Invested in tomorrow

   

—2020 Annual Report

PSP

Public Sector Pension Investment Board

Committed to the long term

As a pension investment manager, the Public Sector Pension Investment Board (PSP Investments or PSP) thinks long term: we invest and manage assets to help meet the pension plan obligations of the Public Service, the Canadian Armed Forces, the Royal Canadian Mounted Police and the Reserve Force.

Everything we do is focused on ensuring the financial security of contributors and beneficiaries who dedicate their professional lives to public service. Leveraging the talents of our team and the strength of our international networks, we have become a leading institutional investor, recognized as an agile and sought-after enabler of complex global transactions.

We know tomorrow will be different from today, and investment returns will come from different places and in different ways. In our fast-changing world, we look to spot the edge in the opportunities and challenges that lie ahead.

Photographer: Corporal Ken Beliwicz

4 public sector pension plans

— Federal Public Service
— Canadian Forces
— Royal Canadian Mounted Police ("RCMP")
— Reserve Force

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

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The PSP collective

One of Canada's largest pension investment managers

$169.8 Billion Net AUM[1]

as of March 31, 2020

85+ countries

5 offices

Montréal
New York
London
Hong Kong
Ottawa (head office)

6 asset classes

PMARS[2]
Private Equity
Credit Investments
Real Estate
Infrastructure
Natural Resources

888 employees

100+ sectors and industries

— Communications
— Materials
— Technology
— Timber
— Agriculture
— Health care
— Industrial
— Consumer discretionary
— Energy
— Consumer staples
— Financials
— Utilities
— Residential/retirement
— Offices
— Retail
— Debt

1 AUM: assets under management
2 Public Markets and Absolute Return Strategies

Maintaining a long-term outlook

PSP's long-term focus is not only serving us well, it has become more important than ever.

In times of crisis, we're reminded of the important role that the Canadian government, public service employees, Armed Forces, Reserve Force and RCMP play in maintaining order and keeping our country safe. We're grateful for the work they do on behalf of Canadians and consider it a privilege to be tasked with managing and investing the funds that are transferred to us for their pension plans.

PSP's mandate is to manage these amounts in the best interests of contributors and beneficiaries and to invest the assets to maximize returns without undue risk of loss so that the pension plans can meet their financial obligations to members. Achieving our mandate requires a long-term approach to the way we lead and manage our organization and to the way we invest. PSP's long-term focus is not only serving us well, it has become more important than ever.

Rising to the challenge

Over the past years, we as a Board have been working with PSP's senior management team to prepare for an eventual market downturn, which was on our radar after many years of sustained growth. Our process included stress testing the investment portfolio under various scenarios, assessing potential cost containment measures, if needed, and ensuring the business continuity plan was up to date, so the organization could respond quickly and seamlessly if a crisis should occur.

While we could not have anticipated the current situation, PSP was ready when news of the COVID-19 outbreak first emerged in January. As a Board, we received regular reports and held meetings, after our regular February in-person sessions to discuss the implications of what had become a global crisis by mid-March. I was also in virtual daily contact with our CEO Neil Cunningham to ensure that the Board was providing the necessary oversight and support. We passed resolutions that would give senior management greater flexibility to deal with the situation and to preserve liquidity.

The Board also took action to contain costs, suspending an increase in Directors' compensation that was to take effect on April 1, 2020, and supporting management's decisions to temporarily freeze external hiring and annual salary increases.

At times like these, the value of having talented and experienced Directors who understand the Board's oversight role and can provide valuable guidance cannot be overstated. Nor can the benefits of having a seasoned management team that has lived through previous crises and is able to show strong leadership under pressure—which is exactly what we have seen at PSP.

Our responsible approach

The Board oversaw several other initiatives throughout the year to position PSP for long-term success, including the evolution of the organization's total fund approach to managing its investment portfolio.

The Board was increasingly focused on PSP's responsible investment activities, recognizing the extent to which environmental, social and governance (ESG) factors are changing the world and can affect long-term investment returns. With climate change being a growing concern for investors worldwide, we closely tracked the implementation of PSP's climate change approach. In the last year, significant progress was made on assessing the investment portfolio's exposure to climate change risks and opportunities. We were pleased to note that the latest climate change scenario analysis reconfirmed the resilience of PSP's long-term asset allocation approved by the Board.

We were also pleased to see our Chief Investment Office engage more proactively and frequently with key Government of Canada officials and the Treasury Board Secretariat, continuing to fulfill our fiduciary duty, while maintaining the integrity of the arm's-length relationship we have with the federal government.

Toward a brighter tomorrow

I would like to take this opportunity to thank my fellow Board members for their dedication and commitment to steering PSP through the unique challenges of fiscal year 2020 and toward a brighter tomorrow. Special thanks go to three of our Directors whose terms expired but who agreed to stay on until their positions are filled. As part of our ongoing Board renewal process, Miranda Hubbs replaced Micheline Bouchard as Chair of the Human Resources and Compensation Committee and we are grateful to both for their dedication to PSP's long-term success.

On behalf of the full Board, I'd also like to thank Neil Cunningham and his management team for their outstanding leadership. We are confident in, and fully support, the actions they are taking to both safeguard the financial health of the investments PSP manages and to drive superior long-term performance. We also want to recognize PSP employees who did not skip a beat despite all the change and disruption in their work and personal lives. They truly are the engine of PSP's success and rose to the occasion in these difficult times.

Sincerely,

Martin Glynn
Chair of the Board

Invested in tomorrow

I could not be prouder of the way our organization was prepared for and responded to the COVID-19 situation.

Our 2020 fiscal year was an extraordinary one. For the first three quarters, the global economy continued on its path of low unemployment and steady growth. Then, with the sudden arrival of the COVID-19 pandemic in January 2020, the beginning of our fiscal fourth quarter, everything changed. This global pandemic continues today to have a widespread impact on our lives and communities, with the ultimate scale and duration of the outbreak as yet unknown. In the coming months, many individuals and businesses will experience unprecedented levels of stress and only over time will we come to understand the full long-term impact. Our thoughts are with the families who have been affected by this virus and to the frontline workers who have put their lives at risk to help others.

I want to assure you of PSP's strong financial health. Our job is to deliver solid financial results over the long term to ensure the security of the pensions of those who have served our country during their careers with the four organizations that entrust us to invest their pension contributions. Our strategy is based on a long-term view of the investment landscape and involves diversification by geography, by sector and by investment vehicle. We perform stress testing and scenario planning and monitor our level of risk on a constant basis. We evaluate every investment we make on its ability to generate returns for many years, not based on an expectation of appreciation in the next quarter.

We've built our investment portfolio—and indeed our organization—to be resilient and able to weather crises. We have the liquidity, the people and the resources to capitalize on the opportunities that are emerging today and will undoubtedly lie ahead. While we're not immune to the immediate impact of COVID-19, it is PSP's long-term investment performance that matters most in being able to deliver on our mandate.

Year-end results

With PSP's fiscal year ending on March 31, 2020, our one-year return of -0.6% reflects the severe decline in the equity markets in the weeks just preceding the year-end. On a relative basis, this one-year return was nonetheless in excess of the one-year return of our Reference Portfolio of -2.2%. More importantly, our long-term return measured over a 10-year period is 8.5%, outperforming the 10-year return of our Reference Portfolio of 7.2% by 1.3% and is in excess of our long-term target return of 5.7% by 2.8%. The steep drop in market values during our fiscal fourth quarter highlights the inappropriateness of putting too much weight on short-term results. If our year-end had been December 31, we would have posted a return for the year in the high single digit range, but there would have been only a marginal impact on our long-term return.

Preparedness for COVID-19

At PSP, we spend considerable time thinking about long-term risks that could affect the safety of our investments, including operational risks and risks that cannot be easily foreseen yet arrive suddenly. I could not be prouder of the way our organization was prepared for and responded to the COVID-19 situation. This preparedness, combined with leadership throughout the organization and calm and professional execution by our employees, have demonstrated the best of PSP in the face of difficult circumstances.

In addition to diversification, our portfolio strategy provides opportunities to profit in good market cycles and protects the value of the portfolio when they come to an end. For example, the foreign currency exposure in our Policy Portfolio is strategically unhedged. The US dollar tends to appreciate in times of market turmoil and by leaving our exposure to the US dollar unhedged, PSP benefited from its appreciation in the last quarter of the fiscal year. Those gains offset part of the decline in the value of PSP's assets denominated in US dollars. In addition, PSP's exposure to a hedged US dollar during that time would have required us to post collateral on the hedging instruments. This would have reduced our liquidity at a crucial time, a situation we avoided. PSP's long-term hedging policy is designed to take such dynamics into consideration, although on a short-term basis PSP may hedge certain currencies to manage their impact on the Total Fund. We use multiple methods to ensure that our liquidity level will be protected, and even enhanced, during periods of market disruption. These strategies proved to be effective in maintaining the stability and liquidity of the portfolio during the market sell-off that started in mid-February.

On the operational side, our risk management and monitoring system provided early warning of the onset and spread of the virus, prompting us to assemble a COVID-19 Task Force in mid-January. This contributed to PSP being one of the early movers in a series of decisions, including implementation of travel restrictions and later travel bans, activation of our business continuity plan, and ultimately the decision for all PSP employees to work from home. Remote working is an ongoing element of our talent value proposition, which assists employees in managing their work-life balance and dealing with other short-term disruptions. It is a testament to the planning and effectiveness of our Technology and Digital Strategy team that we were able to leverage this capability and shift the entire organization, including all trading and related activities, to working from home in less than 24 hours after we made the decision to do so.

Delivering our edge

I'm also proud of the fact that our sustained commitment to our five-year Vision 2021 strategic plan enabled us to achieve several key objectives a full year ahead of schedule. Among our fiscal year 2020 accomplishments:

- *We advanced our total fund investment approach*—with our asset classes at their target allocations, it has become increasingly important to manage our portfolio from a total fund perspective. In fiscal year 2020, our Chief Investment Office launched several initiatives to enhance our ability to apply a total fund perspective when crafting investment strategies, making business decisions and managing risk, leverage and liquidity.

- *We expanded our presence in Hong Kong*—after the initial opening of our Asian hub and hiring of our first employees during last year's fourth quarter, we continued the roll-out of our Hong Kong presence with additions to our Private Equity and Infrastructure teams there. This roll-out has been delayed from our original plans due initially to local protests and later by the coronavirus, but our long-term ambition and commitment to have an expanded footprint in the region remains unchanged.
- *We further ingrained innovation within the organization*—all asset classes are incubating new investment strategies that leverage long-term market trends and disruptive technologies. We also advanced our digital strategy, aimed at improving efficiency, gaining better insight into our portfolio and enabling robust data-driven investing.
- *We continued to develop our talent and enhance the employee experience at PSP*—as part of our suite of development programs, The PSP Way, we refreshed the curriculum for first-time managers and launched the Leadership Journey program for senior leaders. We continued to prioritize inclusion and diversity (I&D) through our eight affinity groups which promote various internal and external initiatives, including our biennial I&D Forum, a one-week event held in November. The 2019 forum offered 18 sessions and more than 600 employees participated. In addition, we started ongoing employee engagement surveys every six weeks and consistently achieved engagement scores well above industry norms.

Invested in tomorrow

Fiscal year 2021 marks the last year of our Vision 2021 strategic plan and we will work to consolidate the foundation we've built to support our future growth in an increasingly changing investment environment. A key focus for the year will be to develop our next iteration of PSP's strategy.
The path forward will expand on our success, notably further enhancing our total fund ambition and capabilities while scaling high-performing asset classes in industry-leading platforms. We will look to drive greater impact from our diversified and dynamic portfolio, while remaining focused and deliberate in all that we do.

To help lead us in this new era, we announced a number of senior-level promotions in fiscal year 2020. Among them, Guthrie Stewart was appointed to the newly created role of Vice Chair, Investment Committee, where as of June 1, he will act as a senior representative of PSP in facilitating a strong linkage between strategic goals, investment ambitions and partner relationships. David Scudellari, who so capably served as PSP's interim Chief Financial Officer (CFO) for four months in fiscal year 2020, was appointed Senior Vice President and Global Head of Credit Investments and Private Equity, effective June 1. Taking on the CFO role was J.F. Bureau, who was appointed Senior Vice President and Chief Financial and Risk Officer. Giulia Cirillo was appointed Senior Vice President, Chief Human Resources and Global Communications Officer.

Heartfelt thanks

I consider it an honour and a privilege to lead PSP and work alongside such an amazing team of people. This past year, our management team worked closer than ever with Martin Glynn and the entire Board of Directors to see PSP through a tumultuous period and we can't thank them enough for their guidance and support. I would also like to express my thanks to all PSP employees, who rose to each new challenge and continued to spot opportunity in the midst of disruption.

And finally, I would like to extend my deepest gratitude to our contributors and beneficiaries, the public service employees and members of the Armed Forces, Reserve Force and RCMP who are among the frontline heroes actively supporting Canada.

While the course of the COVID-19 pandemic remains uncertain, we are up to the challenge. We are long-term investors who take a long-term view of markets and to managing our business. We will not just weather the current storm, but capitalize on the opportunities that emerge.

Sincerely,

Neil

Neil Cunningham
President and
Chief Executive Officer

Executive Committee

Neil Cunningham— 1
President and Chief Executive Officer

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

Mélanie Bernier— 3
Senior Vice President and Chief Legal Officer

J.F. Bureau— 4
Senior Vice President and Chief Financial and Risk Officer

Giulia Cirillo— 5
Senior Vice President, Chief Human Resources and Global Communications Officer

Anik Lanthier— 6
Senior Vice President, Public Markets and Absolute Return Strategies

David J. Scudellari— 7
Senior Vice President and Global Head of Credit Investments

Guthrie Stewart— 8
Senior Vice President and Global Head of Private Investments

Eduard van Gelderen— 9
Senior Vice President and Chief Investment Officer

Sharpening our strategic edge

PSP has evolved significantly since the launch of our Vision 2021 strategic plan four years ago, and we have realized our ambition of being a leading institutional investor.

2020 accomplishments

Total fund strategy and management

With asset classes at their target allocations, our Chief Investment Office launched several initiatives to enhance our ability to apply a total fund perspective when crafting investment strategies, making business decisions and managing risk, leverage and liquidity. An important change was the evolution of the total fund approach with a shift to anchoring our performance and programs to our Reference Portfolio, which will be operationalized in fiscal year 2021.

Operational efficiency and Innovation

We continued to deliver on our optimization program and seamlessly transitioned to a new custodian to support our global expansion in a cost-efficient manner. We also advanced our digital strategy, aimed at improving efficiency, gaining better insight into our portfolio and enabling robust data-driven investing.

Following a period of great change, teams are consolidating their base while dedicating more effort toward innovation, leading to the development of adjacent capabilities and markets. All asset classes are identifying new market trends and incubating innovative investment strategies to capture the emerging benefits.

Asia

Our Hong Kong office ramped up operations. Despite experiencing two major crises, local investment teams are successfully deploying our Asia strategy and establishing solid relationships with local partners.

Talent

We continued to develop our talent and enhance the employee experience. This included launching a new curriculum for first-time managers and the Leadership Journey program for senior leaders, and continuing to prioritize inclusion and diversity (I&D) through our eight affinity groups who promote various internal and external initiatives.

Fiscal year 2021 priorities

Fiscal year 2021 marks the last year of our current strategic plan. We are initiating work on our next plan against a backdrop of uncertain times and a low-yield environment. We want to build on our advantages, develop the capabilities to pivot and adapt to a changing environment, and position ourselves to continue delivering against our mandate.

While actively adapting to the ongoing crisis and developing our strategic plan for the future, we also intend to bridge the remaining gaps to Vision 2021. This will include finalizing the deployment of PSP's total fund approach, continuing to strengthen PSP's data foundation and further improving our total fund analytics capabilities to help leaders make more informed and effective business decisions.

Financial highlights

— Fiscal year 2020

(0.6)%
Total fund 1-year net portfolio return

5.8%
5-year net annualized return

8.5%
10-year net annualized return

$32.9 Billion
of cumulative net investment gains above the return objective[1] over 10 years

$81.6 Billion
of cumulative 10-year net performance income (excluding contributions)

$28.7 Billion
in new investments and commitments to Private Markets and Credit Investments

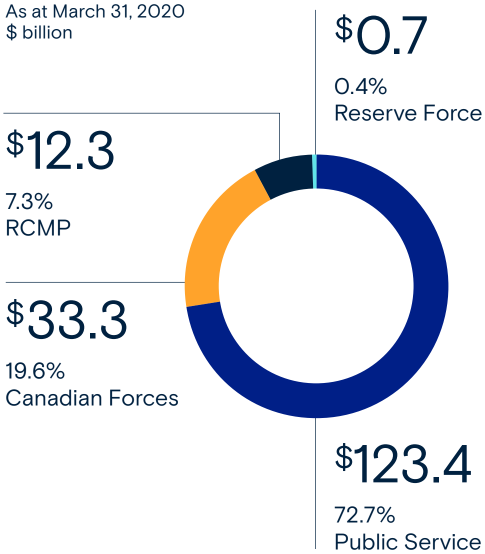
— Fiscal year 2020

$169.8 Billion
Net AUM

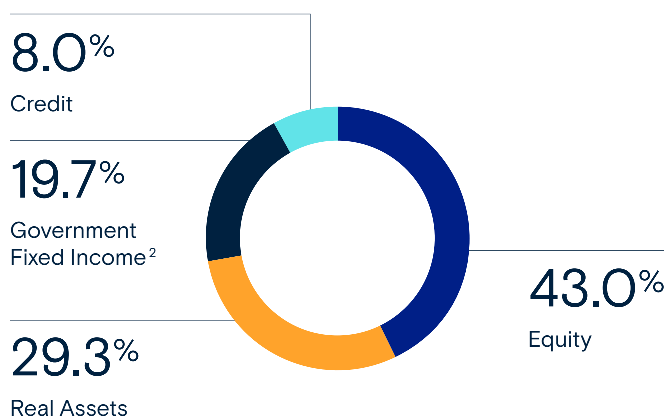
$2.9 Billion
Net contributions

1.1% Increase in net AUM

Net assets per pension plan account
As at March 31, 2020
$ billion



Asset mix
As at March 31, 2020



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

[2] Includes Cash and Cash Equivalents.

Financial highlights

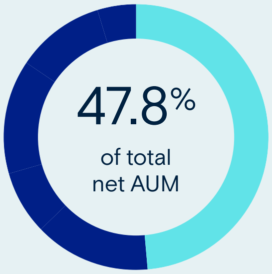
— Fiscal year 2020

PMARS[1]

$81.1 Billion Net AUM

(3.0)%
1-year rate of return

4.3%
5-year annualized return

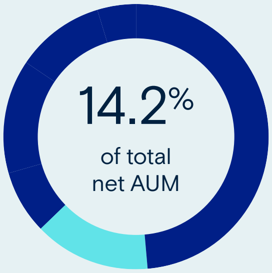


Private Equity

$24.0 Billion Net AUM

5.2%
1-year rate of return

7.2%
5-year annualized return

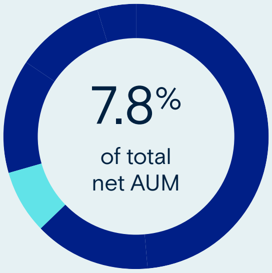


Credit Investments

$13.3 Billion Net AUM

4.3%
1-year rate of return

11.8%
5-year annualized return (4.3 years)



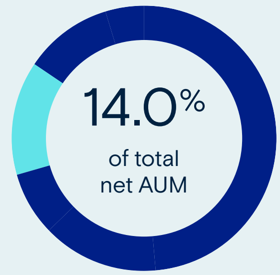
[1] Includes Public Market Equities and Government Fixed Income (excludes Cash and Cash Equivalents). Net AUM denotes net assets under management.

Real Estate

$23.8 Billion Net AUM

(4.4)%
1-year rate of return

8.3%
5-year annualized return

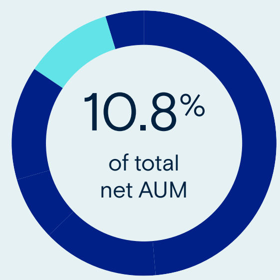


Infrastructure

$18.3 Billion Net AUM

8.7%
1-year rate of return

12.1%
5-year annualized return

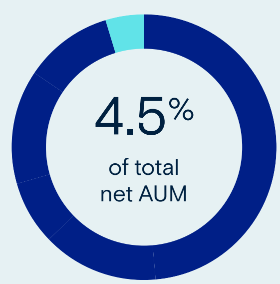


Natural Resources

$7.6 Billion Net AUM

(5.2)%
1-year rate of return

6.6%
5-year annualized return



Net AUM denotes net assets under management.

Spotting the edge in all the right places

With eyes fixed on the horizon, our investment teams seek out unique opportunities to generate the sustainable returns needed to fulfill our long-term mandate. Here are some of the transactions completed in fiscal year 2020.

PMARS

PSP's pension fund managers actively manage Emerging Market (EM) listed equities in-house. Our EM fund was launched by Public Markets in 2015 and is now one of three portfolios managed by our Fundamental Equity Strategies group. A dedicated EM team combines top-down country allocation with bottom-up stock selection, working in close collaboration with sector specialists in our Global Equity Research group. Recording strong results since inception, the portfolio invests across 25 countries with an objective of delivering superior returns.

Infrastructure

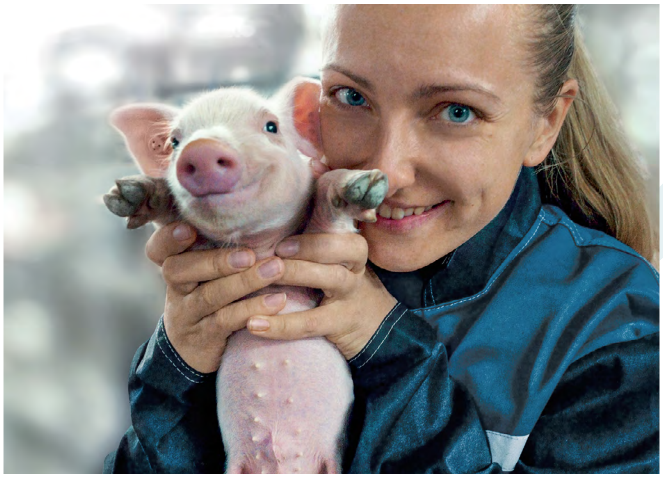
Vantage, a leading global provider of hyperscale data centre campuses that is partly owned by PSP, launched its expansion into Europe through the acquisition of Etix Everywhere. Etix is currently building a 55MW campus in Frankfurt, Germany. Separately, Vantage has secured land and is developing campuses in Berlin, Milan, Warsaw and Zurich to serve the growing demand for data infrastructure in those markets. The expansion of this data centre platform into Europe is part of PSP Infrastructure's continued deployment of capital into data infrastructure across Australia, Asia, Europe, and North America.

Credit Investments

PSP provided debt and equity financing in support of Permira's acquisition of Lytx, a market leader in the video fleet management and fleet solution space. This investment represents the fourth time that PSP has invested in the company. Since August 2017, under the previous ownership, Credit Investments participated in two debt financings and PSP also participated in a preferred equity financing. These transactions highlight the value of following businesses that we know and like, leveraging solid private equity relationships, and having the flexibility to invest across the capital structure.

Real Estate

In a joint venture with Square Mile Capital Management, USAA, Teacher Retirement System of Texas, and alongside Hackman Capital Partners, we invested in Amazon Culver City Campus and Manhattan Beach Studios, and acquired a minority stake in CBS Television City in Los Angeles. In addition, we invested in the MBS Group, which is a collection of companies that provide all the resources necessary for consultation services, development, management, operational oversight and production services for studios and productions worldwide. These investments capitalize on the surging demand for entertainment content.



Private Equity

Alongside management and a group of leading investors, PSP invested in Ceva Santé Animale, a French global veterinary health company specializing in pharmaceutical products and vaccines for livestock, swine, poultry and pets. Ceva recognizes that the health of humans, animals and our planet are interconnected, and is well positioned to tackle the vast issues related to feeding a rapidly growing population. Our investment supports the company's continued strong growth trajectory at a time when the world grapples with a critical threat to global health, well-being and prosperity.

Natural Resources

We made one of our largest-ever Natural Resources investments with a C$760 million deal to privatize Webster Limited. Webster is one of Australia's leading agribusinesses, operating walnut and almond orchards, irrigable land for cotton and other annual crops, cattle and sheep production, and an apiary business. The acquisition is highly complementary to our existing joint ventures with on-the-ground operating partners in Australia.

Complementary Portfolio

PSP invested in a new US$350 million venture capital fund, focused primarily on artificial intelligence (AI), which was launched by Radical Ventures, a Toronto-based venture capital firm. Along with PSP, other investors in the fund include the Canada Pension Plan Investment Board (CPPIB), TD Bank Group and Wittington Investments Limited. This strategic partnership with Radical Ventures allows PSP to capture and manage knowledge from AI and other disruptive technologies for investment and internal management purposes.

Invested in people

Our mandate is to help ensure the financial security of the contributors and beneficiaries who have served Canada in their careers. True to our calling, we also work to build a better tomorrow for all by engaging and empowering our employees and by lifting up communities.

Supporting our Veterans

We pay tribute to Canada's soldiers and veterans through various activities led by our I&D Veterans affinity group. In November 2019, PSP employees volunteered at St. Anne's Hospital, in Québec, which primarily serves Veterans of the Canadian Armed Forces, during a special PSP Gives Back Remembrance Day activity.

"Since joining PSP, I have wanted to create a more tangible connection between our organization and the veteran community. The visit to St. Anne's Hospital on Remembrance Day was the perfect opportunity to bring the Veterans I&D Affinity Group together for a meaningful volunteering experience. The staff was very welcoming and the WWII and Korean War veterans appreciated that some of our contingent had also served in the military. Most were just happy to share a drink and the highlights of lives well-lived. They acknowledged themselves as lucky, not only to have navigated the adversity of war but to have simply survived. We toasted those who made the ultimate sacrifice on behalf of Canada and allied nations. It was an unforgettable experience and a touching way to pay our respects to the fallen on Remembrance Day."

Chad Hauser
Manager, Credit and Private Invesment Risk
Infantry Officer, Captain, 3rd Battalion, Royal 22nd Regiment, 2006-2011

Women in Investments and Finance, Harvard Club, New York City

From left to right:

Front row: Neil Cunningham, Pam Chan (BlackRock), Keren Ehrenfeld (Morgan Stanley), Elissa Palazzo, Valentina Longo (Cerberus) and Marie-Andrée Dupuis.

Back row: Susan Kasser (Neuberger Berman), Kerry Dolan, Charlotte E. Muellers, David Scudellari, Giulia Cirillo and Maria Constantinescu.

Advancing inclusion and diversity

Inclusion and diversity (I&D) is a leadership priority at PSP and our CEO, Neil Cunningham, is a strong advocate and co-chair of our I&D Council, along with Giulia Cirillo, Senior Vice President, Chief Human Resources and Global Communications Officer. In June 2019, he spoke at a sold-out joint Association of Québec Women in Finance/Women in Capital Markets (WCM)/Catalyst event in Montréal about the role of male leaders as advocates for I&D.

PSP was awarded Certification in Gender Parity at the silver level by Women in Governance for adopting measures, practices and programs to promote gender parity. In support of women in finance, we also hosted a Women in Investments and Finance event at the Harvard Club of New York City, and the first Montréal edition of WCM's Job Shadow Day, which offered 75 female students from local high schools a glimpse into the world of finance and capital markets.

Our biennial I&D Forum held in the fall, which became a one-week event in 2019, included 18 sessions attended by more than 600 employees, up from six sessions and 442 employees when we first held it in 2017. Our eight affinity groups made presentations, and several organized talks and activities throughout the year.

Inspiring and empowering our employees

We want to foster a culture that inspires and empowers our people to reach their potential, offering a range of training and development opportunities, and bringing employees together on occasion to learn, share and celebrate individual and collective achievements. In fiscal year 2020, we introduced our first Sharpening our Edge learning day, which took place the day before our year-end townhall meeting. Employees from eight of our business groups delivered presentations, sharing knowledge of our business from their different perspectives. We also launched the Spot the Edge award program, in which employees nominate project teams for outstanding work and then vote for a winner at the annual townhall. The inaugural winner was the Natural Resources team that led the Mahi Pono project in Maui.

We know that the best way to enhance the employee experience is to invite feedback and act on it. We recently introduced the ongoing employee engagement survey sent every six weeks, to gauge the pulse of our employees and obtain their feedback on our employer promise. More than 80% chose to participate in the first two surveys.

From left to right: Alyssa Roland, Nicole Wilson and Anthony Tran earned the chance to represent PSP at the One Young World Summit in London, England, which convenes the brightest young talent from around the globe to create solutions to some of the world's most pressing issues.

Investing with vision

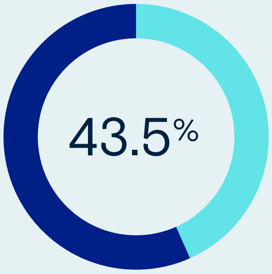
In March 2020, we unveiled plans for redevelopment of the former Downsview Airport site northwest of Toronto, in partnership with the Canada Lands Company. One of the largest urban development projects of its kind in Canada, the proposed mixed-use development will include affordable housing and distinct walkable districts, linked by parks and open spaces. As part of the process, PSP's development team is working closely with local leaders and residents to transform the 520-acre site into a vibrant and sustainable community.

PSP was ranked as a **Montréal Top Employer** for the third year in a row

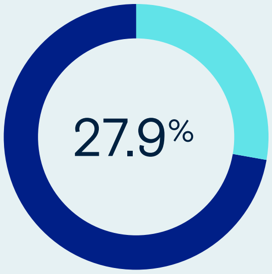
Valuing diversity

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

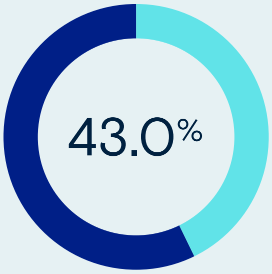
Women in total workforce



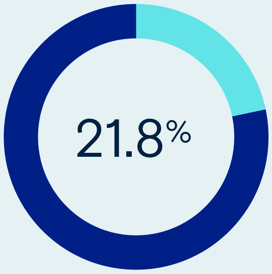
Women in senior roles



Women and visible minorities in intern roles



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



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

Investing for a sustainable future

Environmental, social and governance (ESG) issues are some of the most significant drivers of change in the world, with major implications for businesses and long-term investors. Through responsible investment, we factor ESG risks and opportunities into our investment processes to help shape the world of tomorrow.

PSP considers ESG factors throughout the life of an investment—identifying and assessing material risks and opportunities during our initial investment analysis and decision-making, and managing, monitoring and assessing the ESG performance of the investment over time, so as to protect and enhance long-term financial value.

Our approach is highly collaborative, with our dedicated Responsible Investment group working as one with PSP investment teams at every stage of the process. This collective focus helps us uncover new investment opportunities, steer our capital toward more attractive areas and mitigate key risks.

In fiscal year 2020, we focused on four ESG themes:

- Ensuring that public boards of directors have the requisite skills, expertise, independence and diversity to exercise effective leadership and oversight.
- Encouraging improved ESG disclosure and best practices among our portfolio companies, external managers and general partners.
- Refining our tools for managing and monitoring ESG key performance indicators across our total fund portfolio.
- Continuing to deploy our multi-year climate change approach.

When the COVID-19 pandemic took hold, we reached out to some of our portfolio companies to share resources and offer access to experts, to help them deal with the crisis. For the public companies in which we have ownership positions, we adopted exceptional measures for the 2020 proxy voting season to support shareholder interests and board continuity, including supporting the implementation of virtual annual meetings and, in some cases, the re-election of directors.

Climate change

As a long-term investor, we proactively address climate change as part of our investment strategy. We believe that climate change is one of several long-term structural trends that will likely have a material impact on investment risks and returns, across different sectors, geographies and asset classes. Our diversified investment portfolio has exposure to both transition and physical risks, as well as opportunities associated with climate change.

PSP is pursuing a multi-year climate change approach structured around three pillars: (1) the integration of climate change factors into our investment decisions, at the total portfolio, asset class and individual asset levels; (2) monitoring of the portfolio's exposure to climate change (i.e., transition risks, physical risks and opportunities); and (3) engagement with portfolio companies to advocate for better climate change-related financial risk disclosures.

Key activities in fiscal year 2020 included the following:

- Performed scenario analyses to better understand the impacts of climate change on our long-term asset allocation.
- Evaluated the carbon emissions avoided through our direct investments in 150 renewable energy assets. The total annual avoided emissions apportioned to PSP's stake in these assets was 3.6 MtCO2, which is equivalent to taking 750,000 cars off the road per year[1].
- Assessed the resilience of our real estate, infrastructure and natural resource assets that have a higher exposure to physical climate change risks.
- Developed a climate change framework to help PSP investment teams assess key climate change risks and opportunities throughout the investment process.
- Engaged with 226 public companies to encourage climate change risk-aware corporate conduct and good practice disclosure.

PSP supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) with the view to fostering enhanced transparency on climate change-related financial risks and opportunities in capital markets. Please see PSP's 2020 Responsible Investment Report to learn more about our climate change approach and TCFD-aligned climate change reporting.

Learn more in our 2020 Responsible Investment Report.

[1] US EPA Greenhouse Gas Equivalencies Calculator (source).

