4.00% – 13.40% (11.71%)
			NAV E	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 1,772	NAV E	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	$ 1,887	NAV E	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS F	Credit derivatives	$ –	Third-party pricing E	N/A	N/A
TOTAL		$34,588			

A An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

B An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

C There is no predictable direct relationship between this input and any other significant unobservable input.

D An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

E In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

F Credit derivatives have a notional value of $165 million.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. 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 April 1, 2013:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	$ 9,739	DCF	Discount rate [A, B]	4.75% – 26.00% (8.46%)
				Terminal capitalization rate [A, B]	4.50% – 11.25% (6.71%)
			Direct capitalization	Capitalization rate [A, C]	4.50% – 9.50% (8.78%)
				Stabilized occupancy rate [C, D]	72.00% – 100% (83.39%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 1,157	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 6,578	DCF	Discount rate [A]	6.50% – 13.30% (9.33%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 5,320	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	$ 1,729	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 1,202	DCF	Discount rate [A]	4.00% – 29.00% (12.77%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Credit linked notes	$ 36	Internal present value model	Default probability	90.00% – 100% (93.00%)
				Recovery rate	0% – 65.00% (40.00%)
	Fund investments	$ 1,492	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	$ 907	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	$ (3)	Third-party pricing [E]	N/A	N/A
TOTAL		$28,157			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $152 million.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.4. 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, 2015:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains (Losses)	Unrealized Gains (Losses)	Transfer out of Level 3	Closing Balance
Private markets	$ 28,363	$ 7,721	$ (2,745)	$ –	$ 481	$ 3,562	$ (313)	$ 37,069
Fixed income	4,338	1,809	(1,108)	(146)	103	298	–	5,294
Alternative investments	1,887	2,286	(583)	–	(44)	556	–	4,102
Derivative-related assets/liabilities (net)	–	–	–	(2)	1	(6)	–	(7)
Total	$ 34,588	$ 11,816	$ (4,436)	$ (148)	$ 541	$ 4,410	$ (313)	$ 46,458

As at March 31, 2014, a private markets investment was classified under Level 3 as the fair value was determined based on significant unobservable inputs. During the year ended March 31, 2015, the investment was transferred to Level 1, as the underlying investee 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, 2014:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains	Transfer out of Level 3	Closing Balance
Private markets	$ 22,794	$ 6,688	$ (4,263)	$ –	$ 752	$ 2,656	$ (264)	$ 28,363
Fixed income	4,459	923	(1,213)	(287)	305	151	–	4,338
Alternative investments	907	875	(26)	–	1	130	–	1,887
Derivative-related assets/liabilities (net)	(3)	8	(10)	–	1	4	–	–
Total	$ 28,157	$ 8,494	$ (5,512)	$ (287)	$ 1,059	$ 2,941	$ (264)	$ 34,588

As at April 1, 2013, two private markets investments were classified under Level 3 as their fair values were determined based on significant unobservable inputs. During the year ended March 31, 2014, such investments were transferred to Level 2 as the underlying investees indirectly held by PSP Investments became publicly traded. In the case of one of the two private markets investments, the instruments held by PSP Investments were subject to restrictions as at March 31, 2014 and could only be resold upon registration.

5.2.5. 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 5.2.3. 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 4% increase and 3% decrease as at March 31, 2015 (March 31, 2014 – 7% increase and 5% decrease and April 1, 2013 – 4% increase and 4% decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. Management ensures the appropriateness of the work performed by third-party appraisers as described under Note 5.2.2. In the case of fund investments, the fair value is determined as indicated in Note 5.2.2.

6 COLLATERAL PLEDGED AND RECEIVED

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 3.4.5, 3.4.6 and 8.2.1. 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 agreements as at:

(Canadian $ millions)	**March 31, 2015**	March 31, 2014	April 1, 2013
Securities lending and borrowing			
Securities lent	**$ 13,297**	$ 9,622	$ 7,395
Collateral held [A]	**14,349**	10,242	7,789
Securities borrowed	**534**	715	468
Collateral pledged [B]	**561**	750	470
Securities repurchase agreements			
Securities sold under repurchase agreements	**–**	630	609
Collateral pledged	**–**	631	609
Derivative contracts			
Collateral pledged	**1,405**	579	72
Collateral held	**170**	35	145

[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 $2,680 million as at March 31, 2015 (March 31, 2014 – $2,412 million and April 1, 2013 – $2,217 million) and securities amounted to $11,669 million as at March 31, 2015 (March 31, 2014 – $7,830 million and April 1, 2013 – $5,572 million). All cash collateral is re-invested.

[B] The minimum fair value of collateral required is equal to 100% of the fair value of the securities borrowed.

7 INTERESTS IN OTHER ENTITIES

7.1. 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 3.1.

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. At March 31, 2015, 92 investment entity subsidiaries were incorporated in North America, 14 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa (March 31, 2014 – 82 in North America, 13 in Europe, 9 in Oceania, 3 in Central and South America, and 1 in Africa; April 1, 2013 – 80 in North America, 10 in Europe, 5 in Oceania, and 3 in Central and South America).

In addition, PSP Investments controlled 68 investees directly or through its investment entity subsidiaries as at March 31, 2015 (March 31, 2014 – 58 investees and April 1, 2013 – 51 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. PSP Investments determines control, joint control and significant influence as described in Note 3.3.

			As at March 31, 2015
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	North America	100%	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56%	Jointly controlled investee
Telesat Holdings Inc.	North America	34%	Associate
AviAlliance GmbH	Europe	100%	Controlled investee
Isolux Infrastructure Netherlands B.V.	Central and South America	22%	Jointly controlled investee
Acelity Inc. (formerly Kinetic Concepts, Inc.)	North America	21%	Associate
TDF S.A.S.	Europe	25%	Associate
Roccapina Fund, L.P.	North America	100%	Controlled investee
Transelec S.A.	Central and South America	18%	Associate
SEGRO European Logistics Partnership S.a.r.l.	Europe	50%	Jointly controlled investee

			As at March 31, 2014
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	North America	100%	Controlled investee
Telesat Holdings Inc.	North America	34%	Associate
AviAlliance GmbH	Europe	100%	Controlled investee
Kinetic Concepts, Inc.	North America	21%	Associate
Isolux Infrastructure Netherlands B.V.	Central and South America	19%	Jointly controlled investee
Kaingaroa Timberlands Ltd.	Oceania	30%	Jointly controlled investee
Transelec S.A.	Central and South America	18%	Associate
Gassled	Europe	5%	Associate
Charter Hall Office Trust	Oceania	43%	Jointly controlled investee
Forth Ports Limited	Europe	37%	Jointly controlled investee

7 INTERESTS IN OTHER ENTITIES (continued)

7.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

			As at April 1, 2013
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	North America	100%	Controlled investee
Telesat Holdings Inc.	North America	35%	Associate
SCG Hotel CLP, L.P.	North America	100%	Controlled investee
Gassled	Europe	5%	Associate
Kinetic Concepts, Inc.	North America	21%	Associate
Transelec S.A.	Central and South America	18%	Associate
Charter Hall Office Trust	Oceania	43%	Jointly controlled investee
TD Canada Trust Tower	North America	50%	Jointly controlled investee
H2O Power Limited Partnership	North America	92%	Controlled investee
DP World Australia Ltd.	Oceania	25%	Jointly controlled investee

In addition to the above, PSP Investments controls and consolidates two wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services are mainly related to raising capital used to finance private market investments within the context of PSP Investments' capital market debt program described in Note 9.

7.2. 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 8, guarantees and indemnities under Note 16 and commitments under Note 17.

8 INVESTMENT RISK MANAGEMENT

PSP Investments has implemented an investment approach that aims to maximize rates of return without undue risk of loss. In pursuit of such an objective, PSP Investments has developed an Investment Risk Management Policy (IRM Policy) to support the management of risks incurred through the investment processes. The IRM policy, which supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), establishes the Investment Risk Management Framework (IRM Framework) with a goal of ensuring that all investments made by PSP Investments or its investment entity subsidiaries respect the risk philosophy of PSP Investments and are within the tolerances and limits of its risk appetite.

The IRM Framework requires reporting on risk to all levels of the organization. The Board of Directors and its committees oversee all risk matters and receive reporting from senior management as well as PSP Investments' independent internal auditor reporting directly to the Audit Committee.

The IRM Framework is designed to effectively manage all investment risks PSP Investments is exposed to, which include market, credit and liquidity risks, related to the implementation of the Policy Portfolio and active management activities.

8.1. 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.

Market risk management focuses on the following two key components:

– Policy Portfolio
  The Policy Portfolio (long-term asset mix), as defined in the SIP&P, determines a diversification strategy to mitigate risk whereby PSP Investments invests in a diversified portfolio expected to achieve a return at least equal to the Actuarial Rate of Return (ARR); defined as the rate of return assumption used by the Chief Actuary of Canada in the latest actuarial valuation reports of the Plans. In the absence of other factors affecting the funding of the Plans or changes to pension benefits under the Plans, the ARR is the rate of return required to maintain funding requirements and pension benefits at their current levels.

– Active Management
  Active management is defined as the sum of investment strategies that deviate from the approved Policy Portfolio. It is designed to supplement the returns of the Policy Portfolio within an active risk budget.

The risks associated with these components are the Policy Portfolio market risk and the active risk. The Policy Portfolio market risk represents the investment risk arising from the exposure to approved asset classes in the approved weightings. In establishing its Policy Portfolio, PSP Investments also takes into consideration the impact of the Policy Portfolio market risk on funding risk. Funding risk is the risk that the assets under management will be insufficient to meet the relevant pension liabilities of the Plans, which may require the contributions to the Funds of the Plans to be increased. The Policy Portfolio is reviewed at least annually as part of the review of the SIP&P, and this review includes changes, if any, to PSP Investments' long-term expectations of market conditions and other factors that may affect the funding levels of the Plans.

Active risk refers to all market risk arising from active management activities. It is managed in accordance with the Investment Risk Management Policy.

8.1.1. Measurement of Market Risk

The Value-at-Risk (VaR) is one of the methods used to measure market risk and is reported on a quarterly basis. It is not the maximum potential loss, but rather the maximum loss not exceeded with a given confidence level, over a given period of time. PSP Investments uses a Historical VaR model incorporating ten years' worth of market returns scaled to a twelve-month holding period at a 95% confidence level. For investments that are not actively traded, the calculation of VaR uses securities with similar risk attributes as proxy.

In measuring Policy Portfolio risk, VaR represents the absolute loss expected from the Policy Portfolio (Policy Portfolio VaR). Whereas in terms of measuring the active risk, VaR reflects the loss relative to the Policy Portfolio benchmark (Active VaR).

VaR 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.

8 INVESTMENT RISK MANAGEMENT (continued)

8.1. MARKET RISK (continued)

8.1.1. Measurement of Market Risk (continued)

The following table shows the total VaR consisting of the Policy Portfolio VaR, the Active VaR and the diversification effect, calculated as a percentage of net investments as at the end of the period. The diversification effect captures the impact of holding different types of assets which may react differently in various types of situations and thus reduces the total VaR. The information is presented as at:

	March 31, 2015	March 31, 2014	April 1, 2013
Policy Portfolio VaR	**20.6 %**	20.3 %	20.2 %
Active VaR	**2.6**	2.8	2.6
Total VaR (undiversified)	**23.2**	23.1	22.8
Diversification effect	**(0.9)**	(0.1)	(1.3)
Total VaR	**22.3 %**	23.0 %	21.5 %

Stress Testing

Although VaR 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. Stress testing and scenario analysis 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.

8.1.2. 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 5.1, with the most significant exposure to interest rate risk were as follows as at March 31, 2015:

(Canadian $ millions)	**Less than 1 Year**	**1 to 5 Years**	**5 to 10 Years**	**Over 10 Years**	**Other**	**Total**
Government bonds	**$ 1,063**	**$ 4,448**	**$ 2,107**	**$ 3,731**	**$ –**	**$ 11,349**
Corporate bonds	**1,413**	**3,290**	**1,730**	**447**	**–**	**6,880**
Inflation-linked bonds	**3**	**1,411**	**2,090**	**2,925**	**–**	**6,429**
Asset-backed securities	**63**	**1,403**	**25**	**–**	**–**	**1,491**
Private debt investments:						
Directly held	**18**	**564**	**289**	**–**	**25**	**896**
Held through funds [A]	**–**	**–**	**–**	**–**	**3,009**	**3,009**
Total investments with significant exposure to interest rate risk	**$ 2,560**	**$ 11,116**	**$ 6,241**	**$ 7,103**	**$ 3,034**	**$ 30,054**
Other investments [B]	**$ –**	**$ –**	**$ –**	**$ –**	**$ 6,185**	**$ 6,185**
Total fixed income	**$ 2,560**	**$ 11,116**	**$ 6,241**	**$ 7,103**	**$ 9,219**	**$ 36,239**

[A] Due to their nature, information in connection with the terms to maturity of fund investments included as part of private debt investments is not available.

[B] Consists of $3,891 million in cash and money market securities and $2,294 million in floating rate notes, which, due to their nature, are not significantly exposed to interest rate risk.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 9.

Alternative investments as well as derivative contracts described in Notes 5.1.4 and 5.1.11, respectively, are also subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 8.1.1.

8 INVESTMENT RISK MANAGEMENT (continued)

8.1. MARKET RISK (continued)

8.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through direct and indirect holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets. 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. In October 2013, PSP Investments amended its policy to fully hedge foreign currency investments in government and corporate bonds, inflation-linked bonds, certain other fixed income securities, as well as investments in real estate, infrastructure and renewable resources. PSP Investments' previous policy was to hedge a target of 50% of its foreign currency investments in non-emerging countries. Additional factors are considered when implementing the hedging target for investments in emerging countries, namely, total relative exposure and cost effectiveness.

The underlying foreign currency exposures of net investments were as follows as at:

(Canadian $ millions)	**March 31, 2015**		March 31, 2014		April 1, 2013	
Currency	**Fair Value**	**% of Total**	Fair Value	% of Total	Fair Value	% of Total
US Dollar	**$ 29,110**	**58.8 %**	$ 24,588	61.0 %	$ 15,290	53.3 %
Euro	**3,595**	**7.3**	3,465	8.6	2,573	9.0
Japanese Yen	**2,295**	**4.7**	1,571	3.9	1,143	4.0
British Pound	**2,211**	**4.5**	1,857	4.6	2,128	7.4
Hong Kong Dollar	**2,133**	**4.3**	1,311	3.3	1,034	3.6
Korean Won	**1,792**	**3.6**	1,308	3.2	775	2.7
Brazilian Real	**1,406**	**2.8**	1,263	3.1	1,205	4.2
Swiss Franc	**1,136**	**2.3**	796	2.0	382	1.3
Taiwanese New Dollar	**992**	**2.0**	612	1.5	468	1.6
Indian Rupee	**703**	**1.4**	470	1.2	353	1.2
Australian Dollar	**645**	**1.3**	507	1.3	943	3.3
South African Rand	**608**	**1.2**	392	1.0	304	1.1
Mexican Peso	**366**	**0.7**	211	0.5	242	0.9
Thai Baht	**232**	**0.5**	112	0.3	184	0.6
Others	**2,248**	**4.6**	1,838	4.5	1,640	5.8
Total	**$ 49,472**	**100.0 %**	$ 40,301	100.0 %	$ 28,664	100.0 %

As at March 31, 2015, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $14,827 million (US$10,357 million, €785 million, £223 million, R293 million South African Rands, R$433 million Brazilian Reals and $42,505 million Colombian pesos) which were not included in the foreign currency exposure table.

8 INVESTMENT RISK MANAGEMENT

(continued)

8.2. 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 sold under 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, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. Except for ABTNs, securities rated by only one agency are classified as "not rated". If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings.

As at March 31, 2015, PSP Investments' maximum exposure to credit risk amounted to approximately $31 billion (March 31, 2014 – approximately $30 billion and April 1, 2013 – approximately $24 billion). This amount excludes investments in distressed debt in the amount of approximately $2.5 billion as at March 31, 2015 (March 31, 2014 – approximately $1.6 billion and April 1, 2013 – approximately $1.4 billion). The maximum exposure to credit risk also excludes collateralized debt obligations, collateral held as disclosed in Notes 5.1.11 and 6, respectively, and the impact of guarantees and indemnities disclosed in Note 16.

As at March 31, 2015, PSP Investments had a net notional exposure of $63 million (March 31, 2014 – $55 million and April 1, 2013 – $120 million) to various tranches of collateralized debt obligations, of which approximately 45% (March 31, 2014 – approximately 53% and April 1, 2013 – approximately 67%) of the underlying dollar exposure was rated "Investment grade", as well as funding facilities, as described in Note 16, to support potential margin calls on the ABTNs.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating of all credit-sensitive financial securities with the exception of securities held in pooled funds or for private markets investments.

PSP Investments' concentration of credit risk by credit rating, excluding the items described above and any other credit enhancement, was as follows as at:

	March 31, 2015	March 31, 2014	April 1, 2013
Investment grade (AAA to BBB–)	**97.5 %**	97.4 %	97.9 %
Below investment grade (BB+ and below)	**0.4**	1.0	1.0
Not rated:			
Rated by a single credit rating agency	**0.6**	0.5	0.1
Not rated by credit rating agencies	**1.5**	1.1	1.0
Total	**100.0 %**	100.0 %	100.0 %

8 INVESTMENT RISK MANAGEMENT (continued)

8.2. CREDIT RISK (continued)

8.2.1. 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 sold under 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 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. In certain cases, counterparties are 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 with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing as well as securities sold under repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 3.4.5 and 3.4.6 describe collateral requirements in securities lending and borrowing programs as well as securities sold under repurchase agreements, respectively.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 6.

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.

8.3. 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 9 provides additional information on the usage of the capital market debt program.

The terms to maturity of the notional amount of derivatives are disclosed in Note 5.1.11.

8 INVESTMENT RISK MANAGEMENT (continued)

8.3. LIQUIDITY RISK (continued)

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, 2015 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	$ (1,604)	$ –	$ –	$ (1,604)
Interest payable	(30)	(2)	–	(32)
Securities sold short	(534)	–	–	(534)
Capital market debt financing	(2,499)	(2,138)	(2,776)	(7,413)
Accounts payable and other liabilities	(130)	–	(65)	(195)
Total	$ (4,797)	$ (2,140)	$ (2,841)	$ (9,778)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 751	$ 622	$ 382	$ 1,755
Derivative-related liabilities [A]	(1,177)	(1,031)	(682)	(2,890)
Total	$ (426)	$ (409)	$ (300)	$ (1,135)

[A] Liabilities are presented in the earliest period in which the counterparty can request payment.

8 INVESTMENT RISK MANAGEMENT (continued)

8.4. OFFSETTING

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described in Note 8.2.1. 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 sold under repurchase agreements, as described in Notes 3.4.6 and 6, are subject to similar arrangements though are not offset.

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 (Note 5.1.11)	Less: Related Amounts not Set off in the Consolidated Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
As at March 31, 2015						
OTC-derivatives	**$ 1,744**	**$ 28**	**$ 1,716**	**$ 1,540**	**$ 115**	**$ 61**
Total	**$ 1,744**	**$ 28**	**$ 1,716**	**$ 1,540**	**$ 115**	**$ 61**
As at March 31, 2014						
OTC-derivatives	$ 860	$ 3	$ 857	$ 767	$ 31	$ 59
Total	$ 860	$ 3	$ 857	$ 767	$ 31	$ 59
As at April 1, 2013						
OTC-derivatives	$ 842	$ 2	$ 840	$ 640	$ 136	$ 64
Total	$ 842	$ 2	$ 840	$ 640	$ 136	$ 64

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	
As at March 31, 2015						
OTC-derivatives	**$ 2,901**	**$ 28**	**$ 2,873 [A]**	**$ 1,540**	**$ 1,221**	**$ 112**
Total	**$ 2,901**	**$ 28**	**$ 2,873**	**$ 1,540**	**$ 1,221**	**$ 112**
As at March 31, 2014						
OTC-derivatives	$ 1,188	$ 3	$ 1,185 [A]	$ 767	$ 363	$ 55
Repurchase agreements	632	–	632 [B]	–	631	1
Total	$ 1,820	$ 3	$ 1,817	$ 767	$ 994	$ 56
As at April 1, 2013						
OTC-derivatives	$ 718	$ 2	$ 716 [A]	$ 640	$ 64	$ 12
Repurchase agreements	609	–	609 [B]	–	609	–
Total	$ 1,327	$ 2	$ 1,325	$ 640	$ 673	$ 12

[A] As described in Note 5.1.11.

[B] As described in Note 5.1.

9 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 $3 billion for issuances in Canada and US $5 billion for issuances in the United States.

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2015 and March 31, 2014.

The following outlines the terms as well as the fair value of the notes issued under the capital market debt program as at:

	March 31, 2015		March 31, 2014		April 1, 2013	
(Canadian $ millions)	**Capital Amounts Payable at Maturity**	**Fair Value**	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.64% and 1.21% and maturing within 17 and 359 days of issuance (March 31, 2014 – 7 and 364 days; April 1, 2013 – 31 and 191 days)	**$ 698**	**$ 697**	$ 1,436	$ 1,434	$ 863	$ 861
Short-term US Dollar promissory notes, bearing interest between 0.17% and 0.47% and maturing within 84 and 367 days of issuance (March 31, 2014 – 35 and 365 days; April 1, 2013 – 29 and 189 days)	**3,232**	**3,230**	2,307	2,306	1,016	1,016
Medium-term notes Series 1, bearing interest of 4.57% per annum and matured on December 9, 2013	**–**	**–**	–	–	1,000	1,023
Medium-term notes Series 2, bearing interest of 2.94% per annum and maturing on December 3, 2015	**700**	**710**	700	719	700	726
Medium-term notes Series 3, bearing variable interest of 3-month CDOR + 39 basis points and matured on February 16, 2015	**–**	**–**	350	351	350	352
Medium-term notes Series 4, bearing interest of 2.26% per annum and maturing on February 16, 2017	**900**	**924**	900	918	900	917
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**500**	**544**	500	514	–	–
Medium-term notes Series 6, bearing variable interest of 3-month CDOR and maturing on April 4, 2016	**200**	**200**	–	–	–	–
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**1,000**	**1,108**	–	–	–	–
Total	**$ 7,230**	**$ 7,413**	$ 6,193	$ 6,242	$ 4,829	$ 4,895

Interest expense, for the years ended March 31, was as follows:

(Canadian $ millions)	**2015**	2014
Short-term promissory notes	**$ 14**	$ 14
Medium-term notes	**86**	85
Total	**$ 100**	$ 99

10 EQUITY

10.1. 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 the net assets of PSP Investments including the net profit (loss) and other comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

10.2. 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.

10.3. 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)		**2015**		2014
Public Service Pension Fund	**$**	**3,221**	$	3,535
Canadian Forces Pension Fund		**940**		1,010
Royal Canadian Mounted Police Pension Fund		**374**		452
Reserve Force Pension Fund		**19**		–
Total	**$**	**4,554**	$	4,997

11 INVESTMENT-RELATED EXPENSES

Investment-related expenses are comprised of the following for the years ended March 31:

(Canadian $ millions)		**2015**		2014
Interest expense (Note 9)	**$**	**100**	$	99
Transaction costs		**103**		94
External investment management fees [A]		**43**		31
Other (net)		**54**		33
Total	**$**	**300**	$	257

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. This excludes fees related to certain pooled fund investments classified under alternative investments primarily related to performance, in the amount of $104 million for the year ended March 31, 2015 ($55 million for the year ended March 31, 2014).

This also excludes management fees related to investments in private markets and other fixed income securities that are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.0% of the total invested and/or committed amount, totaled $195 million for the year ended March 31, 2015 ($151 million for the year ended March 31, 2014).

12 OPERATING EXPENSES

Operating expenses consisted of the following for the years ended March 31:

(Canadian $ millions)		**2015**		2014
Salaries and employee benefits	**$**	**148**	$	137
Professional and consulting fees		**30**		24
Premises and equipment		**12**		10
Market data and business applications		**20**		18
Depreciation of property, plant and equipment		**16**		14
Custodial fees		**4**		3
Other operating expenses		**13**		10
Total	**$**	**243**	$	216

13 ALLOCATION OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)

The profit (loss) and other comprehensive income (loss) of PSP Investments is allocated to each Plan Account as follows:

13.1. INVESTMENT INCOME (LOSS)

The investment income (loss) is allocated proportionately based upon the net asset value held by each Plan Account.

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. 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 asset value of each Plan Account at the time the expense was incurred.

Operating expenses and other comprehensive income (loss), 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 assets in each Plan Account as follows:

	2015	2014
Public Service Pension Plan Account	**72.7 %**	72.9 %
Canadian Forces Pension Plan Account	**19.6**	19.5
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.1
Reserve Force Pension Plan Account	**0.5**	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 3.1, 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 5.1 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 profit (loss) and other comprehensive income (loss) 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 10.3.

(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 5.1. 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 profit (loss) and other comprehensive income (loss) 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 Profit or Loss and Other Comprehensive Income and was as follows:

(Canadian $ millions)	**2015**	2014
Short-term compensation and benefits	**$ 14**	$ 8
Long-term compensation and benefits	**6**	9
	$ 20	$ 17

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 10.3, 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 8.
- 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 9 provides information on the capital market debt financing and Note 8.3 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 9.

PSP Capital Inc. provided funding facilities of a maximum amount of $969 million to support potential margin calls on the ABTNs. The margin funding facilities have not been drawn upon since inception; this arrangement matures in July 2017.

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, 2015, 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 $1,147 million as at March 31, 2015 (March 31, 2014 – $1,223 million and April 1, 2013 – $999 million) plus applicable interest and other related costs. The arrangements mature between June 2015 and September 2028.
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $64 million as at March 31, 2015 (March 31, 2014 – $82 million and April 1, 2013 – $41 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, 2015
Real estate	$ 1,868
Private equity	5,182
Infrastructure	2,531
Renewable resources	615
Other fixed income securities	3,208
Alternative investments	1,784
Total	**$ 15,188**

Funding in connection with the above commitments can be called upon at various dates extending until 2032.

18 FIRST-TIME ADOPTION

Upon transition to IFRS, PSP Investments has used accounting estimates under IFRS that are consistent with those applied under previous Canadian GAAP (with adjustment for accounting policy differences).

18.1. EXCEPTIONS AND EXEMPTIONS

IFRS 1 requires mandatory exceptions and permits certain exemptions from full retrospective application. PSP Investments has applied the following:

PSP Investments has determined the classification and consequential measurement of its financial assets under IFRS 9 on the basis of the facts and circumstances that existed on April 1, 2013 – the date of transition to IFRS.

Financial liabilities designated at FVTPL under IFRS 9 were accounted for at fair value under previous GAAP with all changes reported as part of profit or loss. The transition to IFRS did not result in any changes in the measurement of such financial liabilities as at April 1, 2013.

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION

PSP Investments has made the following significant adjustments to the Consolidated Statement of Financial Position as at April 1, 2013:

(Canadian $ millions)	Ref.	Previous GAAP	Presentation	Pension Benefits	IFRS
Assets					
Investments	A	$ 81,808	$ 2,211	$ –	$ 84,019
Investment-related assets	A	2,211	(2,211)	–	–
Other assets		83	–	–	83
Total assets		$ 84,102	$ –	$ –	$ 84,102
Liabilities					
Trade payable and other liabilities	E (i)	$ 137	$ –	$ 17	$ 154
Investment-related liabilities	F	7,834	(4,895)	–	2,939
Borrowings	F	–	4,895	–	4,895
Total liabilities		$ 7,971	$ –	$ 17	$ 7,988
Net assets		$ 76,131	$ –	$ (17)	$ 76,114
Equity					
Statutory rights held by the Government of Canada with respect to:					
Public Service Pension Plan Account	E (i)	$ 55,483	$ –	$ (13)	$ 55,470
Canadian Forces Pension Plan Account	E (i)	14,872	–	(3)	14,869
Royal Canadian Mounted Police Pension Plan Account	E (i)	5,374	–	(1)	5,373
Reserve Force Pension Plan Account	E (i)	402	–	–	402
Total equity		$ 76,131	$ –	$ (17)	$ 76,114
Total liabilities and equity		$ 84,102	$ –	$ –	$ 84,102

18 FIRST-TIME ADOPTION (continued)

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION (continued)

PSP Investments has made the following significant adjustments to the Consolidated Statement of Financial Position as at March 31, 2014:

(Canadian $ millions)	Ref.	Previous GAAP	Presentation	IFRS
Assets				
Investments	A	$ 101,559	$ 1,935	$ 103,494
Investment-related assets	A	1,935	(1,935)	–
Other assets		127	–	127
Total assets		$ 103,621	$ –	$ 103,621
Liabilities				
Trade payable and other liabilities	E (ii)	$ 152	$ –	$ 152
Investment-related liabilities	F	9,764	(6,242)	3,522
Borrowings	F	–	6,242	6,242
Total liabilities		$ 9,916	$ –	$ 9,916
Net assets		$ 93,705	$ –	$ 93,705
Equity				
Statutory rights held by the Government of Canada with respect to:				
Public Service Pension Plan Account	E (ii)	$ 68,168	$ –	$ 68,168
Canadian Forces Pension Plan Account	E (ii)	18,352	–	18,352
Royal Canadian Mounted Police Pension Plan Account	E (ii)	6,720	–	6,720
Reserve Force Pension Plan Account	E (ii)	465	–	465
Total equity		$ 93,705	$ –	$ 93,705
Total liabilities and equity		$ 103,621	$ –	$ 103,621

PSP Investments has made the following significant adjustments to the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended March 31, 2014:

(Canadian $ millions)	Ref.	Previous GAAP	Presentation	Pension Benefits	IFRS
Investment income	A	$ 12,793	$ 257	$ –	$ 13,050
Investment-related expenses	A	$ –	$ 257	$ –	$ 257
Net investment income		$ 12,793	$ –	$ –	$ 12,793
Operating expenses		$ 216	$ –	$ –	$ 216
Profit		$ 12,577	$ –	$ –	$ 12,577
Other comprehensive income					
Remeasurement of the net defined benefit liability	E (ii)	$ –	$ –	$ 17	$ 17
Profit and other comprehensive income		$ 12,577	$ –	$ 17	$ 12,594

18 FIRST-TIME ADOPTION (continued)

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION (continued)

18.2.1. Notes to the Adjustments of the Consolidated Statements of Financial Position and Consolidated Statements of Profit or Loss and Other Comprehensive Income

(A) Consolidation of Certain Subsidiaries

Under previous Canadian GAAP, PSP Investments consolidated subsidiaries that it formed and that qualified as investment companies. Upon transition to IFRS, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities as required by IFRS 10. Instead, PSP Investments measures its investments in its subsidiaries at FVTPL in accordance with IFRS 9 as further described under Note 3.1.

Upon transition to IFRS, the presentation of the Consolidated Financial Statements was adjusted as outlined in the tables above to reflect the impact of the difference described between previous Canadian GAAP and IFRS. The adjustment was made with respect to subsidiaries that are formed by PSP Investments and that qualify as investment entities.

(B) Consolidated Statements of Cash Flows

Under previous Canadian GAAP, PSP Investments did not prepare a statement of cash flows. IAS 1 *Presentation of Financial Statements* requires a complete set of financial statements to include a statement of cash flows for the current and comparative periods, without exception.

(C) Consolidated Statements of Changes in Equity

Upon transition to IFRS, PSP Investments is required to present cumulative fund transfers as well as retained earnings as components of equity as required by IAS 1. Under previous Canadian GAAP, PSP Investments presented fund transfers as well as net income from operations and comprehensive income for the reporting period and did not present a cumulative balance. Such items were presented under its Consolidated Statement of Changes in Net Assets under Canadian GAAP.

(D) Disclosures

Upon transition to IFRS, PSP Investments was required to disclose information that was not previously disclosed under Canadian GAAP. The most significant of such disclosures are as follows:

(i) Certain disclosures with respect to fair value measurements under previous Canadian GAAP were expanded upon transition to IFRS as required by IFRS 13 *Fair Value Measurement*. They are presented mainly under Note 5.2.3.

(ii) Disclosures in connection with interests in other entities under Note 7 are required by IFRS 12 *Disclosures of Interests in Other Entities*.

(iii) Disclosures with respect to offsetting financial instruments under Note 8.4 are required by IFRS 7 *Financial Instruments: Disclosures*.

(E) Employee Benefits

PSP Investments has a defined benefit pension plan for the benefit of its employees hired prior to January 1, 2014. The net defined benefit liability is recorded in trade payable and other liabilities. Under previous Canadian GAAP, PSP Investments recognized actuarial gains and losses, which includes actual returns on plan assets, over the average remaining service period of active employees. IAS 19 *Employee Benefits* requires that remeasurements of the net defined benefit liability, which include actuarial gains and losses and actual returns on plan assets, are recorded against other comprehensive income (loss) as they are incurred.

(i) Impact on equity as at April 1, 2013

As at the transition date, the defined benefit pension plan had an unamortized actuarial loss of $17 million. As such, upon transition to IFRS, PSP Investments has increased trade payable and other liabilities by $17 million and reduced equity by the same amount. At April 1, 2013, the date of transition to IFRS, such amount has been allocated to each Plan Account based upon its weighted average net asset value since inception.

