2023 Annual Report

PSP

# Investing for the long term

Public Sector Pension Investment Board

# We are PSP Investments

## We are one of Canada's largest pension investors.

Established in 1999, PSP Investments manages the amounts transferred to it by the Government of Canada for the funding of benefits earned from April 1, 2000, by members of the public sector pension plans of the federal Public Service, the Canadian Forces (Regular Force), the Royal Canadian Mounted Police (RCMP) and, since March 1, 2007, the Canadian Forces (Reserve Force) (collectively the Plans).

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

From time to time, PSP Investments makes forward-looking statements. By their nature, forward-looking statements require assumptions to be made and involve inherent risks and uncertainties. As a result, PSP Investments cannot guarantee that any forward-looking statement will materialize.

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# Chair's message

**Fiscal 2023 was another year of solid performance for PSP Investments. The organization exceeded its benchmarks in a difficult market environment and advanced key strategic initiatives, including its climate investing strategy.**

The year also marked an important transition in the organization's leadership, with the retirement of President and CEO Neil Cunningham after 19 years of exceptional service to PSP Investments and the hiring of Deborah K. Orida to succeed him. Neil was a terrific leader, who made PSP Investments stronger and better. The Board and I thank him and wish him all the best.

At the same time, we're thrilled to have Deborah join us and are excited about her ability to build on Neil's efforts. To this end, we look forward to working with Deborah and her executive team on an ambitious new corporate strategy, which we anticipate launching in the coming fiscal year.

## Delivering on our priorities

**Our role as a Board is to oversee the management of PSP Investments' business and affairs within the governance framework outlined in the *Public Sector Pension Investment Board Act*.**

Each year, we set specific Board priorities and track performance at our quarterly meetings. CEO transition and management succession planning, and progress on the climate strategy, were two of our fiscal 2023 priorities, both of which were successfully executed. Our third priority related to monitoring management's progress in establishing a strategy for growing PSP Investments' exposure to Asia Pacific. One of the outcomes of this work was the decision to leverage our existing Hong Kong presence to operate as a base for investing across the Asia region by multiple asset classes.

## Our thanks and optimism for the future

Changes to our Board which took place at the end of our previous fiscal year brought new perspectives to our deliberations in fiscal 2023. It's worth noting that our Board is now comprised of six women and four men, and women chair all four of our standing committees. I wish to thank all directors for their dedication and efforts in support of PSP Investments, and specifically Timothy Hodgson, who recently left the Board, for his significant contributions over many years.

On behalf of the Board, I extend our thanks to the executive team and all employees for another successful year. Their hard work, commitment, creativity and resilience continue to drive PSP Investments' results. While the year ahead looks to be another challenging one, we have no doubt that by keeping to the organization's strong principles and practices and continuing to work together as a team, they will excel once again.

Sincerely,

**Martin Glynn**
Chair of the Board

# President and Chief Executive Officer's message

**I'm pleased to write my first letter as President and CEO of PSP Investments. It's an incredible honour to lead this organization and support the Government of Canada's pension promise to those who have served our country. Across PSP Investments, we consider it a privilege to invest the funds transferred to us for the pension plans of the Public Service, the Canadian Armed Forces, the RCMP, and the Reserve Force.**

## Investing for the long term

To fulfill our mandate, we invest for the long term, with a view to delivering an investment portfolio that is resilient and well positioned to support pension plan obligations that run decades into the future. Our strategy involves diversification by geography, sector, and investment products, which was key to maintaining stability in the exceptionally volatile financial markets of the past year. We take into account the need to protect against inflation and other risks that could threaten long-term returns. Our rigorous approach enabled us to deliver a one-year rate of return of 4.4% for fiscal 2023, exceeding the 0.2% rate of return of our Reference Portolio* and outperforming our benchmarks in a challenging year for both equities and fixed income.

* The Government of Canada gives to PSP Investments a Reference Portfolio that communicates its tolerance for funding risk.

While we measure performance annually, our long-term results are the best indicator of how well we are fulfilling our role. I'm pleased to report that over the last five and 10 years, we have earned net annualized returns of 7.9% and 9.2% respectively, outperforming our Reference Portfolio and generating $22.3 billion and $31.8 billion of excess net investment gains over the respective periods.

## Achieving success through our people

These results are a testament to the quality of the PSP Investments team. Since joining the organization in September 2022, I've been very impressed with the people I've met. They bring deep expertise and experience, a global mindset and a strong commitment to our important mandate. Together, they've fostered a warm culture, with an intimacy to the way people interact, which I've sincerely appreciated – especially as I settle into life in Montréal and hone my French language skills.

During the year, I was pleased to promote Oliver Duff and Simon Marc to our Executive Committee (ExCo). Both longstanding members of our London (UK) office, Oliver was appointed Senior Vice President and Global Head of Credit Investments, and Simon was promoted to Senior Vice President and Global Head of Private Equity and Strategic Partnerships. In addition, two existing ExCo members have taken on expanded responsibilities – Mélanie Bernier added Human Resources to her responsibilities and became our Senior Vice President, Chief Legal and People Officer, and Eduard van Gelderen, our Senior Vice President and Chief Investment Officer, added Strategic Communications to his responsibilities. I am thrilled to work with a group that possesses such talent, global experience and commitment to PSP Investments.

In February, our organization was named one of Montréal's Top Employers for the sixth consecutive year – another signal that we're on the right track when it comes to creating a progressive workplace where people have meaningful opportunities to accelerate their development.

## Strength for the future

What has also stood out to me as I've come to know this organization better is its track record of entrepreneurialism. PSP Investments has been ahead of the curve in building unique businesses such as Credit Investments, where we continue to see interesting market opportunities. PSP Investments was an early mover in investing in Infrastructure, and our platform approach to both Infrastructure and Natural Resources investments has been a winning formula. It's this kind of forward thinking and smart execution that has fueled PSP Investments' past performance and will become even more important in the coming years.

We expect the new year to be another challenging one for investors, with central banks' fight against inflation dominating the economy and financial markets, the ongoing war in Ukraine, and rising geopolitical tensions causing disruption and uncertainty. Working with the Board, our leadership team is planning to refresh our corporate strategy in the new fiscal year to capitalize on the opportunities that will undoubtedly arise and to position the organization for long-term success in line with our mandate.

## Heartfelt thanks

In conclusion, I want to reiterate how pleased I am to be President and CEO of PSP Investments. My new role holds special meaning to me, as someone whose father served with the Canadian Armed Forces. I'd like to thank PSP Investments' Board for their counsel and support, and the executive team for helping ease my transition into the organization. I'm also grateful to my predecessor Neil Cunningham for his advice and efforts to position PSP Investments for continued success.

Finally, I'd like to thank all PSP Investments employees for welcoming me and for their hard work on behalf of our contributors and beneficiaries. As we begin a new chapter, I'm excited for what's ahead and I have full confidence in our collective ability to fulfill our mandate.

Sincerely,

**Deborah K. Orida**
President and Chief Executive Officer

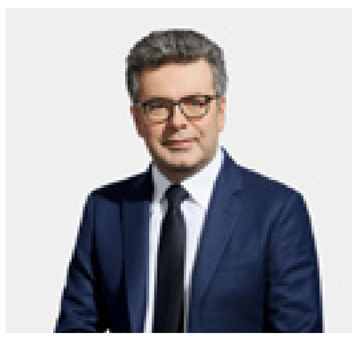
# Our executive team

**Deborah K. Orida**
President and Chief
Executive Officer

**Mélanie Bernier**
Senior Vice President and
Chief Legal and People Officer

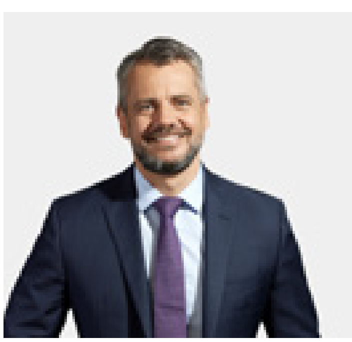
**J.-F. Bureau**
Senior Vice President and
Chief Financial and Risk Officer

**Oliver Duff**
Senior Vice President
and Global Head of
Credit Investments



**Simon Marc**
Senior Vice President and
Global Head of Private Equity
and Strategic Partnerships

**Michelle Ostermann**
Senior Vice President
and Global Head of
Capital Market Investments



**David Ouellet**
Senior Vice President and Chief
Technology and Data Officer

**Patrick Samson**
Senior Vice President and Global
Head of Real Assets Investments
(Real Estate, Natural Resources
and Infrastructure)

**Eduard van Gelderen**
Senior Vice President and
Chief Investment Officer

# FY23 financial highlights

We outperformed our key benchmarks in a volatile year for investors.

Net AUM[1]

$243.7 B

Increase in net AUM

5.7%

**10-year net annualized return**

9.2%

$130.1 B

Cumulative 10-year net portfolio income[2]

$31.8 B

Cumulative net investment gains above the Reference Portfolio[3] over 10 years

**5-year net annualized return**

7.9%

$74.3 B

Cumulative 5-year net portfolio income[2]

$22.3 B

Cumulative net investment gains above the Reference Portfolio over 5 years

**1-year net portfolio return**

4.4%

$10.2 B

Net portfolio income[2]

$9.5 B

Net investment gains above the Reference Portfolio

1 Net AUM denotes net assets under management.
2 Excluding contributions.
3 The Government of Canada gives to PSP Investments a Reference Portfolio that communicates its tolerance for funding risk.

## Capital Markets[1]

**$98.5 B**
Net AUM

5.8%
5-year annualized return

40.4%
of total net AUM

## Private Equity

**$37.2 B**
Net AUM

15.6%
5-year annualized return

15.3%
of total net AUM

## Credit Investments

**$26.1 B**
Net AUM

8.9%
5-year annualized return

10.7%
of total net AUM

[1] Includes Public Market Equities and Government Fixed Income (excludes Cash and Cash Equivalents).

### Real Estate

**$32.0 B**
Net AUM

6.0%
5-year annualized return

13.1%
of total net AUM

### Infrastructure

**$29.4 B**
Net AUM

10.5%
5-year annualized return

12.1%
of total net AUM

### Natural Resources

**$12.3 B**
Net AUM

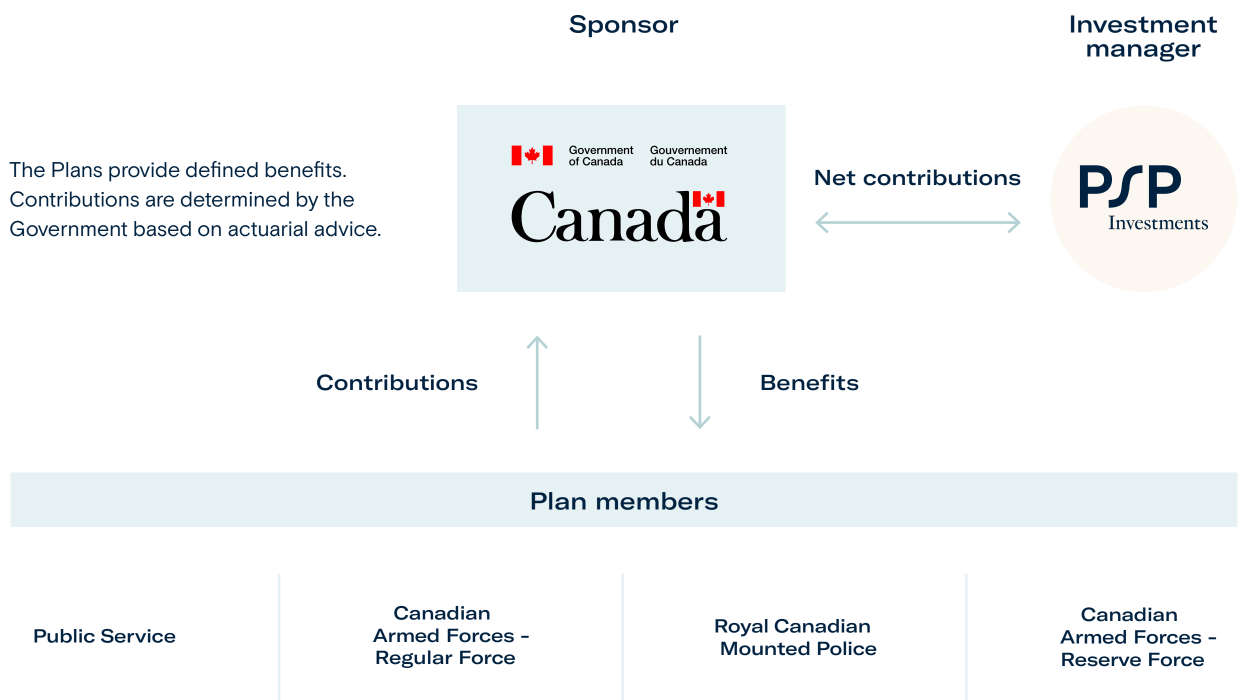
8.5%
5-year annualized return

5.0%
of total net AUM

# Our mandate

## We play a unique role in supporting those who have served our country.

In accordance with the *Public Sector Pension Investment Board Act*, our statutory mandate is to: (1) manage amounts that are transferred to us in the best interests of the contributors and beneficiaries under the acts related to the Plans; and (2) invest our 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 the ability of the Plans to meet their financial obligations.




## How we support the sustainability of the public sector pension plans

- During their working life, Canada's public service employees and members of the Armed Forces (Regular and Reserve Forces) and RCMP contribute jointly with their employers to their respective pension plans.
- The Government of Canada transfers to PSP Investments an amount equal to the total contributions less expenses and funds used to pay pension benefits for service after 2000.
- We manage and invest the money in accordance with our mandate.
- Our investment returns are expected to account for approximately 70% of the funds that will be used over the very long term to pay the pension benefits the Government has promised to plan members, with the remainder funded by contributions.

## Our corporate strategy positions us to deliver the investment returns required to fulfill our mandate.

**In fiscal 2023, we advanced several important corporate priorities:**

- Refined our total fund and risk management approach
- Incubated new capabilities in several functions including relationship management and information technology
- Launched a new firm-wide climate strategy with corresponding actions and targets
- Consolidated our Asia-Pacific strategy by deciding to leverage our existing presence in Hong Kong to invest across the region
- Implemented and evolved our hybrid workforce model to meet changing employee and business needs

# Fiscal 2024 priorities

**We see an increasingly dynamic and complex investing environment ahead, which has prompted us to revisit our strategy so as to preserve and improve our market positioning and our ability to fulfill our mandate. In this context, we have set four corporate priorities for fiscal 2024:**

Energize and inspire our people through actions

Further integrate climate investing into our asset classes and portfolio construction and enhance ESG data collection

Evolve our emphasis on capital deployment to active portfolio management, value creation, and effective execution

Advance firm-wide access to data and knowledge to support insight-driven decision making

# Our investment approach

## We invest for the long term.

As a pension investor, we invest and manage assets to help meet pension plan obligations decades into the future. Our long horizon shapes our investment strategies and is one of our most significant advantages, enabling us to manage short-term pressure and invest in a wider range of opportunities.

Our investment beliefs help us stay the course as a long-term investor. They are the cornerstones of our portfolio and investment strategies, guiding us to make disciplined decisions and mitigate risk. These investment beliefs are as follows:

Effective total fund **portfolio construction** is fundamental to meeting the objectives of our sponsor, the Government of Canada.

Both **diversification and diversity** of approaches lead to a better expected risk/return profile.

Financial **markets are not perfectly efficient** and active management can add value.

**Patient capital** creates opportunities to pursue strategies known to be rewarded over sufficiently long horizons.

Identifying, monitoring, integrating and capitalizing on **environmental, social and governance (ESG) factors** is material to long-term investment performance.

Securing **collective knowledge** through a combination of internal resources and external partnerships will benefit our efforts to drive value creation in active management.

**Effective execution** with well-structured processes increases our chances of success as an investor.

**On the following pages (pages 13 to 16), we provide examples of how we apply some of these beliefs to our investment activities. More information can be found in the “Management’s discussion of fund performance and results” section, beginning on page 19.**

## We strive to build the best possible portfolio to fulfill our important mandate.

Our portfolio construction process is designed from the ground up toward fulfilment of our mandate; it is aimed at building the best possible portfolio to maximize returns without exceeding our sponsor's risk tolerance over a long-term investment horizon. It involves deciding which asset classes to include in the portfolio and the proportion of assets that should be allocated to each of those classes, and managing trade-offs between exposures, leverage and liquidity.

For example, inflation is a key risk for the funding of the pension plans and is accounted for in the design of our portfolio – particularly in the current economic environment. We include inflation-sensitive assets, such as inflation-linked bonds and real assets – composed of real estate, infrastructure and natural resources – in our strategy as a way to address this risk.

In fiscal 2023, we participated in the Government's Asset-Liability Committee to ensure a strong link between our investment approach and our sponsor's risk tolerance.

## We diversify to mitigate risk and enhance long-term returns.

Our portfolio includes a wide variety of investments across public and private asset classes, industries, geographies and currencies as a means to mitigate the impact of market downturns and enhance long-term returns.

This diversification and the variety of approaches we take to achieve it are a critical component of how we align our investment approach with our legislated mandate, and were key to delivering better-than-market returns in fiscal 2023. Among the steps taken, we further diversified our fixed-income portfolio during the year to better protect ourselves in a rising interest rate environment with monetary tightening unfolding at an uneven pace around the globe.

# Invested in 100+ sectors and industries

| | | | |
|---|---|---|---|
| Agriculture | Energy/renewables | Materials | Technology |
| Communications | Financials | Offices | Timber |
| Consumer discretionary | Healthcare | Residential/retirement | Transportation |
| Consumer staples | Industrial | Retail | Utilities |

### *Asset class mix*

As of March 31, 2023

| | | | |
|---|---|---|---|
| 38.1% | 30.2% | 21.0% | 10.7% |
| Equity | Real Assets | Government Fixed Income[1] | Credit |

[1] Includes Cash and Cash Equivalents.

## We make the most of our patient capital.

Because of our long horizon, we can make investments that hold the promise of higher returns years down the road. That's why, for example, we invest in private market assets, which due to their less liquid nature require capital that can remain committed for a longer period.

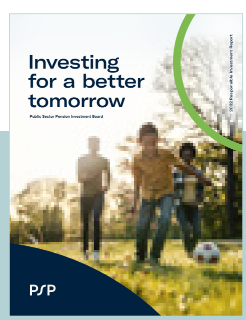
## We consider ESG factors in our investment and asset management activities.

Environmental, social and governance (ESG) factors, including systemic climate risk, are some of the most significant drivers of change today. By identifying and assessing material ESG risks and opportunities throughout our investment process, we aim to generate better long-term returns and lower possible risks across our total fund.

We launched our Climate Strategy Roadmap in April 2023, and have committed to using our capital and influence to support the transition to global net-zero greenhouse gas (GHG) emissions by 2050. At the heart of our strategy is an innovative Green Asset Taxonomy, which we use to assess and monitor our portfolio-level climate alignment, through exposure to green, transition and carbon-intensive assets.

We also updated our Sustainable Investment Policy and our Corporate Governance and Proxy Voting Principles, significantly enhancing our expectations with respect to corporate governance and public disclosures on climate change risks and opportunities. These key public documents guide our sustainable investing strategy and proxy voting activities, and are at the core of our active ownership and engagement strategy.

**We publish a variety of materials discussing our sustainable investing approach and performance. To learn more, please visit the Sustainable Investing page on our website, or read the following reports:**

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# Our portfolio in action

## Investing in the next frontier for clean energy

After years of researching the offshore wind industry, our Infrastructure group made significant investments in the sector in fiscal 2023 – adding to our existing broader portfolio of renewable energy investments, which includes nearly $1 billion in Canada across hydroelectricity, wind and solar assets.

While hydroelectricity has been around for more than a century, and onshore wind and solar farms have become more prevalent in the last 10 to 15 years, offshore wind is relatively nascent – especially in North America. Importantly, it happens to be one of the world's most scalable sources of clean energy. Massive turbines, fixed to the sea floor or mounted on a floating structure, work to harness the oceans' powerful wind resource and convert it into large amounts of renewable energy.

Given our large fund size and long-term investment horizon, PSP Investments is among the select few asset managers who can afford to invest in offshore wind projects. We're doing so in a big way, for the attractive returns they are expected to generate over time. Offshore wind could play an important role in addressing climate change and the global shift to net zero emissions from the power sector.

In April 2022, our wholly owned portfolio company, **FirstLight Power**, and its consortium partners were awarded a lease to develop, build and operate an offshore wind farm of up to 2,100 megawatts off the coast of New York and New Jersey over the next 30 or more years. The multi-billion-dollar project is projected to achieve commercial operation before 2030, and thereby help the US meet its goal of reaching 30 gigawatts of offshore wind energy by the end of this decade.

In Europe, we're investing in the port infrastructure and vessels needed to service the sector. In fiscal 2023, this included a US$250-million investment alongside Sandbrook Capital in **Havfram,** a Norwegian company that will operate a fleet of state-of-the-art vessels. The vessels will enable the construction of the largest offshore wind turbines to date and are among the most critically scarce components of the global renewable energy supply chain. By our fiscal year-end, the company had already signed two key global customers, and one more was added in April 2023.