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, 2020 and should be read in conjunction with the Consolidated Financial Statements and accompanying notes for the years ended March 31, 2020 and 2019. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). In this report, we use a combination of financial measures, ratios, and non-GAAP measures to assess the performance. The non-GAAP measures used in this report do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures should be considered as supplemental in nature and not as a substitute for the related financial information prepared in accordance with IFRS. This report takes into account material elements, if any, between March 31, 2020 and June 23, 2020, the date of approval of this report by the Board of Directors. Additional information about PSP Investments is available on the website (www.investpsp.com).

Forward-looking statements

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

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

Our mandate

PSP Investments' mandate is to manage the amounts transferred to it by the Government of Canada (the Government) for the funding of 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) to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the pension plans and the ability of those plans to meet their financial obligations.

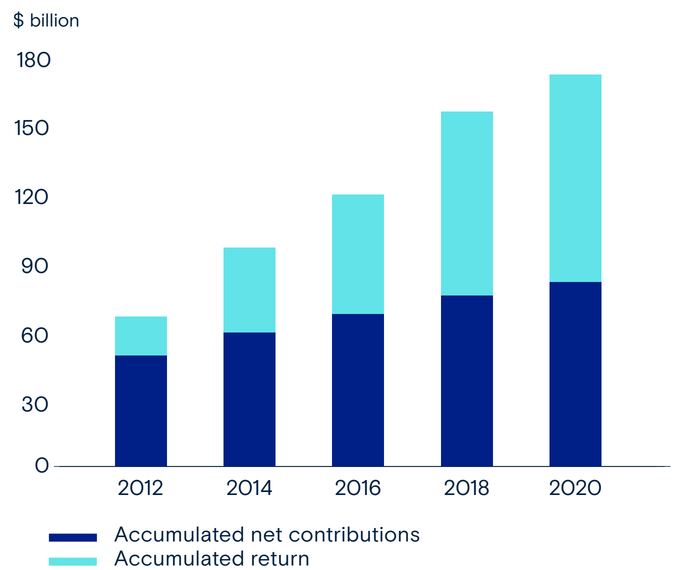
PSP Investments expects to deliver on its mandate by creating value through both its strategic asset allocation (Policy Portfolio) and active management decisions. Strategic asset allocation entails carefully designing asset classes and allocating strategic targets to each of them through the Policy Portfolio. Active management activities are designed to generate additional returns, for example through asset selection, and assist in delivering on our mandate. Those activities are described further under "Investment Framework".

Approaching the last year of our five-year Vision 2021 Strategic Plan, we have seen internal cooperation and insight sharing yielding new opportunities and deal flows. The values defined in our strategic plan, such as collaboration between asset classes have driven our global expansion in recent years and have contributed to the opening of international offices. A key element of the strategic plan has been the total fund investment approach and its application in our investment strategies, business decision-making, as well as risk, leverage and liquidity management.

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

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

At the end of fiscal year 2020, fund transfers received from the Government[1] since April 1, 2000, represented approximately 47% of net AUM, with the remaining 53% representing investment returns earned by PSP Investments on those funds. As the Plans mature, the proportion of assets coming from investment returns is expected to continue growing. Having a robust investment approach aligned with our mandate and the long-term return objective of the Government is therefore crucial for funding the Post-2000 Liabilities of the Plans.



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

Investment framework

Return Objective	→	Reference Portfolio	→	Policy Portfolio	→	Actual portfolio
Communicated on behalf of the President of the Treasury Board by the Treasury Board of Canada Secretariat	→	Articulates risk appetite (defined in terms of pension funding risk)	→	Long-term strategic asset allocation	→	Includes active investment strategies within risk limits and total fund activities

The chart above illustrates our investment framework.

Return Objective

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

In fiscal year 2020, PSP Investments received a real Return Objective of 3.6% for the next 10 years and 4.0% thereafter. Our aim is to establish a long-term investment strategy which has an expected real rate of return that is at least equal to the Return Objective.

Reference Portfolio

Based on the Return Objective, PSP Investments develops a Reference Portfolio, a simple portfolio composed of publicly traded securities that could be passively managed at minimal cost. The Reference Portfolio is designed in such a way that, based on our long-term capital market assumptions, it is expected to deliver the Return Objective over the long-term with minimum investment risk. Accordingly, a Reference Portfolio currently composed of 68% equities and 32% fixed income is expected to deliver the Return Objective over the long term and establishes the pension funding risk deemed acceptable (risk appetite) to achieve our mandate.

Funding Policy

In pursuit of continued enhancements to governance and accountability, the Treasury Board approved a funding policy (Funding Policy) in fiscal year 2019 that provides the decision framework to support the funding of the public sector Plans. As prescribed in the Funding Policy, an Asset Liability Committee (ALCO) was established. Members include departmental officials representing each of the Plans, the Department of Finance, the Office of the Chief Actuary and PSP Investments.

Three ALCO meetings were held during fiscal 2020, establishing the governance of the committee and providing an opportunity to share information among stakeholders. Of significance to PSP Investments, it is envisioned that the ALCO, a forum for the review and discussion of the Plan's funding risk, will eventually recommend the funding risk targets (government risk appetite) and provide additional guidance (e.g., in the form of a Reference Portfolio). Seeing that the investment approach already uses a Reference Portfolio as its starting point, this change is not expected to have a significant impact on our approach to portfolio construction.

Policy Portfolio

The Policy Portfolio is built as a more diversified, resilient and liability-aware portfolio than the Reference Portfolio. It articulates PSP Investments' long-term target 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 to the Policy Portfolio compared to the Reference Portfolio without increasing risk for three primary reasons:

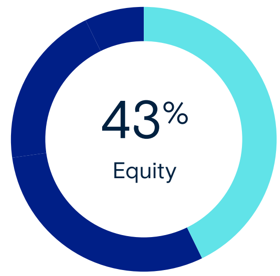
- Their inclusion improves portfolio diversification and reduces pension funding risk.
- Over time, the private nature of these assets is expected to result in higher returns, for example by allowing greater control to generate value. The Plans' liabilities are long-term in nature and liquidity requirements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

The Policy Portfolio is the predominant factor in determining 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.

The Policy Portfolio integrates considerations such as diversification, leverage and currency hedging. PSP Investments uses leverage to improve its returns with careful consideration to risk as is further described in the "Liquidity and Capital Management" section.

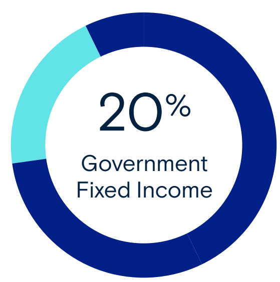
In terms of currency hedging, the Policy Portfolio is strategically unhedged. We believe that when foreign currency exposures are not systematically hedged, the Policy Portfolio's risk-return profile is improved by significantly reducing hedging cost in the long term and reducing pressure on liquidity, leverage and operations. Furthermore, some foreign currencies, notably the US dollar, tend to appreciate when economic shocks occur and are therefore expected to act as a diversifier in the Policy Portfolio (acting as a natural hedge against declining asset returns).

Target asset allocation[1]
Effective during fiscal year 2020

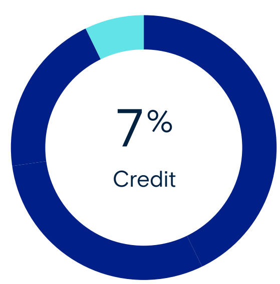


→ 30% Public Equity
13% Private Equity

→ 15% Real Estate
10% Infrastructure
5% Natural Resources



→ Fixed income
Cash and Cash Equivalents



→ Credit Investments

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

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

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

Actual portfolio

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

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

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

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

As discussed in the Policy Portfolio section, PSP Investments generally does not hedge its exposure to foreign currencies. However, over shorter periods, currencies may diverge significantly from their long-term equilibrium values. For that reason, currency hedging strategies are sometimes used dynamically, at the total fund level, to manage currency exposures.

Complementary Portfolio

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

Evaluating the performance of our investment approach

Benchmarks

The benchmarks in the table below were used to measure fiscal year 2020 relative performance for each asset class set out in the Statement of Investment Policies, Standards and Procedures (SIP&P) as well as for the overall Policy Portfolio.

ASSET CLASS	BENCHMARK
Equity	
Canadian Equity	S&P/TSX Composite Index
US Large Cap Equity	S&P 500 Index
Europe, Australia, Far East (EAFE) large cap Equity	MSCI EAFE Index
Small Cap Equity	S&P 600 Index
Developed Markets Equity	MSCI World Index
Emerging Markets (EM) Equity	MSCI EM Index
Private Equity	Customized Private Equity Manager Universe[2]
Government Fixed Income	
Cash & Cash Equivalents	FTSE Canada 91 Day TBill Index
Fixed Income	Blend of Bloomberg Barclays US Government ILB Index and FTSE Canada All Government Bond Index
Credit	
Credit Investments	Blend of BofA Merrill High Yield Indices (US & Euro) and S&P Leveraged Loan Indices (US & European)[2]
Real Assets	
Real Estate	Customized benchmark[1,2]
Infrastructure	Customized benchmark[1,2]
Natural Resources	Customized benchmark[1,2]
Complementary Portfolio	Policy Portfolio benchmark

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

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

Our long-term results

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

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

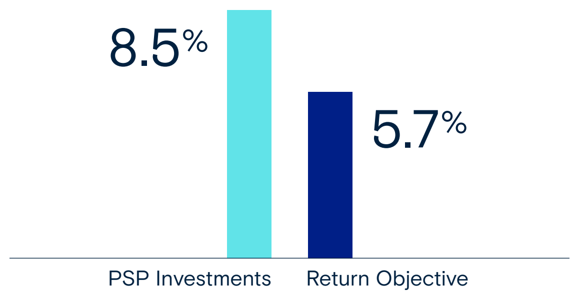
This objective measures PSP Investments' success in achieving the long-term Return Objective. Over the past 10 years, PSP Investments has recorded a net annualized rate of return of 8.5%, compared to 5.7% for the Return Objective.

Considering the size and timing of contributions, this outperformance amounts to $32.9 billion in net investment gains above the Return Objective over this 10-year period.

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

Return compared to Return Objective[1]

10-year net annualized return[2]



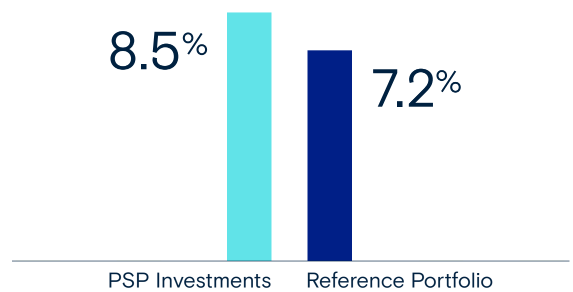
2. Achieve a return, net of expenses, greater than the return of the Reference Portfolio over 10-year periods.

The Reference Portfolio reflects what an investor could achieve with a passive investment approach, taking into consideration its Return Objective. Over the last 10 years, PSP Investments' performance exceeded the performance of the Reference Portfolio by 1.3% per year. This result was achieved without incurring more pension funding risk than the Reference Portfolio.

This additional 1.3% represents the value added by PSP Investments' strategic decision to build a more diversified portfolio – the Policy Portfolio – that includes less liquid asset classes, and to engage selectively in active management activities.

Return compared to Reference Portfolio

10-year net annualized return[2]

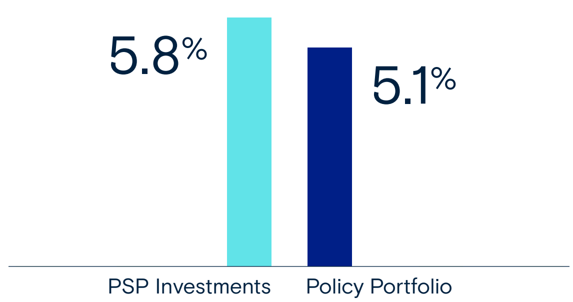


3. Achieve a return, net of expenses, exceeding the Policy Portfolio benchmark return over 5-year periods.

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

Return compared to Policy Portfolio benchmark

5-year net annualized return[2]



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

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

Analysis of our results

$169.8	$(0.3)	(0.6)%	5.8%	8.5%
Billion Net AUM	Billion Performance loss	1-year rate of return	5-year annualized return	10-year annualized return
$168.0		(1.6)%	5.1%	7.5%
Billion Net AUM (FY2019)		Benchmark return	Benchmark return	Benchmark return

Macroeconomic context

The economic backdrop has vacillated in the past year, from a weakening growth environment, to a budding recovery, and finally to a negative and unparalleled shock to global activity stemming from the COVID-19 pandemic. Risk assets have shown sensitivity to this macroeconomic context, as equities rallied strongly throughout Q4 2019 and the beginning of Q1 2020, before plummeting in the face of an economic sudden stop. Meanwhile, both monetary and fiscal policymakers have increasingly lent their support in order to extend the broader business cycle that began in earnest more than a decade ago.

Over the last several years, major advanced economies had finally transitioned from sputtering growth recoveries and toward having sustained expansions. Excess capacity in labour markets and businesses was gradually absorbed, and inflationary pressures had started to build. By mid-2019 however, a significant deterioration in the global manufacturing and industrial cycle had already taken hold. This was due to the lagged impact of previous actions by policymakers: the tightening of credit conditions in China, as well as aggressive rate hikes by the United States Federal Reserve (Fed). Moreover, the rapid escalation of the Sino-US trade war added a layer of uncertainty that exacerbated the economic slowdown that had started in mid-2018.

Monetary authorities reversed course in the latter half of 2019 when they delivered policy stimulus in the face of deteriorating growth and consistent inflation shortfalls. These measures included three successive rate cuts by the Fed, a reintroduction of quantitative easing in the euro area, loosening credit conditions in China, and several other rate reductions from major developed and emerging markets central banks. Further tailwinds came amidst signs that inventory liquidation by businesses had become overextended, as well as from the temporary trade truce agreed upon between the US and China. Ample monetary accommodation allowed global growth to start rising again, for equities to rally and for bond yields to stabilize.

In early 2020 however, the nascent growth recovery was short-circuited by the COVID-19 pandemic. This was an exogenous shock to the global economy, akin to a natural disaster. Quarantines and extreme containment efforts have severely curtailed both productive capacity and aggregate demand. In response, both fiscal and monetary policymakers have unleashed a barrage of unprecedented emergency stimulus measures as an indemnity against a protracted recession. This is a necessary precondition for a growth recovery but ultimately, a durable economic revival will take place once the current pandemic shows serious signs of abating.

Financial markets context

Financial markets performed well for most of the past fiscal year, up until the outbreak of the COVID-19 pandemic. This "left tail" event brought global economic activity to a standstill, causing a severe plummet in equities and credit products, a surge in many government fixed income securities, falling energy and industrial commodity prices, and a strengthening of the US dollar.

Most equity indices were range-bound in the first half of fiscal 2020 as global industrial growth decelerated. Stocks finally broke higher beginning in October, mainly in response to ample monetary stimulus dispensed by major central banks. This increase in prices pushed equity markets to all-time highs (in local currency terms) by late February 2020 as investors increasingly attached higher multiples to underlying earnings. However, the 10-year bull market in stocks swiftly unraveled as the COVID-19 pandemic decimated aggregate demand and productive capacity. Equity indices eventually finished fiscal year 2020 down 15 to 20% over the previous year.

Government fixed income returns performed well in fiscal year 2020 as global growth decelerated, inflationary pressures waned, monetary policy was significantly eased, and as a powerful flight to quality ensued amid the COVID-19 pandemic. By the end of the fiscal year, long-dated government yields for developed markets fell to new secular lows, with many in negative territory.

Within currencies, the US dollar bull market remained intact over the last fiscal year. The currency benefited from both its counter-cyclical behaviour as well as its perceived safe haven status during crisis periods. Its trade weighted index strengthened throughout 2019 up until early September as the global manufacturing recession intensified. This strength dissipated somewhat in the back half of 2019 as global growth recovered. Ultimately, the severe risk aversion triggered by the pandemic in early 2020 propelled the dollar to fresh cyclical highs.

The Canadian dollar traded between $0.75 and $0.77 throughout 2019 and early 2020. This was largely a reflection of stable oil prices and comparable policy rates between the Bank of Canada and the Fed. Following the outbreak of the COVID-19 pandemic, however, the Canadian dollar was heavily weighed down by declining oil prices and a preference for defensive currencies, in particular the US dollar. The Canadian dollar ended the fiscal year at roughly $0.70, its lowest level since early 2016.

In the commodity space, oil mostly traded in a range of $60 to $70 per barrel prior to COVID-19. Production cuts by OPEC+ members, as well as flaring tensions between Iran and Saudi Arabia, helped support crude prices. Counterbalancing this effect was the steady rise in US shale production, which ensured that the global oil market remained well supplied. By the end of the fiscal year however, oil prices had declined sharply to $20 per barrel due to demand destruction stemming from the pandemic, as well as a market share war between Saudi Arabia and Russia. Adjusting for inflation, oil prices today are at their lowest level in 20 years.

Summary of total fund portfolio evolution

The net AUM of PSP Investments increased by nearly $2 billion during fiscal year 2020. During the fiscal year, PSP Investments received net contributions of $2.9 billion and recorded a net return of -0.6%.

Over the past five years, the net AUM of PSP Investments increased by nearly $58 billion on account of substantial investment returns ($40 billion) and positive net fund transfers from the Government ($18 billion). The strategy to diversify into private markets has led to a steady increase in the proportion of AUM composed of private assets as those asset classes came within reach of their target allocations and Credit Investments was added to PSP Investments' asset mix. The implementation of those changes improved diversification at the total portfolio level, providing for an enhanced risk and return profile.

One of the objectives when constructing our portfolio is to ensure it is adequately diversified from a geographic perspective. The high allocation to North America reflects the size and depth of the market as well as the positive business environment. The allocation to emerging markets balances stronger growth prospects with challenges in implementing investment strategies. The addition of a strategy to invest in emerging market debt and the opening of our Hong Kong office are expected to increase our exposure to emerging markets.

Total fund performance analysis

PSP Investments recorded a return of -0.6% in fiscal year 2020. Public equity assets recorded gains during the first three quarters of the fiscal year but those gains were reversed in March when markets recorded significant losses when the COVID-19 pandemic hit. The Public Market Equities' portfolio recorded a negative return of 11.2% for the fiscal year. On the other hand, the Fixed Income portfolio recorded a positive return of 10.0% when the decrease in yields and increased demand for fixed income securities pushed their prices higher. Despite the crisis, all but two of PSP Investments' private asset classes recorded positive returns for fiscal year 2020.

PSP Investments' return of -0.6% for the fiscal year exceeded its benchmark return of -1.6% as well as the Reference Portfolio at -2.2%. While the majority of the asset classes delivered a return in excess of their benchmarks, this strong relative performance was driven in large part by the significant gains recorded by our Infrastructure, Credit Investments and Complementary Portfolio investments.

Over the last five years, PSP Investments' annualized return of 5.8% was driven mainly by the strong performance of private asset classes, in particular Infrastructure (12.1%) and Credit Investments (11.8%). Over this period PSP Investments exceeded its benchmark by 68 basis points, with all but two of PSP Investments' asset classes exceeding their respective benchmarks.

Over the past 10 years, PSP Investments' annualized return of 8.5% can be attributed to the strong returns recorded by all asset classes. Most private asset classes delivered double-digit returns. The lowest return was, unsurprisingly, recorded by Fixed Income, with a return of 5.9% per year on average during the period. PSP Investments' 8.5% net return compared favourably to the return of the benchmark, which recorded a return of 7.5%. All asset classes exceeded their benchmarks for the 10-year periods except for Private Equity.

Currency exposure

Given the proportion of PSP Investments' assets that are denominated in foreign currencies, currency fluctuations can have a significant short-term impact on investment returns. PSP Investments' decision to leave its exposure to the US dollar unhedged is predicated on the belief that leaving this exposure unhedged contributes to the diversification of PSP Investments' portfolio due to the US dollar's tendency to appreciate in times of crisis. This allowed PSP Investments to benefit from the US dollar's significant appreciation when the COVID-19 pandemic hit in the fourth quarter. The increase in the value of the US dollar offset part of the losses on the value of assets denominated in US dollars during the crisis.

The Japanese yen, the Swiss franc and the euro also outperformed the Canadian dollar due to a flight to safety among investors during the COVID-19 pandemic. The British pound finished broadly flat, as it oscillated according to investor sentiment regarding Brexit. Pro-cyclical currencies such as the Australian dollar and several emerging market currencies, which tend to depreciate in times of crisis, delivered negative returns. However, those losses were small in comparison to the gains recorded on the currencies that appreciated during FY20.

Complementary Portfolio

In fiscal year 2020, the Complementary Portfolio generated a return of 13.6% compared to a benchmark return of -1.6%. Contributors to positive performance included dividends and other distributions from portfolio companies, net foreign exchange gains and realized gains on preferred equity investments.

Since its introduction in January 2017, the Complementary Portfolio has returned 14.9% on an annualized basis compared to the benchmark return of 5.5%.

Fair value determination

The fair values of public market investments are determined using exchange-traded prices which inherently reflect current market activity. In the case of private asset classes, fair values are determined based on valuation methodologies that are widely recognized and consistent with applicable professional valuation standards. To reflect the impact of the market disruption resulting from the COVID-19 pandemic on such asset classes as at March 31, 2020, management used significant judgement. Where appropriate, adjustments based on market trading comparables, expected industry impact and intrinsic financial health of the investments were made to reflect prevailing market conditions and related uncertainty.

Analysis of our results by asset class

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

	FISCAL YEAR 2020						
				1-year rate of return (%)		5-year rate of return (%)	
ASSET CLASS	Net AUM (billions $)	Net AUM (%)	Performance[2] income (millions $)	Portfolio	Benchmark	Portfolio	Benchmark
Equity							
Public Market Equities (Includes absolute-return strategies, funded through leverage)	48.4	28.5	(5,503)	(11.2)	(10.0)	3.4	3.6
Private Equity	24.0	14.2	1,130	5.2	6.9	7.2	11.3
Government Fixed Income							
Fixed Income	32.7	19.3	3,089	10.0	9.9	4.5	4.4
Cash and Cash Equivalents	0.7	0.4	343[3]	1.7	1.9	1.4	1.0
Credit							
Credit Investments	13.3	7.8	488	4.3	(3.7)	11.8[4]	2.8
Real Assets							
Real Estate	23.8	14.0	(1,047)	(4.4)	(4.0)	8.3	6.1
Infrastructure	18.3	10.8	1,424	8.7	(3.2)	12.1	4.6
Natural Resources	7.6	4.5	(381)	(5.2)	(5.8)	6.6	1.9
Complementary Portfolio	1.0	0.6	123	13.6	(1.6)	14.9[5]	5.5
Total portfolio[1]	169.8	100.0[6]	(333)[6]	(0.6)	(1.6)	5.8	5.1

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

1 Total portfolio return is net of all expenses.

2 This measure may not have a standardized meaning under IFRS and may not be comparable to similar measures disclosed by our peers. Total portfolio return is net of interest expenses of $420 million, certain transaction costs of $55 million and other expenses of $61 million, which when added back results in arriving to Investment income of $203 million as reported in the Consolidated Statement of Comprehensive Income under IFRS.

3 Includes performance income from foreign currency hedging and rebalancing activities.

4 Annualized return since inception (4.3 years).

5 Annualized return since inception (3.2 years).

6 Figures do not add up due to rounding.

Public Markets and Absolute Return Strategies (PMARS)

$81.1
Billion
Net AUM

$80.8
Billion Net AUM (FY2019)

$(2.4)
Billion
Performance loss[1]

(3.0)%
1-year
rate of return

(2.3)%
Benchmark return

4.3%
5-year
annualized return

4.4%
Benchmark return

PMARS 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, absolute return, and passive strategies. The Public Market Equities portfolio has an investment philosophy grounded in a risk-adjusted approach, which allows for the identification of the best opportunities in public equity and absolute return strategies.

The diversified Public Market Equities' team leverages external partners to complement the internal public market value proposition. Our internal equity research platform provides ongoing market insights across the organization and across asset classes.

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

[1] Excludes Cash and Cash Equivalents.

Summary of portfolio evolution

PMARS ended the fiscal year with a net AUM of $81.1B, slightly up from $80.8B at the end of fiscal year 2019. The growth of the portfolio was driven by additional internal and external capital deployments in new and existing strategies, offset by negative performance income.

Before the markets fully grasped the potential for global economic fallout as a result of COVID-19, the main public market indices were hovering around their all-time highs. At that time, PMARS was posting both positive absolute and relative performance for the fiscal year. In fewer than five weeks, many of the indices lost approximately 30% of their value, experiencing one of the fastest and most significant stock market declines ever recorded.

Performance analysis

Public Market Equities

(11.2)%	(10.0)%	3.4%	3.6%
1-year rate of return	Benchmark return	5-year annualized return	Benchmark return

During the fourth quarter of fiscal year 2020, the Public Market Equities portfolio was negatively impacted by the global and unprecedented COVID-19 pandemic, which evolved into an economic crisis. Public Market Equities, with an ending AUM of $48.4B ($51.0B in 2019), faced a volatile and challenging environment through the weeks leading up to the end of the fiscal year and underperformed its benchmark by 1.2%. The following active strategies had a significant impact on Public Market Equities' performance:

Internally managed long-only strategies outperformed their respective benchmarks, primarily due to strong large cap stock selection as a result of the contributions of Public Market Equities' research platform. In addition, the increased cash balance and the decisions to underweight both cyclical industrial and energy sectors proved to be beneficial amidst the surge in volatility during Q4.

The overperformance of the externally managed long-only portfolio was largely due to a US Small Cap mandate, representing close to 15% of the portfolio's AUM. Most of the mandate's strong relative performance came from stock selection. Having small exposure to oil and cyclicals was also a tailwind during the last quarter.

The externally managed absolute return portfolio posted negative relative returns as the large gains accumulated from Q1 to Q3 proved to be insufficient to offset the losses caused by the COVID-19 pandemic. This unprecedented crisis disrupted correlations of many assets that ordinarily behave as natural hedges to one another, resulting in three mandates with strategies in Systematic Global Macro, Multi-Strategy, and Distressed Debts to account for most of the loss.

The Global Investment Partnerships Portfolio underperformed its benchmark, with the brunt of the negative impact predominantly tied to investments in pre-IPO strategies. The pre-IPO investments' negative performance was mainly due to concerns over decelerating industry growth rates and company-specific lack of progress on reducing certain costs.

Over five years, the Public Market Equities portfolio has had a return of 3.4%, slightly underperforming its benchmark by 19 basis points. Given that the COVID-19 pandemic inflicted the worst equity markets losses since the global financial crisis, this five-year slight underperformance displays the long-term resilience of the Public Market Equities portfolio.

Fixed Income

10.0%	9.9%	4.5%	4.4%
1-year rate of return	Benchmark return	5-year annualized return	Benchmark return

Fixed Income ended the fiscal year with a net AUM of $32.7B, up from $29.8B at the end of fiscal year 2019. The growth of the portfolio's AUM was mostly driven by positive performance income. Fiscal year 2020 and its fourth quarter were shaped by the emergence of COVID-19 and its impact on the global economy, which essentially plummeted in March 2020. As a result, market liquidity deteriorated, and risk assets and inflation securities underperformed due to the unexpected massive economic and deflationary shocks. In response, governments and central banks took quick, unprecedented action by implementing fiscal packages and monetary stimulation, with central banks lowering global developed sovereign yields to near zero and improving liquidity conditions.

As the internally managed active fixed-income portfolio was positioned for a decrease in yields, the portfolio outperformed its benchmark by six basis points in fiscal year 2020. This proved to be beneficial as the COVID-19 pandemic forced central banks to lower rates across the board.

Over five years, Fixed Income has outperformed its benchmark by 10 basis points, as a result of the portfolio's opportunistic positioning to take advantage of various movements in global sovereign interest rates and credit markets.

Private Equity

$24.0
Billion
Net AUM

$23.5
Billion Net AUM (FY2019)

$1.1
Billion
Performance income

5.2%
1-year
rate of return

6.9%
Benchmark return[1]

7.2%
5-year
annualized return

11.3%
Benchmark return

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

Summary of portfolio evolution

Private Equity ended fiscal year 2020 with a net AUM of $24.0 billion, a slight increase of $0.5 billion from the year prior. The evolution of the portfolio was mainly driven by acquisitions of $6.8 billion and currency gains of $1.3 billion, offset by $6.0 billion in dispositions and financing proceeds and valuation losses of $1.6 billion.

Fiscal year 2020 was marked by continued strong deployment across the US and Europe, including new direct and co-investments totalling $3.4 billion and an equivalent amount deployed through the funds. This was offset with another record year of dispositions resulting from active monetization of significant direct investments such as Antelliq, Advisor Group and Acelity.

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

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

- Convex, a de novo specialty property and casualty insurance company
- Galderma, a leading global provider of skin health products, headquartered in Switzerland
- Lytx, a US-based leading provider of video telematics solutions for commercial and public-sector fleets

Unfunded commitments in connection with fund investments totalled $11.4 billion at the end of fiscal year 2020. During the year, Private Equity signed new fund commitments of $3.6 billion through 28 new funds, with both existing and new partners.

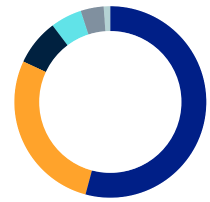
Finally, fiscal year 2020 activity has increased portfolio exposure to consumer discretionary and technology, whereas asset realizations decreased exposure to health care and industrials.

Performance analysis

Private Equity achieved a one-year rate of return of 5.2% in fiscal year 2020, compared to a benchmark return of 6.9%. Performance income of $1.1 billion includes $1.6 billion of net valuation losses partly offset by $1.3 billion of distributed income. Performance income also significantly benefited from currency gains, which increased the one-year rate of return and the benchmark of the asset class by 6.4%.

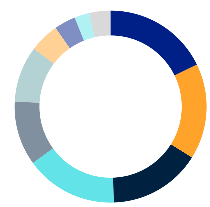
A significant detractor of the fiscal year 2020 performance was the COVID-19 pandemic which led to a significant market decline and resulted in net valuation losses across the portfolio but more importantly to the investments in the industrials, consumer discretionary and materials sectors. Despite these markdowns, the direct and co-investments in the US financial sector recorded significant valuation gains benefiting from continued growth and strong operating performance. In addition, the successful exits completed earlier in the year also positively contributed to the overall performance.

Over five years, Private Equity achieved a rate of return of 7.2%, compared to a benchmark return of 11.3%, primarily due to the underperformance of certain investments in the communications and consumer staples sectors. However, that portion of the portfolio invested over the past five years (which represents the largest portion of AUM), since a change in asset class strategy, has generated a five-year return in excess of the benchmark.



Geographic diversification
As at March 31, 2020 (%)

54.3	US
27.8	Europe
7.7	Emerging markets
5.4	Canada
3.7	Asia
1.1	Other



Diversification by sector
As at March 31, 2020 (%)

17.9	Consumer Discretionary
16.0	Financials
15.8	Health care
15.4	Technology
11.0	Communications
9.4	Industrials
5.0	Materials
3.4	Consumer staples
2.6	Energy
3.5	Other

Credit Investments

$13.3

Billion
Net AUM

$10.5

Billion Net AUM (FY2019)

$0.5

Billion
Performance income

4.3%

1-year
rate of return

(3.7)%

Benchmark return[1]

11.8%

since inception
annualized return
(4.3 years)

2.8%

Benchmark return

Credit Investments (formerly known as Private Debt) focuses on direct non-investment-grade primary and secondary credit investments in North America and Europe, in both private and public markets as well as on rescue financing and distressed debt opportunities.

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

[1] As a result of the decision to maintain foreign currency exposure unhedged, 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.

Summary of portfolio evolution

Credit Investments ended fiscal year 2020 with a net AUM of $13.3 billion, up from $10.5 billion at the end of fiscal year 2019. Net change in AUM of $2.8 billion was mainly driven by acquisitions of $7.2 billion and currency gains of $0.7 billion, offset by $3.9 billion in dispositions driven by the higher churn of our maturing portfolio and opportunistic selling prior to the COVID-19 pandemic and net valuation losses of $1.4 billion.

Credit Investments' portfolio is well diversified across asset types, geographies, industries and equity sponsors. The portfolio is now near target and within concentration limits.

Performance analysis

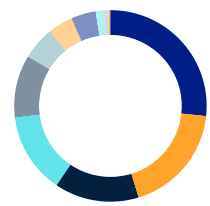
Credit Investments achieved a one-year rate of return of 4.3% compared to a benchmark return of -3.7%. A detractor from absolute performance was the COVID-19 pandemic which led to a significant market decline and resulted in net valuation losses for the portfolio. Credit Investments' outperformance versus the benchmark is largely attributed to its credit selection and limited to no exposure to industries such as energy, airlines and hospitality.

Performance income of $488 million largely consists of interest and fee income, offset by net valuation losses. Credit Investments also benefited from foreign exchange gains due to significant underlying US dollar exposure, increasing the one-year rate of return and the benchmark of the asset class by 6.4%.

Since inception in late 2015, Credit Investments achieved a rate of return of 11.8%, compared to a benchmark return of 2.8%. In its earlier years of existence as a new asset class, Credit Investments benefited from a broad market rally as well as from the ramp-up nature of the asset class, which enhanced the impact of significant fee income and valuation gains from a return perspective. Further, benefiting from strong credit selection, Credit Investments has been able to deliver interest income that exceeds that of the benchmark since inception.