(ii) Impact on other comprehensive income for the year ended March 31, 2014 and equity as at March 31, 2014

During the year ended March 31, 2014, the remeasurement of the net defined benefit liability amounted to a gain of $17 million. This amount was recorded in other comprehensive income with an offsetting impact to trade payable and other liabilities. Such amount has been allocated to each Plan Account based on the allocation described in Note 13.2.

The cumulative impact of the opening equity adjustment ($17 million loss) and the March 31, 2014 adjustment ($17 million gain) is nil on both trade payable and other liabilities and retained earnings.

All other differences related to employee benefits during the year ended March 31, 2014 are not significant.

(F) Other

Borrowings have been reclassified on transition to IFRS to show the balance separately on the Consolidated Statement of Financial Position.

PUBLIC SERVICE PENSION PLAN ACCOUNT

FINANCIAL STATEMENTS

Independent Auditors' Report

To the President of the Treasury Board

Report on the Financial Statements

We have audited the accompanying 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, 2015, March 31, 2014 and April 1, 2013 and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the years ended March 31, 2015 and March 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Public Service Pension Plan Account as at March 31, 2015, March 31, 2014 and April 1, 2013, and its financial performance and its cash flows for the years ended March 31, 2015 and March 31, 2014 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of new standards as explained in notes 2 and 18 to the financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Public Service Pension Plan Account that have come to our notice during our audits of the financial statements have, in all significant respects, been in accordance with 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.

Deloitte LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A116129

May 14, 2015
Montréal, Canada

Clyde M. MacLellan, FCPA, FCA
Assistant Auditor General for the Auditor General of Canada

May 14, 2015
Ottawa, Canada

Statements of Financial Position

As at

(Canadian $ millions)	March 31, 2015	March 31, 2014 (Note 18)	April 1, 2013 (Note 18)
Assets			
Investments (Note 5.1)	**$ 90,424**	$ 75,269	$ 61,222
Other assets	**105**	92	60
Due from the Canadian Forces Pension Plan Account	**16**	14	7
Due from the Royal Canadian Mounted Police Pension Plan Account	**6**	5	3
Total assets	**$ 90,551**	$ 75,380	$ 61,292
Liabilities			
Trade payable and other liabilities	**$ 143**	$ 110	$ 113
Investment-related liabilities (Note 5.1)	**3,676**	2,562	2,143
Borrowings (Notes 5.1, 9)	**5,384**	4,540	3,566
Total liabilities	**$ 9,203**	$ 7,212	$ 5,822
Net assets	**$ 81,348**	$ 68,168	$ 55,470
Equity	**$ 81,348**	$ 68,168	$ 55,470
Total liabilities and equity	**$ 90,551**	$ 75,380	$ 61,292

The accompanying notes are an integral part of the Financial Statements.

On behalf of the Board of Directors:

Michael P. Mueller
Chair of the Board

W.A. MacKinnon

William A. MacKinnon
Chair of the Audit Committee

Statements of Profit or Loss and Other Comprehensive Income

For the years ended March 31

(Canadian $ millions)	2015	2014 (Note 18)
Investment income	**$ 10,365**	$ 9,494
Investment-related expenses (Note 11)	**$ 218**	$ 187
Net investment income	**$ 10,147**	$ 9,307
Operating expenses (Note 12)	**$ 177**	$ 157
Profit	**$ 9,970**	$ 9,150
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability (Note 18)	**$ (11)**	$ 13
Profit and other comprehensive income (loss)	**$ 9,959**	$ 9,163

Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	2015	2014
Fund transfers		
Balance at beginning of period	**$ 41,959**	$ 38,424
Fund transfers received during the period (Note 10.2)	**3,221**	3,535
Balance at end of period	**$ 45,180**	$ 41,959
Retained earnings		
Balance at beginning of period	**$ 26,209**	$ 17,046
Profit and other comprehensive income (loss)	**9,959**	9,163
Balance at end of period	**$ 36,168**	$ 26,209
Total equity	**$ 81,348**	$ 68,168

The accompanying notes are an integral part of the Financial Statements.

Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	2015	2014
Cash flows from operating activities		
Profit	$ 9,970	$ 9,150
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	12	10
Effect of exchange rate changes on cash and cash equivalents	(40)	40
Unrealized losses on borrowings	126	17
	$ 10,068	$ 9,217
Net changes in operating assets and liabilities		
Increase in investments	$ (15,118)	$ (14,090)
Decrease (Increase) in other assets	11	(16)
Increase in trade payable and other liabilities	22	10
Increase in investment-related liabilities	1,114	419
Net cash used in operating activities	$ (3,903)	$ (4,460)
Cash flow from financing activities		
Repayments of amounts due from:		
Canadian Forces Pension Plan Account	$ 63	$ 57
Royal Canadian Mounted Police Pension Plan Account	23	21
Reserve Force Pension Plan Account	2	2
Advances to:		
Canadian Forces Pension Plan Account	(65)	(64)
Royal Canadian Mounted Police Pension Plan Account	(24)	(23)
Reserve Force Pension Plan Account	(2)	(2)
Proceeds from borrowings	10,978	9,610
Repayment of borrowings	(10,260)	(8,653)
Fund transfers received	3,221	3,535
Net cash flows provided by financing activities	$ 3,936	$ 4,483
Cash flow from investing activities		
Acquisitions of property, plant and equipment	$ (29)	$ (26)
Net cash flows used in investing activities	$ (29)	$ (26)
Net change in cash and cash equivalents	$ 4	$ (3)
Effect of exchange rate changes on cash and cash equivalents	40	(40)
Cash and cash equivalents at the beginning of the period	588	631
Cash and cash equivalents at the end of the period	$ 632	$ 588
Cash and cash equivalents are comprised of:		
Cash and cash equivalents held for investment purposes[A]	$ 623	$ 586
Cash held for administrative purposes[B]	9	2
Cash and cash equivalents at the end of the period	$ 632	$ 588
Supplementary disclosure of cash flow information		
Interest paid	$ (61)	$ (78)

[A] Cash and cash equivalents held for investment purposes are presented as part of fixed income in Note 5.1. Cash equivalents represent short-term deposits with a maturity of 90 days or less and are held for purposes of meeting short-term cash commitments. Cash equivalents are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

[B] Cash held for administrative purposes is included in other assets.

The accompanying notes are an integral part of the Financial Statements.

Notes to the Financial Statements

For the year ended March 31, 2015

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 440 Laurier street West, Ottawa, Ontario, Canada and its principal business office is at 1250 René Lévesque boulevard West, Montreal, Quebec, Canada.

2 FIRST-TIME ADOPTION OF IFRS

These are PSP Investments' first Financial Statements for the Plan Account prepared in accordance with International Financial Reporting Standards ("IFRS"). PSP Investments previously prepared financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The date of transition to IFRS was April 1, 2013.

PSP Investments' IFRS accounting policies as presented in Note 3 have been applied in preparing the Financial Statements for the year ended March 31, 2015, the comparative information and the opening Statement of Financial Position at the date of transition.

PSP Investments has applied IFRS 1 *First-Time Adoption of International Financial Reporting Standards* in preparing these IFRS Financial Statements. IFRS 1 sets out the procedures that PSP Investments must follow when it adopts IFRS for the first time as the basis for preparing its Financial Statements. PSP Investments is required to establish its IFRS accounting policies as at March 31, 2015 and, in general, apply these retrospectively to determine the IFRS opening Statement of Financial Position at its date of transition, April 1, 2013. IFRS 1 provides a number of mandatory exceptions and optional exemptions to this general principle. The effects of the transition to IFRS on equity and on profit (loss) and other comprehensive income (loss) are presented in Note 18.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied in the preparation of these Financial Statements are summarized below. The Financial Statements have been prepared using accounting policies specified by IFRS in effect at the end of the reporting period. These accounting policies have been used throughout all periods presented.

3.1. BASIS OF PRESENTATION

These Financial Statements have been prepared in accordance with 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*, 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 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 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.

The Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 14, 2015.

3.2. 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 on April 1, 2013, the date of its transition to IFRS. 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 Act*s. 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.

3 SIGNIFICANT ACCOUNTING POLICIES
(continued)

3.3. INTERESTS IN OTHER ENTITIES

Management assesses control, joint control and significant influence with respect to the investees disclosed in Note 7 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.

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Financial Statements are set out below.

3.4.1. 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 5.1.

Borrowings under the capital market debt financing program, as described under Note 9, 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. Purchases and sales 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 Statement of Profit or Loss and Other 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 (loss).

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.2. 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 real estate, private equity, infrastructure and renewable resources, 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 5.

3.4.3. 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 the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars. Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

3.4.4. Foreign Currency Translation

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.

Financial assets and financial 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 financial instruments are included in investment income (loss).

3.4.5. 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 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 recognize securities borrowed.

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.

3.4.6. Securities sold under Repurchase Agreements and Related Collateral

PSP Investments is party to agreements which involve the sale of securities with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Securities sold under the repurchase agreements are not derecognized as PSP Investments retains all related risks and rewards of ownership. As such, all related income (loss) continues to be reported in investment income (loss) and obligations to repurchase the securities sold are accounted for as investment-related liabilities.

Securities sold under 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. 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. PSP Investments does not sell, repledge or otherwise use collateral held.

3.4.7. 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 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.8. Equity

The statutory rights of the Government of Canada pursuant to the *Superannuation Act*s 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 Act*s. 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.

3.4.9. Investment Income

Investment income (loss) is made up of interest, dividends, gains (losses) on the disposal of investments as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the reporting period. Interest is recognized as earned. Dividends are recognized on the ex-dividend date. Distributions from pooled funds, limited partnerships or from direct investments and co-investments are recognized as interest, dividend or realized gains (losses) as appropriate. Co-investments are investments in private entities where the investment is made in conjunction with an external manager with whom PSP Investments already has committed and delegated funds.

3.4.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, as described in Note 5.1.7, 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 are expensed as they are incurred. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets and other fixed income securities as outlined in Note 11.

Other (net) includes dividend expense related to securities sold short and securities lending income net of fees on securities borrowed.

3.4.11. Fund Transfers

Amounts are received from the Government of Canada for the Fund and are recorded in the Plan Account.

3.5. 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 3.2 as well as the determination of control, joint control and significant influence as described in Note 3.3.

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 5.2.3 and those regarding the assessment of risk are outlined in Note 8.

Although estimates and assumptions reflect management's best judgment, actual results may differ from such estimates due to the uncertainties involved in using them.

4 CURRENT AND FUTURE CHANGES IN ACCOUNTING STANDARDS

4.1. CURRENT ACCOUNTING STANDARDS ADOPTED BEFORE THE EFFECTIVE DATE

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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted.

PSP Investments has adopted IFRS 9 in its Consolidated Financial Statements prepared in accordance with IFRS for the year ended March 31, 2015. Significant accounting policies in connection with IFRS 9 are described under Note 3.4.1. Additional information regarding the implementation of IFRS 9 in the year of first-time adoption of IFRS is presented under Note 18.1.

4.2. FUTURE ACCOUNTING STANDARDS

A number of new standards, amendments and interpretations have been issued by the IASB, but are not yet effective. The following relates to one or more of PSP Investments' significant accounting policies or disclosures:

IFRS 11 Joint Arrangements

IFRS 11 was amended, effective in annual periods beginning on or after January 1, 2016, to add new guidance on the accounting for acquisitions of interests in a joint operation that constitutes a business. Acquirers of such interests shall apply all of the principles in business combinations accounting in IFRS 3 *Business Combinations*, and other IFRS, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRS in relation to business combinations. Management is currently assessing the impact of adopting this amendment.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1. 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, 2015	March 31, 2014	April 1, 2013
Public markets			
Canadian equity	$ 6,009	$ 6,631	$ 6,721
Foreign equity	24,203	20,166	15,265
Private markets			
Real estate	12,355	9,140	7,939
Private equity	7,276	5,874	5,115
Infrastructure	5,631	4,752	3,248
Renewable resources	1,663	862	306
Fixed income			
Cash and money market securities	2,826	2,812	2,626
Government and corporate bonds	13,240	12,421	8,169
Inflation-linked bonds	4,670	3,630	3,190
Other fixed income securities	5,586	5,382	5,725
Alternative investments	4,004	2,191	1,306
	$ 87,463	$ 73,861	$ 59,610
Investment-related assets			
Amounts receivable from pending trades	$ 1,462	$ 534	$ 817
Interest receivable	154	159	111
Dividends receivable	71	60	49
Derivative-related assets	1,274	655	635
	$ 2,961	$ 1,408	$ 1,612
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 90,424	$ 75,269	$ 61,222
Investment-related liabilities			
Amounts payable from pending trades	$ (1,165)	$ (689)	$ (805)
Interest payable	(24)	(12)	(18)
Securities sold short	(387)	(520)	(341)
Securities sold under repurchase agreements	–	(460)	(444)
Derivative-related liabilities	(2,100)	(881)	(535)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (3,676)	$ (2,562)	$ (2,143)
Borrowings			
Capital market debt financing	$ (5,384)	$ (4,540)	$ (3,566)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ (5,384)	$ (4,540)	$ (3,566)
NET INVESTMENTS	$ 81,364	$ 68,167	$ 55,513

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.1. 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 market prices 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 to ensure reasonableness. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

5.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and renewable 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 financings. As at March 31, 2015, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSP Investments was $3,974 million for the Plan Account (March 31, 2014 – $3,061 million and April 1, 2013 – $2,548 million).

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 financings. As at March 31, 2015, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSP Investments was $1,043 million for the Plan Account (March 31, 2014 – $1,196 million and April 1, 2013 – $202 million).

Renewable resources investments are mainly comprised of direct investments and partnerships in timberlands and agriculture.

The fair value of private markets investments is determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

5.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and other fixed income 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. 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. Inflation-linked bonds are fixed income securities that earn inflation adjusted returns.

Other fixed income securities consist of asset-backed securities, floating rate notes as well as private debt investments.

Fair values of government and corporate bonds, inflation-linked bonds, floating rate notes 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.

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009. Potential margin calls on the ABTNs are supported by funding facilities, as described in Note 16.

Private debt investments are mainly in the real estate sector in the form of third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products. They also include real estate debt funds where significant portions of the value are attributed to the underlying real estate assets.

Private debt investments also include debt securities of private companies or other entities such as venture capital organizations, held mainly through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt.

The fair values of ABTNs as well as private debt investments are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

The fair value measurement of fund investments included as part of private debt investments is described in Note 5.2.2.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.4. 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 to ensure reasonableness. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

5.1.5. 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.

5.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which approximates fair value.

5.1.7. Interest Payable

With respect to the borrowings described in Note 5.1.10, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

5.1.8. 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.

5.1.9. Securities Sold under Repurchase Agreements

As described in Note 3.4.6, PSP Investments is party to agreements which involve the sale of securities with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Obligations to repurchase the securities sold under repurchase agreements are recorded at cost plus accrued interest, which approximates fair value.

5.1.10. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 9. Short-term promissory notes are recorded at cost plus accrued interest, which 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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. 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 the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity, 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.

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.

Collateralized Debt Obligations

Collateralized debt obligations are a type of asset-backed security that is constructed from a portfolio of credit-related assets. Collateralized debt obligations are usually divided into several tranches with different credit risk levels and corresponding interest payments. Any losses are applied first to the more junior tranches (lowest risk rating) before moving up in seniority.

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.

The fair value of collateralized debt obligations is determined using valuation techniques that incorporate significant inputs that are not observable in the market. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2015			March 31, 2014			April 1, 2013		
		Fair Value			Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities
Equity and commodity derivatives									
Listed									
Futures	**$ 494**	**$ –**	**$ –**	$ 1,019	$ –	$ –	$ 616	$ –	$ –
Warrants and rights	**1**	**5**	**–**	4	4	–	2	–	–
Options:									
Purchased	**401**	**13**	**–**	501	14	–	1,872	20	–
Written	**388**	**–**	**(6)**	301	–	(13)	730	–	(11)
OTC									
Forwards	**277**	**22**	**(43)**	–	–	–	–	–	–
Total return swaps	**11,949**	**189**	**(46)**	9,858	155	(16)	7,240	121	(36)
Options:									
Purchased	**2,952**	**132**	**–**	3,990	224	–	916	119	–
Written	**2,992**	**–**	**(126)**	4,430	–	(256)	901	–	(106)
Currency derivatives									
Listed									
Futures	**113**	**–**	**–**	51	–	–	31	–	–
OTC									
Forwards	**32,209**	**352**	**(1,066)**	22,549	110	(328)	24,986	249	(243)
Swaps	**2,307**	**18**	**(236)**	2,584	7	(91)	774	17	(21)
Options:									
Purchased	**8,404**	**297**	**–**	2,924	24	–	3,789	57	–
Written	**8,522**	**–**	**(286)**	2,549	–	(12)	3,534	–	(49)
Interest rate derivatives									
Listed									
Futures	**5,629**	**–**	**–**	1,768	–	–	969	–	–
Options:									
Purchased	**35,088**	**10**	**–**	19,255	13	–	3,683	3	–
Written	**36,163**	**–**	**(6)**	20,193	–	(6)	3,619	–	(2)
OTC									
Bond forwards	**2,092**	**–**	**(4)**	510	–	–	617	4	(5)
Interest rate swaps	**6,007**	**97**	**(119)**	8,620	29	(63)	8,425	17	(29)
Total return swaps	**–**	**–**	**–**	–	–	–	2	–	–
Swaptions	**33,713**	**132**	**(137)**	22,942	60	(51)	2,048	6	(4)
Options:									
Purchased	**4,035**	**3**	**–**	7,389	11	–	1,283	7	–
Written	**1,308**	**–**	**(2)**	10,937	–	(11)	2,028	–	(7)
OTC-cleared									
Interest rate swaps	**8,880**	**–**	**–**	1,113	–	–	–	–	–
Credit derivatives[A]									
OTC									
Purchased	**913**	**–**	**(16)**	1,552	1	(33)	1,395	12	(12)
Sold	**435**	**4**	**(7)**	399	3	(1)	681	3	(10)
OTC-cleared									
Purchased	**446**	**–**	**–**	707	–	–	–	–	–
Sold	**842**	**–**	**–**	1,022	–	–	–	–	–
Total		**$ 1,274**	**$ (2,100)**		$ 655	$ (881)		$ 635	$ (535)

[A] Credit derivatives include credit default swaps and collateralized debt obligations. PSP Investments, through sold credit derivatives, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the sold credit derivatives as shown in the table above.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2015			March 31, 2014			April 1, 2013		
		Fair Value			Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities
Listed derivatives	**$ 78,277**	**$ 28**	**$ (12)**	$ 43,092	$ 31	$ (19)	$ 11,522	$ 23	$ (13)
OTC derivatives	**118,115**	**1,246**	**(2,088)**	101,233	624	(862)	58,619	612	(522)
OTC-cleared derivatives	**10,168**	**–**	**–**	2,842	–	–	–	–	–
Total		**$ 1,274**	**$ (2,100)**		$ 655	$ (881)		$ 635	$ (535)

The term to maturity based on notional value for the derivatives was as follows as at:

(Canadian $ millions)	**March 31, 2015**
Less than 3 months	**$ 76,669**
3 to 12 months	**90,652**
Over 1 year	**39,239**

5.2. FAIR VALUE HIERARCHY

5.2.1. Classification

Financial assets and financial liabilities described under Note 5.1 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 of 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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2015 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 5,471	$ 538	$ –	$ –	$ 6,009
Foreign equity	20,313	3,890	–	–	24,203
Private markets					
Real estate	–	–	12,355	–	12,355
Private equity	–	–	7,276	–	7,276
Infrastructure	–	–	5,631	–	5,631
Renewable resources	–	–	1,663	–	1,663
Fixed income					
Cash and money market securities	–	1,749	–	1,077	2,826
Government and corporate bonds	–	13,240	–	–	13,240
Inflation-linked bonds	–	4,670	–	–	4,670
Other fixed income securities	–	1,740	3,846	–	5,586
Alternative investments	–	1,024	2,980	–	4,004
	$ 25,784	$ 26,851	$ 33,751	$ 1,077	$ 87,463
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 1,462	$ 1,462
Interest receivable	–	–	–	154	154
Dividends receivable	–	–	–	71	71
Derivative-related assets	28	1,246	–	–	1,274
	$ 28	$ 1,246	$ –	$ 1,687	$ 2,961
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 25,812	$ 28,097	$ 33,751	$ 2,764	$ 90,424
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (1,165)	$ (1,165)
Interest payable	–	–	–	(24)	(24)
Securities sold short	(387)	–	–	–	(387)
Securities sold under repurchase agreements	–	–	–	–	–
Derivative-related liabilities	(12)	(2,082)	(6)	–	(2,100)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (399)	$ (2,082)	$ (6)	$ (1,189)	$ (3,676)
Borrowings					
Capital market debt financing	$ –	$ (5,384)	$ –	$ –	$ (5,384)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (5,384)	$ –	$ –	$ (5,384)
NET INVESTMENTS	$ 25,413	$ 20,631	$ 33,745	$ 1,575	$ 81,364

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2014 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 6,152	$ 479	$ –	$ –	$ 6,631
Foreign equity	16,092	4,074	–	–	20,166
Private markets					
Real estate	–	–	9,140	–	9,140
Private equity	–	–	5,874	–	5,874
Infrastructure	–	–	4,752	–	4,752
Renewable resources	–	–	862	–	862
Fixed income					
Cash and money market securities	–	–	–	2,812	2,812
Government and corporate bonds	–	12,421	–	–	12,421
Inflation-linked bonds	–	3,630	–	–	3,630
Other fixed income securities	–	2,228	3,154	–	5,382
Alternative investments	–	818	1,373	–	2,191
	$ 22,244	$ 23,650	$ 25,155	$ 2,812	$ 73,861
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 534	$ 534
Interest receivable	–	–	–	159	159
Dividends receivable	–	–	–	60	60
Derivative-related assets	31	624	–	–	655
	$ 31	$ 624	$ –	$ 753	$ 1,408
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 22,275	$ 24,274	$ 25,155	$ 3,565	$ 75,269
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (689)	$ (689)
Interest payable	–	–	–	(12)	(12)
Securities sold short	(520)	–	–	–	(520)
Securities sold under repurchase agreements	–	(460)	–	–	(460)
Derivative-related liabilities	(19)	(862)	–	–	(881)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (539)	$ (1,322)	$ –	$ (701)	$ (2,562)
Borrowings					
Capital market debt financing	$ –	$ (4,540)	$ –	$ –	$ (4,540)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (4,540)	$ –	$ –	$ (4,540)
NET INVESTMENTS	$ 21,736	$ 18,412	$ 25,155	$ 2,864	$ 68,167

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at April 1, 2013 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 6,721	$ –	$ –	$ –	$ 6,721
Foreign equity	11,591	3,674	–	–	15,265
Private markets					
Real estate	–	–	7,939	–	7,939
Private equity	–	–	5,115	–	5,115
Infrastructure	–	–	3,248	–	3,248
Renewable resources	–	–	306	–	306
Fixed income					
Cash and money market securities	–	–	–	2,626	2,626
Government and corporate bonds	–	8,169	–	–	8,169
Inflation-linked bonds	–	3,190	–	–	3,190
Other fixed income securities	–	2,476	3,249	–	5,725
Alternative investments	–	644	662	–	1,306
	$ 18,312	$ 18,153	$ 20,519	$ 2,626	$ 59,610
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 817	$ 817
Interest receivable	–	–	–	111	111
Dividends receivable	–	–	–	49	49
Derivative-related assets	23	611	1	–	635
	$ 23	$ 611	$ 1	$ 977	$ 1,612
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 18,335	$ 18,764	$ 20,520	$ 3,603	$ 61,222
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (805)	$ (805)
Interest payable	–	–	–	(18)	(18)
Securities sold short	(341)	–	–	–	(341)
Securities sold under repurchase agreements	–	(444)	–	–	(444)
Derivative-related liabilities	(13)	(519)	(3)	–	(535)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (354)	$ (963)	$ (3)	$ (823)	$ (2,143)
Borrowings					
Capital market debt financing	$ –	$ (3,566)	$ –	$ –	$ (3,566)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (3,566)	$ –	$ –	$ (3,566)
NET INVESTMENTS	$ 17,981	$ 14,235	$ 20,517	$ 2,780	$ 55,513

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

As at March 31, 2014, listed foreign equity securities held by a non-listed fund, were classified as Level 2. During the year ended March 31, 2015, the listed securities with a fair value of $351 million were transferred to PSP Investments and classified as Level 1 as at March 31, 2015.

During the year ended March 31, 2014, listed Canadian equity securities with a fair value of $456 million classified as Level 1 were transferred to a non-listed fund held by PSP Investments. Consequently, the securities were classified as Level 2 as at March 31, 2014.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.2. 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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. 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, 2015:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	$11,230	Discounted cash flow (DCF)	Discount rate [A, B]	6.00% – 26.00% (8.21%)
				Terminal capitalization rate [A, B]	4.00% – 12.00% (6.36%)
			Direct capitalization	Capitalization rate [A, C]	3.25% – 9.25% (6.72%)
				Stabilized occupancy rate [C, D]	93.00% – 98.50% (96.49%)
			Net asset value method (NAV) [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 1,125	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 9,446	DCF	Discount rate [A]	5.69% – 13.40% (9.49%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 5,124	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	$ 1,010	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 753	DCF	Discount rate [A]	9.50% – 13.40% (11.22%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 2,083	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	$ 2,980	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	$ (6)	Third-party pricing [E]	N/A	N/A
TOTAL		$33,745			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $138 million.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. 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, 2014:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	$ 7,814	DCF	Discount rate [A, B]	5.50% – 26.00% (8.50%)
				Terminal capitalization rate [A, B]	4.00% – 10.25% (6.28%)
			Direct capitalization	Capitalization rate [A, C]	4.00% – 9.50% (8.12%)
				Stabilized occupancy rate [C, D]	94.50% – 100% (97.58%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 1,326	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 7,628	DCF	Discount rate [A]	6.25% – 13.50% (9.68%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 3,860	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	$ 1,101	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 765	DCF	Discount rate [A]	4.00% – 13.40% (11.71%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 1,288	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	$ 1,373	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	$ –	Third-party pricing [E]	N/A	N/A
TOTAL		$25,155			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $120 million.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. 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 April 1, 2013:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	$ 7,096	DCF	Discount rate [A, B]	4.75% – 26.00% (8.46%)
				Terminal capitalization rate [A, B]	4.50% – 11.25% (6.71%)
			Direct capitalization	Capitalization rate [A, C]	4.50% – 9.50% (8.78%)
				Stabilized occupancy rate [C, D]	72.00% – 100% (83.39%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 843	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 4,793	DCF	Discount rate [A]	6.50% – 13.30% (9.33%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 3,876	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	$ 1,260	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 876	DCF	Discount rate [A]	4.00% – 29.00% (12.77%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Credit linked notes	$ 26	Internal present value model	Default probability	90.00% – 100% (93.00%)
				Recovery rate	0% – 65.00% (40.00%)
	Fund investments	$ 1,087	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	$ 662	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	$ (2)	Third-party pricing [E]	N/A	N/A
TOTAL		$20,517			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $111 million.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.4. 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, 2015:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains (Losses)	Unrealized Gains (Losses)[A]	Transfer out of Level 3	Closing Balance
Private markets	$ 20,628	$ 5,608	$ (1,994)	$ –	$ 350	$ 2,561	$ (228)	$ 26,925
Fixed income	3,154	1,314	(805)	(105)	75	213	–	3,846
Alternative investments	1,373	1,661	(424)	–	(33)	403	–	2,980
Derivative-related assets/liabilities (net)	–	–	–	(2)	1	(5)	–	(6)
Total	$ 25,155	$ 8,583	$ (3,223)	$ (107)	$ 393	$ 3,172	$ (228)	$ 33,745

As at March 31, 2014, a private markets investment was classified under Level 3 as the fair value was determined based on significant unobservable inputs. During the year ended March 31, 2015, the investment was transferred to Level 1, as the underlying investee 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, 2014:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains[A]	Transfer out of Level 3	Closing Balance
Private markets	$ 16,608	$ 4,868	$ (3,102)	$ –	$ 547	$ 1,899	$ (192)	$ 20,628
Fixed income	3,249	672	(883)	(211)	223	104	–	3,154
Alternative investments	662	637	(19)	–	1	92	–	1,373
Derivative-related assets/liabilities (net)	(2)	5	(7)	–	1	3	–	–
Total	$ 20,517	$ 6,182	$ (4,011)	$ (211)	$ 772	$ 2,098	$ (192)	$ 25,155

[A] Includes Plan Account allocation adjustments.

As at April 1, 2013, two private markets investments were classified under Level 3 as their fair values were determined based on significant unobservable inputs. During the year ended March 31, 2014, such investments were transferred to Level 2 as the underlying investees indirectly held by PSP Investments became publicly traded. In the case of one of the two private markets investments, the instruments held by PSP Investments were subject to restrictions as at March 31, 2014 and could only be resold upon registration.

5.2.5. 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 5.2.3. 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 4% increase and 3% decrease as at March 31, 2015 (March 31, 2014 – 7% increase and 5% decrease and April 1, 2013 – 4% increase and 4% decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. Management ensures the appropriateness of the work performed by third-party appraisers as described under Note 5.2.2. In the case of fund investments, the fair value is determined as indicated in Note 5.2.2.

6 COLLATERAL PLEDGED AND RECEIVED

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 3.4.5, 3.4.6 and 8.2.1. 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 agreements as at:

(Canadian $ millions)	**March 31, 2015**	March 31, 2014	April 1, 2013
Securities lending and borrowing			
Securities lent	**$ 9,658**	$ 6,998	$ 5,389
Collateral held [A]	**10,423**	7,449	5,676
Securities borrowed	**387**	520	341
Collateral pledged [B]	**408**	545	343
Securities repurchase agreements			
Securities sold under repurchase agreements	**–**	458	444
Collateral pledged	**–**	459	444
Derivative contracts			
Collateral pledged	**1,021**	421	53
Collateral held	**124**	25	106

[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 $1,947 million for the Plan Account as at March 31, 2015 (March 31, 2014 – $1,754 million and April 1, 2013 – $1,615 million) and securities amounted to $8,476 million as at March 31, 2015 (March 31, 2014 – $5,695 million and April 1, 2013 – $4,061 million). All cash collateral is re-invested.

[B] The minimum fair value of collateral required is equal to 100% of the fair value of the securities borrowed.

7 INTERESTS IN OTHER ENTITIES

7.1. 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 3.1.

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. At March 31, 2015, 92 investment entity subsidiaries were incorporated in North America, 14 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa (March 31, 2014 – 82 in North America, 13 in Europe, 9 in Oceania, 3 in Central and South America, and 1 in Africa; April 1, 2013 – 80 in North America, 10 in Europe, 5 in Oceania, and 3 in Central and South America).

In addition, PSP Investments controlled 68 investees directly or through its investment entity subsidiaries as at March 31, 2015 (March 31, 2014 – 58 investees and April 1, 2013 – 51 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. PSP Investments determines control, joint control and significant influence as described in Note 3.3.

As at March 31, 2015

Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments**	**Relationship to PSP Investments**
Revera Inc.	**North America**	**100%**	**Controlled investee**
Kaingaroa Timberlands Ltd.	**Oceania**	**56%**	**Jointly controlled investee**
Telesat Holdings Inc.	**North America**	**34%**	**Associate**
AviAlliance GmbH	**Europe**	**100%**	**Controlled investee**
Isolux Infrastructure Netherlands B.V.	**Central and South America**	**22%**	**Jointly controlled investee**
Acelity Inc. (formerly Kinetic Concepts, Inc.)	**North America**	**21%**	**Associate**
TDF S.A.S.	**Europe**	**25%**	**Associate**
Roccapina Fund, L.P.	**North America**	**100%**	**Controlled investee**
Transelec S.A.	**Central and South America**	**18%**	**Associate**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50%**	**Jointly controlled investee**

As at March 31, 2014

Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	North America	100%	Controlled investee
Telesat Holdings Inc.	North America	34%	Associate
AviAlliance GmbH	Europe	100%	Controlled investee
Kinetic Concepts, Inc.	North America	21%	Associate
Isolux Infrastructure Netherlands B.V.	Central and South America	19%	Jointly controlled investee
Kaingaroa Timberlands Ltd.	Oceania	30%	Jointly controlled investee
Transelec S.A.	Central and South America	18%	Associate
Gassled	Europe	5%	Associate
Charter Hall Office Trust	Oceania	43%	Jointly controlled investee
Forth Ports Limited	Europe	37%	Jointly controlled investee

7 INTERESTS IN OTHER ENTITIES (continued)

7.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

As at April 1, 2013

Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	North America	100%	Controlled investee
Telesat Holdings Inc.	North America	35%	Associate
SCG Hotel CLP, L.P.	North America	100%	Controlled investee
Gassled	Europe	5%	Associate
Kinetic Concepts, Inc.	North America	21%	Associate
Transelec S.A.	Central and South America	18%	Associate
Charter Hall Office Trust	Oceania	43%	Jointly controlled investee
TD Canada Trust Tower	North America	50%	Jointly controlled investee
H2O Power Limited Partnership	North America	92%	Controlled investee
DP World Australia Ltd.	Oceania	25%	Jointly controlled investee

In addition to the above, PSP Investments controls and consolidates two wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services are mainly related to raising capital used to finance private market investments within the context of PSP Investments' capital market debt program described in Note 9.