In Asia, the fastest-growing offshore wind market in the world and a region where decarbonization is a significant challenge, we're backing platforms that develop and construct offshore wind projects. This includes **Vena Energy**, an investment dating back to 2018. One of the largest onshore renewable energy developers in Asia Pacific, Vena Energy has established an ambitious offshore wind development strategy and pipeline across the region.

## Building long-term value

In Australia, our joint venture, **Australia Food & Fibre** (AFF), is living proof of the power of combining local industry expertise and knowledge with long-term capital managed by a team dedicated to agriculture and to sustainability.

AFF, a partnership between the Robinson family and PSP Investments, is focused on growing, processing and marketing cotton and complementary cereals such as wheat and canola. Best-in-class operators with a strong commitment to the sustainable management of natural resources, the Robinsons contributed their farms and know-how to the partnership, while we provided AFF with capital to fund acquisitions and other projects.

AFF's most recent acquisition, completed in 2022, was that of pioneering cotton producer Auscott Limited, which cemented AFF's position as Australia's leading cotton producer. Among other things, the acquisition brought geographic diversification through the addition of farms supplied by different water catchment systems, as well as post-farmgate capabilities such as ginning and marketing.

Global demand for cotton is expected to grow, to meet the needs of an increasing population and expanding middle class and in response to the westernization of consumption habits in developing economies. Importantly, Australian cotton farms enjoy a sustainable competitive advantage in this environment, producing higher-than-average-quality cotton at a lower cost than most competing regions – all of which bodes well for the continued growth of our investment in AFF.

## Finding success in changing credit markets

Our Credit Investments (CI) group chalked up another successful year, partnering with best-in-class private equity sponsors and taking advantage of increased all-in yields, robust lender protections and lower overall leverage in a market that presented unique opportunities for private credit solutions as the banks' underwriting capacity was reduced.

A highly selective credit process is a key feature of the CI group's investment approach and has delivered a defensive and well-diversified portfolio. The group invests across the debt capital structure and its portfolio spans multiple asset types, geographies, sectors and equity sponsors. In fiscal 2023, it provided credit solutions in transactions such as:

- EQT's acquisition of Envirotainer, a provider of highly specialized, temperature-controlled containers for air freighting biopharma products
- Veritas's acquisition of Wood MacKenzie, a leading research and consultancy firm for the energy space
- TA Associates and Clearlake's purchase of Kofax, an intelligent document processing and automation software platform
- KKR's purchase of Ivirma, a leading operator of fertility clinics
- Elliot's privatization of Nielsen, a leading provider of audience insights and measurement, and data analytics to end users such as media companies
- Blackstone's proposed acquisition of Emerson Climate Technologies, an industry-leading heating, air conditioning and refrigeration technologies provider
- TPG's acquisition of DOC Generici, the largest independent Italian generic pharmaceutical company

The CI group also saw many lucrative exits during the year, including a recent exit from Vertex, a diversified aerospace aftermarket services company owned by American Industrial Partners, which delivered a return in excess of 15%.

Faced with unprecedented market volatility and complexity, our CI group is finding success through a variety of means – both tried and true, and new and novel – and is generating strong returns for PSP Investments along the way.

# Our people

## We owe our success to our people.

PSP employees are the heart of our organization and the reason for our success. Working from offices in Montréal, Ottawa, London (UK), New York City and Hong Kong, our diverse and talented teams are united in their commitment to achieving our mandate. We were proud to be named one of Montréal's Top Employers for the sixth consecutive year in early 2023.

**997**
**employees**

Our employee count rose to **997** from 895 at the end of fiscal 2022. We had **105 students** join our internship program in both our business and investment groups. We have focused on hiring diverse talent to support our corporate strategy and ensure that our organization is well positioned to meet our future growth ambitions and mandate.

We recognize the importance of attracting and investing in diverse talent, as it makes us better investors. We continued to foster inclusivity in the workplace and raise awareness around equity, inclusion and diversity (Ei&D). For example, our third Ei&D forum offered networking opportunities, knowledge sharing and tools to enrich our contribution to an equitable and inclusive workplace. We also raised awareness of Indigenous communities through panels and discussions, with guest speakers from Deloitte's Indigenous group and the Canadian Council for Aboriginal Business. In June 2022, we started our Town Hall event with a land acknowledgement and a traditional greeting from an Indigenous Elder, who talked about the importance of the land in Indigenous customs and traditions, and raised awareness of the importance of reconciliation.

**3%** of employees have Veteran status

We are deeply committed to ensuring that our workforce understands the lived experiences and needs of veterans and that we support the transition of veterans from military to civilian life. Our Veteran Transition Program has graduated two people since its inception in 2021 and another three are currently participating in the program. The program includes a personal development plan, coaching, mentoring and sponsorship to help participants gain meaningful exprience and develop professional networks.

## Health and well-being

We enhanced our health and well-being benefits with increased virtual and mental health support, on-demand childcare services, summer work schedules and improved paid-time off policies. We also evolved our benefits and programs to be more inclusive of the diverse needs of our employees.

**32%** women in senior leadership

(an increase of **2%** from 2022)

**16%** BIPOC* in senior leadership

(an increase of **13%** from 2022)

*BIPOC stands for Black, Indigenous and People of Colour.

**57** people took on new positions

One of the ways we develop our talent is by giving them opportunities to change roles and broaden their skillsets within the organization. Internal movement includes lateral transfers or evolved roles to meet changing organizational needs.

**132** employees in director level and above participated in leadership training

Leadership development includes coaching and peer learning sessions that help build strategic thinking and team management and refine management skills for a new way of working.

## Future-focused learning

Employees across our organization are learning about the global themes that will be the most influential in the coming decade. Held every three to four weeks, and open to all employees, the one-hour learning sessions attract up to 200 people per event. They offer a presentation on a specific theme followed by a question and answer period. The sessions have also served as a springboard for discussion and collaboration.

# Management's discussion of fund performance and results

Management's discussion of fund performance and results (the Management report) provides an analysis of the operations and financial position of PSP Investments for the year ended March 31, 2023 and should be read in conjunction with the Consolidated Financial Statements and accompanying notes for the years ended March 31, 2023 and 2022. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). In this report, we use a combination of financial measures, ratios and non-GAAP measures to assess performance. The non-GAAP measures used in this report do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures should be considered as supplemental in nature and not as a substitute for the related financial information prepared in accordance with IFRS. This report takes into account material elements, if any, between March 31, 2023 and May 16, 2023, the date of approval of this report by the Board of Directors. Additional information about PSP Investments is available on the website (www.investpsp.com).

**Forward-looking statements**

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

By their nature, forward-looking statements require assumptions to be made and involve inherent risks and uncertainties. As a result, PSP Investments cannot guarantee that any forward-looking statement will materialize, and its future investment activities may vary from those outlined herein. You should not place undue importance on forward-looking statements and should not rely upon this information as of any other date.

# Mandate

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

In accordance with the *Public Sector Pension Investment Board Act*, PSP Investments' statutory mandate is to:

a) manage amounts that are transferred to it in the best interests of the contributors and beneficiaries, and

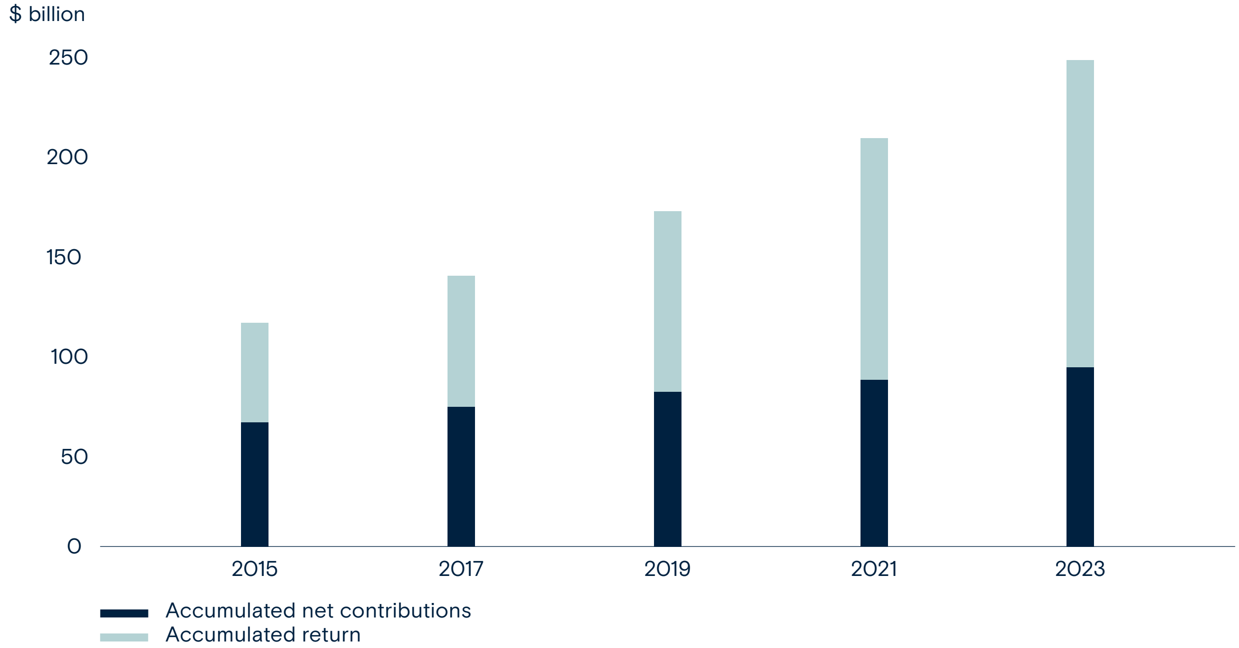
b) invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the pension plans and the ability of those plans to meet their financial obligations.

PSP Investments expects to deliver on its mandate by creating value through its strategic asset allocation, dynamic asset allocation, and active management decisions. Strategic asset allocation entails carefully designing asset classes and allocating strategic long-term targets to each of them through the Policy Portfolio and dynamic asset allocation involves navigating the asset allocation around those strategic targets over a mid-term horizon as the economic cycle evolves. Active management activities are designed to generate additional returns, through asset selection and assist in delivering on our mandate. Those activities are described further under "Investment Framework."

# The importance of investment returns in the funding of the pension plan obligations

**At the end of fiscal year 2023, fund transfers received from the Government[1] since April 1, 2000 represented approximately 37% of net assets under management (AUM), with the remaining 63% representing investment returns earned by PSP Investments on those funds.**

As the Plans mature, funds received from the Government will gradually represent a decreasing percentage of PSP Investments' net assets. The proportion of assets coming from investment returns will continue to grow and it is expected that the majority of our AUM growth in the upcoming years will come from investment returns rather than fund transfers. Having a robust investment framework aligned with our mandate and the Government's risk tolerance is therefore crucial for funding the Post-2000 Liabilities of the Plans.




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

# Investment framework

**The chart below illustrates our investment framework.**

### Mandate

Government's funding risk tolerance communicated on behalf of the President of the Treasury Board through a Reference Portfolio

### Total portfolio management

Articulates our total fund approach to achieve our mandate over the long term:

- Design
- Protect
- Enhance

### Active management

Includes the execution of active investment strategies within risk limits

## Mandate

**Government's funding risk tolerance**

The starting point of PSP Investments' investment framework is the Government's tolerance for pension funding risk. Unlike investment risk, which measures the impact of investment losses on the value of assets, funding risk considers the value of the assets in relation to the value of the obligations (liabilities) of the pension plans.

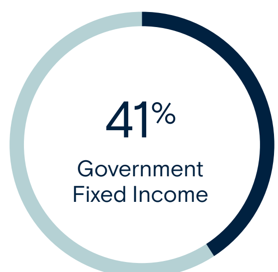
The Treasury Board of Canada Secretariat (TBS) communicates the Government's tolerance for funding risk to PSP Investments, on behalf of the President of the Treasury Board, through a Reference Portfolio, a simple, easily investible portfolio composed of liquid asset classes that could be passively managed. The Reference Portfolio is currently composed of 59% equities and 41% fixed income, as detailed here:

### *Reference Portfolio asset allocation*


27% EAFE Equity

19% US Equity

13% Canadian Equity




29% Canadian Government Bonds

5% World Government Bonds

5% World Inflation-Linked Bonds

2% Cash and Cash Equivalents

## Portfolio Management

### Design of the Policy Portfolio

Building on our mandate, beginning with the risk tolerance conveyed by TBS via the Reference Portfolio, the second component of the investment framework is "design." It focuses on designing the best possible portfolio, the Policy Portfolio, to allow PSP Investments to achieve its mandate to maximize returns without undue risk of loss over a long-term horizon.

The Policy Portfolio is built as a more diversified, resilient and liability-aware portfolio than the Reference Portfolio. It articulates PSP Investments' long-term target asset class exposures. The objective for the Policy Portfolio is to achieve a return greater than the Reference Portfolio over a period of 10 years with a lower or equal level of pension funding risk. This is achieved by including asset classes that diversify our sources of risk and return, such as Real Estate, Private Equity, Infrastructure, Natural Resources and Credit Investments.

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

- Their inclusion improves portfolio diversification and therefore reduces pension funding risk.
- Over time, the private nature of these assets is expected to result in higher returns. The Plans' liabilities are long term in nature and liquidity requirements are expected to be minimal in the foreseeable future. Since it is unlikely that PSP Investments will need to sell assets quickly, we are well positioned to capture these higher returns.
- The Plans' liabilities are sensitive to inflation. Investing in real assets that tend to offer long-term inflation protection, such as Real Estate, Infrastructure and Natural Resources, better matches the liabilities of the Plans and lowers the risk of a deficit in the pension plans.

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

With its increased diversification and liability-aware nature, the Policy Portfolio is designed to be more resilient in downturn scenarios relative to the Reference Portfolio and therefore is expected to offer more downside protection over the long term.

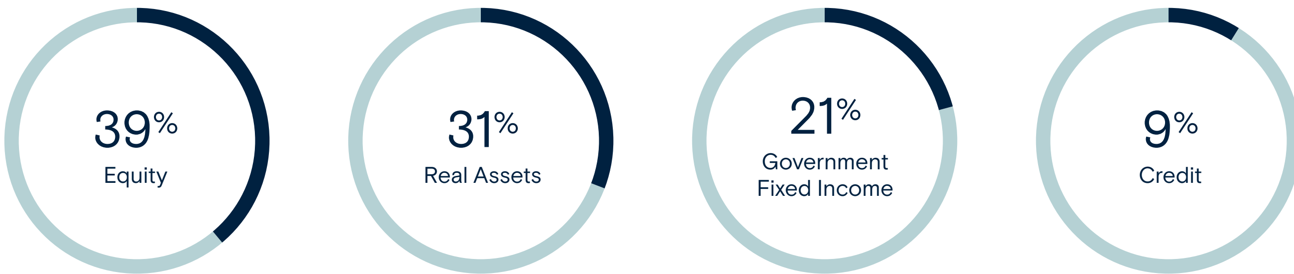
Efforts continue to be focused on enhancing the integration between the design of the Policy Portfolio, which is based on long-term pension funding risk, and the risk management practices that allow daily monitoring of short-term investment risk. A strong link exists between the two and while the Policy Portfolio generates a lower level of funding risk compared to the Reference Portfolio, it can sustain a higher level of short-term investment risk because of its linkage with the liabilities and its long-term horizon. The advantage from the enhanced integration between Policy Portfolio design and risk management is to ensure that daily risk monitoring is more directly linked to pension funding risk and the Government's risk tolerance.

The Policy Portfolio also integrates considerations such as leverage and currency exposure. PSP Investments uses leverage to improve its returns with careful consideration to risk and liquidity, as further described in the "Management of Investment Risks" section.

PSP Investments' Board of Directors (Board) approves, and annually reviews, the Statement of Investment Policies, Standards and Procedures (SIP&P), which governs the allocation of assets under the Policy Portfolio and describes our investment approach. In addition to the allocation of assets under the Policy Portfolio, the SIP&P addresses matters such as categories of investments and loans, risk management and diversification, liquidity of investments, pledging of assets, permitted borrowings and leverage, securities lending and borrowing, valuation of investments, and proxy voting and responsible investment. This fiscal year's review of the Policy Portfolio kept the strategic asset allocation unchanged as it remained adequate given the Government's risk tolerance and PSP Investments' most recent long-term capital market assumptions.

## *Policy Portfolio asset allocation*[1]

Effective during fiscal year 2023




| Equity | Real Assets | Government Fixed Income | Credit |
|---|---|---|---|
| 27% Public Equity | 14% Real Estate | 19% Fixed Income | Credit Investments |
| 12% Private Equity | 12% Infrastructure | 2% Cash and Cash Equivalents | |
| | 5% Natural Resources | | |

With respect to the Currency Management Policy, some foreign currency exposures, notably the US dollar, benefit from not being systematically hedged, as they tend to appreciate versus the Canadian dollar when economic shocks occur and therefore act as a diversifier (i.e. a natural hedge against declining asset returns). The Policy Portfolio's risk-return profile is therefore improved when keeping most foreign currencies unhedged, with the added benefit of reducing long-term hedging costs and pressure on liquidity, leverage and operations. While this is true for most currencies, some are risk additive, being even more pro-cyclical than the Canadian dollar, and are therefore now strategically hedged. These currencies represent a small fraction of our exposures, and this evolution allows PSP Investments to further reduce the funding risk of our strategic asset allocation.

**Protect the Policy Portfolio**

The next component of the investment framework is "protect." It aims to ensure that, through the implementation of the Policy Portfolio, risk and return characteristics of PSP Investments' actual portfolio are aligned to those of the Policy Portfolio in the most optimal way.

Several mechanisms such as portfolio rebalancing (both for assets and for currencies) and risk limits are in place to ensure that the invested total fund portfolio's risk and return characteristics do not stray too far from the Policy Portfolio. Notably, dynamic asset allocation (DAA) contributes to the implementation of the strategic asset allocation. In order to reach the desired exposures, it enables a smooth transition period following periods of elevated market volatility, the addition of a new asset class, operational constraints when ramping up or revising the targeted long-term weights. It seeks to improve the likelihood that the Policy Portfolio will deliver on PSP Investments' long-term value proposition using business cycle analysis. The DAA also allows PSP Investments to consider mid-term views on economic conditions to adjust and optimize the actual portfolio relative to the desired Policy Portfolio.

A similar dynamic approach is used to manage currency exposures, which is called dynamic currency management (DCM). DCM seeks to improve the likelihood that the Policy Portfolio remains more resilient than the Reference Portfolio.

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

It integrates operational constraints such as liquidity in the management of currencies while seeking to improve the likelihood that the Policy Portfolio will deliver on PSP Investments' long-term value proposition using business cycle analysis. While from a portfolio design perspective, keeping most foreign currencies unhedged acts on average as a diversifier over the long-term (given that currencies such as the US dollar tend to appreciate versus the Canadian dollar in downturn scenarios), in a given year, currencies can deviate from their long-term expected behavior.

**Enhance the Total Fund**

*Complementary Portfolio*

"Enhance" follows the "protect" component of the investment framework. This component's objective is to improve the long-term risk-reward profile of the total fund. In support of total fund activities, the Complementary Portfolio focuses primarily on investments that are not within the mandate of an existing asset class but are beneficial to the total fund. The mandate of the Complementary Portfolio includes i) incubating innovative strategies that are uncorrelated to general economic conditions and traditional financial markets and ii) seeking to obtain knowledge and insights with key long-term partners that can be leveraged throughout PSP Investments while providing an appropriate financial return.

**Active management**

*Actual portfolio*

The final component of the investment framework, "active management," aims to achieve a return exceeding that of the Policy Portfolio while staying within Board-approved risk limits. Active management refers to investment strategies aimed at outperforming a benchmark that reflects the desired risk and return characteristics that were identified as part of the strategic asset allocation decision. In alignment with their target asset allocation and investment mandates, each asset class develops an investment strategy to deliver their target sector and geographic exposure. Each asset class does so by making investments independently, or with leading external managers and other like-minded investors and operators, in assets and securities expected to provide compelling risk-adjusted returns over their investment horizon. Asset classes are staffed across our global offices by experienced investment professionals who have a deep understanding of their industry and a valuable network of relationships. This, combined with the various means of support provided by PSP Investments, equips them to effectively research, source, execute and manage their portfolio to optimize its performance over the long term. The asset class investment strategies that allow them to execute on their mandate are presented in their respective results section.

*Sustainable Investment*

As a long-term investor, we believe that proactively integrating material environmental, social and governance (ESG) factors, including systemic climate change risk, in the investment process contributes to a better total fund long-term risk-return profile. PSP Investments' sustainable investment approach is aligned with the total fund perspective and mandate and is institutionalized through the Sustainable Investment Policy and Corporate Governance & Proxy Voting Principles. Through this approach, the objective is to reduce financial risks related to relevant externalities, and ultimately to improve the long-term risk-return profile of the portfolio investments.