Geographic diversification
As at March 31, 2020 (%)

74.6	North America
25.4	Europe



Diversification by sector
As at March 31, 2020 (%)

26.7	Technology
18.8	Industrials
14.0	Consumer discretionary
13.6	Health care
10.7	Financials
5.6	Materials
4.1	Communications
4.1	Consumer staples
1.3	Real Estate
1.0	Energy
0.1	Utilities

Product split
As at March 31, 2020 (%)

54.3	First Lien
45.7	Non First Lien

Real Estate

$23.8
Billion
Net AUM

$23.5
Billion Net AUM (FY2019)

$(1.0)
Billion
Performance loss

(4.4)%
1-year
rate of return

(4.0)%
Benchmark return[1]

8.3%
5-year
annualized return

6.1%
Benchmark return

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

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

Summary of portfolio evolution

Real Estate ended fiscal year 2020 with net assets under management of $23.8 billion, a slight increase of $0.3 billion from the year prior. The evolution of the Real Estate portfolio was driven by $6.0 billion in acquisitions and currency gains of $0.8 billion offset by $2.3 billion in valuation losses and $4.2 billion in dispositions and financing proceeds.

Real Estate kept its focus on portfolio optimization by deploying into high conviction sectors. Among others, this resulted in key acquisitions within the multi-family and industrial sectors. With the low-yield environment making it more challenging to acquire core assets, the strategy behind the majority of current year acquisitions were value-add and opportunistic. The acquisitions in the core assets were concentrated in major international cities and high-growth markets.

In addition, there were strategic disposals of core assets in the office sectors in Canada, Europe and the US, which had attained their objectives. As part of its portfolio optimization, the Real Estate group also disposed of non-strategic assets in the US and Africa.

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

Fiscal year 2020 acquisitions included:

- A large multi-family portfolio in seven US cities with Berkshire Group
- A large industrial portfolio in Mexico with Advance Real Estate
- An increase of our ownership in two multi-family properties in the Boston Seaport district with Berkshire Group
- An expansion of our North American manufactured homes partnership to the UK with Cove Communities
- Multiple acquisitions of logistic properties throughout Europe with Segro
- An office portfolio in Silicon Valley with DivcoWest

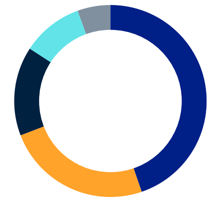
The largest single acquisition was a multi-family portfolio of more than 6,000 units with Starlight Investments, all located in Ontario with a concentration in the Greater Toronto Area. This transaction aligns with Real Estate's conviction on the multi-family sector and focus on primary markets.

Performance analysis

Real Estate achieved a one-year rate of return of -4.4% in fiscal year 2020, compared to a benchmark of -4.0%. Total performance loss reached $1.0 billion, driven mainly by valuation losses of $2.3 billion primarily attributable to the senior housing portfolio, the global retail portfolio particularly the malls in the US and the Alberta office portfolio, which were significantly impacted by the COVID-19 pandemic. On the other hand, our global industrial portfolio, which benefited from strong fundamentals, had a positive impact on our return. Other significant positive contributors to absolute performance included the Canadian multi-family portfolio and the Australian office portfolio.

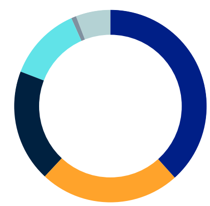
Real Estate also benefited from foreign exchange gains due to significant US dollar exposure, increasing the one-year rate of return and the benchmark of the asset class by 3.4%.

Over five years, Real Estate achieved a rate of return of 8.3%, compared to a benchmark return of 6.1%, primarily due to the strong performance of the Canadian multi-family portfolio, the global industrial portfolio, the Australian office portfolio and the European office portfolio.



Geographic diversification
As at March 31, 2020 (%)

45.0	US
24.3	Canada
15.0	Western Europe
10.5	Emerging markets
5.2	Australasia



Diversification by sector
As at March 31, 2020 (%)

38.4	Residential/Retirement
23.8	Office
18.7	Industrial
12.7	Retail
0.8	RE Debt
5.6	Other

Infrastructure

$18.3
Billion
Net AUM

$16.8
Billion Net AUM (FY2019)

$1.4
Billion
Performance income

8.7%
1-year
rate of return

(3.2)%
Benchmark return[1]

12.1%
5-year
annualized return

4.6%
Benchmark return

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

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

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

Summary of portfolio evolution

At the end of fiscal year 2020, net assets under management totalled $18.3 billion, up from $16.8 billion the year prior. The growth of the portfolio was mainly driven by acquisitions of $3.1 billion and currency gains of $0.7 billion. This was partially offset by dispositions and financings of $2.3 billion.

Infrastructure deployment was mostly across North America and Australia and included new direct and co-investments totalling $2.3 billion.

Key investments included:

- The take-private of AltaGas Canada, a large Canadian company with natural gas distribution utilities and renewable power generation assets, alongside Alberta Teachers' Retirement Fund Board
- The acquisition of an interest in AirTrunk, the largest independent operator of hyperscale data centres in Asia Pacific with assets across Sydney, Melbourne Singapore and Hong Kong

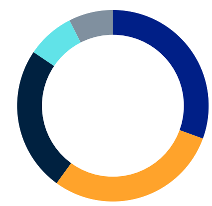
Finally, the fiscal year 2020 activity has slightly changed the portfolio's geographic diversification by increasing exposure to Canada, Asia and Oceania while decreasing exposure to Europe.

Performance analysis

Infrastructure achieved a one-year rate of return of 8.7% in fiscal year 2020, compared to a benchmark return of -3.2%. Total performance income reached $1.4 billion, driven by distributed income of $0.7 billion and foreign exchange gains of $0.7 billion, which increased the one-year rate of return and the benchmark of the asset class by 4.3%.

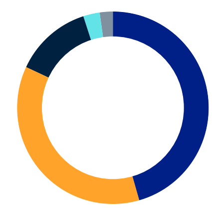
Despite volatile performance related to the COVID-19 pandemic, the direct investments in the utilities sectors, more specifically in the renewables sub-sector, in North America, recorded significant valuation gains benefiting from a stable regulatory and contractual environment, which were partly offset by provisions taken in the Transportation sector.

Over five years, Infrastructure achieved a solid rate of return of 12.1%, compared to a benchmark return of 4.6% primarily due to the strong performance of investments in the transportation and utilities sectors.



Geographic diversification
As at March 31, 2020 (%)

30.8	Europe
29.4	Emerging markets
24.5	US
8.0	Canada
7.3	Asia and Oceania



Diversification by sector
As at March 31, 2020 (%)

45.6	Industrials
36.4	Utilities
13.1	Communications
2.7	Technology
2.2	Energy

Natural Resources

$7.6 Billion Net AUM	$(0.4) Billion Performance loss	(5.2)% 1-year rate of return	6.6% 5-year annualized return
$6.8 Billion Net AUM (FY2019)		(5.8)% Benchmark return[1]	1.9% Benchmark return

Natural Resources focuses on partnering with best-in-class, local operators to invest in agriculture and timber assets in investment-friendly jurisdictions around the world. A high component of land, water or biological assets typically underpins our investments and adds to downside protection.

The group also seeks to invest in opportunities well poised to benefit from secular trends driving continued demand growth and increasingly constrained supply.

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

Summary of portfolio evolution

Natural Resources closed fiscal year 2020 with a net AUM of $7.6 billion, up from $6.8 billion at fiscal 2019 year-end. The growth of the portfolio was mainly driven by $3.2 billion of net investment activity, of which agriculture investments accounted for $2.8 billion.

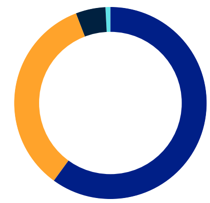
Fiscal year 2020 was marked with continued strong deployment in both Australasia ($1.9 billion) and North America ($1.3 billion). Notable developments throughout the year include:

- Completed board-supported take-private of leading, publicly listed Australian grower of cotton and walnuts
- Entered into a buy-and-lease transaction on ~ 11,500 hectares of mature almond orchards and a portfolio of High Reliability water entitlements located in Victoria, Australia. The simultaneous acquisition and consolidation of assets effectively unlocked material intrinsic value
- Established a new joint venture headquartered in Leamington, Ontario focused on the production and distribution of North American greenhouse-grown fresh produce
- Increased exposure to Canadian timberlands in a high-quality asset with a trusted and proven management team

Performance analysis

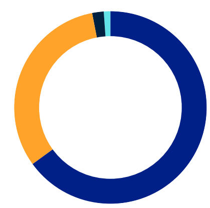
Natural Resources' one-year rate of return was -5.2% for fiscal year 2020, compared to a benchmark return of -5.8%. The Portfolio's net loss was $381 million, mainly driven by net valuation losses of $548 million partially offset by distributed income of $184 million. A significant detractor from absolute performance was the COVID-19 pandemic and its impact on the fair value of certain assets. The crisis especially impacted the portfolio's non-core oil and gas assets due to a decrease in demand in an already overly supplied market. COVID-19 did not have a significant impact on the agriculture or timberland investments, which largely remained resilient.

Over five years, Natural Resources achieved a rate of return of 6.6%, compared to a benchmark return of 1.9%, primarily due to strong performance from our timberland assets and accretive asset valuations from our agriculture investments.



Geographic diversification
As at March 31, 2020 (%)

60.0	Australasia
34.2	North America
5.0	Latin America
0.8	Other



Diversification by sector
As at March 31, 2020 (%)

65.0	Agriculture
32.1	Timber
1.8	Oil and gas
1.1	Other

Operating expenses and total cost ratio

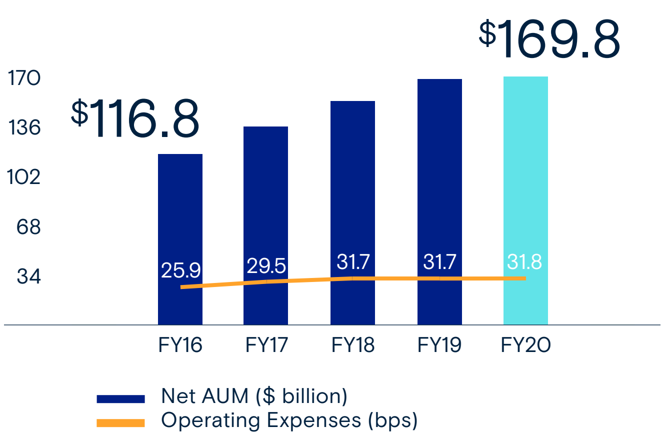
Operating expenses

Over the past five years, PSP Investments has been building the organization and ramping up capabilities to achieve Vision 2021. To this end, the teams, strategies and portfolio have undergone significant transformations. Even with these activities, in the last few years, PSP Investments has seen signs of scalability in terms of a slower rate of increase in operating expenses year-over-year (9.6% in fiscal year 2020 versus 12% in fiscal year 2019, and 22% in fiscal year 2018). The ratio of business partners to investment professionals is decreasing (1.60 in fiscal year 2020, compared to 1.85 five years ago). The enhanced cost-management approach has helped keep the operating expenses ratio at 31.8 bps, almost at the same level as in fiscal year 2019 (31.7 bps). That is, in fiscal year 2020 PSP Investments' total operating expenses amounted to $551 million, compared to $503 million in fiscal year 2019.

Absent the COVID-19 pandemic's impact on AUM, total operating expenses expressed in basis points would have been lower than fiscal year 2019. In absolute dollars however, total operating expenses have increased in fiscal year 2020 due to higher headcount as well as investments in technologies and strategic plan initiatives to complete Vision 2021. Furthermore, following the COVID-19 pandemic, management deployed measures aimed at containing operating expenses for the coming year, such as temporarily freezing external hiring and annual salary increases.

In fiscal year 2020, salaries and employee benefits totalled $319 million, compared to $291 million in fiscal year 2019. PSP Investments had 888 employees as at March 31, 2020; an increase of 5% from 844 employees as at March 31, 2019.

Headcount rose at our primary business office in Montréal, as well as in New York, London and Hong Kong. At the end of fiscal year 2020, in our international offices, we had 59 employees in London, 42 employees in New York and seven employees in Hong Kong. Approximately 27% of our total salaries and benefits are denominated in foreign currencies, compared to 23% in fiscal year 2019.



Total cost ratio

In the last 10 years, total costs grew slightly more than the average AUM, adding 5.4 bps compared to 67.0 bps in fiscal year 2011. This was expected as PSP Investments has considerably changed in size and in asset mix, with a shift toward more internal, active management and private markets. PSP Investments also invested in new tools and systems to support these changes and the growth of the AUM and asset classes.

Over the past five years, total costs increased from 63.0 bps in fiscal year 2016 to 72.4 bps in fiscal year 2020. As part of PSP Investments' Vision 2021, we have been reshaping our approach to investing and seeing encouraging results. We continue to pursue internal active management, which started as early as fiscal year 2004. Accordingly, we increased the allocation of the portfolio toward more private market asset classes, reaching 29.5% at the launch of Vision 2021 in fiscal year 2015 and finally, 51.3% at the end of fiscal year 2021. Private markets offer increased potential for higher long-term returns and value-add. To tap into global opportunities, we opened international offices and built a local presence in London, New York and Hong Kong. Associated costs for adopting Vision 2021 are reflected in the increases in operating expenses, transaction volumes as well as management fees. To this end, Vision 2021's ongoing initiatives have already started to yield benefits – indicating that associated costs will pay off.

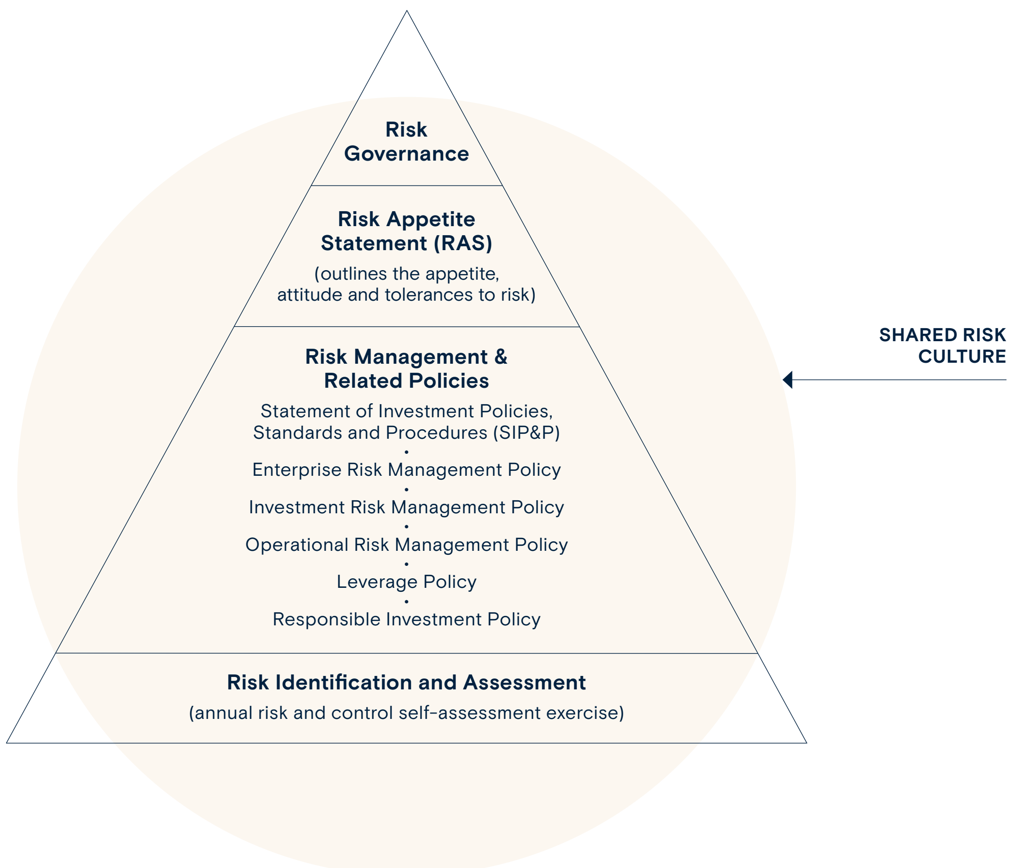
PSP Investments' total cost ratio increased from 67.3 bps in fiscal year 2019 to 72.4 bps in fiscal year 2020. Absent the COVID-19 pandemic's impact on AUM, the total cost ratio would have been more favourable. The total cost ratio measures operating and asset-management expenses as a percentage of average net AUM. Asset management expenses include management fees paid to external asset managers and transaction costs. Transaction costs can vary significantly year-over-year, depending on the complexity and size of private market investment activities. The year-over-year increase in the cost ratio is due to management fees and transaction costs in private markets.

Enterprise risk management

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

Risk management framework

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



Risk governance

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

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

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

Governance Model

BOARD OF DIRECTORS AND BOARD COMMITTEES

EXECUTIVE AND SENIOR MANAGEMENT COMMITTEES			
Executive	Total Fund	Valuation	Risk and Investment

External audit

Three Lines of Defence Model

First line of defence	Second line of defence	Third line of defence
All employees and teams	Teams that independently oversee and assess risk management activities performed by the First line of defence	Internal Audit

Risk Appetite Statement

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

Risk management and related policies

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

ENTERPRISE RISK CATEGORY			
Investment risk		Non-investment risk	
• Market risk • Liquidity risk • Credit and counterparty risk • Concentration risk • Leverage risk • ESG risk	• Statement of Investment Policies, Standards and Procedures • Investment Risk Management Policy • Leverage Policy • Responsible Investment Policy	• Financial crime and fraud • Reporting and taxation • Strategic or business • Legal, contractual or regulatory • Digital asset	• Non-digital asset • Operational • People • Non-investment Risk Management Policy

Risk identification and assessment

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

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

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

Shared risk culture

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

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

Liquidity and Capital Management

Liquidity management

Objectives

PSP Investments manages its liquid short-term investments to ensure it meets its financial obligations as they become due, while reducing the risk of liquidating investments unexpectedly and potentially at unfavourable prices.

Governance and management

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 such as in the case of the COVID-19 market disruption. 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.

Risks and stress testing

The CLF is subject to risk limits. Such limits include a number of 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 scenarios 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 case of the COVID-19 market disruption.

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

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 of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under their respective Acts and the ability of the Plans to meet their financial obligations. The funds are invested in accordance with the Investment Risk Management policies established as an element within the enterprise risk management framework.

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.

COVID-19 pandemic

PSP Investments' liquidity and leverage frameworks have proven to be effective in the context of the market disruption resulting from the COVID-19 pandemic. During that time, sufficient and stable levels of liquidity were maintained, minimizing funding costs.

Governance

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

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

The Board is committed to safeguarding the financial health of the assets it manages. To this end, the Board supported management in preparing for a potential market downturn and performing early stress testing of the portfolio using multiple scenarios. These preparations enabled PSP Investments to respond quickly to the COVID-19 outbreak. The rapid activation of its crisis management plan was key to ensuring both the safety of our employees and the continuity of operations. In light of the current market downturn, driven primarily by the COVID-19 pandemic, the Board continues to collaborate with senior management in monitoring the portfolio and responding to changing market dynamics.

Board succession planning was another key focus area of the Governance Committee and the full Board in fiscal year 2020 as the terms of some directors expired or will be expiring in the coming year. Directors play an active role in guiding the organization and we need to support the external nominating committee and Government in ensuring we have a full contingent of individuals qualified to govern a leading global institutional investor such as ours. The Board continues to function at full capacity with 11 Directors. In fiscal year 2020, the Governance Committee and Board also continued their work on managing Board renewal. As part of the Chair succession planning process, Ms. Miranda C. Hubbs was appointed Chair of the Human Resources and Compensation Committee, replacing Ms. Micheline Bouchard, who had chaired this Committee since 2018.

The Governance Committee is also responsible for ensuring that the Board and its Committees are functioning effectively. To this end, revised Terms of Reference were adopted in fiscal year 2020.

In this section, we discuss key governance activities undertaken in fiscal year 2020 and provide an overview of our governance framework and practices.

Governance framework

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

Board responsibilities

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:

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

The Board's specific responsibilities include:

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

Board committees

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

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

Learn more

About our Board of Directors
Board Committees

Accountability and reporting

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

Our President and CEO and the Chair of the Board are required to meet once a year with advisory committees appointed to oversee the pension plans. We are also required to hold an annual public meeting. The most recent meeting was held in Ottawa on November 19, 2019.

Pursuant to the *Financial Administration Act* (FAA), PSP Investments must undergo a yearly external audit. The Auditor General of Canada and Deloitte LLP serve as our joint external auditors and are responsible for conducting special examinations at least once every 10 years. The last special examination was performed in fiscal year 2011 and the next special examination is expected to be completed by March 31, 2021. More information on the last special examination report is available in the Reports section of our website.

Ethics and compliance

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

In most situations, our personal values and integrity guide us to the correct decisions and actions. We have developed 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 business 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 have also been established for the reporting of any real, potential or perceived conflicts of interest by Directors and employees. In addition, the reporting of any suspected wrongdoings is encouraged. Incidents can be reported without fear of retaliation to an employee's immediate supervisor, PSP Investments' Compliance Officer, or through an anonymous whistleblower reporting tool. Each year, individuals subject to the Code of Conduct must confirm in writing their commitment to complying with the Code.

Learn more
Code of Conduct for Directors, Employees and Consultants

Board procedures and effectiveness

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

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

There is frequent discussion at the Board and Board committee levels between Directors and management. Board members and senior management hold an annual strategy session for in-depth discussions on investments and risk-related topics. This year's strategic session focused primarily on preparing for the next phase of PSP Investments' future as the organization is entering the final year of its five-year strategic plan. Topics discussed included a review of PSP Investments' beliefs, total fund initiatives and active management strategies.

All regular Board and Board committee meetings include *in camera* sessions without members of management present. The Board has individual *in camera* meetings with the President and CEO. The Audit Committee has private meetings with each of the internal and external auditors, and with the Chief Financial Officer, while the Investment and Risk Committee meets privately with the Chief Risk Officer and the Chief Investment Officer.

The Board and Board committees may consult with external advisors. During fiscal year 2020 the Human Resources and Compensation Committee and the Governance Committee 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. Following a process review by an external consultant, certain changes were made in fiscal year 2020 to improve the overall functioning of the Board and the performance of individual Directors. All Directors, as well as the President and CEO, and select senior management members, participate in the evaluation process. The Chair of the Governance Committee presents evaluation results to the Board. The ensuing discussions focus on achievements, 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 and CEO and oversees the evaluation of senior management. It also ensures that compensation programs are aligned with PSP Investments' objectives and strategic plan 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 year 2020 key activities

Investment and Risk Committee	• Reviewed and approved 16 investments. • Approved changes to the Risk Appetite Statement. • Recommended for Board approval a new custodian for PSP Investments' assets. • Reviewed the fund strategy of the Private Equity asset class. • Reviewed market downturn scenarios and related stress-testing in preparation for a market downturn.
Audit Committee	• Reviewed PSP Investments' cybersecurity and cloud strategies. • Examined cost containment measures as part of the annual budget process and projected future costs. • Approved the launch of the next special examination. • Reviewed PSP Investments' valuation procedure for private assets (this occurred post fiscal year-end).
Governance Committee	• Reviewed Board and Committee responsibilities and recommended new Terms of Reference for the Board, its committees, and the Board and committee chairs. • Proposed enhancements to the Board evaluation process. • Recommended for Board approval committee composition changes, including a new Chair for the Human Resources and Compensation Committee as part of the succession planning process. • Recommended for Board approval amendments to PSP Investments' Responsible Investment Policy and approved new Proxy Voting Principles. • Conducted a review of Director remuneration.
Human Resources and Compensation Committee	• Conducted a full review of succession planning for the CEO and Officers. • Recommended for Board approval a new benchmark, threshold level of performance and value-added objectives based on a total fund approach. • Adopted a new Human Resources Policy confirming PSP Investments' commitment to attracting, developing, rewarding and retaining our talent.

PSP Investments' Board of Directors met **10 times** in fiscal year 2020. Board committees met for a total of **25 times.**

Director appointment process

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

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

The appointment process is designed to ensure that the Board has a full contingent of high-calibre Directors with proven financial ability and relevant work experience. The Governance Committee regularly reviews and updates desirable and actual competencies, experiences and attributes to ensure that decisions are made with a view to having a diverse Board that can provide the oversight and guidance needed for PSP Investments to fulfill its mandate. Our Board currently has gender balance with women representing five out of the 11 Directors. In addition, two Directors have self-identified as belonging to a visible minority.

Director orientation and education

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

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

Board members

PSP Investments' Board is composed of 11 independent, professional Directors who bring a wealth of experience and expertise to their role. The biographies of PSP Investments' Directors can be found on pages **67–70**.

Remuneration

The Board's approach to Director remuneration reflects the provisions of the Act which require it to set its remuneration at a level comparable to the remuneration received by persons having similar responsibilities and engaged in similar activities. The Board reviews remuneration and considers changes based on recommendations prepared by the Governance Committee. In light of the current economic climate, the Board of Directors decided against implementing remuneration changes for the next fiscal year. A summary of Director remuneration is provided below:

Directors were compensated as follows:

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

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

Total fiscal year 2020 remuneration for Directors was $1,259,000. Directors are not entitled to additional remuneration in the form of retirement benefits or short-term or long-term incentives. The following tables provide details:

Meeting attendance

	Board of Directors		Investment and Risk Committee		Audit Committee		Governance Committee		Human Resources and Compensation Committee	
	Regular	Special	Regular	Special	Regular	Special	Regular	Special	Regular	Special
Number of meetings Fiscal Year 2020[1]	7	3	5	4	5		4		5	2
Maryse Bertrand	7/7	3/3	4/5	3/4			3/4		4/5	2/2
Micheline Bouchard	7/7	3/3	5/5	3/4			4/4		5/5	2/2
David C. Court	7/7	3/3	3/5	2/4	4/5					
Léon Courville	7/7	3/3	5/5	3/4			4/4		5/5	2/2
Garnet Garven	7/7	3/3	5/5	4/4	5/5		4/4			
Martin Glynn[2]	7/7	3/3	5/5	4/4						
Lynn Haight	7/7	3/3	5/5	4/4	5/5		4/4			
Timothy E. Hodgson	7/7	3/3	5/5	4/4					5/5	2/2
Miranda C. Hubbs	7/7	3/3	5/5	4/4					5/5	2/2
Katherine Lee	7/7	3/3	5/5	4/4	5/5					
William A. MacKinnon	7/7	3/3	5/5	4/4	5/5					

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

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

Directors' compensation for fiscal year 2020

	Annual Retainer $	Chair of a Committee/ Annual Retainer $	Boards/ Committees Meeting Fees[1] $	Travel Fees $	Total $
Maryse Bertrand	60,000		37,500		97,500
Micheline Bouchard	60,000	9,090	42,000		111,090
David C. Court	60,000		28,500	1,500	90,000
Léon Courville	60,000		42,000		102,000
Garnet Garven	60,000	15,000	42,000	7,500	124,500
Martin Glynn	200,000		N/A	9,000	209,000
Lynn Haight	60,000		42,000		102,000
Timothy E. Hodgson	60,000	15,000	37,500		112,500
Miranda C. Hubbs[2]	60,000	5,910	37,500		103,410
Katherine Lee	60,000		36,000		96,000
William A. MacKinnon	60,000	15,000	36,000		111,000

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

[2] Ms. Miranda C. Hubbs became the Chair of the Human Resources and Compensation Committee on November 9, 2019 in replacement of Ms. Micheline Bouchard.

Report of the Human Resources — and Compensation Committee

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

HRCC Governance Process

The Human Resources and Compensation Committee (HRCC) is composed of directors who are knowledgeable about human resources-related issues. At the end of fiscal year 2020, committee members were:

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

The HRCC's Terms of Reference, available on PSP Investments' corporate website in the "Board of Directors" section, describe the HRCC's duties and responsibilities, the key areas of which are listed below:

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

The Board of Directors ensures that PSP Investments' executive compensation and incentives are consistent with PSP Investments' Compensation Policy. In order to verify alignment, the services of Hugessen Consulting ("Hugessen"), an independent compensation consulting firm, were retained in fiscal year 2020 to assist the HRCC in its review of executive compensation. Hugessen reports solely to the HRCC.

Salary freeze and charitable contributions

In response to the significant personal and economic impacts related to the COVID-19 global pandemic, PSP took immediate action during the month of February to temporarily freeze all salaries and suspend external hiring. In addition, in recognition of the global need created by the pandemic and in order to give back to our local communities, PSP launched a special COVID-19 relief funds-matching program for employees making charitable contributions to United Way, Red Cross, HealthPartners and Community Foundations Canada. More than 400 employees participated and raised in excess of $700,000 for these charities, including over $250,000 contributed by the executive team. Our CEO has contributed 50% of his 2020 base salary to the above programs and other COVID-19 related charities. PSP prides itself on the value of giving back to our communities and supporting the well-being of all Canadians including its beneficiaries, contributors and employees.

Compensation framework

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

PSP Investments' Total Incentive Plan focuses on the following three (3) primary objectives:

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

The Total Incentive Plan, which includes annual and deferred compensation elements, is further described in this section. Fiscal year 2020 is the fourth year of the compensation framework in which compensation has been determined.

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

Compensation discussion and analysis

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

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

Principles of our compensation framework

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

Promote enterprise-wide collaboration	• All permanent employees participate in the total incentive plan • Total fund investment performance is a component of incentive compensation at all levels • Performance measure weights are aligned with the ability to impact results and vary based on level and group
Be sufficiently competitive to attract and retain the right people	• Compensation and incentive structures are aligned with relevant markets for talent, based on level, group and location • Total direct compensation (i.e., base salaries and target incentive) is competitive, with the flexibility to pay above or below based on the principles of pay for performance
Enable individual differentiation	• Emphasize individual and group performance to ensure behaviors are aligned with PSP Investments' vision and values • Allow for discretion at every level of evaluation
Adapt to changing circumstances	• Enable the HRCC, Board of Directors and President and CEO to ensure pay for performance outcomes are adapted to PSP Investments' changing environment and unique conditions
Align pay with performance	• Establish alignment with the stakeholders' key measures of success, including the long-term rate of return objective • Include both relative and absolute total fund performance as part of the incentive framework • For senior management, ensure a significant portion of total compensation is deferred and "at risk", or subject to performance conditions
Discourage short-term risk taking	• Investment performance is measured over five- and seven-year retrospective periods • Deferred component (PDFU) extends the period for incentives "at risk" for three years after the grant date

The alignment of PSP Investments' compensation framework with Vision 2021 is expected to span several years. Fiscal year 2020's investment performance benchmarks and value-added objectives are consistent with those for fiscal year 2019. As planned, a thorough review of performance parameters was completed by Eduard van Gelderen, PSP Investments' Chief Investment Officer in fiscal year 2020 and updates recommended and approved by the Board will be reflected in fiscal year 2021. The benchmarks and value-added objectives currently ensure that compensation levels are aligned and competitive with the market; any planned review will maintain these objectives.

Pay level benchmarking process

Given the diversity in skills, capabilities and competencies PSP Investments requires to fulfill its mandate, executive and non-executive compensation levels, programs and practices are evaluated by comparing them with those of peer organizations operating in similar markets and vary by employee group and location. Peers include pension funds, investment management organizations, banks, insurance companies, as well as other relevant employers in the location being benchmarked. For target levels of investment performance, we align 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 optimal performance.

Risk management

Our compensation program reflects our responsibility to our sponsor and to Plan contributors and beneficiaries. Incentives are aligned with the long-term investment mandate and strategy and were developed in consideration of the target return and risk appetite.

Key risk mitigating features in the compensation program include:

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

Compensation framework

Salary

Purpose:

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

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

Total incentive

Purpose:

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

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

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

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

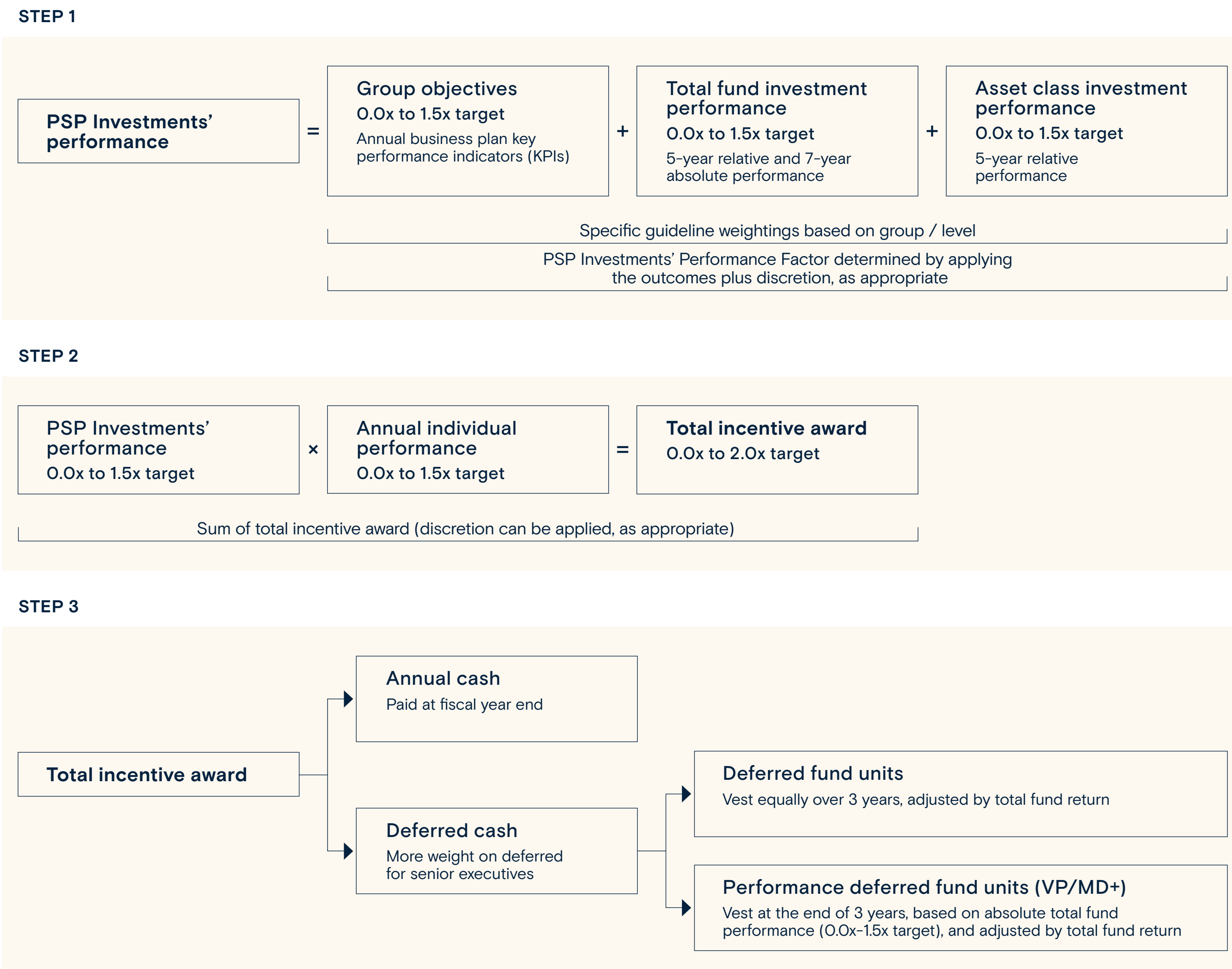
All employees participate in the same incentive plan and each employee has a target incentive opportunity based on his or her group and level. All employees can earn up to a maximum of two times their target incentive opportunity.