7.2. 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 8, guarantees and indemnities under Note 16 and commitments under Note 17.

8 INVESTMENT RISK MANAGEMENT

PSP Investments has implemented an investment approach that aims to maximize rates of return without undue risk of loss. In pursuit of such an objective, PSP Investments has developed an Investment Risk Management Policy (IRM Policy) to support the management of risks incurred through the investment processes. The IRM policy, which supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), establishes the Investment Risk Management Framework (IRM Framework) with a goal of ensuring that all investments made by PSP Investments or its investment entity subsidiaries respect the risk philosophy of PSP Investments and are within the tolerances and limits of its risk appetite.

The IRM Framework requires reporting on risk to all levels of the organization. The Board of Directors and its committees oversee all risk matters and receive reporting from senior management as well as PSP Investments' independent internal auditor reporting directly to the Audit Committee.

The IRM Framework is designed to effectively manage all investment risks PSP Investments is exposed to, which include market, credit and liquidity risks, related to the implementation of the Policy Portfolio and active management activities.

8.1. 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.

Market risk management focuses on the following two key components:

- Policy Portfolio
  The Policy Portfolio (long-term asset mix), as defined in the SIP&P, determines a diversification strategy to mitigate risk whereby PSP Investments invests in a diversified portfolio expected to achieve a return at least equal to the Actuarial Rate of Return (ARR); defined as the rate of return assumption used by the Chief Actuary of Canada in the latest actuarial valuation reports of the Plans. In the absence of other factors affecting the funding of the Plans or changes to pension benefits under the Plans, the ARR is the rate of return required to maintain funding requirements and pension benefits at their current levels.
- Active Management
  Active management is defined as the sum of investment strategies that deviate from the approved Policy Portfolio. It is designed to supplement the returns of the Policy Portfolio within an active risk budget.

The risks associated with these components are the Policy Portfolio market risk and the active risk. The Policy Portfolio market risk represents the investment risk arising from the exposure to approved asset classes in the approved weightings. In establishing its Policy Portfolio, PSP Investments also takes into consideration the impact of the Policy Portfolio market risk on funding risk. Funding risk is the risk that the assets under management will be insufficient to meet the relevant pension liabilities of the Plans, which may require the contributions to the Funds of the Plans to be increased. The Policy Portfolio is reviewed at least annually as part of the review of the SIP&P, and this review includes changes, if any, to PSP Investments' long-term expectations of market conditions and other factors that may affect the funding levels of the Plans.

Active risk refers to all market risk arising from active management activities. It is managed in accordance with the Investment Risk Management Policy.

8.1.1. Measurement of Market Risk

The Value-at-Risk (VaR) is one of the methods used to measure market risk and is reported on a quarterly basis. It is not the maximum potential loss, but rather the maximum loss not exceeded with a given confidence level, over a given period of time. PSP Investments uses a Historical VaR model incorporating ten years' worth of market returns scaled to a twelve-month holding period at a 95% confidence level. For investments that are not actively traded, the calculation of VaR uses securities with similar risk attributes as proxy.

In measuring Policy Portfolio risk, VaR represents the absolute loss expected from the Policy Portfolio (Policy Portfolio VaR). Whereas in terms of measuring the active risk, VaR reflects the loss relative to the Policy Portfolio benchmark (Active VaR).

VaR 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.

8 INVESTMENT RISK MANAGEMENT (continued)

8.1. MARKET RISK (continued)

8.1.1. Measurement of Market Risk (continued)

The following table shows the total VaR consisting of the Policy Portfolio VaR, the Active VaR and the diversification effect, calculated as a percentage of net investments as at the end of the period. The diversification effect captures the impact of holding different types of assets which may react differently in various types of situations and thus reduces the total VaR. The information is presented as at:

	March 31, 2015	March 31, 2014	April 1, 2013
Policy Portfolio VaR	**20.6 %**	20.3 %	20.2 %
Active VaR	**2.6**	2.8	2.6
Total VaR (undiversified)	**23.2**	23.1	22.8
Diversification effect	**(0.9)**	(0.1)	(1.3)
Total VaR	**22.3 %**	23.0 %	21.5 %

Stress Testing

Although VaR 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. Stress testing and scenario analysis 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.

8.1.2. 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 5.1, with the most significant exposure to interest rate risk were as follows as at March 31, 2015:

(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Government bonds	$ 771	$ 3,231	$ 1,531	$ 2,710	$ –	$ 8,243
Corporate bonds	1,027	2,390	1,256	324	–	4,997
Inflation-linked bonds	2	1,025	1,517	2,126	–	4,670
Asset-backed securities	46	1,018	18	–	–	1,082
Private debt investments:						
Directly held	14	409	210	–	18	651
Held through funds [A]	–	–	–	–	2,186	2,186
Total investments with significant exposure to interest rate risk	**$ 1,860**	**$ 8,073**	**$ 4,532**	**$ 5,160**	**$ 2,204**	**$ 21,829**
Other investments [B]	**$ –**	**$ –**	**$ –**	**$ –**	**$ 4,493**	**$ 4,493**
Total fixed income	**$ 1,860**	**$ 8,073**	**$ 4,532**	**$ 5,160**	**$ 6,697**	**$ 26,322**

[A] Due to their nature, information in connection with the terms to maturity of fund investments included as part of private debt investments is not available.

[B] Consists of $2,826 million in cash and money market securities and $1,667 million in floating rate notes, which, due to their nature, are not significantly exposed to interest rate risk.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 9.

Alternative investments as well as derivative contracts described in Notes 5.1.4 and 5.1.11, respectively, are also subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 8.1.1.

8 INVESTMENT RISK MANAGEMENT (continued)

8.1. MARKET RISK (continued)

8.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through direct and indirect holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets. 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. In October 2013, PSP Investments amended its policy to fully hedge foreign currency investments in government and corporate bonds, inflation-linked bonds, certain other fixed income securities, as well as investments in real estate, infrastructure and renewable resources. PSP Investments' previous policy was to hedge a target of 50% of its foreign currency investments in non-emerging countries. Additional factors are considered when implementing the hedging target for investments in emerging countries, namely, total relative exposure and cost effectiveness.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

(Canadian $ millions)	March 31, 2015		March 31, 2014		April 1, 2013	
Currency	**Fair Value**	**% of Total**	Fair Value	% of Total	Fair Value	% of Total
US Dollar	**$ 21,144**	**58.8 %**	$ 17,882	61.0 %	$ 11,141	53.3 %
Euro	**2,611**	**7.3**	2,520	8.6	1,875	9.0
Japanese Yen	**1,667**	**4.7**	1,143	3.9	833	4.0
British Pound	**1,606**	**4.5**	1,350	4.6	1,550	7.4
Hong Kong Dollar	**1,549**	**4.3**	953	3.3	754	3.6
Korean Won	**1,302**	**3.6**	952	3.2	565	2.7
Brazilian Real	**1,022**	**2.8**	918	3.1	878	4.2
Swiss Franc	**825**	**2.3**	579	2.0	278	1.3
Taiwanese New Dollar	**720**	**2.0**	445	1.5	341	1.6
Indian Rupee	**511**	**1.4**	342	1.2	257	1.2
Australian Dollar	**468**	**1.3**	369	1.3	687	3.3
South African Rand	**442**	**1.2**	285	1.0	221	1.1
Mexican Peso	**266**	**0.7**	153	0.5	177	0.9
Thai Baht	**168**	**0.5**	82	0.3	134	0.6
Others	**1,633**	**4.6**	1,337	4.5	1,195	5.8
Total	**$ 35,934**	**100.0 %**	$ 29,310	100.0 %	$ 20,886	100.0 %

As at March 31, 2015, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $10,770 million for the Plan Account (US$7,522 million, €570 million, £162 million, R213 million South African Rands, R$315 million Brazilian Reals and $30,873 million Colombian pesos) which were not included in the foreign currency exposure table.

8 INVESTMENT RISK MANAGEMENT
(continued)

8.2. 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 sold under 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, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. Except for ABTNs, securities rated by only one agency are classified as "not rated". If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings.

As at March 31, 2015, the Plan Account's maximum exposure to credit risk amounted to approximately $23 billion (March 31, 2014 – approximately $22 billion and April 1, 2013 – approximately $17 billion). This amount excludes investments in distressed debt in the amount of approximately $1.8 billion as at March 31, 2015 (March 31, 2014 – approximately $1.2 billion and April 1, 2013 – approximately $1 billion). The maximum exposure to credit risk also excludes collateralized debt obligations, collateral held as disclosed in Notes 5.1.11 and 6, respectively, and the impact of guarantees and indemnities disclosed in Note 16.

As at March 31, 2015, the Plan Account had a net notional exposure of $46 million (March 31, 2014 – $40 million and April 1, 2013 – $87 million) to various tranches of collateralized debt obligations, of which approximately 45% (March 31, 2014 – approximately 53% and April 1, 2013 – approximately 67%) of the underlying dollar exposure was rated "Investment grade", as well as funding facilities, as described in Note 16, to support potential margin calls on the ABTNs.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating of all credit-sensitive financial securities with the exception of securities held in pooled funds or for private markets investments.

PSP Investments' concentration of credit risk by credit rating, excluding the items described above and any other credit enhancement, for the Plan Account was as follows as at:

	March 31, 2015	March 31, 2014	April 1, 2013
Investment grade (AAA to BBB–)	**97.5 %**	97.4 %	97.9 %
Below investment grade (BB+ and below)	**0.4**	1.0	1.0
Not rated:			
Rated by a single credit rating agency	**0.6**	0.5	0.1
Not rated by credit rating agencies	**1.5**	1.1	1.0
Total	**100.0 %**	100.0 %	100.0 %

8 INVESTMENT RISK MANAGEMENT (continued)

8.2. CREDIT RISK (continued)

8.2.1. 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 sold under 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 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. In certain cases, counterparties are 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 with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing as well as securities sold under repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 3.4.5 and 3.4.6 describe collateral requirements in securities lending and borrowing programs as well as securities sold under repurchase agreements, respectively.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 6.

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.

8.3. 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 9 provides additional information on the usage of the capital market debt program.

The terms to maturity of the notional amount of derivatives are disclosed in Note 5.1.11.

8 INVESTMENT RISK MANAGEMENT (continued)

8.3. LIQUIDITY RISK (continued)

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, 2015 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	$ (1,165)	$ –	$ –	$ (1,165)
Interest payable	(22)	(2)	–	(24)
Securities sold short	(387)	–	–	(387)
Capital market debt financing	(1,815)	(1,553)	(2,016)	(5,384)
Accounts payable and other liabilities	(95)	–	(48)	(143)
Total	$ (3,484)	$ (1,555)	$ (2,064)	$ (7,103)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 545	$ 452	$ 277	$ 1,274
Derivative-related liabilities [A]	(855)	(749)	(496)	(2,100)
Total	$ (310)	$ (297)	$ (219)	$ (826)

[A] Liabilities are presented in the earliest period in which the counterparty can request payment.

8 INVESTMENT RISK MANAGEMENT (continued)

8.4. OFFSETTING

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described in Note 8.2.1. 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 sold under repurchase agreements, as described in Notes 3.4.6 and 6, are subject to similar arrangements though are not offset.

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 (Note 5.1.11)	Less: Related Amounts not Set off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
As at March 31, 2015						
OTC-derivatives	**$ 1,266**	**$ 20**	**$ 1,246**	**$ 1,119**	**$ 83**	**$ 44**
Total	**$ 1,266**	**$ 20**	**$ 1,246**	**$ 1,119**	**$ 83**	**$ 44**
As at March 31, 2014						
OTC-derivatives	$ 626	$ 2	$ 624	$ 558	$ 23	$ 43
Total	$ 626	$ 2	$ 624	$ 558	$ 23	$ 43
As at April 1, 2013						
OTC-derivatives	$ 614	$ 2	$ 612	$ 467	$ 99	$ 46
Total	$ 614	$ 2	$ 612	$ 467	$ 99	$ 46

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	
As at March 31, 2015						
OTC-derivatives	**$ 2,108**	**$ 20**	**$ 2,088 [A]**	**$ 1,119**	**$ 888**	**$ 81**
Total	**$ 2,108**	**$ 20**	**$ 2,088**	**$ 1,119**	**$ 888**	**$ 81**
As at March 31, 2014						
OTC-derivatives	$ 864	$ 2	$ 862 [A]	$ 558	$ 264	$ 40
Repurchase agreements	460	–	460 [B]	–	459	1
Total	$ 1,324	$ 2	$ 1,322	$ 558	$ 723	$ 41
As at April 1, 2013						
OTC-derivatives	$ 524	$ 2	$ 522 [A]	$ 467	$ 46	$ 9
Repurchase agreements	444	–	444 [B]	–	444	–
Total	$ 968	$ 2	$ 966	$ 467	$ 490	$ 9

[A] As described in Note 5.1.11.

[B] As described in Note 5.1.

9 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 $3 billion for issuances in Canada and US $5 billion for issuances in the United States.

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2015 and March 31, 2014.

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, 2015		March 31, 2014		April 1, 2013	
(Canadian $ millions)	**Capital Amounts Payable at Maturity**	**Fair Value**	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.64% and 1.21% and maturing within 17 and 359 days of issuance (March 31, 2014 – 7 and 364 days; April 1, 2013 – 31 and 191 days)	**$ 507**	**$ 506**	$ 1,044	$ 1,043	$ 629	$ 627
Short-term US Dollar promissory notes, bearing interest between 0.17% and 0.47% and maturing within 84 and 367 days of issuance (March 31, 2014 – 35 and 365 days; April 1, 2013 – 29 and 189 days)	**2,348**	**2,346**	1,678	1,677	740	740
Medium-term notes Series 1, bearing interest of 4.57% per annum and matured on December 9, 2013	**–**	**–**	–	–	729	746
Medium-term notes Series 2, bearing interest of 2.94% per annum and maturing on December 3, 2015	**508**	**516**	509	523	510	529
Medium-term notes Series 3, bearing variable interest of 3-month CDOR + 39 basis points and matured on February 16, 2015	**–**	**–**	254	255	255	256
Medium-term notes Series 4, bearing interest of 2.26% per annum and maturing on February 16, 2017	**654**	**671**	655	668	656	668
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**363**	**395**	364	374	–	–
Medium-term notes Series 6, bearing variable interest of 3-month CDOR and maturing on April 4, 2016	**145**	**145**	–	–	–	–
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**726**	**805**	–	–	–	–
Total	**$ 5,251**	**$ 5,384**	$ 4,504	$ 4,540	$ 3,519	$ 3,566

Interest expense, for the years ended March 31, was as follows:

(Canadian $ millions)	**2015**	2014
Short-term promissory notes	**$ 10**	$ 10
Medium-term notes	**63**	62
Total	**$ 73**	$ 72

10 EQUITY

10.1. 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 the net assets of PSP Investments including the net profit (loss) and other comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

10.2. FUND TRANSFERS

PSP Investments received fund transfers from the Government of Canada of $3,221 million for the year ended March 31, 2015 ($3,535 million for the year ended March 31, 2014) for the Fund, recorded in the Plan Account.

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)		2015		2014
Interest expense (Note 9)	$	73	$	72
Transaction costs		75		69
External investment management fees [A]		31		22
Other (net)		39		24
Total	$	218	$	187

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. This excludes fees related to certain pooled fund investments classified under alternative investments primarily related to performance, in the amount of $75 million for the year ended March 31, 2015 ($40 million for the year ended March 31, 2014). This also excludes management fees related to investments in private markets and other fixed income securities that are not paid directly by PSP Investments.

Such fees, which generally vary between 0.1% and 2.0% of the total invested and/or committed amount, totaled $142 million for the year ended March 31, 2015 ($110 million for the year ended March 31, 2014).

12 OPERATING EXPENSES

Operating expenses allocated to this Plan Account consisted of the following for the years ended March 31:

(Canadian $ millions)		2015		2014
Salaries and employee benefits	$	107	$	100
Professional and consulting fees		22		17
Premises and equipment		9		8
Market data and business applications		15		13
Depreciation of property, plant and equipment		12		10
Custodial fees		3		2
Other operating expenses		9		7
Total	$	177	$	157

13 ALLOCATION OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)

The profit (loss) and other comprehensive income (loss) of PSP Investments is allocated to each Plan Account as follows:

13.1. INVESTMENT INCOME (LOSS)

The investment income (loss) is allocated proportionately based upon the net asset value held by each Plan Account.

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. 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 asset value of each Plan Account at the time the expense was incurred.

Operating expenses and other comprehensive income (loss), 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 assets in each Plan Account as follows:

	2015	2014
Public Service Pension Plan Account	72.7 %	72.9 %
Canadian Forces Pension Plan Account	19.6	19.5
Royal Canadian Mounted Police Pension Plan Account	7.2	7.1
Reserve Force Pension Plan Account	0.5	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 3.1, 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 5.1 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 profit (loss) and other comprehensive income (loss) 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 10.2.

(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 5.1. 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 profit (loss) and other comprehensive income (loss) 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 Profit or Loss and Other Comprehensive Income and was as follows:

(Canadian $ millions)	**2015**	2014
Short-term compensation and benefits	**$ 10**	$ 6
Long-term compensation and benefits	**5**	7
	$ 15	$ 13

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 10.2, 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 8.
- 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 9 provides information on the capital market debt financing and Note 8.3 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 9.

PSP Capital Inc. provided funding facilities of a maximum amount of $969 million to support potential margin calls on the ABTNs, of which $705 million has been allocated to the Plan Account. The margin funding facilities have not been drawn upon since inception; this arrangement matures in July 2017.

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, 2015, 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 $1,147 million as at March 31, 2015 (March 31, 2014 – $1,223 million and April 1, 2013 – $999 million), of which $833 million has been allocated to the Plan Account (March 31, 2014 – $889 million and April 1, 2013 – $728 million) plus applicable interest and other related costs. The arrangements mature between June 2015 and September 2028.
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $64 million as at March 31, 2015 (March 31, 2014 – $82 million and April 1, 2013 – $41 million), of which $46 million has been allocated to the Plan Account (March 31, 2014 – $60 million and April 1, 2013 – $30 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, 2015
Real estate	$ 1,357
Private equity	3,764
Infrastructure	1,838
Renewable resources	447
Other fixed income securities	2,330
Alternative investments	1,296
Total	**$ 11,032**

Funding in connection with the above commitments can be called upon at various dates extending until 2032.

18 FIRST-TIME ADOPTION

Upon transition to IFRS, PSP Investments has used accounting estimates under IFRS that are consistent with those applied under previous Canadian GAAP (with adjustment for accounting policy differences).

18.1. EXCEPTIONS AND EXEMPTIONS

IFRS 1 requires mandatory exceptions and permits certain exemptions from full retrospective application. PSP Investments has applied the following:

PSP Investments has determined the classification and consequential measurement of its financial assets under IFRS 9 on the basis of the facts and circumstances that existed on April 1, 2013 – the date of transition to IFRS.

Financial liabilities designated at FVTPL under IFRS 9 were accounted for at fair value under previous GAAP with all changes reported as part of profit or loss. The transition to IFRS did not result in any changes in the measurement of such financial liabilities as at April 1, 2013.

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION

PSP Investments has made the following significant adjustments to the Statement of Financial Position of the Plan Account as at April 1, 2013:

(Canadian $ millions)	Ref.	Previous GAAP	Presentation	Pension Benefits	IFRS
Assets					
Investments	A	$ 59,610	$ 1,612	$ –	$ 61,222
Investment-related assets	A	1,612	(1,612)	–	–
Other assets		60	–	–	60
Due from the Canadian Forces Pension Plan Account		7	–	–	7
Due from the Royal Canadian Mounted Police Pension Plan Account		3	–	–	3
Total assets		$ 61,292	$ –	$ –	$ 61,292
Liabilities					
Trade payable and other liabilities	D (i)	$ 100	$ –	$ 13	$ 113
Investment-related liabilities	E	5,709	(3,566)	–	2,143
Borrowings	E	–	3,566	–	3,566
Total liabilities		$ 5,809	$ –	$ 13	$ 5,822
Net assets		$ 55,483	$ –	$ (13)	$ 55,470
Equity	D (i)	$ 55,483	$ –	$ (13)	$ 55,470
Total liabilities and equity		$ 61,292	$ –	$ –	$ 61,292

18 FIRST-TIME ADOPTION (continued)

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION (continued)

PSP Investments has made the following significant adjustments to the Statement of Financial Position of the Plan Account as at March 31, 2014:

(Canadian $ millions)	Ref.	Previous GAAP	Presentation	IFRS
Assets				
Investments	A	$ 73,861	$ 1,408	$ 75,269
Investment-related assets	A	1,408	(1,408)	–
Other assets		92	–	92
Due from the Canadian Forces Pension Plan Account		14	–	14
Due from the Royal Canadian Mounted Police Pension Plan Account		5	–	5
Total assets		$ 75,380	$ –	$ 75,380
Liabilities				
Trade payable and other liabilities	D (ii)	$ 110	$ –	$ 110
Investment-related liabilities	E	7,102	(4,540)	2,562
Borrowings	E	–	4,540	4,540
Total liabilities		$ 7,212	$ –	$ 7,212
Net assets		$ 68,168	$ –	$ 68,168
Equity	D (ii)	$ 68,168	$ –	$ 68,168
Total liabilities and equity		$ 75,380	$ –	$ 75,380

PSP Investments has made the following significant adjustments to the Statement of Profit or Loss and Other Comprehensive Income of the Plan Account for the year ended March 31, 2014:

(Canadian $ millions)	Ref.	Previous GAAP	Presentation	Pension Benefits	IFRS
Investment income	A	$ 9,307	$ 187	$ –	$ 9,494
Investment-related expenses	A	$ –	$ 187	$ –	$ 187
Net investment income		$ 9,307	$ –	$ –	$ 9,307
Operating expenses		$ 157	$ –	$ –	$ 157
Profit		$ 9,150	$ –	$ –	$ 9,150
Other comprehensive income					
Remeasurement of the net defined benefit liability	D (ii)	$ –	$ –	$ 13	$ 13
Profit and other comprehensive income		$ 9,150	$ –	$ 13	$ 9,163

18 FIRST-TIME ADOPTION (continued)

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION (continued)

18.2.1. Notes to the Adjustments of the Statements of Financial Position and Statements of Profit or Loss and Other Comprehensive Income

(A) Consolidation of Certain Subsidiaries

Under previous Canadian GAAP, PSP Investments consolidated subsidiaries that it formed and that qualified as investment companies. Upon transition to IFRS, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities as required by IFRS 10. Instead, PSP Investments measures its investments in its subsidiaries at FVTPL in accordance with IFRS 9 as further described under Note 3.1.

Upon transition to IFRS, the presentation of the Financial Statements was adjusted as outlined in the tables above to reflect the impact of the difference described between previous Canadian GAAP and IFRS. The adjustment was made with respect to subsidiaries that are formed by PSP Investments and that qualify as investment entities.

(B) Statements of Cash Flows

Under previous Canadian GAAP, PSP Investments did not prepare a statement of cash flows. IAS 1 *Presentation of Financial Statements* requires a complete set of financial statements to include a statement of cash flows for the current and comparative periods, without exception.

(C) Disclosures

Upon transition to IFRS, PSP Investments was required to disclose information that was not previously disclosed under Canadian GAAP. The most significant of such disclosures are as follows:

(i) Certain disclosures with respect to fair value measurements under previous Canadian GAAP were expanded upon transition to IFRS as required by IFRS 13 *Fair Value Measurement*. They are presented mainly under Note 5.2.3.

(ii) Disclosures in connection with interests in other entities under Note 7 are required by IFRS 12 *Disclosures of Interests in Other Entities*.

(iii) Disclosures with respect to offsetting financial instruments under Note 8.4 are required by IFRS 7 *Financial Instruments: Disclosures*.

(D) Employee Benefits

PSP Investments has a defined benefit pension plan for the benefit of its employees hired prior to January 1, 2014. The net defined benefit liability is recorded in trade payable and other liabilities. Under previous Canadian GAAP, PSP Investments recognized actuarial gains and losses, which includes actual returns on plan assets, over the average remaining service period of active employees. IAS 19 *Employee Benefits* requires that remeasurements of the net defined benefit liability, which include actuarial gains and losses and actual returns on plan assets, are recorded against other comprehensive income (loss) as they are incurred.

(i) Impact on equity as at April 1, 2013

As at the transition date, the defined benefit pension plan had an unamortized actuarial loss of $17 million, of which $13 million was allocated to the Plan Account. As such, upon transition to IFRS, PSP Investments has increased the Plan Account's trade payable and other liabilities by $13 million and reduced equity by the same amount. At April 1, 2013, the date of transition to IFRS, such amount was allocated to the Plan Account based upon its weighted average net asset value since inception.

(ii) Impact on other comprehensive income for the year ended March 31, 2014 and equity as at March 31, 2014

During the year ended March 31, 2014, the remeasurement of the net defined benefit liability amounted to a gain of $17 million, of which $13 million was allocated to the Plan Account. This amount was recorded in other comprehensive income with an offsetting impact to trade payable and other liabilities. Such amount was allocated to the Plan Account based on the allocation described in Note 13.2.

The cumulative impact for the Plan Account of the opening equity adjustment ($13 million loss) and the March 31, 2014 adjustment ($13 million gain) is nil on both trade payable and other liabilities and retained earnings.

All other differences related to employee benefits during the year ended March 31, 2014 are not significant.

(E) Other

Borrowings have been reclassified on transition to IFRS to show the balance separately on the Statement of Financial Position.

CANADIAN FORCES
PENSION PLAN ACCOUNT
FINANCIAL STATEMENTS

Independent Auditors' Report

To the Minister of National Defence

Report on the Financial Statements

We have audited the accompanying 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, 2015, March 31, 2014 and April 1, 2013 and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the years ended March 31, 2015 and March 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Forces Pension Plan Account as at March 31, 2015, March 31, 2014 and April 1, 2013, and its financial performance and its cash flows for the years ended March 31, 2015 and March 31, 2014 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of new standards as explained in notes 2 and 18 to the financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Canadian Forces Pension Plan Account that have come to our notice during our audits of the financial statements have, in all significant respects, been in accordance with 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.

Deloitte LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A116129

May 14, 2015
Montréal, Canada

Clyde M. MacLellan, FCPA, FCA
Assistant Auditor General for the Auditor General of Canada

May 14, 2015
Ottawa, Canada

Statements of Financial Position

As at

(Canadian $ millions)	March 31, 2015	March 31, 2014 (Note 18)	April 1, 2013 (Note 18)
Assets			
Investments (Note 5.1)	**$ 24,468**	$ 20,285	$ 16,421
Other assets	**29**	25	16
Total assets	**$ 24,497**	$ 20,310	$ 16,437
Liabilities			
Trade payable and other liabilities	**$ 38**	$ 30	$ 30
Investment-related liabilities (Note 5.1)	**995**	691	574
Borrowings (Notes 5.1, 9)	**1,457**	1,223	957
Due to the Public Service Pension Plan Account	**16**	14	7
Total liabilities	**$ 2,506**	$ 1,958	$ 1,568
Net assets	**$ 21,991**	$ 18,352	$ 14,869
Equity	**$ 21,991**	$ 18,352	$ 14,869
Total liabilities and equity	**$ 24,497**	$ 20,310	$ 16,437

The accompanying notes are an integral part of the Financial Statements.

On behalf of the Board of Directors:

Michael P. Mueller
Chair of the Board

William A. MacKinnon
Chair of the Audit Committee

Statements of Profit or Loss and Other Comprehensive Income

For the years ended March 31

(Canadian $ millions)	2015	2014 (Note 18)
Investment income	$ 2,809	$ 2,563
Investment-related expenses (Note 11)	$ 59	$ 51
Net investment income	$ 2,750	$ 2,512
Operating expenses (Note 12)	$ 48	$ 42
Profit	$ 2,702	$ 2,470
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability (Note 18)	$ (3)	$ 3
Profit and other comprehensive income (loss)	$ 2,699	$ 2,473

Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	2015	2014
Fund transfers		
Balance at beginning of period	$ 11,228	$ 10,218
Fund transfers received during the period (Note 10.2)	940	1,010
Balance at end of period	$ 12,168	$ 11,228
Retained earnings		
Balance at beginning of period	$ 7,124	$ 4,651
Profit and other comprehensive income (loss)	2,699	2,473
Balance at end of period	$ 9,823	$ 7,124
Total equity	$ 21,991	$ 18,352

The accompanying notes are an integral part of the Financial Statements.

Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	2015	2014
Cash flows from operating activities		
Profit	$ 2,702	$ 2,470
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	3	3
Effect of exchange rate changes on cash and cash equivalents	(11)	11
Unrealized losses on borrowings	35	4
	$ 2,729	$ 2,488
Net changes in operating assets and liabilities		
Increase in investments	$ (4,172)	$ (3,875)
Decrease (Increase) in other assets	3	(5)
Increase in trade payable and other liabilities	5	3
Increase in investment-related liabilities	304	117
Net cash used in operating activities	$ (1,131)	$ (1,272)
Cash flow from financing activities		
Proceeds from borrowings	$ 1,777	$ 2,615
Repayment of borrowings	(1,578)	(2,353)
Repayment to the Public Service Pension Plan Account	(63)	(57)
Advances from the Public Service Pension Plan Account	65	64
Fund transfers received	940	1,010
Net cash flows provided by financing activities	$ 1,141	$ 1,279
Cash flow from investing activities		
Acquisitions of property, plant and equipment	$ (7)	$ (7)
Net cash flows used in investing activities	$ (7)	$ (7)
Net change in cash and cash equivalents	$ 3	$ –
Effect of exchange rate changes on cash and cash equivalents	11	(11)
Cash and cash equivalents at the beginning of the period	158	169
Cash and cash equivalents at the end of the period	$ 172	$ 158
Cash and cash equivalents are comprised of:		
Cash and cash equivalents held for investment purposes[A]	$ 169	$ 158
Cash held for administrative purposes[B]	3	–
Cash and cash equivalents at the end of the period	$ 172	$ 158
Supplementary disclosure of cash flow information		
Interest paid	$ (18)	$ (20)

[A] Cash and cash equivalents held for investment purposes are presented as part of fixed income in Note 5.1. Cash equivalents represent short-term deposits with a maturity of 90 days or less and are held for purposes of meeting short-term cash commitments. Cash equivalents are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

[B] Cash held for administrative purposes is included in other assets.

The accompanying notes are an integral part of the Financial Statements.

Notes to the Financial Statements

For the year ended March 31, 2015

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 440 Laurier street West, Ottawa, Ontario, Canada and its principal business office is at 1250 René Lévesque boulevard West, Montreal, Quebec, Canada.

2 FIRST-TIME ADOPTION OF IFRS

These are PSP Investments' first Financial Statements for the Plan Account prepared in accordance with International Financial Reporting Standards ("IFRS"). PSP Investments previously prepared financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The date of transition to IFRS was April 1, 2013.

PSP Investments' IFRS accounting policies as presented in Note 3 have been applied in preparing the Financial Statements for the year ended March 31, 2015, the comparative information and the opening Statement of Financial Position at the date of transition.

PSP Investments has applied IFRS 1 *First-Time Adoption of International Financial Reporting Standards* in preparing these IFRS Financial Statements. IFRS 1 sets out the procedures that PSP Investments must follow when it adopts IFRS for the first time as the basis for preparing its Financial Statements. PSP Investments is required to establish its IFRS accounting policies as at March 31, 2015 and, in general, apply these retrospectively to determine the IFRS opening Statement of Financial Position at its date of transition, April 1, 2013. IFRS 1 provides a number of mandatory exceptions and optional exemptions to this general principle. The effects of the transition to IFRS on equity and on profit (loss) and other comprehensive income (loss) are presented in Note 18.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied in the preparation of these Financial Statements are summarized below. The Financial Statements have been prepared using accounting policies specified by IFRS in effect at the end of the reporting period. These accounting policies have been used throughout all periods presented.

3.1. BASIS OF PRESENTATION

These Financial Statements have been prepared in accordance with 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*, 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 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 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.

The Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 14, 2015.

3.2. 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 on April 1, 2013, the date of its transition to IFRS. 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 Act*s. 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.

3 SIGNIFICANT ACCOUNTING POLICIES
(continued)

3.3. INTERESTS IN OTHER ENTITIES

Management assesses control, joint control and significant influence with respect to the investees disclosed in Note 7 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.

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Financial Statements are set out below.

3.4.1. 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 5.1.

Borrowings under the capital market debt financing program, as described under Note 9, 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. Purchases and sales 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 Statement of Profit or Loss and Other 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 (loss).

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.2. 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 real estate, private equity, infrastructure and renewable resources, 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 5.

3.4.3. 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 the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars. Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

3.4.4. Foreign Currency Translation

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.

Financial assets and financial 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 financial instruments are included in investment income (loss).

3.4.5. 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 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 recognize securities borrowed.

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.