PSP Investments strives to integrate analysis of material ESG risks and opportunities throughout the investment process, from the initial investment analysis to post-investment monitoring through to disposal. For this, appropriate knowledge of material ESG factors among all investment professionals involved is fostered, ensuring all employees contribute to and support the implementation of the sustainable investment approach. The approach also recognizes that the financial materiality of ESG factors can be dynamic, and varies across companies, industries, geography and time. Accordingly, the objective is to take a pragmatic view when applying this, considering the asset class and type of investment. Direct and collaborative engagements, through which PSP Investments' expected ESG practices are shared, is viewed as an effective means to influence positive change, reduce investment risks, realize opportunities and drive long-term value creation. To this end, the Corporate Governance & Proxy Voting Principles are a key public document at the core of the active management and engagement approach.

# Evaluating the performance of the investment approach

**Evaluating the performance of the investment approach is important because it is designed and implemented to achieve the mandate objectives.**

The nature of the mandate requires measuring and evaluating performance across different time horizons. While measuring long-term performance allows PSP Investments to evaluate the results of the investment decisions across market cycles, medium-term performance helps to measure the efficiency of implementing the asset classes' investment strategies. Although performance is also measured annually (as each year contributes to long-term performance), undue importance is not placed on relative performance in any given year because it may reflect temporary market conditions and short-term volatility. As a result, the 5-year and 10-year relative performance of asset classes and PSP Investments are emphasized over 1-year performance.

## Measures of success at the total fund level

Long-term success is measured through the following performance objectives:

**Achieve a return, net of expenses, greater than the return of the Reference Portfolio a over 10-year period**

As mentioned previously, the investment strategy is built to achieve a return greater than the Reference Portfolio over a period of 10 years with a lower or equal level of pension funding risk. As a result, achieving this return over the long term is the primary performance objective, as it measures the value added by PSP Investments' strategic decision to build a more diversified portfolio—the Policy Portfolio—that includes less liquid asset classes, to dynamically allocate assets over a mid-term horizon and to engage in active management strategies.

**Achieve a return, net of expenses, exceeding the Total Fund Benchmark return over 10-year and 5-year periods**

Also as mentioned previously, PSP Investments engages in active management strategies to achieve a return exceeding that of the Policy Portfolio while staying within Board-approved risk limits. To assess the value added by these active strategies, the difference between PSP Investments' net performance results and the Total Fund Benchmark is measured. Such a difference is measured on a 10-year basis to align with the mandate and on a 5-year basis to assess the efficiency of such strategies at the asset class level.

The Total Fund Benchmark expresses the implementation of the Policy Portfolio and accounts for any accepted over/underweighting in the target weights of the Policy Portfolio. As a result, the performance of the Total Fund Benchmark is based on actual weights and is used to isolate the performance impact of the final component of the investment framework, namely, the active management strategies.

## Asset class performance evaluation

The benchmarks associated with the asset classes in the Policy Portfolio are used to evaluate whether PSP Investments met the objectives set as part of the assessment of the investment approach.

The benchmarks in the table below were used to measure fiscal year 2023 relative performance for each asset class set out in the SIP&P, as well as for the overall Policy Portfolio.

| ASSET CLASS | BENCHMARK |
|---|---|
| **Equity** | |
| Canadian Equity | S&P/TSX Composite |
| US Equity | S&P 500 |
| Europe, Asia, Far East (EAFE) Equity | MSCI EAFE |
| Small Cap Equity | S&P 600 |
| Global Equity | MSCI World |
| Emerging Markets (EM) Equity | MSCI EM |
| Capital Markets Alternatives | Customized benchmark[3] |
| Private Equity | Customized benchmark composed of public securities[1, 2] |
| **Government Fixed Income** | |
| Cash & Cash Equivalents | FTSE Canada 91 Day T-Bill |
| Canadian Government Bonds | FTSE Canada Universe All Government Bond |
| World Government Bonds | JP Morgan Government Bond Index (GBI) Global |
| World Inflation-Linked Bonds | Bloomberg Barclays World Government Inflation-Linked |
| Emerging Market Debt | Blend of customized GBI-EM Global Diversified and JPM EMBI Global Diversified |
| **Credit** | |
| Credit Investments | Blend of BofA Merrill High Yield Indices (United States & Europe) and S&P Global Leveraged Loan Index[2] |
| **Real Assets** | |
| Real Estate | Customized benchmark composed of public securities[1, 2] |
| Infrastructure | Customized benchmark composed of public securities[1, 2] |
| Natural Resources | Customized benchmark[2, 4] |
| **Complementary Portfolio** | Blend of Policy Portfolio benchmarks[2] |

[1] The customized benchmark is determined based on a selection of public securities within the MSCI All Country World Index (ACWI) IMI, adjusted for factors, such as leverage, and aligned with the characteristic of each asset class as set in its mandate.

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

[3] Customized benchmark based on HFRX index.

[4] Customized benchmark based on a select basket of commodities and adjusted for leverage and other factors aligned with the Natural Resources asset class mandate.

# Analysis of total fund results

**Net AUM**

**$243.7 B**

**Net AUM (FY2022)**

**$230.5 B**

**Net Income**

**$10.2 B**

**9.2%**

**10-year annualized return**[1]

7.4%
10-year Total Fund Benchmark return[1]

7.6%
10-year Reference Portfolio return[1]

**7.9%**

**5-year annualized return**[1]

5.5%
5-year Total Fund Benchmark return[1]

5.8%
5-year Reference Portfolio return[1]

**4.4%**

**1-year rate of return**[1]

(2.8)%
1-year Total Fund Benchmark return[1]

0.2%
1-year Reference Portfolio return[1]

## Long-term results

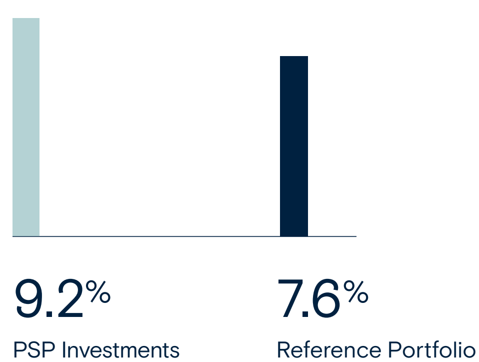
As discussed above, measures of success at the total fund level are comprised of the following three objectives and their related benchmarks against which we can evaluate the success of our long-term investment approach:

1. **Actual Return compared to the Reference Portfolio return (10-year)**

The Reference Portfolio reflects what an investor could achieve with a passive investment approach and is adjusted to the Government's risk tolerance. Over the last 10 years, PSP Investments' net performance exceeded the performance of the Reference Portfolio by 1.6% per annum, or $31.8 billion. This result was achieved without incurring more pension funding risk than the Reference Portfolio. This additional 1.6% represents the value added by PSP Investments as a result of its strategic asset allocation and active management decisions, as described in our investment framework.

### *Return compared to Reference Portfolio return*

10-year net annualized return[1]




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

### 2. Actual Return compared to the Total Fund Benchmark return (10-year)

This objective is used to measure the value added by PSP Investments' active management activities. Over the last 10 years, these activities generated a net annualized rate of return of 9.2% compared to 7.4% for the Total Fund Benchmark, amounting to $31.2 billion in excess net investment gains. Over the past 10 years, PSP Investments' net annualized return of 9.2% was supported by strong relative performance across all asset classes, most notably Real Estate, Infrastructure, Natural Resources, Credit Investments and Public Market Equities.

*Return compared to the Total Fund Benchmark return*

10-year net annualized return[1]

9.2% PSP Investments

7.4% Total Fund Benchmark

### 3. Actual Return compared to the Total Fund Benchmark return (5-year)

This objective is used to measure the value added by PSP Investments' active management activities. Over the last five years, these activities generated returns that exceeded the Total Fund Benchmark by 2.4% per annum, or $25.4 billion, with all of PSP Investments' asset classes exceeding their respective benchmarks.

PSP Investments' outperformance of 2.4% when compared to the Total Fund Benchmark was driven mainly by strong excess performance across all asset classes, as further described in the analysis of our results by asset class below.

*Return compared to the Total Fund Benchmark return*

5-year net annualized return[1]

7.9% PSP Investments

5.5% Total Fund Benchmark

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

## Short-term results

### Macroeconomic and financial market context

The economic backdrop in fiscal year 2023 has been largely dominated by the rise in inflation in most economies. Indeed, the aftermath of the COVID-19 pandemic, characterized by massive liquidity injections, supply chain bottlenecks and important pent-up demand, created the conditions for a sharp rise in prices.

The conflict in Ukraine added even more upward pressure on prices since it disrupted the traditional supply channels, mainly for energy and grains. By mid 2022, oil prices hit close to US$130 per barrel (Brent), while at its peak Consumer Price Index inflation reached 9.1 % in the US, 8.1% in Canada, 11.1% in the UK and 10.6% in the Eurozone.

This surging inflation commanded a resolute response from central banks, which were quick to tighten monetary conditions, both by increasing interest rates and by adopting quantitative tightening measures. From April 2022 to March 2023, the US Federal Reserve hiked its policy rate by 450 bps, and other central banks from major developed economies followed similar stances.

The rapid monetary tightening that took place had important consequences on the economy and the financial markets.

On the economic front, it resulted in a significant slowdown of economic growth. First to be affected were the rate-sensitive sectors, such as housing and consumption. The labour market however proved to be resilient in major economies. Unemployment was at record lows due to labour shortages caused notably by demographic trends and, in the US, by a drop in the participation rate during the COVID crisis, which has not yet recovered.

On the financial front, the first few months of fiscal year 2023 were particularly difficult while most equity indices delivered negative double digits returns and both nominal and real-return bonds posted negative performance. During this period, the US dollar benefitted from its safe-haven status.

The rapid increase in global long bond yields is one of the factors that triggered the UK liability-driven-investment (LDI) funds crisis, which happened in September 2022. As many UK pension plans were facing margin calls due to their LDI strategy, they were forced to sell bonds to raise cash, which accelerated price declines. To stabilize the UK bond market, the Bank of England had to intervene. Cyclical currencies such as the Canadian dollar depreciated sharply during this risk aversion period.

From that point on, although market volatility remained high, bonds and stocks delivered positive performance, which helped to recoup some of the losses registered in the first part of the year. Emerging signs that inflation was cooling down helped to send stock and bond prices higher. The better-than-expected energy situation in Europe and the abrupt shift away by China from its zero-COVID policy were other catalysts behind this recovery. This environment was positive for currencies such as the euro and the Japanese yen, while the Canadian dollar traded sideways, held back by lower oil prices.

The last few weeks of fiscal year 2023 proved that the fastest tightening cycle seen over the last 40 years is not without consequences. Financial markets were roiled by the recent banking crisis. In fact, the failure of Silicon Valley Bank represents the largest collapse of a US banking institution since 2008. Concurrently, Credit Suisse was rescued by its longtime rival, UBS. Following these events, policymakers were quick to announce a series of measures to restore confidence. While these measures addressed fears related to a run on the banks, the recent events may reduce banks' willingness to lend, which can further hurt economic growth going forward and result in a further tightening of the monetary conditions.

### Summary of total fund portfolio evolution

The net AUM of PSP Investments increased by over $13 billion during fiscal year 2023, among which $10.2 billion came from net income and $2.9 billion came from net fund transfers received by PSP Investments from the federal Government. The strategy to diversify into private markets has led to a steady increase in private assets in a context where those assets proved to be more resilient to the current economic environment than their public markets counterparts.

### Total fund performance analysis

PSP Investments recorded a positive net return of 4.4% in fiscal year 2023 amid a very challenging environment for both equities and bonds against the backdrop of tightening monetary policies to curb inflation. While stocks and bonds posted negative to moderately positive returns, private asset classes remained resilient. Real Assets were notably helped by their strong link to inflation and Credit Investments, with its floating rate exposure, was able to generate strong performance in a rising rates environment. Infrastructure was the best performing asset class this year, with a 19.0% return, followed by Credit Investments and Natural Resources with 13.1% and 10.9% returns, respectively.

PSP Investments' net return for the fiscal year exceeded its Total Fund Benchmark return of -2.8% by 7.2%. This outperformance was mostly driven by the excess return delivered by Real Assets, Private Equity and Credit Investments. Benchmarks for private asset classes are characterized with public securities and are designed to be representative of those asset classes over PSP Investments' longer-term investment horizon, not over shorter periods such as one year. Comparing annual performance to benchmarks designed for a longer investment horizon creates a mismatch that can lead to the observation of a sizable under/outperformance over shorter periods. Relative performance is more meaningfully assessed over PSP Investments' longer investment horizon, as presented under our measures of success at the total fund level on page 29.

PSP Investments' net return of 4.4% for the fiscal year exceeded the Reference Portfolio return of 0.2%, amounting to $9.5 billion in excess net investment gains. The performance of the Reference Portfolio is due to its exclusive allocation to public asset classes, which recorded modest returns in global equities, mostly due to currency effect compensating for the negative returns during the year, and negative returns in Fixed Income amid rising inflation and interest rates.

Over the long term, PSP Investments' portfolio is expected to continue achieving higher returns than the Reference Portfolio, since the former is more diversified and more resilient to the different factors impacting markets. As with the Total Fund Benchmark, comparisons with the Reference Portfolio are best considered over a time period that is aligned with PSP Investments' investment horizon, as presented under our measures of success at the total fund level on page 28.

### Currency exposure

In fiscal year 2023, foreign currency gains contributed 5.8% to PSP Investments' net return. Given that the majority of PSP Investments' assets are denominated in foreign currencies, currency fluctuations can have a significant short-term impact on investment returns. As described in our investment framework, most foreign currency exposures benefit from not being systematically hedged and act as a diversifier for a Canadian investor. Countercyclical currencies, such as the US dollar, tend to move in opposite directions to the stock market and therefore are expected to mitigate losses during market turmoil. With a difficult environment for stocks and the Federal Reserve raising interest rates rapidly to fight inflation, our US dollar exposure played its role in managing downside risk and helped greatly in achieving a positive return for the fiscal year. Other foreign currency exposures such as euro and British pound rebounded during the year from their post-Russian invasion of Ukraine shock. The European currencies contributed to the Total Fund return, illustrating the diversifying role of foreign-denominated exposure, which is a desirable characteristic from a total fund perspective.

### Complementary Portfolio Performance

In fiscal year 2023, the Complementary Portfolio continued investing in strategies that are uncorrelated to general economic conditions and knowledge and insight-driven investments. The Complementary Portfolio focused on strengthening existing strategic relationships via additional commitments, and in addition to existing strategies, added royalties as its third investment strategy. All three strategies are in their incubation stage as portfolio benefits are assessed.

The Complementary Portfolio ended fiscal year 2023 with a return of -0.2%. This performance was primarily driven by a 17.2% return from investments in insurance and live media sectors, and a -17.1% return from investments in knowledge and insight-driven strategies. Since its inception in 2017, the Complementary portfolio has delivered an annualized return of 10.1%.

# Analysis of results by asset class

The table below presents the annual, five-year and ten-year annualized performance of the asset classes set out in the SIP&P as well as the overall Total Fund Benchmark, which is constructed using the asset class benchmarks weighted by the actual portfolio asset class weightings.

To inform on the appropriate relative performance, the return of each asset class is compared to its respective benchmark's annualized five-year and ten-year returns, while PSP Investments' net overall returns are compared to the Total Fund Benchmark returns.

| ASSET CLASS | FISCAL YEAR 2023 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Net AUM (billions $) | Net AUM (%) | Portfolio[2] income (loss) (millions $) | 1-year rate of return (%) | 5-year rate of return (%) | | 10-year rate of return (%) | |
| | | | | | Portfolio | Benchmark | Portfolio | Benchmark |
| **Equity** | | | | | | | | |
| Public Market Equities (Includes Capital Market Alternatives and absolute-return strategies, funded through leverage) | 53.4 | 21.9 | (539) | (0.5) | 7.7 | 6.5 | 10.2 | 9.4 |
| Private Equity | 37.2 | 15.3 | 1,204 | 3.3 | 15.6 | 12.3 | 12.1 | 12.3 |
| **Government Fixed Income** | | | | | | | | |
| Fixed Income | 45.0 | 18.5 | 641 | 1.4 | 2.4 | 2.1 | 3.6 | 3.4 |
| Cash and Cash Equivalents | 6.0 | 2.5 | 806[3] | 3.0 | 1.6 | 1.3 | 1.4 | 1.0 |
| **Credit** | | | | | | | | |
| Credit Investments | 26.1 | 10.7 | 3,072 | 13.1 | 8.9 | 3.7 | 11.2[5] | 3.9 |
| **Real Assets** | | | | | | | | |
| Real Estate | 32.0 | 13.1 | 58 | 0.2 | 6.0 | 3.0 | 9.2 | 4.8 |
| Infrastructure | 29.4 | 12.1 | 4,609 | 19.0 | 10.5 | 4.8 | 11.7 | 5.7 |
| Natural Resources | 12.3 | 5.0 | 1,310 | 10.9 | 8.5 | 3.1 | 11.2 | 3.7 |
| **Complementary Portfolio** | 2.2 | 0.9 | (81) | (0.2) | 5.8 | 3.1 | 10.1[4] | 4.5 |
| **Total Portfolio[1]** | 243.7[6] | 100.0 | 11,080 | 4.4 | 7.9 | 5.5 | 9.2 | 7.4 |

All returns are calculated based on a time-weighted rate of return methodology.

[1] Total portfolio return is net of all expenses.

[2] This measure may not have a standardized meaning under IFRS and may not be comparable to similar measures disclosed by our peers. Total portfolio return is net of interest expenses of $802 million, certain transaction costs of $51 million and other expenses of $151 million, which when added back results in arriving to Investment income of $12,084 million as reported in the Consolidated Statement of Net Income under IFRS.

[3] Includes performance income from foreign currency management and rebalancing activities.

[4] Annualized return since inception (6.2 years).

[5] Annualized return since inception (7.3 years).

[6] Figures do not add up due to rounding.

# Capital Markets

Net AUM

**$98.5 B**

Net AUM (FY2022)

**$99.9 B**

Portfolio Income

**$0.1 B**

5-year annualized return

**5.8%**

5.0% Benchmark return

**Capital Markets is comprised of two groups: Public Market Equities[1] and Fixed Income.**

**Public Market Equities are managed by both internal and external managers using a combination of traditional active, alternative investments and passive strategies. The Public Market Equities asset class has an investment philosophy grounded in a risk-adjusted approach, which allows for the identification of the best opportunities in public equity and alternative investments. The Capital Markets Alternatives portfolio adds a further diversification element to Public Market Equities, as it is not correlated with long-only equity strategies. The Public Market Equities team leverages external partners to complement the internal public market value proposition. Our internal equity research platform provides ongoing market insight to Public Market Equities and across asset classes.**

**Fixed Income is managed by an experienced team of investment professionals that invest in Global Sovereign Interest Rates, Emerging Market Debt and Corporate Credit. These investments are managed both internally and externally through partners with specialized investment expertise.**

## Summary of portfolio evolution

At the end of fiscal year 2023, Capital Markets' net assets under management totaled $98.5 billion, a decrease of $1.4 billion from the year prior. The evolution of the portfolio was mainly driven by a reduction of public markets exposure due to total fund portfolio rebalancing decisions.

[1] Excludes Cash and Cash Equivalents

# Public Market Equities

| Net AUM | Net AUM (FY2022) | Portfolio Loss | 5-year annualized return |
|---|---|---|---|
| $53.4 B | $59.1 B | $(0.5) B | 7.7% |
| | | | 6.6% Benchmark return |

## Performance analysis

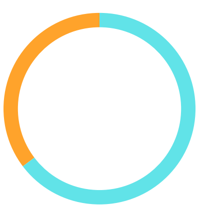
Following years where global markets were swayed by the global pandemic, the emergence of variants and worldwide vaccination efforts, fiscal year 2023 continued to prove challenging for equity markets globally. This year was marked by a series of noteworthy events, including concrete measures taken by central banks to curb persistently high inflation and the escalation of global political tension as the West provided unprecedented support to Ukraine in its defense against Russia. Although there were instances of relief rallies as market participants anticipated peaks in inflation figures, these were short-lived as the economy continued to show signs of strength and central banks remained determined to keep increasing interest rates. Coping with the increased volatility stemming from these events, as well as the recent shockwaves sent through the financial sector by the collapse of Silicon Valley Bank, Public Market Equities ended the year with an absolute return of -0.5%, and outperformed its benchmark.

The Public Market Equities asset class continues to demonstrate its resilience over time through sound portfolio construction and diversification, as evidenced by its five-year absolute return of 7.7%, translating into a 1.2% outperformance over the benchmark. Public Market Equities' sustained long-term performance is attributed to the contribution of all its strategies.

Over five years, alternative investments contributed positively to this outperformance. Driven by record deal numbers in global Mergers and Acquisitions & IPO markets in fiscal year 2021, strong performance within the pre-IPO sub-strategy benefited the Public Market Equities portfolio. Furthermore, sub-strategies focused on commodities and global macro-economic events benefited from the reflationary environment caused by the COVID-19 pandemic and the following central banks' quantitative easing. The increase in persistent inflation and interest rates observed over the past year also contributed to the success of these investments.