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

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

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

Total incentive plan framework[1]



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

Restricted Fund Units

Purpose:

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

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

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

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

Other benefits

Purpose:

- To provide competitive group benefits and retirement savings programs.

Group benefits:

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

Retirement savings:

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

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

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

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

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

Perquisites:

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 senior vice presidents in asset classes is weighted significantly toward variable compensation, as outlined in the table below.

The President and CEO's target incentive is 400% of base salary, split 40% into annual cash paid out in the current year ("short-term incentive") and 60% into deferred awards ("long-term incentive"). Within the deferred portion, 50% is allocated to performance-based deferred fund units that cliff vest and pay out after three years subject to 10-year absolute performance (while varying with total fund return). The other 50% is allocated to time-vested deferred fund units that vest one-third per year over three years (while varying with total fund return).

For senior vice presidents in asset classes, the target incentive is 350% of base salary, split 50% into annual cash paid out in the current year ("short-term incentive") and 50% into deferred awards ("long-term incentive"). Within the deferred portion, 40% is allocated to performance-based deferred fund units that cliff vest subject to 10-year absolute performance and pay out after three years (while varying with total fund return). The other 60% is allocated to time-vested deferred fund units that vest one-third per year over three years (while varying with total fund return).

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

Fiscal 2020 results: performance outcomes and compensation decisions (ending March 31, 2020)

Our compensation program includes two key investment performance elements:

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

Absolute total fund performance

Since fiscal year 2014, PSP Investments has generated a net return on investment of 8.4% per annum, which is higher than the long-term return objective.

Relative total fund and asset class performance

Long-term value creation is often a function of the ability to consistently deliver investment returns above a defined benchmark. For fiscal year 2020, our 5-year relative investment performance for the purpose of compensation is summarized in relation to each sector's respective target, as follows:

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

[1] Threshold refers to the performance required to achieve the performance multiplier above 0.0x. Target refers to the excess performance required to achieve the target performance multiplier of 1.0x. Maximum refers to the excess performance required to achieve the maximum performance multiplier of 1.5x.

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

Compensation decisions made in fiscal year 2020

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 2020, the President and CEO's personal objectives—in addition to superior investment performance—were aligned with PSP Investments' strategy, mission and values, including:

- One PSP
- Branding
- Global footprint
- Scalability and efficiency
- Develop our talent

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

Compensation disclosure

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

The following tables illustrate NEOs selected and ranked by grant value in fiscal year 2020 whereby deferred cash awards continue to be subject to varying with total fund return for up to three more years. The total compensation payout value received in fiscal year 2020 including the values payable from prior year's deferred awards, is also illustrated and includes cash received from former plans, new plans and any transitional arrangements.

Total direct compensation (grant value)

	Base salary[1]	Annual cash	Deferred cash (grant)	Restricted fund unit (grant)	Total direct compensation (grant)[2]
Neil Cunningham[3]	503,846	1,205,200	1,807,800	0	3,516,846
David J. Scudellari[4]	453,462	1,249,855	1,249,855	0	2,953,172
Guthrie Stewart[3]	352,692	933,223	933,223	0	2,219,138
Eduard van Gelderen[3,5]	403,077	743,173	743,173	300,000	2,189,423
Darren Baccus[3]	327,500	794,352	794,352	0	1,916,204
Anik Lanthier[3,6]	352,692	680,167	680,167	0	1,713,026

1 Represents base salary earned during fiscal year 2020 which included 26.2 pay periods versus the standard 26 pay periods.
2 Total direct compensation granted includes annual cash, deferred cash and RFU earned for fiscal year 2020.
3 All amounts reported in CAD.
4 All amounts reported in USD.
5 Mr. van Gelderen was hired on July 30, 2018. Mr. van Gelderen was awarded an RFU grant for fiscal year 2020.
6 For fiscal year 2020, Ms. Lanthier ranked sixth NEO with regards to grant value and fourth NEO with regards to payout value.

Total direct compensation (payout value)

	Base salary[1]	Annual cash	Deferred cash / LTIP (payout of previous grants)	Restricted fund unit (payout of previous grant)	Total direct compensation (payout)
Neil Cunningham[2]	503,846	1,205,200	1,395,161	0	3,104,207
David J. Scudellari[3]	453,462	1,249,855	491,483	0	2,194,800
Guthrie Stewart[2]	352,692	933,223	1,348,380	0	2,634,295
Eduard van Gelderen[2,4]	403,077	743,173	80,671	170,447	1,397,368
Darren Baccus[2]	327,500	794,352	230,679	0	1,352,531
Anik Lanthier[2,5]	352,692	680,167	1,123,014	0	2,155,873

1 Represents base salary earned during fiscal year 2020 which included 26.2 pay periods versus the standard 26 pay periods.
2 All amounts reported in CAD.
3 All amounts reported in USD.
4 Mr. van Gelderen was hired on July 30, 2018. Mr. van Gelderen was awarded an RFU grant of 200,000 for fiscal year 2019 as part of his employment agreement.
5 For fiscal year 2020, Ms. Lanthier ranked sixth NEO with regards to grant value and fourth NEO with regards to payout value.

Comprehensive fiscal year 2020 total compensation

	Fiscal year	Base salary[1] (A)	STIP / Annual cash payout (B)	Deferred cash / LTIP grant (C)	Sub-total compensation (grant value) (A+B+C)	Restricted fund unit / Special cash grants (D)	Pension and SERP Plans (E)	**Total compensation (grant value) (A+B+C+D+E)**	Other compensation[2] (F)	Deferred cash + LTIP + RFU payout (G)	**Total compensation (payout value) (A+B+F+G)**
Neil Cunningham[3]	2020	503,846	1,205,200	1,807,800	3,516,846	0	123,000	**3,639,846**	45,409	1,395,161	**3,149,616**
President and Chief	2019	500,000	1,211,520	1,817,280	3,528,800	0	364,400	**3,893,200**	44,871	1,416,959	**3,173,350**
Executive Officer	2018	371,923	1,068,636	1,164,801	2,605,360	0	85,000	**2,690,360**	32,147	1,331,872	**2,804,578**
David J. Scudellari[4]	2020	453,462	1,249,855	1,249,855	2,953,172	0	18,769	**2,971,941**	30,895	491,483	**2,225,695**
Senior Vice President	2019	450,000	1,294,453	1,294,453	3,038,906	0	19,885	**3,058,791**	26,484	345,897	**2,116,834**
and Global Head of Credit Investments	2018	350,000	1,098,672	1,098,672	2,547,344	675,000	18,077	**3,240,421**	698,487	103,163	**2,250,322**
Guthrie Stewart[3]	2020	352,692	933,223	933,223	2,219,138	0	24,500	**2,243,638**	34,333	1,348,380	**2,668,628**
Senior Vice President	2019	350,000	950,355	950,355	2,250,710	0	23,155	**2,273,865**	32,366	868,381	**2,201,102**
and Global Head of Private Investments	2018	350,000	1,000,213	1,000,213	2,350,426	0	17,500	**2,367,926**	31,576	628,318	**2,010,107**
Eduard van Gelderen[3,5]	2020	403,077	743,173	743,173	1,889,423	300,000	20,000	**2,209,423**	34,689	251,118	**1,432,057**
Senior Vice President and	2019	269,231	405,650	405,650	1,080,531	260,000	13,463	**1,353,994**	82,953	71,415	**829,249**
Chief Investment Officer	2018	0	0	0	0	0	0	**0**	0	0	**0**
Darren Baccus[3,6]	2020	327,500	794,352	794,352	1,916,204	0	23,491	**1,939,695**	35,296	230,679	**1,387,827**
Senior Vice President and	2019	325,000	477,852	477,852	1,280,704	114,488	22,750	**1,417,942**	148,706	82,660	**1,034,218**
Global Head of Real Estate and Natural Resources	2018	325,000	301,617	301,617	928,234	500,000	22,750	**1,450,984**	531,911	16,841	**1,175,369**
Anik Lanthier[3]	2020	352,692	680,167	680,167	1,713,026	0	33,500	**1,746,526**	33,363	1,123,014	**2,189,236**
Senior Vice President,	2019	350,000	876,549	876,549	2,103,098	0	114,300	**2,217,398**	30,948	1,127,276	**2,384,773**
Public Markets and Absolute Return Strategies	2018	335,000	925,396	925,395	2,185,791	0	142,100	**2,327,891**	28,295	632,412	**1,921,103**

1 For fiscal year 2020, represents base salary earned which included 26.2 pay periods versus the standard 26 pay periods.

2 "Other compensation" includes the perquisites allowance, the annual flexible dollar allocation, the annual health-and-lifestyle assessment and the employer-paid premiums for life, accidental death and dismemberment, disability, health and dental care coverage (including the employee assistance program), 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 USD.

5 Mr. van Gelderen was hired on July 30, 2018. Mr. van Gelderen received a special cash grant of 60,000 for fiscal year 2019, which is included as part of "Other compensation".

6 Mr. Baccus was hired on December 1, 2016. Pursuant to his employment agreement, Mr. Baccus was entitled to a guaranteed annual cash compensation of no less than 700,000 for fiscal year 2018, and a discretionary cash bonus for fiscal year 2018 and 2019, which are included as part of "Other compensation". Mr. Baccus was appointed Senior Vice President and Global Head of Real Estate and Natural Resources on November 1, 2018. Compensation components such as annual cash and deferred cash reflect his tenure as former Senior Vice President and Chief Legal Officer up to October 31, 2018.

Long-term incentives granted

The following table shows the estimated future payouts of long-term incentive awards granted to PSP Investments' NEOs for fiscal year 2020 (ended March 31, 2020).

	Award type	Fiscal year 2020 grant	Vesting period	Estimated future payouts		
				FY2021	FY2022	FY2023
Neil Cunningham[2]	Deferred cash[1]	1,807,800	3 years	301,300	301,300	1,205,200
	RFU	0	3 years	0	0	0
David J. Scudellari[3]	Deferred cash[1]	1,249,855	3 years	249,971	249,971	749,913
	RFU	0	3 years	0	0	0
Guthrie Stewart[2]	Deferred cash[1]	933,223	3 years	186,645	186,645	559,933
	RFU	0	3 years	0	0	0
Eduard van Gelderen[2]	Deferred cash[1]	743,173	3 years	148,635	148,635	445,903
	RFU	300,000	3 years	100,000	100,000	0
Darren Baccus[2]	Deferred cash[1]	794,352	3 years	158,870	158,870	476,612
	RFU	0	3 years	0	0	0
Anik Lanthier[2]	Deferred cash[1]	680,167	3 years	136,033	136,033	408,101
	RFU	0	3 years	0	0	0

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

2 All amounts reported in CAD.

3 All amounts reported in USD.

Long-term incentives cumulative value

The total cumulative value of all long-term incentive awards granted but not yet vested or paid to PSP Investments' NEOs (as at March 31, 2020) is shown in the following table.

	Plan	Awards paying out at the end of fiscal year			Total
		2021	2022	2023	
Neil Cunningham[2]	Deferred cash[1]	1,322,294	1,512,820	1,205,200	4,040,314
	RFU	0	0	0	0
	TOTAL	**1,322,294**	**1,512,820**	**1,205,200**	**4,040,314**
David J. Scudellari[3]	Deferred cash[1]	1,168,065	1,026,643	749,913	2,944,621
	RFU	0	0	0	0
	TOTAL	**1,168,065**	**1,026,643**	**749,913**	**2,944,621**
Guthrie Stewart[2]	Deferred cash[1]	976,843	756,858	559,934	2,293,635
	RFU	0	0	0	0
	TOTAL	**976,843**	**756,858**	**559,934**	**2,293,635**
Eduard van Gelderen[2]	Deferred cash[1]	229,765	392,025	445,904	1,067,694
	RFU	166,667	100,000	0	266,667
	TOTAL	**396,432**	**492,025**	**445,904**	**1,334,361**
Darren Baccus[2]	Deferred cash[1]	435,411	445,582	476,611	1,357,604
	RFU	0	0	0	0
	TOTAL	**435,411**	**445,582**	**476,611**	**1,357,604**
Anik Lanthier[2]	Deferred cash[1]	768,489	711,009	555,237	2,034,735
	RFU	0	0	0	0
	TOTAL	**768,489**	**711,009**	**555,237**	**2,034,735**

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

2 All amounts reported in CAD.

3 All amounts reported in USD.

Retirement benefits

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

	Plan type	Accumulated value at beginning of year	Compensatory increase[1]	Non-compensatory increase[2]	Accumulated value at year end
All amounts reported are in USD					
David J. Scudellari	Safe Harbor 401(k)	158,049	18,769	18,133	194,951
All amounts reported are in CAD					
Guthrie Stewart	Defined Contribution	148,927	24,500	20,476	193,903
Eduard van Gelderen	Defined Contribution	28,301	20,000	15,898	64,199
Darren Baccus	Defined Contribution	114,517	23,491	12,559	150,567

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

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

Defined benefit pension plan (Canada)

		Annual benefit					
	Number of years of credited service[1]	At year end[2]	At age 65[2,3]	Accrued obligation at beginning of year[2,4]	Compensatory increase[5]	Non-compensatory increase[6]	Accrued obligation at year end[2,7]
Neil Cunningham	12.4	110,200	144,300	1,625,500	123,000	541,900	2,290,400
Anik Lanthier	13.9	94,800	220,800	1,392,400	33,500	469,900	1,895,800

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

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

3 For the purpose of calculating the annual benefits payable at age 65, the final average earnings are calculated as at March 31, 2020.

4 Accrued obligation using a discount rate of 4.00%. The obligations are calculated as at March 31, 2019, using the assumptions and methods that were used for the accounting disclosures as at December 31, 2018.

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 3.19%. The obligations are calculated as at March 31, 2020, using the assumptions and methods that were used for the accounting disclosures as at December 31, 2019.

Post-employment policies

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

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

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

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

	Years of service[1]	Severance	Resignation
Neil Cunningham[2]	15.8	2,660,000	0
David J. Scudellari[3]	4.4	1,650,000	0
Guthrie Stewart[2]	4.6	1,283,333	0
Eduard van Gelderen[2]	1.7	975,000	0
Darren Baccus[2]	3.3	1,117,188	0
Anik Lanthier[2]	13.9	1,443,750	0

[1] Assumes a notional termination as at March 31, 2020.
[2] All amounts reported in CAD.
[3] All amounts reported in USD.

Directors' biographies

Martin Glynn

Chair of the Board

Board member since
January 30, 2014

Committee Membership:
Investment and Risk Committee

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

Maryse Bertrand

Board member since
September 7, 2018

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

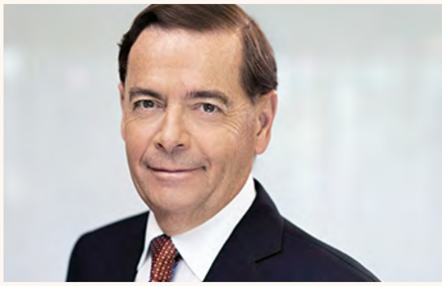
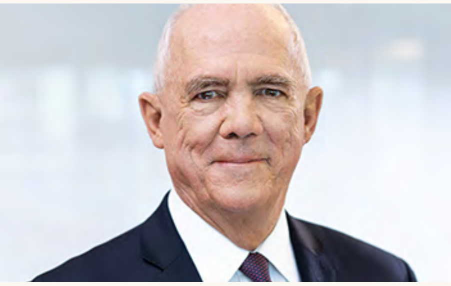
Maryse Bertrand is a Board member at the National Bank of Canada, Gildan Activewear Inc. and Metro Inc. and the Vice-Chair of the Board of McGill University. She is a former director of the Caisse de dépôt et placement du Québec. She was Strategic advisor and special counsel to Borden Ladner Gervais S.E.N.C., s.r.l., and a Vice-president, Real Estate Services, Legal Services and General-counsel at CBC/Radio-Canada. Prior to 2009, she was a partner of Davies Ward Phillips and Vineberg S.E.N.C., s.r.l., where she specialized in M&A and Corporate Finance and where she served on the National Management Committee of the firm. She was named as Advocatus emeritus (Ad. E.) in 2007 by the Québec Bar in recognition of her exceptional contribution to the legal profession. Ms. Bertrand has a law degree (with high distinction) from McGill University and a Master in Risk Management from New York University, Stern School of Business.

Micheline Bouchard

Board member since
September 29, 2011

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

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


David C. Court

Board member since
October 30, 2018

Committee Membership:
Audit Committee
Investment and Risk Committee

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

Léon Courville

Board member since
March 5, 2007

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

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

Garnet Garven

Board member since
September 29, 2011

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

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



Lynn Haight

Board member since
January 14, 2010

Committee Membership
Audit Committee
Governance Committee
Investment and Risk Committee

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

Timothy E. Hodgson

Board member since
December 17, 2013

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

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

Miranda C. Hubbs

Board member since
August 15, 2017

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

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

Katherine Lee

Board member since
June 25, 2018

Committee Membership
Audit Committee
Investment and Risk Committee

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

William A. MacKinnon

Board member since
January 14, 2010

Committee Membership
Audit Committee – Chair
Investment and Risk Committee

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

Consolidated 10-year financial review

($ million)	**2020**	2019	2018	2017	2016	2015	2014	2013	2012	2011
CHANGE IN NET ASSETS[1]										
Net investment income (loss)	**(500)**	11,616	13,975	15,553	1,098	13,966	12,793	7,194	1,888	7,043
Operating expenses	**551**	503	450	370	295	243	216	184	148	114
Other comprehensive income (loss)	**9**	**(3)**	(14)	(4)	4	(15)	17	–	–	–
Comprehensive income (loss)	**(1,042)**	11,110	13,511	15,179	807	13,708	12,594	7,010	1,740	6,929
Fund transfers	**2,871**	3,749	3,921	3,622	3,987	4,554	4,997	4,635	4,733	4,814
Increase (decrease) in net assets	**1,829**	14,859	17,432	18,801	4,794	18,262	17,591	11,645	6,473	11,743
NET ASSETS UNDER MANAGEMENT										
Equity										
Public Market Equities[2]	**48,368**	51,035	51,813	55,227	47,511	56,276	49,466	40,165	32,950	32,834
Private Equity	**24,038**	23,539	19,382	15,868	12,520	10,103	8,425	6,924	6,444	5,582
Government Fixed Income[3]	**33,388**	34,389	27,783	24,043	24,603	22,646	18,383	15,433	14,144	11,956
Credit	**13,295**	10,475	8,857	4,418	640	–	–	–	–	–
Real Assets										
Real Estate[4]	**23,817**	23,538	23,245	20,551	20,356	14,377	10,650	9,427	7,055	5,312
Infrastructure	**18,302**	16,818	14,972	11,149	8,701	7,080	6,011	3,854	3,607	2,356
Natural Resources	**7,645**	6,759	4,833	3,711	2,470	1,536	795	382	325	–
Complementary Portfolio	**945**	1,426	2,201	656	–	–	–	–	–	–
Net AUM	**169,798**	**167,979**	**153,086**	**135,623**	**116,801**	**112,018**	**93,730**	**76,185**	**64,525**	**58,040**
PERFORMANCE (%)										
Annual rate of return (net of expenses)	**(0.6)**	**7.1**	**9.8**	**12.8**	**0.7**	**14.2**	**15.9**	**10.3**	**2.6**	**14.1**
Benchmark	(1.6)	7.2	8.7	11.9	0.3	13.1	13.9	8.6	1.6	12.7

1 Figures for and after 2014 are presented in accordance with International Financial Reporting Standards (IFRS).
Figures prior to 2014 are presented in accordance with Canadian accounting standards applicable during the respective periods and have not been restated in accordance with IFRS.

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

3 Includes Cash & Cash Equivalents.

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

— Financial Statements

and Notes to the Financial Statements

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Management's Responsibility

for Financial Reporting

The consolidated financial statements of the Public Sector Pension Investment Board ("PSP Investments") as well as the financial statements of the Public Service, the Canadian Forces, the Royal Canadian Mounted Police, and the Reserve Force Pension Plan Accounts (the "financial statements") have been prepared by management and approved by the Board of Directors. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and incorporated into the CPA Canada Handbook. Management is responsible for the contents of these financial statements and the financial information contained in the annual report. The consolidated financial statements include certain amounts based on Management's judgments and best estimates where deemed appropriate. The significant accounting policies used are disclosed in note 2 to the consolidated financial statements. The financial information presented throughout the Annual Report is consistent with the consolidated financial statements.

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

In this regard, investments of PSP Investments held during the years ended March 31, 2019 and March 31, 2020 were in accordance with the *Public Sector Pension Investment Board Act* (the "Act) and the Statement of Investment Policies, Standards and Procedures (the "SIP&P").

In addition, PSP Investments maintains records and systems of internal control and supporting procedures to provide reasonable assurance that PSP Investments' assets are safeguarded and controlled in accordance with Act.

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

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

Neil Cunningham
President and CEO

June 4, 2020

Jean-François Bureau
Senior Vice President, and Chief Financial and Risk Officer

June 4, 2020

Investment Certificate

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

“The investments of PSP Investments held during the year ended March 31, 2020, were in accordance with the Act and PSP Investments’ Statement of Investment Policies, Standards and Procedures”.

Martin Glynn
Chair of the Board
June 4, 2020

Consolidated Financial Statements

Independent Auditors' Report

To the President of the Treasury Board

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Public Sector Pension Investment Board (PSP Investments), which comprise the consolidated statements of financial position as at March 31, 2020 and 2019, and the consolidated statements of comprehensive income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of PSP Investments as at March 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

In preparing the consolidated financial statements, management is responsible for assessing PSP Investments' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate PSP Investments or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

- PSP Investments' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause PSP Investments to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

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

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

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

Montréal, Canada
4 June 2020

Deloitte LLP[1]

Montréal, Canada
4 June 2020

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

Consolidated Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Assets		
Investments (Note 4.1)	**207,279**	199,022
Other assets	**324**	193
Total assets	**207,603**	199,215
Liabilities		
Trade payable and other liabilities	**440**	319
Investment-related liabilities (Note 4.1)	**21,673**	16,924
Borrowings (Notes 4.1, 8.2)	**15,808**	14,119
Total liabilities	**37,921**	31,362
Net assets	**169,682**	167,853
Equity		
Statutory rights Held by the Government of Canada with respect to: (Note 9.1)		
Public Service Pension Plan Account	**123,409**	121,974
Canadian Forces Pension Plan Account	**33,275**	33,012
Royal Canadian Mounted Police Pension Plan Account	**12,265**	12,130
Reserve Force Pension Plan Account	**733**	737
Total equity	**169,682**	167,853
Total liabilities and equity	**207,603**	199,215

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

On behalf of the Board of Directors:

Martin Glynn
Chair of the Board

William A. Mackinnon
Chair of the Audit Committee

Consolidated Statements of Comprehensive Income (Loss)

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Investment income	**203**	12,195
Investment-related expenses (Note 11)	**(703)**	(579)
Net investment income (loss)	**(500)**	11,616
Operating expenses (Note 12)	**(551)**	(503)
Net income (loss)	**(1,051)**	11,113
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability	**9**	(3)
Comprehensive income (loss)	**(1,042)**	11,110

Consolidated Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Fund transfers		
Balance at beginning of period	**77,480**	73,731
Fund transfers received during the period (Note 9.3)	**2,871**	3,749
Balance at end of period	**80,351**	77,480
Retained earnings		
Balance at beginning of period	**90,373**	79,263
Comprehensive income (loss)	**(1,042)**	11,110
Balance at end of period	**89,331**	90,373
Total equity	**169,682**	167,853

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

Consolidated Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Cash flows from operating activities		
Net income (loss)	**(1,051)**	11,113
Adjustments for non-cash items:		
Depreciation of equipment (Note 12)	**35**	33
Effect of exchange rate changes on cash and cash equivalents	**(83)**	(33)
Unrealized losses on borrowings	**512**	189
	(587)	11,302
Net changes in operating assets and liabilities		
Increase in investments	**(12,433)**	(17,479)
Decrease in other assets	**2**	4
Increase in trade payables and other liabilities	**71**	44
Increase in investment-related liabilities	**4,748**	3,257
Net cash flows used in operating activities	**(8,199)**	(2,872)
Cash flows from financing activities		
Proceeds from borrowings	**26,342**	33,711
Repayment of borrowings	**(25,164)**	(31,987)
Fund transfers received (Note 9.3)	**2,871**	3,749
Net cash flows provided by financing activities	**4,049**	5,473
Cash flows used in investing activities		
Acquisitions of equipment	**(21)**	(43)
Net cash flows used in investing activities	**(21)**	(43)
Net change in cash and cash equivalents	**(4,171)**	2,558
Effect of exchange rate changes on cash and cash equivalents	**83**	33
Cash and cash equivalents at the beginning of the period	**6,816**	4,225
Cash and cash equivalents at the end of the period[A]	**2,728**	6,816
Supplementary disclosure of cash flow information		
Interest paid	**(395)**	(310)

[A] As at March 31, 2020 cash and cash equivalents were comprised of $2,621 million (March 31, 2019 - $6,796 million) held for investment purposes and included in Note 4.1, as well as $107 million (March 31, 2019 - $20 million) held for administrative purposes and included in Other assets.

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

Notes to the Consolidated Financial Statements

For the years ended March 31, 2020 and 2019

1 — Corporate Information

The Public Sector Pension Investment Board ("PSP Investments") is a Crown corporation created under the *Public Sector Pension Investment Board Act* (the "Act") to manage and invest amounts that are transferred to it pursuant to the *Superannuation Acts* (defined below), for the funds (as defined in the Act) of the pension plans established under the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act* ("CFSA"), the *Royal Canadian Mounted Police Superannuation Act* (collectively the "*Superannuation Acts*"), and certain regulations under the CFSA (the "CFSA Regulations"). The pension plans established under the *Superannuation Acts* consist of the Public Service pension plan, the Canadian Forces pension plan, and the Royal Canadian Mounted Police pension plan, and the pension plan established under the CFSA Regulations is the Reserve Force pension plan. They are herein referred to individually as a "Plan" and collectively as the "Plans".

The funds for which amounts are currently transferred to PSP Investments by the Government of Canada (individually a "Fund" and collectively the "Funds") relate to pension obligations under the Plans for service on or after April 1, 2000, and in the case of the Reserve Force Plan, for service on or after March 1, 2007 (collectively "Post-2000 Service"). The accounts managed by PSP Investments for the Funds are herein referred to individually as a "Plan Account" and collectively as the "Plan Accounts".

PSP Investments is responsible for managing amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. The amounts are to be invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans and the ability of the Plans to meet their financial obligations.

Pursuant to the *Superannuation Acts*, the Government of Canada, which administers the Plans and their respective Funds, may at any time call upon the net assets of PSP Investments allocated to each Fund's Plan Account for amounts required for the purpose of paying benefits under the relevant Plan in respect of Post-2000 Service, or generally, for the purpose of reducing any non-permitted surplus in the Fund of such Plan.

PSP Investments and the majority of its subsidiaries are exempt from Part I tax under paragraphs 149(1)*(d)* and 149(1)*(d.2)* of the *Income Tax Act* (Canada), respectively.

PSP Investments' registered office is located at 1 Rideau Street, Ottawa, Ontario, Canada and its principal business office is at 1250 René-Lévesque Boulevard West, Montreal, Quebec, Canada.

2 — Significant Accounting Policies

The significant accounting policies that have been applied in the preparation of these Consolidated Financial Statements are summarized below and have been used throughout all periods presented.

2.1. Basis of Presentation

The Consolidated Financial Statements of PSP Investments have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

PSP Investments qualifies as an investment entity as defined under IFRS 10 *Consolidated Financial Statements* and, consequently, does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. Instead, PSP Investments measures its investments in subsidiaries at fair value through profit or loss ("FVTPL") in accordance with IFRS 9 *Financial Instruments* ("IFRS 9"), including those that are formed by PSP Investments and that qualify as investment entities ("investment entity subsidiaries"). PSP Investments also measures its investments in associates, joint ventures and financial assets and financial liabilities at FVTPL in accordance with IAS 28 *Investments in Associates and Joint Ventures* and IFRS 9.

These Consolidated Financial Statements present the financial position and results of operations of PSP Investments and its subsidiaries that solely provide it with services that relate to its investment activities. They reflect the economic activity of PSP Investments as it pertains to the investment of the net contributions transferred to it for the Funds. Accordingly, they do not reflect all of the assets or the details of the pension contributions, payments and liabilities under the Plans.

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on June 4, 2020.

Plan Accounts

PSP Investments maintains records of net contributions for each Fund, as well as the allocation of its investments and the results of its operations to each of the Plan Accounts. Separate financial statements for each Plan Account are prepared.

2 — Significant Accounting Policies
(continued)

2.2. Investment Entity Status

PSP Investments has determined that it meets the mandatory items of the definition of an investment entity under IFRS 10 on the basis of the facts and circumstances as at the end of the period. They are as follows:

(i) Mandate and business purpose

As further described in Note 1, PSP Investments' mandate is to manage and invest the amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. Consequently, PSP Investments' business purpose is to invest with a view of achieving a maximum rate of return from capital appreciation and income from investments, without undue risk of loss.

(ii) Performance evaluation

PSP Investments measures and evaluates the performance of its investments on a fair value basis.

In addition to the mandatory items of the definition, IFRS 10 also outlines certain typical characteristics of an investment entity, the absence of any of which does not necessarily preclude an entity from qualifying as an investment entity. One of these characteristics is that an investment entity should have investors that are not related parties of the entity.

As described in Note 14, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

Should any changes occur in the facts and circumstances, PSP Investments will evaluate the impact of any such changes on its investment entity status.

2.3. Summary of Significant Accounting Policies

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

2.3.1. Financial Instruments

(i) Classification

Financial assets representing investments are managed, together with related financial liabilities, according to the entity's business model to maximize the rate of return. The performance of such financial instruments is evaluated on a fair value basis and they are classified at FVTPL. They are described in detail in Note 4.1.

Borrowings, as described under Note 8, are financial liabilities that are designated to be measured at FVTPL since they are part of the portfolios of investments that are managed together and whose performance is evaluated on a fair value basis.

(ii) Recognition

Financial assets and financial liabilities are recorded at the date upon which PSP Investments becomes a party to the associated contractual provisions. In the case of traded financial assets, they are recorded as of the trade date.

(iii) Initial and subsequent measurement

All financial assets and financial liabilities are recorded in the Consolidated Statements of Financial Position at fair value and continue to be measured as such on a recurring basis. After initial measurement, subsequent changes in the fair value of financial assets and financial liabilities classified at FVTPL are recorded in the Consolidated Statements of Comprehensive Income.

If fair value changes in financial liabilities designated to be measured at FVTPL result from fluctuations in PSP Investments' own credit risk, they are recorded in other comprehensive income. All other changes in fair value are recorded in investment income.

(iv) Derecognition

A financial asset (or, where applicable, a part thereof) is derecognized when the following conditions are met:

- The rights to receive cash flows from the asset have expired, or
- PSP Investments has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows to a third party,

and

- PSP Investments has transferred substantially all the risks and rewards of the asset, or
- In cases where PSP Investments has neither transferred nor retained substantially all the risks and rewards of the asset, it has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At initial recognition, PSP Investments evaluates the facts and circumstances related to a transaction to confirm that the transaction price represents the fair value of an asset or a liability. At each subsequent reporting date, market prices are used to determine fair value where an active market exists (such as a recognized securities exchange), as they reflect actual and regularly occurring market transactions on an arm's length basis. If quoted market prices are not available, then fair value is estimated using valuation techniques based on inputs existing at the end of the reporting period that are derived from observable market data.

Valuation techniques are generally applied to investments in private markets, alternative investments, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 4.