3.4.6. Securities sold under Repurchase Agreements and Related Collateral

PSP Investments is party to agreements which involve the sale of securities with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Securities sold under the repurchase agreements are not derecognized as PSP Investments retains all related risks and rewards of ownership. As such, all related income (loss) continues to be reported in investment income (loss) and obligations to repurchase the securities sold are accounted for as investment-related liabilities.

Securities sold under 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. 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. PSP Investments does not sell, repledge or otherwise use collateral held.

3.4.7. 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 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.8. 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.

3.4.9. Investment Income

Investment income (loss) is made up of interest, dividends, gains (losses) on the disposal of investments as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the reporting period. Interest is recognized as earned. Dividends are recognized on the ex-dividend date. Distributions from pooled funds, limited partnerships or from direct investments and co-investments are recognized as interest, dividend or realized gains (losses) as appropriate. Co-investments are investments in private entities where the investment is made in conjunction with an external manager with whom PSP Investments already has committed and delegated funds.

3.4.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, as described in Note 5.1.7, 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 are expensed as they are incurred. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets and other fixed income securities as outlined in Note 11.

Other (net) includes dividend expense related to securities sold short and securities lending income net of fees on securities borrowed.

3.4.11. Fund Transfers

Amounts are received from the Government of Canada for the Fund and are recorded in the Plan Account.

3.5. 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 3.2 as well as the determination of control, joint control and significant influence as described in Note 3.3.

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 5.2.3 and those regarding the assessment of risk are outlined in Note 8.

Although estimates and assumptions reflect management's best judgment, actual results may differ from such estimates due to the uncertainties involved in using them.

4 CURRENT AND FUTURE CHANGES IN ACCOUNTING STANDARDS

4.1. CURRENT ACCOUNTING STANDARDS ADOPTED BEFORE THE EFFECTIVE DATE

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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted.

PSP Investments has adopted IFRS 9 in its Consolidated Financial Statements prepared in accordance with IFRS for the year ended March 31, 2015. Significant accounting policies in connection with IFRS 9 are described under Note 3.4.1. Additional information regarding the implementation of IFRS 9 in the year of first-time adoption of IFRS is presented under Note 18.1.

4.2. FUTURE ACCOUNTING STANDARDS

A number of new standards, amendments and interpretations have been issued by the IASB, but are not yet effective. The following relates to one or more of PSP Investments' significant accounting policies or disclosures:

IFRS 11 Joint Arrangements

IFRS 11 was amended, effective in annual periods beginning on or after January 1, 2016, to add new guidance on the accounting for acquisitions of interests in a joint operation that constitutes a business. Acquirers of such interests shall apply all of the principles in business combinations accounting in IFRS 3 *Business Combinations*, and other IFRS, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRS in relation to business combinations. Management is currently assessing the impact of adopting this amendment.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1. 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, 2015	March 31, 2014	April 1, 2013
Public markets			
Canadian equity	$ 1,625	$ 1,787	$ 1,803
Foreign equity	6,549	5,435	4,094
Private markets			
Real estate	3,343	2,463	2,130
Private equity	1,969	1,583	1,373
Infrastructure	1,524	1,281	871
Renewable resources	451	232	82
Fixed income			
Cash and money market securities	765	758	704
Government and corporate bonds	3,583	3,348	2,191
Inflation-linked bonds	1,263	978	855
Other fixed income securities	1,511	1,451	1,536
Alternative investments	1,083	590	350
	$ 23,666	$ 19,906	$ 15,989
Investment-related assets			
Amounts receivable from pending trades	$ 396	$ 144	$ 219
Interest receivable	42	43	30
Dividends receivable	19	16	13
Derivative-related assets	345	176	170
	$ 802	$ 379	$ 432
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 24,468	$ 20,285	$ 16,421
Investment-related liabilities			
Amounts payable from pending trades	$ (315)	$ (186)	$ (216)
Interest payable	(6)	(4)	(4)
Securities sold short	(106)	(140)	(92)
Securities sold under repurchase agreements	–	(124)	(119)
Derivative-related liabilities	(568)	(237)	(143)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (995)	$ (691)	$ (574)
Borrowings			
Capital market debt financing	$ (1,457)	$ (1,223)	$ (957)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ (1,457)	$ (1,223)	$ (957)
NET INVESTMENTS	$ 22,016	$ 18,371	$ 14,890

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.1. 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 market prices 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 to ensure reasonableness. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

5.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and renewable 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 financings. As at March 31, 2015, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSP Investments was $1,075 million for the Plan Account (March 31, 2014 – $825 million and April 1, 2013 – $683 million).

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 financings. As at March 31, 2015, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSP Investments was $282 million for the Plan Account (March 31, 2014 – $322 million and April 1, 2013 – $54 million).

Renewable resources investments are mainly comprised of direct investments and partnerships in timberlands and agriculture.

The fair value of private markets investments is determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

5.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and other fixed income 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. 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. Inflation-linked bonds are fixed income securities that earn inflation adjusted returns.

Other fixed income securities consist of asset-backed securities, floating rate notes as well as private debt investments.

Fair values of government and corporate bonds, inflation-linked bonds, floating rate notes 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.

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009. Potential margin calls on the ABTNs are supported by funding facilities, as described in Note 16.

Private debt investments are mainly in the real estate sector in the form of third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products. They also include real estate debt funds where significant portions of the value are attributed to the underlying real estate assets.

Private debt investments also include debt securities of private companies or other entities such as venture capital organizations, held mainly through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt.

The fair values of ABTNs as well as private debt investments are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

The fair value measurement of fund investments included as part of private debt investments is described in Note 5.2.2.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.4. 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 to ensure reasonableness. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

5.1.5. 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.

5.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which approximates fair value.

5.1.7. Interest Payable

With respect to the borrowings described in Note 5.1.10, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

5.1.8. 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.

5.1.9. Securities Sold under Repurchase Agreements

As described in Note 3.4.6, PSP Investments is party to agreements which involve the sale of securities with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Obligations to repurchase the securities sold under repurchase agreements are recorded at cost plus accrued interest, which approximates fair value.

5.1.10. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 9. Short-term promissory notes are recorded at cost plus accrued interest, which 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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. 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 the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity, 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.

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.

Collateralized Debt Obligations

Collateralized debt obligations are a type of asset-backed security that is constructed from a portfolio of credit-related assets. Collateralized debt obligations are usually divided into several tranches with different credit risk levels and corresponding interest payments. Any losses are applied first to the more junior tranches (lowest risk rating) before moving up in seniority.

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.

The fair value of collateralized debt obligations is determined using valuation techniques that incorporate significant inputs that are not observable in the market. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2015			March 31, 2014			April 1, 2013		
		Fair Value			Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities
Equity and commodity derivatives									
Listed									
Futures	**$ 134**	**$ –**	**$ –**	$ 275	$ –	$ –	$ 165	$ –	$ –
Warrants and rights	**1**	**1**	**–**	1	1	–	–	–	–
Options:									
Purchased	**108**	**5**	**–**	135	4	–	502	6	–
Written	**105**	**–**	**(1)**	81	–	(3)	196	–	(3)
OTC									
Forwards	**75**	**6**	**(12)**	–	–	–	–	–	–
Total return swaps	**3,233**	**51**	**(12)**	2,657	41	(4)	1,942	32	(10)
Options:									
Purchased	**799**	**35**	**–**	1,075	60	–	245	32	–
Written	**810**	**–**	**(33)**	1,194	–	(69)	242	–	(28)
Currency derivatives									
Listed									
Futures	**31**	**–**	**–**	14	–	–	8	–	–
OTC									
Forwards	**8,715**	**94**	**(290)**	6,076	30	(89)	6,702	67	(65)
Swaps	**624**	**5**	**(64)**	697	1	(24)	208	5	(6)
Options:									
Purchased	**2,274**	**81**	**–**	788	7	–	1,016	15	–
Written	**2,306**	**–**	**(77)**	687	–	(3)	948	–	(13)
Interest rate derivatives									
Listed									
Futures	**1,523**	**–**	**–**	477	–	–	260	–	–
Options:									
Purchased	**9,494**	**3**	**–**	5,189	4	–	988	1	–
Written	**9,786**	**–**	**(2)**	5,442	–	(2)	971	–	(1)
OTC									
Bond forwards	**566**	**–**	**(1)**	138	–	–	165	1	(1)
Interest rate swaps	**1,625**	**26**	**(32)**	2,323	8	(17)	2,260	4	(7)
Swaptions	**9,122**	**36**	**(37)**	6,183	16	(14)	550	1	(1)
Options:									
Purchased	**1,092**	**1**	**–**	1,991	3	–	344	2	–
Written	**354**	**–**	**(1)**	2,947	–	(3)	544	–	(2)
OTC-cleared									
Interest rate swaps	**2,403**	**–**	**–**	300	–	–	–	–	–
Credit derivatives[A]									
OTC									
Purchased	**246**	**–**	**(4)**	418	–	(9)	374	3	(3)
Sold	**118**	**1**	**(2)**	107	1	–	183	1	(3)
OTC-cleared									
Purchased	**121**	**–**	**–**	190	–	–	–	–	–
Sold	**228**	**–**	**–**	275	–	–	–	–	–
Total		**$ 345**	**$ (568)**		$ 176	$ (237)		$ 170	$ (143)

[A] Credit derivatives include credit default swaps and collateralized debt obligations. PSP Investments, through sold credit derivatives, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the sold credit derivatives as shown in the table above.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2015			March 31, 2014			April 1, 2013		
		Fair Value			Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities
Listed derivatives	**$ 21,182**	**$ 9**	**$ (3)**	$ 11,614	$ 9	$ (5)	$ 3,090	$ 7	$ (4)
OTC derivatives	**31,959**	**336**	**(565)**	27,281	167	(232)	15,723	163	(139)
OTC-cleared derivatives	**2,752**	**–**	**–**	765	–	–	–	–	–
Total		**$ 345**	**$ (568)**		$ 176	$ (237)		$ 170	$ (143)

The term to maturity based on notional value for the derivatives was as follows as at:

(Canadian $ millions)	**March 31, 2015**
Less than 3 months	**$ 20,746**
3 to 12 months	**24,529**
Over 1 year	**10,618**

5.2. FAIR VALUE HIERARCHY

5.2.1. Classification

Financial assets and financial liabilities described under Note 5.1 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 of 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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2015 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 1,480	$ 145	$ –	$ –	$ 1,625
Foreign equity	5,497	1,052	–	–	6,549
Private markets					
Real estate	–	–	3,343	–	3,343
Private equity	–	–	1,969	–	1,969
Infrastructure	–	–	1,524	–	1,524
Renewable resources	–	–	451	–	451
Fixed income					
Cash and money market securities	–	474	–	291	765
Government and corporate bonds	–	3,583	–	–	3,583
Inflation-linked bonds	–	1,263	–	–	1,263
Other fixed income securities	–	471	1,040	–	1,511
Alternative investments	–	278	805	–	1,083
	$ 6,977	$ 7,266	$ 9,132	$ 291	$ 23,666
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 396	$ 396
Interest receivable	–	–	–	42	42
Dividends receivable	–	–	–	19	19
Derivative-related assets	9	336	–	–	345
	$ 9	$ 336	$ –	$ 457	$ 802
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 6,986	$ 7,602	$ 9,132	$ 748	$ 24,468
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (315)	$ (315)
Interest payable	–	–	–	(6)	(6)
Securities sold short	(106)	–	–	–	(106)
Securities sold under repurchase agreements	–	–	–	–	–
Derivative-related liabilities	(3)	(564)	(1)	–	(568)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (109)	$ (564)	$ (1)	$ (321)	$ (995)
Borrowings					
Capital market debt financing	$ –	$ (1,457)	$ –	$ –	$ (1,457)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (1,457)	$ –	$ –	$ (1,457)
NET INVESTMENTS	$ 6,877	$ 5,581	$ 9,131	$ 427	$ 22,016

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2014 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 1,658	$ 129	$ –	$ –	$ 1,787
Foreign equity	4,337	1,098	–	–	5,435
Private markets					
Real estate	–	–	2,463	–	2,463
Private equity	–	–	1,583	–	1,583
Infrastructure	–	–	1,281	–	1,281
Renewable resources	–	–	232	–	232
Fixed income					
Cash and money market securities	–	–	–	758	758
Government and corporate bonds	–	3,348	–	–	3,348
Inflation-linked bonds	–	978	–	–	978
Other fixed income securities	–	600	851	–	1,451
Alternative investments	–	220	370	–	590
	$ 5,995	$ 6,373	$ 6,780	$ 758	$ 19,906
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 144	$ 144
Interest receivable	–	–	–	43	43
Dividends receivable	–	–	–	16	16
Derivative-related assets	8	168	–	–	176
	$ 8	$ 168	$ –	$ 203	$ 379
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 6,003	$ 6,541	$ 6,780	$ 961	$ 20,285
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (186)	$ (186)
Interest payable	–	–	–	(4)	(4)
Securities sold short	(140)	–	–	–	(140)
Securities sold under repurchase agreements	–	(124)	–	–	(124)
Derivative-related liabilities	(5)	(232)	–	–	(237)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (145)	$ (356)	$ –	$ (190)	$ (691)
Borrowings					
Capital market debt financing	$ –	$ (1,223)	$ –	$ –	$ (1,223)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (1,223)	$ –	$ –	$ (1,223)
NET INVESTMENTS	$ 5,858	$ 4,962	$ 6,780	$ 771	$ 18,371

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at April 1, 2013 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 1,803	$ –	$ –	$ –	$ 1,803
Foreign equity	3,109	985	–	–	4,094
Private markets					
Real estate	–	–	2,130	–	2,130
Private equity	–	–	1,373	–	1,373
Infrastructure	–	–	871	–	871
Renewable resources	–	–	82	–	82
Fixed income					
Cash and money market securities	–	–	–	704	704
Government and corporate bonds	–	2,191	–	–	2,191
Inflation-linked bonds	–	855	–	–	855
Other fixed income securities	–	665	871	–	1,536
Alternative investments	–	173	177	–	350
	$ 4,912	$ 4,869	$ 5,504	$ 704	$ 15,989
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 219	$ 219
Interest receivable	–	–	–	30	30
Dividends receivable	–	–	–	13	13
Derivative-related assets	6	164	–	–	170
	$ 6	$ 164	$ –	$ 262	$ 432
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 4,918	$ 5,033	$ 5,504	$ 966	$ 16,421
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (216)	$ (216)
Interest payable	–	–	–	(4)	(4)
Securities sold short	(92)	–	–	–	(92)
Securities sold under repurchase agreements	–	(119)	–	–	(119)
Derivative-related liabilities	(3)	(139)	(1)	–	(143)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (95)	$ (258)	$ (1)	$ (220)	$ (574)
Borrowings					
Capital market debt financing	$ –	$ (957)	$ –	$ –	$ (957)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (957)	$ –	$ –	$ (957)
NET INVESTMENTS	$ 4,823	$ 3,818	$ 5,503	$ 746	$ 14,890

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

As at March 31, 2014, listed foreign equity securities held by a non-listed fund, were classified as Level 2. During the year ended March 31, 2015, the listed securities with a fair value of $94 million were transferred to PSP Investments and classified as Level 1 as at March 31, 2015.

During the year ended March 31, 2014, listed Canadian equity securities with a fair value of $123 million classified as Level 1 were transferred to a non-listed fund held by PSP Investments. Consequently, the securities were classified as Level 2 as at March 31, 2014.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.2. 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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. 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, 2015:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	**$ 3,038**	Discounted cash flow (DCF)	Discount rate [A, B]	6.00% – 26.00% (8.21%)
				Terminal capitalization rate [A, B]	4.00% – 12.00% (6.36%)
			Direct capitalization	Capitalization rate [A, C]	3.25% – 9.25% (6.72%)
				Stabilized occupancy rate [C, D]	93.00% – 98.50% (96.49%)
			Net asset value method (NAV) [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 305**	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	**$ 2,557**	DCF	Discount rate [A]	5.69% – 13.40% (9.49%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 1,387**	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	**$ 272**	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	**$ 204**	DCF	Discount rate [A]	9.50% – 13.40% (11.22%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 564**	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	**$ 805**	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	**$ (1)**	Third-party pricing [E]	N/A	N/A
TOTAL		**$ 9,131**			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $37 million.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. 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, 2014:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	$ 2,106	DCF	Discount rate [A, B]	5.50% – 26.00% (8.50%)
				Terminal capitalization rate [A, B]	4.00% – 10.25% (6.28%)
			Direct capitalization	Capitalization rate [A, C]	4.00% – 9.50% (8.12%)
				Stabilized occupancy rate [C, D]	94.50% – 100% (97.58%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 357	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 2,056	DCF	Discount rate [A]	6.25% – 13.50% (9.68%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 1,040	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	$ 296	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 207	DCF	Discount rate [A]	4.00% – 13.40% (11.71%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 348	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	$ 370	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	$ –	Third-party pricing [E]	N/A	N/A
TOTAL		$ 6,780			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $32 million.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. 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 April 1, 2013:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	$ 1,904	DCF	Discount rate [A, B]	4.75% – 26.00% (8.46%)
				Terminal capitalization rate [A, B]	4.50% – 11.25% (6.71%)
			Direct capitalization	Capitalization rate [A, C]	4.50% – 9.50% (8.78%)
				Stabilized occupancy rate [C, D]	72.00% – 100% (83.39%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 226	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 1,286	DCF	Discount rate [A]	6.50% – 13.30% (9.33%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 1,040	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	$ 338	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 235	DCF	Discount rate [A]	4.00% – 29.00% (12.77%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Credit linked notes	$ 7	Internal present value model	Default probability	90.00% – 100% (93.00%)
				Recovery rate	0% – 65.00% (40.00%)
	Fund investments	$ 291	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	$ 177	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	$ (1)	Third-party pricing [E]	N/A	N/A
TOTAL		$ 5,503			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $29 million.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.4. 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, 2015:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains (Losses)	Unrealized Gains (Losses)[A]	Transfer out of Level 3	Closing Balance
Private markets	$ 5,559	$ 1,521	$ (540)	$ –	$ 95	$ 713	$ (61)	$ 7,287
Fixed income	851	356	(219)	(29)	20	61	–	1,040
Alternative investments	370	450	(115)	–	(9)	109	–	805
Derivative-related assets/liabilities (net)	–	–	–	–	–	(1)	–	(1)
Total	$ 6,780	$ 2,327	$ (874)	$ (29)	$ 106	$ 882	$ (61)	$ 9,131

As at March 31, 2014, a private markets investment was classified under Level 3 as the fair value was determined based on significant unobservable inputs. During the year ended March 31, 2015, the investment was transferred to Level 1, as the underlying investee 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, 2014:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains[A]	Transfer out of Level 3	Closing Balance
Private markets	$ 4,456	$ 1,311	$ (837)	$ –	$ 147	$ 534	$ (52)	$ 5,559
Fixed income	871	181	(238)	(55)	60	32	–	851
Alternative investments	177	172	(5)	–	–	26	–	370
Derivative-related assets/liabilities (net)	(1)	2	(2)	–	–	1	–	–
Total	$ 5,503	$ 1,666	$ (1,082)	$ (55)	$ 207	$ 593	$ (52)	$ 6,780

[A] Includes Plan Account allocation adjustments.

As at April 1, 2013, two private markets investments were classified under Level 3 as their fair values were determined based on significant unobservable inputs. During the year ended March 31, 2014, such investments were transferred to Level 2 as the underlying investees indirectly held by PSP Investments became publicly traded. In the case of one of the two private markets investments, the instruments held by PSP Investments were subject to restrictions as at March 31, 2014 and could only be resold upon registration.

5.2.5. 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 5.2.3. 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 4% increase and 3% decrease as at March 31, 2015 (March 31, 2014 – 7% increase and 5% decrease and April 1, 2013 – 4% increase and 4% decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. Management ensures the appropriateness of the work performed by third-party appraisers as described under Note 5.2.2. In the case of fund investments, the fair value is determined as indicated in Note 5.2.2.

6 COLLATERAL PLEDGED AND RECEIVED

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 3.4.5, 3.4.6 and 8.2.1. 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 agreements as at:

(Canadian $ millions)	**March 31, 2015**	March 31, 2014	April 1, 2013
Securities lending and borrowing			
Securities lent	**$ 2,613**	$ 1,886	$ 1,445
Collateral held [A]	**2,820**	2,007	1,522
Securities borrowed	**106**	140	92
Collateral pledged [B]	**110**	147	92
Securities repurchase agreements			
Securities sold under repurchase agreements	**–**	124	119
Collateral pledged	**–**	124	119
Derivative contracts			
Collateral pledged	**276**	113	14
Collateral held	**33**	7	28

[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 $527 million for the Plan Account as at March 31, 2015 (March 31, 2014 – $473 million and April 1, 2013 – $433 million) and securities amounted to $2,293 million as at March 31, 2015 (March 31, 2014 – $1,534 million and April 1, 2013 – $1,089 million). All cash collateral is re-invested.

[B] The minimum fair value of collateral required is equal to 100% of the fair value of the securities borrowed.

7 INTERESTS IN OTHER ENTITIES

7.1. 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 3.1.

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. At March 31, 2015, 92 investment entity subsidiaries were incorporated in North America, 14 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa (March 31, 2014 – 82 in North America, 13 in Europe, 9 in Oceania, 3 in Central and South America, and 1 in Africa; April 1, 2013 – 80 in North America, 10 in Europe, 5 in Oceania, and 3 in Central and South America).

In addition, PSP Investments controlled 68 investees directly or through its investment entity subsidiaries as at March 31, 2015 (March 31, 2014 – 58 investees and April 1, 2013 – 51 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. PSP Investments determines control, joint control and significant influence as described in Note 3.3.

As at March 31, 2015

Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments**	**Relationship to PSP Investments**
Revera Inc.	**North America**	**100%**	**Controlled investee**
Kaingaroa Timberlands Ltd.	**Oceania**	**56%**	**Jointly controlled investee**
Telesat Holdings Inc.	**North America**	**34%**	**Associate**
AviAlliance GmbH	**Europe**	**100%**	**Controlled investee**
Isolux Infrastructure Netherlands B.V.	**Central and South America**	**22%**	**Jointly controlled investee**
Acelity Inc. (formerly Kinetic Concepts, Inc.)	**North America**	**21%**	**Associate**
TDF S.A.S.	**Europe**	**25%**	**Associate**
Roccapina Fund, L.P.	**North America**	**100%**	**Controlled investee**
Transelec S.A.	**Central and South America**	**18%**	**Associate**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50%**	**Jointly controlled investee**

As at March 31, 2014

Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	North America	100%	Controlled investee
Telesat Holdings Inc.	North America	34%	Associate
AviAlliance GmbH	Europe	100%	Controlled investee
Kinetic Concepts, Inc.	North America	21%	Associate
Isolux Infrastructure Netherlands B.V.	Central and South America	19%	Jointly controlled investee
Kaingaroa Timberlands Ltd.	Oceania	30%	Jointly controlled investee
Transelec S.A.	Central and South America	18%	Associate
Gassled	Europe	5%	Associate
Charter Hall Office Trust	Oceania	43%	Jointly controlled investee
Forth Ports Limited	Europe	37%	Jointly controlled investee

7 INTERESTS IN OTHER ENTITIES (continued)

7.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

			As at April 1, 2013
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	North America	100%	Controlled investee
Telesat Holdings Inc.	North America	35%	Associate
SCG Hotel CLP, L.P.	North America	100%	Controlled investee
Gassled	Europe	5%	Associate
Kinetic Concepts, Inc.	North America	21%	Associate
Transelec S.A.	Central and South America	18%	Associate
Charter Hall Office Trust	Oceania	43%	Jointly controlled investee
TD Canada Trust Tower	North America	50%	Jointly controlled investee
H2O Power Limited Partnership	North America	92%	Controlled investee
DP World Australia Ltd.	Oceania	25%	Jointly controlled investee

In addition to the above, PSP Investments controls and consolidates two wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services are mainly related to raising capital used to finance private market investments within the context of PSP Investments' capital market debt program described in Note 9.

7.2. 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 8, guarantees and indemnities under Note 16 and commitments under Note 17.

8 INVESTMENT RISK MANAGEMENT

PSP Investments has implemented an investment approach that aims to maximize rates of return without undue risk of loss. In pursuit of such an objective, PSP Investments has developed an Investment Risk Management Policy (IRM Policy) to support the management of risks incurred through the investment processes. The IRM policy, which supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), establishes the Investment Risk Management Framework (IRM Framework) with a goal of ensuring that all investments made by PSP Investments or its investment entity subsidiaries respect the risk philosophy of PSP Investments and are within the tolerances and limits of its risk appetite.

The IRM Framework requires reporting on risk to all levels of the organization. The Board of Directors and its committees oversee all risk matters and receive reporting from senior management as well as PSP Investments' independent internal auditor reporting directly to the Audit Committee.

The IRM Framework is designed to effectively manage all investment risks PSP Investments is exposed to, which include market, credit and liquidity risks, related to the implementation of the Policy Portfolio and active management activities.

8.1. 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.

Market risk management focuses on the following two key components:

- Policy Portfolio
  The Policy Portfolio (long-term asset mix), as defined in the SIP&P, determines a diversification strategy to mitigate risk whereby PSP Investments invests in a diversified portfolio expected to achieve a return at least equal to the Actuarial Rate of Return (ARR); defined as the rate of return assumption used by the Chief Actuary of Canada in the latest actuarial valuation reports of the Plans. In the absence of other factors affecting the funding of the Plans or changes to pension benefits under the Plans, the ARR is the rate of return required to maintain funding requirements and pension benefits at their current levels.
- Active Management
  Active management is defined as the sum of investment strategies that deviate from the approved Policy Portfolio. It is designed to supplement the returns of the Policy Portfolio within an active risk budget.

The risks associated with these components are the Policy Portfolio market risk and the active risk. The Policy Portfolio market risk represents the investment risk arising from the exposure to approved asset classes in the approved weightings. In establishing its Policy Portfolio, PSP Investments also takes into consideration the impact of the Policy Portfolio market risk on funding risk. Funding risk is the risk that the assets under management will be insufficient to meet the relevant pension liabilities of the Plans, which may require the contributions to the Funds of the Plans to be increased. The Policy Portfolio is reviewed at least annually as part of the review of the SIP&P, and this review includes changes, if any, to PSP Investments' long-term expectations of market conditions and other factors that may affect the funding levels of the Plans.

Active risk refers to all market risk arising from active management activities. It is managed in accordance with the Investment Risk Management Policy.

8.1.1. Measurement of Market Risk

The Value-at-Risk (VaR) is one of the methods used to measure market risk and is reported on a quarterly basis. It is not the maximum potential loss, but rather the maximum loss not exceeded with a given confidence level, over a given period of time. PSP Investments uses a Historical VaR model incorporating ten years' worth of market returns scaled to a twelve-month holding period at a 95% confidence level. For investments that are not actively traded, the calculation of VaR uses securities with similar risk attributes as proxy.

In measuring Policy Portfolio risk, VaR represents the absolute loss expected from the Policy Portfolio (Policy Portfolio VaR). Whereas in terms of measuring the active risk, VaR reflects the loss relative to the Policy Portfolio benchmark (Active VaR).

VaR 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.

8 INVESTMENT RISK MANAGEMENT (continued)

8.1. MARKET RISK (continued)

8.1.1. Measurement of Market Risk (continued)

The following table shows the total VaR consisting of the Policy Portfolio VaR, the Active VaR and the diversification effect, calculated as a percentage of net investments as at the end of the period. The diversification effect captures the impact of holding different types of assets which may react differently in various types of situations and thus reduces the total VaR. The information is presented as at:

	March 31, 2015	March 31, 2014	April 1, 2013
Policy Portfolio VaR	**20.6 %**	20.3 %	20.2 %
Active VaR	**2.6**	2.8	2.6
Total VaR (undiversified)	**23.2**	23.1	22.8
Diversification effect	**(0.9)**	(0.1)	(1.3)
Total VaR	**22.3 %**	23.0 %	21.5 %

Stress Testing

Although VaR 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. Stress testing and scenario analysis 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.

8.1.2. 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 5.1, with the most significant exposure to interest rate risk were as follows as at March 31, 2015:

(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Government bonds	$ 210	$ 874	$ 414	$ 733	$ –	$ 2,231
Corporate bonds	277	647	340	88	–	1,352
Inflation-linked bonds	1	277	411	574	–	1,263
Asset-backed securities	12	277	5	–	–	294
Private debt investments:						
Directly held	3	111	57	–	5	176
Held through funds [A]	–	–	–	–	591	591
Total investments with significant exposure to interest rate risk	**$ 503**	**$ 2,186**	**$ 1,227**	**$ 1,395**	**$ 596**	**$ 5,907**
Other investments [B]	**$ –**	**$ –**	**$ –**	**$ –**	**$ 1,215**	**$ 1,215**
Total fixed income	**$ 503**	**$ 2,186**	**$ 1,227**	**$ 1,395**	**$ 1,811**	**$ 7,122**

[A] Due to their nature, information in connection with the terms to maturity of fund investments included as part of private debt investments is not available.

[B] Consists of $765 million in cash and money market securities and $450 million in floating rate notes, which, due to their nature, are not significantly exposed to interest rate risk.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 9.

Alternative investments as well as derivative contracts described in Notes 5.1.4 and 5.1.11, respectively, are also subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 8.1.1.

8 INVESTMENT RISK MANAGEMENT (continued)

8.1. MARKET RISK (continued)

8.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through direct and indirect holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets. 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. In October 2013, PSP Investments amended its policy to fully hedge foreign currency investments in government and corporate bonds, inflation-linked bonds, certain other fixed income securities, as well as investments in real estate, infrastructure and renewable resources. PSP Investments' previous policy was to hedge a target of 50% of its foreign currency investments in non-emerging countries. Additional factors are considered when implementing the hedging target for investments in emerging countries, namely, total relative exposure and cost effectiveness.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

(Canadian $ millions)	**March 31, 2015**		March 31, 2014		April 1, 2013	
Currency	**Fair Value**	**% of Total**	Fair Value	% of Total	Fair Value	% of Total
US Dollar	**$ 5,721**	**58.8 %**	$ 4,819	61.0 %	$ 2,988	53.3 %
Euro	**707**	**7.3**	679	8.6	503	9.0
Japanese Yen	**451**	**4.7**	308	3.9	223	4.0
British Pound	**435**	**4.5**	364	4.6	416	7.4
Hong Kong Dollar	**419**	**4.3**	257	3.3	202	3.6
Korean Won	**352**	**3.6**	256	3.2	151	2.7
Brazilian Real	**276**	**2.8**	248	3.1	236	4.2
Swiss Franc	**223**	**2.3**	156	2.0	75	1.3
Taiwanese New Dollar	**195**	**2.0**	120	1.5	92	1.6
Indian Rupee	**138**	**1.4**	92	1.2	69	1.2
Australian Dollar	**127**	**1.3**	99	1.3	184	3.3
South African Rand	**119**	**1.2**	77	1.0	59	1.1
Mexican Peso	**72**	**0.7**	42	0.5	47	0.9
Thai Baht	**46**	**0.5**	22	0.3	36	0.6
Others	**442**	**4.6**	360	4.5	321	5.8
Total	**$ 9,723**	**100.0 %**	$ 7,899	100.0 %	$ 5,602	100.0 %

As at March 31, 2015, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $2,914 million for the Plan Account (US$2,036 million, €154 million, £44 million, R58 million South African Rands, R$85 million Brazilian Reals and $8,354 million Colombian pesos) which were not included in the foreign currency exposure table.

8 INVESTMENT RISK MANAGEMENT
(continued)

8.2. 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 sold under 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, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. Except for ABTNs, securities rated by only one agency are classified as "not rated". If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings.

As at March 31, 2015, the Plan Account's maximum exposure to credit risk amounted to approximately $6 billion (March 31, 2014 – approximately $6 billion and April 1, 2013 – approximately $5 billion). This amount excludes investments in distressed debt in the amount of approximately $0.5 billion as at March 31, 2015 (March 31, 2014 – approximately $0.3 billion and April 1, 2013 – approximately $0.3 billion). The maximum exposure to credit risk also excludes collateralized debt obligations, collateral held as disclosed in Notes 5.1.11 and 6, respectively, and the impact of guarantees and indemnities disclosed in Note 16.

As at March 31, 2015, the Plan Account had a net notional exposure of $12 million (March 31, 2014 – $11 million and April 1, 2013 – $24 million) to various tranches of collateralized debt obligations, of which approximately 45% (March 31, 2014 – approximately 53% and April 1, 2013 – approximately 67%) of the underlying dollar exposure was rated "Investment grade", as well as funding facilities, as described in Note 16, to support potential margin calls on the ABTNs.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating of all credit-sensitive financial securities with the exception of securities held in pooled funds or for private markets investments.

PSP Investments' concentration of credit risk by credit rating, excluding the items described above and any other credit enhancement, for the Plan Account was as follows as at:

	March 31, 2015	March 31, 2014	April 1, 2013
Investment grade (AAA to BBB–)	**97.5 %**	97.4 %	97.9 %
Below investment grade (BB+ and below)	**0.4**	1.0	1.0
Not rated:			
Rated by a single credit rating agency	**0.6**	0.5	0.1
Not rated by credit rating agencies	**1.5**	1.1	1.0
Total	**100.0 %**	100.0 %	100.0 %

8 INVESTMENT RISK MANAGEMENT (continued)

8.2. CREDIT RISK (continued)

8.2.1. 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 sold under 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 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. In certain cases, counterparties are 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 with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing as well as securities sold under repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 3.4.5 and 3.4.6 describe collateral requirements in securities lending and borrowing programs as well as securities sold under repurchase agreements, respectively.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 6.