Active Equity investments took advantage of the opportunities presented by the heightened volatility experienced over the last rolling five-year period. While maintaining a long-term focus on its individual holdings, Active Equity employed a more dynamic portfolio allocation process during this time. The group capitalized on the post COVID-19 outbreak rally triggered by significant stimulus measures, the reopening of some economies, and the introduction of the vaccine in late 2020. During this past fiscal year, the Developed Market strategy was able to take advantage of the shifting interest rate environment, the rotation between growth and value stocks, and the decline in valuations of primarily US-based technology stocks to generate significant outperformance.

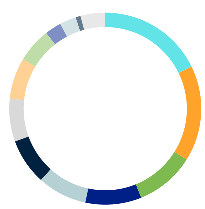
This was compounded by continued strong performance from the US Small Cap strategy. During the same period, Emerging Market Strategy weathered a challenging and volatile environment, notably the on-off zero-COVID policy in China, compounded by the ongoing war in Ukraine. Underperformance from stock selection, primarily in mainland China, was offset by positive country allocation to Latin America and Eastern Europe. Despite these recent challenges, Public Market Equities has achieved a strong positive long-term performance from strong securities selection in the Chinese domestic market, and disciplined ESG-informed country and sector allocation.



**Allocation**

As at March 31, 2023 (%)

| | |
|---|---|
| 64.9 | Passive |
| 35.1 | Active |



**Diversification by sector**

As at March 31, 2023 (%)

| | |
|---|---|
| 18.0 | Financials |
| 16.1 | Technology |
| 9.9 | Consumer Discretionary |
| 9.5 | Industrials |
| 8.3 | Healthcare |
| 7.7 | Communications |
| 7.4 | Materials |
| 6.8 | Consumer Staples |
| 5.9 | Energy |
| 2.7 | Utilities |
| 2.7 | Real Estate |
| 0.9 | Government |
| 4.1 | Other |

# Fixed Income

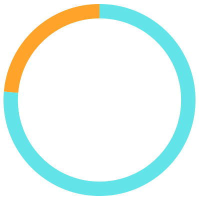
| Net AUM | Net AUM (FY2022) | Portfolio Income | 5-year annualized return |
|---|---|---|---|
| $45.0 B | $40.7 B | $0.6 B | 2.4% |
| | | | 2.1% Benchmark return |

## Performance analysis

Despite the worldwide increase in interest rates causing a negative impact on the bonds market in fiscal year 2023, Fixed Income managed to navigate through this volatile year and posted a positive absolute return of 1.4%. Over five years, monetary and fiscal policies were altered by global central banks and governments, transitioning from being moderately accommodating prior to 2020 to being highly lenient, with the aim of enhancing market liquidity in reaction to the emergence of the COVID-19 pandemic. Subsequently, in a bid to combat persistent worldwide high inflation resulting from their policy change and further amplified by the impact of the Russian invasion of Ukraine on energy prices, global central banks had to quickly revert to more forceful policy stances. The Federal Reserve, in particular, raised its policy rate from a near-zero level at the onset of the pandemic to nearly 5% by March 2023. Due to its strategic positioning to capitalize on the increased volatility in global sovereign interest rates and credit markets experienced over these last five years, the Fixed Income asset class generated a positive return of 2.4%, outperforming its benchmark by 0.3%.

More specifically, prior to the emergence of the significant inflationary pressure observed over the last two years, the Fixed Income asset class was positioned with a strong bias on inflation-protected bonds and in corporate credit, which had a favourable performance impact. Furthermore, due to its defensive positioning in anticipation of rate hikes with a significant short duration bias, the portfolio capitalized on the overall rise in rates during the last fiscal year.

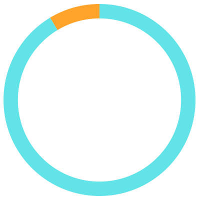
Consistent with PSP Investments' prior decision to expand geographical diversification and improve the risk-return profile, Fixed Income continued to deploy funds in Emerging Markets Debt strategies throughout fiscal year 2023. Since its inception in fiscal 2021, Emerging Markets Debt strategies have contributed positively to Fixed Income's five-year outperformance, primarily due to defensive positioning throughout this highly volatile period.



**Allocation**

As at March 31, 2023 (%)

| | |
|---|---|
| 76.5 | Developed Markets |
| 23.5 | Emerging Markets |



**Investment types**

As at March 31, 2023 (%)

| | |
|---|---|
| 91.6 | Government Bonds |
| 8.4 | Corporate Bonds |

# Private Equity

Net AUM

**$37.2 B**

Net AUM (FY2022)

$35.4 B

Portfolio Income

**$1.2 B**

5-year annualized return

**15.6%**

12.3% Benchmark return[1]

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

**The group invests globally in companies that demonstrate a strong market position, an attractive cash flow profile, resilience through economic cycles and top-tier management teams. It can execute large, complex global transactions across the capital structure in varying investment sizes and sectors.**

**Private Equity uses its influence as a leading market player to work closely with its partners and portfolio companies to promote ESG disclosures and support decarbonization initiatives.**

### Summary of portfolio evolution

Private Equity ended fiscal year 2023 with a net AUM of $37.2 billion, an increase of $1.8 billion from the year prior. The growth of the portfolio was driven by $4.6 billion in acquisitions and $2.5 billion in currency gains, partially offset by $3.4 billion in dispositions and financing and $1.9 billion in valuation losses.

This year, Private Equity invested $2.7 billion of capital through funds and $1.9 billion in co-investments, slowing the investment pace following a few years of very active deployment and in the context of a cautious market outlook. New co-investments were made primarily in the US health care and industrials sectors, more specifically in the professional services subsector, and include the acquisition of significant interests in:

- A carve-out business from the US public company PerkinElmer, alongside New Mountain Capital. The new company, which retained the name PerkinElmer, provides global analytical services and solutions focused on accelerating scientific outcomes.
- CrossCountry Consulting, a US business advisory firm, alongside Investcorp.

[1] In alignment with PSP Investments' corporate policy not to hedge foreign currency exposure, the benchmark for Private Equity is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

Total deployment was partially offset by dispositions resulting from active portfolio management, including asset sales and refinancing.

Unfunded commitments in connection with fund investments totaled $10.0 billion at the end of fiscal year 2023. During the year, Private Equity signed new fund commitments of $2.2 billion through 17 new funds with existing external managers.

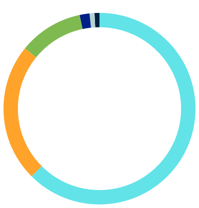
Private Equity investments remain well diversified by geography and sector.

## Performance analysis

Private Equity achieved a one-year rate of return of 3.3% in fiscal year 2023. Total portfolio income of $1.2 billion was driven by currency gains of $2.5 billion and distributed income of $0.6 billion, partially offset by valuation losses of $1.9 billion.

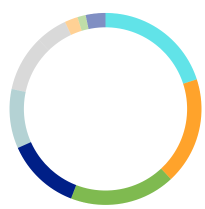
The portfolio has generally proven to be resilient despite market downturn except for certain investments facing specific challenges in the consumer discretionary and communications sectors. The valuation losses are primarily attributable to the unfavourable valuation environment and rising interest rates, which have caused valuation multiple compression across sectors. On the other hand, the financials sector, more specifically the insurance subsector, displayed strong performance relative to the market and contributed positively to the results.

Over five years, Private Equity achieved a rate of return of 15.6%, compared to a benchmark return of 12.3%. The outperformance highlights the strength and quality of the private equity portfolio, both through co-investments and funds. More specifically, the outperformance is primarily driven by the high performance of the US financials and healthcare sectors. Investments in these sectors have strongly benefited over the years from organic growth, accretive mergers and acquisitions, and operational efficiency.



**Geographic diversification**
As at March 31, 2023 (%)

| | |
|---|---|
| 62.5 | United States |
| 23.6 | Europe |
| 10.7 | Asia |
| 1.8 | Canada |
| 0.6 | Oceania |
| 0.8 | Other |



**Diversification by sector**
As at March 31, 2023 (%)

| | |
|---|---|
| 20.2 | Financials |
| 18.0 | Healthcare |
| 17.9 | Technology |
| 12.4 | Industrials |
| 10.1 | Consumer Discretionary |
| 9.2 | Communications |
| 5.4 | Materials |
| 2.2 | Consumer Staples |
| 1.4 | Real Estate |
| 3.2 | Other |

# Credit Investments

Net AUM

$26.1 B

Net AUM (FY2022)

$21.9 B

Portfolio Income

$3.1 B

5-year annualized return

8.9%

3.7% Benchmark return[1]

**Credit Investments focuses on non-investment-grade credit investments in North America and Europe across private and public markets, as well as rescue financing opportunities.**

**From offices in New York, London and Montréal, our global team invests across the debt capital structure in the form of loans, bonds and preferred equity. The group balances credit quality, structure, fixed-floating deployment opportunity, risk-return profile, asset mix and portfolio diversification, among other considerations.**

### Summary of portfolio evolution

Credit Investments ended fiscal year 2023 with a net AUM of $26.1 billion, up from $21.9 billion at the end of fiscal year 2022. The net change in AUM of $4.2 billion was mainly driven by acquisitions of $6.7 billion, where activity moderated compared to the prior record year given increasing geopolitical risk which resulted in more subdued acquisition activity by private equity sponsors. Other changes included $3.4 billion in dispositions and valuation losses of $1.2 billion driven by higher interest environment and widening credit spreads increasing required yield in the market, offset by currency gains of $1.7 billion.

Credit Investments' portfolio is well diversified across asset types, geographies, sectors and equity sponsors.

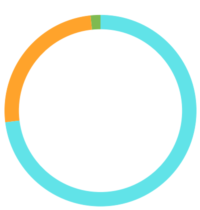
### Performance analysis

Credit Investments achieved a one-year rate of return of 13.1% in fiscal year 2023. Total portfolio income of $3.1 billion largely consists of interest, currency gains and fee income, offset by valuation losses. Credit Investments returns were positively impacted by foreign exchange gains due to significant underlying US dollar exposure.

[1] In alignment with PSP Investments' corporate policy not to hedge foreign currency exposure, the benchmark for Credit Investments is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

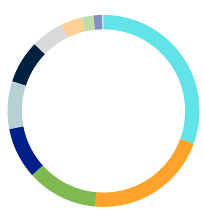
The portfolio was well positioned for rising interest rates with majority floating rate exposure and consequently has not been as significantly impacted from a valuation standpoint. Credit Investments continues to benefit from disciplined credit selection via its investments in private transactions, which are mostly floating rate investments that have on average a wider spread than syndicated leveraged loans.

Over five years, Credit Investments achieved a rate of return of 8.9%, compared to a benchmark return of 3.7%. Credit Investments has outperformed the benchmark because of strong credit selection, higher interest spreads versus the benchmark and fee income. With respect to sectors, Credit Investments is overweight in Technology, Industrials and Healthcare, given team expertise. All three sectors have generated significant accretive returns due to the outperformance of the portfolio as compared to the relevant sector benchmarks.



**Geographic diversification**
As at March 31, 2023 (%)

| | |
|---|---|
| 73.2 | United States |
| 25.3 | Europe |
| 1.5 | Canada |



**Diversification by sector**
As at March 31, 2023 (%)

| | |
|---|---|
| 30.7 | Technology |
| 20.9 | Industrials |
| 12.0 | Healthcare |
| 8.4 | Consumer Discretionary |
| 8.2 | Materials |
| 7.1 | Communications |
| 5.7 | Financials |
| 3.6 | Consumer Staples |
| 1.9 | Real Estate |
| 1.4 | Energy |
| 0.1 | Utilties |

# Real Estate

Net AUM

**$32.0 B**

Net AUM (FY2022)

**$31.1 B**

Portfolio Income

**$0.06 B**

5-year annualized return

**6.0%**

3.0% Benchmark return[1]

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

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

**Real Estate contributes to the transition to a lower-carbon economy through its development projects by increasing the focus towards energy efficiency and creating a safe and healthy environment for tenants. Initiatives are integrated to measure the current emission footprint of the portfolio and support portfolio decarbonization in collaboration with the managing partners.**

## Summary of portfolio evolution

Real Estate ended fiscal year 2023 with a net AUM of $32 billion, a net increase of $0.9 billion from the year prior. The evolution of the Real Estate portfolio was driven by $5.1 billion in acquisitions and $2.1 billion in currency gains, partially offset by $2.4 billion in valuation losses, $3.1 billion in dispositions and $0.8 billion in financing.

Fiscal year 2023 was characterized by a rapid rise in interest rates and increased volatility, rendering market conditions more challenging. Real Estate focused on pruning its portfolio and concentrated its acquisitions in high-conviction sectors.

As part of the ongoing portfolio optimization, assets were disposed of or recapitalized in Canada, the United States and Asia. Non-strategic ventures were also disposed of in Colombia, Europe and the United States.

[1] In alignment with PSP Investments' corporate policy not to hedge foreign currency exposure, the benchmark for Real Estate is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

Fiscal year 2023 acquisitions included:

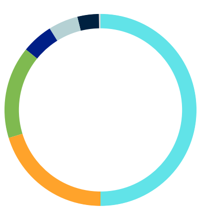
- An expansion of the venture with Longfellow in the UK through an acquisition of an office portfolio to be converted into life science properties.
- A large portfolio of manufactured home communities in the US, in partnership with Cove Communities.
- A Grade A office building in Singapore, to pursue our investments in the developed APAC markets.
- Additional investments focused on investing in logistic facilities located in the US coastal markets and Australia.

## Performance analysis

Real Estate achieved a one-year rate of return of 0.2% in fiscal year 2023. Total portfolio income of $58 million was mostly driven by currency gains of $2.1 billion, which was offset by valuation losses of $2.4 billion.

Valuation losses were primarily attributable to a rapid rise in interest rates, impacting already weakened sectors such as traditional office, particularly in North America. Our senior housing portfolio continued to be negatively impacted by operating margin pressures due to labour shortages and weaker occupancy. These losses were partly offset by the residential sector, where revenue growth kept pace with inflation. For the industrial sector, strong fundamentals offset the significant increase in yields driven by higher interest rates.

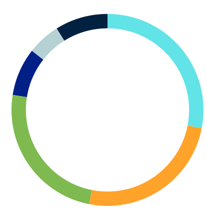
Over five years, Real Estate achieved a rate of return of 6.0%, compared to a benchmark return of 3.0%. The solid performance is primarily due to the global logistics portfolio, the Canadian and US sunbelt multi-family portfolios, as well as niche sectors including the life science and manufactured housing. On the other hand, the five-year performance was negatively impacted by senior housing, US retail and North American traditional office.



**Geographic diversification**

As at March 31, 2023 (%)

| | |
|---|---|
| 50.1 | United States |
| 20.3 | Europe |
| 15.7 | Canada |
| 5.2 | Oceania |
| 4.9 | Central and South America |
| 3.7 | Asia |
| 0.1 | Other |



**Diversification by sector**

As at March 31, 2023 (%)

| | |
|---|---|
| 28.3 | Residential |
| 25.0 | Office |
| 24.3 | Industrial |
| 8.1 | Retail |
| 5.5 | Senior Housing |
| 8.8 | Other |

# Infrastructure

Net AUM

**$29.4 B**

Net AUM (FY2022)

**$23.5 B**

Portfolio Income

**$4.6 B**

5-year annualized return

**10.5%**

4.8% Benchmark return[1]

**Infrastructure invests globally on a long-term basis mostly in the transportation, communications, and energy sectors. To complement its existing focus on providing PSP Investments with inflation protection, in recent years, the group has added a strategy that focuses on North American assets providing strong inflation protection.**

**The group has a flexible investment strategy incorporating platforms, consortium direct investments, as well as funds, secondaries and co-investments.**

**Infrastructure contributes to the transition to a lower-carbon economy by providing the capital and expertise necessary to build new assets and to adapt existing assets to use less fossil fuels, and to create, store, transport and deliver renewable energy.**

## Summary of portfolio evolution

At the end of fiscal year 2023, net assets under management totaled $29.4 billion, an increase of $5.9 billion from the year prior. The evolution of the portfolio was driven by acquisitions of $4.2 billion, valuation gains of $1.8 billion and $1.6 billion in currency gains, partially offset by $1.7 billion in dispositions and financing.

Infrastructure invested $3.0 billion of capital this year in direct and co-investments and $1.2 billion through funds. Most of the investments this year were done across existing platforms and portfolio companies to provide necessary capital to support growth and acquisitions. Such companies include Vantage Data Centers, a global provider of data centre solutions, and FirstLight Power, a clean power producer and energy storage company in North America. Both companies are successfully executing on their growth strategies through various development projects in the communications and renewable energy sectors globally.

[1] In alignment with PSP Investments' corporate policy not to hedge foreign currency exposure, the benchmark for Infrastructure is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

Notable new investments included:

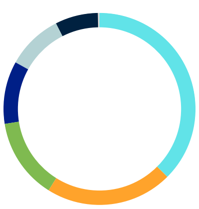
- The acquisition of Havfram, a Norwegian offshore wind services company, in partnership with Sandbrook Capital. The state-of-the-art vessels that Havfram will operate will support the growth of offshore wind and contribute to addressing climate change and the global shift to net zero.
- In partnership with EQT, Infrastructure also committed to acquire Radius Global Infrastructure, a leading global aggregator of real property interests underlying wireless telecommunications cell sites.

## Performance analysis

Infrastructure achieved a one-year rate of return of 19.0% in fiscal year 2023. Total portfolio income reached $4.6 billion, driven by valuation gains of $1.8 billion, distributed income net of financing cost of $1.2 billion and currency gains of $1.6 billion.

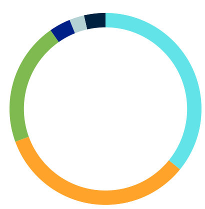
The portfolio demonstrated strong performance benefiting from the current high inflationary environment despite generally higher discount rates. The industrials sector, more specifically the transportation subsector, was the primary contributor to the portfolio's income due to higher traffic in toll road and airport assets. The communications sector also contributed substantially to the results, driven by data centres which continued to benefit from strong demand tailwinds translating into highly accretive organic growth opportunities.

Over five years, Infrastructure achieved a rate of return of 10.5%, compared to a benchmark return of 4.8%. The outperformance is primarily driven by the solid performance of our platforms in the transportation and renewable energy subsectors as well as the communications sector, which also benefited from strong fundamentals.



**Geographic diversification**
As at March 31, 2023 (%)

| | |
|---|---|
| 37.6 | Europe |
| 21.4 | United States |
| 13.5 | Asia |
| 10.6 | Central and South America |
| 9.5 | Oceania |
| 7.2 | Canada |
| 0.2 | Other |



**Diversification by sector**
As at March 31, 2023 (%)

| | |
|---|---|
| 36.0 | Industrials |
| 33.6 | Utiliies |
| 20.8 | Communications |
| 3.7 | Energy |
| 2.5 | Technology |
| 3.4 | Other |

# Natural Resources

Net AUM

**$12.3 B**

Net AUM (FY2022)

**$11.6 B**

Portfolio Income

**$1.3 B**

5-year annualized return

**8.5%**

3.1% Benchmark return[1]

**Natural Resources focuses on real assets in agriculture and timber in investment-friendly jurisdictions around the world. The group partners with best-in-class local operators who share the group's long-term investment philosophy and commitment to sustainability.**

**The group targets opportunities well poised to benefit from secular trends driving continued demand growth and increasingly constrained supply. Its investments are typically underpinned by a high component of land, water and biological assets that provide the fund with significant downside protection and uncorrelated returns. The group also invests in strategic, complementary post-farmgate opportunities that increase margins and reduce cash flow volatility.**

**Natural Resources contributes to the transition to a lower-carbon economy through its active governance approach and investment management. During the year, Natural Resources used its influence to complete a detailed inventory of the carbon emissions on about 80% of its AUM, an important step towards portfolio decarbonization in line with PSP Investments' Climate Strategy.**

## Summary of portfolio evolution

Natural Resources ended fiscal year 2023 with net AUM of $12.3 billion, a net increase of $0.7 billion from the year prior, and now has a global operating footprint amounting to more than 4.0 million hectares: 3.0 million hectares of farmland, and over 1.0 million hectares of timberland.

Fiscal year 2023 was marked by continued strong investments of $2.7 billion, mainly in North America ($1.2 billion), Oceania ($0.7 billion) and Europe ($0.5 billion), both in agriculture and timber, valuation gains of $0.4 billion, and $0.6 billion in currency gains, partially offset by $0.2 billion in dispositions and $2.8 billion in financing.