2.3.3. Functional and Presentation Currency

The functional and presentation currency of PSP Investments and its consolidated subsidiaries is the Canadian dollar, which is the currency of the primary economic environment in which each entity within the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars.

2.3.4. Foreign Currency Translation

Foreign currency transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities that are denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the end of the reporting period.

Foreign currency transaction gains and losses on all monetary assets and liabilities are included in investment income.

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or pledged as collateral, or recognize securities borrowed or received as collateral. Cash collateral received is recognized as described in Note 4.1.9.

The securities lending and borrowing programs require collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standard securities lending and borrowing programs. PSP Investments and its counterparties are authorized to sell, repledge or otherwise use collateral held. The same securities or equivalent securities must be returned to the counterparty at the end of the contract, unless an event of default occurs.

2.3.6. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements and Related Collateral

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

Securities sold or purchased under the repurchase and reverse repurchase agreements respectively, including related collateral, are not derecognized or recognized as all risks and rewards of ownership related to such securities are not transferred. As such, in the case where PSP Investments is the counterparty selling securities under such agreements, all income (loss) related to such securities continues to be reported in investment income and obligations to repurchase the securities sold are accounted for as investment-related liabilities. The difference between the fair value of the securities sold and the repurchase price is recorded as interest expense within investment related expenses. In the case where PSP Investments is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income.

Transactions under repurchase and reverse repurchase agreements involve pledging collateral consisting of cash or securities deemed acceptable by the counterparties. Collateral transactions are conducted under terms that are usual and customary in standard repurchase arrangements. Such terms require the relevant counterparty to pledge additional collateral based on the changes in the fair value of the existing collateral pledged as well as the related securities sold or purchased. The counterparties are authorized to sell, repledge or otherwise use collateral held. The securities pledged as collateral must be returned to the relevant counterparty at the end of the contract, unless an event of default occurs.

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.7. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset with the net amount reported in the Consolidated Statements of Financial Position only if PSP Investments has a current legally enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.3.8. Equity

The statutory rights of the Government of Canada pursuant to the *Superannuation Acts* are described under Note 1 and are classified as equity instruments on the following basis:

- Under such rights the Government of Canada is entitled to PSP Investments' net assets at any time for the purposes set out in the *Superannuation Acts*. Such rights do not contain any additional obligations for PSP Investments to deliver amounts to the Government of Canada.
- Such rights are the most subordinate claim on PSP Investments' net assets.
- The total expected cash flows attributable to such rights, at any time, is solely based on the fair value of the net assets of PSP Investments at that time. Further, the fair value of the net assets of PSP Investments in its entirety represents the amounts that the Government of Canada may call upon at any time.

2.3.9. Investment Income

Investment income is made up of interest, dividends, gains (losses) on the disposal of financial assets and financial liabilities as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of financial assets held and financial liabilities outstanding at the end of the reporting period. Interest is recognized, on a consistent basis, using the prescribed rates until maturity. Dividends are recognized when the right to receive them has been obtained, generally on the ex-dividend date.

2.3.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, as described in Note 4.1.7, transaction costs, external investment management fees and other (net).

Transaction costs are incremental costs directly attributable to the acquisition, due diligence, issue, or disposal of a financial asset or financial liability, and they are expensed as incurred.

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets as outlined in Note 11.

2.3.11. Fund Transfers

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

2.4. Significant Accounting Judgments, Estimates and Assumptions

In preparing the Consolidated Financial Statements, management makes certain judgments, estimates and assumptions that can affect the amounts reported therein. Significant judgments include those related to the determination of the investment entity status as described in Note 2.2.

Management also makes estimates and assumptions in the measurement, risk assessment and related disclosures surrounding investments in private markets and certain fixed income securities. The main assumptions made by management regarding measurement of financial instruments are outlined in Note 4.2.3 and those regarding the assessment of risk are outlined in Note 7.

Although assumptions reflect management's best estimates, actual results may differ from such estimates due to the uncertainties involved in using them. As further described in Note 18, such uncertainties were significant as at March 31, 2020 due to the substantial disruption of global economic activity as well as financial markets' volatility at the reporting date.

3 — Current and Future Changes in Accounting Standards

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

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are aggregated, in the following table, in classes that reflect their respective exposure as well as investment sectors. Their fair values were as follows, as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Public markets		
Canadian equity	**3,360**	3,394
Foreign equity	**29,073**	32,424
Private markets		
Real estate	**29,763**	28,142
Private equity	**22,087**	20,234
Infrastructure	**22,428**	20,099
Natural resources	**10,443**	7,513
Fixed income		
Cash and money market securities	**4,840**	11,904
Government and corporate bonds	**31,403**	26,249
Inflation-linked bonds	**16,557**	14,017
Private debt securities	**17,441**	15,644
Alternative investments	**11,077**	10,039
	198,472	189,659
Investment-related assets		
Amounts receivable from pending trades	**760**	1,176
Interest receivable	**588**	498
Dividends receivable	**159**	143
Securities purchased under reverse repurchase agreements	**4,516**	5,970
Derivative-related assets	**2,784**	1,576
	8,807	9,363
Investments representing financial assets at FVTPL	**207,279**	199,022
Investment-related liabilities		
Amounts payable from pending trades	**(1,016)**	(956)
Interest payable	**(94)**	(69)
Securities sold short	**(3,890)**	(6,298)
Collateral payable	**(3,351)**	(3,012)
Securities sold under repurchase agreements	**(8,787)**	(5,627)
Derivative-related liabilities	**(4,535)**	(962)
Investment-related liabilities representing financial liabilities at FVTPL	**(21,673)**	(16,924)
Borrowings		
Capital market debt financing	**(15,808)**	(14,119)
Borrowings representing financial liabilities designated at FVTPL	**(15,808)**	(14,119)
Net investments	**169,798**	167,979

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.1. Public Markets

Public markets consist of Canadian and foreign investments in the following securities: common shares, American depository receipts, global depository receipts, participation notes, preferred shares, income trust units, exchange traded funds units, pooled funds units, and securities convertible into common shares of publicly listed issuers.

Direct investments in Canadian and foreign equities are measured at fair value using quoted prices in active markets and are based on the most representative price within the bid-ask spread.

In the case of investments in pooled funds, fair value is measured using unit values obtained from each of the funds' administrators, which are derived from the fair value of the underlying investments in each pooled fund. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and natural resources.

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financing.

Private equity investments are comprised of fund investments with similar objectives, co-investments in private entities as well as direct equity positions.

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing.

Natural resources investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas. Natural resources investments are presented net of all third-party financing.

The process for fair value measurement of private markets investments is described in Note 4.2.2 and the valuation techniques together with the significant inputs used are described in Note 4.2.3.

4.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and private debt securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Consolidated Statements of Cash Flows and amounted to $2,621 million as at March 31, 2020 (March 31, 2019 – $6,796 million). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds, floating rate notes, asset-backed term notes and mortgage-backed securities. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

Private debt securities are fixed income securities of private companies held directly or through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt and primary and secondary investments in leveraged loans. Private debt securities also include third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products in the real estate sector.

Fair values of government and most corporate bonds, inflation-linked bonds and mortgage-backed securities are based on prices obtained from third-party pricing sources. Such prices are determined using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

The fair values of certain corporate bonds, private debt securities and asset-backed term notes are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

The fair value measurement of fund investments included as part of private debt securities is described in Note 4.2.2.

4 — Financial Assets and Financial Liabilities
(continued)

4.1. Classes of Financial Assets and Financial Liabilities
(continued)

4.1.4. Alternative Investments

Alternative investments consist mainly of units of funds that hold a mix of equity, fixed income and derivative instruments as well as hedge funds. The fair value of these investments is determined based on the fair values reported by the funds' administrators or general partners and reflects the fair value of the underlying equity, fixed income or derivative instruments, as applicable. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.5. Amounts Receivable and Payable from Pending Trades

Amounts receivable from pending trades consist of proceeds on sales of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

Amounts payable from pending trades consist of the cost of purchases of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

The fair value of amounts receivable and payable from pending trades reflects the value at which their underlying original sale or purchase transactions were undertaken.

4.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which due to their short-term maturity, approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.11, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

4.1.8. Securities Sold Short

Securities sold short reflect PSP Investments' obligation to purchase securities pursuant to short selling transactions. In such transactions, PSP Investments sells securities it does not own with an obligation to purchase similar securities on the market to cover its position.

Using quoted market prices that are based on the most representative price within the bid-ask spread, the fair value of securities sold short is measured using the same method as the similar long positions presented within public markets and fixed income.

4.1.9. Collateral Payable

As part of securities lending and certain OTC derivative transactions, cash collateral is received and reinvested by PSP Investments. PSP Investments recognizes cash collateral received with a corresponding payable. The payable balance reflects the obligation of the transferee to return cash collateral to the transferor at the end of the transaction in the absence of an event of default by the transferor.

4.1.10. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements

As described in Note 2.3.6, PSP Investments is party to repurchase and reverse repurchase agreements. Obligations to repurchase or resell the securities sold or purchased under such agreements are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value.

4.1.11. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 8.2. Short-term promissory notes are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

4 — Financial Assets and Financial Liabilities
(continued)

4.1. Classes of Financial Assets and Financial Liabilities
(continued)

4.1.12. Derivative-Related Assets and Liabilities

Derivative financial instruments are financial contracts that are settled at a future date. The value of such instruments is derived from changes in the value of the underlying assets, interest or exchange rates. Derivative financial instruments do not, typically, require an initial net investment. In certain cases, they require an initial net investment that is less than what would be required to hold the underlying position directly. Derivative financial instruments can be listed or traded OTC. OTC instruments consist of those that are bilaterally negotiated and settled, and those that are cleared (OTC-cleared) by a central clearing party (CCP).

PSP Investments uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

PSP Investments uses the following types of derivative financial instruments:

Swaps

Swaps are transactions whereby two counterparties exchange cash flow streams with each other based on predetermined conditions that include a notional amount and a term. Swaps are used to increase returns or to adjust exposures of certain assets without directly purchasing or selling the underlying assets.

Futures

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a predefined price and predefined future date. Futures are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Forwards

Forwards are contracts involving the sale by one party and the purchase by another party of a predefined amount of an underlying instrument, at a predefined price and at a predefined date in the future. Forwards are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Options

Options are contracts where the seller gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index, commodity, currency, interest rate, credit or other financial instrument, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

Warrants are options to purchase an underlying asset which is in the form of a transferable security and which can be listed on an exchange or traded OTC.

Rights are securities giving shareholders entitlement to purchase new shares issued by a corporation at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

Determination of Fair Value of Derivative Financial Instruments

Listed derivative financial instruments are recorded at fair value using quoted market prices that are based on the most representative price within the bid-ask spread. OTC-cleared derivatives are recorded at fair value using prices obtained from the CCP. OTC derivatives are valued using appropriate valuation techniques such as discounted cash flows. These techniques use significant inputs that are observable in the market such as current market yields.

Notional Values and Fair Values of Derivative-Related Assets and Liabilities

Notional values of derivative financial instruments are not recorded as assets or liabilities as they represent the face amount of the contract. Except for credit derivatives, notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions disclosed below. Rather, they serve as the basis upon which the cash flows and the fair value of the contracts are determined.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**2,686**	**–**	**–**	3,478	–	–
Warrants and rights	**1**	**–**	**–**	1	1	–
Options: Purchased	**3,791**	**137**	**–**	5,125	171	–
Written	**3,608**	**–**	**(66)**	4,610	–	(79)
OTC						
Swaps	**24,573**	**851**	**(3,100)**	26,159	641	(189)
Options: Purchased	**775**	**57**	**–**	672	23	–
Written	**978**	**–**	**(48)**	541	–	(31)
Currency derivatives						
Listed						
Futures	**124**	**–**	**–**	301	–	–
OTC						
Forwards	**27,331**	**790**	**(485)**	19,873	117	(52)
Swaps	**6,270**	**97**	**(30)**	6,588	18	(36)
Options: Purchased	**3,119**	**70**	**–**	6,439	52	–
Written	**3,411**	**–**	**(67)**	5,893	–	(48)
Interest rate derivatives						
Listed						
Futures	**4,124**	**–**	**–**	11,150	–	–
Options: Purchased	**33,095**	**56**	**–**	47,905	34	–
Written	**13,093**	**–**	**(44)**	43,920	–	(28)
OTC						
Forwards	**–**	**–**	**–**	593	10	(16)
Swaps	**6,839**	**148**	**(206)**	25,558	245	(264)
Options: Purchased	**41,015**	**569**	**–**	54,045	263	–
Written	**45,163**	**–**	**(483)**	51,142	–	(209)
OTC-cleared						
Forwards	**28,414**	**–**	**–**	–	–	–
Swaps	**107,157**	**–**	**–**	55,783	–	–
Credit derivatives						
OTC						
Credit default swaps: Purchased	**463**	**9**	**(6)**	668	–	(10)
Written[A]	**21**	**–**	**–**	90	1	–
OTC-cleared						
Credit default swaps: Purchased	**996**	**–**	**–**	821	–	–
Total		**2,784**	**(4,535)**		1,576	(962)

[A] PSP Investments, through written credit default swaps, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the written credit default swaps as shown in the table above.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

(Canadian $ millions)	**March 31, 2020** Notional Value	**March 31, 2020** Fair Value Assets	**March 31, 2020** Fair Value Liabilities	March 31, 2019 Notional Value	March 31, 2019 Fair Value Assets	March 31, 2019 Fair Value Liabilities
Listed derivatives	**60,522**	**193**	**(110)**	116,490	206	(107)
OTC derivatives	**159,958**	**2,591**	**(4,425)**	198,261	1,370	(855)
OTC-cleared derivatives	**136,567**	**–**	**–**	56,604	–	–
Total		**2,784**	**(4,535)**		1,576	(962)

The terms to maturity based on notional value for the derivatives were as follows as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Less than 3 months	**173,100**	94,331
3 to 12 months	**91,142**	162,586
Over 1 year	**92,805**	114,438

4.2. Fair Value Hierarchy

4.2.1. Classification

Financial assets and financial liabilities described under Note 4.1 are classified within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
  (i) Quoted prices for similar assets or liabilities in active markets.
  (ii) Quoted prices for identical or similar assets or liabilities in markets that are not active.
  (iii) Inputs other than quoted prices that are observable for the asset or liability.
  (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

The classification within the levels of the hierarchy is established at the time of the initial determination of fair value of the asset or liability and reviewed at the end of each reporting period. PSP Investments determines whether a transfer between levels has occurred and recognizes such transfer at the beginning of the reporting period.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2020 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	2,607	708	45	3,360
Foreign equity	26,371	1,498	1,204	29,073
Private markets				
Real estate	–	–	29,763	29,763
Private equity	–	–	22,087	22,087
Infrastructure	–	–	22,428	22,428
Natural resources	–	–	10,443	10,443
Fixed income				
Cash and money market securities	1,288	3,552	–	4,840
Government and corporate bonds	11,515	19,881	7	31,403
Inflation-linked bonds	16,167	390	–	16,557
Private debt securities	–	–	17,441	17,441
Alternative investments	–	2,614	8,463	11,077
	57,948	28,643	111,881	198,472
Investment-related assets				
Amounts receivable from pending trades	–	760	–	760
Interest receivable	–	588	–	588
Dividends receivable	–	159	–	159
Securities purchased under reverse repurchase agreements	–	4,516	–	4,516
Derivative-related assets	184	2,600	–	2,784
	184	8,623	–	8,807
Investments representing financial assets at FVTPL	58,132	37,266	111,881	207,279
Investment-related liabilities				
Amounts payable from pending trades	–	(1,016)	–	(1,016)
Interest payable	–	(94)	–	(94)
Securities sold short	(3,677)	(213)	–	(3,890)
Collateral payable	–	(3,351)	–	(3,351)
Securities sold under repurchase agreements	–	(8,787)	–	(8,787)
Derivative-related liabilities	(106)	(4,429)	–	(4,535)
Investment-related liabilities representing financial liabilities at FVTPL	(3,783)	(17,890)	–	(21,673)
Borrowings				
Capital market debt financing	–	(15,808)	–	(15,808)
Borrowings representing financial liabilities designated at FVTPL	–	(15,808)	–	(15,808)
Net investments	54,349	3,568	111,881	169,798

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2019 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	2,471	862	61	3,394
Foreign equity	28,570	2,178	1,676	32,424
Private markets				
Real estate	–	–	28,142	28,142
Private equity	–	–	20,234	20,234
Infrastructure	–	–	20,099	20,099
Natural resources	–	–	7,513	7,513
Fixed income				
Cash and money market securities	–	11,904	–	11,904
Government and corporate bonds	–	26,211	38	26,249
Inflation-linked bonds	–	14,017	–	14,017
Private debt securities	–	–	15,644	15,644
Alternative investments	–	2,124	7,915	10,039
	31,041	57,296	101,322	189,659
Investment-related assets				
Amounts receivable from pending trades	–	1,176	–	1,176
Interest receivable	–	498	–	498
Dividends receivable	–	143	–	143
Securities purchased under reverse repurchase agreements	–	5,970	–	5,970
Derivative-related assets	130	1,446	–	1,576
	130	9,233	–	9,363
Investments representing financial assets at FVTPL	31,171	66,529	101,322	199,022
Investment-related liabilities				
Amounts payable from pending trades	–	(956)	–	(956)
Interest payable	–	(69)	–	(69)
Securities sold short	(3,919)	(2,379)	–	(6,298)
Collateral payable	–	(3,012)	–	(3,012)
Securities sold under repurchase agreements	–	(5,627)	–	(5,627)
Derivative-related liabilities	(107)	(855)	–	(962)
Investment-related liabilities representing financial liabilities at FVTPL	(4,026)	(12,898)	–	(16,924)
Borrowings				
Capital market debt financing	–	(14,119)	–	(14,119)
Borrowings representing financial liabilities designated at FVTPL	–	(14,119)	–	(14,119)
Net investments	27,145	39,512	101,322	167,979

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2020 (no significant transfers between Level 1 and Level 2 during the year ended March 31, 2019).

4 — Financial Assets and Financial Liabilities
(continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

The valuation process is monitored and governed by an internal valuation committee ("VC"). This committee is responsible for overseeing all aspects of fair value determination. This includes establishing valuation methodologies and procedures for each type of investment and ensuring they are complied with. Valuation methodologies established are based on widely recognized practices that are consistent with professional appraisal standards. Such standards include, among others, the *International Private Equity and Venture Capital Valuation Guidelines*, the *Canadian Uniform Standards of Professional Appraisal Practice* and the *Uniform Standards of Professional Appraisal Practice* in the United States of America.

The fair value of investments classified as Level 3 is determined at least annually. Quarterly, the fair value is reviewed and adjusted, as appropriate, to reflect the impact of any significant market or investment-specific events or circumstances. For each investment, the relevant valuation methodology is applied consistently over time as appropriate in the prevailing circumstances. The appropriateness of significant changes in valuation methodologies is reviewed by the VC.

In cases where the services of third-party appraisers are used, management ensures their independence and that valuation methods used are consistent with professional appraisal standards outlined above. In validating the work performed by appraisers, management ensures that the assumptions used correspond to financial information and forecasts of the underlying investment.

With respect to fund investments classified as Level 3, the annual fair value is generally determined based on audited financial statements received from the fund's general partner. In certain cases, fair value is obtained from information provided by the fund's administrators and is reviewed by Management to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

To reflect the impact of the market disruption described in note 18 as at March 31, 2020, management used significant judgement in the determination of fair value of Level 3 investments, especially those in Private Markets. Where appropriate, adjustments were made based on public market trading comparables, investment specific characteristics as well as market conditions and uncertainties as at March 31, 2020.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2020:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	**45**	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	**1,204**	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	**28,089**	Discounted cash flow (DCF)	Discount rate[B, C]	2.90% – 20.00% (7.46%)
				Terminal capitalization rate[B, C]	3.95% – 10.25% (5.82%)
			Direct capitalization	Capitalization rate[B, D]	2.35% – 9.78% (4.88%)
				Stabilized occupancy rate[D, E]	67.50% – 100.00% (98.43%)
			Sales comparison approach	Price per square foot[D, E]	$0.94 – $1,895.16 ($290.17)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**1,674**	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	**39,016**	DCF	Discount rate[B]	6.30% – 15% (8.20%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**15,942**	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	**7**	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	**12,391**	DCF	Discount rate[B]	6.63% – 22.64% (11.86%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**5,050**	NAV[A]	N/A	N/A
Alternative investments	Fund investments	**8,463**	NAV[A]	N/A	N/A
Total		**111,881**			

[A] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.
[B] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
[C] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.
[D] There is no predictable direct relationship between this input and any other significant unobservable input.
[E] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2019:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	61	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	1,676	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	26,307	Discounted cash flow (DCF)	Discount rate[B, C]	4.10% – 20.00% (7.55%)
				Terminal capitalization rate[B, C]	4.25% – 10.25% (5.92%)
			Direct capitalization	Capitalization rate[B, D]	2.50% – 8.98% (5.57%)
				Stabilized occupancy rate[D, E]	93.00% – 100.00% (98.22%)
			Sales comparison approach	Price per square foot[D, E]	$0.95 – $2,057.93 ($281.99)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	1,835	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	33,792	DCF	Discount rate[B]	6.00% – 12.50% (8.79%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	14,054	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	29	DCF	Discount rate[B]	52.50%
	Asset-backed term notes	9	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	10,797	DCF	Discount rate[B]	5.54% – 18.76% (9.77%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	4,847	NAV[A]	N/A	N/A
Alternative investments	Fund investments	7,915	NAV[A]	N/A	N/A
Total		101,322			

[A] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.
[B] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
[C] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.
[D] There is no predictable direct relationship between this input and any other significant unobservable input.
[E] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2020:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)	Transfer in (out) of Level 3	Closing Balance
Public markets	**1,737**	**116**	**(886)**	**–**	**523**	**(241)**	**–**	**1,249**
Private markets	**75,988**	**19,338**	**(10,632)**	**–**	**3,748**	**(3,819)**	**98**	**84,721**
Fixed income	**15,682**	**7,803**	**(5,130)**	**(1)**	**113**	**(1,019)**	**–**	**17,448**
Alternative investments	**7,915**	**1,666**	**(1,231)**	**–**	**172**	**171**	**(230)**	**8,463**
Total	**101,322**	**28,923**	**(17,879)**	**(1)**	**4,556**	**(4,908)**	**(132)**	**111,881**

As at March 31, 2019, an alternative investment of $230 million in a non-listed fund that held listed securities was classified as Level 3 due to the nature of the contractual restrictions on the redemption of fund units. During the year ended March 31, 2020, the investment was transferred to Level 2 as the contractual restrictions were lifted. Additionally, as at March 31, 2019, a public market investment of $98 million was classified as Level 1 and was transferred to Level 3 during the year ended March 31, 2020, as the investment became privately held.

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2019:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)	Transfer out of Level 3	Closing Balance
Public markets	1,894	555	(675)	–	430	(467)	–	1,737
Private markets	66,139	14,873	(9,473)	–	1,898	2,639	(88)	75,988
Fixed income	14,301	5,785	(4,504)	(59)	152	7	–	15,682
Alternative investments	7,080	879	(552)	–	44	464	–	7,915
Total	89,414	22,092	(15,204)	(59)	2,524	2,643	(88)	101,322

As at March 31, 2018, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2019, the investment was transferred to Level 1 as the related securities became publicly traded.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, with all other variables held constant, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2020 (March 31, 2019 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 2.3.5, 2.3.6 and 7.2.1. The following table illustrates the fair values of such collateral, as well as the securities under the lending and borrowing programs and the securities under the repurchase and reverse repurchase agreements, as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Securities lending and borrowing		
Securities lent	**662**	7,988
Collateral held[A]	**704**	8,419
Securities borrowed	**1,031**	3,921
Collateral pledged[B]	**1,120**	4,040
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**8,847**	5,665
Collateral pledged	**8,806**	5,650
Securities purchased under reverse repurchase agreements	**4,527**	6,001
Collateral held[C]	**4,523**	5,991
Derivative contracts		
Collateral pledged	**2,895**	915
Collateral held[D]	**385**	556

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to nil as at March 31, 2020 (March 31, 2019 – $2,982 million) and securities amounted to $704 million as at March 31, 2020 (March 31, 2019 – $5,437 million). All cash collateral is reinvested.

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

[C] The collateral received is in the form of securities of which $2,859 million has been used in connection with short selling transactions as at March 31, 2020 (March 31, 2019 – $2,379 million) and $134 million has been used in connection with securities sold under repurchase agreements (March 31, 2019 – $16 million).

[D] As part of collateral held, cash amounted to $45 million as at March 31, 2020 (March 31, 2019 – $8 million) and securities amounted to $340 million as at March 31, 2020 (March 31, 2019 – $548 million). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

As an investment entity, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. PSP Investments measures its investments in its subsidiaries, joint ventures and associates at FVTPL as described in Note 2.1.

For purposes of preparing this note, management assesses control, joint control and significant influence as follows:

(i) Control and significant influence

PSP Investments determines that it has control over an investee when it is exposed, or has rights, to variable returns from its investment in an entity and has the ability to affect those returns through its power over the investee.

In certain cases, PSP Investments does not have control over an investee but has the power to participate in the financial and operating policy decisions of the investee. In such cases, PSP Investments determines that it has significant influence over the investee.

In the context of control or significant influence, power over an investee is obtained through voting rights conveyed by PSP Investments' ownership interest, other contractual arrangements, or a combination thereof.

(ii) Joint control

PSP Investments determines that it is party to a joint venture arrangement when it has joint control over an investee and has rights to the net assets of the investee. Joint control is established through a contractual arrangement which requires the unanimous consent of the parties sharing control for the activities that significantly affect the returns of the arrangement.

Generally, decision making regarding such activities is governed through voting rights conveyed by the ownership interest of each party. In certain cases, it is governed solely through contractual arrangements or in conjunction with the ownership interest of each party.

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2020, 111 investment entity subsidiaries were incorporated in North America, 15 in Europe, 15 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2019 – 108 in North America, 17 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 84 investees directly or through its investment entity subsidiaries as at March 31, 2020 (March 31, 2019 – 81 investees).

The following tables present, in descending order, the most significant investees held directly or indirectly by PSP Investments where it has control, joint control or significant influence.

	March 31, 2020		
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments (%)**	**Relationship to PSP Investments**
AviAlliance GmbH	**Europe**	**100**	**Controlled investee**
Revera Inc.	**North America**	**100**	**Controlled investee**
Kaingaroa Timberlands Limited	**Oceania**	**56**	**Jointly controlled investee**
Roadis Transportation Holding, S.L.U.	**Global**	**100**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50**	**Jointly controlled investee**
Forth Ports Limited	**Europe**	**51**	**Jointly controlled investee**
TDF S.A.S.	**Europe**	**22**	**Associate**
Big Box Properties	**North America**	**49**	**Jointly controlled investee**
Roccapina Fund, L.P.	**North America**	**100**	**Controlled investee**
American Wholesale Insurance Holding Company, LLC	**North America**	**27**	**Associate**

	March 31, 2019		
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
AviAlliance GmbH	Europe	100	Controlled investee
Revera Inc.	North America	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Forth Ports Limited	Europe	51	Jointly controlled investee
TDF S.A.S.	Europe	22	Associate
Roccapina Fund, L.P.	North America	100	Controlled investee
Big Box Properties	North America	49	Jointly controlled investee

In addition to the above, PSP Investments consolidates wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services consist of investment management and financing of private market investments within the context of PSP Investments' capital market debt program described in Note 8.2.

6.2. Structured Entities

PSP Investments holds interests in partnerships and funds mainly in the context of its investments in private markets. Given their nature, such entities commonly have the characteristics of a structured entity as defined by IFRS. These entities are held as investments and do not expose PSP Investments to additional risks or returns compared to interests held in non-structured entities.

Information regarding structured entities is included, as applicable, within disclosures of investment risk management under Note 7, guarantees and indemnities under Note 16 and commitments under Note 17.

7 — Investment Risk Management

PSP Investments is required to act in the best interests of the contributors and beneficiaries under the Plans and for maximizing returns without undue risk of loss. In pursuit of this objective, PSP Investments established an Enterprise Risk Management Policy (ERM Policy). The ERM Policy provides a framework for identifying, evaluating, managing, mitigating, monitoring and reporting the investment and non-investment risks to which PSP Investments is exposed.

As part of the overall ERM policy, the objective of the Investment Risk Management Policy (IRM Policy) is to support the management of risk inherent to the investment decision making process. The IRM Policy outlines a framework detailing how investment activities should comply with PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite. The IRM Policy also supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), whose objective is to effectively manage investment risks related to the implementation of PSP Investments' various investment strategies. Investment risks include market, credit and liquidity risks.

7.1. Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of an adverse financial outcome due to changes in the factors that drive that value, such as changes in market prices, changes caused by factors specific to the individual investment, volatility in share and commodity prices, interest rate, foreign exchange or other factors affecting similar securities traded in the market.

7.1.1. Measurement of Market Risk

The absolute annualized volatility of the total portfolio is used as the primary measure of market risk. The absolute volatility is a statistical measure of the size of changes in investment returns of a given investment or portfolio of investments. It is used to illustrate the potential loss of value in an investment or portfolio of investments as a result of fluctuations in market prices.

PSP Investments uses seven years' worth of market returns scaled to a twelve-month holding period to calculate the absolute volatility. For investments that are not actively traded, the calculation of the absolute volatility uses securities with similar risk attributes as a proxy.

The absolute volatility is statistically valid under normal market conditions. Although it includes losses from severe market events such as those described in Note 18, it does not solely measure such events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

The following table shows the absolute volatility of the total portfolio expressed as a percentage of net investments as at the end of the period:

	March 31, 2020 (%)	March 31, 2019 (%)
Absolute volatility	**9.2**	7.3

Stress Testing

Although the absolute volatility is a widely accepted risk measure, it is complemented by other risk measurement methodologies that provide greater insight on market risk. PSP Investments uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of PSP Investments' net asset values.

The terms to maturity of the classes of financial instruments, outlined in Note 4.1, with the most significant exposure to interest rate risk were as follows as at:

	March 31, 2020					
(Canadian $ millions)	**Less than 1 Year**	**1 to 5 Years**	**5 to 10 Years**	**Over 10 Years**	**Other**	**Total**
Cash and money market securities	**–**	**–**	**–**	**–**	**4,840**[A]	**4,840**
Government and corporate bonds	**926**	**17,872**	**5,696**	**5,536**	**1,373**[B]	**31,403**
Inflation-linked bonds	**1**	**5,968**	**6,345**	**4,243**	**–**	**16,557**
Private debt securities	**308**	**4,339**	**6,231**	**1,490**	**5,073**[C]	**17,441**
Total fixed income	**1,235**	**28,179**	**18,272**	**11,269**	**11,286**	**70,241**

	March 31, 2019					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	11,904[A]	11,904
Government and corporate bonds	1,191	12,115	6,018	4,892	2,033[B]	26,249
Inflation-linked bonds	–	2,289	7,830	3,898	–	14,017
Private debt securities	84	2,549	6,009	2,084	4,918[C]	15,644
Total fixed income	1,275	16,953	19,857	10,874	18,855	67,814

[A] Due to their short-term maturity, these investments are not significantly exposed to interest rate risk.

[B] Certain fixed income securities are not significantly exposed to interest rate risk as their prescribed rates are variable.

[C] Information in connection with the terms to maturity of fund and certain directly held investments included as part of private debt securities is not available.

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounting to $117,154 million as at March 31, 2020 ($111,806 million as at March 31, 2019) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in 4.1.4, which amounted to $11,077 million as at March 31, 2020 ($10,039 million as at March 31, 2019), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the absolute volatility calculation described in Note 7.1.1.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 8.2.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through holding of investments (i.e. direct and indirect holdings of securities, units in pooled funds and units in limited partnerships) or investment-related liabilities in various currencies. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies.

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

	March 31, 2020		March 31, 2019	
Currency	**Fair Value (Canadian $ millions)**	**% of Total**	**Fair Value (Canadian $ millions)**	**% of Total**
US Dollar	**97,575**	**67.1**	87,178	63.6
Euro	**18,838**	**13.0**	20,423	14.9
Australian Dollar	**6,212**	**4.3**	3,015	2.2
British Pound	**4,788**	**3.3**	7,918	5.8
Japanese Yen	**3,499**	**2.4**	2,779	2.0
Hong Kong Dollar	**2,344**	**1.6**	2,578	1.9
Swiss Franc	**1,733**	**1.2**	919	0.7
Mexican Peso	**1,595**	**1.1**	2,410	1.8
Indian Rupee	**1,340**	**0.9**	1,595	1.2
Brazilian Real	**1,320**	**0.9**	1,602	1.2
Others	**6,060**	**4.2**	6,536	4.7
Total	**145,304**	**100.0**	136,953	100.0

As at March 31, 2020, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $24,903 million (US$14,511 million, €1,996 million, £272 million, 22 million South African rands, 2,229 million Mexican pesos, 26,400 million Indian Rupee, 50 million Danish Krone and 8 million Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2019, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $21,604 million (US$13,656 million, €1,984 million, £103 million, 22 million South African rands, 3 million Brazilian reals, 13,553 million Colombian pesos, 2,653 million Mexican pesos and 16 million Australian dollars) which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities purchased under reverse repurchase agreements, is unable to meet its financial obligations.

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation for public issuers and counterparties, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings. For private issuers, PSP Investments assigns internal credit ratings to issuers and measures the combined risk profile against set targets. To assign risk ratings to issuers, PSP Investments uses methodologies comparable to those used by recognized rating agencies.