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.

8.3. 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 9 provides additional information on the usage of the capital market debt program.

The terms to maturity of the notional amount of derivatives are disclosed in Note 5.1.11.

8 INVESTMENT RISK MANAGEMENT (continued)

8.3. LIQUIDITY RISK (continued)

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, 2015 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	$ (315)	$ –	$ –	$ (315)
Interest payable	(6)	–	–	(6)
Securities sold short	(106)	–	–	(106)
Capital market debt financing	(491)	(420)	(546)	(1,457)
Accounts payable and other liabilities	(25)	–	(13)	(38)
Total	$ (943)	$ (420)	$ (559)	$ (1,922)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 148	$ 122	$ 75	$ 345
Derivative-related liabilities [A]	(231)	(203)	(134)	(568)
Total	$ (83)	$ (81)	$ (59)	$ (223)

[A] Liabilities are presented in the earliest period in which the counterparty can request payment.

8 INVESTMENT RISK MANAGEMENT (continued)

8.4. OFFSETTING

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described in Note 8.2.1. 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 sold under repurchase agreements, as described in Notes 3.4.6 and 6, are subject to similar arrangements though are not offset.

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 (Note 5.1.11)	Less: Related Amounts not Set off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
As at March 31, 2015						
OTC-derivatives	**$ 342**	**$ 6**	**$ 336**	**$ 303**	**$ 22**	**$ 11**
Total	**$ 342**	**$ 6**	**$ 336**	**$ 303**	**$ 22**	**$ 11**
As at March 31, 2014						
OTC-derivatives	$ 168	$ 1	$ 167	$ 150	$ 6	$ 11
Total	$ 168	$ 1	$ 167	$ 150	$ 6	$ 11
As at April 1, 2013						
OTC-derivatives	$ 164	$ 1	$ 163	$ 125	$ 26	$ 12
Total	$ 164	$ 1	$ 163	$ 125	$ 26	$ 12

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	
As at March 31, 2015						
OTC-derivatives	**$ 571**	**$ 6**	**$ 565** [A]	**$ 303**	**$ 240**	**$ 22**
Total	**$ 571**	**$ 6**	**$ 565**	**$ 303**	**$ 240**	**$ 22**
As at March 31, 2014						
OTC-derivatives	$ 233	$ 1	$ 232 [A]	$ 150	$ 71	$ 11
Repurchase agreements	124	–	124 [B]	–	124	–
Total	$ 357	$ 1	$ 356	$ 150	$ 195	$ 11
As at April 1, 2013						
OTC-derivatives	$ 140	$ 1	$ 139 [A]	$ 125	$ 12	$ 2
Repurchase agreements	119	–	119 [B]	–	119	–
Total	$ 259	$ 1	$ 258	$ 125	$ 131	$ 2

[A] As described in Note 5.1.11.

[B] As described in Note 5.1.

9 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 $3 billion for issuances in Canada and US $5 billion for issuances in the United States.

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2015 and March 31, 2014.

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, 2015		March 31, 2014		April 1, 2013	
(Canadian $ millions)	**Capital Amounts Payable at Maturity**	**Fair Value**	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.64% and 1.21% and maturing within 17 and 359 days of issuance (March 31, 2014 – 7 and 364 days; April 1, 2013 – 31 and 191 days)	**$ 137**	**$ 137**	$ 282	$ 281	$ 169	$ 168
Short-term US Dollar promissory notes, bearing interest between 0.17% and 0.47% and maturing within 84 and 367 days of issuance (March 31, 2014 – 35 and 365 days; April 1, 2013 – 29 and 189 days)	**635**	**635**	452	452	199	199
Medium-term notes Series 1, bearing interest of 4.57% per annum and matured on December 9, 2013	**–**	**–**	–	–	195	200
Medium-term notes Series 2, bearing interest of 2.94% per annum and maturing on December 3, 2015	**138**	**139**	137	141	137	142
Medium-term notes Series 3, bearing variable interest of 3-month CDOR + 39 basis points and matured on February 16, 2015	**–**	**–**	69	69	68	69
Medium-term notes Series 4, bearing interest of 2.26% per annum and maturing on February 16, 2017	**177**	**182**	176	180	176	179
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**98**	**107**	98	100	–	–
Medium-term notes Series 6, bearing variable interest of 3-month CDOR and maturing on April 4, 2016	**39**	**39**	–	–	–	–
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**197**	**218**	–	–	–	–
Total	**$ 1,421**	**$ 1,457**	$ 1,214	$ 1,223	$ 944	$ 957

Interest expense, for the years ended March 31, was as follows:

(Canadian $ millions)	**2015**	2014
Short-term promissory notes	**$ 3**	$ 3
Medium-term notes	**17**	17
Total	**$ 20**	$ 20

10 EQUITY

10.1. 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 the net assets of PSP Investments including the net profit (loss) and other comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

10.2. FUND TRANSFERS

PSP Investments received fund transfers from the Government of Canada of $940 million for the year ended March 31, 2015 ($1,010 million for the year ended March 31, 2014) for the Fund, recorded in the Plan Account.

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)		2015		2014
Interest expense (Note 9)	$	**20**	$	20
Transaction costs		**20**		19
External investment management fees [A]		**8**		6
Other (net)		**11**		6
Total	**$**	**59**	$	51

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. This excludes fees related to certain pooled fund investments classified under alternative investments primarily related to performance, in the amount of $20 million for the year ended March 31, 2015 ($11 million for the year ended March 31, 2014). This also excludes management fees related to investments in private markets and other fixed income securities that are not paid directly by PSP Investments.

Such fees, which generally vary between 0.1% and 2.0% of the total invested and/or committed amount, totaled $38 million for the year ended March 31, 2015 ($29 million for the year ended March 31, 2014).

12 OPERATING EXPENSES

Operating expenses allocated to this Plan Account consisted of the following for the years ended March 31:

(Canadian $ thousands)		2015		2014
Salaries and employee benefits	$	**28,985**	$	26,831
Professional and consulting fees		**5,922**		4,685
Premises and equipment		**2,417**		2,060
Market data and business applications		**3,955**		3,444
Depreciation of property, plant and equipment		**3,143**		2,685
Custodial fees		**723**		557
Other operating expenses		**2,411**		1,861
Total	**$**	**47,556**	$	42,123

13 ALLOCATION OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)

The profit (loss) and other comprehensive income (loss) of PSP Investments is allocated to each Plan Account as follows:

13.1. INVESTMENT INCOME (LOSS)

The investment income (loss) is allocated proportionately based upon the net asset value held by each Plan Account.

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. 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 asset value of each Plan Account at the time the expense was incurred.

Operating expenses and other comprehensive income (loss), 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 assets in each Plan Account as follows:

	2015	2014
Public Service Pension Plan Account	**72.7 %**	72.9 %
Canadian Forces Pension Plan Account	**19.6**	19.5
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.1
Reserve Force Pension Plan Account	**0.5**	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 3.1, 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 5.1 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 profit (loss) and other comprehensive income (loss) 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 10.2.

(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 5.1. 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 profit (loss) and other comprehensive income (loss) 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 Profit or Loss and Other Comprehensive Income and was as follows:

(Canadian $ thousands)	**2015**	2014
Short-term compensation and benefits	**$ 2,753**	$ 1,534
Long-term compensation and benefits	**1,167**	1,821
	$ 3,920	$ 3,355

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 10.2, 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 8.
- 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 9 provides information on the capital market debt financing and Note 8.3 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 9.

PSP Capital Inc. provided funding facilities of a maximum amount of $969 million to support potential margin calls on the ABTNs, of which $190 million has been allocated to the Plan Account. The margin funding facilities have not been drawn upon since inception; this arrangement matures in July 2017.

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, 2015, 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 $1,147 million as at March 31, 2015 (March 31, 2014 – $1,223 million and April 1, 2013 – $999 million), of which $225 million has been allocated to the Plan Account (March 31, 2014 – $240 million and April 1, 2013 – $195 million) plus applicable interest and other related costs. The arrangements mature between June 2015 and September 2028.
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $64 million as at March 31, 2015 (March 31, 2014 – $82 million and April 1, 2013 – $41 million), of which $13 million has been allocated to the Plan Account (March 31, 2014 – $16 million and April 1, 2013 – $8 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, 2015
Real estate	$ 367
Private equity	1,019
Infrastructure	498
Renewable resources	121
Other fixed income securities	630
Alternative investments	350
Total	**$ 2,985**

Funding in connection with the above commitments can be called upon at various dates extending until 2032.

18 FIRST-TIME ADOPTION

Upon transition to IFRS, PSP Investments has used accounting estimates under IFRS that are consistent with those applied under previous Canadian GAAP (with adjustment for accounting policy differences).

18.1. EXCEPTIONS AND EXEMPTIONS

IFRS 1 requires mandatory exceptions and permits certain exemptions from full retrospective application. PSP Investments has applied the following:

PSP Investments has determined the classification and consequential measurement of its financial assets under IFRS 9 on the basis of the facts and circumstances that existed on April 1, 2013 – the date of transition to IFRS.

Financial liabilities designated at FVTPL under IFRS 9 were accounted for at fair value under previous GAAP with all changes reported as part of profit or loss. The transition to IFRS did not result in any changes in the measurement of such financial liabilities as at April 1, 2013.

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION

PSP Investments has made the following significant adjustments to the Statement of Financial Position of the Plan Account as at April 1, 2013:

(Canadian $ millions)	Ref.	Previous GAAP	Presentation	Pension Benefits	IFRS
Assets					
Investments	A	$ 15,989	$ 432	$ –	$ 16,421
Investment-related assets	A	432	(432)	–	–
Other assets		16	–	–	16
Total assets		$ 16,437	$ –	$ –	$ 16,437
Liabilities					
Trade payable and other liabilities	D (i)	$ 27	$ –	$ 3	$ 30
Investment-related liabilities	E	1,531	(957)	–	574
Borrowings	E	–	957	–	957
Due to the Public Service Pension Plan Account		7	–	–	7
Total liabilities		$ 1,565	$ –	$ 3	$ 1,568
Net assets		$ 14,872	$ –	$ (3)	$ 14,869
Equity	D (i)	$ 14,872	$ –	$ (3)	$ 14,869
Total liabilities and equity		$ 16,437	$ –	$ –	$ 16,437

18 FIRST-TIME ADOPTION (continued)

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION (continued)

PSP Investments has made the following significant adjustments to the Statement of Financial Position of the Plan Account as at March 31, 2014:

(Canadian $ millions)	Ref.	Previous GAAP	Presentation	IFRS
Assets				
Investments	A	$ 19,906	$ 379	$ 20,285
Investment-related assets	A	379	(379)	–
Other assets		25	–	25
Total assets		$ 20,310	$ –	$ 20,310
Liabilities				
Trade payable and other liabilities	D (ii)	$ 30	$ –	$ 30
Investment-related liabilities	E	1,914	(1,223)	691
Borrowings	E	–	1,223	1,223
Due to the Public Service Pension Plan Account		14	–	14
Total liabilities		$ 1,958	$ –	$ 1,958
Net assets		$ 18,352	$ –	$ 18,352
Equity	D (ii)	$ 18,352	$ –	$ 18,352
Total liabilities and equity		$ 20,310	$ –	$ 20,310

PSP Investments has made the following significant adjustments to the Statement of Profit or Loss and Other Comprehensive Income of the Plan Account for the year ended March 31, 2014:

(Canadian $ millions)	Ref.	Previous GAAP	Presentation	Pension Benefits	IFRS
Investment income	A	$ 2,512	$ 51	$ –	$ 2,563
Investment-related expenses	A	$ –	$ 51	$ –	$ 51
Net investment income		$ 2,512	$ –	$ –	$ 2,512
Operating expenses		$ 42	$ –	$ –	$ 42
Profit		$ 2,470	$ –	$ –	$ 2,470
Other comprehensive income					
Remeasurement of the net defined benefit liability	D (ii)	$ –	$ –	$ 3	$ 3
Profit and other comprehensive income		$ 2,470	$ –	$ 3	$ 2,473

18 FIRST-TIME ADOPTION (continued)

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION (continued)

18.2.1. Notes to the Adjustments of the Statements of Financial Position and Statements of Profit or Loss and Other Comprehensive Income

(A) Consolidation of Certain Subsidiaries

Under previous Canadian GAAP, PSP Investments consolidated subsidiaries that it formed and that qualified as investment companies. Upon transition to IFRS, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities as required by IFRS 10. Instead, PSP Investments measures its investments in its subsidiaries at FVTPL in accordance with IFRS 9 as further described under Note 3.1.

Upon transition to IFRS, the presentation of the Financial Statements was adjusted as outlined in the tables above to reflect the impact of the difference described between previous Canadian GAAP and IFRS. The adjustment was made with respect to subsidiaries that are formed by PSP Investments and that qualify as investment entities.

(B) Statements of Cash Flows

Under previous Canadian GAAP, PSP Investments did not prepare a statement of cash flows. IAS 1 *Presentation of Financial Statements* requires a complete set of financial statements to include a statement of cash flows for the current and comparative periods, without exception.

(C) Disclosures

Upon transition to IFRS, PSP Investments was required to disclose information that was not previously disclosed under Canadian GAAP. The most significant of such disclosures are as follows:

(i) Certain disclosures with respect to fair value measurements under previous Canadian GAAP were expanded upon transition to IFRS as required by IFRS 13 *Fair Value Measurement*. They are presented mainly under Note 5.2.3.

(ii) Disclosures in connection with interests in other entities under Note 7 are required by IFRS 12 *Disclosures of Interests in Other Entities*.

(iii) Disclosures with respect to offsetting financial instruments under Note 8.4 are required by IFRS 7 *Financial Instruments: Disclosures*.

(D) Employee Benefits

PSP Investments has a defined benefit pension plan for the benefit of its employees hired prior to January 1, 2014. The net defined benefit liability is recorded in trade payable and other liabilities. Under previous Canadian GAAP, PSP Investments recognized actuarial gains and losses, which includes actual returns on plan assets, over the average remaining service period of active employees. IAS 19 *Employee Benefits* requires that remeasurements of the net defined benefit liability, which include actuarial gains and losses and actual returns on plan assets, are recorded against other comprehensive income (loss) as they are incurred.

(i) Impact on equity as at April 1, 2013

As at the transition date, the defined benefit pension plan had an unamortized actuarial loss of $17 million, of which $3 million was allocated to the Plan Account. As such, upon transition to IFRS, PSP Investments has increased the Plan Account's trade payable and other liabilities by $3 million and reduced equity by the same amount. At April 1, 2013, the date of transition to IFRS, such amount was allocated to the Plan Account based upon its weighted average net asset value since inception.

(ii) Impact on other comprehensive income for the year ended March 31, 2014 and equity as at March 31, 2014

During the year ended March 31, 2014, the remeasurement of the net defined benefit liability amounted to a gain of $17 million, of which $3 million was allocated to the Plan Account. This amount was recorded in other comprehensive income with an offsetting impact to trade payable and other liabilities. Such amount was allocated to the Plan Account based on the allocation described in Note 13.2.

The cumulative impact for the Plan Account of the opening equity adjustment ($3 million loss) and the March 31, 2014 adjustment ($3 million gain) is nil on both trade payable and other liabilities and retained earnings.

All other differences related to employee benefits during the year ended March 31, 2014 are not significant.

(E) Other

Borrowings have been reclassified on transition to IFRS to show the balance separately on the Statement of Financial Position.

ROYAL CANADIAN MOUNTED POLICE PENSION PLAN ACCOUNT

FINANCIAL STATEMENTS

Independent Auditors' Report

To the Minister of Public Safety and Emergency Preparedness

Report on the Financial Statements

We have audited the accompanying 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, 2015, March 31, 2014 and April 1, 2013 and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the years ended March 31, 2015 and March 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Royal Canadian Mounted Police Pension Plan Account as at March 31, 2015, March 31, 2014 and April 1, 2013, and its financial performance and its cash flows for the years ended March 31, 2015 and March 31, 2014 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of new standards as explained in notes 2 and 18 to the financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Royal Canadian Mounted Police Pension Plan Account that have come to our notice during our audits of the financial statements have, in all significant respects, been in accordance with 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.

Deloitte LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A116129

May 14, 2015
Montréal, Canada

Clyde M. MacLellan, FCPA, FCA
Assistant Auditor General for the Auditor General of Canada

May 14, 2015
Ottawa, Canada

Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2015**	March 31, 2014 (Note 18)	April 1, 2013 (Note 18)
Assets			
Investments (Note 5.1)	**$ 8,984**	$ 7,426	$ 5,933
Other assets	**10**	10	6
Total assets	**$ 8,994**	$ 7,436	$ 5,939
Liabilities			
Trade payable and other liabilities	**$ 13**	$ 11	$ 10
Investment-related liabilities (Note 5.1)	**364**	252	207
Borrowings (Notes 5.1, 9)	**535**	448	346
Due to the Public Service Pension Plan Account	**6**	5	3
Total liabilities	**$ 918**	$ 716	$ 566
Net assets	**$ 8,076**	$ 6,720	$ 5,373
Equity	**$ 8,076**	$ 6,720	$ 5,373
Total liabilities and equity	**$ 8,994**	$ 7,436	$ 5,939

The accompanying notes are an integral part of the Financial Statements.

On behalf of the Board of Directors:

Michael P. Mueller
Chair of the Board

William A. MacKinnon
Chair of the Audit Committee

Statements of Profit or Loss and Other Comprehensive Income

For the years ended March 31

(Canadian $ millions)	2015	2014 (Note 18)
Investment income	**$ 1,022**	$ 926
Investment-related expenses (Note 11)	**$ 22**	$ 17
Net investment income	**$ 1,000**	$ 909
Operating expenses (Note 12)	**$ 17**	$ 15
Profit	**$ 983**	$ 894
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability (Note 18)	**$ (1)**	$ 1
Profit and other comprehensive income (loss)	**$ 982**	$ 895

Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	2015	2014
Fund transfers		
Balance at beginning of period	**$ 4,149**	$ 3,697
Fund transfers received during the period (Note 10.2)	**374**	452
Balance at end of period	**$ 4,523**	$ 4,149
Retained earnings		
Balance at beginning of period	**$ 2,571**	$ 1,676
Profit and other comprehensive income (loss)	**982**	895
Balance at end of period	**$ 3,553**	$ 2,571
Total equity	**$ 8,076**	$ 6,720

The accompanying notes are an integral part of the Financial Statements.

Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	2015	2014
Cash flows from operating activities		
Profit	$ 983	$ 894
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	1	1
Effect of exchange rate changes on cash and cash equivalents	(4)	4
Unrealized losses on borrowings	12	1
	$ 992	$ 900
Net changes in operating assets and liabilities		
Increase in investments	$ (1,554)	$ (1,496)
Decrease (Increase) in other assets	2	(2)
Increase in trade payable and other liabilities	1	2
Increase in investment-related liabilities	112	45
Net cash used in operating activities	$ (447)	$ (551)
Cash flow from financing activities		
Proceeds from borrowings	1,369	961
Repayment of borrowings	(1,294)	(860)
Repayment to the Public Service Pension Plan Account	(23)	(21)
Advances from the Public Service Pension Plan Account	24	23
Fund transfers received	374	452
Net cash flows provided by financing activities	$ 450	$ 555
Cash flow from investing activities		
Acquisitions of property, plant and equipment	$ (2)	$ (3)
Net cash flows used in investing activities	$ (2)	$ (3)
Net change in cash and cash equivalents	$ 1	$ 1
Effect of exchange rate changes on cash and cash equivalents	4	(4)
Cash and cash equivalents at the beginning of the period	58	61
Cash and cash equivalents at the end of the period	$ 63	$ 58
Cash and cash equivalents are comprised of:		
Cash and cash equivalents held for investment purposes[A]	$ 62	$ 58
Cash held for administrative purposes[B]	1	–
Cash and cash equivalents at the end of the period	$ 63	$ 58
Supplementary disclosure of cash flow information		
Interest paid	$ (6)	$ (8)

[A] Cash and cash equivalents held for investment purposes are presented as part of fixed income in Note 5.1. Cash equivalents represent short-term deposits with a maturity of 90 days or less and are held for purposes of meeting short-term cash commitments. Cash equivalents are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

[B] Cash held for administrative purposes is included in other assets.

The accompanying notes are an integral part of the Financial Statements.

Notes to the Financial Statements

For the year ended March 31, 2015

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 440 Laurier street West, Ottawa, Ontario, Canada and its principal business office is at 1250 René Lévesque boulevard West, Montreal, Quebec, Canada.

2 FIRST-TIME ADOPTION OF IFRS

These are PSP Investments' first Financial Statements for the Plan Account prepared in accordance with International Financial Reporting Standards ("IFRS"). PSP Investments previously prepared financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The date of transition to IFRS was April 1, 2013.

PSP Investments' IFRS accounting policies as presented in Note 3 have been applied in preparing the Financial Statements for the year ended March 31, 2015, the comparative information and the opening Statement of Financial Position at the date of transition.

PSP Investments has applied IFRS 1 *First-Time Adoption of International Financial Reporting Standards* in preparing these IFRS Financial Statements. IFRS 1 sets out the procedures that PSP Investments must follow when it adopts IFRS for the first time as the basis for preparing its Financial Statements. PSP Investments is required to establish its IFRS accounting policies as at March 31, 2015 and, in general, apply these retrospectively to determine the IFRS opening Statement of Financial Position at its date of transition, April 1, 2013. IFRS 1 provides a number of mandatory exceptions and optional exemptions to this general principle. The effects of the transition to IFRS on equity and on profit (loss) and other comprehensive income (loss) are presented in Note 18.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied in the preparation of these Financial Statements are summarized below. The Financial Statements have been prepared using accounting policies specified by IFRS in effect at the end of the reporting period. These accounting policies have been used throughout all periods presented.

3.1. BASIS OF PRESENTATION

These Financial Statements have been prepared in accordance with 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*, 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 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 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.

The Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 14, 2015.

3.2. 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 on April 1, 2013, the date of its transition to IFRS. 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 Act*s. 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.

3 SIGNIFICANT ACCOUNTING POLICIES

(continued)

3.3. INTERESTS IN OTHER ENTITIES

Management assesses control, joint control and significant influence with respect to the investees disclosed in Note 7 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.

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Financial Statements are set out below.

3.4.1. 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 5.1.

Borrowings under the capital market debt financing program, as described under Note 9, 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. Purchases and sales 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 Statement of Profit or Loss and Other 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 (loss).

(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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.2. 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 real estate, private equity, infrastructure and renewable resources, 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 5.

3.4.3. 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 the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars. Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

3.4.4. Foreign Currency Translation

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.

Financial assets and financial 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 financial instruments are included in investment income (loss).

3.4.5. 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 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 recognize securities borrowed.

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.

3.4.6. Securities sold under Repurchase Agreements and Related Collateral

PSP Investments is party to agreements which involve the sale of securities with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Securities sold under the repurchase agreements are not derecognized as PSP Investments retains all related risks and rewards of ownership. As such, all related income (loss) continues to be reported in investment income (loss) and obligations to repurchase the securities sold are accounted for as investment-related liabilities.

Securities sold under 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. 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. PSP Investments does not sell, repledge or otherwise use collateral held.

3.4.7. 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 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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.8. Equity

The statutory rights of the Government of Canada pursuant to the *Superannuation Act*s 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 Act*s. 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.

3.4.9. Investment Income

Investment income (loss) is made up of interest, dividends, gains (losses) on the disposal of investments as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the reporting period. Interest is recognized as earned. Dividends are recognized on the ex-dividend date. Distributions from pooled funds, limited partnerships or from direct investments and co-investments are recognized as interest, dividend or realized gains (losses) as appropriate. Co-investments are investments in private entities where the investment is made in conjunction with an external manager with whom PSP Investments already has committed and delegated funds.

3.4.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, as described in Note 5.1.7, 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 are expensed as they are incurred. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets and other fixed income securities as outlined in Note 11.

Other (net) includes dividend expense related to securities sold short and securities lending income net of fees on securities borrowed.

3.4.11. Fund Transfers

Amounts are received from the Government of Canada for the Fund and are recorded in the Plan Account.

3.5. 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 3.2 as well as the determination of control, joint control and significant influence as described in Note 3.3.

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 5.2.3 and those regarding the assessment of risk are outlined in Note 8.

Although estimates and assumptions reflect management's best judgment, actual results may differ from such estimates due to the uncertainties involved in using them.

4 CURRENT AND FUTURE CHANGES IN ACCOUNTING STANDARDS

4.1. CURRENT ACCOUNTING STANDARDS ADOPTED BEFORE THE EFFECTIVE DATE

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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted.

PSP Investments has adopted IFRS 9 in its Consolidated Financial Statements prepared in accordance with IFRS for the year ended March 31, 2015. Significant accounting policies in connection with IFRS 9 are described under Note 3.4.1. Additional information regarding the implementation of IFRS 9 in the year of first-time adoption of IFRS is presented under Note 18.1.

4.2. FUTURE ACCOUNTING STANDARDS

A number of new standards, amendments and interpretations have been issued by the IASB, but are not yet effective. The following relates to one or more of PSP Investments' significant accounting policies or disclosures:

IFRS 11 Joint Arrangements

IFRS 11 was amended, effective in annual periods beginning on or after January 1, 2016, to add new guidance on the accounting for acquisitions of interests in a joint operation that constitutes a business. Acquirers of such interests shall apply all of the principles in business combinations accounting in IFRS 3 *Business Combinations*, and other IFRS, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRS in relation to business combinations. Management is currently assessing the impact of adopting this amendment.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1. 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, 2015	March 31, 2014	April 1, 2013
Public markets			
Canadian equity	$ 596	$ 655	$ 651
Foreign equity	2,405	1,989	1,479
Private markets			
Real estate	1,228	902	769
Private equity	723	580	495
Infrastructure	559	469	315
Renewable resources	165	85	30
Fixed income			
Cash and money market securities	281	277	255
Government and corporate bonds	1,316	1,226	792
Inflation-linked bonds	464	358	309
Other fixed income securities	555	531	555
Alternative investments	398	216	127
	$ 8,690	$ 7,288	$ 5,777
Investment-related assets			
Amounts receivable from pending trades	$ 145	$ 52	$ 79
Interest receivable	15	15	10
Dividends receivable	7	6	5
Derivative-related assets	127	65	62
	$ 294	$ 138	$ 156
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 8,984	$ 7,426	$ 5,933
Investment-related liabilities			
Amounts payable from pending trades	$ (116)	$ (68)	$ (77)
Interest payable	(2)	(1)	(2)
Securities sold short	(38)	(51)	(33)
Securities sold under repurchase agreements	-	(45)	(43)
Derivative-related liabilities	(208)	(87)	(52)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (364)	$ (252)	$ (207)
Borrowings			
Capital market debt financing	$ (535)	$ (448)	$ (346)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ (535)	$ (448)	$ (346)
NET INVESTMENTS	$ 8,085	$ 6,726	$ 5,380

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.1. 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 market prices 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 to ensure reasonableness. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

5.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and renewable 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 financings. As at March 31, 2015, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSP Investments was $395 million for the Plan Account (March 31, 2014 – $302 million and April 1, 2013 – $247 million).

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 financings. As at March 31, 2015, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSP Investments was $104 million for the Plan Account (March 31, 2014 – $118 million and April 1, 2013 – $20 million).

Renewable resources investments are mainly comprised of direct investments and partnerships in timberlands and agriculture.

The fair value of private markets investments is determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

5.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and other fixed income 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. 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. Inflation-linked bonds are fixed income securities that earn inflation adjusted returns.

Other fixed income securities consist of asset-backed securities, floating rate notes as well as private debt investments.

Fair values of government and corporate bonds, inflation-linked bonds, floating rate notes 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.

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009. Potential margin calls on the ABTNs are supported by funding facilities, as described in Note 16.

Private debt investments are mainly in the real estate sector in the form of third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products. They also include real estate debt funds where significant portions of the value are attributed to the underlying real estate assets.

Private debt investments also include debt securities of private companies or other entities such as venture capital organizations, held mainly through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt.

The fair values of ABTNs as well as private debt investments are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

The fair value measurement of fund investments included as part of private debt investments is described in Note 5.2.2.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.4. 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 to ensure reasonableness. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

5.1.5. 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.

5.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which approximates fair value.

5.1.7. Interest Payable

With respect to the borrowings described in Note 5.1.10, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

5.1.8. 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.

5.1.9. Securities Sold under Repurchase Agreements

As described in Note 3.4.6, PSP Investments is party to agreements which involve the sale of securities with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Obligations to repurchase the securities sold under repurchase agreements are recorded at cost plus accrued interest, which approximates fair value.

5.1.10. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 9. Short-term promissory notes are recorded at cost plus accrued interest, which 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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. 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 the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity, 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.

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.

Collateralized Debt Obligations

Collateralized debt obligations are a type of asset-backed security that is constructed from a portfolio of credit-related assets. Collateralized debt obligations are usually divided into several tranches with different credit risk levels and corresponding interest payments. Any losses are applied first to the more junior tranches (lowest risk rating) before moving up in seniority.

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.