[1] In alignment with PSP Investments' corporate policy not to hedge foreign currency exposure, the benchmark for Natural Resources is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

Notable developments throughout the year include:

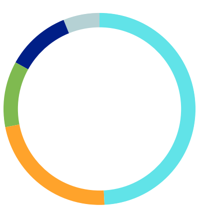
- Expanded the portfolio’s wine grape footprint in Australia and in North America for a total of $0.4 billion.
- Bolstered the group’s European presence through investments totaling $0.5 billion, including in a new buy and lease opportunity alongside a leading vertically integrated fresh fruit producer and distributor.
- Continued to scale and grow existing agriculture joint ventures with the deployment of $1.8 billion in new farmland and developments.

## Performance analysis

Natural Resources achieved a one-year rate of return of 10.9% in fiscal year 2023. Total portfolio income of $1.3 billion was driven by currency gains of $0.5 billion, valuation gains of $0.4 billion and distributed income net of financing cost of $0.4 billion.

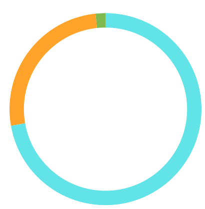
The portfolio demonstrated robust and resilient return performance during a period of rising inflationary pressures, increasing interest rates and global political uncertainty. A large component of valuation gains is attributed to an increase in land value driven by overall higher commodity prices and strong demand for agriculture land.

Over five years, Natural Resources generated $3.9 billion in portfolio income and achieved a rate of return of 8.5% compared to a benchmark return of 3.1%. The positive results are reflective of the group’s long-term investment horizon and strong operating performance with like-minded, best-in-class local-operating partners. The portfolio also benefits from significant downside protection and inflation linkage given its high weighting to land, water and biological assets.



**Geographic diversification**
As at March 31, 2023 (%)

| | |
|---|---|
| 49.2 | Oceania |
| 22.9 | United States |
| 11.1 | Central and South America |
| 10.7 | Canada |
| 6.1 | Europe |



**Diversification by sector**
As at March 31, 2023 (%)

| | |
|---|---|
| 72.3 | Agriculture |
| 26.2 | Timber |
| 1.5 | Oil and gas |

# Managing costs

**Managing costs is an integral part of PSP Investments' robust investment framework. It is key to achieving its mandate to maximize the rate of return, net of all costs, over the long term. The decision-making process includes multi-year cost-benefit analysis, net of all costs, in line with how success is measured at the total fund level.**

While a long-term perspective is necessary in analyzing total cost trends in the context of investment strategies and their performance, monitoring costs in the short term allows management to detect emerging changes in PSP Investments' cost structure in time to make decisions promptly.

## Total cost ratio

The total cost ratio measures operating and asset management costs as a percentage of average net AUM. Asset management costs 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 investment activities.

Over the last 10 years, PSP Investments' portfolio and operations have grown significantly in terms of size and complexity, developing the global scale necessary to enhance long-term returns and meet its mandate. This evolution included greater internal management, diversification into private markets and international expansion to benefit from local expertise to ensure PSP Investments exceeds its long-term return objectives. During that growth period and as expected, total costs grew slightly, adding 5.9 bps compared to 63.5 bps in fiscal year 2014. This is primarily due to a more expensive asset mix, with private investments representing 57% in fiscal year 2023, versus 33% ten years ago.

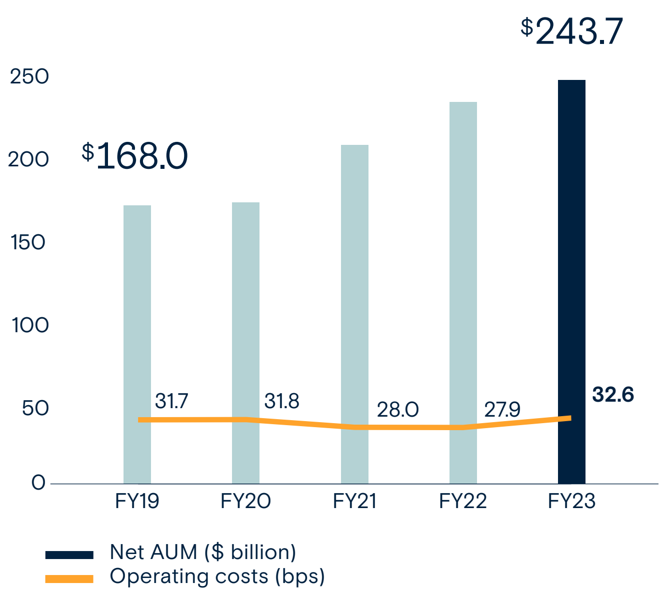
PSP Investments' total cost ratio was 69.4 for fiscal year 2023 compared to 62.8 bps in fiscal year 2022, which marked the more assertive and dynamic recovery following COVID containment measures, including the normalization of travel and employees' activities. The increase was also driven by the higher proportion of private assets. The enhanced private investments' capabilities, and working alongside external partners, allow PSP Investments to identify investment opportunities in niche markets and strengthen the returns of the fund on an after-cost basis.

Finally, the recent market volatility resulted in a lower average net AUM of $233 billion, which is used to determine the total cost ratio, versus a year-end position of $244 billion driven by a net return of $10 billion, reinforcing the importance of adopting a multi-year perspective aligned with growth expectations and long-term return objectives.

## Operating costs

Total operating costs increased in fiscal year 2023 in line with PSP Investments' strategic and operational priorities of furthering talent retention and total fund performance. The net AUM and operating costs growth, combined, resulted in an operating cost ratio of 32.6 bps, within range of PSP Investments' pre-pandemic levels.

In fiscal year 2023, PSP Investments continued to expand its capabilities and strengthen its talent pool to remain competitive in global markets, resulting in total operating costs[1] of $760 million compared to $612 million in fiscal year 2022. This included a review of compensation to respond to a highly competitive and volatile global labour market. These actions, combined with performance-driven compensation, resulted in salaries and employee benefits of $459 million versus $365 million in fiscal year 2022.




[1] This measure does not have the standardized meaning under IFRS as disclosed in the Consolidated Statement of Net Income. Operating costs exclude $16 million of other recovered expenses ($24 million of other recovered expenses in 2022), in connection with the remeasurement of certain operating liabilities (not subject to cost ratios), which when added back result in arriving to Operating expenses of $744 million ($588M in 2022) as reported in the Consolidated Statement of Net Income under IFRS.

# Enterprise risk management

**To achieve the mandate and deliver on the commitment to stakeholders, PSP Investments must take calculated risks and manage them appropriately. A disciplined, integrated approach to risk management is followed, and a strong, shared risk culture, in which all employees are active participants in risk identification, evaluation, management, monitoring and reporting, is strived for and maintained.**

## Risk governance

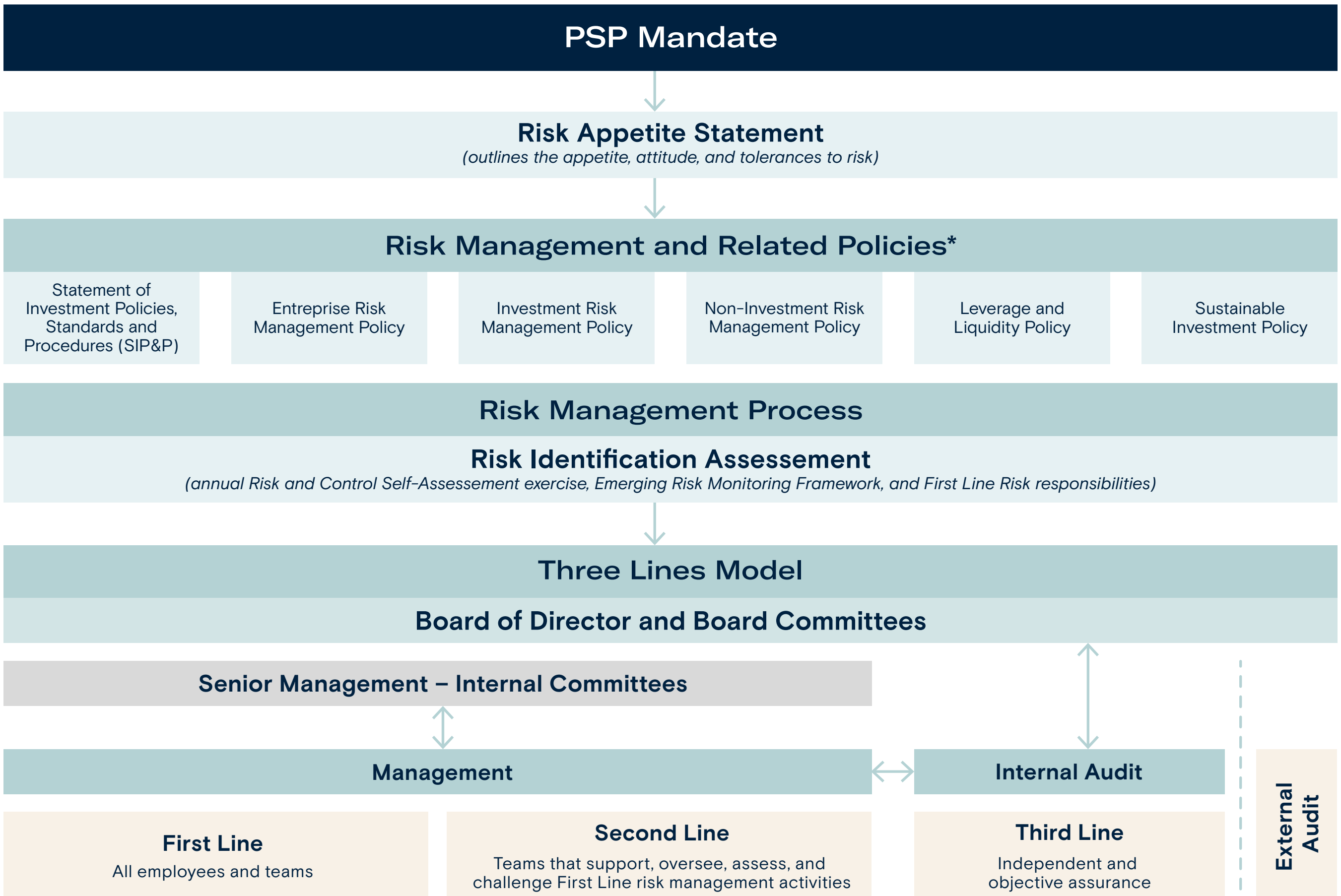
Effective risk management starts with risk governance. The Board of Directors (Board) provides insight on risks, and its Investment and Risk Committee (IRC) reviews, evaluates and approves the guiding principles, limits and policies that govern the overall approach with respect to PSP Investments' risk management. The Board ensures that management has put in place an effective enterprise risk management approach and processes, and reviews and approves the Risk Appetite Statement (RAS) and supporting risk management and related policies. The Board is regularly apprised of material risks and how management is responding to them. An enterprise risk management framework outlines the foundational components that contribute to the effective identification and management of enterprise risks.

Specific risk-related responsibilities are divided among Board committees and outlined in their respective Terms of Reference.

The risk management framework is anchored by PSP Investments' Three Lines approach to managing risk to ensure accountability, alignment, collaboration and coordination throughout all levels of the organization.

## Enterprise risk management framework

Our enterprise risk management framework supports prudent risk-taking while striking the appropriate balance between risk and reward to achieve our strategic objectives.




* These policies reflect the over-arching governance of risk management activities. Additional risk management activities exist in other policies.

## Risk Appetite Statement

The Risk Appetite Statement (RAS) specifies the level and principal types of risk that PSP Investments is willing to take in order to meet its strategic objectives. Reviewed annually, the RAS formalizes and combines the key elements of risk management at PSP Investments. It sets basic goals, parameters and limits for the risks assumed, and provides thresholds for ongoing investment and non-investment activities. The RAS is summarized in the Risk Appetite Overview and is made available to all employees to promote transparency and a shared risk culture.

## Risk management and related policies

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

## *Enterprise risk categories*

| Investment risk | Supporting policies | Non-investment risk | Supporting policies |
|---|---|---|---|
| • Funding risk<br>• Market risk<br>• Liquidity risk<br>• Leverage risk<br>• Credit and counterparty risk<br>• Concentration risk<br>• ESG risk | • Enterprise Risk Management Policy<br>• Statement of Investment Policies, Standards and Procedures<br>• Investment Risk Management Policy<br>• Leverage and Liquidity Policy<br>• Sustainable Investment Policy | • Strategic or business<br>• Technology<br>• Information security<br>• People<br>• Legal, contractual or regulatory<br>• Financial crime and fraud<br>• Reporting and taxation<br>• Operational | • Enterprise Risk Management Policy<br>• Non-investment Risk Management Policy and specific policies to related risks |

## Risk management process

We conduct an annual, enterprise-wide risk and control self-assessment exercise to identify and evaluate key risks, and to assess the adequacy and effectiveness of mitigation activities. The exercise is a core component of the risk management framework and contributes to its ongoing refinement. The Board participates and provides a top-down complementary perspective, through an annual risk-identification survey.

Risks inherent to PSP Investments are identified through this exercise and are periodically monitored throughout the year. External risks are also monitored regularly and the most impactful ones are integrated as appropriate. This results in a comprehensive identification of our most significant risks that takes into account the internal and external risk environments. The organization's top risks also inform the corporate business planning process and help ensure that risks are factored into PSP Investments' corporate strategy.

In addition, an emerging risk monitoring framework is used to identify, assess and monitor new and evolving risks that have the potential to impact our objectives. This framework complements and supports existing risk processes by centralizing and coordinating our efforts to manage emerging risks, when needed.

## Three lines model

PSP Investments uses the three lines model as a means to promote a shared risk culture, and to identify structures and processes that best assist the achievement of objectives and facilitate strong governance and risk management. We operate with the belief that risk is the responsibility of every employee. Senior managers promote a risk-aware culture by communicating this responsibility effectively and communicate updates to risk policies and procedures, the results of our annual risk and control self-assessment and require the use of risk indicators in reports to management and the Board. All employees are designated risk assessors or owners and are empowered with clear limits and guidelines to manage and report risks, and to escalate issues if necessary.

Risk Management is headed by the Senior Vice President and Chief Financial & Risk Officer who reports to the President and CEO.

# Management of Non-Investment Risks

**PSP Investments recognizes that non-investment risk management is an integral component of the organization's Enterprise Risk Management Framework and manages its daily operations in accordance with the Risk Appetite Statement.**

The management of these risks is governed by a defined committee structure policies, procedures and is supported by the Three Lines Model to ensure clear roles and responsibilities for all employees. This includes the oversight of direct or indirect risk of loss, including the risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. All material non-investment losses or incidents are reported at the Board level.

# Management of Investment Risks

**To manage the risks inherent to the investment decision making process, the Investment Risk Management (IRM) Policy outlines a framework detailing how investment activities should comply with PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite.**

To effectively manage investing-related risks, such as funding, market, credit, counterparty, leverage and liquidity risks, the IRM Policy, in conjunction with the SIP&P and the Leverage and Liquidity Policy, are established and adhered to so as to monitor and manage PSP Investments' ability to fulfill its mandate. Below is a description of closely monitored elements that relate to key investment risks along with how these are managed.

For further details on Investment Risk Management, please refer to Note 7 of the Consolidated Financial Statements.

## Total fund market risk

### Objectives

The risk appetite framework for market risk at the total fund level has evolved in the past few years. PSP Investments designs a Policy Portfolio to maximize the return subject to a long-term funding risk level inferred from the Reference Portfolio (as described in the Investment Framework section). The market risk appetite is subsequently set to be consistent with the approved Policy Portfolio and risk appetite. It is mainly expressed through a total fund VaR, over a one-year horizon using a 10-year look-back period.

The goal is to ensure the alignment of all PSP Investments' value-added activities with the desired Policy Portfolio risk profile in terms of market risk. Boundaries are defined so that the likelihood of meeting the objective is increased without jeopardizing the value proposition.

#### Stress scenarios

PSP Investments performs stress test scenario analyses to provide greater visibility and control of market stress impacts on performance that would not be captured by VaR measures. A hypothetical stress test scenario that reflects an average market crisis based on multiple severe historical events was also implemented.

Other stress test scenarios based on macroeconomic and geopolitical events such as the war in Ukraine and the inflationary environment, the higher market volatility and the equity/bond correlation change were also performed this past fiscal year.

### Credit and counterparty

#### Objectives

The investment risk framework includes identifying sources of credit and counterparty risk and presenting solutions to mitigate the risk associated with the non-performance of an obligor on whom PSP investments relies on to fulfill a contractual or financial obligation.

#### Governance

Through various metrics that are part of the counterparty risk framework, PSP Investments seeks to capture broader types of exposure including derivatives, securities lending and settlement risk. These include metrics that seek to quantify, at a given confidence level, the loss that could occur if the counterparty were to default on specific activities. In turn, limits and guidelines are set that are tailored to the credit quality of the counterparty as well as other indicators of financial health.

Counterparty exposure and predefined limits or other indicators are regularly monitored to assess the quality of approved counterparties. Counterparty risk related to the use of derivatives and securities lending and borrowing transactions remained largely stable compared to the prior year.

### Liquidity

#### Objectives

PSP Investments holds sufficient liquidity to meet its financial obligations, stay on course with its strategic capital deployment and maintain its target asset mix while protecting its credit rating. Its liquidity is managed in a prudent way while allowing sufficient agility to capture investment opportunities. The goal is to optimize PSP Investments' use of its financial assets while maintaining a liquidity risk profile in line with its risk appetite, and reducing the risk of liquidating investments unexpectedly and potentially at unfavourable prices.

#### Governance

PSP Investments adopts a total fund approach by actively managing liquidity through a centralized platform, namely, the Corporate Liquidity Fund ("CLF"). The CLF is managed to provide efficient funding to asset classes and maintain sufficient levels of liquidity in times of market stress. The primary objectives of the CLF are safety of capital, liquidity and collateral eligibility. The CLF is comprised primarily of highly rated government or government-related fixed income securities to meet its collateral requirements. In addition to fund transfers referred to in the "Capital Management" section below, PSP Investments receives recurring cash flows from its private investments, adding to its sources of liquidity.

#### Sources of liquidity

PSP Investments maintains a sizeable pool of liquid assets and the CLF has access to diversified sources of liquidities including its Capital Debt Program (Term Debt issuances in multi-currencies and Canadian and US Commercial Paper programs), cash collateral received in the normal course of business through certain investment transactions, cash and cash equivalents (as part of the Policy Portfolio) and an unutilized revolver capacity.

### Collateral management

The evolving regulatory environment in recent years has brought additional complexity to collateral management. This is reflected in the larger scope of regulations now requiring more products to be collateralized and the addition of risk-based concepts for collateral requirements within the regulation. These changes have also led to a general broadening of the types of assets accepted as collateral within the marketplace as well as an increase in the frequency of margin calls.

PSP Investments also adopts a total fund approach for its collateral management. In addition to the CLF that holds a significant pool of eligible securities that can be posted as collateral, other securities eligible for collateral are held in the form of publicly traded equities and fixed income securities. In order to optimize the use of liquidity, internal tools and capabilities have been built to help select the better type of collateral.

### Risk management

The CLF is subject to risk limits based on the Liquidity Coverage Ratio framework which is the industry best practice in liquidity management. Such limits include several metrics that take into consideration credit rating, portfolio duration, maturity, collateral eligibility, nature of the investment as well as concentration. In addition to such limits, sensitivity analyses, stress testing and scenario analyses are performed in order to ensure that sufficient liquidity is in place for operational needs such as debt repayment and collateral calls in times of market stress such as in the cases of the related market disruptions at the onset of the pandemic or the escalating conflict between Ukraine and the Russian Federation.

# Capital management

**The capital structure of PSP Investments consists of fund transfers as well as leverage.**

### Funds transfers

As described in our mandate, PSP Investments receives fund transfers from the Government and invests these in the best interests of the beneficiaries and contributors under their respective Acts. The funds received are invested with a view to 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 those Plans to meet their financial obligations. The funds are invested in accordance with the investment risk management policies established as an element within the enterprise risk management framework.

### Leverage

PSP Investments believes in the prudent use of leverage to enhance returns and manage liquidity, while protecting its credit rating issued by recognized credit rating agencies.

PSP Investments adopts a holistic approach in managing leverage with the primary objective to ensure efficient leverage allocation at the total fund level. Sources of leverage are allocated to asset classes according to total fund risk limits, asset classes' respective business plans and budgets.

### Global Debt Program and Green Bond Framework

As part of its leverage, PSP Investments maintains a capital debt program consisting of the private placement of short-term promissory notes and medium-term notes as part of the Global Debt Program. The capital raised is primarily used to finance private market investments. In fiscal year 2022, PSP Investments issued an inaugural Green Bond under its Global Debt Program, with proceeds earmarked for projects with positive environmental and climate outcomes. In February 2023, PSP Investments published its first Green Bond Impact Report, which discloses ESG performance and allocation reporting for its first green bond issuance. The Report is part of PSP Investments' commitment to ensure comprehensive and transparent impact reporting on an annual basis, in alignment with the terms set out in its Green Bond Framework.

# Guarantees, Indemnities and Commitments

## Guarantees and indemnities

In the normal course of business, PSP Investments provides indemnifications to its Directors, its Officers, its employees and to certain PSP Investments representatives who are asked to serve on boards of directors or investment advisory boards of entities in which PSP Investments or its investment entity subsidiaries have made an investment or have a financial interest. In certain cases, indemnification is also provided to third parties and 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.