As at March 31, 2020, PSP Investments' maximum exposure to credit risk amounted to $76 billion (March 31, 2019 - $73 billion), of which Private Debt securities amounting to $236 million (March 31, 2019 - $291 million) were rated BBB and $18 billion (March 31, 2019 - $17 billion) were rated BB or below. The maximum credit risk amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating for credit-sensitive securities. The concentration of credit risk by credit rating was as follows as at:

Credit Rating	**March 31, 2020 (%)**	March 31, 2019 (%)
AAA-AA	**58.6**	48.4
A	**12.5**	23.6
BBB	**1.9**	2.3
BB or below	**26.4**	25.1
No rating[A]	**0.6**	0.6
Total	**100.0**	100.0

[A] Includes securities for public issuers and counterparties, that are either not rated by credit rating agencies or rated by a single credit rating agency.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts, securities lending and borrowing as well as securities repurchase and reverse repurchase agreements. In order to minimize counterparty risk, PSP Investments requires that counterparties provide adequate collateral and meet its credit rating requirements. PSP Investments frequently monitors the credit rating of its counterparties as determined by recognized credit rating agencies. With respect to derivative contracts, PSP Investments has the ability to terminate all trades with most counterparties whose credit rating is downgraded below its requirements.

For OTC derivatives, PSP Investments' policy also requires the use of the International Swaps and Derivative Association (ISDA) Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted. In the case of OTC-cleared derivatives, trading activities are regulated between parties under terms that are customary to such transactions.

As a credit mitigation technique, the ISDA Master Agreement contractually binds counterparties to close-out netting provisions in the case of default by one of the counterparties. Additionally, the Credit Support Annex (CSA) to the ISDA Master Agreement enables PSP Investments to realize any collateral placed with it in the case of default of the counterparty. The CSA also requires PSP Investments to contribute further collateral when requested. All collateral transactions under the CSA are in cash, high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. Counterparties are generally authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held in the form of securities but does reinvest all cash collateral, with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing agreements as well as securities repurchase and reverse repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 2.3.5 and 2.3.6 describe collateral requirements in securities lending and borrowing programs as well as securities repurchase and reverse repurchase agreements.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 5.

In the case of the securities lending program, PSP Investments' exposure to counterparty risk is further mitigated as the custodian of the securities lent assumes the risk that a counterparty will be unable to meet its obligations associated with the collateral requirements.

Management is responsible for counterparty risk monitoring and mitigation as well as maintaining a comprehensive, disciplined, and enterprise-wide process for tracking and managing counterparty risk. As such, management measures counterparty risk on an ongoing basis, evaluates and tracks the creditworthiness of current counterparties and mitigates counterparty risk through collateral management.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Consolidated Statements of Financial Position. Securities repurchase and reverse repurchase agreements described in Notes 2.3.6 and 5 are subject to similar arrangements however they are not offset as the conditions for offsetting are not met.

The following tables present the financial assets and liabilities described above:

Financial Assets

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Consolidated Statements of Financial Position	Less: Related Amounts Not Set Off in the Consolidated Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2020						
Reverse repurchase agreements	**4,516**	**–**	**4,516**[A]	**3,573**	**941**	**2**
OTC-derivatives	**2,634**	**43**	**2,591**[B]	**2,274**	**306**	**11**
Total	**7,150**	**43**	**7,107**	**5,847**	**1,247**	**13**
March 31, 2019						
Reverse repurchase agreements	5,970	–	5,970[A]	3,884	2,085	1
OTC-derivatives	1,376	6	1,370[B]	762	534	74
Total	7,346	6	7,340	4,646	2,619	75

Financial Liabilities

(Canadian $ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Consolidated Statements of Financial Position	Less: Related Amounts Not Set Off in the Consolidated Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2020						
Repurchase agreements	**8,787**	**–**	**8,787**[A]	**3,573**	**5,210**	**4**
OTC-derivatives	**4,468**	**43**	**4,425**[B]	**2,252**	**2,098**	**75**
Collateral payable	**45**	**–**	**45**[C]	**22**	**–**	**23**
Total	**13,300**	**43**	**13,257**	**5,847**	**7,308**	**102**
March 31, 2019						
Repurchase agreements	5,627	–	5,627[A]	3,884	1,741	2
OTC-derivatives	861	6	855[B]	756	93	6
Collateral payable	8	–	8[C]	6	–	2
Total	6,496	6	6,490	4,646	1,834	10

[A] As described in Note 4.1.10.
[B] As described in Note 4.1.12.
[C] As described in Note 4.1.9. The balance consists of cash collateral received with respect to certain OTC derivative transactions and is included in Note 4.1 as part of collateral payable.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

Liquidity risk corresponds to the risk that PSP Investments will not be able to meet its financial obligations on a timely basis, with sufficient and readily available cash resources. PSP Investments' cash position is monitored on a daily basis. In general, investments in cash, money market securities, floating rate notes, bonds and public equities are expected to be highly liquid as they will be invested in securities that are actively traded. Management utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. A liquidity report taking into consideration future forecasted cash flows is prepared and presented to senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, sufficient sources of liquidity are maintained for deployment in case of market disruption such as that described in Note 18.

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 8.2 provides additional information on the usage of the capital market debt program. Furthermore, PSP Investments maintains credit facilities for general corporate purposes. Note 8.1 provides additional information with respect to such credit facilities.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4.1.12.

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2020 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	**(1,016)**	**–**	**–**	**(1,016)**
Interest payable	**(33)**	**(61)**	**–**	**(94)**
Securities sold short	**(3,890)**	**–**	**–**	**(3,890)**
Collateral payable	**(50)**	**–**	**(3,301)**	**(3,351)**
Securities sold under repurchase agreements	**(7,759)**	**(1,028)**	**–**	**(8,787)**
Capital market debt financing	**(3,617)**	**(3,653)**	**(8,538)**	**(15,808)**
Trade payable and other liabilities	**(127)**	**(128)**	**(185)**	**(440)**
Total	**(16,492)**	**(4,870)**	**(12,024)**	**(33,386)**

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	**1,922**	**503**	**359**	**2,784**
Derivative-related liabilities[A]	**(2,732)**	**(1,453)**	**(350)**	**(4,535)**
Total	**(810)**	**(950)**	**9**	**(1,751)**

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2019 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(956)	–	–	(956)
Interest payable	(67)	(2)	–	(69)
Securities sold short	(6,298)	–	–	(6,298)
Collateral payable	(3,012)	–	–	(3,012)
Securities sold under repurchase agreements	(5,627)	–	–	(5,627)
Capital market debt financing	(4,735)	(2,127)	(7,257)	(14,119)
Trade payable and other liabilities	(72)	(122)	(125)	(319)
Total	(20,767)	(2,251)	(7,382)	(30,400)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	660	554	362	1,576
Derivative-related liabilities[A]	(235)	(350)	(377)	(962)
Total	425	204	(15)	614

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

8 — Borrowings

8.1. Credit Facilities

PSP Investments maintains a revolving credit facility in the amount of $2 billion and a demand line of credit in the amount of $1 billion (together "the Credit Facilities").

The Credit Facilities are for general corporate purposes and are available in either Canadian or US currencies. Subject to customary terms and conditions, these Credit Facilities are available at variable interest rates such as the prime rate and the US base rate.

These Credit Facilities were not drawn upon as at March 31, 2020 and 2019.

8.2. Capital Market Debt Financing

PSP Investments' capital market debt program consists of the private placement of short-term promissory notes as well as medium-term notes issued by PSP Capital Inc., a wholly-owned subsidiary of PSP Investments. The capital raised is primarily used to finance private market investments. It is unconditionally and irrevocably guaranteed by PSP Investments in accordance with its corporate leverage policy.

The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed $12 billion for issuances in Canada and the United States combined.

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2020 and 2019.

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

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

	March 31, 2020		March 31, 2019	
(Canadian $ millions)	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.97% and 1.87% and maturing within 27 and 364 days of issuance (March 31, 2019 – between 1.79% and 2.20%, maturing within 56 and 365 days)	**325**	**324**	652	648
Short-term US Dollar promissory notes, bearing interest between 0.03% and 2.02% and maturing within 7 and 366 days of issuance (March 31, 2019 – between 2.45% and 2.84%, maturing within 21 and 365 days)	**5,946**	**5,933**	6,247	6,214
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**1,000**	**1,013**	947	965
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**1,408**	**1,512**	942	997
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**1,182**	**1,191**	1,250	1,238
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**1,482**	**1,525**	1,000	1,003
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**1,669**	**1,697**	1,750	1,742
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**1,250**	**1,346**	1,250	1,312
Medium-term notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**1,250**	**1,267**	–	–
Total	**15,512**	**15,808**	14,038	14,119

Unrealized losses in connection with borrowings amounted to $512 million for the year ended March 31, 2020 (unrealized losses of $189 million for the year ended March 31, 2019).

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

(Canadian $ millions)	2020	2019
Short-term promissory notes	**149**	150
Medium-term notes	**187**	143
Total	**336**	293

8 — Borrowings (continued)

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2020.

				Non-cash changes		
(Canadian $ millions)	**Opening balance**	**Proceeds from borrowings**	**Repayment of borrowings**	**Foreign exchange losses**	**Fair value[A] losses**	**Closing balance**
Capital market debt financing	**14,119**	**26,342**	**(25,164)**	**359**	**152**	**15,808**
Borrowings	**14,119**	**26,342**	**(25,164)**	**359**	**152**	**15,808**

[A] Includes interest on short-term promissory notes, which added to cost approximates their fair value.

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2019.

				Non-cash changes		
(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Foreign exchange losses	Fair value[A] losses	Closing balance
Capital market debt financing	12,193	33,711	(31,987)	24	178	14,119
Borrowings	12,193	33,711	(31,987)	24	178	14,119

[A] Includes interest on short-term promissory notes, which added to cost approximates their fair value.

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

9.2. Shares Issued

Pursuant to the Act, PSP Investments issued 10 shares having a par value of $10 each to the President of the Treasury Board, to be held on behalf of Her Majesty in Right of Canada. The Act does not attribute any voting, dividend, residual or other rights to these shares.

9.3. Fund Transfers

PSP Investments received fund transfers from the Government of Canada for the Funds for the years ended March 31 as follows:

(Canadian $ millions)	**2020**	2019
Public Service Pension Fund	**2,198**	2,838
Canadian Forces Pension Fund	**462**	679
Royal Canadian Mounted Police Pension Fund	**211**	232
Reserve Force Pension Fund	**–**	–
Total	**2,871**	3,749

10 — Segment Information

In order to fulfil its mandate, PSP Investments manages a diversified global portfolio composed of investments in various asset classes and has implemented an investment approach that focuses in the total fund approach rather than only on individual asset classes. The total fund approach guides the long-term investment strategy and focuses on managing total fund allocations and exposures in terms of asset classes, sectors and risk factors.

Accordingly, PSP Investments' investment segments are presented below to reflect the way in which asset classes are managed and how results are reviewed by the entity's senior management for purposes of performance management and decision making. These investment segments include their respective share of investment-related assets and investment-related liabilities as well as borrowings, which are reported separately by nature of the underlying investments as disclosed in Note 4.1. Further, to support PSP Investments' investment approach, a Complementary Portfolio is managed in addition to the individual asset classes' portfolios, which enables PSP Investments to capture investment opportunities that fit the mandate but that are outside the scope of the individual asset classes' investment framework.

Investment segments consist of investments held through direct and co-ownership positions as well as through fund managers and include:

- Public Markets – invests in public market equities and other similar securities.
- Real Estate – invests in real estate assets mainly in retirement and residential, office, retail and other industrial sectors.
- Private Equity – invests in private entities with similar objectives.
- Infrastructure – invests in private entities with a focus on assets in transportation, power generation, telecommunications and other regulated businesses.
- Natural Resources – invests in real assets with a focus on assets in timberlands, agriculture and upstream oil and gas.
- Credit Investments – invests in non-investment grade primary and secondary credit investments.
- Fixed Income – invests in government and corporate fixed income.
- Complementary Portfolio – focuses on investments that are not within the mandate of existing asset classes but are deemed beneficial for the total fund.

The following table presents net investments by investment segment as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Public Markets[A]	**48,368**	51,035
Real Estate	**23,817**	23,538
Private Equity	**24,038**	23,539
Infrastructure	**18,302**	16,818
Natural Resources	**7,645**	6,759
Credit Investments	**13,295**	10,475
Fixed Income[A]	**32,714**	29,786
Complementary Portfolio	**945**	1,426
Other[B]	**674**	4,603
Total	**169,798**	167,979

[A] During the year ended March 31, 2020 government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present such net investments on a comparable basis, corresponding comparative balances of $29,786 million were reclassified accordingly.

[B] Includes cash and money market securities not managed within the operating segments.

10 — Segment Information (continued)

The following table presents net income (loss) from operations by investment segment for the years ended March 31:

	2020			2019		
(Canadian $ millions)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)
Public Markets[C]	**(5,542)**	**(312)**	**(5,854)**	2,099	(313)	1,786
Real Estate	**(834)**	**(300)**	**(1,134)**	1,887	(256)	1,631
Private Equity	**1,139**	**(117)**	**1,022**	3,220	(99)	3,121
Infrastructure	**1,533**	**(214)**	**1,319**	1,212	(176)	1,036
Natural Resources	**(328)**	**(91)**	**(419)**	606	(67)	539
Credit Investments	**488**	**(71)**	**417**	837	(60)	777
Fixed Income[C]	**3,061**	**(132)**	**2,929**	1,348	(84)	1,264
Complementary Portfolio	**123**	**(7)**	**116**	(1)	(13)	(14)
Other[D]	**563**	**(10)**	**553**	987	(14)	973
Total	**203**	**(1,254)**	**(1,051)**	12,195	(1,082)	11,113

[A] As described in note 11, embedded within investment income are other fees paid by certain pooled fund investments and management fees not paid directly by PSP Investments.

[B] Includes all investment-related and operating expenses as disclosed in notes 11 and 12, respectively.

[C] During the year ended March 31, 2020, government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present net income from operations for such investments on a comparable basis, corresponding comparative figures for Investment Income, Expenses and Net Income of $1,348 million, $84 million and $1,264 million respectively, for the year ended March 31, 2019, were reclassified accordingly.

[D] Includes cash and money market securities not managed within the operating segments.

11 — Investment-Related Expenses

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

(Canadian $ millions)	2020	2019
Interest expense	**420**	336
Transaction costs	**171**	128
External investment management fees[A]	**51**	28
Other (net)	**61**	87
Total	**703**	579

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to $86 million for the year ended March 31, 2020 ($236 million for the year ended March 31, 2019). Such fees are embedded in the fair value of the funds

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.5% of the total invested and/or committed amount, totaled $414 million for the year ended March 31, 2020 ($330 million for the year ended March 31, 2019). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

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

(Canadian $ millions)	2020	2019
Salaries and employee benefits	**319**	291
Professional and consulting fees	**88**	77
Premises and equipment	**25**	31
Market data and business applications	**41**	37
Depreciation of equipment	**35**	33
Custodial fees	**6**	5
Other operating expenses	**37**	29
Total	**551**	503

13 — Allocation of Comprehensive Income

PSP Investments' comprehensive income is allocated to each Plan Account as follows:

13.1. Investment Income

The investment income is allocated proportionately based upon the net investments of each Plan Account at the time the income was incurred.

13.2. Expenses

The Act requires that the costs of operation of PSP Investments be charged to the Plan Accounts. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged, in consultation with the Minister of National Defence and the Minister of Public Safety and Emergency Preparedness. An allocation policy was developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, based upon the net investments of each Plan Account at the time the expense was incurred.

Operating expenses and other comprehensive income, excluding the direct cost of investment activities listed above, and for the years ended March 31, were allocated in proportion to the annual amount of net investments of each Plan Account as follows:

(%)	**2020**	2019
Public Service Pension Plan Account	**72.7**	72.6
Canadian Forces Pension Plan Account	**19.7**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.3
Reserve Force Pension Plan Account	**0.4**	0.4
Total	**100.0**	100.0

14 — Related Party Transactions

14.1. Certain Investees

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 16 and 17, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income as those with unrelated parties.

Transactions between PSP Investments and its consolidated subsidiaries as well as related balances are eliminated upon consolidation and, therefore, are not disclosed in this note.

14.2. The Government of Canada and Government-Related Entities

Since PSP Investments is a Crown corporation as described in Note 1, it is considered to be related to the Government of Canada as well as other entities that are controlled, jointly controlled or significantly influenced by the Government of Canada (together "government-related entities").

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the funds transfers outlined in Note 9.3.

(ii) Government-Related Entities

PSP Investments may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1. Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on net assets and comprehensive income as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

14.3. Compensation of Key Management Personnel

Members of key management personnel are related parties of PSP Investments. Key management personnel are those persons having authority and responsibility for planning, directing and controlling PSP Investments' activities, directly or indirectly and consist of members of the Board of Directors, PSP Investments' senior management team and officers. Compensation earned by key management personnel for the years ended March 31 was recorded in the Consolidated Statements of Comprehensive Income (Loss) and was as follows:

(Canadian $ millions)	**2020**	2019
Short-term compensation and other benefits	**14**	15
Long-term compensation and other benefits	**10**	9
Total	**24**	24

As disclosed in Note 16, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

15 — Capital Management

As an investment company, PSP Investments' objectives in managing its capital are:

- To invest fund transfers, outlined in Note 9.3, in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under the *Superannuation Acts* and the ability of the Plans to meet their financial obligations. The funds are also invested in accordance with the Investment Risk Management policies which are outlined in Note 7.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSP Investments has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 8.2 provides information on the capital market debt financing and Note 7.3 provides information on PSP Investments' liquidity.

The capital structure of PSP Investments consists of fund transfers and capital market debt financing. PSP Investments has no externally imposed restrictions on capital.

16 — Guarantees and Indemnities

PSP Investments provides indemnification to its Directors, its Officers, its vice-presidents and to certain PSP Investments representatives who are asked to serve on boards of directors (or like bodies) or investment advisory boards (or like bodies) of entities in which PSP Investments or its investment entity subsidiaries have made an investment or have a financial interest. As a result, but subject to the Act, PSP Investments may be required to indemnify these representatives for costs incurred, such as claims, actions or litigation in connection with the exercise of their duties, unless the liability of such a representative relates to a failure to act honestly and in good faith. To date, PSP Investments has not received any claims or made any payment for such indemnities.

In certain cases, PSP Investments also provides indemnification to third parties in the normal course of business. As a result, PSP Investments may be required to indemnify such third parties in connection with the performance of their contractual obligations. To date, PSP Investments has not received any claims nor made any payments for such indemnities.

PSP Investments unconditionally and irrevocably guarantees all credit facilities, as well as short-term promissory notes and medium-term notes issued by PSP Capital Inc., as described in Note 8.

In certain investment transactions, PSP Investments and its investment entity subsidiaries provided guarantees, indemnifications or issued letters of credit to third parties, the most significant of which are as follows:

- As at March 31, 2020 and 2019, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to $2,802 million as at March 31, 2020 (March 31, 2019 – $2,602 million) plus applicable interest and other related costs. The arrangements mature between April 2020 and November 2029 as of March 31, 2020 (March 31, 2019 – between July 2019 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $89 million as at March 31, 2020 (March 31, 2019 – $54 million) in relation to investment transactions.

17 — Commitments

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The commitments were as follows as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Real estate	**3,528**	2,442
Private equity	**13,024**	10,296
Infrastructure	**2,951**	2,674
Natural resources	**266**	418
Private debt securities	**3,801**	4,141
Alternative investments	**1,691**	2,074
Total	**25,261**	22,045

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2020 (March 31, 2019-2035).

18 — Uncertainties Related to COVID-19

The outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. The Consolidated Financial Statements of PSP Investments prepared as of, and for the year ended March 31, 2020, reflect the impacts resulting from COVID-19 to the extent known at the reporting date.

The ongoing worldwide spread of COVID-19 and its effect on international business operations, supply chains, travel, commodity prices, consumer confidence and business forecasts are expected to continue to have significant impacts on domestic and international equity markets and fixed income yields for the near term.

Management continues to monitor developments in equity and fixed income markets generally and specifically in connection with PSP Investments' portfolio. The full potential impact of the COVID-19 outbreak on the fair value of PSP Investments' portfolio is unknown as it will depend on future developments that are uncertain. Such uncertainties include the duration and depth of the outbreak. Management expects that the fair value of PSP Investments' portfolio will continue to be affected for the near term.

— Public Service Pension Plan Account

Financial Statements

Independent Auditors' Report

To the President of the Treasury Board

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Sector Pension Investment Board – Public Service Pension Plan Account (the Public Service Pension Plan Account), which comprise the statements of financial position as at March 31, 2020 and 2019, and the statements of comprehensive income (loss), statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Public Service Pension Plan Account as at March 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the Public Service Pension Plan Account's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Public Service Pension Plan Account or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Public Service Pension Plan Account's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Public Sector Pension Investment Board – Public Service Pension Plan Account's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Public Sector Pension Investment Board – Public Service Pension Plan Account to comply with the specified authorities.

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

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

Montréal, Canada
4 June 2020

Deloitte LLP[1]

Montréal, Canada
4 June 2020

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

Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Assets		
Investments (Note 4.1)	**150,752**	144,624
Other assets	**237**	140
Total assets	**150,989**	144,764
Liabilities		
Trade payable and other liabilities	**321**	232
Investment-related liabilities (Note 4.1)	**15,762**	12,298
Borrowings (Notes 4.1, 8.2)	**11,497**	10,260
Total liabilities	**27,580**	22,790
Net assets	**123,409**	121,974
Equity (Note 9)	**123,409**	121,974
Total liabilities and equity	**150,989**	144,764

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

On behalf of the Board of Directors:

Martin Glynn
Chair of the Board

William A. Mackinnon
Chair of the Audit Committee

Statements of Comprehensive Income (Loss)

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Investment income	**142**	8,858
Investment-related expenses (Note 11)	**(512)**	(420)
Net investment income (loss)	**(370)**	8,438
Operating expenses (Note 12)	**(400)**	(365)
Net income (loss)	**(770)**	8,073
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability	**7**	(3)
Comprehensive income (loss)	**(763)**	8,070

Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Fund transfers		
Balance at beginning of period	**56,336**	53,498
Fund transfers received during the period (Note 9.2)	**2,198**	2,838
Balance at end of period	**58,534**	56,336
Retained earnings		
Balance at beginning of period	**65,638**	57,568
Comprehensive income (loss)	**(763)**	8,070
Balance at end of period	**64,875**	65,638
Total equity	**123,409**	121,974

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Cash flows from operating activities		
Net income (loss)	**(770)**	8,073
Adjustments for non-cash items:		
Depreciation of equipment (Note 12)	**25**	24
Effect of exchange rate changes on cash and cash equivalents	**(60)**	(24)
Unrealized losses on borrowings	**372**	137
	(433)	8,210
Net changes in operating assets and liabilities		
Increase in investments	**(9,162)**	(12,866)
Decrease in other assets	**1**	2
Increase in trade payables and other liabilities	**52**	32
Increase in investment-related liabilities	**3,463**	2,380
Net cash flows used in operating activities	**(6,079)**	(2,242)
Cash flows from financing activities		
Proceeds from borrowings	**19,202**	24,490
Repayment of borrowings	**(18,336)**	(23,225)
Repayments of amounts due from:		
Canadian Forces Pension Plan Account	**–**	104
Royal Canadian Mounted Police Pension Plan Account	**–**	38
Reserve Force Pension Plan Account	**–**	2
Advances to:		
Canadian Forces Pension Plan Account	**–**	(81)
Royal Canadian Mounted Police Pension Plan Account	**–**	(30)
Reserve Force Pension Plan Account	**–**	(2)
Fund transfers received (Note 9.2)	**2,198**	2,838
Net cash flows provided by financing activities	**3,064**	4,134
Cash flows used in investing activities		
Acquisitions of equipment	**(14)**	(30)
Net cash flows used in investing activities	**(14)**	(30)
Net change in cash and cash equivalents	**(3,029)**	1,862
Effect of exchange rate changes on cash and cash equivalents	**60**	24
Cash and cash equivalents at the beginning of the period	**4,952**	3,066
Cash and cash equivalents at the end of the period[A]	**1,983**	4,952
Supplementary disclosure of cash flow information		
Interest paid	**(288)**	(225)

[A] As at March 31, 2020 cash and cash equivalents were comprised of $1,905 million (March 31, 2019 - $4,938 million) held for investment purposes and included in Note 4.1, as well as $78 million (March 31, 2019 - $14 million) held for administrative purposes and included in Other assets. .

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

Notes to the Financial Statements

For the years ended March 31, 2020 and 2019

1 — Corporate Information

The Public Sector Pension Investment Board ("PSP Investments") is a Crown corporation created under the *Public Sector Pension Investment Board Act* (the "Act") to manage and invest amounts that are transferred to it pursuant to the *Superannuation Acts* (defined below), for the funds (as defined in the Act) of the pension plans established under the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act* ("CFSA"), the *Royal Canadian Mounted Police Superannuation Act* (collectively the "*Superannuation Acts*"), and certain regulations under the CFSA (the "CFSA Regulations"). The pension plans established under the *Superannuation Acts* consist of the Public Service pension plan (the "Plan"), the Canadian Forces pension plan, and the Royal Canadian Mounted Police pension plan, and the pension plan established under the CFSA Regulations is the Reserve Force pension plan. The Plan and the other pension plans are herein referred to collectively as the "Plans".

The fund for which amounts are currently transferred to PSP Investments by the Government of Canada (the "Fund") relates to pension obligations under the Plan for service on or after April 1, 2000 ("Post-2000 Service"). The account managed by PSP Investments for the Fund is herein referred to as the "Plan Account". PSP Investments maintains records of the net contributions for the Fund, as well as the allocation of its investments and the results of its operations for the Fund in the Plan Account. PSP Investments also manages a plan account for the funds of the other Plans, and these and the Plan Account are collectively referred to herein as the "Plan Accounts".

PSP Investments is responsible for managing amounts that are transferred to it for the Fund in the best interests of the beneficiaries and contributors under the *Public Service Superannuation Act*. The amounts are to be invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plan and the Plan's ability to meet its financial obligations.

Pursuant to the *Public Service Superannuation Act*, the Government of Canada, which administers the Plan and the Fund, may at any time call upon the net assets of PSP Investments allocated to the Fund's Plan Account for amounts required for the purpose of paying benefits under the Plan in respect of Post-2000 Service, or generally, for the purpose of reducing any non-permitted surplus in the Fund.

PSP Investments and the majority of its subsidiaries are exempt from Part I tax under paragraphs 149(1)*(d)* and 149(1)*(d.2)* of the *Income Tax Act* (Canada), respectively.

PSP Investments' registered office is located at 1 Rideau Street, Ottawa, Ontario, Canada and its principal business office is at 1250 René-Lévesque Boulevard West, Montreal, Quebec, Canada.

2 — Significant Accounting Policies

The significant accounting policies that have been applied in the preparation of these Financial Statements are summarized below and have been used throughout all periods presented.

2.1. Basis of Presentation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

PSP Investments qualifies as an investment entity as defined under IFRS 10 *Consolidated Financial Statements* and, consequently, does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. Instead, PSP Investments measures its investments in subsidiaries at fair value through profit or loss ("FVTPL") in accordance with IFRS 9 *Financial Instruments* ("IFRS 9"), including those that are formed by PSP Investments and that qualify as investment entities ("investment entity subsidiaries"). PSP Investments also measures its investments in associates, joint ventures and financial assets and financial liabilities at FVTPL in accordance with IAS 28 *Investments in Associates and Joint Ventures* and IFRS 9.

These Financial Statements present the Plan Account's financial position and results of operations of PSP Investments and its subsidiaries that solely provide it with services that relate to its investment activities, as allocated to the Plan Account. They reflect the economic activity of PSP Investments as it pertains to the investment of the net contributions transferred to it for the Fund in respect of Post-2000 Service. Accordingly, they do not reflect all of the assets or the details of the pension contributions, payments and liabilities under the Plan.

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on June 4, 2020.

2 — Significant Accounting Policies
(continued)

2.2. Investment Entity Status

PSP Investments has determined that it meets the mandatory items of the definition of an investment entity under IFRS 10 on the basis of the facts and circumstances as at the end of the period. They are as follows:

(i) Mandate and business purpose

As further described in Note 1, PSP Investments' mandate is to manage and invest the amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. Consequently, PSP Investments' business purpose is to invest with a view of achieving a maximum rate of return from capital appreciation and income from investments, without undue risk of loss.

(ii) Performance evaluation

PSP Investments measures and evaluates the performance of its investments on a fair value basis.

In addition to the mandatory items of the definition, IFRS 10 also outlines certain typical characteristics of an investment entity, the absence of any of which does not necessarily preclude an entity from qualifying as an investment entity. One of these characteristics is that an investment entity should have investors that are not related parties of the entity.

As described in Note 14, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

Should any changes occur in the facts and circumstances, PSP Investments will evaluate the impact of any such changes on its investment entity status.

2.3. Summary of Significant Accounting Policies

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

2.3.1. Financial Instruments

(i) Classification

Financial assets representing investments are managed, together with related financial liabilities, according to the entity's business model to maximize the rate of return. The performance of such financial instruments is evaluated on a fair value basis and they are classified at FVTPL. They are described in detail in Note 4.1.

Borrowings, as described under Note 8, are financial liabilities that are designated to be measured at FVTPL since they are part of the portfolios of investments that are managed together and whose performance is evaluated on a fair value basis.

(ii) Recognition

Financial assets and financial liabilities are recorded at the date upon which PSP Investments becomes a party to the associated contractual provisions. In the case of traded financial assets, they are recorded as of the trade date.

(iii) Initial and subsequent measurement

All financial assets and financial liabilities are recorded in the Statements of Financial Position at fair value and continue to be measured as such on a recurring basis. After initial measurement, subsequent changes in the fair value of financial assets and financial liabilities classified at FVTPL are recorded in the Statements of Comprehensive Income.

If fair value changes in financial liabilities designated to be measured at FVTPL result from fluctuations in PSP Investments' own credit risk, they are recorded in other comprehensive income. All other changes in fair value are recorded in investment income.

(iv) Derecognition

A financial asset (or, where applicable, a part thereof) is derecognized when the following conditions are met:

- The rights to receive cash flows from the asset have expired, or
- PSP Investments has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows to a third party,

and

- PSP Investments has transferred substantially all the risks and rewards of the asset, or
- In cases where PSP Investments has neither transferred nor retained substantially all the risks and rewards of the asset, it has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At initial recognition, PSP Investments evaluates the facts and circumstances related to a transaction to confirm that the transaction price represents the fair value of an asset or a liability. At each subsequent reporting date, market prices are used to determine fair value where an active market exists (such as a recognized securities exchange), as they reflect actual and regularly occurring market transactions on an arm's length basis. If quoted market prices are not available, then fair value is estimated using valuation techniques based on inputs existing at the end of the reporting period that are derived from observable market data.

Valuation techniques are generally applied to investments in private markets, alternative investments, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 4.

2.3.3. Functional and Presentation Currency

The functional and presentation currency of PSP Investments and its consolidated subsidiaries is the Canadian dollar, which is the currency of the primary economic environment in which each entity within the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars.

2.3.4. Foreign Currency Translation

Foreign currency transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities that are denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the end of the reporting period.

Foreign currency transaction gains and losses on all monetary assets and liabilities are included in investment income.

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or pledged as collateral, or recognize securities borrowed or received as collateral. Cash collateral received is recognized as described in Note 4.1.9.

The securities lending and borrowing programs require collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standard securities lending and borrowing programs. PSP Investments and its counterparties are authorized to sell, repledge or otherwise use collateral held. The same securities or equivalent securities must be returned to the counterparty at the end of the contract, unless an event of default occurs.

2.3.6. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements and Related Collateral

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

Securities sold or purchased under the repurchase and reverse repurchase agreements respectively, including related collateral, are not derecognized or recognized as all risks and rewards of ownership related to such securities are not transferred. As such, in the case where PSP Investments is the counterparty selling securities under such agreements, all income (loss) related to such securities continues to be reported in investment income and obligations to repurchase the securities sold are accounted for as investment-related liabilities. The difference between the fair value of the securities sold and the repurchase price is recorded as interest expense within investment related expenses. In the case where PSP Investments is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income.

Transactions under repurchase and reverse repurchase agreements involve pledging collateral consisting of cash or securities deemed acceptable by the counterparties. Collateral transactions are conducted under terms that are usual and customary in standard repurchase arrangements. Such terms require the relevant counterparty to pledge additional collateral based on the changes in the fair value of the existing collateral pledged as well as the related securities sold or purchased. The counterparties are authorized to sell, repledge or otherwise use collateral held. The securities pledged as collateral must be returned to the relevant counterparty at the end of the contract, unless an event of default occurs.

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.7. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset with the net amount reported in the Statements of Financial Position only if PSP Investments has a current legally enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.3.8. Equity

The statutory rights of the Government of Canada pursuant to the *Superannuation Acts* are described under Note 1 and are classified as equity instruments on the following basis:

- Under such rights the Government of Canada is entitled to PSP Investments' net assets at any time for the purposes set out in the *Superannuation Acts*. Such rights do not contain any additional obligations for PSP Investments to deliver amounts to the Government of Canada.
- Such rights are the most subordinate claim on PSP Investments' net assets.
- The total expected cash flows attributable to such rights, at any time, is solely based on the fair value of the net assets of PSP Investments at that time. Further, the fair value of the net assets of PSP Investments in its entirety represents the amounts that the Government of Canada may call upon at any time.