The fair value of collateralized debt obligations is determined using valuation techniques that incorporate significant inputs that are not observable in the market. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2015			March 31, 2014			April 1, 2013		
		Fair Value			Fair Value			Fair Value	
(Canadian $ millions)	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities
Equity and commodity derivatives									
Listed									
Futures	$ 49	$ –	$ –	$ 100	$ –	$ –	$ 60	$ –	$ –
Options:									
Purchased	40	1	–	50	2	–	182	2	–
Written	39	–	(1)	30	–	(1)	71	–	(1)
OTC									
Forwards	27	2	(4)	–	–	–	–	–	–
Total return swaps	1,187	20	(5)	973	15	(2)	701	12	(4)
Options:									
Purchased	293	13	–	394	22	–	89	12	–
Written	298	–	(13)	437	–	(25)	87	–	(10)
Currency derivatives									
Listed									
Futures	11	–	–	5	–	–	3	–	–
OTC									
Forwards	3,201	35	(105)	2,225	12	(33)	2,422	24	(24)
Swaps	229	2	(23)	255	1	(9)	75	2	(2)
Options:									
Purchased	835	30	–	289	2	–	367	6	–
Written	847	–	(27)	252	–	(1)	342	–	(5)
Interest rate derivatives									
Listed									
Futures	559	–	–	175	–	–	94	–	–
Options:									
Purchased	3,487	1	–	1,900	1	–	357	–	–
Written	3,594	–	(1)	1,993	–	(1)	351	–	–
OTC									
Bond forwards	208	–	–	50	–	–	60	–	–
Interest rate swaps	597	10	(12)	851	3	(6)	816	2	(3)
Swaptions	3,350	13	(14)	2,263	6	(5)	198	–	–
Options:									
Purchased	401	–	–	729	1	–	125	1	–
Written	130	–	–	1,079	–	(1)	197	–	(1)
OTC-cleared									
Interest rate swaps	882	–	–	110	–	–	–	–	–
Credit derivatives[A]									
OTC									
Purchased	91	–	(2)	153	–	(3)	135	1	(1)
Sold	43	–	(1)	39	–	–	66	–	(1)
OTC-cleared									
Purchased	44	–	–	70	–	–	–	–	–
Sold	84	–	–	101	–	–	–	–	–
Total		$ 127	$ (208)		$ 65	$ (87)		$ 62	$ (52)

[A] Credit derivatives include credit default swaps and collateralized debt obligations. PSP Investments, through sold credit derivatives, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the sold credit derivatives as shown in the table above.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2015			March 31, 2014			April 1, 2013		
		Fair Value			Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities
Listed derivatives	**$ 7,779**	**$ 2**	**$ (2)**	$ 4,253	$ 3	$ (2)	$ 1,118	$ 2	$ (1)
OTC derivatives	**11,737**	**125**	**(206)**	9,989	62	(85)	5,680	60	(51)
OTC-cleared derivatives	**1,010**	**–**	**–**	281	–	–	–	–	–
Total		**$ 127**	**$ (208)**		$ 65	$ (87)		$ 62	$ (52)

The term to maturity based on notional value for the derivatives was as follows as at:

(Canadian $ millions)	**March 31, 2015**
Less than 3 months	**$ 7,619**
3 to 12 months	**9,008**
Over 1 year	**3,899**

5.2. FAIR VALUE HIERARCHY

5.2.1. Classification

Financial assets and financial liabilities described under Note 5.1 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 of 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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2015 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	No Level A	Total Fair Value
Public markets					
Canadian equity	$ 544	$ 52	$ –	$ –	$ 596
Foreign equity	2,019	386	–	–	2,405
Private markets					
Real estate	–	–	1,228	–	1,228
Private equity	–	–	723	–	723
Infrastructure	–	–	559	–	559
Renewable resources	–	–	165	–	165
Fixed income					
Cash and money market securities	–	173	–	108	281
Government and corporate bonds	–	1,316	–	–	1,316
Inflation-linked bonds	–	464	–	–	464
Other fixed income securities	–	173	382	–	555
Alternative investments	–	102	296	–	398
	$ 2,563	$ 2,666	$ 3,353	$ 108	$ 8,690
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 145	$ 145
Interest receivable	–	–	–	15	15
Dividends receivable	–	–	–	7	7
Derivative-related assets	2	125	–	–	127
	$ 2	$ 125	$ –	$ 167	$ 294
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 2,565	$ 2,791	$ 3,353	$ 275	$ 8,984
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (116)	$ (116)
Interest payable	–	–	–	(2)	(2)
Securities sold short	(38)	–	–	–	(38)
Securities sold under repurchase agreements	–	–	–	–	–
Derivative-related liabilities	(2)	(206)	–	–	(208)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (40)	$ (206)	$ –	$ (118)	$ (364)
Borrowings					
Capital market debt financing	$ –	$ (535)	$ –	$ –	$ (535)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (535)	$ –	$ –	$ (535)
NET INVESTMENTS	$ 2,525	$ 2,050	$ 3,353	$ 157	$ 8,085

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2014 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 607	$ 48	$ –	$ –	$ 655
Foreign equity	1,587	402	–	–	1,989
Private markets					
Real estate	–	–	902	–	902
Private equity	–	–	580	–	580
Infrastructure	–	–	469	–	469
Renewable resources	–	–	85	–	85
Fixed income					
Cash and money market securities	–	–	–	277	277
Government and corporate bonds	–	1,226	–	–	1,226
Inflation-linked bonds	–	358	–	–	358
Other fixed income securities	–	220	311	–	531
Alternative investments	–	81	135	–	216
	$ 2,194	$ 2,335	$ 2,482	$ 277	$ 7,288
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 52	$ 52
Interest receivable	–	–	–	15	15
Dividends receivable	–	–	–	6	6
Derivative-related assets	4	61	–	–	65
	$ 4	$ 61	$ –	$ 73	$ 138
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 2,198	$ 2,396	$ 2,482	$ 350	$ 7,426
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (68)	$ (68)
Interest payable	–	–	–	(1)	(1)
Securities sold short	(51)	–	–	–	(51)
Securities sold under repurchase agreements	–	(45)	–	–	(45)
Derivative-related liabilities	(2)	(85)	–	–	(87)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (53)	$ (130)	$ –	$ (69)	$ (252)
Borrowings					
Capital market debt financing	$ –	$ (448)	$ –	$ –	$ (448)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (448)	$ –	$ –	$ (448)
NET INVESTMENTS	$ 2,145	$ 1,818	$ 2,482	$ 281	$ 6,726

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at April 1, 2013 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 651	$ –	$ –	$ –	$ 651
Foreign equity	1,123	356	–	–	1,479
Private markets					
Real estate	–	–	769	–	769
Private equity	–	–	495	–	495
Infrastructure	–	–	315	–	315
Renewable resources	–	–	30	–	30
Fixed income					
Cash and money market securities	–	–	–	255	255
Government and corporate bonds	–	792	–	–	792
Inflation-linked bonds	–	309	–	–	309
Other fixed income securities	–	240	315	–	555
Alternative investments	–	63	64	–	127
	$ 1,774	$ 1,760	$ 1,988	$ 255	$ 5,777
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 79	$ 79
Interest receivable	–	–	–	10	10
Dividends receivable	–	–	–	5	5
Derivative-related assets	2	60	–	–	62
	$ 2	$ 60	$ –	$ 94	$ 156
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 1,776	$ 1,820	$ 1,988	$ 349	$ 5,933
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (77)	$ (77)
Interest payable	–	–	–	(2)	(2)
Securities sold short	(33)	–	–	–	(33)
Securities sold under repurchase agreements	–	(43)	–	–	(43)
Derivative-related liabilities	(1)	(51)	–	–	(52)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (34)	$ (94)	$ –	$ (79)	$ (207)
Borrowings					
Capital market debt financing	$ –	$ (346)	$ –	$ –	$ (346)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (346)	$ –	$ –	$ (346)
NET INVESTMENTS	$ 1,742	$ 1,380	$ 1,988	$ 270	$ 5,380

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

As at March 31, 2014, listed foreign equity securities held by a non-listed fund, were classified as Level 2. During the year ended March 31, 2015, the listed securities with a fair value of $35 million were transferred to PSP Investments and classified as Level 1 as at March 31, 2015.

During the year ended March 31, 2014, listed Canadian equity securities with a fair value of $44 million classified as Level 1 were transferred to a non-listed fund held by PSP Investments. Consequently, the securities were classified as Level 2 as at March 31, 2014.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.2. 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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. 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, 2015:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	$ 1,116	Discounted cash flow (DCF)	Discount rate [A, B]	6.00% – 26.00% (8.21%)
				Terminal capitalization rate [A, B]	4.00% – 12.00% (6.36%)
			Direct capitalization	Capitalization rate [A, C]	3.25% – 9.25% (6.72%)
				Stabilized occupancy rate [C, D]	93.00% – 98.50% (96.49%)
			Net asset value method (NAV) [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 112	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 938	DCF	Discount rate [A]	5.69% – 13.40% (9.49%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 509	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	$ 100	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 75	DCF	Discount rate [A]	9.50% – 13.40% (11.22%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 207	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	$ 296	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	$ –	Third-party pricing [E]	N/A	N/A
TOTAL		$ 3,353			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $14 million.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. 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, 2014:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	$ 771	DCF	Discount rate [A, B]	5.50% – 26.00% (8.50%)
				Terminal capitalization rate [A, B]	4.00% – 10.25% (6.28%)
			Direct capitalization	Capitalization rate [A, C]	4.00% – 9.50% (8.12%)
				Stabilized occupancy rate [C, D]	94.50% – 100% (97.58%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 131	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 753	DCF	Discount rate [A]	6.25% – 13.50% (9.68%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 381	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	$ 109	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 75	DCF	Discount rate [A]	4.00% – 13.40% (11.71%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 127	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	$ 135	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	$ –	Third-party pricing [E]	N/A	N/A
TOTAL		$ 2,482			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $12 million.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. 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 April 1, 2013:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	$ 688	DCF	Discount rate [A, B]	4.75% – 26.00% (8.46%)
				Terminal capitalization rate [A, B]	4.50% – 11.25% (6.71%)
			Direct capitalization	Capitalization rate [A, C]	4.50% – 9.50% (8.78%)
				Stabilized occupancy rate [C, D]	72.00% – 100% (83.39%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 81	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 464	DCF	Discount rate [A]	6.50% – 13.30% (9.33%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 376	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	$ 122	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 85	DCF	Discount rate [A]	4.00% – 29.00% (12.77%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Credit linked notes	$ 3	Internal present value model	Default probability	90.00% – 100% (93.00%)
				Recovery rate	0% – 65.00% (40.00%)
	Fund investments	$ 105	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	$ 64	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	$ –	Third-party pricing [E]	N/A	N/A
TOTAL		$ 1,988			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $11 million.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.4. 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, 2015:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains (Losses)	Unrealized Gains[A]	Transfer out of Level 3	Closing Balance
Private markets	$ 2,036	$ 553	$ (198)	$ –	$ 34	$ 272	$ (22)	$ 2,675
Fixed income	311	130	(78)	(11)	7	23	–	382
Alternative investments	135	164	(42)	–	(2)	41	–	296
Total	**$ 2,482**	**$ 847**	**$ (318)**	**$ (11)**	**$ 39**	**$ 336**	**$ (22)**	**$ 3,353**

As at March 31, 2014, a private markets investment was classified under Level 3 as the fair value was determined based on significant unobservable inputs. During the year ended March 31, 2015, the investment was transferred to Level 1, as the underlying investee 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, 2014:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains[A]	Transfer out of Level 3	Closing Balance
Private markets	$ 1,609	$ 475	$ (302)	$ –	$ 54	$ 219	$ (19)	$ 2,036
Fixed income	315	65	(86)	(20)	21	16	–	311
Alternative investments	64	62	(2)	–	–	11	–	135
Derivative-related assets/liabilities (net)	–	1	(1)	–	–	–	–	–
Total	$ 1,988	$ 603	$ (391)	$ (20)	$ 75	$ 246	$ (19)	$ 2,482

[A] Includes Plan Account allocation adjustments.

As at April 1, 2013, two private markets investments were classified under Level 3 as their fair values were determined based on significant unobservable inputs. During the year ended March 31, 2014, such investments were transferred to Level 2 as the underlying investees indirectly held by PSP Investments became publicly traded. In the case of one of the two private markets investments, the instruments held by PSP Investments were subject to restrictions as at March 31, 2014 and could only be resold upon registration.

5.2.5. 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 5.2.3. 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 4% increase and 3% decrease as at March 31, 2015 (March 31, 2014 – 7% increase and 5% decrease and April 1, 2013 – 4% increase and 4% decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. Management ensures the appropriateness of the work performed by third-party appraisers as described under Note 5.2.2. In the case of fund investments, the fair value is determined as indicated in Note 5.2.2.

6 COLLATERAL PLEDGED AND RECEIVED

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 3.4.5, 3.4.6 and 8.2.1. 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 agreements as at:

(Canadian $ millions)	**March 31, 2015**	March 31, 2014	April 1, 2013
Securities lending and borrowing			
Securities lent	**$ 960**	$ 690	$ 552
Collateral held [A]	**1,035**	735	550
Securities borrowed	**38**	51	33
Collateral pledged [B]	**40**	54	33
Securities repurchase agreements			
Securities sold under repurchase agreements	**–**	45	43
Collateral pledged	**–**	45	43
Derivative contracts			
Collateral pledged	**101**	42	5
Collateral held	**12**	3	10

[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 $193 million for the Plan Account as at March 31, 2015 (March 31, 2014 – $173 million and April 1, 2013 – $157 million) and securities amounted to $842 million as at March 31, 2015 (March 31, 2014 – $562 million and April 1, 2013 – $393 million). All cash collateral is re-invested.

[B] The minimum fair value of collateral required is equal to 100% of the fair value of the securities borrowed.

7 INTERESTS IN OTHER ENTITIES

7.1. 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 3.1.

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. At March 31, 2015, 92 investment entity subsidiaries were incorporated in North America, 14 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa (March 31, 2014 – 82 in North America, 13 in Europe, 9 in Oceania, 3 in Central and South America, and 1 in Africa; April 1, 2013 – 80 in North America, 10 in Europe, 5 in Oceania, and 3 in Central and South America).

In addition, PSP Investments controlled 68 investees directly or through its investment entity subsidiaries as at March 31, 2015 (March 31, 2014 – 58 investees and April 1, 2013 – 51 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. PSP Investments determines control, joint control and significant influence as described in Note 3.3.

As at March 31, 2015

Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments**	**Relationship to PSP Investments**
Revera Inc.	**North America**	**100%**	**Controlled investee**
Kaingaroa Timberlands Ltd.	**Oceania**	**56%**	**Jointly controlled investee**
Telesat Holdings Inc.	**North America**	**34%**	**Associate**
AviAlliance GmbH	**Europe**	**100%**	**Controlled investee**
Isolux Infrastructure Netherlands B.V.	**Central and South America**	**22%**	**Jointly controlled investee**
Acelity Inc. (formerly Kinetic Concepts, Inc.)	**North America**	**21%**	**Associate**
TDF S.A.S.	**Europe**	**25%**	**Associate**
Roccapina Fund, L.P.	**North America**	**100%**	**Controlled investee**
Transelec S.A.	**Central and South America**	**18%**	**Associate**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50%**	**Jointly controlled investee**

As at March 31, 2014

Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	North America	100%	Controlled investee
Telesat Holdings Inc.	North America	34%	Associate
AviAlliance GmbH	Europe	100%	Controlled investee
Kinetic Concepts, Inc.	North America	21%	Associate
Isolux Infrastructure Netherlands B.V.	Central and South America	19%	Jointly controlled investee
Kaingaroa Timberlands Ltd.	Oceania	30%	Jointly controlled investee
Transelec S.A.	Central and South America	18%	Associate
Gassled	Europe	5%	Associate
Charter Hall Office Trust	Oceania	43%	Jointly controlled investee
Forth Ports Limited	Europe	37%	Jointly controlled investee

7 INTERESTS IN OTHER ENTITIES (continued)

7.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

			As at April 1, 2013
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	North America	100%	Controlled investee
Telesat Holdings Inc.	North America	35%	Associate
SCG Hotel CLP, L.P.	North America	100%	Controlled investee
Gassled	Europe	5%	Associate
Kinetic Concepts, Inc.	North America	21%	Associate
Transelec S.A.	Central and South America	18%	Associate
Charter Hall Office Trust	Oceania	43%	Jointly controlled investee
TD Canada Trust Tower	North America	50%	Jointly controlled investee
H2O Power Limited Partnership	North America	92%	Controlled investee
DP World Australia Ltd.	Oceania	25%	Jointly controlled investee

In addition to the above, PSP Investments controls and consolidates two wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services are mainly related to raising capital used to finance private market investments within the context of PSP Investments' capital market debt program described in Note 9.

7.2. 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 8, guarantees and indemnities under Note 16 and commitments under Note 17.

8 INVESTMENT RISK MANAGEMENT

PSP Investments has implemented an investment approach that aims to maximize rates of return without undue risk of loss. In pursuit of such an objective, PSP Investments has developed an Investment Risk Management Policy (IRM Policy) to support the management of risks incurred through the investment processes. The IRM policy, which supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), establishes the Investment Risk Management Framework (IRM Framework) with a goal of ensuring that all investments made by PSP Investments or its investment entity subsidiaries respect the risk philosophy of PSP Investments and are within the tolerances and limits of its risk appetite.

The IRM Framework requires reporting on risk to all levels of the organization. The Board of Directors and its committees oversee all risk matters and receive reporting from senior management as well as PSP Investments' independent internal auditor reporting directly to the Audit Committee.

The IRM Framework is designed to effectively manage all investment risks PSP Investments is exposed to, which include market, credit and liquidity risks, related to the implementation of the Policy Portfolio and active management activities.

8.1. 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.

Market risk management focuses on the following two key components:

- Policy Portfolio
  The Policy Portfolio (long-term asset mix), as defined in the SIP&P, determines a diversification strategy to mitigate risk whereby PSP Investments invests in a diversified portfolio expected to achieve a return at least equal to the Actuarial Rate of Return (ARR); defined as the rate of return assumption used by the Chief Actuary of Canada in the latest actuarial valuation reports of the Plans. In the absence of other factors affecting the funding of the Plans or changes to pension benefits under the Plans, the ARR is the rate of return required to maintain funding requirements and pension benefits at their current levels.
- Active Management
  Active management is defined as the sum of investment strategies that deviate from the approved Policy Portfolio. It is designed to supplement the returns of the Policy Portfolio within an active risk budget.

The risks associated with these components are the Policy Portfolio market risk and the active risk. The Policy Portfolio market risk represents the investment risk arising from the exposure to approved asset classes in the approved weightings. In establishing its Policy Portfolio, PSP Investments also takes into consideration the impact of the Policy Portfolio market risk on funding risk. Funding risk is the risk that the assets under management will be insufficient to meet the relevant pension liabilities of the Plans, which may require the contributions to the Funds of the Plans to be increased. The Policy Portfolio is reviewed at least annually as part of the review of the SIP&P, and this review includes changes, if any, to PSP Investments' long-term expectations of market conditions and other factors that may affect the funding levels of the Plans.

Active risk refers to all market risk arising from active management activities. It is managed in accordance with the Investment Risk Management Policy.

8.1.1. Measurement of Market Risk

The Value-at-Risk (VaR) is one of the methods used to measure market risk and is reported on a quarterly basis. It is not the maximum potential loss, but rather the maximum loss not exceeded with a given confidence level, over a given period of time. PSP Investments uses a Historical VaR model incorporating ten years' worth of market returns scaled to a twelve-month holding period at a 95% confidence level. For investments that are not actively traded, the calculation of VaR uses securities with similar risk attributes as proxy.

In measuring Policy Portfolio risk, VaR represents the absolute loss expected from the Policy Portfolio (Policy Portfolio VaR). Whereas in terms of measuring the active risk, VaR reflects the loss relative to the Policy Portfolio benchmark (Active VaR).

VaR 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.

8 INVESTMENT RISK MANAGEMENT (continued)

8.1. MARKET RISK (continued)

8.1.1. Measurement of Market Risk (continued)

The following table shows the total VaR consisting of the Policy Portfolio VaR, the Active VaR and the diversification effect, calculated as a percentage of net investments as at the end of the period. The diversification effect captures the impact of holding different types of assets which may react differently in various types of situations and thus reduces the total VaR. The information is presented as at:

	March 31, 2015	March 31, 2014	April 1, 2013
Policy Portfolio VaR	**20.6 %**	20.3 %	20.2 %
Active VaR	**2.6**	2.8	2.6
Total VaR (undiversified)	**23.2**	23.1	22.8
Diversification effect	**(0.9)**	(0.1)	(1.3)
Total VaR	**22.3 %**	23.0 %	21.5 %

Stress Testing

Although VaR 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. Stress testing and scenario analysis 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.

8.1.2. 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 5.1, with the most significant exposure to interest rate risk were as follows as at March 31, 2015:

(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Government bonds	$ 77	$ 321	$ 152	$ 269	$ –	$ 819
Corporate bonds	102	237	125	33	–	497
Inflation-linked bonds	–	102	151	211	–	464
Asset-backed securities	5	101	2	–	–	108
Private debt investments:						
Directly held	1	41	21	–	2	65
Held through funds [A]	–	–	–	–	217	217
Total investments with significant exposure to interest rate risk	**$ 185**	**$ 802**	**$ 451**	**$ 513**	**$ 219**	**$ 2,170**
Other investments [B]	**$ –**	**$ –**	**$ –**	**$ –**	**$ 446**	**$ 446**
Total fixed income	**$ 185**	**$ 802**	**$ 451**	**$ 513**	**$ 665**	**$ 2,616**

[A] Due to their nature, information in connection with the terms to maturity of fund investments included as part of private debt investments is not available.

[B] Consists of $281 million in cash and money market securities and $165 million in floating rate notes, which, due to their nature, are not significantly exposed to interest rate risk.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 9.

Alternative investments as well as derivative contracts described in Notes 5.1.4 and 5.1.11, respectively, are also subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 8.1.1.

8 INVESTMENT RISK MANAGEMENT (continued)

8.1. MARKET RISK (continued)

8.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through direct and indirect holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets. 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. In October 2013, PSP Investments amended its policy to fully hedge foreign currency investments in government and corporate bonds, inflation-linked bonds, certain other fixed income securities, as well as investments in real estate, infrastructure and renewable resources. PSP Investments' previous policy was to hedge a target of 50% of its foreign currency investments in non-emerging countries. Additional factors are considered when implementing the hedging target for investments in emerging countries, namely, total relative exposure and cost effectiveness.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

(Canadian $ millions)	March 31, 2015		March 31, 2014		April 1, 2013	
Currency	**Fair Value**	**% of Total**	Fair Value	% of Total	Fair Value	% of Total
US Dollar	**$ 2,101**	**58.8 %**	$ 1,765	61.0 %	$ 1,080	53.3 %
Euro	**259**	**7.3**	249	8.6	181	9.0
Japanese Yen	**166**	**4.7**	112	3.9	81	4.0
British Pound	**160**	**4.5**	134	4.6	150	7.4
Hong Kong Dollar	**154**	**4.3**	94	3.3	73	3.6
Korean Won	**129**	**3.6**	93	3.2	55	2.7
Brazilian Real	**101**	**2.8**	91	3.1	85	4.2
Swiss Franc	**82**	**2.3**	57	2.0	27	1.3
Taiwanese New Dollar	**72**	**2.0**	44	1.5	33	1.6
Indian Rupee	**51**	**1.4**	34	1.2	25	1.2
Australian Dollar	**47**	**1.3**	36	1.3	67	3.3
South African Rand	**44**	**1.2**	28	1.0	22	1.1
Mexican Peso	**26**	**0.7**	15	0.5	17	0.9
Thai Baht	**17**	**0.5**	8	0.3	13	0.6
Others	**162**	**4.6**	132	4.5	116	5.8
Total	**$ 3,571**	**100.0 %**	$ 2,892	100.0 %	$ 2,025	100.0 %

As at March 31, 2015, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $1,070 million for the Plan Account (US$748 million, €57 million, £16 million, R21 million South African Rands, R$31 million Brazilian Reals and $3,068 million Colombian pesos) which were not included in the foreign currency exposure table.

8 INVESTMENT RISK MANAGEMENT

(continued)

8.2. 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 sold under 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, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. Except for ABTNs, securities rated by only one agency are classified as "not rated". If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings.

As at March 31, 2015, the Plan Account's maximum exposure to credit risk amounted to approximately $2 billion (March 31, 2014 – approximately $2 billion and April 1, 2013 – approximately $2 billion). This amount excludes investments in distressed debt in the amount of approximately $0.2 billion as at March 31, 2015 (March 31, 2014 – approximately $0.1 billion and April 1, 2013 – approximately $0.1 billion). The maximum exposure to credit risk also excludes collateralized debt obligations, collateral held as disclosed in Notes 5.1.11 and 6, respectively, and the impact of guarantees and indemnities disclosed in Note 16.

As at March 31, 2015, the Plan Account had a net notional exposure of $5 million (March 31, 2014 – $4 million and April 1, 2013 – $8 million) to various tranches of collateralized debt obligations, of which approximately 45% (March 31, 2014 – approximately 53% and April 1, 2013 – approximately 67%) of the underlying dollar exposure was rated "Investment grade", as well as funding facilities, as described in Note 16, to support potential margin calls on the ABTNs.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating of all credit-sensitive financial securities with the exception of securities held in pooled funds or for private markets investments.

PSP Investments' concentration of credit risk by credit rating, excluding the items described above and any other credit enhancement, for the Plan Account was as follows as at:

	March 31, 2015	March 31, 2014	April 1, 2013
Investment grade (AAA to BBB–)	**97.5 %**	97.4 %	97.9 %
Below investment grade (BB+ and below)	**0.4**	1.0	1.0
Not rated:			
Rated by a single credit rating agency	**0.6**	0.5	0.1
Not rated by credit rating agencies	**1.5**	1.1	1.0
Total	**100.0 %**	100.0 %	100.0 %

8 INVESTMENT RISK MANAGEMENT (continued)

8.2. CREDIT RISK (continued)

8.2.1. 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 sold under 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 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. In certain cases, counterparties are 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 with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing as well as securities sold under repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 3.4.5 and 3.4.6 describe collateral requirements in securities lending and borrowing programs as well as securities sold under repurchase agreements, respectively.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 6.

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.

8.3. 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 9 provides additional information on the usage of the capital market debt program.

The terms to maturity of the notional amount of derivatives are disclosed in Note 5.1.11.

8 INVESTMENT RISK MANAGEMENT (continued)

8.3. LIQUIDITY RISK (continued)

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, 2015 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	$ (116)	$ –	$ –	$ (116)
Interest payable	(2)	–	–	(2)
Securities sold short	(38)	–	–	(38)
Capital market debt financing	(181)	(154)	(200)	(535)
Accounts payable and other liabilities	(9)	–	(4)	(13)
Total	$ (346)	$ (154)	$ (204)	$ (704)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 54	$ 45	$ 28	$ 127
Derivative-related liabilities [A]	(85)	(74)	(49)	(208)
Total	$ (31)	$ (29)	$ (21)	$ (81)

[A] Liabilities are presented in the earliest period in which the counterparty can request payment.

8 INVESTMENT RISK MANAGEMENT (continued)

8.4. OFFSETTING

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described in Note 8.2.1. 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 sold under repurchase agreements, as described in Notes 3.4.6 and 6, are subject to similar arrangements though are not offset.

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 (Note 5.1.11)	Less: Related Amounts not Set off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
As at March 31, 2015						
OTC-derivatives	**$ 127**	**$ 2**	**$ 125**	**$ 111**	**$ 9**	**$ 5**
Total	**$ 127**	**$ 2**	**$ 125**	**$ 111**	**$ 9**	**$ 5**
As at March 31, 2014						
OTC-derivatives	$ 62	$ –	$ 62	$ 55	$ 2	$ 5
Total	$ 62	$ –	$ 62	$ 55	$ 2	$ 5
As at April 1, 2013						
OTC-derivatives	$ 60	$ –	$ 60	$ 45	$ 10	$ 5
Total	$ 60	$ –	$ 60	$ 45	$ 10	$ 5

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	
As at March 31, 2015						
OTC-derivatives	**$ 208**	**$ 2**	**$ 206** [A]	**$ 111**	**$ 87**	**$ 8**
Total	**$ 208**	**$ 2**	**$ 206**	**$ 111**	**$ 87**	**$ 8**
As at March 31, 2014						
OTC-derivatives	$ 85	$ –	$ 85 [A]	$ 55	$ 26	$ 4
Repurchase agreements	45	–	45 [B]	–	45	–
Total	$ 130	$ –	$ 130	$ 55	$ 71	$ 4
As at April 1, 2013						
OTC-derivatives	$ 51	$ –	$ 51 [A]	$ 45	$ 5	$ 1
Repurchase agreements	43	–	43 [B]	–	43	–
Total	$ 94	$ –	$ 94	$ 45	$ 48	$ 1

[A] As described in Note 5.1.11.

[B] As described in Note 5.1.

9 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 $3 billion for issuances in Canada and US $5 billion for issuances in the United States.

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2015 and March 31, 2014.

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, 2015		March 31, 2014		April 1, 2013	
(Canadian $ millions)	**Capital Amounts Payable at Maturity**	**Fair Value**	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.64% and 1.21% and maturing within 17 and 359 days of issuance (March 31, 2014 – 7 and 364 days; April 1, 2013 – 31 and 191 days)	**$ 51**	**$ 51**	$ 103	$ 103	$ 61	$ 61
Short-term US Dollar promissory notes, bearing interest between 0.17% and 0.47% and maturing within 84 and 367 days of issuance (March 31, 2014 – 35 and 365 days; April 1, 2013 – 29 and 189 days)	**233**	**233**	165	166	72	72
Medium-term notes Series 1, bearing interest of 4.57% per annum and matured on December 9, 2013	**–**	**–**	–	–	71	72
Medium-term notes Series 2, bearing interest of 2.94% per annum and maturing on December 3, 2015	**51**	**51**	50	51	49	51
Medium-term notes Series 3, bearing variable interest of 3-month CDOR + 39 basis points and matured on February 16, 2015	**–**	**–**	25	25	25	25
Medium-term notes Series 4, bearing interest of 2.26% per annum and maturing on February 16, 2017	**65**	**66**	65	66	63	65
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**36**	**39**	36	37	–	–
Medium-term notes Series 6, bearing variable interest of 3-month CDOR and maturing on April 4, 2016	**14**	**15**	–	–	–	–
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**72**	**80**	–	–	–	–
Total	**$ 522**	**$ 535**	$ 444	$ 448	$ 341	$ 346

Interest expense, for the years ended March 31, was as follows:

(Canadian $ millions)	**2015**	2014
Short-term promissory notes	**$ 1**	$ 1
Medium-term notes	**6**	6
Total	**$ 7**	$ 7

10 EQUITY

10.1. 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 the net assets of PSP Investments including the net profit (loss) and other comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

10.2. FUND TRANSFERS

PSP Investments received fund transfers from the Government of Canada of $374 million for the year ended March 31, 2015 ($452 million for the year ended March 31, 2014) for the Fund, recorded in the Plan Account.

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)	2015	2014
Interest expense (Note 9)	$ 7	$ 7
Transaction costs	7	6
External investment management fees [A]	4	2
Other (net)	4	2
Total	**$ 22**	$ 17

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. This excludes fees related to certain pooled fund investments classified under alternative investments primarily related to performance, in the amount of $8 million for the year ended March 31, 2015 ($4 million for the year ended March 31, 2014). This also excludes management fees related to investments in private markets and other fixed income securities that are not paid directly by PSP Investments.

Such fees, which generally vary between 0.1% and 2.0% of the total invested and/or committed amount, totaled $14 million for the year ended March 31, 2015 ($11 million for the year ended March 31, 2014).

12 OPERATING EXPENSES

Operating expenses allocated to this Plan Account consisted of the following for the years ended March 31:

(Canadian $ thousands)	2015	2014
Salaries and employee benefits	$ 10,618	$ 9,695
Professional and consulting fees	2,170	1,693
Premises and equipment	886	744
Market data and business applications	1,449	1,244
Depreciation of property, plant and equipment	1,151	970
Custodial fees	264	202
Other operating expenses	883	672
Total	**$ 17,421**	$ 15,220

13 ALLOCATION OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)

The profit (loss) and other comprehensive income (loss) of PSP Investments is allocated to each Plan Account as follows:

13.1. INVESTMENT INCOME (LOSS)

The investment income (loss) is allocated proportionately based upon the net asset value held by each Plan Account.

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. 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 asset value of each Plan Account at the time the expense was incurred.

Operating expenses and other comprehensive income (loss), 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 assets in each Plan Account as follows:

	2015	2014
Public Service Pension Plan Account	**72.7 %**	72.9 %
Canadian Forces Pension Plan Account	**19.6**	19.5
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.1
Reserve Force Pension Plan Account	**0.5**	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 3.1, 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 5.1 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 profit (loss) and other comprehensive income (loss) 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 10.2.

(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 5.1. 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 profit (loss) and other comprehensive income (loss) 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 Profit or Loss and Other Comprehensive Income and was as follows:

(Canadian $ thousands)	2015	2014
Short-term compensation and benefits	**$ 1,008**	$ 554
Long-term compensation and benefits	**427**	658
	$ 1,435	$ 1,212

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 10.2, 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 8.
- 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 9 provides information on the capital market debt financing and Note 8.3 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 9.

PSP Capital Inc. provided funding facilities of a maximum amount of $969 million to support potential margin calls on the ABTNs, of which $69 million has been allocated to the Plan Account. The margin funding facilities have not been drawn upon since inception; this arrangement matures in July 2017.

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, 2015, 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 $1,147 million as at March 31, 2015 (March 31, 2014 – $1,223 million and April 1, 2013 – $999 million), of which $83 million has been allocated to the Plan Account (March 31, 2014 – $88 million and April 1, 2013 – $71 million) plus applicable interest and other related costs. The arrangements mature between June 2015 and September 2028.
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $64 million as at March 31, 2015 (March 31, 2014 – $82 million and April 1, 2013 – $41 million), of which $5 million has been allocated to the Plan Account (March 31, 2014 – $6 million and April 1, 2013 – $3 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, 2015
Real estate	$ 135
Private equity	373
Infrastructure	183
Renewable resources	44
Other fixed income securities	232
Alternative investments	129
Total	**$ 1,096**

Funding in connection with the above commitments can be called upon at various dates extending until 2032.

18 FIRST-TIME ADOPTION

Upon transition to IFRS, PSP Investments has used accounting estimates under IFRS that are consistent with those applied under previous Canadian GAAP (with adjustment for accounting policy differences).

18.1. EXCEPTIONS AND EXEMPTIONS

IFRS 1 requires mandatory exceptions and permits certain exemptions from full retrospective application. PSP Investments has applied the following:

PSP Investments has determined the classification and consequential measurement of its financial assets under IFRS 9 on the basis of the facts and circumstances that existed on April 1, 2013 – the date of transition to IFRS.

Financial liabilities designated at FVTPL under IFRS 9 were accounted for at fair value under previous GAAP with all changes reported as part of profit or loss. The transition to IFRS did not result in any changes in the measurement of such financial liabilities as at April 1, 2013.

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION

PSP Investments has made the following significant adjustments to the Statement of Financial Position of the Plan Account as at April 1, 2013:

(Canadian $ millions)	Ref.	Previous GAAP	Presentation	Pension Benefits	IFRS
Assets					
Investments	A	$ 5,777	$ 156	$ –	$ 5,933
Investment-related assets	A	156	(156)	–	–
Other assets		6	–	–	6
Total assets		$ 5,939	$ –	$ –	$ 5,939
Liabilities					
Trade payable and other liabilities	D (i)	$ 9	$ –	$ 1	$ 10
Investment-related liabilities	E	553	(346)	–	207
Borrowings	E	–	346	–	346
Due to the Public Service Pension Plan Account		3	–	–	3
Total liabilities		$ 565	$ –	$ 1	$ 566
Net assets		$ 5,374	$ –	$ (1)	$ 5,373
Equity	D (i)	$ 5,374	$ –	$ (1)	$ 5,373
Total liabilities and equity		$ 5,939	$ –	$ –	$ 5,939

18 FIRST-TIME ADOPTION (continued)

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION (continued)

PSP Investments has made the following significant adjustments to the Statement of Financial Position of the Plan Account as at March 31, 2014:

(Canadian $ millions)	Ref.	Previous GAAP	Presentation	IFRS
Assets				
Investments	A	$ 7,288	$ 138	$ 7,426
Investment-related assets	A	138	(138)	–
Other assets		10	–	10
Total assets		$ 7,436	$ –	$ 7,436
Liabilities				
Trade payable and other liabilities	D (ii)	$ 11	$ –	$ 11
Investment-related liabilities	E	700	(448)	252
Borrowings	E	–	448	448
Due to the Public Service Pension Plan Account		5	–	5
Total liabilities		$ 716	$ –	$ 716
Net assets		$ 6,720	$ –	$ 6,720
Equity	D (ii)	$ 6,720	$ –	$ 6,720
Total liabilities and equity		$ 7,436	$ –	$ 7,436

PSP Investments has made the following significant adjustments to the Statement of Profit or Loss and Other Comprehensive Income of the Plan Account for the year ended March 31, 2014:

(Canadian $ millions)	Ref.	Previous GAAP	Presentation	Pension Benefits	IFRS
Investment income	A	$ 909	$ 17	$ –	$ 926
Investment-related expenses	A	$ –	$ 17	$ –	$ 17
Net investment income		$ 909	$ –	$ –	$ 909
Operating expenses		$ 15	$ –	$ –	$ 15
Profit		$ 894	$ –	$ –	$ 894
Other comprehensive income					
Remeasurement of the net defined benefit liability	D (ii)	$ –	$ –	$ 1	$ 1
Profit and other comprehensive income		$ 894	$ –	$ 1	$ 895

18 FIRST-TIME ADOPTION (continued)

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION (continued)

18.2.1. Notes to the Adjustments of the Statements of Financial Position and Statements of Profit or Loss and Other Comprehensive Income

(A) Consolidation of Certain Subsidiaries

Under previous Canadian GAAP, PSP Investments consolidated subsidiaries that it formed and that qualified as investment companies. Upon transition to IFRS, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities as required by IFRS 10. Instead, PSP Investments measures its investments in its subsidiaries at FVTPL in accordance with IFRS 9 as further described under Note 3.1.