In certain investment transactions, PSP Investments and its investment entity subsidiaries also provide guarantees or issue letters of credit to third parties. These agreements ensure that investment entity subsidiaries and certain investees are supported in the event of a default based on the terms of the respective loan or other agreements. As at March 31, 2023, the maximum amount of obligations that could be assumed by PSP Investments and its investment entity subsidiaries in relation to such guarantees was $2,643 million, compared to $2,051 million in the prior year, while it remained $1 million compared to the prior year for letters of credit issued.

For further details on guarantees and indemnities, please refer to Note 16 of the Consolidated Financial Statements.

## 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. As at March 31, 2023, these commitments amounted to $33,322 million, compared to $28,834 million in the prior year. The increase compared to last year was due to new signed commitments, primarily in Private Equity, Infrastructure and Credit Investments, partially offset by deployments and asset sales.

For further details on commitments, please refer to Note 17 of the Consolidated Financial Statements.

# Governance

## PSP Investments is committed to upholding high standards of corporate governance and ethical conduct.

**Why it matters**

We believe that good governance strengthens our decision-making, processes and controls, and is essential for fulfilling our statutory mandate.

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

**Highlights of our corporate governance framework and practices**

- Separation of Chair from President & CEO
- Succession planning for the President & CEO and key executives
- Independence of all Board members
- Gender balance on the Board with women representing more than 50% of Directors and chairing all Board committees
- Annual review of the Board's skills, competencies and diversity matrix and communication of desired skill sets to the external nominating committee
- Director succession planning
- Annual strategy session
- Annual Board evaluation process
- Ongoing Director education program
- Onboarding program for new Directors
- *In camera* sessions at all regular Board and committee meetings
- Regular review of Terms of Reference for the Board, all committees and Chairs
- Anonymous reporting framework for suspected wrongdoings and compliance culture
- Annual review of risk appetite, risk policies and risk limits and framework

In this section, we discuss key governance activities undertaken in fiscal 2023 and provide an overview of our governance framework and practices.

# Governance framework

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

## Board responsibilities

In accordance with the Act, the Board of Directors manages or supervises the management of the business and affairs of PSP Investments. In discharging their duties, Directors are required to act honestly and in good faith with a view to the best interests of PSP Investments, and to exercise the care, diligence and skill that a reasonable person would exercise in comparable circumstances. The Board performs three vital functions:

| Role | Description |
|---|---|
| Decision-making | The Board maintains decision authority over certain matters, including powers that cannot be delegated under the Act. The Board exercises these powers upon recommendation by senior management, where appropriate. |
| Oversight | The Board monitors performance and provides direction and guidance with respect to the management of the business and affairs of PSP Investments. |
| Insight | The Board provides insight on various matters including strategy, stakeholder relations, human resources and risk. |

The Board's specific responsibilities include:

- Determining the organization's strategic direction in collaboration with senior management
- Selecting and appointing the President & CEO and annually reviewing his or her performance
- Reviewing and approving the SIP&P for each pension fund on an annual basis
- Ensuring that risks are properly identified, evaluated, managed, monitored and reported
- Approving benchmarks for measuring investment performance and for incentive compensation purposes
- Establishing and monitoring compliance with PSP Investments' Code of Conduct
- Approving human resources and compensation policies related to attracting, developing, rewarding and retaining PSP Investments' talent
- Establishing appropriate performance evaluation processes for Board members, the President & CEO, and other members of senior management
- Approving quarterly and annual financial statements for each pension fund account and for PSP Investments as a whole
- Establishing Terms of Reference for the Board, Board committees, and Board and committee Chairs

## Board committees

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

- **Investment and Risk Committee** — Oversees PSP Investments' investment and risk management functions. Specific responsibilities include:
  - Approving investments and divestments not delegated to the President & CEO
  - Approving the engagement of external managers empowered with discretionary investment authority
  - Ensuring the quality, adequacy and timeliness of risk-related information provided by the management team
  - Reviewing PSP Investments' investment performance on a quarterly basis
  - Monitoring the application of PSP Investments' investment policies, standards and procedures
- **Audit Committee** — Reviews financial reporting, the adequacy and effectiveness of internal control systems and oversees the internal audit function. Specific responsibilities include:
  - Reviewing and recommending to the Board for approval the consolidated financial statements of PSP Investments and the financial statements for each pension fund account
  - Making a recommendation with respect to the appointment of external auditors
  - Overseeing the internal audit function and ensuring that internal audits are conducted with respect to the governance, risk management and control processes for PSP Investments
  - Reviewing and recommending to the Board for approval an annual operating and capital budget and receiving periodic reports from management on significant expenses
  - Overseeing PSP Investments' technology and digital strategy, including major projects and related risks
  - Receiving reporting on cyber security incidents and risks
- **Governance Committee** — Monitors the effectiveness of the Board, reviews related governance policies, and oversees communication, sustainable investment and compliance matters. Specific responsibilities include:
  - Developing Terms of Reference for the Board, the Board committees and Chairs
  - Recommending to the Board for approval timely changes in the role, size, composition and structure of Board committees
  - Reviewing and reporting to the Board Chair on succession planning for Board and committee Chairs
  - Overseeing the Board evaluation process
  - Recommending for Board approval a Code of Conduct and monitoring compliance with the Code
  - Monitoring PSP Investments' approach to sustainable investing
  - Recommending to the Board for approval PSP Investments' communication and stakeholder relations strategies and receiving reporting on such activities
- **Human Resources and Compensation Committee** — Ensures policies and procedures are in place to manage the human resources function efficiently and effectively, and to offer all employees fair and competitive compensation aligned with performance and risk targets. Specific responsibilities include:
  - Recommending for Board approval the compensation for the President & CEO and officers
  - Recommending for Board approval the establishment, termination or any material amendments to incentive, benefit or pension plans
  - Ensuring that President & CEO and officer succession planning is conducted appropriately
  - Recommending for Board approval human resources policies
  - Monitoring PSP Investments' diversity and inclusion programs

The responsibilities of the Board and its committees are more fully described in their respective Terms of Reference.

**Learn more**
Terms of Reference

### Special Committee of the Board

As part of the announced retirement of Neil Cunningham last fiscal year, the Board of Directors established a Special Committee to assist with the identification, selection and recommendation of candidates for the President & CEO position. The Special Committee worked with a recruitment provider to identify candidates, which led to the appointment of Deborah K. Orida as President and Chief Executive Officer, effective September 1, 2022. The Special Committee was dissolved on August 12, 2022.

### Reporting obligations

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

PSP Investments is required to meet once a year with the advisory committees for the pension plans, and last did so on June 30, 2022. We are also required to hold an annual public meeting. The most recent meeting was held on September 27, 2022.

Pursuant to the *Financial Administration Act*, PSP Investments must undergo a yearly external audit. The Auditor General of Canada and Deloitte LLP serve as our joint external auditors and are also responsible for conducting special examinations at least once every 10 years. A special examination was performed in fiscal 2021. No significant deficiencies in the corporate management practices or management of investments and operations of PSP Investments were found during the audit. The report concluded that PSP Investments generally maintained reasonable systems and practices for accomplishing its mandate.

# Ethics and compliance

**PSP Investments firmly believes in the importance of exemplary and ethical behaviour.**

We have in place a Code of Conduct for Directors, Employees and Consultants that provides a practical framework to help individuals better understand PSP Investments' principles, values and expected practices and behaviours.

The Code of Conduct includes principles related to behaving respectfully and appropriately, obeying the letter and spirit of the law, protecting PSP Investments' assets and information, and managing conflicts of interest. Rules are in place for handling situations and behaviours that could lead to a real, potential or perceived conflict of interest. Directors, employees and consultants must disclose any personal or business interests that may lead to a real, potential or perceived conflict of interest and ensure they take appropriate action to avoid, reduce or manage such situations and behaviours in connection with their duties and responsibilities at PSP Investments. In all instances, Directors must refrain from voting on a resolution or other decision and refrain from participation in discussion or debate in any circumstances where there is a conflict of interest.

In addition, the reporting of any suspected wrongdoing is strongly encouraged. Incidents can be reported without fear of retaliation through various means, including an anonymous reporting tool. Each year, Directors, employees and consultants must confirm in writing that they have complied with the Code of Conduct. The Code of Conduct and compliance processes are continuously reviewed and enhanced through risk-based assessments of our activities and the environments we operate in.

**Learn more**
Code of Conduct for Directors, Employees and Consultants

# Sustainable investment

**Our Sustainable Investment Policy guides our sustainable investment strategy and is reviewed and approved by our Board of Directors.**

This Policy communicates how we aspire to invest in alignment with our investment beliefs, with the aim of reducing financial risks related to relevant externalities and ultimately improving the long-term risk-return profile of our investments. The Board fully supports PSP Investments' approach to sustainable investment, and ESG-related topics are presented and discussed at each regular Board meeting.

More information about PSP Investments' sustainable investment activities can be found on page 14 of this report or on our website.

# Cyber security

**Given the increased presence of cyber risks across all industries and the possible impacts of cyber events, the Audit Committee is responsible for overseeing PSP Investments' cyber security program and the known risks faced by the organization.**

In fiscal 2023, our cyber security strategy and roadmap were revisited to establish priorities for addressing our top risks for the year. As cyber threats continue to evolve and intensify, the Audit Committee and Board received expert advice on the changing threat environment and how it can impact PSP Investments.

# Board procedures and effectiveness

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

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

There is frequent discussion at the Board and Board committee levels between Directors and senior management. Board members and senior management hold an annual strategy session for in-depth discussions on investment and risk-related topics. The past year's session was held in Ottawa and included a review of the evolution of PSP Investments' investment approach.

All regular Board and Board committee meetings include *in camera* sessions with no members of senior management present. The Board has separate *in camera* meetings with the President & CEO. The Audit Committee has private meetings with the internal and external auditors, and with the Chief Financial Officer, while the Investment and Risk Committee meets privately with the Chief Risk Officer. The Governance Committee also meets privately at least once a year with the Chief Compliance Officer.

The Board and Board committees may consult with external advisors. During fiscal 2023, the Human Resources and Compensation Committee, the Governance Committee and the Special Committee for President & CEO succession each sought the services of an external consultant.

The Governance Committee oversees the formal process for evaluating the performance of the Board Chair, the Chairs of Board committees, individual Directors and the Board as a whole. All Directors, as well as the President & CEO, and select senior management members participated in the evaluation process which was facilitated through an external governance consultant. The Governance Committee Chair and the Board Chair present the evaluation results to the Board. The ensuing discussions focus on achievements, expectations, concerns and opportunities for improvement. Any measures deemed necessary are subsequently implemented.

At the management level, the Board conducts the evaluation of the President & CEO and oversees the evaluation and development of senior management. It also ensures that compensation programs are aligned with PSP Investments' objectives and strategic plan so as to provide balanced performance-based compensation that rewards prudent risk-taking. The Board is also fully committed to developing PSP Investments' talent to ensure the emergence of the next generation of leaders.

### Fiscal 2023 key activities

The Board established the following three priorities:

1. **President & CEO transition and management succession planning**

   Appoint a President & CEO and develop a CEO transition plan. Ensure continued focus on succession planning to identify and develop long-term successors to the President & CEO and Senior Vice Presidents.

2. **Climate strategy**

   Ensure that management executes on PSP Investments' climate strategy by establishing priorities and measuring performance against targets.

3. **Asia Pacific**

   Monitor management's progress in growing PSP Investments' exposure to Asia Pacific and building a diversified portfolio across geographies.

These priorities were tracked quarterly by the Board and meaningful progress was made in each area.

The key activities of each of the Board committees in fiscal 2023 are described below:

| Board committees | Key activities |
| --- | --- |
| Investment and Risk Committee | • Reviewed and approved new investment managers<br>• Approved changes to the Risk Appetite Statement and Board risk limits framework to better align total fund risks<br>• Reviewed PSP Investments' top investment and non-investment risks and how these risks are being addressed<br>• Received updates on asset class strategies and reviewed portfolio composition<br>• Approved amendments to the Currency Management Policy |
| Audit Committee | • Received reporting on the cyber risks faced by PSP Investments, the organization's maturity level in managing cyber risks and plans to address these risks<br>• Reviewed PSP Investments' valuation procedure for private market assets<br>• Oversaw a strategic initiative related to the global fund support model<br>• Reviewed PSP Investments' cost mitigation strategy in preparation for the next economic cycle<br>• Reviewed plan for comprehensive review of external auditors |
| Governance Committee | • Reviewed the succession planning process and role specifications for the Board Chair position<br>• Reviewed the diversity, skills and competencies matrix to identify desired needs for the Board<br>• Received updates on the recruitment of new Directors and on the renewal of terms of existing Directors<br>• Recommended for Board approval amendments to By-Laws No. 1 and No. 2<br>• Approved PSP Investments' Corporate Governance and Proxy Voting Principles and recommended for Board approval PSP Investments' Sustainable Investment Policy<br>• Supervised the annual Board evaluation process, which was administered by a third party |
| Human Resources and Compensation Committee | • Conducted a full review of succession planning for the President & CEO and senior officers and strengthened talent measurement tracking for high-potential employees<br>• Recommended for Board approval amendments to PSP Investments' incentive plans<br>• Reviewed PSP Investments' hybrid workforce model<br>• Continued to focus on equity, inclusion and diversity initiatives<br>• Reviewed and monitored the evolution of PSP Investments' culture |

## Board succession planning

PSP Investments' Board is currently composed of 10 independent, professional Directors. Board succession planning continued to be a key focus area of the Governance Committee and the Board in fiscal 2023 as the terms of some Directors expired and one vacancy was created as a result of a Director's resignation.

Timothy Hodgson resigned from the Board effective September 1, 2022, and a search for his replacement is ongoing. The term of the Board Chair, Martin Glynn, was renewed for two years. The terms of Maryse Bertrand, Katherine Lee and David C. Court were renewed for four years.

## Director appointment process

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

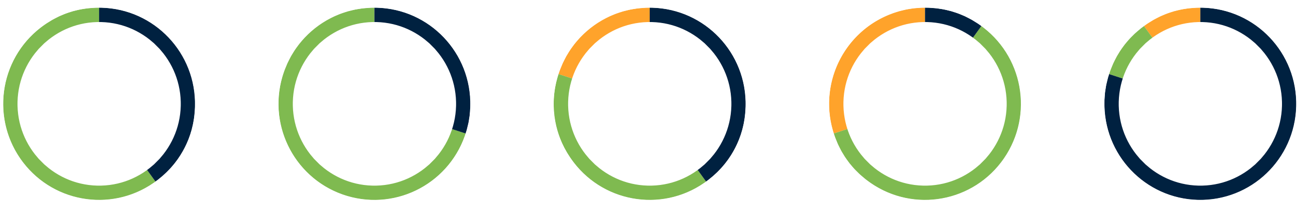
Candidates are selected from a list of qualified Canadian residents proposed by an external nominating committee established by the President of the Treasury Board. The nominating committee operates separately from the President of the Treasury Board and the Treasury Board of Canada Secretariat.

The appointment process is designed to ensure that the Board has a full contingent of high-calibre Directors with proven financial ability and relevant work experience. The Governance Committee and Board regularly review and update desirable and actual competencies, experiences and diversity requirements. These requirements are communicated to the nominating committee and taken into consideration when establishing a list of candidates.

In addition, all Directors are screened to ensure they have the following personal attributes: integrity, leadership/ability to influence, ability to think strategically, personal communication skills and business acumen.

The following charts illustrate the level of diversity and skill sets of members of the Board of Directors during fiscal 2023 based on Directors' self-assessment and rating of their experience and top five competencies (as reviewed by the Governance Committee and Board):

## *Diversity*



**Gender**

- 4 Male
- 6 Female

**Visible Minority**

- 3 Yes
- 7 No

**Age**

- 4 Under 60
- 4 60 to 65
- 2 Over 65

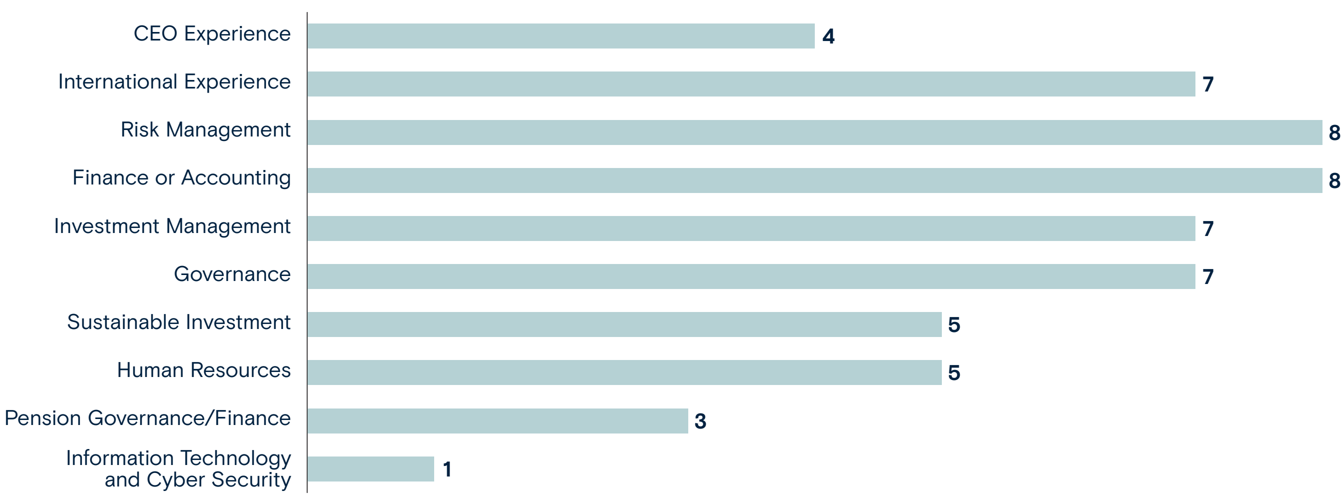
**Geography**

- 1 British Columbia
- 6 Ontario
- 3 Québec

**Tenure**

- 8 0-4 years
- 1 5-8 years
- 1 Over 8 years

## *Competencies*




The Board is satisfied that it collectively brings an appropriate balance of experience and competencies to effectively discharge its responsibilities. A more in-depth and individualized analysis of each Board member's experience and competencies is available in the Directors' biography section on pages 80 to 84.

## Director education and onboarding

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

On occasion, internal and outside speakers are invited to make presentations that contribute to the individual and collective expertise of Board members. During fiscal 2023, external speakers included experts on cyber security and sustainable investing.

An onboarding program is also in place for new Directors. The onboarding program is intended to acquaint newly appointed Directors with the operations and culture of PSP Investments and its Board. In addition to providing new Board members with access to information about PSP Investments and its operations and strategy, a series of meetings with the Chairs and members of management covering the different aspects of PSP Investments and its business is organized.

## Remuneration

In fiscal 2023, an in-depth compensation review was conducted with the assistance of a compensation consultant to ensure continued compliance with the objectives of the Act, which provides that "a director is entitled to receive from [PSP Investments] the remuneration that may be fixed by the by-laws, which remuneration shall be fixed having regard to the remuneration received by persons having similar responsibilities and engaged in similar activities". Compensation increases were approved by the Board of Directors, and effective April 1, 2023, were below those recommended by the compensation consultant. In approving these compensation increases, the Board considered the following factors, among others:

- PSP Investments' Board requires a skillset comparable to those of the largest and most sophisticated Canadian companies
- PSP Investments faces a competitive market when recruiting new Directors, which requires Director pay to be within a "competitive zone"

| | FY2023 $ | FY2024 $ |
|---|---|---|
| Annual retainer for the Board Chair[1] | 215,000 | 237,000 |
| Annual retainer for each Director other than the Board Chair | 65,000 | 75,000 |
| Annual retainer for each Board committee Chair | 18,000 | 20,000 |
| Annual retainer for each Special Committee member | 12,000 | 12,000 |
| Attendance fee for each Board and committee meeting[2] | 1,500 | 1,500 |
| Travel fees for attending a Board meeting in person, if his or her primary or secondary residence is outside Québec or Ontario | 1,500 | 1,500 |

[1] With the exception of the Special Committee, the Board Chair is not entitled to receive any additional retainer or fee for attendance at any meetings of the Board of Directors or any committee of the Board of Directors.

[2] A single meeting fee will be paid to a Director who attends concurrent meetings of the Board and a committee.