2.3.9. Investment Income

Investment income is made up of interest, dividends, gains (losses) on the disposal of financial assets and financial liabilities as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of financial assets held and financial liabilities outstanding at the end of the reporting period. Interest is recognized, on a consistent basis, using the prescribed rates until maturity. Dividends are recognized when the right to receive them has been obtained, generally on the ex-dividend date.

2.3.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, as described in Note 4.1.7, transaction costs, external investment management fees and other (net).

Transaction costs are incremental costs directly attributable to the acquisition, due diligence, issue, or disposal of a financial asset or financial liability, and they are expensed as incurred.

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets as outlined in Note 11.

2.3.11. Fund Transfers

Amounts are recorded for the Fund when received from the Government of Canada.

2.4. Significant Accounting Judgments, Estimates and Assumptions

In preparing the Financial Statements, management makes certain judgments, estimates and assumptions that can affect the amounts reported therein. Significant judgments include those related to the determination of the investment entity status as described in Note 2.2.

Management also makes estimates and assumptions in the measurement, risk assessment and related disclosures surrounding investments in private markets and certain fixed income securities. The main assumptions made by management regarding measurement of financial instruments are outlined in Note 4.2.3 and those regarding the assessment of risk are outlined in Note 7.

Although assumptions reflect management's best estimates, actual results may differ from such estimates due to the uncertainties involved in using them. As further described in Note 18, such uncertainties were significant as at March 31, 2020 due to the substantial disruption of global economic activity as well as financial markets' volatility at the reporting date.

3 — Current and Future Changes in Accounting Standards

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

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are aggregated, in the following table, in classes that reflect their respective exposure as well as investment sectors. Their fair values were as follows, as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Public markets		
Canadian equity	**2,444**	2,466
Foreign equity	**21,145**	23,562
Private markets		
Real estate	**21,646**	20,450
Private equity	**16,064**	14,704
Infrastructure	**16,312**	14,605
Natural resources	**7,595**	5,460
Fixed income		
Cash and money market securities	**3,520**	8,650
Government and corporate bonds	**22,839**	19,075
Inflation-linked bonds	**12,042**	10,185
Private debt securities	**12,684**	11,368
Alternative investments	**8,056**	7,295
	144,347	137,820
Investment-related assets		
Amounts receivable from pending trades	**553**	855
Interest receivable	**427**	362
Dividends receivable	**116**	104
Securities purchased under reverse repurchase agreements	**3,284**	4,338
Derivative-related assets	**2,025**	1,145
	6,405	6,804
Investments representing financial assets at FVTPL	**150,752**	144,624
Investment-related liabilities		
Amounts payable from pending trades	**(739)**	(695)
Interest payable	**(69)**	(50)
Securities sold short	**(2,829)**	(4,577)
Collateral payable	**(2,437)**	(2,188)
Securities sold under repurchase agreements	**(6,390)**	(4,089)
Derivative-related liabilities	**(3,298)**	(699)
Investment-related liabilities representing financial liabilities at FVTPL	**(15,762)**	(12,298)
Borrowings		
Capital market debt financing	**(11,497)**	(10,260)
Borrowings representing financial liabilities designated at FVTPL	**(11,497)**	(10,260)
Net investments	**123,493**	122,066

4 — Financial Assets and Financial Liabilities
(continued)

4.1. Classes of Financial Assets and Financial Liabilities
(continued)

4.1.1. Public Markets

Public markets consist of Canadian and foreign investments in the following securities: common shares, American depository receipts, global depository receipts, participation notes, preferred shares, income trust units, exchange traded funds units, pooled funds units, and securities convertible into common shares of publicly listed issuers.

Direct investments in Canadian and foreign equities are measured at fair value using quoted prices in active markets and are based on the most representative price within the bid-ask spread.

In the case of investments in pooled funds, fair value is measured using unit values obtained from each of the funds' administrators, which are derived from the fair value of the underlying investments in each pooled fund. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and natural resources.

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financing.

Private equity investments are comprised of fund investments with similar objectives, co-investments in private entities as well as direct equity positions.

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing.

Natural resources investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas. Natural resources investments are presented net of all third-party financing.

The process for fair value measurement of private markets investments is described in Note 4.2.2 and the valuation techniques together with the significant inputs used are described in Note 4.2.3.

4.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and private debt securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Statements of Cash Flows and amounted to $1,905 million as at March 31, 2020 (March 31, 2019 – $4,938 million). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds, floating rate notes, asset-backed term notes and mortgage-backed securities. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

Private debt securities are fixed income securities of private companies held directly or through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt and primary and secondary investments in leveraged loans. Private debt securities also include third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products in the real estate sector.

Fair values of government and most corporate bonds, inflation-linked bonds and mortgage-backed securities are based on prices obtained from third-party pricing sources. Such prices are determined using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

The fair values of certain corporate bonds, private debt securities and asset-backed term notes are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

The fair value measurement of fund investments included as part of private debt securities is described in Note 4.2.2.

4 — Financial Assets and Financial Liabilities
(continued)

4.1. Classes of Financial Assets and Financial Liabilities
(continued)

4.1.4. Alternative Investments

Alternative investments consist mainly of units of funds that hold a mix of equity, fixed income and derivative instruments as well as hedge funds. The fair value of these investments is determined based on the fair values reported by the funds' administrators or general partners and reflects the fair value of the underlying equity, fixed income or derivative instruments, as applicable. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.5. Amounts Receivable and Payable from Pending Trades

Amounts receivable from pending trades consist of proceeds on sales of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

Amounts payable from pending trades consist of the cost of purchases of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

The fair value of amounts receivable and payable from pending trades reflects the value at which their underlying original sale or purchase transactions were undertaken.

4.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which due to their short-term maturity, approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.11, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

4.1.8. Securities Sold Short

Securities sold short reflect PSP Investments' obligation to purchase securities pursuant to short selling transactions. In such transactions, PSP Investments sells securities it does not own with an obligation to purchase similar securities on the market to cover its position.

Using quoted market prices that are based on the most representative price within the bid-ask spread, the fair value of securities sold short is measured using the same method as the similar long positions presented within public markets and fixed income.

4.1.9. Collateral Payable

As part of securities lending and certain OTC derivative transactions, cash collateral is received and reinvested by PSP Investments. PSP Investments recognizes cash collateral received with a corresponding payable. The payable balance reflects the obligation of the transferee to return cash collateral to the transferor at the end of the transaction in the absence of an event of default by the transferor.

4.1.10. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements

As described in Note 2.3.6, PSP Investments is party to repurchase and reverse repurchase agreements. Obligations to repurchase or resell the securities sold or purchased under such agreements are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value.

4.1.11. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 8.2. Short-term promissory notes are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

4 — Financial Assets and Financial Liabilities
(continued)

4.1. Classes of Financial Assets and Financial Liabilities
(continued)

4.1.12. Derivative-Related Assets and Liabilities

Derivative financial instruments are financial contracts that are settled at a future date. The value of such instruments is derived from changes in the value of the underlying assets, interest or exchange rates. Derivative financial instruments do not, typically, require an initial net investment. In certain cases, they require an initial net investment that is less than what would be required to hold the underlying position directly. Derivative financial instruments can be listed or traded OTC. OTC instruments consist of those that are bilaterally negotiated and settled, and those that are cleared (OTC-cleared) by a central clearing party (CCP).

PSP Investments uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

PSP Investments uses the following types of derivative financial instruments:

Swaps

Swaps are transactions whereby two counterparties exchange cash flow streams with each other based on predetermined conditions that include a notional amount and a term. Swaps are used to increase returns or to adjust exposures of certain assets without directly purchasing or selling the underlying assets.

Futures

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a predefined price and predefined future date. Futures are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Forwards

Forwards are contracts involving the sale by one party and the purchase by another party of a predefined amount of an underlying instrument, at a predefined price and at a predefined date in the future. Forwards are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Options

Options are contracts where the seller gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index, commodity, currency, interest rate, credit or other financial instrument, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

Warrants are options to purchase an underlying asset which is in the form of a transferable security and which can be listed on an exchange or traded OTC.

Rights are securities giving shareholders entitlement to purchase new shares issued by a corporation at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

Determination of Fair Value of Derivative Financial Instruments

Listed derivative financial instruments are recorded at fair value using quoted market prices that are based on the most representative price within the bid-ask spread. OTC-cleared derivatives are recorded at fair value using prices obtained from the CCP. OTC derivatives are valued using appropriate valuation techniques such as discounted cash flows. These techniques use significant inputs that are observable in the market such as current market yields.

Notional Values and Fair Values of Derivative-Related Assets and Liabilities

Notional values of derivative financial instruments are not recorded as assets or liabilities as they represent the face amount of the contract. Except for credit derivatives, notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions disclosed below. Rather, they serve as the basis upon which the cash flows and the fair value of the contracts are determined.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**1,953**	**–**	**–**	2,528	–	–
Warrants and rights	**1**	**–**	**–**	1	1	–
Options: Purchased	**2,757**	**99**	**–**	3,724	124	–
Written	**2,624**	**–**	**(48)**	3,350	–	(57)
OTC						
Swaps	**17,872**	**620**	**(2,254)**	19,009	465	(137)
Options: Purchased	**564**	**41**	**–**	488	17	–
Written	**711**	**–**	**(35)**	393	–	(23)
Currency derivatives						
Listed						
Futures	**90**	**–**	**–**	219	–	–
OTC						
Forwards	**19,878**	**575**	**(353)**	14,441	85	(38)
Swaps	**4,560**	**70**	**(22)**	4,787	13	(26)
Options: Purchased	**2,269**	**51**	**–**	4,679	38	–
Written	**2,481**	**–**	**(49)**	4,282	–	(35)
Interest rate derivatives						
Listed						
Futures	**3,000**	**–**	**–**	8,102	–	–
Options: Purchased	**24,069**	**41**	**–**	34,811	25	–
Written	**9,523**	**–**	**(32)**	31,916	–	(20)
OTC						
Forwards	**–**	**–**	**–**	431	7	(12)
Swaps	**4,974**	**108**	**(150)**	18,573	178	(192)
Options: Purchased	**29,830**	**414**	**–**	39,273	191	–
Written	**32,845**	**–**	**(351)**	37,162	–	(152)
OTC-cleared						
Forwards	**20,666**	**–**	**–**	–	–	–
Swaps	**77,933**	**–**	**–**	40,536	–	–
Credit derivatives						
OTC						
Credit default swaps: Purchased	**336**	**6**	**(4)**	486	–	(7)
Written[A]	**16**	**–**	**–**	66	1	–
OTC-cleared						
Credit default swaps: Purchased	**725**	**–**	**–**	596	–	–
Total		**2,025**	**(3,298)**		1,145	(699)

[A] PSP Investments, through written credit default swaps, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the written credit default swaps as shown in the table above.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**44,017**	**140**	**(80)**	84,651	150	(77)
OTC derivatives	**116,336**	**1,885**	**(3,218)**	144,070	995	(622)
OTC-cleared derivatives	**99,324**	**–**	**–**	41,132	–	–
Total		**2,025**	**(3,298)**		1,145	(699)

The terms to maturity based on notional value for the derivatives were as follows as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Less than 3 months	**125,895**	68,548
3 to 12 months	**66,286**	118,146
Over 1 year	**67,496**	83,159

4.2. Fair Value Hierarchy

4.2.1. Classification

Financial assets and financial liabilities described under Note 4.1 are classified within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:

  (i) Quoted prices for similar assets or liabilities in active markets.

  (ii) Quoted prices for identical or similar assets or liabilities in markets that are not active.

  (iii) Inputs other than quoted prices that are observable for the asset or liability.

  (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

The classification within the levels of the hierarchy is established at the time of the initial determination of fair value of the asset or liability and reviewed at the end of each reporting period. PSP Investments determines whether a transfer between levels has occurred and recognizes such transfer at the beginning of the reporting period.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2020 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	1,896	515	33	2,444
Foreign equity	19,180	1,090	875	21,145
Private markets				
Real estate	–	–	21,646	21,646
Private equity	–	–	16,064	16,064
Infrastructure	–	–	16,312	16,312
Natural resources	–	–	7,595	7,595
Fixed income				
Cash and money market securities	936	2,584	–	3,520
Government and corporate bonds	8,375	14,459	5	22,839
Inflation-linked bonds	11,758	284	–	12,042
Private debt securities	–	–	12,684	12,684
Alternative investments	–	1,901	6,155	8,056
	42,145	20,833	81,369	144,347
Investment-related assets				
Amounts receivable from pending trades	–	553	–	553
Interest receivable	–	427	–	427
Dividends receivable	–	116	–	116
Securities purchased under reverse repurchase agreements	–	3,284	–	3,284
Derivative-related assets	134	1,891	–	2,025
	134	6,271	–	6,405
Investments representing financial assets at FVTPL	42,279	27,104	81,369	150,752
Investment-related liabilities				
Amounts payable from pending trades	–	(739)	–	(739)
Interest payable	–	(69)	–	(69)
Securities sold short	(2,674)	(155)	–	(2,829)
Collateral payable	–	(2,437)	–	(2,437)
Securities sold under repurchase agreements	–	(6,390)	–	(6,390)
Derivative-related liabilities	(77)	(3,221)	–	(3,298)
Investment-related liabilities representing financial liabilities at FVTPL	(2,751)	(13,011)	–	(15,762)
Borrowings				
Capital market debt financing	–	(11,497)	–	(11,497)
Borrowings representing financial liabilities designated at FVTPL	–	(11,497)	–	(11,497)
Net investments	39,528	2,596	81,369	123,493

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2019 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	1,795	626	45	2,466
Foreign equity	20,761	1,584	1,217	23,562
Private markets				
Real estate	–	–	20,450	20,450
Private equity	–	–	14,704	14,704
Infrastructure	–	–	14,605	14,605
Natural resources	–	–	5,460	5,460
Fixed income				
Cash and money market securities	–	8,650	–	8,650
Government and corporate bonds	–	19,047	28	19,075
Inflation-linked bonds	–	10,185	–	10,185
Private debt securities	–	–	11,368	11,368
Alternative investments	–	1,543	5,752	7,295
	22,556	41,635	73,629	137,820
Investment-related assets				
Amounts receivable from pending trades	–	855	–	855
Interest receivable	–	362	–	362
Dividends receivable	–	104	–	104
Securities purchased under reverse repurchase agreements	–	4,338	–	4,338
Derivative-related assets	94	1,051	–	1,145
	94	6,710	–	6,804
Investments representing financial assets at FVTPL	22,650	48,345	73,629	144,624
Investment-related liabilities				
Amounts payable from pending trades	–	(695)	–	(695)
Interest payable	–	(50)	–	(50)
Securities sold short	(2,848)	(1,729)	–	(4,577)
Collateral payable	–	(2,188)	–	(2,188)
Securities sold under repurchase agreements	–	(4,089)	–	(4,089)
Derivative-related liabilities	(77)	(622)	–	(699)
Investment-related liabilities representing financial liabilities at FVTPL	(2,925)	(9,373)	–	(12,298)
Borrowings				
Capital market debt financing	–	(10,260)	–	(10,260)
Borrowings representing financial liabilities designated at FVTPL	–	(10,260)	–	(10,260)
Net investments	19,725	28,712	73,629	122,066

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2020 (no significant transfers between Level 1 and Level 2 during the year ended March 31, 2019).

4 — Financial Assets and Financial Liabilities
(continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

The valuation process is monitored and governed by an internal valuation committee (“VC”). This committee is responsible for overseeing all aspects of fair value determination. This includes establishing valuation methodologies and procedures for each type of investment and ensuring they are complied with. Valuation methodologies established are based on widely recognized practices that are consistent with professional appraisal standards. Such standards include, among others, the *International Private Equity and Venture Capital Valuation Guidelines*, the *Canadian Uniform Standards of Professional Appraisal Practice* and the *Uniform Standards of Professional Appraisal Practice* in the United States of America.

The fair value of investments classified as Level 3 is determined at least annually. Quarterly, the fair value is reviewed and adjusted, as appropriate, to reflect the impact of any significant market or investment-specific events or circumstances. For each investment, the relevant valuation methodology is applied consistently over time as appropriate in the prevailing circumstances. The appropriateness of significant changes in valuation methodologies is reviewed by the VC.

In cases where the services of third-party appraisers are used, management ensures their independence and that valuation methods used are consistent with professional appraisal standards outlined above. In validating the work performed by appraisers, management ensures that the assumptions used correspond to financial information and forecasts of the underlying investment.

With respect to fund investments classified as Level 3, the annual fair value is generally determined based on audited financial statements received from the fund’s general partner. In certain cases, fair value is obtained from information provided by the fund’s administrators and is reviewed by Management to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

To reflect the impact of the market disruption described in note 18 as at March 31, 2020, management used significant judgement in the determination of fair value of Level 3 investments, especially those in Private Markets. Where appropriate, adjustments were made based on public market trading comparables, investment specific characteristics as well as market conditions and uncertainties as at March 31, 2020.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2020:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	**33**	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	**875**	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	**20,428**	Discounted cash flow (DCF)	Discount rate[B, C]	2.90% – 20.00% (7.46%)
				Terminal capitalization rate[B, C]	3.95% – 10.25% (5.82%)
			Direct capitalization	Capitalization rate[B, D]	2.35% – 9.78% (4.88%)
				Stabilized occupancy rate[D, E]	67.50% – 100.00% (98.43%)
			Sales comparison approach	Price per square foot[D, E]	$0.94 – $1,895.16 ($290.17)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**1,218**	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	**28,377**	DCF	Discount rate[B]	6.30% – 15% (8.20%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**11,594**	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	**5**	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	**9,011**	DCF	Discount rate[B]	6.63% – 22.64% (11.86%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**3,673**	NAV[A]	N/A	N/A
Alternative investments	Fund investments	**6,155**	NAV[A]	N/A	N/A
Total		**81,369**			

[A] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.
[B] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
[C] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.
[D] There is no predictable direct relationship between this input and any other significant unobservable input.
[E] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2019:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	45	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	1,217	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	19,117	Discounted cash flow (DCF)	Discount rate[B, C]	4.10% – 20.00% (7.55%)
				Terminal capitalization rate[B, C]	4.25% – 10.25% (5.92%)
			Direct capitalization	Capitalization rate[B, D]	2.50% – 8.98% (5.57%)
				Stabilized occupancy rate[D, E]	93.00% – 100.00% (98.22%)
			Sales comparison approach	Price per square foot[D, E]	$0.95 – $2,057.93 ($281.99)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	1,333	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	24,556	DCF	Discount rate[B]	6.00% – 12.50% (8.79%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	10,213	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	21	DCF	Discount rate[B]	52.50%
	Asset-backed term notes	7	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	7,846	DCF	Discount rate[B]	5.54% – 18.76% (9.77%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	3,522	NAV[A]	N/A	N/A
Alternative investments	Fund investments	5,752	NAV[A]	N/A	N/A
Total		73,629			

[A] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.
[B] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
[C] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.
[D] There is no predictable direct relationship between this input and any other significant unobservable input.
[E] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2020:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer in (out) of Level 3	Closing Balance
Public markets	**1,262**	**83**	**(644)**	**–**	**381**	**(174)**	**–**	**908**
Private markets	**55,219**	**14,119**	**(7,759)**	**–**	**2,735**	**(2,769)**	**72**	**61,617**
Fixed income	**11,396**	**5,690**	**(3,750)**	**(1)**	**83**	**(729)**	**–**	**12,689**
Alternative investments	**5,752**	**1,230**	**(897)**	**–**	**125**	**112**	**(167)**	**6,155**
Total	**73,629**	**21,122**	**(13,050)**	**(1)**	**3,324**	**(3,560)**	**(95)**	**81,369**

[A] Includes Plan Account allocation adjustments.

As at March 31, 2019, an alternative investment of $167 million in a non-listed fund that held listed securities was classified as Level 3 due to the nature of the contractual restrictions on the redemption of fund units. During the year ended March 31, 2020, the investment was transferred to Level 2 as the contractual restrictions were lifted. Additionally, as at March 31, 2019, a public market investment of $72 million was classified as Level 1 and was transferred to Level 3 during the year ended March 31, 2020, as the investment became privately held.

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2019:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer out of Level 3	Closing Balance
Public markets	1,374	403	(490)	–	312	(337)	–	1,262
Private markets	48,000	10,804	(6,882)	–	1,379	1,982	(64)	55,219
Fixed income	10,379	4,205	(3,272)	(43)	110	17	–	11,396
Alternative investments	5,138	639	(401)	–	32	344	–	5,752
Total	64,891	16,051	(11,045)	(43)	1,833	2,006	(64)	73,629

[A] Includes Plan Account allocation adjustments.

As at March 31, 2018, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2019, the investment was transferred to Level 1 as the related securities became publicly traded.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, with all other variables held constant, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2020 (March 31, 2019 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 2.3.5, 2.3.6 and 7.2.1. The following table illustrates the fair values of the Plan Account's allocated collateral, as well as the securities under the lending and borrowing programs and the securities under the repurchase and reverse repurchase agreements, as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Securities lending and borrowing		
Securities lent	**481**	5,805
Collateral held[A]	**512**	6,118
Securities borrowed	**750**	2,849
Collateral pledged[B]	**814**	2,936
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**6,435**	4,116
Collateral pledged	**6,404**	4,106
Securities purchased under reverse repurchase agreements	**3,293**	4,361
Collateral held[C]	**3,289**	4,354
Derivative contracts		
Collateral pledged	**2,106**	665
Collateral held[D]	**280**	404

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to nil for the Plan Account as at March 31, 2020 (March 31, 2019 – $2,167 million) and securities amounted to $512 million as at March 31, 2020 (March 31, 2019 – $3,951 million). All cash collateral is reinvested.

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

[C] The collateral received is in the form of securities of which $2,079 million has been used in connection with short selling transactions as at March 31, 2020 (March 31, 2019 – $1,729 million) and $97 million has been used in connection with securities sold under repurchase agreements (March 31, 2019 – $12 million).

[D] As part of collateral held, cash amounted to $33 million as at March 31, 2020 (March 31, 2019 – $6 million) and securities amounted to $247 million as at March 31, 2020 (March 31, 2019 – $398 million). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

As an investment entity, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. PSP Investments measures its investments in its subsidiaries, joint ventures and associates at FVTPL as described in Note 2.1.

For purposes of preparing this note, management assesses control, joint control and significant influence as follows:

(i) Control and significant influence

PSP Investments determines that it has control over an investee when it is exposed, or has rights, to variable returns from its investment in an entity and has the ability to affect those returns through its power over the investee.

In certain cases, PSP Investments does not have control over an investee but has the power to participate in the financial and operating policy decisions of the investee. In such cases, PSP Investments determines that it has significant influence over the investee.

In the context of control or significant influence, power over an investee is obtained through voting rights conveyed by PSP Investments' ownership interest, other contractual arrangements, or a combination thereof.

(ii) Joint control

PSP Investments determines that it is party to a joint venture arrangement when it has joint control over an investee and has rights to the net assets of the investee. Joint control is established through a contractual arrangement which requires the unanimous consent of the parties sharing control for the activities that significantly affect the returns of the arrangement.

Generally, decision making regarding such activities is governed through voting rights conveyed by the ownership interest of each party. In certain cases, it is governed solely through contractual arrangements or in conjunction with the ownership interest of each party.

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2020, 111 investment entity subsidiaries were incorporated in North America, 15 in Europe, 15 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2019 – 108 in North America, 17 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 84 investees directly or through its investment entity subsidiaries as at March 31, 2020 (March 31, 2019 – 81 investees).

The following tables present, in descending order, the most significant investees held directly or indirectly by PSP Investments where it has control, joint control or significant influence.

	March 31, 2020		
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments (%)**	**Relationship to PSP Investments**
AviAlliance GmbH	**Europe**	**100**	**Controlled investee**
Revera Inc.	**North America**	**100**	**Controlled investee**
Kaingaroa Timberlands Limited	**Oceania**	**56**	**Jointly controlled investee**
Roadis Transportation Holding, S.L.U.	**Global**	**100**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50**	**Jointly controlled investee**
Forth Ports Limited	**Europe**	**51**	**Jointly controlled investee**
TDF S.A.S.	**Europe**	**22**	**Associate**
Big Box Properties	**North America**	**49**	**Jointly controlled investee**
Roccapina Fund, L.P.	**North America**	**100**	**Controlled investee**
American Wholesale Insurance Holding Company, LLC	**North America**	**27**	**Associate**

	March 31, 2019		
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
AviAlliance GmbH	Europe	100	Controlled investee
Revera Inc.	North America	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Forth Ports Limited	Europe	51	Jointly controlled investee
TDF S.A.S.	Europe	22	Associate
Roccapina Fund, L.P.	North America	100	Controlled investee
Big Box Properties	North America	49	Jointly controlled investee

In addition to the above, PSP Investments consolidates wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services consist of investment management and financing of private market investments within the context of PSP Investments' capital market debt program described in Note 8.2.

6.2. Structured Entities

PSP Investments holds interests in partnerships and funds mainly in the context of its investments in private markets. Given their nature, such entities commonly have the characteristics of a structured entity as defined by IFRS. These entities are held as investments and do not expose PSP Investments to additional risks or returns compared to interests held in non-structured entities.

Information regarding structured entities is included, as applicable, within disclosures of investment risk management under Note 7, guarantees and indemnities under Note 16 and commitments under Note 17.

7 — Investment Risk Management

PSP Investments is required to act in the best interests of the contributors and beneficiaries under the Plans and for maximizing returns without undue risk of loss. In pursuit of this objective, PSP Investments established an Enterprise Risk Management Policy (ERM Policy). The ERM Policy provides a framework for identifying, evaluating, managing, mitigating, monitoring and reporting the investment and non-investment risks to which PSP Investments is exposed.

As part of the overall ERM policy, the objective of the Investment Risk Management Policy (IRM Policy) is to support the management of risk inherent to the investment decision making process. The IRM Policy outlines a framework detailing how investment activities should comply with PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite. The IRM Policy also supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), whose objective is to effectively manage investment risks related to the implementation of PSP Investments' various investment strategies. Investment risks include market, credit and liquidity risks.

7.1. Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of an adverse financial outcome due to changes in the factors that drive that value, such as changes in market prices, changes caused by factors specific to the individual investment, volatility in share and commodity prices, interest rate, foreign exchange or other factors affecting similar securities traded in the market.

7.1.1. Measurement of Market Risk

The absolute annualized volatility of the total portfolio is used as the primary measure of market risk. The absolute volatility is a statistical measure of the size of changes in investment returns of a given investment or portfolio of investments. It is used to illustrate the potential loss of value in an investment or portfolio of investments as a result of fluctuations in market prices.

PSP Investments uses seven years' worth of market returns scaled to a twelve-month holding period to calculate the absolute volatility. For investments that are not actively traded, the calculation of the absolute volatility uses securities with similar risk attributes as a proxy.

The absolute volatility is statistically valid under normal market conditions. Although it includes losses from severe market events such as those described in Note 18, it does not solely measure such events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

The following table shows the absolute volatility of the total portfolio expressed as a percentage of net investments as at the end of the period:

	March 31, 2020 (%)	March 31, 2019 (%)
Absolute volatility	**9.2**	7.3

Stress Testing

Although the absolute volatility is a widely accepted risk measure, it is complemented by other risk measurement methodologies that provide greater insight on market risk. PSP Investments uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of the Plan Account's net asset values.

The terms to maturity of the classes of financial instruments, outlined in Note 4.1, with the most significant exposure to interest rate risk were as follows as at:

	March 31, 2020					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	3,520[A]	3,520
Government and corporate bonds	674	12,997	4,143	4,026	999[B]	22,839
Inflation-linked bonds	–	4,341	4,615	3,086	–	12,042
Private debt securities	224	3,156	4,532	1,083	3,689[C]	12,684
Total fixed income	**898**	**20,494**	**13,290**	**8,195**	**8,208**	**51,085**

	March 31, 2019					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	8,650[A]	8,650
Government and corporate bonds	866	8,804	4,373	3,555	1,477[B]	19,075
Inflation-linked bonds	–	1,663	5,689	2,833	–	10,185
Private debt securities	61	1,853	4,366	1,514	3,574[C]	11,368
Total fixed income	927	12,320	14,428	7,902	13,701	49,278

[A] Due to their short-term maturity, these investments are not significantly exposed to interest rate risk.

[B] Certain fixed income securities are not significantly exposed to interest rate risk as their prescribed rates are variable.

[C] Information in connection with the terms to maturity of fund and certain directly held investments included as part of private debt securities is not available.

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounting to $85,206 million as at March 31, 2020 ($81,247 million as at March 31, 2019) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in 4.1.4, which amounted to $8,056 million as at March 31, 2020 ($7,295 million as at March 31, 2019), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the absolute volatility calculation described in Note 7.1.1.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 8.2.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through holding of investments (i.e. direct and indirect holdings of securities, units in pooled funds and units in limited partnerships) or investment-related liabilities in various currencies. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

	March 31, 2020		March 31, 2019	
Currency	**Fair Value (Canadian $ millions)**	**% of Total**	**Fair Value** (Canadian $ millions)	**% of Total**
US Dollar	**70,965**	**67.1**	63,350	63.6
Euro	**13,701**	**13.0**	14,841	14.9
Australian Dollar	**4,518**	**4.3**	2,191	2.2
British Pound	**3,482**	**3.3**	5,754	5.8
Japanese Yen	**2,545**	**2.4**	2,020	2.0
Hong Kong Dollar	**1,705**	**1.6**	1,873	1.9
Swiss Franc	**1,260**	**1.2**	668	0.7
Mexican Peso	**1,160**	**1.1**	1,751	1.8
Indian Rupee	**975**	**0.9**	1,159	1.2
Brazilian Real	**960**	**0.9**	1,164	1.2
Others	**4,407**	**4.2**	4,749	4.7
Total	**105,678**	**100.0**	99,520	100.0

As at March 31, 2020, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $18,111 million for the Plan Account (US$10,554 million, €1,451 million, £198 million, 16 million South African rands, 1,621 million Mexican pesos, 19,200 million Indian Rupee, 36 million Danish Krone and 6 million Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2019, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $15,699 million for the Plan Account (US$9,923 million, €1,442 million, £75 million, 16 million South African rands, 2 million Brazilian reals, 9,849 million Colombian pesos, 1,927 million Mexican pesos and 12 million Australian dollars) which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities purchased under reverse repurchase agreements, is unable to meet its financial obligations.

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation for public issuers and counterparties, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings. For private issuers, PSP Investments assigns internal credit ratings to issuers and measures the combined risk profile against set targets. To assign risk ratings to issuers, PSP Investments uses methodologies comparable to those used by recognized rating agencies.

As at March 31, 2020, the Plan Account's maximum exposure to credit risk amounted to $55 billion (March 31, 2019 – $54 billion), of which Private Debt securities amounting to $172 million (March 31, 2019 – $212 million) were rated BBB and $13 billion (March 31, 2019 – $12 billion) were rated BB or below. The maximum credit risk amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating for credit-sensitive securities. The concentration of credit risk by credit rating was as follows as at:

Credit Rating	**March 31, 2020 (%)**	March 31, 2019 (%)
AAA-AA	**58.6**	48.4
A	**12.5**	23.6
BBB	**1.9**	2.3
BB or below	**26.4**	25.1
No rating[A]	**0.6**	0.6
Total	**100.0**	100.0

[A] Includes securities for public issuers and counterparties, that are either not rated by credit rating agencies or rated by a single credit rating agency.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts, securities lending and borrowing as well as securities repurchase and reverse repurchase agreements. In order to minimize counterparty risk, PSP Investments requires that counterparties provide adequate collateral and meet its credit rating requirements. PSP Investments frequently monitors the credit rating of its counterparties as determined by recognized credit rating agencies. With respect to derivative contracts, PSP Investments has the ability to terminate all trades with most counterparties whose credit rating is downgraded below its requirements.

For OTC derivatives, PSP Investments' policy also requires the use of the International Swaps and Derivative Association (ISDA) Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted. In the case of OTC-cleared derivatives, trading activities are regulated between parties under terms that are customary to such transactions.

As a credit mitigation technique, the ISDA Master Agreement contractually binds counterparties to close-out netting provisions in the case of default by one of the counterparties. Additionally, the Credit Support Annex (CSA) to the ISDA Master Agreement enables PSP Investments to realize any collateral placed with it in the case of default of the counterparty. The CSA also requires PSP Investments to contribute further collateral when requested. All collateral transactions under the CSA are in cash, high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. Counterparties are generally authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held in the form of securities but does reinvest all cash collateral, with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing agreements as well as securities repurchase and reverse repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 2.3.5 and 2.3.6 describe collateral requirements in securities lending and borrowing programs as well as securities repurchase and reverse repurchase agreements.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 5.

In the case of the securities lending program, PSP Investments' exposure to counterparty risk is further mitigated as the custodian of the securities lent assumes the risk that a counterparty will be unable to meet its obligations associated with the collateral requirements.

Management is responsible for counterparty risk monitoring and mitigation as well as maintaining a comprehensive, disciplined, and enterprise-wide process for tracking and managing counterparty risk. As such, management measures counterparty risk on an ongoing basis, evaluates and tracks the creditworthiness of current counterparties and mitigates counterparty risk through collateral management.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Statements of Financial Position. Securities repurchase and reverse repurchase agreements described in Notes 2.3.6 and 5 are subject to similar arrangements however they are not offset as the conditions for offsetting are not met.