Upon transition to IFRS, the presentation of the Financial Statements was adjusted as outlined in the tables above to reflect the impact of the difference described between previous Canadian GAAP and IFRS. The adjustment was made with respect to subsidiaries that are formed by PSP Investments and that qualify as investment entities.

(B) Statements of Cash Flows

Under previous Canadian GAAP, PSP Investments did not prepare a statement of cash flows. IAS 1 *Presentation of Financial Statements* requires a complete set of financial statements to include a statement of cash flows for the current and comparative periods, without exception.

(C) Disclosures

Upon transition to IFRS, PSP Investments was required to disclose information that was not previously disclosed under Canadian GAAP. The most significant of such disclosures are as follows:

(i) Certain disclosures with respect to fair value measurements under previous Canadian GAAP were expanded upon transition to IFRS as required by IFRS 13 *Fair Value Measurement*. They are presented mainly under Note 5.2.3.

(ii) Disclosures in connection with interests in other entities under Note 7 are required by IFRS 12 *Disclosures of Interests in Other Entities*.

(iii) Disclosures with respect to offsetting financial instruments under Note 8.4 are required by IFRS 7 *Financial Instruments: Disclosures*.

(D) Employee Benefits

PSP Investments has a defined benefit pension plan for the benefit of its employees hired prior to January 1, 2014. The net defined benefit liability is recorded in trade payable and other liabilities. Under previous Canadian GAAP, PSP Investments recognized actuarial gains and losses, which includes actual returns on plan assets, over the average remaining service period of active employees. IAS 19 *Employee Benefits* requires that remeasurements of the net defined benefit liability, which include actuarial gains and losses and actual returns on plan assets, are recorded against other comprehensive income (loss) as they are incurred.

(i) Impact on equity as at April 1, 2013

As at the transition date, the defined benefit pension plan had an unamortized actuarial loss of $17 million, of which $1 million was allocated to the Plan Account. As such, upon transition to IFRS, PSP Investments has increased the Plan Account's trade payable and other liabilities by $1 million and reduced equity by the same amount. At April 1, 2013, the date of transition to IFRS, such amount was allocated to the Plan Account based upon its weighted average net asset value since inception.

(ii) Impact on other comprehensive income for the year ended March 31, 2014 and equity as at March 31, 2014

During the year ended March 31, 2014, the remeasurement of the net defined benefit liability amounted to a gain of $17 million, of which $1 million was allocated to the Plan Account. This amount was recorded in other comprehensive income with an offsetting impact to trade payable and other liabilities. Such amount was allocated to the Plan Account based on the allocation described in Note 13.2.

The cumulative impact for the Plan Account of the opening equity adjustment ($1 million loss) and the March 31, 2014 adjustment ($1 million gain) is nil on both trade payable and other liabilities and retained earnings.

All other differences related to employee benefits during the year ended March 31, 2014 are not significant.

(E) Other

Borrowings have been reclassified on transition to IFRS to show the balance separately on the Statement of Financial Position.

RESERVE FORCE
PENSION PLAN ACCOUNT
FINANCIAL STATEMENTS

Independent Auditors' Report

To the Minister of National Defence

Report on the Financial Statements

We have audited the accompanying 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, 2015, March 31, 2014 and April 1, 2013 and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the years ended March 31, 2015 and March 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Reserve Force Pension Plan Account as at March 31, 2015, March 31, 2014 and April 1, 2013, and its financial performance and its cash flows for the years ended March 31, 2015 and March 31, 2014 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards have been applied, after giving retrospective effect to the adoption of new standards as explained in notes 2 and 18 to the financial statements, on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Reserve Force Pension Plan Account that have come to our notice during our audits of the financial statements have, in all significant respects, been in accordance with 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.

Deloitte LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A116129

May 14, 2015
Montréal, Canada

Clyde M. MacLellan, FCPA, FCA
Assistant Auditor General for the Auditor General of Canada

May 14, 2015
Ottawa, Canada

Statements of Financial Position

As at

(Canadian $ thousands)	**March 31, 2015**	March 31, 2014 (Note 18)	April 1, 2013 (Note 18)
Assets			
Investments (Note 5.1)	**$ 614,589**	$ 514,461	$ 443,619
Other assets	**595**	497	270
Total assets	**$ 615,184**	$ 514,958	$ 443,889
Liabilities			
Trade payable and other liabilities	**$ 868**	$ 645	$ 655
Investment-related liabilities (Note 5.1)	**24,981**	17,507	15,525
Borrowings (Notes 5.1, 9)	**36,597**	31,030	25,845
Due to the Public Service Pension Plan Account	**394**	370	197
Total liabilities	**$ 62,840**	$ 49,552	$ 42,222
Net assets	**$ 552,344**	$ 465,406	$ 401,667
Equity	**$ 552,344**	$ 465,406	$ 401,667
Total liabilities and equity	**$ 615,184**	$ 514,958	$ 443,889

The accompanying notes are an integral part of the Financial Statements.

On behalf of the Board of Directors:

Michael P. Mueller
Chair of the Board

William A. MacKinnon
Chair of the Audit Committee

Statements of Profit or Loss and Other Comprehensive Income

For the years ended March 31

(Canadian $ thousands)	**2015**	2014 (Note 18)
Investment income	**$ 70,620**	$ 66,117
Investment-related expenses (Note 11)	**$ 1,477**	$ 1,319
Net investment income	**$ 69,143**	$ 64,798
Operating expenses (Note 12)	**$ 1,189**	$ 1,142
Profit	**$ 67,954**	$ 63,656
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability (Note 18)	**$ (75)**	$ 83
Profit and other comprehensive income (loss)	**$ 67,879**	$ 63,739

Statements of Changes in Equity

For the years ended March 31

(Canadian $ thousands)	**2015**	2014
Fund transfers		
Balance at beginning of period	**$ 310,572**	$ 310,572
Fund transfers received during the period (Note 10.2)	**19,059**	–
Balance at end of period	**$ 329,631**	$ 310,572
Retained earnings		
Balance at beginning of period	**$ 154,834**	$ 91,095
Profit and other comprehensive income (loss)	**67,879**	63,739
Balance at end of period	**$ 222,713**	$ 154,834
Total equity	**$ 552,344**	$ 465,406

The accompanying notes are an integral part of the Financial Statements.

Statements of Cash Flows

For the years ended March 31

(Canadian $ thousands)	2015	2014
Cash flows from operating activities		
Profit	**$ 67,954**	$ 63,656
Adjustments for non-cash items:		
Depreciation of property, plant and equipment	**79**	73
Effect of exchange rate changes on cash and cash equivalents	**(272)**	280
Unrealized losses on borrowings	**870**	90
	$ 68,631	$ 64,099
Net changes in operating assets and liabilities		
Increase in investments	**$ (99,897)**	$ (71,398)
Decrease (Increase) in other assets	**78**	(112)
Increase in trade payable and other liabilities	**148**	73
Increase in investment-related liabilities	**7,474**	1,982
Net cash used in operating activities	**$ (23,566)**	$ (5,356)
Cash flow from financing activities		
Proceeds from borrowings	**$ 115,993**	$ 64,336
Repayment of borrowings	**(111,296)**	(59,241)
Repayment to the Public Service Pension Plan Account	**(1,611)**	(1,570)
Advances from the Public Service Pension Plan Account	**1,635**	1,743
Fund transfers received	**19,059**	–
Net cash flows provided by financing activities	**$ 23,780**	$ 5,268
Cash flow from investing activities		
Acquisitions of property, plant and equipment	**$ (193)**	$ (188)
Net cash flows used in investing activities	**$ (193)**	$ (188)
Net change in cash and cash equivalents	**$ 21**	$ (276)
Effect of exchange rate changes on cash and cash equivalents	**272**	(280)
Cash and cash equivalents at the beginning of the period	**4,006**	4,562
Cash and cash equivalents at the end of the period	**$ 4,299**	$ 4,006
Cash and cash equivalents are comprised of:		
Cash and cash equivalents held for investment purposes[A]	**$ 4,237**	$ 4,006
Cash held for administrative purposes[B]	**62**	–
Cash and cash equivalents at the end of the period	**$ 4,299**	$ 4,006
Supplementary disclosure of cash flow information		
Interest paid	**$ (413)**	$ (549)

[A] Cash and cash equivalents held for investment purposes are presented as part of fixed income in Note 5.1. Cash equivalents represent short-term deposits with a maturity of 90 days or less and are held for purposes of meeting short-term cash commitments. Cash equivalents are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

[B] Cash held for administrative purposes is included in other assets.

The accompanying notes are an integral part of the Financial Statements.

Notes to the Financial Statements

For the year ended March 31, 2015

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 440 Laurier street West, Ottawa, Ontario, Canada and its principal business office is at 1250 René Lévesque boulevard West, Montreal, Quebec, Canada.

2 FIRST-TIME ADOPTION OF IFRS

These are PSP Investments' first Financial Statements for the Plan Account prepared in accordance with International Financial Reporting Standards ("IFRS"). PSP Investments previously prepared financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The date of transition to IFRS was April 1, 2013.

PSP Investments' IFRS accounting policies as presented in Note 3 have been applied in preparing the Financial Statements for the year ended March 31, 2015, the comparative information and the opening Statement of Financial Position at the date of transition.

PSP Investments has applied IFRS 1 *First-Time Adoption of International Financial Reporting Standards* in preparing these IFRS Financial Statements. IFRS 1 sets out the procedures that PSP Investments must follow when it adopts IFRS for the first time as the basis for preparing its Financial Statements. PSP Investments is required to establish its IFRS accounting policies as at March 31, 2015 and, in general, apply these retrospectively to determine the IFRS opening Statement of Financial Position at its date of transition, April 1, 2013. IFRS 1 provides a number of mandatory exceptions and optional exemptions to this general principle. The effects of the transition to IFRS on equity and on profit (loss) and other comprehensive income (loss) are presented in Note 18.

3 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been applied in the preparation of these Financial Statements are summarized below. The Financial Statements have been prepared using accounting policies specified by IFRS in effect at the end of the reporting period. These accounting policies have been used throughout all periods presented.

3.1. BASIS OF PRESENTATION

These Financial Statements have been prepared in accordance with 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*, 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 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 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.

The Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 14, 2015.

3.2. 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 on April 1, 2013, the date of its transition to IFRS. 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 Act*s. 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.

3 SIGNIFICANT ACCOUNTING POLICIES
(continued)

3.3. INTERESTS IN OTHER ENTITIES

Management assesses control, joint control and significant influence with respect to the investees disclosed in Note 7 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.

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Financial Statements are set out below.

3.4.1. 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 5.1.

Borrowings under the capital market debt financing program, as described under Note 9, 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. Purchases and sales 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 Statement of Profit or Loss and Other 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 (loss).

(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.

3 SIGNIFICANT ACCOUNTING POLICIES
(continued)

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.2. 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 real estate, private equity, infrastructure and renewable resources, 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 5.

3.4.3. 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 the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars. Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

3.4.4. Foreign Currency Translation

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.

Financial assets and financial 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 financial instruments are included in investment income (loss).

3.4.5. 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 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 recognize securities borrowed.

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.

3.4.6. Securities sold under Repurchase Agreements and Related Collateral

PSP Investments is party to agreements which involve the sale of securities with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Securities sold under the repurchase agreements are not derecognized as PSP Investments retains all related risks and rewards of ownership. As such, all related income (loss) continues to be reported in investment income (loss) and obligations to repurchase the securities sold are accounted for as investment-related liabilities.

Securities sold under 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. 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. PSP Investments does not sell, repledge or otherwise use collateral held.

3.4.7. 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 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.

3 SIGNIFICANT ACCOUNTING POLICIES
(continued)

3.4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4.8. 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.

3.4.9. Investment Income

Investment income (loss) is made up of interest, dividends, gains (losses) on the disposal of investments as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the reporting period. Interest is recognized as earned. Dividends are recognized on the ex-dividend date. Distributions from pooled funds, limited partnerships or from direct investments and co-investments are recognized as interest, dividend or realized gains (losses) as appropriate. Co-investments are investments in private entities where the investment is made in conjunction with an external manager with whom PSP Investments already has committed and delegated funds.

3.4.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, as described in Note 5.1.7, 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 are expensed as they are incurred. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets and other fixed income securities as outlined in Note 11.

Other (net) includes dividend expense related to securities sold short and securities lending income net of fees on securities borrowed.

3.4.11. Fund Transfers

Amounts are received from the Government of Canada for the Fund and are recorded in the Plan Account.

3.5. 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 3.2 as well as the determination of control, joint control and significant influence as described in Note 3.3.

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 5.2.3 and those regarding the assessment of risk are outlined in Note 8.

Although estimates and assumptions reflect management's best judgment, actual results may differ from such estimates due to the uncertainties involved in using them.

4 CURRENT AND FUTURE CHANGES IN ACCOUNTING STANDARDS

4.1. CURRENT ACCOUNTING STANDARDS ADOPTED BEFORE THE EFFECTIVE DATE

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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted.

PSP Investments has adopted IFRS 9 in its Consolidated Financial Statements prepared in accordance with IFRS for the year ended March 31, 2015. Significant accounting policies in connection with IFRS 9 are described under Note 3.4.1. Additional information regarding the implementation of IFRS 9 in the year of first-time adoption of IFRS is presented under Note 18.1.

4.2. FUTURE ACCOUNTING STANDARDS

A number of new standards, amendments and interpretations have been issued by the IASB, but are not yet effective. The following relates to one or more of PSP Investments' significant accounting policies or disclosures:

IFRS 11 Joint Arrangements

IFRS 11 was amended, effective in annual periods beginning on or after January 1, 2016, to add new guidance on the accounting for acquisitions of interests in a joint operation that constitutes a business. Acquirers of such interests shall apply all of the principles in business combinations accounting in IFRS 3 *Business Combinations*, and other IFRS, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRS in relation to business combinations. Management is currently assessing the impact of adopting this amendment.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1. 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, 2015	March 31, 2014	April 1, 2013
Public markets			
Canadian equity	$ 40,839	$ 45,323	$ 48,701
Foreign equity	164,502	137,835	110,611
Private markets			
Real estate	83,976	62,474	57,532
Private equity	49,450	40,149	37,065
Infrastructure	38,269	32,480	23,538
Renewable resources	11,305	5,890	2,218
Fixed income			
Cash and money market securities	19,208	19,219	19,031
Government and corporate bonds	89,991	84,904	59,191
Inflation-linked bonds	31,738	24,809	23,108
Other fixed income securities	37,963	36,789	41,483
Alternative investments	27,212	14,973	9,462
	$ 594,453	$ 504,845	$ 431,940
Investment-related assets			
Amounts receivable from pending trades	$ 9,940	$ 3,648	$ 5,921
Interest receivable	1,050	1,085	805
Dividends receivable	482	410	352
Derivative-related assets	8,664	4,473	4,601
	$ 20,136	$ 9,616	$ 11,679
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 614,589	$ 514,461	$ 443,619
Investment-related liabilities			
Amounts payable from pending trades	$ (7,921)	$ (4,710)	$ (5,831)
Interest payable	(160)	(81)	(126)
Securities sold short	(2,635)	(3,557)	(2,475)
Securities sold under repurchase agreements	–	(3,140)	(3,215)
Derivative-related liabilities	(14,265)	(6,019)	(3,878)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (24,981)	$ (17,507)	$ (15,525)
Borrowings			
Capital market debt financing	$ (36,597)	$ (31,030)	$ (25,845)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ (36,597)	$ (31,030)	$ (25,845)
NET INVESTMENTS	$ 553,011	$ 465,924	$ 402,249

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.1. 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 market prices 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 to ensure reasonableness. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

5.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and renewable 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 financings. As at March 31, 2015, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSP Investments was $27,008 thousand for the Plan Account (March 31, 2014 – $20,923 thousand and April 1, 2013 – $18,456 thousand).

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 financings. As at March 31, 2015, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSP Investments was $7,088 thousand for the Plan Account (March 31, 2014 – $8,175 thousand and April 1, 2013 – $1,461 thousand).

Renewable resources investments are mainly comprised of direct investments and partnerships in timberlands and agriculture.

The fair value of private markets investments is determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

5.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and other fixed income 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. 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. Inflation-linked bonds are fixed income securities that earn inflation adjusted returns.

Other fixed income securities consist of asset-backed securities, floating rate notes as well as private debt investments.

Fair values of government and corporate bonds, inflation-linked bonds, floating rate notes 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.

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009. Potential margin calls on the ABTNs are supported by funding facilities, as described in Note 16.

Private debt investments are mainly in the real estate sector in the form of third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products. They also include real estate debt funds where significant portions of the value are attributed to the underlying real estate assets.

Private debt investments also include debt securities of private companies or other entities such as venture capital organizations, held mainly through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt.

The fair values of ABTNs as well as private debt investments are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

The fair value measurement of fund investments included as part of private debt investments is described in Note 5.2.2.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.4. 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 to ensure reasonableness. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

5.1.5. 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.

5.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which approximates fair value.

5.1.7. Interest Payable

With respect to the borrowings described in Note 5.1.10, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

5.1.8. 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.

5.1.9. Securities Sold under Repurchase Agreements

As described in Note 3.4.6, PSP Investments is party to agreements which involve the sale of securities with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Obligations to repurchase the securities sold under repurchase agreements are recorded at cost plus accrued interest, which approximates fair value.

5.1.10. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 9. Short-term promissory notes are recorded at cost plus accrued interest, which 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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. 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 the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity, 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.

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.

Collateralized Debt Obligations

Collateralized debt obligations are a type of asset-backed security that is constructed from a portfolio of credit-related assets. Collateralized debt obligations are usually divided into several tranches with different credit risk levels and corresponding interest payments. Any losses are applied first to the more junior tranches (lowest risk rating) before moving up in seniority.

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.

The fair value of collateralized debt obligations is determined using valuation techniques that incorporate significant inputs that are not observable in the market. Such techniques, together with the significant inputs used, are described in Note 5.2.3.

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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

(Canadian $ thousands)	March 31, 2015 Notional Value	March 31, 2015 Fair Value Assets	March 31, 2015 Fair Value Liabilities	March 31, 2014 Notional Value	March 31, 2014 Fair Value Assets	March 31, 2014 Fair Value Liabilities	April 1, 2013 Notional Value	April 1, 2013 Fair Value Assets	April 1, 2013 Fair Value Liabilities
Equity and commodity derivatives									
Listed									
Futures	$ 3,360	$ –	$ –	$ 6,964	$ –	$ –	$ 4,468	$ –	$ –
Warrants and rights	9	33	–	27	30	–	11	1	–
Options:									
Purchased	2,724	91	–	3,423	97	–	13,570	146	–
Written	2,636	–	(40)	2,057	–	(85)	5,293	–	(81)
OTC									
Forwards	1,880	147	(290)	–	–	–	–	–	–
Total return swaps	81,214	1,288	(312)	67,383	1,056	(109)	52,455	878	(261)
Options:									
Purchased	20,066	895	–	27,271	1,529	–	6,638	867	–
Written	20,337	–	(858)	30,279	–	(1,751)	6,532	–	(768)
Currency derivatives									
Listed									
Futures	768	–	–	345	–	–	222	–	–
OTC									
Forwards	218,921	2,390	(7,246)	154,121	759	(2,245)	181,054	1,807	(1,761)
Swaps	15,680	121	(1,602)	17,668	45	(622)	5,612	125	(151)
Options:									
Purchased	57,120	2,023	–	19,987	163	–	27,452	410	–
Written	57,923	–	(1,938)	17,423	–	(79)	25,605	–	(354)
Interest rate derivatives									
Listed									
Futures	38,256	–	–	12,089	–	–	7,021	–	–
Options:									
Purchased	238,484	72	–	131,612	88	–	26,688	20	–
Written	245,795	–	(42)	138,021	–	(44)	26,226	–	(18)
OTC									
Bond forwards	14,217	2	(25)	3,483	1	(3)	4,468	30	(34)
Interest rate swaps	40,825	660	(809)	58,920	196	(427)	61,049	119	(209)
Total return swaps	–	–	–	–	–	–	13	–	–
Swaptions	229,137	894	(929)	156,807	405	(346)	14,840	40	(29)
Options:									
Purchased	27,427	23	–	50,506	76	–	9,299	50	–
Written	8,889	–	(16)	74,753	–	(73)	14,697	–	(52)
OTC-cleared									
Interest rate swaps	60,354	–	–	7,611	–	–	–	–	–
Credit derivatives[A]									
OTC									
Purchased	6,202	–	(111)	10,608	5	(228)	10,107	89	(91)
Sold	2,954	25	(47)	2,723	23	(7)	4,931	19	(69)
OTC-cleared									
Purchased	3,035	–	–	4,832	–	–	–	–	–
Sold	5,720	–	–	6,983	–	–	–	–	–
Total		$ 8,664	$ (14,265)		$ 4,473	$ (6,019)		$ 4,601	$ (3,878)

[A] Credit derivatives include credit default swaps and collateralized debt obligations. PSP Investments, through sold credit derivatives, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the sold credit derivatives as shown in the table above.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1. CLASSES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.1.11. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2015			March 31, 2014			April 1, 2013		
		Fair Value			Fair Value			Fair Value	
(Canadian $ thousands)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities
Listed derivatives	**$ 532,032**	**$ 196**	**$ (82)**	$ 294,538	$ 215	$ (129)	$ 83,499	$ 167	$ (99)
OTC derivatives	**802,792**	**8,468**	**(14,183)**	691,932	4,258	(5,890)	424,752	4,434	(3,779)
OTC-cleared derivatives	**69,109**	**–**	**–**	19,426	–	–	–	–	–
Total		**$ 8,664**	**$ (14,265)**		$ 4,473	$ (6,019)		$ 4,601	$ (3,878)

The term to maturity based on notional value for the derivatives was as follows as at:

(Canadian $ thousands)	**March 31, 2015**
Less than 3 months	**$ 521,099**
3 to 12 months	**616,133**
Over 1 year	**266,701**

5.2. FAIR VALUE HIERARCHY

5.2.1. Classification

Financial assets and financial liabilities described under Note 5.1 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 of 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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2015 classified within the fair value hierarchy:

(Canadian $ thousands)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 37,186	$ 3,653	$ –	$ –	$ 40,839
Foreign equity	138,069	26,433	–	–	164,502
Private markets					
Real estate	–	–	83,976	–	83,976
Private equity	–	–	49,450	–	49,450
Infrastructure	–	–	38,269	–	38,269
Renewable resources	–	–	11,305	–	11,305
Fixed income					
Cash and money market securities	–	11,887	–	7,321	19,208
Government and corporate bonds	–	89,991	–	–	89,991
Inflation-linked bonds	–	31,738	–	–	31,738
Other fixed income securities	–	11,830	26,133	–	37,963
Alternative investments	–	6,958	20,254	–	27,212
	$ 175,255	$ 182,490	$ 229,387	$ 7,321	$ 594,453
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 9,940	$ 9,940
Interest receivable	–	–	–	1,050	1,050
Dividends receivable	–	–	–	482	482
Derivative-related assets	196	8,468	–	–	8,664
	$ 196	$ 8,468	$ –	$ 11,472	$ 20,136
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 175,451	$ 190,958	$ 229,387	$ 18,793	$ 614,589
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (7,921)	$ (7,921)
Interest payable	–	–	–	(160)	(160)
Securities sold short	(2,635)	–	–	–	(2,635)
Securities sold under repurchase agreements	–	–	–	–	–
Derivative-related liabilities	(82)	(14,150)	(33)	–	(14,265)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (2,717)	$ (14,150)	$ (33)	$ (8,081)	$ (24,981)
Borrowings					
Capital market debt financing	$ –	$ (36,597)	$ –	$ –	$ (36,597)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (36,597)	$ –	$ –	$ (36,597)
NET INVESTMENTS	$ 172,734	$ 140,211	$ 229,354	$ 10,712	$ 553,011

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2014 classified within the fair value hierarchy:

(Canadian $ thousands)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 42,049	$ 3,274	$ –	$ –	$ 45,323
Foreign equity	109,986	27,849	–	–	137,835
Private markets					
Real estate	–	–	62,474	–	62,474
Private equity	–	–	40,149	–	40,149
Infrastructure	–	–	32,480	–	32,480
Renewable resources	–	–	5,890	–	5,890
Fixed income					
Cash and money market securities	–	–	–	19,219	19,219
Government and corporate bonds	–	84,904	–	–	84,904
Inflation-linked bonds	–	24,809	–	–	24,809
Other fixed income securities	–	15,226	21,563	–	36,789
Alternative investments	–	5,591	9,382	–	14,973
	$ 152,035	$ 161,653	$ 171,938	$ 19,219	$ 504,845
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 3,648	$ 3,648
Interest receivable	–	–	–	1,085	1,085
Dividends receivable	–	–	–	410	410
Derivative-related assets	214	4,257	2	–	4,473
	$ 214	$ 4,257	$ 2	$ 5,143	$ 9,616
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 152,249	$ 165,910	$ 171,940	$ 24,362	$ 514,461
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (4,710)	$ (4,710)
Interest payable	–	–	–	(81)	(81)
Securities sold short	(3,557)	–	–	–	(3,557)
Securities sold under repurchase agreements	–	(3,140)	–	–	(3,140)
Derivative-related liabilities	(130)	(5,889)	–	–	(6,019)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (3,687)	$ (9,029)	$ –	$ (4,791)	$ (17,507)
Borrowings					
Capital market debt financing	$ –	$ (31,030)	$ –	$ –	$ (31,030)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (31,030)	$ –	$ –	$ (31,030)
NET INVESTMENTS	$ 148,562	$ 125,851	$ 171,940	$ 19,571	$ 465,924

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at April 1, 2013 classified within the fair value hierarchy:

(Canadian $ thousands)	Level 1	Level 2	Level 3	No Level [A]	Total Fair Value
Public markets					
Canadian equity	$ 48,701	$ –	$ –	$ –	$ 48,701
Foreign equity	83,987	26,624	–	–	110,611
Private markets					
Real estate	–	–	57,532	–	57,532
Private equity	–	–	37,065	–	37,065
Infrastructure	–	–	23,538	–	23,538
Renewable resources	–	–	2,218	–	2,218
Fixed income					
Cash and money market securities	–	–	–	19,031	19,031
Government and corporate bonds	–	59,191	–	–	59,191
Inflation-linked bonds	–	23,108	–	–	23,108
Other fixed income securities	–	17,943	23,540	–	41,483
Alternative investments	–	4,672	4,790	–	9,462
	$ 132,688	$ 131,538	$ 148,683	$ 19,031	$ 431,940
Investment-related assets					
Amounts receivable from pending trades	$ –	$ –	$ –	$ 5,921	$ 5,921
Interest receivable	–	–	–	805	805
Dividends receivable	–	–	–	352	352
Derivative-related assets	166	4,432	3	–	4,601
	$ 166	$ 4,432	$ 3	$ 7,078	$ 11,679
INVESTMENTS REPRESENTING FINANCIAL ASSETS AT FVTPL	$ 132,854	$ 135,970	$ 148,686	$ 26,109	$ 443,619
Investment-related liabilities					
Amounts payable from pending trades	$ –	$ –	$ –	$ (5,831)	$ (5,831)
Interest payable	–	–	–	(126)	(126)
Securities sold short	(2,475)	–	–	–	(2,475)
Securities sold under repurchase agreements	–	(3,215)	–	–	(3,215)
Derivative-related liabilities	(99)	(3,758)	(21)	–	(3,878)
INVESTMENT-RELATED LIABILITIES REPRESENTING FINANCIAL LIABILITIES AT FVTPL	$ (2,574)	$ (6,973)	$ (21)	$ (5,957)	$ (15,525)
Borrowings					
Capital market debt financing	$ –	$ (25,845)	$ –	$ –	$ (25,845)
BORROWINGS REPRESENTING FINANCIAL LIABILITIES DESIGNATED AT FVTPL	$ –	$ (25,845)	$ –	$ –	$ (25,845)
NET INVESTMENTS	$ 130,280	$ 103,152	$ 148,665	$ 20,152	$ 402,249

[A] With respect to the amounts reflected in this column, cost approximates fair value. Consequently, no fair value hierarchy classification is required for such amounts.

As at March 31, 2014, listed foreign equity securities held by a non-listed fund, were classified as Level 2. During the year ended March 31, 2015, the listed securities with a fair value of $2 million were transferred to PSP Investments and classified as Level 1 as at March 31, 2015.

During the year ended March 31, 2014, listed Canadian equity securities with a fair value of $3,158 thousand classified as Level 1 were transferred to a non-listed fund held by PSP Investments. Consequently, the securities were classified as Level 2 as at March 31, 2014.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.2. 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.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. 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, 2015:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ thousands)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	**$ 76,323**	Discounted cash flow (DCF)	Discount rate [A, B]	6.00% – 26.00% (8.21%)
				Terminal capitalization rate [A, B]	4.00% – 12.00% (6.36%)
			Direct capitalization	Capitalization rate [A, C]	3.25% – 9.25% (6.72%)
				Stabilized occupancy rate [C, D]	93.00% – 98.50% (96.49%)
			Net asset value method (NAV) [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 7,653**	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	**$ 64,201**	DCF	Discount rate [A]	5.69% – 13.40% (9.49%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 34,823**	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	**$ 6,856**	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	**$ 5,117**	DCF	Discount rate [A]	9.50% – 13.40% (11.22%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 14,160**	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	**$ 20,254**	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	**$ (33)**	Third-party pricing [E]	N/A	N/A
TOTAL		**$229,354**			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $938 thousand.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. 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, 2014:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ thousands)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	$ 53,411	DCF	Discount rate [A, B]	5.50% – 26.00% (8.50%)
				Terminal capitalization rate [A, B]	4.00% – 10.25% (6.28%)
			Direct capitalization	Capitalization rate [A, C]	4.00% – 9.50% (8.12%)
				Stabilized occupancy rate [C, D]	94.50% – 100% (97.58%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 9,063	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 52,139	DCF	Discount rate [A]	6.25% – 13.50% (9.68%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 26,380	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	$ 7,528	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 5,229	DCF	Discount rate [A]	4.00% – 13.40% (11.71%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 8,806	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	$ 9,382	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	$ 2	Third-party pricing [E]	N/A	N/A
TOTAL		$171,940			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $823 thousand.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.3. 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 April 1, 2013:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ thousands)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
PRIVATE MARKETS					
Real estate	Direct and co-investments	$ 51,420	DCF	Discount rate [A, B]	4.75% – 26.00% (8.46%)
				Terminal capitalization rate [A, B]	4.50% – 11.25% (6.71%)
			Direct capitalization	Capitalization rate [A, C]	4.50% – 9.50% (8.78%)
				Stabilized occupancy rate [C, D]	72.00% – 100% (83.39%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 6,112	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 34,735	DCF	Discount rate [A]	6.50% – 13.30% (9.33%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 28,086	NAV [E]	N/A	N/A
FIXED INCOME					
Asset-backed securities	Term notes and mortgage-backed securities	$ 9,130	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 6,346	DCF	Discount rate [A]	4.00% – 29.00% (12.77%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Credit linked notes	$ 191	Internal present value model	Default probability	90.00% – 100% (93.00%)
				Recovery rate	0% – 65.00% (40.00%)
	Fund investments	$ 7,873	NAV [E]	N/A	N/A
ALTERNATIVE INVESTMENTS	Fund investments	$ 4,790	NAV [E]	N/A	N/A
DERIVATIVE-RELATED INSTRUMENTS [F]	Credit derivatives	$ (18)	Third-party pricing [E]	N/A	N/A
TOTAL		$148,665			

[A] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[B] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[C] There is no predictable direct relationship between this input and any other significant unobservable input.

[D] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

[E] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

[F] Credit derivatives have a notional value of $805 thousand.