Total fiscal 2023 remuneration for Directors was $1,280,510. Directors are not entitled to additional remuneration in the form of retirement benefits or short-term or long-term incentives. The following tables provide details:

## Meeting attendance

| | Board of Directors | | Investment and Risk Committee | | Audit Committee | | Governance Committee | | Human Resources and Compensation Committee | | Special Committee |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Regular | Special | Regular | Special | Regular | Special | Regular | Special | Regular | Special | Regular |
| Number of meetings fiscal year 2023[1] | 7 | 5 | 5 | 2 | 4 | | 4 | 1 | 5 | 2 | 4 |
| Maryse Bertrand | 7/7 | 5/5 | 5/5 | 2/2 | | | 4/4 | 1/1 | 5/5 | 2/2 | 4/4 |
| Gregory Chrispin | 7/7 | 5/5 | 5/5 | 2/2 | | | | | 5/5 | 2/2 | |
| David C. Court | 7/7 | 4/5 | 4/5 | 2/2 | 3/4 | | 3/4 | 1/1 | | | 4/4 |
| Martin Glynn[2] | 7/7 | 5/5 | 5/5 | 2/2 | | | | | | | 4/4 |
| M. Marianne Harris | 7/7 | 5/5 | 5/5 | 2/2 | 4/4 | | 4/4 | 1/1 | | | |
| Timothy E. Hodgson[3] | 2/2 | 1/1 | 2/2 | 1/1 | | | | | 2/2 | | |
| Miranda C. Hubbs | 7/7 | 5/5 | 5/5 | 2/2 | | | | | 5/5 | 2/2 | 4/4 |
| Susan Kudzman | 7/7 | 4/5 | 5/5 | 2/2 | | | 4/4 | 1/1 | 5/5 | 2/2 | |
| Katherine Lee | 7/7 | 4/5 | 5/5 | 2/2 | 4/4 | | 4/4 | 1/1 | | | |
| Helen Mallovy Hicks | 7/7 | 4/5 | 5/5 | 2/2 | 4/4 | | | | | | |
| Maurice Tulloch | 7/7 | 4/5 | 5/5 | 2/2 | 4/4 | | | | | | |

1 Four committee meetings were held concurrently with a Board of Directors meeting.

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

3 Mr. Hodgson ceased to be a Director on September 1, 2022.

**PSP Investments' Board of Directors met 12 times.**

**Board committees met a total of 27 times.**

## Directors' compensation for fiscal 2023

| | Annual Retainer $ | Chair of a Committee/ Annual Retainer $ | Special Committee[1]/ Annual Retainer $ | Boards/ Committees Meeting Fees[2] $ | Travel Fees $ | Total $ |
|---|---|---|---|---|---|---|
| Maryse Bertrand | 65,000 | 18,000 | 6,603 | 46,500 | | 136,103 |
| Gregory Chrispin | 65,000 | | | 33,000 | | 98,000 |
| David C. Court | 65,000 | | 4,402 | 39,000 | | 108,402 |
| Martin Glynn | 215,000 | | 4,402 | 6,000 | 10,500 | 235,902 |
| M. Marianne Harris | 65,000 | 18,000 | | 39,000 | | 122,000 |
| Timothy E. Hodgson | 27,201 | | | 12,000 | | 39,201 |
| Miranda C. Hubbs | 65,000 | 18,000 | 4,402 | 39,000 | | 126,402 |
| Susan Kudzman | 65,000 | | | 39,000 | | 104,000 |
| Katherine Lee | 65,000 | 18,000 | | 37,500 | | 120,500 |
| Helen Mallovy Hicks | 65,000 | | | 30,000 | | 95,000 |
| Maurice Tulloch | 65,000 | | | 30,000 | | 95,000 |

[1] Ms. Bertrand was Chair of the Special Committee established on November 5, 2021. The Special Committee was dissolved on August 12, 2022.

[2] A single meeting fee is awarded for Board and committee meetings held concurrently.

# Human Resources and Compensation Committee

Discussion & Analysis

## Report of the HRCC

**Why compensation matters**

**PSP Investments' success depends on the strength and performance of its people. That's why we ensure that our human resources policies and programs connect to what matters to them, drive behaviours that support the delivery of our mandate and are in the best interest of our stakeholders.**

## Compensation principles

To successfully fulfill its mandate, PSP Investments strives to attract, develop, reward and retain top talent. With compensation as a cornerstone, the Talent Value Proposition is focused on being compelling to effectively and successfully compete for highly skilled professionals with the knowledge and capabilities that we can leverage for personal growth and development, as well as the overall success of PSP Investments.

The PSP Investments Compensation Plan focuses on the following guiding principles:

- Ensure global alignment to sustain PSP Investments' compensation philosophy, while remaining sensitive to local market practices
- Provide robust structure in defining job levels, base salaries and incentive targets, ensuring that external competitiveness and internal equity is effectively managed
- Reflect industry best practices and alignment with obligations to stakeholders

Moreover, to implement a pay-for-performance approach, the Board established a Compensation Policy that is designed to maintain total compensation at market competitiveness, and ensures that the Compensation Plan is aligned with PSP Investments' strategic plan and integrated with business performance measurement. PSP Investments' Compensation Policy provides balanced performance-based compensation and is effectively designed to reward prudent risk-taking.

The Board of Directors ensures that PSP Investments' executive compensation and incentives are consistent with PSP Investments' Compensation Policy. Hugessen Consulting ("Hugessen"), an independent compensation consulting firm, was retained in fiscal 2023 to provide insights on incentive plan design and calculations, as well as market compensation trends. Hugessen reports solely to the HRCC.

**Total compensation**

=

**Base salary** + **Total incentive** + **Benefits** + **Pension**

Total compensation is primarily comprised of base salary, a total incentive, benefits and pension. The Total Incentive Plan, which includes annual and, at management levels, deferred compensation elements, is further described in the Compensation discussion and analysis section.

# Compensation discussion and analysis

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

- Deborah K. Orida – President and Chief Executive Officer
- Neil Cunningham – Vice Chair and Special Advisor to the President and CEO
- Patrick Samson – Senior Vice President and Global Head of Real Assets Investments
- Oliver Duff – Senior Vice President and Global Head of Credit Investments
- Eduard van Gelderen – Senior Vice President and Chief Investment Officer
- Simon Marc – Senior Vice President and Global Head of Private Equity and Strategic Partnerships

## Compensation framework

PSP Investments' compensation framework is designed to attract and retain top talent, reward performance and reinforce the strategic initiatives and priorities. Specifically, the framework is designed to:

**Promote enterprise-wide collaboration**

- All permanent employees participate in the Total Incentive Plan
- Total fund investment performance is a component of incentive compensation at all levels

**Be competitive to attract and retain the right people**

- Compensation and incentive structures are aligned with relevant markets for talent, based on level, business group and geographic location
- Target total direct compensation (i.e., base salaries and target incentives) is competitive, with the flexibility to pay above or below based on the principles of pay for performance

**Enable individual differentiation**

- Emphasize individual and group performance to ensure behaviours are aligned with PSP Investments' mandate and values
- Allow for discretion at every level

**Mitigate short-term risk taking**

- Total fund performance is measured over seven- and ten-year retrospective periods
- Performance deferred fund units (PDFU) for senior leaders extend the "at risk" period for incentives for three years after the grant date

**Align pay with performance**

- Establish alignment with the stakeholders' key measures of success, including the long-term rate of return objective
- Include both relative and absolute total fund performance as part of the incentive framework
- For senior management, ensure a significant portion of total compensation is deferred and "at risk", or subject to performance conditions

**Adapt to changing circumstances**

- Enable the President and CEO, HRCC and Board of Directors to ensure pay-for-performance outcomes are adapted to PSP Investments' changing environment and unique conditions

## Pay level benchmarking process

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

## Risk management

Our Total Incentive Plan reflects our responsibility to our sponsor and to PSP Investments' contributors and beneficiaries. The Total Incentive Plan is aligned with the long-term investment mandate and strategy and takes into consideration the target return and risk appetite.

Key risk mitigating features include:

### Significant "at risk" pay

- A significant portion of pay for executives and other senior positions comes in the form of incentives.
- All deferred compensation is adjusted upward or downward based on the total fund return over the vesting period.

### Long-term horizon

- Investment performance is measured over seven- and ten-year periods and aligned with PSP Investments' long-term total fund return objectives.
- Once granted, deferred fund units (DFU) continue to vest over a subsequent three-year period.
- Performance deferred fund units (PDFU) extend the "at risk" period for incentives for three years after the grant date.

### Maximum payouts

- Each performance measure in the total incentive formula as well as the final total incentive multiplier is subject to an absolute maximum.

### Robust benchmark investment return targets

- Benchmarks and value-added objectives, which are used to calculate performance within the total incentive plan, reflect an appropriate balance of risk and return and are aligned with the Board of Directors-approved investment strategy and risk limits.

### HRCC discretion to govern pay

- The HRCC uses its discretion to adjudicate annual and longer-term performance compared to pre-defined targets and expectations, as necessary.
- It also has the ultimate discretion to adjust pay levels to ensure they are aligned with PSP Investments' performance and are reasonable from an overall cost perspective.

## Total compensation

### Annual base salary

Base salaries are reviewed annually and adjusted, as necessary, based on a variety of factors, including competitiveness with the market, importance of the role to the organization, scarcity of talent, experience and scope of responsibilities.

### Total Incentive Plan

The Total Incentive Plan is aligned with PSP Investments' strategy and reflects our priorities. The Total Incentive Plan creates alignment of incentives and behaviours that drive our unique PSP Investments culture and fosters collaboration across the firm.

The Total Incentive Plan generates a total incentive grant that includes annual and, at management levels, deferred cash amounts.

The total incentive grant is based on performance, weighted 60% on the total fund investment performance and 40% on the business group objectives for all employees. Individual performance is used as a differentiator and individual performance scores are determined upon a review of annual individual objectives relative to predetermined goals.

PSP Investments' overall performance scores are determined at the end of each fiscal year. They reflect the achievement of each component and, based on informed judgment, are subject to discretion by the President and CEO, and the HRCC.

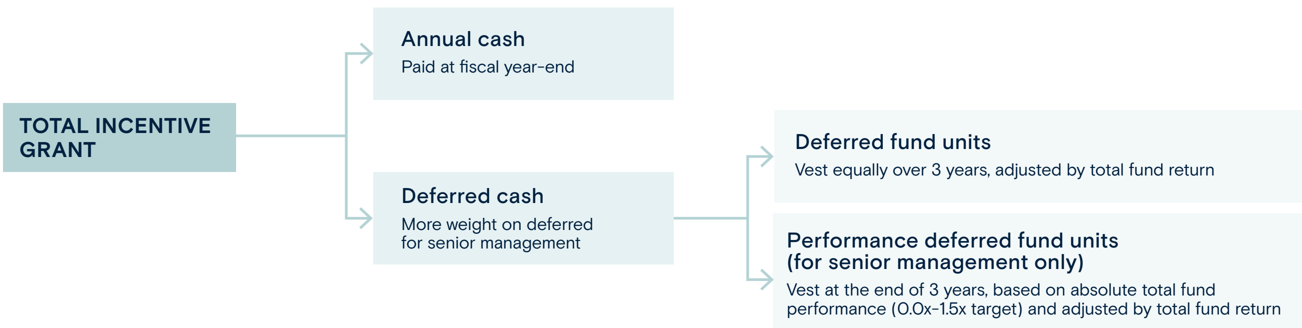
All employees participate in the same incentive plan and each employee has a target incentive opportunity based on their business group and position level. Employees can earn up to a maximum of two times their target incentive.

Once the total incentive grant for each employee has been determined, the value is split between annual cash payout for all position levels and a deferred amount for designated position levels.

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

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

| Component | Total fund performance | | Group factor score | | Individual performance score | | Total incentive grant 0.00× to 2.00× |
|---|---|---|---|---|---|---|---|
| Measure/ Reference period | 75% vs Reference Portfolio 10-year reference period<br>25% absolute 7-year reference period | + | Group scorecards | × | Individual performance objectives | = | |
| Weighting | 60% for all | | 40% for all | | n/a | | |
| Multiplier | 0.00× to 1.50× | | 0.00× to 1.50× | | | | |




The incentive amounts and the payment thereof are subject to restrictions and conditions as per the Total Incentive Plan provisions.

### Restricted Fund Units

Restricted Fund Units (RFU) may be awarded, on a selective basis. They vest and are paid in three equal annual instalments, or the employee may elect to defer payment until the end of the three-year period.

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

### Other benefits

*Group benefits*

Based on their respective locations, employees have access to comprehensive benefits, including health and dental care, disability, critical illness, life insurance and accidental death and dismemberment coverage. They also have access to virtual health care services, an employee-assistance program and a variety of other programs and tools to help them reach their optimal level of well-being.

*Retirement savings*

Defined Benefit (DB) Pension Plan – Closed to new entrants as of January 1, 2014. Since January 1, 2017, Canada-based eligible employees contribute 7.25% of base salary. The benefit is calculated on the basis of 2% of the average of the employee's three best consecutive years of salary.

Defined Contribution (DC) Pension Plan – Canada-based eligible employees hired on or after January 1, 2014, are automatically enrolled in the DC Pension Plan, to which they may contribute between 5% and 7% of their base salary (which is fully matched by PSP Investments).

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

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

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

*Perquisites*

Based on their respective locations, executives may be provided with a perquisites allowance and may be eligible to an annual preventive health assessment.

## Pay mix

Based on the compensation framework, the target pay mix for the President and CEO and other NEOs is weighted significantly toward variable compensation, as outlined in the table below.

### *President & CEO*

% of target total compensation

| | |
|---|---|
| 20 | Base salary |
| 32 | Short-term incentive |
| 48 | Long-term incentive |

### *Other NEOs*

Average % of target total compensation

| | |
|---|---|
| 24 | Base salary |
| 38 | Short-term incentive[1] |
| 38 | Long-term incentive[2] |

[1] Annual cash paid out in the current year.

[2] Deferred awards split between deferred fund units and performance-based deferred fund units.

# Fiscal 2023 results – Performance outcomes and compensation decisions (ending March 31, 2023)

## Our compensation program includes two key investment performance elements:

1. The absolute total fund net performance measured against the return objective over a rolling seven-year period
2. The net relative performance of the total fund against the Reference Portfolio over a rolling ten-year period

**Absolute total fund net performance**

Since fiscal year 2017, PSP Investments has generated a net return on investment of 8.8% per annum, which is higher than the long-term return objective.

**Relative total fund net performance**

Long-term value creation is often a function of the ability to deliver investment returns above a defined benchmark. As at March 31, 2023, the annualized ten-year net relative investment performance for the total fund against the Reference Portfolio was 1.6%.

### Compensation decisions made in fiscal 2023

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

For fiscal year 2023, the President and CEO's personal objectives as well as those of her leadership team were aligned with PSP Investments' strategy, mission and values, including advancing our climate capabilities while leveraging improved ESG data and reporting.

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

# Executive compensation

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

The following tables summarize NEOs selected and ranked by grant value in fiscal 2023 whereby deferred cash grants may continue to vary with total fund return for up to three more years. The total compensation payout value received in fiscal year 2023, including the values payable from prior years' deferred grants, is also summarized and includes cash received from former plans, new plans and any transitional arrangements.

### Comprehensive fiscal year 2023 total compensation

| | Fiscal year | Base salary[1] (A) | Annual cash payout (B) | Deferred cash grant (C) | Sub-total compensation (grant value) (A+B+C) | Restricted fund unit /Special cash grants (D) | Pension and SERP Plans (E) | **Total compensation (grant value) (A+B+C+D+E)** | Other compensation[2] (F) | Portion of the deferred cash, LTIP & RFU payout in the fiscal year (G) | **Total compensation (payout value) (A+B+F+G)** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Deborah K. Orida**[3,6] President and Chief Executive Officer | 2023 | 350,769 | 1,030,869 | 1,546,303 | 2,927,941 | 4,000,000 | 24,909 | **6,952,850** | 1,676,358 | 869,790 | **3,927,786** |
| | 2022 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 | 0 | **0** |
| | 2021 | 0 | 0 | 0 | 0 | 0 | 0 | **0** | 0 | 0 | **0** |
| **Neil Cunningham**[3,7] Vice Chair and Special Advisor to the President and CEO | 2023 | 552,115 | 1,367,621 | 2,051,431 | 3,971,167 | 0 | 190,900 | **4,162,067** | 45,375 | 2,982,739 | **4,947,850** |
| | 2022 | 552,115 | 1,474,598 | 2,211,896 | 4,238,609 | 0 | 302,000 | **4,540,609** | 49,275 | 2,907,630 | **4,983,618** |
| | 2021 | 501,923 | 1,212,084 | 1,818,126 | 3,532,133 | 0 | 170,800 | **3,702,933** | 44,485 | 1,931,446 | **3,689,938** |
| **Patrick Samson**[3] Senior Vice President and Global Head of Real Assets Investments | 2023 | 421,615 | 1,084,193 | 1,084,192 | 2,590,000 | 300,000 | 505,800 | **3,395,800** | 36,341 | 1,037,020 | **2,579,169** |
| | 2022 | 341,219 | 951,205 | 870,689 | 2,163,113 | 0 | 322,800 | **2,485,913** | 33,409 | 856,508 | **2,182,341** |
| | 2021 | 311,895 | 812,348 | 541,565 | 1,665,808 | 277,000 | 41,100 | **1,983,908** | 29,117 | 834,777 | **1,988,137** |
| **Oliver Duff**[4,5] Senior Vice President and Global Head of Credit Investments | 2023 | 428,481 | 1,226,764 | 911,668 | 2,566,913 | 250,000 | 4,000 | **2,820,913** | 53,475 | 1,034,542 | **2,743,262** |
| | 2022 | 394,925 | 1,026,810 | 684,540 | 2,106,275 | 150,000 | 4,000 | **2,260,275** | 47,084 | 939,820 | **2,408,639** |
| | 2021 | 353,350 | 900,071 | 600,048 | 1,853,469 | 0 | 4,000 | **1,857,469** | 43,143 | 788,448 | **2,085,012** |
| **Eduard van Gelderen**[3] Senior Vice President and Chief Investment Officer | 2023 | 438,481 | 1,020,692 | 1,020,692 | 2,479,865 | 300,000 | 30,498 | **2,810,363** | 35,448 | 1,460,660 | **2,955,281** |
| | 2022 | 401,538 | 893,046 | 893,045 | 2,187,629 | 500,000 | 28,000 | **2,715,629** | 36,596 | 1,097,398 | **2,428,578** |
| | 2021 | 401,538 | 734,063 | 734,063 | 1,869,664 | 0 | 26,233 | **1,895,897** | 32,005 | 473,422 | **1,641,028** |
| **Simon Marc**[4,5] Senior Vice President and Global Head of Private Equity and Strategic Partnerships | 2023 | 430,801 | 1,066,090 | 795,623 | 2,292,514 | 450,000 | 4,000 | **2,746,514** | 51,488 | 1,059,845 | **2,608,224** |
| | 2022 | 400,375 | 1,003,856 | 669,237 | 2,073,468 | 150,000 | 4,000 | **2,227,468** | 46,486 | 993,366 | **2,444,083** |
| | 2021 | 363,900 | 897,651 | 598,435 | 1,859,986 | 0 | 4,000 | **1,863,986** | 41,878 | 874,049 | **2,177,478** |

[1] For Ms. Orida, Mr. Cunningham, Mr. Samson and Mr. van Gelderen, represents base salary earned which included 26.1 pay periods versus the standard 26 pay periods. For Mr. Duff and Mr. Marc, represents base salary earned which included 12 pay periods.

[2] "Other compensation" includes the perquisites allowance, the cost of the annual health-and-lifestyle assessment, the amounts reimbursed from the flexible spending accounts, the employer-paid premiums for life, accidental death and dismemberment, disability, health (including the virtual health care offering and the employee assistance program) and dental care coverage, as well as other special cash or amounts in accordance with contractual arrangements, where applicable.

[3] All amounts reported in CAD.

[4] All amounts reported in GBP.

[5] "Other compensation" includes the employer pension contributions paid as cash-in-lieu (in excess of annual pension allowance).

[6] Ms. Orida was hired on September 1, 2022. For fiscal year 2023, Ms. Orida received a special cash grant of 1,500,000 and a relocation allowance of 150,000, which are included as part of "Other compensation".

[7] Mr. Cunningham was President and Chief Executive Officer of PSP Investments until August 31, 2022 and acted as Vice Chair and Special Advisor to the President and CEO until March 31, 2023, time at which he retired.