5 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

5.2. FAIR VALUE HIERARCHY (continued)

5.2.4. 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, 2015:

(Canadian $ thousands)	Opening Balance	Purchases	Sales	Settlements	Realized Gains (Losses)	Unrealized Gains (Losses)[A]	Transfer out of Level 3	Closing Balance
Private markets	$ 140,993	$ 38,750	$ (13,629)	$ –	$ 2,370	$ 16,073	$ (1,557)	$ 183,000
Fixed income	21,563	9,078	(5,500)	(715)	508	1,199	–	26,133
Alternative investments	9,382	11,470	(2,895)	–	(206)	2,503	–	20,254
Derivative-related assets/liabilities (net)	2	–	–	(10)	4	(29)	–	(33)
Total	**$ 171,940**	**$ 59,298**	**$ (22,024)**	**$ (725)**	**$ 2,676**	**$ 19,746**	**$ (1,557)**	**$ 229,354**

As at March 31, 2014, a private markets investment was classified under Level 3 as the fair value was determined based on significant unobservable inputs. During the year ended March 31, 2015, the investment was transferred to Level 1, as the underlying investee 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, 2014:

(Canadian $ thousands)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer out of Level 3	Closing Balance
Private markets	$ 120,353	$ 34,031	$ (21,736)	$ –	$ 3,787	$ 5,953	$ (1,395)	$ 140,993
Fixed income	23,540	4,698	(6,184)	(1,439)	1,591	(643)	–	21,563
Alternative investments	4,790	4,450	(134)	–	9	267	–	9,382
Derivative-related assets/liabilities (net)	(18)	42	(49)	–	7	20	–	2
Total	$ 148,665	$ 43,221	$ (28,103)	$ (1,439)	$ 5,394	$ 5,597	$ (1,395)	$ 171,940

[A] Includes Plan Account allocation adjustments.

As at April 1, 2013, two private markets investments were classified under Level 3 as their fair values were determined based on significant unobservable inputs. During the year ended March 31, 2014, such investments were transferred to Level 2 as the underlying investees indirectly held by PSP Investments became publicly traded. In the case of one of the two private markets investments, the instruments held by PSP Investments were subject to restrictions as at March 31, 2014 and could only be resold upon registration.

5.2.5. 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 5.2.3. 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 4% increase and 3% decrease as at March 31, 2015 (March 31, 2014 – 7% increase and 5% decrease and April 1, 2013 – 4% increase and 4% decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. Management ensures the appropriateness of the work performed by third-party appraisers as described under Note 5.2.2. In the case of fund investments, the fair value is determined as indicated in Note 5.2.2.

6 COLLATERAL PLEDGED AND RECEIVED

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 3.4.5, 3.4.6 and 8.2.1. 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 agreements as at:

(Canadian $ thousands)	**March 31, 2015**	March 31, 2014	April 1, 2013
Securities lending and borrowing			
Securities lent	**$ 65,642**	$ 47,829	$ 39,048
Collateral held [A]	**70,839**	50,914	41,126
Securities borrowed	**2,635**	3,557	2,475
Collateral pledged [B]	**2,769**	3,728	2,485
Securities repurchase agreements			
Securities sold under repurchase agreements	**–**	3,131	3,215
Collateral pledged	**–**	3,137	3,215
Derivative contracts			
Collateral pledged	**6,935**	2,880	379
Collateral held	**839**	174	764

[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 $13,229 thousand for the Plan Account as at March 31, 2015 (March 31, 2014 – $11,990 thousand and April 1, 2013 – $11,701 thousand) and securities amounted to $57,610 thousand as at March 31, 2015 (March 31, 2014 – $38,924 thousand and April 1, 2013 – $29,425 thousand). All cash collateral is re-invested.

[B] The minimum fair value of collateral required is equal to 100% of the fair value of the securities borrowed.

7 INTERESTS IN OTHER ENTITIES

7.1. 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 3.1.

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. At March 31, 2015, 92 investment entity subsidiaries were incorporated in North America, 14 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa (March 31, 2014 – 82 in North America, 13 in Europe, 9 in Oceania, 3 in Central and South America, and 1 in Africa; April 1, 2013 – 80 in North America, 10 in Europe, 5 in Oceania, and 3 in Central and South America).

In addition, PSP Investments controlled 68 investees directly or through its investment entity subsidiaries as at March 31, 2015 (March 31, 2014 – 58 investees and April 1, 2013 – 51 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. PSP Investments determines control, joint control and significant influence as described in Note 3.3.

As at March 31, 2015

Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments**	**Relationship to PSP Investments**
Revera Inc.	**North America**	**100%**	**Controlled investee**
Kaingaroa Timberlands Ltd.	**Oceania**	**56%**	**Jointly controlled investee**
Telesat Holdings Inc.	**North America**	**34%**	**Associate**
AviAlliance GmbH	**Europe**	**100%**	**Controlled investee**
Isolux Infrastructure Netherlands B.V.	**Central and South America**	**22%**	**Jointly controlled investee**
Acelity Inc. (formerly Kinetic Concepts, Inc.)	**North America**	**21%**	**Associate**
TDF S.A.S.	**Europe**	**25%**	**Associate**
Roccapina Fund, L.P.	**North America**	**100%**	**Controlled investee**
Transelec S.A.	**Central and South America**	**18%**	**Associate**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50%**	**Jointly controlled investee**

As at March 31, 2014

Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	North America	100%	Controlled investee
Telesat Holdings Inc.	North America	34%	Associate
AviAlliance GmbH	Europe	100%	Controlled investee
Kinetic Concepts, Inc.	North America	21%	Associate
Isolux Infrastructure Netherlands B.V.	Central and South America	19%	Jointly controlled investee
Kaingaroa Timberlands Ltd.	Oceania	30%	Jointly controlled investee
Transelec S.A.	Central and South America	18%	Associate
Gassled	Europe	5%	Associate
Charter Hall Office Trust	Oceania	43%	Jointly controlled investee
Forth Ports Limited	Europe	37%	Jointly controlled investee

7 INTERESTS IN OTHER ENTITIES (continued)

7.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

As at April 1, 2013

Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	North America	100%	Controlled investee
Telesat Holdings Inc.	North America	35%	Associate
SCG Hotel CLP, L.P.	North America	100%	Controlled investee
Gassled	Europe	5%	Associate
Kinetic Concepts, Inc.	North America	21%	Associate
Transelec S.A.	Central and South America	18%	Associate
Charter Hall Office Trust	Oceania	43%	Jointly controlled investee
TD Canada Trust Tower	North America	50%	Jointly controlled investee
H2O Power Limited Partnership	North America	92%	Controlled investee
DP World Australia Ltd.	Oceania	25%	Jointly controlled investee

In addition to the above, PSP Investments controls and consolidates two wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services are mainly related to raising capital used to finance private market investments within the context of PSP Investments' capital market debt program described in Note 9.

7.2. 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 8, guarantees and indemnities under Note 16 and commitments under Note 17.

8 INVESTMENT RISK MANAGEMENT

PSP Investments has implemented an investment approach that aims to maximize rates of return without undue risk of loss. In pursuit of such an objective, PSP Investments has developed an Investment Risk Management Policy (IRM Policy) to support the management of risks incurred through the investment processes. The IRM policy, which supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), establishes the Investment Risk Management Framework (IRM Framework) with a goal of ensuring that all investments made by PSP Investments or its investment entity subsidiaries respect the risk philosophy of PSP Investments and are within the tolerances and limits of its risk appetite.

The IRM Framework requires reporting on risk to all levels of the organization. The Board of Directors and its committees oversee all risk matters and receive reporting from senior management as well as PSP Investments' independent internal auditor reporting directly to the Audit Committee.

The IRM Framework is designed to effectively manage all investment risks PSP Investments is exposed to, which include market, credit and liquidity risks, related to the implementation of the Policy Portfolio and active management activities.

8.1. 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.

Market risk management focuses on the following two key components:

- Policy Portfolio
  The Policy Portfolio (long-term asset mix), as defined in the SIP&P, determines a diversification strategy to mitigate risk whereby PSP Investments invests in a diversified portfolio expected to achieve a return at least equal to the Actuarial Rate of Return (ARR); defined as the rate of return assumption used by the Chief Actuary of Canada in the latest actuarial valuation reports of the Plans. In the absence of other factors affecting the funding of the Plans or changes to pension benefits under the Plans, the ARR is the rate of return required to maintain funding requirements and pension benefits at their current levels.
- Active Management
  Active management is defined as the sum of investment strategies that deviate from the approved Policy Portfolio. It is designed to supplement the returns of the Policy Portfolio within an active risk budget.

The risks associated with these components are the Policy Portfolio market risk and the active risk. The Policy Portfolio market risk represents the investment risk arising from the exposure to approved asset classes in the approved weightings. In establishing its Policy Portfolio, PSP Investments also takes into consideration the impact of the Policy Portfolio market risk on funding risk. Funding risk is the risk that the assets under management will be insufficient to meet the relevant pension liabilities of the Plans, which may require the contributions to the Funds of the Plans to be increased. The Policy Portfolio is reviewed at least annually as part of the review of the SIP&P, and this review includes changes, if any, to PSP Investments' long-term expectations of market conditions and other factors that may affect the funding levels of the Plans.

Active risk refers to all market risk arising from active management activities. It is managed in accordance with the Investment Risk Management Policy.

8.1.1. Measurement of Market Risk

The Value-at-Risk (VaR) is one of the methods used to measure market risk and is reported on a quarterly basis. It is not the maximum potential loss, but rather the maximum loss not exceeded with a given confidence level, over a given period of time. PSP Investments uses a Historical VaR model incorporating ten years' worth of market returns scaled to a twelve-month holding period at a 95% confidence level. For investments that are not actively traded, the calculation of VaR uses securities with similar risk attributes as proxy.

In measuring Policy Portfolio risk, VaR represents the absolute loss expected from the Policy Portfolio (Policy Portfolio VaR). Whereas in terms of measuring the active risk, VaR reflects the loss relative to the Policy Portfolio benchmark (Active VaR).

VaR 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.

8 INVESTMENT RISK MANAGEMENT (continued)

8.1. MARKET RISK (continued)

8.1.1. Measurement of Market Risk (continued)

The following table shows the total VaR consisting of the Policy Portfolio VaR, the Active VaR and the diversification effect, calculated as a percentage of net investments as at the end of the period. The diversification effect captures the impact of holding different types of assets which may react differently in various types of situations and thus reduces the total VaR. The information is presented as at:

	March 31, 2015	March 31, 2014	April 1, 2013
Policy Portfolio VaR	**20.6 %**	20.3 %	20.2 %
Active VaR	**2.6**	2.8	2.6
Total VaR (undiversified)	**23.2**	23.1	22.8
Diversification effect	**(0.9)**	(0.1)	(1.3)
Total VaR	**22.3 %**	23.0 %	21.5 %

Stress Testing

Although VaR 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. Stress testing and scenario analysis 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.

8.1.2. 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 5.1, with the most significant exposure to interest rate risk were as follows as at March 31, 2015:

(Canadian $ thousands)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Government bonds	$ 5,244	$ 21,956	$ 10,407	$ 18,420	$ –	$ 56,027
Corporate bonds	6,978	16,243	8,539	2,204	–	33,964
Inflation-linked bonds	13	6,968	10,316	14,441	–	31,738
Asset-backed securities	310	6,927	122	–	–	7,359
Private debt investments:						
Directly held	92	2,782	1,427	–	120	4,421
Held through funds [A]	–	–	–	–	14,856	14,856
Total investments with significant exposure to interest rate risk	**$ 12,637**	**$ 54,876**	**$ 30,811**	**$ 35,065**	**$ 14,976**	**$ 148,365**
Other investments [B]	**$ –**	**$ –**	**$ –**	**$ –**	**$ 30,535**	**$ 30,535**
Total fixed income	**$ 12,637**	**$ 54,876**	**$ 30,811**	**$ 35,065**	**$ 45,511**	**$ 178,900**

[A] Due to their nature, information in connection with the terms to maturity of fund investments included as part of private debt investments is not available.

[B] Consists of $19,208 thousand in cash and money market securities and $11,327 thousand in floating rate notes, which, due to their nature, are not significantly exposed to interest rate risk.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 9.

Alternative investments as well as derivative contracts described in Notes 5.1.4 and 5.1.11, respectively, are also subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 8.1.1.

8 INVESTMENT RISK MANAGEMENT (continued)

8.1. MARKET RISK (continued)

8.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through direct and indirect holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets. 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. In October 2013, PSP Investments amended its policy to fully hedge foreign currency investments in government and corporate bonds, inflation-linked bonds, certain other fixed income securities, as well as investments in real estate, infrastructure and renewable resources. PSP Investments' previous policy was to hedge a target of 50% of its foreign currency investments in non-emerging countries. Additional factors are considered when implementing the hedging target for investments in emerging countries, namely, total relative exposure and cost effectiveness.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

(Canadian $ thousands)	**March 31, 2015**		March 31, 2014		April 1, 2013	
Currency	**Fair Value**	**% of Total**	Fair Value	% of Total	Fair Value	% of Total
US Dollar	**$ 143,713**	**58.8 %**	$ 122,224	61.0 %	$ 80,727	53.3 %
Euro	**17,746**	**7.3**	17,225	8.6	13,584	9.0
Japanese Yen	**11,332**	**4.7**	7,812	3.9	6,036	4.0
British Pound	**10,915**	**4.5**	9,229	4.6	11,233	7.4
Hong Kong Dollar	**10,530**	**4.3**	6,512	3.3	5,461	3.6
Korean Won	**8,848**	**3.6**	6,508	3.2	4,093	2.7
Brazilian Real	**6,941**	**2.8**	6,276	3.1	6,363	4.2
Swiss Franc	**5,610**	**2.3**	3,959	2.0	2,016	1.3
Taiwanese New Dollar	**4,896**	**2.0**	3,043	1.5	2,469	1.6
Indian Rupee	**3,472**	**1.4**	2,335	1.2	1,863	1.2
Australian Dollar	**3,184**	**1.3**	2,520	1.3	4,982	3.3
South African Rand	**3,001**	**1.2**	1,948	1.0	1,604	1.1
Mexican Peso	**1,806**	**0.7**	1,049	0.5	1,280	0.9
Thai Baht	**1,144**	**0.5**	558	0.3	970	0.6
Others	**11,095**	**4.6**	9,135	4.5	8,661	5.8
Total	**$ 244,233**	**100.0 %**	$ 200,333	100.0 %	$ 151,342	100.0 %

As at March 31, 2015, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $73,200 thousand for the Plan Account (US$51,130 thousand, €3,874 thousand, £1,102 thousand, R1,446 thousand South African Rands, R$2,137 thousand Brazilian Reals and $209,839 thousand Colombian pesos) which were not included in the foreign currency exposure table.

8 INVESTMENT RISK MANAGEMENT
(continued)

8.2. 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 sold under 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, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. Except for ABTNs, securities rated by only one agency are classified as "not rated". If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings.

As at March 31, 2015, the Plan Account's maximum exposure to credit risk amounted to approximately $156 million (March 31, 2014 – approximately $149 million and April 1, 2013 – approximately $137 million). This amount excludes investments in distressed debt in the amount of approximately $12.3 million as at March 31, 2015 (March 31, 2014 – approximately $7.8 million and April 1, 2013 – approximately $7.2 million). The maximum exposure to credit risk also excludes collateralized debt obligations, collateral held as disclosed in Notes 5.1.11 and 6, respectively, and the impact of guarantees and indemnities disclosed in Note 16.

As at March 31, 2015, the Plan Account had a net notional exposure of $313 thousand (March 31, 2014 – $274 thousand and April 1, 2013 – $633 thousand) to various tranches of collateralized debt obligations, of which approximately 45% (March 31, 2014 – approximately 53% and April 1, 2013 – approximately 67%) of the underlying dollar exposure was rated "Investment grade", as well as funding facilities, as described in Note 16, to support potential margin calls on the ABTNs.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating of all credit-sensitive financial securities with the exception of securities held in pooled funds or for private markets investments.

PSP Investments' concentration of credit risk by credit rating, excluding the items described above and any other credit enhancement, for the Plan Account was as follows as at:

	March 31, 2015	March 31, 2014	April 1, 2013
Investment grade (AAA to BBB–)	**97.5 %**	97.4 %	97.9 %
Below investment grade (BB+ and below)	**0.4**	1.0	1.0
Not rated:			
Rated by a single credit rating agency	**0.6**	0.5	0.1
Not rated by credit rating agencies	**1.5**	1.1	1.0
Total	**100.0 %**	100.0 %	100.0 %

8 INVESTMENT RISK MANAGEMENT (continued)

8.2. CREDIT RISK (continued)

8.2.1. 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 sold under 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 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. In certain cases, counterparties are 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 with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing as well as securities sold under repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 3.4.5 and 3.4.6 describe collateral requirements in securities lending and borrowing programs as well as securities sold under repurchase agreements, respectively.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 6.

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.

8.3. 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 9 provides additional information on the usage of the capital market debt program.

The terms to maturity of the notional amount of derivatives are disclosed in Note 5.1.11.

8 INVESTMENT RISK MANAGEMENT (continued)

8.3. LIQUIDITY RISK (continued)

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, 2015 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	$ (7,921)	$ –	$ –	$ (7,921)
Interest payable	(148)	(12)	–	(160)
Securities sold short	(2,635)	–	–	(2,635)
Capital market debt financing	(12,338)	(10,553)	(13,706)	(36,597)
Accounts payable and other liabilities	(557)	–	(311)	(868)
Total	$ (23,599)	$ (10,565)	$ (14,017)	$ (48,181)

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 3,709	$ 3,071	$ 1,884	$ 8,664
Derivative-related liabilities [A]	(5,808)	(5,090)	(3,367)	(14,265)
Total	$ (2,099)	$ (2,019)	$ (1,483)	$ (5,601)

[A] Liabilities are presented in the earliest period in which the counterparty can request payment.

8 INVESTMENT RISK MANAGEMENT (continued)

8.4. OFFSETTING

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described in Note 8.2.1. 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 sold under repurchase agreements, as described in Notes 3.4.6 and 6, are subject to similar arrangements though are not offset.

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 (Note 5.1.11)	Less: Related Amounts not Set off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
As at March 31, 2015						
OTC-derivatives	**$ 8,608**	**$ 140**	**$ 8,468**	**$ 7,604**	**$ 564**	**$ 300**
Total	**$ 8,608**	**$ 140**	**$ 8,468**	**$ 7,604**	**$ 564**	**$ 300**
As at March 31, 2014						
OTC-derivatives	$ 4,275	$ 17	$ 4,258	$ 3,813	$ 154	$ 291
Total	$ 4,275	$ 17	$ 4,258	$ 3,813	$ 154	$ 291
As at April 1, 2013						
OTC-derivatives	$ 4,445	$ 11	$ 4,434	$ 3,381	$ 716	$ 337
Total	$ 4,445	$ 11	$ 4,434	$ 3,381	$ 716	$ 337

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	
As at March 31, 2015						
OTC-derivatives	**$ 14,323**	**$ 140**	**$ 14,183 [A]**	**$ 7,604**	**$ 6,029**	**$ 550**
Total	**$ 14,323**	**$ 140**	**$ 14,183**	**$ 7,604**	**$ 6,029**	**$ 550**
As at March 31, 2014						
OTC-derivatives	$ 5,907	$ 17	$ 5,890 [A]	$ 3,813	$ 1,807	$ 270
Repurchase agreements	3,140	–	3,140 [B]	–	3,137	3
Total	$ 9,047	$ 17	$ 9,030	$ 3,813	$ 4,944	$ 273
As at April 1, 2013						
OTC-derivatives	$ 3,790	$ 11	$ 3,779 [A]	$ 3,381	$ 334	$ 64
Repurchase agreements	3,215	–	3,215 [B]	–	3,215	–
Total	$ 7,005	$ 11	$ 6,994	$ 3,381	$ 3,549	$ 64

[A] As described in Note 5.1.11.

[B] As described in Note 5.1.

9 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 $3 billion for issuances in Canada and US $5 billion for issuances in the United States.

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2015 and March 31, 2014.

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, 2015		March 31, 2014		April 1, 2013	
(Canadian $ thousands)	**Capital Amounts Payable at Maturity**	**Fair Value**	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.64% and 1.21% and maturing within 17 and 359 days of issuance (March 31, 2014 – 7 and 364 days; April 1, 2013 – 31 and 191 days)	**$ 3,446**	**$ 3,441**	$ 7,138	$ 7,128	$ 4,555	$ 4,548
Short-term US Dollar promissory notes, bearing interest between 0.17% and 0.47% and maturing within 84 and 367 days of issuance (March 31, 2014 – 35 and 365 days; April 1, 2013 – 29 and 189 days)	**15,956**	**15,946**	11,466	11,462	5,364	5,362
Medium-term notes Series 1, bearing interest of 4.57% per annum and matured on December 9, 2013	**–**	**–**	–	–	5,280	5,402
Medium-term notes Series 2, bearing interest of 2.94% per annum and maturing on December 3, 2015	**3,456**	**3,504**	3,480	3,573	3,696	3,834
Medium-term notes Series 3, bearing variable interest of 3-month CDOR + 39 basis points and matured on February 16, 2015	**–**	**–**	1,740	1,744	1,848	1,856
Medium-term notes Series 4, bearing interest of 2.26% per annum and maturing on February 16, 2017	**4,443**	**4,561**	4,474	4,566	4,752	4,843
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**2,468**	**2,688**	2,485	2,557	–	–
Medium-term notes Series 6, bearing variable interest of 3-month CDOR and maturing on April 4, 2016	**987**	**988**	–	–	–	–
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**4,937**	**5,469**	–	–	–	–
Total	**$ 35,693**	**$ 36,597**	$ 30,783	$ 31,030	$ 25,495	$ 25,845

Interest expense, for the years ended March 31, was as follows:

(Canadian $ thousands)	**2015**	2014
Short-term promissory notes	**$ 69**	$ 72
Medium-term notes	**423**	432
Total	**$ 492**	$ 504

10 EQUITY

10.1. 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 the net assets of PSP Investments including the net profit (loss) and other comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

10.2. FUND TRANSFERS

PSP Investments received fund transfers from the Government of Canada of $19,059 thousand for the year ended March 31, 2015 (no transfers for the year ended March 31, 2014) for the Fund, recorded in the Plan Account.

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)		**2015**		2014
Interest expense (Note 9)	**$**	**492**	$	504
Transaction costs		**505**		490
External investment management fees [A]		**209**		161
Other (net)		**271**		164
Total	**$**	**1,477**	$	1,319

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. This excludes fees related to certain pooled fund investments classified under alternative investments primarily related to performance, in the amount of $513 thousand for the year ended March 31, 2015 ($276 thousand for the year ended March 31, 2014). This also excludes management fees related to investments in private markets and other fixed income securities that are not paid directly by PSP Investments.

Such fees, which generally vary between 0.1% and 2.0% of the total invested and/or committed amount, totaled $961 thousand for the year ended March 31, 2015 ($765 thousand for the year ended March 31, 2014).

12 OPERATING EXPENSES

Operating expenses allocated to this Plan Account consisted of the following for the years ended March 31:

(Canadian $ thousands)		**2015**		2014
Salaries and employee benefits	**$**	**725**	$	728
Professional and consulting fees		**148**		127
Premises and equipment		**60**		56
Market data and business applications		**99**		93
Depreciation of property, plant and equipment		**79**		73
Custodial fees		**18**		15
Other operating expenses		**60**		50
Total	**$**	**1,189**	$	1,142

13 ALLOCATION OF PROFIT (LOSS) AND OTHER COMPREHENSIVE INCOME (LOSS)

The profit (loss) and other comprehensive income (loss) of PSP Investments is allocated to each Plan Account as follows:

13.1. INVESTMENT INCOME (LOSS)

The investment income (loss) is allocated proportionately based upon the net asset value held by each Plan Account.

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. 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 asset value of each Plan Account at the time the expense was incurred.

Operating expenses and other comprehensive income (loss), 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 assets in each Plan Account as follows:

	2015	2014
Public Service Pension Plan Account	**72.7 %**	72.9 %
Canadian Forces Pension Plan Account	**19.6**	19.5
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.1
Reserve Force Pension Plan Account	**0.5**	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 3.1, 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 5.1 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 profit (loss) and other comprehensive income (loss) 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 10.2.

(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 5.1. 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 profit (loss) and other comprehensive income (loss) 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 Profit or Loss and Other Comprehensive Income and was as follows:

(Canadian $ thousands)	**2015**	2014
Short-term compensation and benefits	**$ 70**	$ 42
Long-term compensation and benefits	**29**	49
	$ 99	$ 91

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 10.2, 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 8.
- 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 9 provides information on the capital market debt financing and Note 8.3 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 9.

PSP Capital Inc. provided funding facilities of a maximum amount of $969 million to support potential margin calls on the ABTNs, of which $4,840 thousand has been allocated to the Plan Account. The margin funding facilities have not been drawn upon since inception; this arrangement matures in July 2017.

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, 2015, 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 $1,147 million as at March 31, 2015 (March 31, 2014 – $1,223 million and April 1, 2013 – $999 million), of which $5,660 thousand has been allocated to the Plan Account (March 31, 2014 – $6,080 thousand and April 1, 2013 – $5,275 thousand) plus applicable interest and other related costs. The arrangements mature between June 2015 and September 2028.
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $64 million as at March 31, 2015 (March 31, 2014 – $82 million and April 1, 2013 – $41 million), of which $316 thousand has been allocated to the Plan Account (March 31, 2014 – $410 thousand and April 1, 2013 – $218 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, 2015
Real estate	$ 9,223
Private equity	25,582
Infrastructure	12,493
Renewable resources	3,038
Other fixed income securities	15,839
Alternative investments	8,806
Total	**$ 74,981**

Funding in connection with the above commitments can be called upon at various dates extending until 2032.

18 FIRST-TIME ADOPTION

Upon transition to IFRS, PSP Investments has used accounting estimates under IFRS that are consistent with those applied under previous Canadian GAAP (with adjustment for accounting policy differences).

18.1. EXCEPTIONS AND EXEMPTIONS

IFRS 1 requires mandatory exceptions and permits certain exemptions from full retrospective application. PSP Investments has applied the following:

PSP Investments has determined the classification and consequential measurement of its financial assets under IFRS 9 on the basis of the facts and circumstances that existed on April 1, 2013 – the date of transition to IFRS.

Financial liabilities designated at FVTPL under IFRS 9 were accounted for at fair value under previous GAAP with all changes reported as part of profit or loss. The transition to IFRS did not result in any changes in the measurement of such financial liabilities as at April 1, 2013.

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION

PSP Investments has made the following significant adjustments to the Statement of Financial Position of the Plan Account as at April 1, 2013:

(Canadian $ thousands)	Ref.	Previous GAAP	Presentation	Pension Benefits	IFRS
Assets					
Investments	A	$ 431,940	$ 11,679	$ –	$ 443,619
Investment-related assets	A	11,679	(11,679)	–	–
Other assets		270	–	–	270
Total assets		$ 443,889	$ –	$ –	$ 443,889
Liabilities					
Trade payable and other liabilities	D (i)	$ 572	$ –	$ 83	$ 655
Investment-related liabilities	E	41,370	(25,845)	–	15,525
Borrowings	E	–	25,845	–	25,845
Due to the Public Service Pension Plan Account		197	–	–	197
Total liabilities		$ 42,139	$ –	$ 83	$ 42,222
Net assets		$ 401,750	$ –	$ (83)	$ 401,667
Equity	D (i)	$ 401,750	$ –	$ (83)	$ 401,667
Total liabilities and equity		$ 443,889	$ –	$ –	$ 443,889

18 FIRST-TIME ADOPTION (continued)

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION (continued)

PSP Investments has made the following significant adjustments to the Statement of Financial Position of the Plan Account as at March 31, 2014:

(Canadian $ thousands)	Ref.	Previous GAAP	Presentation	IFRS
Assets				
Investments	A	$ 504,845	$ 9,616	$ 514,461
Investment-related assets	A	9,616	(9,616)	–
Other assets		497	–	497
Total assets		$ 514,958	$ –	$ 514,958
Liabilities				
Trade payable and other liabilities	D (ii)	$ 645	$ –	$ 645
Investment-related liabilities	E	48,537	(31,030)	17,507
Borrowings	E	–	31,030	31,030
Due to the Public Service Pension Plan Account		370	–	370
Total liabilities		$ 49,552	$ –	$ 49,552
Net assets		$ 465,406	$ –	$ 465,406
Equity	D (ii)	$ 465,406	$ –	$ 465,406
Total liabilities and equity		$ 514,958	$ –	$ 514,958

PSP Investments has made the following significant adjustments to the Statement of Profit or Loss and Other Comprehensive Income of the Plan Account for the year ended March 31, 2014:

(Canadian $ thousands)	Ref.	Previous GAAP	Presentation	Pension Benefits	IFRS
Investment income	A	$ 64,798	$ 1,319	$ –	$ 66,117
Investment-related expenses	A	$ –	$ 1,319	$ –	$ 1,319
Net investment income		$ 64,798	$ –	$ –	$ 64,798
Operating expenses		$ 1,142	$ –	$ –	$ 1,142
Profit		$ 63,656	$ –	$ –	$ 63,656
Other comprehensive income					
Remeasurement of the net defined benefit liability	D (ii)	$ –	$ –	$ 83	$ 83
Profit and other comprehensive income		$ 63,656	$ –	$ 83	$ 63,739

18 FIRST-TIME ADOPTION (continued)

18.2. SIGNIFICANT ADJUSTMENTS ON FIRST-TIME ADOPTION (continued)

18.2.1. Notes to the Adjustments of the Statements of Financial Position and Statements of Profit or Loss and Other Comprehensive Income

(A) Consolidation of Certain Subsidiaries

Under previous Canadian GAAP, PSP Investments consolidated subsidiaries that it formed and that qualified as investment companies. Upon transition to IFRS, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities as required by IFRS 10. Instead, PSP Investments measures its investments in its subsidiaries at FVTPL in accordance with IFRS 9 as further described under Note 3.1.

Upon transition to IFRS, the presentation of the Financial Statements was adjusted as outlined in the tables above to reflect the impact of the difference described between previous Canadian GAAP and IFRS. The adjustment was made with respect to subsidiaries that are formed by PSP Investments and that qualify as investment entities.

(B) Statements of Cash Flows

Under previous Canadian GAAP, PSP Investments did not prepare a statement of cash flows. IAS 1 *Presentation of Financial Statements* requires a complete set of financial statements to include a statement of cash flows for the current and comparative periods, without exception.

(C) Disclosures

Upon transition to IFRS, PSP Investments was required to disclose information that was not previously disclosed under Canadian GAAP. The most significant of such disclosures are as follows:

(i) Certain disclosures with respect to fair value measurements under previous Canadian GAAP were expanded upon transition to IFRS as required by IFRS 13 *Fair Value Measurement*. They are presented mainly under Note 5.2.3.

(ii) Disclosures in connection with interests in other entities under Note 7 are required by IFRS 12 *Disclosures of Interests in Other Entities*.

(iii) Disclosures with respect to offsetting financial instruments under Note 8.4 are required by IFRS 7 *Financial Instruments: Disclosures*.

(D) Employee Benefits

PSP Investments has a defined benefit pension plan for the benefit of its employees hired prior to January 1, 2014. The net defined benefit liability is recorded in trade payable and other liabilities. Under previous Canadian GAAP, PSP Investments recognized actuarial gains and losses, which includes actual returns on plan assets, over the average remaining service period of active employees. IAS 19 *Employee Benefits* requires that remeasurements of the net defined benefit liability, which include actuarial gains and losses and actual returns on plan assets, are recorded against other comprehensive income (loss) as they are incurred.

(i) Impact on equity as at April 1, 2013

As at the transition date, the defined benefit pension plan had an unamortized actuarial loss of $17 million, of which $83 thousand was allocated to the Plan Account. As such, upon transition to IFRS, PSP Investments has increased the Plan Account's trade payable and other liabilities by $83 thousand and reduced equity by the same amount. At April 1, 2013, the date of transition to IFRS, such amount was allocated to the Plan Account based upon its weighted average net asset value since inception.

(ii) Impact on other comprehensive income for the year ended March 31, 2014 and equity as at March 31, 2014

During the year ended March 31, 2014, the remeasurement of the net defined benefit liability amounted to a gain of $17 million, of which $83 thousand was allocated to the Plan Account. This amount was recorded in other comprehensive income with an offsetting impact to trade payable and other liabilities. Such amount was allocated to the Plan Account based on the allocation described in Note 13.2.

The cumulative impact for the Plan Account of the opening equity adjustment ($83 thousand loss) and the March 31, 2014 adjustment ($83 thousand gain) is nil on both trade payable and other liabilities and retained earnings.

All other differences related to employee benefits during the year ended March 31, 2014 are not significant.

(E) Other

Borrowings have been reclassified on transition to IFRS to show the balance separately on the Statement of Financial Position.

investpsp.ca

PRINCIPAL BUSINESS OFFICE
1250 René-Lévesque Blvd. West, Suite 900
Montréal, Québec H3B 4W8

T. 514.937.2772
F. 514.937.3155

HEAD OFFICE
440 Laurier Ave. West, Suite 200
Ottawa, Ontario K1R 7X6

T. 613.782.3095
F. 613.782.6864

info@investpsp.ca