### Deferred incentive cash grants cumulative value

The total cumulative value of all deferred incentive cash granted but not yet vested or paid to PSP Investments' NEOs (as at March 31, 2023) is shown in the following table.

| | Award type | Total outstanding grants | Estimated future payouts[1] | | |
|---|---|---|---|---|---|
| | | | FY2024 | FY2025 | FY2026 |
| **Deborah K. Orida**[2] President and Chief Executive Officer | DFU | 773,152 | 257,717 | 257,717 | 257,718 |
| | PDFU | 773,151 | 0 | 0 | 773,151 |
| | RFU | 1,666,667 | 833,333 | 833,334 | 0 |
| | **Total** | **3,212,970** | **1,091,050** | **1,091,051** | **1,030,869** |
| **Neil Cunningham**[2] Vice Chair and Special Advisor to the President and CEO | DFU | 2,066,036 | 1,013,575 | 710,555 | 341,906 |
| | PDFU | 3,040,727 | 909,063 | 1,105,948 | 1,025,716 |
| | RFU | 0 | 0 | 0 | 0 |
| | **Total** | **5,106,763** | **1,922,638** | **1,816,503** | **1,367,622** |
| **Patrick Samson**[2] Senior Vice President and Global Head of Real Assets Investments | DFU | 1,150,287 | 534,420 | 399,029 | 216,838 |
| | PDFU | 893,189 | 135,391 | 324,121 | 433,677 |
| | RFU | 200,000 | 100,000 | 100,000 | 0 |
| | **Total** | **2,243,476** | **769,811** | **823,150** | **650,515** |
| **Oliver Duff**[3] Senior Vice President and Global Head of Credit Investments | DFU | 1,133,812 | 534,990 | 384,978 | 213,844 |
| | PDFU | 591,286 | 150,012 | 171,135 | 270,139 |
| | RFU | 216,667 | 133,333 | 83,334 | 0 |
| | **Total** | **1,941,765** | **818,335** | **639,447** | **483,983** |
| **Eduard van Gelderen**[2] Senior Vice President and Chief Investment Officer | DFU | 1,116,445 | 529,559 | 382,747 | 204,139 |
| | PDFU | 1,059,120 | 293,625 | 357,218 | 408,277 |
| | RFU | 366,666 | 266,666 | 100,000 | 0 |
| | **Total** | **2,542,231** | **1,089,850** | **839,965** | **612,416** |
| **Simon Marc**[3] Senior Vice President and Global Head of Private Equity and Strategic Partnerships | DFU | 1,042,741 | 503,088 | 353,481 | 186,172 |
| | PDFU | 554,027 | 149,609 | 167,309 | 237,109 |
| | RFU | 350,000 | 200,000 | 150,000 | 0 |
| | **Total** | **1,946,768** | **852,697** | **670,790** | **423,281** |

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

2 All amounts reported in CAD.

3 All amounts reported in GBP.

## Retirement benefits

### Defined contribution pension plan (Canada) and Group Personal Pension Scheme (United Kingdom)

| | Plan type | Accumulated value at beginning of year | Compensatory increase[1] | Non-compensatory increase[2] | Accumulated value at year-end |
|---|---|---|---|---|---|
| *All amounts reported are in CAD* | | | | | |
| Deborah K. Orida | Defined Contribution | 0 | 24,909 | 21,649 | 46,558 |
| Eduard van Gelderen | Defined Contribution | 192,605 | 30,498 | 29,348 | 252,451 |
| *All amounts reported are in GBP* | | | | | |
| Oliver Duff[3] | Group Personal Pension Scheme | 45,620 | 4,000 | -1,814 | 47,806 |
| Simon Marc[3] | Group Personal Pension Scheme | 39,762 | 4,000 | -1,579 | 42,183 |

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

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

3 Employer contributions were capped at £4,000 and no employee contributions were made to the Scheme to ensure the annual pension allowance would not be breached. Any excess employer contributions Mr. Duff and Mr. Marc would have been entitled to is paid as cash-in-lieu at the end of the fiscal year. This allowance is included as part of "Other compensation" in the *Comprehensive fiscal year 2023 total compensation* table.

### Defined benefit pension plan (Canada)

| | Number of years of credited service[1] | Annual benefit | | Accrued obligation at beginning of year[2,4] | Compensatory increase[5] | Non-compensatory increase[6] | Accrued obligation at year-end[2,7] |
|---|---|---|---|---|---|---|---|
| | | At year-end[2] | At age 65[2,3] | | | | |
| *All amounts reported are in CAD* | | | | | | | |
| Neil Cunningham | 15.4 | 165,200 | 174,100 | 3,101,900 | 190,900 | -651,800 | 2,641,000 |
| Patrick Samson | 16.6 | 116,700 | 210,600 | 2,249,500 | 505,800 | -823,100 | 1,932,200 |

1 Number of credited years of service used for both the DB Employee Pension Plan and the DB Supplemental Employee Retirement Plan as at March 31, 2023.

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

3 For the purpose of calculating the annual benefits payable at age 65, the final average earnings are calculated as at March 31, 2023.

4 Accrued obligation using a discount rate of 3.10%. The obligations are calculated as at March 31, 2022, using the assumptions and methods that were used for the accounting disclosures as at December 31, 2021.

5 Includes employer service cost at the beginning of the year, the impact arising from pensionable earnings experience and the impact of amendments to the pension plans, if any.

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

7 Accrued obligation using a discount rate of 5.07%. The obligations are calculated as at March 31, 2023, using the assumptions and methods that were used for the accounting disclosures as at December 31, 2022.

## Post-employment policies[1]

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

| | Years of service[2] | Months of severance | Total severance[3, 4] |
|---|---|---|---|
| Deborah K. Orida[5] | 0.6 | 24.0 | 3,180,000 |
| Patrick Samson[5] | 16.5 | 18.0 | 1,762,500 |
| Oliver Duff[6] | 6.6 | 18.0 | 1,732,500 |
| Eduard van Gelderen[5] | 4.7 | 16.0 | 1,560,000 |
| Simon Marc[6] | 7.6 | 18.0 | 1,771,875 |

1 Mr. Cunningham is excluded from the *Post-employment policies* table since he retired on March 31, 2023.

2 Assumes a notional termination as at March 31, 2023.

3 The President and Chief Executive Officer's severance pay is set at 24 months of base salary at the time of departure plus the annual cash portion of her target incentive and the equivalent of 24 months of perquisites.

4 For Senior Vice Presidents, severance pay is set at 12 months of base salary at the time of departure plus the annual cash portion of the target incentive and the equivalent of 12 months of perquisites. One month of severance is added for each completed year of service, up to a total maximum of 18 months.

5 All amounts reported in CAD.

6 All amounts reported in GBP.

Severance pay also includes continuous group insurance coverage of 24 months for the President and Chief Executive Officer and up to 18 months for Senior Vice Presidents.

In the event of a voluntary departure, no severance amounts are payable to the President and Chief Executive Officer or to the Senior Vice Presidents.

# Directors' biographies

## Martin Glynn

**CHAIR OF THE BOARD**
since May 11, 2018

**Director**
since January 30, 2014

**End of term**
June 20, 2024

**Committee membership**
Investment and Risk Committee and ex officio member of the Audit, Governance, Human Resources and Compensation Committees

**Location**
Vancouver, British Columbia, Canada

**Top executive experience**
- Chief Executive Officer
- International

**Top related competencies**
- Sustainable investment
- Finance
- Governance
- Human resources
- Risk management

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

## Maryse Bertrand

**CORPORATE DIRECTOR**

**Director**
since September 7, 2018

**End of term**
December 16, 2026

**Committee membership**
Human Resources and Compensation – Chair, Governance, Investment and Risk Committees

**Location**
Montréal, Québec, Canada

**Top executive experience**
- C-suite or equivalent position

**Top related competencies**
- Sustainable investment
- Finance
- Governance
- Human resources
- Risk management

Maryse Bertrand serves as a board member of National Bank of Canada, Gildan Activewear Inc. and Metro Inc. She is the Chair of the Board of Governors of McGill University. She was Chair of the Board of Directors of the Institute of Corporate Directors (ICD) (Québec Chapter) and director of the Caisse de dépôt et placement du Québec. From 2016 to 2017, she was Strategic Advisor and Counsel at Borden Ladner Gervais LLP, and prior to that she was Vice-President, Real Estate Services, Legal Services and General Counsel at CBC/Radio-Canada, where she also chaired the National Crisis Management Committee and the Board of Directors of ARTV, a specialty channel. Prior to 2009, she was a partner at Davies Ward Phillips & Vineberg LLP, where she specialized in mergers and acquisitions and corporate finance and served on the firm's national management committee. She was named Advocatus emeritus (Ad. E.) in 2007 by the Québec Bar in recognition of her exceptional contributions to the legal profession. Ms. Bertrand has a law degree (with high distinction) from McGill University and a Master in Risk Management from New York University, Stern School of Business.

## Gregory Chrispin

**CORPORATE DIRECTOR**

**Director**
since March 4, 2022

**End of term**
March 4, 2026

**Committee membership**
Human Resources and Compensation and Investment and Risk Committees

**Location**
Boucherville, Québec, Canada

**Top executive experience**

- Chief Executive Officer

**Top related competencies**

- Capital markets
- Infrastructure
- Sustainable investment
- Risk management
- Pension governance/finance

Gregory Chrispin previously held the position of Executive Vice President, Wealth Management and Life and Health Insurance at Desjardins Group. Prior to that, he was President and Managing Director of the Canadian subsidiary of State Street Global Advisors. Mr. Chrispin currently serves on the board of Addenda Capital, a privately-owned institutional investment management firm, and on the board of Power Sustainable Capital Inc., a multi-platform alternative asset manager investing in sustainable strategies. He remains active in the investment industry and the community, serving on different committees with several organizations. He previously served on the board of the Canadian Life and Health Insurance Association and was Vice-Chair of Aviso Wealth, a leading investment management service provider. He is a member of the governance committee of the YMCAs of Québec's Alternative Suspension Social Impact Bond (SIB), Canada's first national community safety SIB. Mr. Chrispin holds a Bachelor's degree in Mathematics (Actuarial Science) from Université de Montréal, and is a Chartered Financial Analyst and an Institute Certified Director of the Institute of Corporate Directors.

## David C. Court

**CORPORATE DIRECTOR**

**Director**
since October 30, 2018

**End of term**
December 16, 2026

**Committee membership**
Audit, Governance and Investment and Risk Committees

**Location**
Toronto, Ontario, Canada

**Top executive experience**

- C-suite or equivalent position
- International

**Top related competencies**

- Private equity
- Human resources
- Information technology/cyber security
- Risk management

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

## M. Marianne Harris

**CORPORATE DIRECTOR**

**Director**
since December 18, 2020

**End of term**
December 18, 2024

**Committee membership**
Governance – Chair, Audit and Investment and Risk Committees

**Location**
Toronto, Ontario, Canada

**Top executive experience**
- C-suite or equivalent position
- International

**Top related competencies**
- Capital markets
- Credit
- Finance
- Governance
- Human resources

M. Marianne Harris is a member of the Board of Directors of Sun Life Financial Inc., Loblaw Companies Limited, Georges Weston Limited and President's Choice Bank. She was previously a member of the Board of Directors of Hydro One Limited and Agrium Inc., and Chair of the Investment Industry Regulatory Organization of Canada (IIROC). In the non-profit sector, she is a Director of the Dean's Advisory Council for the Schulich School of Business and a Director of the Advisory Council for the Hennick Centre for Business and Law. She has over three decades of investment banking, leadership and management experience in Canada and the United States acquired primarily at Merrill Lynch and RBC Capital Markets. Ms. Harris has an MBA from the Schulich School of Business, a Juris Doctor from Osgoode Hall and a Bachelor of Science (Honours) from Queens University.

## Miranda C. Hubbs

**CORPORATE DIRECTOR**

**Director**
since August 15, 2017

**End of term**
March 4, 2026

**Committee membership**
Investment and Risk – Chair and Human Resources and Compensation Committees

**Location**
Toronto, Ontario, Canada

**Top executive experience**
- C-suite or equivalent position
- International

**Top related competencies**
- Capital markets
- Natural resources
- Sustainable investment
- Finance
- Governance

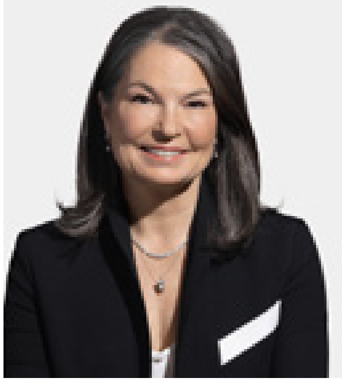
Miranda C. Hubbs is currently a director of Nutrien Ltd. and Imperial Oil. She is also Vice-Chair of the Canadian Red Cross and a director of the Canadian Investment Regulatory Organization (CIRO), the national self-regulatory organization that oversees all investment dealers, mutual fund dealers and trading activity on Canada's debt and equity marketplaces. She previously served on the boards of Agrium Inc. and Spectra Energy Corp. She serves on the Advisory Board of the Toronto Biennial of Art, the Institute of Corporate Directors Climate Strategy Advisory Board for the Canadian Chapter Zero of the WEF Climate Governance Initiative, and the Global Risk Institute Sustainable Finance Advisory Committee. Prior to her retirement in 2011, Ms. Hubbs was Executive Vice President and Managing Director of McLean Budden Limited, one of Canada's largest institutional asset managers. She also worked as an energy research analyst and investment banker with Gordon Capital Corporation, a large Canadian brokerage firm. Ms. Hubbs holds a BSc from Western University and an MBA from Schulich School of Business at York University. She is a CFA charter holder, a Sustainability Accounting Standards Board FSA Credential Holder, and holds the CERT Certificate in Cybersecurity Oversight issued by the CERT division of the Software Engineering Institute at Carnegie Mellon University.

## Susan Kudzman

**CORPORATE DIRECTOR**

**Director**
since December 18, 2020

**End of term**
December 18, 2024



**Committee membership**
Governance, Human Resources and Compensation and Investment and Risk Committees

**Location**
Montréal, Québec, Canada

**Top executive experience**
- C-suite or equivalent position

**Top related competencies**
- Finance
- Governance
- Human resources
- Pension governance/finance
- Risk management

Susan Kudzman retired as Executive Vice President, Chief Risk Officer and Corporate Affairs at Laurentian Bank of Canada. She previously held the position of Executive Vice President and Chief Risk Officer at Caisse de dépôt et placement du Québec. Ms. Kudzman is Chair of the Board of Yellow Pages Limited and Transat A.T. Inc. and serves on the board of Medavie Inc. She is involved in many community and philanthropic activities. Ms. Kudzman holds a Bachelor's degree in Actuarial Science and the titles of Fellow of the Canadian Institute of Actuaries (FCIA), Fellow of the Society of Actuaries (FSA) and Chartered Enterprise Risk Analyst (CERA).

## Katherine Lee

**CORPORATE DIRECTOR**

**Director**
since June 25, 2018

**End of term**
December 16, 2026

**Committee membership**
Audit – Chair, Governance and Investment and Risk Committees

**Location**
Toronto, Ontario, Canada

**Top executive experience**
- Chief Executive Officer
- International

**Top related competencies**
- Credit
- Accounting
- Finance
- Governance
- Risk management

Katherine Lee is currently a Corporate Director of BCE Inc. and Colliers International Group. She was the President and CEO of GE Capital Canada. Prior to this role, Ms. Lee served as CEO of GE Capital Real Estate in Canada from 2002 to 2010, building it to a full debt and equity operating company. Ms. Lee joined GE in 1994, where she held a number of positions, including Director, Mergers & Acquisitions for GE Capital's pension fund advisory services based in San Francisco, and Managing Director of GE Capital Real Estate Korea based in Seoul and Tokyo. She is active in the community, championing women's networks and Asia-Pacific forums. Ms. Lee earned a BCom degree from the University of Toronto. She holds Chartered Professional Accountant (CPA) and Chartered Accountant (CA) designations.

## Helen Mallovy Hicks

**CORPORATE DIRECTOR**

**Director**
since March 4, 2022

**End of term** March 4, 2026

**Committee membership**
Audit and Investment
and Risk Committees

**Location**
Toronto, Ontario, Canada

**Top executive experience**

- International

**Top related competencies**

- Private equity
- Accounting
- Finance
- Governance
- Risk management

Helen Mallovy Hicks is a member of the Board of Directors of Northland Power Inc. and Sun Life Financial Inc. In the not-for-profit sector, she serves on the board of directors of the Princess Margaret Cancer Foundation, where she chairs the Audit and Risk committee. Ms. Mallovy Hicks is a former member of the Canadian Partnership Board of PricewaterhouseCoopers, the Board of Trustees of the Toronto Symphony Foundation, the Board of Directors of the Toronto Symphony Orchestra and the Board of the Canadian Partnership Against Cancer, an independent organization funded by the federal government to accelerate action on cancer control for all Canadians. She is a former partner of PwC Canada, with global transaction and advisory experience and executive roles up to PwC Global Valuation Business Line Leader (2016 to 2021). She holds a Bachelor of Commerce from the University of Toronto, and obtained her CPA, CA designation in 1985 and her Chartered Business Valuator designation in 1991. She was subsequently named a Fellow of the Chartered Professional Accountants of Canada and a Fellow of the Canadian Institute of Chartered Business Valuators.

## Maurice Tulloch

**CORPORATE DIRECTOR**

**Director**
since March 4, 2022

**End of term**
March 4, 2026

**Committee membership**
Audit and Investment and Risk Committees

**Location**
Toronto, Ontario, Canada

**Top executive experience**

- Chief Executive Officer
- International

**Top related competencies**

- Capital markets
- Accounting
- Sustainable investment
- Risk management
- Pension governance/finance

Maurice Tulloch serves as a member of the Board of Directors of Porch Group. Until his retirement in 2020, he held progressively senior positions at Aviva, a leading multinational insurance company, including Group CEO. He joined the board of Aviva in 2017, while serving as CEO for Aviva's international businesses. Additionally, he held many senior executive leadership roles, including that of CEO, Aviva Canada, and Chairman, General Insurance. Mr. Tulloch has served on several external boards including as Chair of the Property and Casualty Insurance Compensation Corporation, and Chair of ClimateWise. He has an MBA from Heriot-Watt University and has been a Chartered Professional Accountant and Certified Management Accountant since 1998.

# Consolidated 10-year financial review

| ($ million) | **2023** | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|---|---|---|---|
| **CHANGE IN NET ASSETS** | | | | | | | | | | |
| Net investment income (loss) | **10,926** | 23,060 | 32,091 | (500) | 11,616 | 13,975 | 15,553 | 1,098 | 13,966 | 12,793 |
| Operating expenses | **744** | 588 | 510 | 551 | 503 | 450 | 370 | 295 | 243 | 216 |
| Other comprehensive income (loss) | **—** | — | — | 9 | (3) | (14) | (4) | 4 | (15) | 17 |
| Comprehensive income (loss) | **10,182** | 22,472 | 31,581 | (1,042) | 11,110 | 13,511 | 15,179 | 807 | 13,708 | 12,594 |
| Fund transfers | **2,860** | 3,502 | 3,036 | 2,871 | 3,749 | 3,921 | 3,622 | 3,987 | 4,554 | 4,997 |
| Increase (decrease) in net assets | **13,042** | 25,974 | 34,617 | 1,829 | 14,859 | 17,432 | 18,801 | 4,794 | 18,262 | 17,591 |
| **NET ASSETS UNDER MANAGEMENT** | | | | | | | | | | |
| Equity | | | | | | | | | | |
| Public Market Equities[1] | **53,440** | 59,142 | 60,201 | 48,368 | 51,035 | 51,813 | 55,227 | 47,511 | 56,276 | 49,466 |
| Private Equity | **37,238** | 35,375 | 31,748 | 24,038 | 23,539 | 19,382 | 15,868 | 12,520 | 10,103 | 8,425 |
| Government Fixed Income[2] | **51,013** | 46,446 | 42,965 | 33,388 | 34,389 | 27,783 | 24,043 | 24,603 | 22,646 | 18,383 |
| Credit | **26,113** | 21,892 | 14,474 | 13,295 | 10,475 | 8,857 | 4,418 | 640 | — | — |
| Real Assets | | | | | | | | | | |
| Real Estate | **32,038** | 31,089 | 26,817 | 23,817 | 23,538 | 23,245 | 20,551 | 20,356 | 14,377 | 10,650 |
| Infrastructure | **29,362** | 23,506 | 18,389 | 18,302 | 16,818 | 14,972 | 11,149 | 8,701 | 7,080 | 6,011 |
| Natural Resources | **12,277** | 11,615 | 9,712 | 7,645 | 6,759 | 4,833 | 3,711 | 2,470 | 1,536 | 795 |
| Complementary Portfolio | **2,173** | 1,427 | 185 | 945 | 1,426 | 2,201 | 656 | — | — | — |
| Net AUM | **243,654** | 230,492 | 204,491 | 169,798 | 167,979 | 153,086 | 135,623 | 116,801 | 112,018 | 93,730 |
| **PERFORMANCE (%)** | | | | | | | | | | |
| Annual rate of return (net of expenses) | **4.4** | **10.9** | **18.4** | **(0.6)** | **7.1** | **9.8** | **12.8** | **0.7** | **14.2** | **15.9** |
| Benchmark | (2.8) | 9.4 | 16.5 | (1.6) | 7.2 | 8.7 | 11.9 | 0.3 | 13.1 | 13.9 |

[1] Includes amounts related to absolute return strategies, funded through leverage.

[2] Includes Cash & Cash Equivalents.

## Business offices

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

**NEW YORK**
450 Lexington Avenue, Suite 3750
New York, New York
USA 10017
Phone: +1.212.317.8879

**LONDON**
10 Bressenden Place, 8th floor
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Phone: +44 20 37 39 51 00

**HONG KONG**
Suite 603-606, 6/F
One International Finance Centre
1 Harbour View Street
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Phone: +852 91616063

## Head office

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