The following tables present the financial assets and liabilities described above:

Financial Assets

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2020						
Reverse repurchase agreements	**3,284**	**–**	**3,284**[A]	**2,599**	**683**	**2**
OTC-derivatives	**1,916**	**31**	**1,885**[B]	**1,654**	**224**	**7**
Total	**5,200**	**31**	**5,169**	**4,253**	**907**	**9**
March 31, 2019						
Reverse repurchase agreements	4,338	–	4,338[A]	2,823	1,514	1
OTC-derivatives	999	4	995[B]	553	388	54
Total	5,337	4	5,333	3,376	1,902	55

Financial Liabilities

(Canadian $ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2020						
Repurchase agreements	**6,390**	**–**	**6,390**[A]	**2,599**	**3,788**	**3**
OTC-derivatives	**3,249**	**31**	**3,218**[B]	**1,638**	**1,525**	**55**
Collateral payable	**33**	**–**	**33**[C]	**16**	**1**	**16**
Total	**9,672**	**31**	**9,641**	**4,253**	**5,314**	**74**
March 31, 2019						
Repurchase agreements	4,089	–	4,089[A]	2,823	1,265	1
OTC-derivatives	626	4	622[B]	549	68	5
Collateral payable	5	–	5[C]	4	–	1
Total	4,720	4	4,716	3,376	1,333	7

[A] As described in Note 4.1.10.

[B] As described in Note 4.1.12.

[C] As described in Note 4.1.9. The balance consists of cash collateral received with respect to certain OTC derivative transactions and is included in Note 4.1 as part of collateral payable.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

Liquidity risk corresponds to the risk that PSP Investments will not be able to meet its financial obligations on a timely basis, with sufficient and readily available cash resources. PSP Investments' cash position is monitored on a daily basis. In general, investments in cash, money market securities, floating rate notes, bonds and public equities are expected to be highly liquid as they will be invested in securities that are actively traded. Management utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. A liquidity report taking into consideration future forecasted cash flows is prepared and presented to senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, sufficient sources of liquidity are maintained for deployment in case of market disruption such as that described in Note 18.

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 8.2 provides additional information on the usage of the capital market debt program. Furthermore, PSP Investments maintains credit facilities for general corporate purposes. Note 8.1 provides additional information with respect to such credit facilities.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4.1.12.

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2020 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(739)	–	–	(739)
Interest payable	(24)	(45)	–	(69)
Securities sold short	(2,829)	–	–	(2,829)
Collateral payable	(36)	–	(2,401)	(2,437)
Securities sold under repurchase agreements	(5,643)	(747)	–	(6,390)
Capital market debt financing	(2,630)	(2,658)	(6,209)	(11,497)
Trade payable and other liabilities	(93)	(94)	(134)	(321)
Total	**(11,994)**	**(3,544)**	**(8,744)**	**(24,282)**

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	1,398	366	261	2,025
Derivative-related liabilities[A]	(1,987)	(1,057)	(254)	(3,298)
Total	**(589)**	**(691)**	**7**	**(1,273)**

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2019 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(695)	–	–	(695)
Interest payable	(48)	(2)	–	(50)
Securities sold short	(4,577)	–	–	(4,577)
Collateral payable	(2,188)	–	–	(2,188)
Securities sold under repurchase agreements	(4,089)	–	–	(4,089)
Capital market debt financing	(3,441)	(1,545)	(5,274)	(10,260)
Trade payable and other liabilities	(52)	(89)	(91)	(232)
Total	(15,090)	(1,636)	(5,365)	(22,091)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	479	403	263	1,145
Derivative-related liabilities[A]	(171)	(254)	(274)	(699)
Total	308	149	(11)	446

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

8 — Borrowings

8.1. Credit Facilities

PSP Investments maintains a revolving credit facility in the amount of $2 billion and a demand line of credit in the amount of $1 billion (together “the Credit Facilities”).

The Credit Facilities are for general corporate purposes and are available in either Canadian or US currencies. Subject to customary terms and conditions, these Credit Facilities are available at variable interest rates such as the prime rate and the US base rate.

These Credit Facilities were not drawn upon as at March 31, 2020 and 2019.

8.2. Capital Market Debt Financing

PSP Investments’ capital market debt program consists of the private placement of short-term promissory notes as well as medium-term notes issued by PSP Capital Inc., a wholly-owned subsidiary of PSP Investments. The capital raised is primarily used to finance private market investments. It is unconditionally and irrevocably guaranteed by PSP Investments in accordance with its corporate leverage policy.

The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed $12 billion for issuances in Canada and the United States combined.

PSP Investments’ capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2020 and 2019.

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

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

	March 31, 2020		March 31, 2019	
(Canadian $ millions)	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.97% and 1.87% and maturing within 27 and 364 days of issuance (March 31, 2019 – between 1.79% and 2.20%, maturing within 56 and 365 days)	**236**	**236**	474	471
Short-term US Dollar promissory notes, bearing interest between 0.03% and 2.02% and maturing within 7 and 366 days of issuance (March 31, 2019 – between 2.45% and 2.84%, maturing within 21 and 365 days)	**4,326**	**4,315**	4,540	4,515
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**727**	**737**	688	702
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**1,024**	**1,099**	685	724
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**859**	**866**	908	900
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**1,078**	**1,109**	727	729
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**1,214**	**1,234**	1,272	1,265
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**909**	**979**	908	954
Medium-term notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**909**	**922**	–	–
Total	**11,282**	**11,497**	10,202	10,260

Unrealized losses in connection with borrowings amounted to $372 million for the year ended March 31, 2020 (unrealized losses of $137 million for the year ended March 31, 2019).

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

(Canadian $ millions)	2020	2019
Short-term promissory notes	**108**	109
Medium-term notes	**137**	104
Total	**245**	213

8 — Borrowings (continued)

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2020.

(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Non-cash changes: Foreign exchange losses	Non-cash changes: Fair value[A] losses	Closing balance
Capital market debt financing	**10,260**	**19,202**	**(18,336)**	**260**	**111**	**11,497**
Borrowings	**10,260**	**19,202**	**(18,336)**	**260**	**111**	**11,497**

[A] Includes interest on short-term promissory notes, which added to cost approximates their fair value.

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2019.

(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Non-cash changes: Foreign exchange losses	Non-cash changes: Fair value[A] losses	Closing balance
Capital market debt financing	8,849	24,490	(23,225)	17	129	10,260
Borrowings	8,849	24,490	(23,225)	17	129	10,260

[A] Includes interest on short-term promissory notes, which added to cost approximates their fair value.

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

9.2. Fund Transfers

PSP Investments received fund transfers from the Government of Canada of $2,198 million for the year ended March 31, 2020 ($2,838 million for the year ended March 31, 2019) for the Fund, recorded in the Plan Account.

10 — Segment Information

In order to fulfil its mandate, PSP Investments manages a diversified global portfolio composed of investments in various asset classes and has implemented an investment approach that focuses in the total fund approach rather than only on individual asset classes. The total fund approach guides the long-term investment strategy and focuses on managing total fund allocations and exposures in terms of asset classes, sectors and risk factors.

Accordingly, PSP Investments' investment segments are presented below to reflect the way in which asset classes are managed and how results are reviewed by the entity's senior management for purposes of performance management and decision making. These investment segments include their respective share of investment-related assets and investment-related liabilities as well as borrowings, which are reported separately by nature of the underlying investments as disclosed in Note 4.1. Further, to support PSP Investments' investment approach, a Complementary Portfolio is managed in addition to the individual asset classes' portfolios, which enables PSP Investments to capture investment opportunities that fit the mandate but that are outside the scope of the individual asset classes' investment framework.

Investment segments consist of investments held through direct and co-ownership positions as well as through fund managers and include:

- Public Markets – invests in public market equities and other similar securities.
- Real Estate – invests in real estate assets mainly in retirement and residential, office, retail and other industrial sectors.
- Private Equity – invests in private entities with similar objectives.
- Infrastructure – invests in private entities with a focus on assets in transportation, power generation, telecommunications and other regulated businesses.
- Natural Resources – invests in real assets with a focus on assets in timberlands, agriculture and upstream oil and gas.
- Credit Investments – invests in non-investment grade primary and secondary credit investments.
- Fixed Income – invests in government and corporate fixed income.
- Complementary Portfolio – focuses on investments that are not within the mandate of existing asset classes but are deemed beneficial for the total fund.

The following table presents net investments by investment segment as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Public Markets[A]	**35,178**	37,085
Real Estate	**17,322**	17,105
Private Equity	**17,483**	17,105
Infrastructure	**13,311**	12,221
Natural Resources	**5,560**	4,912
Credit Investments	**9,669**	7,612
Fixed Income[A]	**23,792**	21,645
Complementary Portfolio	**687**	1,036
Other[B]	**491**	3,345
Total	**123,493**	122,066

[A] During the year ended March 31, 2020 government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present such net investments on a comparable basis, corresponding comparative balances of $21,645 million were reclassified accordingly.

[B] Includes cash and money market securities not managed within the operating segments.

10 — Segment Information (continued)

The following table presents net income (loss) from operations by investment segment for the years ended March 31:

(Canadian $ millions)	2020 Investment Income (Loss)[A]	2020 Expenses[B]	2020 Net Income (Loss)	2019 Investment Income (Loss)[A]	2019 Expenses[B]	2019 Net Income (Loss)
Public Markets[C]	**(3,894)**	**(225)**	**(4,119)**	1,525	(227)	1,298
Real Estate	**(586)**	**(219)**	**(805)**	1,371	(186)	1,185
Private Equity	**800**	**(85)**	**715**	2,339	(72)	2,267
Infrastructure	**1,077**	**(156)**	**921**	880	(127)	753
Natural Resources	**(230)**	**(67)**	**(297)**	440	(49)	391
Credit Investments	**343**	**(52)**	**291**	608	(44)	564
Fixed Income[C]	**2,150**	**(96)**	**2,054**	979	(61)	918
Complementary Portfolio	**87**	**(5)**	**82**	(1)	(9)	(10)
Other[D]	**395**	**(7)**	**388**	717	(10)	707
Total	**142**	**(912)**	**(770)**	8,858	(785)	8,073

[A] As described in note 11, embedded within investment income are other fees paid by certain pooled fund investments and management fees not paid directly by PSP Investments.

[B] Includes all investment-related and operating expenses as disclosed in notes 11 and 12, respectively.

[C] During the year ended March 31, 2020, government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present net income from operations for such investments on a comparable basis, corresponding comparative figures for Investment Income, Expenses and Net Income of $979 million, $61 million and $918 million respectively, for the year ended March 31, 2019, were reclassified accordingly.

[D] Includes cash and money market securities not managed within the operating segments.

11 — Investment-Related Expenses

Investment-related expenses allocated to the Plan Account are comprised of the following for the years ended March 31:

(Canadian $ millions)	2020	2019
Interest expense	**307**	244
Transaction costs	**124**	93
External investment management fees[A]	**37**	20
Other (net)	**44**	63
Total	**512**	420

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to $63 million for the year ended March 31, 2020 ($172 million for the year ended March 31, 2019). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.5% of the total invested and/or committed amount, totaled $301 million for the year ended March 31, 2020 ($240 million for the year ended March 31, 2019). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

Operating expenses allocated to the Plan Account consisted of the following for the years ended March 31:

(Canadian $ millions)	2020	2019
Salaries and employee benefits	**231**	211
Professional and consulting fees	**64**	56
Premises and equipment	**18**	23
Market data and business applications	**30**	27
Depreciation of equipment	**25**	24
Custodial fees	**5**	4
Other operating expenses	**27**	20
Total	**400**	365

13 — Allocation of Comprehensive Income

PSP Investments' comprehensive income is allocated to each Plan Account as follows:

13.1. Investment Income

The investment income is allocated proportionately based upon the net investments of each Plan Account at the time the income was incurred.

13.2. Expenses

The Act requires that the costs of operation of PSP Investments be charged to the Plan Accounts. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged, in consultation with the Minister of National Defence and the Minister of Public Safety and Emergency Preparedness. An allocation policy was developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, based upon the net investments of each Plan Account at the time the expense was incurred.

Operating expenses and other comprehensive income, excluding the direct cost of investment activities listed above, and for the years ended March 31, were allocated in proportion to the annual amount of net investments of each Plan Account as follows:

(%)	**2020**	2019
Public Service Pension Plan Account	**72.7**	72.6
Canadian Forces Pension Plan Account	**19.7**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.3
Reserve Force Pension Plan Account	**0.4**	0.4
Total	**100.0**	100.0

14 — Related Party Transactions

14.1. Certain Investees

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 16 and 17, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income as those with unrelated parties.

Transactions between PSP Investments and its consolidated subsidiaries as well as related balances are eliminated upon consolidation and, therefore, are not disclosed in this note.

14.2. The Government of Canada and Government-Related Entities

Since PSP Investments is a Crown corporation as described in Note 1, it is considered to be related to the Government of Canada as well as other entities that are controlled, jointly controlled or significantly influenced by the Government of Canada (together "government-related entities").

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the funds transfers outlined in Note 9.2.

(ii) Government-Related Entities

PSP Investments may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1. Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on net assets and comprehensive income as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

14.3. Compensation of Key Management Personnel

Members of key management personnel are related parties of PSP Investments. Key management personnel are those persons having authority and responsibility for planning, directing and controlling PSP Investments' activities, directly or indirectly and consist of members of the Board of Directors, PSP Investments' senior management team and officers. Compensation earned by key management personnel allocated to the Plan Account for the years ended March 31 was recorded in the Statements of Comprehensive Income (Loss) and was as follows:

(Canadian $ millions)	**2020**	2019
Short-term compensation and other benefits	**11**	11
Long-term compensation and other benefits	**7**	6
Total	**18**	17

As disclosed in Note 16, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

15 — Capital Management

As an investment company, PSP Investments' objectives in managing its capital are:

- To invest fund transfers, outlined in Note 9.2, in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under the *Superannuation Acts* and the ability of the Plans to meet their financial obligations. The funds are also invested in accordance with the Investment Risk Management policies which are outlined in Note 7.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSP Investments has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 8.2 provides information on the capital market debt financing and Note 7.3 provides information on PSP Investments' liquidity.

The capital structure of PSP Investments consists of fund transfers and capital market debt financing. PSP Investments has no externally imposed restrictions on capital.

16 — Guarantees and Indemnities

PSP Investments provides indemnification to its Directors, its Officers, its vice-presidents and to certain PSP Investments representatives who are asked to serve on boards of directors (or like bodies) or investment advisory boards (or like bodies) of entities in which PSP Investments or its investment entity subsidiaries have made an investment or have a financial interest. As a result, but subject to the Act, PSP Investments may be required to indemnify these representatives for costs incurred, such as claims, actions or litigation in connection with the exercise of their duties, unless the liability of such a representative relates to a failure to act honestly and in good faith. To date, PSP Investments has not received any claims or made any payment for such indemnities.

In certain cases, PSP Investments also provides indemnification to third parties in the normal course of business. As a result, PSP Investments may be required to indemnify such third parties in connection with the performance of their contractual obligations. To date, PSP Investments has not received any claims nor made any payments for such indemnities.

PSP Investments unconditionally and irrevocably guarantees all credit facilities, as well as short-term promissory notes and medium-term notes issued by PSP Capital Inc., as described in Note 8.

In certain investment transactions, PSP Investments and its investment entity subsidiaries provided guarantees, indemnifications or issued letters of credit to third parties, the most significant of which are as follows:

- As at March 31, 2020 and 2019, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to $2,802 million as at March 31, 2020 (March 31, 2019 – $2,602 million), of which $2,038 million has been allocated to the Plan Account (March 31, 2019 – $1,891 million) plus applicable interest and other related costs. The arrangements mature between April 2020 and November 2029 as of March 31, 2020 (March 31, 2019 – between July 2019 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $89 million as at March 31, 2020 (March 31, 2019 – $54 million), of which $65 million has been allocated to the Plan Account (March 31, 2019 – $39 million) in relation to investment transactions.

17 — Commitments

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Real estate	**2,566**	1,774
Private equity	**9,472**	7,482
Infrastructure	**2,146**	1,943
Natural resources	**193**	304
Private debt securities	**2,765**	3,009
Alternative investments	**1,230**	1,507
Total	**18,372**	16,019

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2020 (March 31, 2019–2035).

18 — Uncertainties Related to COVID-19

The outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. The Financial Statements of PSP Investments prepared as of, and for the year ended March 31, 2020, reflect the impacts resulting from COVID-19 to the extent known at the reporting date.

The ongoing worldwide spread of COVID-19 and its effect on international business operations, supply chains, travel, commodity prices, consumer confidence and business forecasts are expected to continue to have significant impacts on domestic and international equity markets and fixed income yields for the near term.

Management continues to monitor developments in equity and fixed income markets generally and specifically in connection with PSP Investments' portfolio. The full potential impact of the COVID-19 outbreak on the fair value of PSP Investments' portfolio is unknown as it will depend on future developments that are uncertain. Such uncertainties include the duration and depth of the outbreak. Management expects that the fair value of PSP Investments' portfolio will continue to be affected for the near term.

— Canadian Forces Pension Plan Account
Financial Statements

Independent Auditors' Report

To the Minister of National Defence

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Sector Pension Investment Board – Canadian Forces Pension Plan Account (the Canadian Forces Pension Plan Account), which comprise the statements of financial position as at March 31, 2020 and 2019, and the statements of comprehensive income (loss), statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Canadian Forces Pension Plan Account as at March 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the Canadian Forces Pension Plan Account's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Canadian Forces Pension Plan Account or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Canadian Forces Pension Plan Account's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Public Sector Pension Investment Board – Canadian Forces Pension Plan Account's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Public Sector Pension Investment Board – Canadian Forces Pension Plan Account to comply with the specified authorities.

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

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

Montréal, Canada
4 June 2020

Deloitte LLP[1]

Montréal, Canada
4 June 2020

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

Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Assets		
Investments (Note 4.1)	**40,648**	39,141
Other assets	**64**	38
Total assets	**40,712**	39,179
Liabilities		
Trade payable and other liabilities	**87**	62
Investment-related liabilities (Note 4.1)	**4,250**	3,328
Borrowings (Notes 4.1, 8.2)	**3,100**	2,777
Total liabilities	**7,437**	6,167
Net assets	**33,275**	33,012
Equity (Note 9)	**33,275**	33,012
Total liabilities and equity	**40,712**	39,179

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

On behalf of the Board of Directors:

Martin Glynn
Chair of the Board

William A. Mackinnon
Chair of the Audit Committee

Statements of Comprehensive Income (Loss)

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Investment income	**44**	2,402
Investment-related expenses (Note 11)	**(137)**	(114)
Net investment income (loss)	**(93)**	2,288
Operating expenses (Note 12)	**(108)**	(99)
Net income (loss)	**(201)**	2,189
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability	**2**	(1)
Comprehensive income (loss)	**(199)**	2,188

Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Fund transfers		
Balance at beginning of period	**15,182**	14,503
Fund transfers received during the period (Note 9.2)	**462**	679
Balance at end of period	**15,644**	15,182
Retained earnings		
Balance at beginning of period	**17,830**	15,642
Comprehensive income (loss)	**(199)**	2,188
Balance at end of period	**17,631**	17,830
Total equity	**33,275**	33,012

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Cash flows from operating activities		
Net income (loss)	**(201)**	2,189
Adjustments for non-cash items:		
Depreciation of equipment (Note 12)	**7**	7
Effect of exchange rate changes on cash and cash equivalents	**(17)**	(6)
Unrealized losses on borrowings	**100**	37
	(111)	2,227
Net changes in operating assets and liabilities		
Increase in investments	**(2,329)**	(3,348)
Decrease in other assets	**–**	1
Increase in trade payables and other liabilities	**14**	7
Increase in investment-related liabilities	**922**	633
Net cash flows used in operating activities	**(1,504)**	(480)
Cash flows from financing activities		
Proceeds from borrowings	**5,112**	6,634
Repayment of borrowings	**(4,889)**	(6,301)
Repayment to the Public Service Pension Plan Account	**–**	(104)
Advances from the Public Service Pension Plan Account	**–**	81
Fund transfers received (Note 9.2)	**462**	679
Net cash flows provided by financing activities	**685**	989
Cash flows used in investing activities		
Acquisitions of equipment	**(4)**	(9)
Net cash flows used in investing activities	**(4)**	(9)
Net change in cash and cash equivalents	**(823)**	500
Effect of exchange rate changes on cash and cash equivalents	**17**	7
Cash and cash equivalents at the beginning of the period	**1,341**	834
Cash and cash equivalents at the end of the period[A]	**535**	1,341
Supplementary disclosure of cash flow information		
Interest paid	**(77)**	(61)

[A] As at March 31, 2020 cash and cash equivalents were comprised of $514 million (March 31, 2019 - $1,337 million) held for investment purposes and included in Note 4.1, as well as $21 million (March 31, 2019 - $4 million) held for administrative purposes and included in Other assets.

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

Notes to the Financial Statements

For the years ended March 31, 2020 and 2019

1 — Corporate Information

The Public Sector Pension Investment Board ("PSP Investments") is a Crown corporation created under the *Public Sector Pension Investment Board Act* (the "Act") to manage and invest amounts that are transferred to it pursuant to the *Superannuation Acts* (defined below), for the funds (as defined in the Act) of the pension plans established under the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act* ("CFSA"), the *Royal Canadian Mounted Police Superannuation Act* (collectively the "*Superannuation Acts*"), and certain regulations under the CFSA (the "CFSA Regulations"). The pension plans established under the *Superannuation Acts* consist of the Public Service pension plan, the Canadian Forces pension plan (the "Plan"), and the Royal Canadian Mounted Police pension plan, and the pension plan established under the CFSA Regulations is the Reserve Force pension plan. The Plan and the other pension plans are herein referred to collectively as the "Plans".

The fund for which amounts are currently transferred to PSP Investments by the Government of Canada (the "Fund") relates to pension obligations under the Plan for service on or after April 1, 2000 ("Post-2000 Service"). The account managed by PSP Investments for the Fund is herein referred to as the "Plan Account". PSP Investments maintains records of the net contributions for the Fund, as well as the allocation of its investments and the results of its operations for the Fund in the Plan Account. PSP Investments also manages a plan account for the funds of the other Plans, and these and the Plan Account are collectively referred to herein as the "Plan Accounts".

PSP Investments is responsible for managing amounts that are transferred to it for the Fund in the best interests of the beneficiaries and contributors under the *Canadian Forces Superannuation Act*. The amounts are to be invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plan and the Plan's ability to meet its financial obligations.

Pursuant to the *Canadian Forces Superannuation Act*, the Government of Canada, which administers the Plan and the Fund, may at any time call upon the net assets of PSP Investments allocated to the Fund's Plan Account for amounts required for the purpose of paying benefits under the Plan in respect of Post-2000 Service, or generally, for the purpose of reducing any non-permitted surplus in the Fund.

PSP Investments and the majority of its subsidiaries are exempt from Part I tax under paragraphs 149(1)*(d)* and 149(1)*(d.2)* of the *Income Tax Act* (Canada), respectively.

PSP Investments' registered office is located at 1 Rideau Street, Ottawa, Ontario, Canada and its principal business office is at 1250 René-Lévesque Boulevard West, Montreal, Quebec, Canada.

2 — Significant Accounting Policies

The significant accounting policies that have been applied in the preparation of these Financial Statements are summarized below and have been used throughout all periods presented.

2.1. Basis of Presentation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

PSP Investments qualifies as an investment entity as defined under IFRS 10 *Consolidated Financial Statements* and, consequently, does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. Instead, PSP Investments measures its investments in subsidiaries at fair value through profit or loss ("FVTPL") in accordance with IFRS 9 *Financial Instruments* ("IFRS 9"), including those that are formed by PSP Investments and that qualify as investment entities ("investment entity subsidiaries"). PSP Investments also measures its investments in associates, joint ventures and financial assets and financial liabilities at FVTPL in accordance with IAS 28 *Investments in Associates and Joint Ventures* and IFRS 9.

These Financial Statements present the Plan Account's financial position and results of operations of PSP Investments and its subsidiaries that solely provide it with services that relate to its investment activities, as allocated to the Plan Account. They reflect the economic activity of PSP Investments as it pertains to the investment of the net contributions transferred to it for the Fund in respect of Post-2000 Service. Accordingly, they do not reflect all of the assets or the details of the pension contributions, payments and liabilities under the Plan.

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on June 4, 2020.

2 — Significant Accounting Policies

(continued)

2.2. Investment Entity Status

PSP Investments has determined that it meets the mandatory items of the definition of an investment entity under IFRS 10 on the basis of the facts and circumstances as at the end of the period. They are as follows:

(i) Mandate and business purpose

As further described in Note 1, PSP Investments' mandate is to manage and invest the amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. Consequently, PSP Investments' business purpose is to invest with a view of achieving a maximum rate of return from capital appreciation and income from investments, without undue risk of loss.

(ii) Performance evaluation

PSP Investments measures and evaluates the performance of its investments on a fair value basis.

In addition to the mandatory items of the definition, IFRS 10 also outlines certain typical characteristics of an investment entity, the absence of any of which does not necessarily preclude an entity from qualifying as an investment entity. One of these characteristics is that an investment entity should have investors that are not related parties of the entity.

As described in Note 14, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

Should any changes occur in the facts and circumstances, PSP Investments will evaluate the impact of any such changes on its investment entity status.

2.3. Summary of Significant Accounting Policies

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

2.3.1. Financial Instruments

(i) Classification

Financial assets representing investments are managed, together with related financial liabilities, according to the entity's business model to maximize the rate of return. The performance of such financial instruments is evaluated on a fair value basis and they are classified at FVTPL. They are described in detail in Note 4.1.

Borrowings, as described under Note 8, are financial liabilities that are designated to be measured at FVTPL since they are part of the portfolios of investments that are managed together and whose performance is evaluated on a fair value basis.

(ii) Recognition

Financial assets and financial liabilities are recorded at the date upon which PSP Investments becomes a party to the associated contractual provisions. In the case of traded financial assets, they are recorded as of the trade date.

(iii) Initial and subsequent measurement

All financial assets and financial liabilities are recorded in the Statements of Financial Position at fair value and continue to be measured as such on a recurring basis. After initial measurement, subsequent changes in the fair value of financial assets and financial liabilities classified at FVTPL are recorded in the Statements of Comprehensive Income.

If fair value changes in financial liabilities designated to be measured at FVTPL result from fluctuations in PSP Investments' own credit risk, they are recorded in other comprehensive income. All other changes in fair value are recorded in investment income.

(iv) Derecognition

A financial asset (or, where applicable, a part thereof) is derecognized when the following conditions are met:

- The rights to receive cash flows from the asset have expired, or
- PSP Investments has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows to a third party,

and

- PSP Investments has transferred substantially all the risks and rewards of the asset, or
- In cases where PSP Investments has neither transferred nor retained substantially all the risks and rewards of the asset, it has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At initial recognition, PSP Investments evaluates the facts and circumstances related to a transaction to confirm that the transaction price represents the fair value of an asset or a liability. At each subsequent reporting date, market prices are used to determine fair value where an active market exists (such as a recognized securities exchange), as they reflect actual and regularly occurring market transactions on an arm's length basis. If quoted market prices are not available, then fair value is estimated using valuation techniques based on inputs existing at the end of the reporting period that are derived from observable market data.

Valuation techniques are generally applied to investments in private markets, alternative investments, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 4.

2.3.3. Functional and Presentation Currency

The functional and presentation currency of PSP Investments and its consolidated subsidiaries is the Canadian dollar, which is the currency of the primary economic environment in which each entity within the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars.

2.3.4. Foreign Currency Translation

Foreign currency transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities that are denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the end of the reporting period.

Foreign currency transaction gains and losses on all monetary assets and liabilities are included in investment income.

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or pledged as collateral, or recognize securities borrowed or received as collateral. Cash collateral received is recognized as described in Note 4.1.9.

The securities lending and borrowing programs require collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standard securities lending and borrowing programs. PSP Investments and its counterparties are authorized to sell, repledge or otherwise use collateral held. The same securities or equivalent securities must be returned to the counterparty at the end of the contract, unless an event of default occurs.

2.3.6. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements and Related Collateral

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

Securities sold or purchased under the repurchase and reverse repurchase agreements respectively, including related collateral, are not derecognized or recognized as all risks and rewards of ownership related to such securities are not transferred. As such, in the case where PSP Investments is the counterparty selling securities under such agreements, all income (loss) related to such securities continues to be reported in investment income and obligations to repurchase the securities sold are accounted for as investment-related liabilities. The difference between the fair value of the securities sold and the repurchase price is recorded as interest expense within investment related expenses. In the case where PSP Investments is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income.

Transactions under repurchase and reverse repurchase agreements involve pledging collateral consisting of cash or securities deemed acceptable by the counterparties. Collateral transactions are conducted under terms that are usual and customary in standard repurchase arrangements. Such terms require the relevant counterparty to pledge additional collateral based on the changes in the fair value of the existing collateral pledged as well as the related securities sold or purchased. The counterparties are authorized to sell, repledge or otherwise use collateral held. The securities pledged as collateral must be returned to the relevant counterparty at the end of the contract, unless an event of default occurs.

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.7. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset with the net amount reported in the Statements of Financial Position only if PSP Investments has a current legally enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.3.8. Equity

The statutory rights of the Government of Canada pursuant to the *Superannuation Acts* are described under Note 1 and are classified as equity instruments on the following basis:

- Under such rights the Government of Canada is entitled to PSP Investments' net assets at any time for the purposes set out in the *Superannuation Acts*. Such rights do not contain any additional obligations for PSP Investments to deliver amounts to the Government of Canada.
- Such rights are the most subordinate claim on PSP Investments' net assets.
- The total expected cash flows attributable to such rights, at any time, is solely based on the fair value of the net assets of PSP Investments at that time. Further, the fair value of the net assets of PSP Investments in its entirety represents the amounts that the Government of Canada may call upon at any time.

2.3.9. Investment Income

Investment income is made up of interest, dividends, gains (losses) on the disposal of financial assets and financial liabilities as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of financial assets held and financial liabilities outstanding at the end of the reporting period. Interest is recognized, on a consistent basis, using the prescribed rates until maturity. Dividends are recognized when the right to receive them has been obtained, generally on the ex-dividend date.

2.3.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, as described in Note 4.1.7, transaction costs, external investment management fees and other (net).

Transaction costs are incremental costs directly attributable to the acquisition, due diligence, issue, or disposal of a financial asset or financial liability, and they are expensed as incurred.

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets as outlined in Note 11.

2.3.11. Fund Transfers

Amounts are recorded for the Fund when received from the Government of Canada.

2.4. Significant Accounting Judgments, Estimates and Assumptions

In preparing the Financial Statements, management makes certain judgments, estimates and assumptions that can affect the amounts reported therein. Significant judgments include those related to the determination of the investment entity status as described in Note 2.2.

Management also makes estimates and assumptions in the measurement, risk assessment and related disclosures surrounding investments in private markets and certain fixed income securities. The main assumptions made by management regarding measurement of financial instruments are outlined in Note 4.2.3 and those regarding the assessment of risk are outlined in Note 7.

Although assumptions reflect management's best estimates, actual results may differ from such estimates due to the uncertainties involved in using them. As further described in Note 18, such uncertainties were significant as at March 31, 2020 due to the substantial disruption of global economic activity as well as financial markets' volatility at the reporting date.

3 — Current and Future Changes in Accounting Standards

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

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are aggregated, in the following table, in classes that reflect their respective exposure as well as investment sectors. Their fair values were as follows, as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Public markets		
Canadian equity	**659**	668
Foreign equity	**5,702**	6,377
Private markets		
Real estate	**5,837**	5,535
Private equity	**4,331**	3,979
Infrastructure	**4,398**	3,953
Natural resources	**2,048**	1,477
Fixed income		
Cash and money market securities	**949**	2,340
Government and corporate bonds	**6,158**	5,162
Inflation-linked bonds	**3,247**	2,757
Private debt securities	**3,420**	3,077
Alternative investments	**2,172**	1,975
	38,921	37,300
Investment-related assets		
Amounts receivable from pending trades	**149**	231
Interest receivable	**115**	98
Dividends receivable	**31**	28
Securities purchased under reverse repurchase agreements	**886**	1,174
Derivative-related assets	**546**	310
	1,727	1,841
Investments representing financial assets at FVTPL	**40,648**	39,141
Investment-related liabilities		
Amounts payable from pending trades	**(199)**	(188)
Interest payable	**(18)**	(14)
Securities sold short	**(763)**	(1,238)
Collateral payable	**(657)**	(592)
Securities sold under repurchase agreements	**(1,724)**	(1,107)
Derivative-related liabilities	**(889)**	(189)
Investment-related liabilities representing financial liabilities at FVTPL	**(4,250)**	(3,328)
Borrowings		
Capital market debt financing	**(3,100)**	(2,777)
Borrowings representing financial liabilities designated at FVTPL	**(3,100)**	(2,777)
Net investments	**33,298**	33,036

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.1. Public Markets

Public markets consist of Canadian and foreign investments in the following securities: common shares, American depository receipts, global depository receipts, participation notes, preferred shares, income trust units, exchange traded funds units, pooled funds units, and securities convertible into common shares of publicly listed issuers.

Direct investments in Canadian and foreign equities are measured at fair value using quoted prices in active markets and are based on the most representative price within the bid-ask spread.

In the case of investments in pooled funds, fair value is measured using unit values obtained from each of the funds' administrators, which are derived from the fair value of the underlying investments in each pooled fund. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and natural resources.

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financing.

Private equity investments are comprised of fund investments with similar objectives, co-investments in private entities as well as direct equity positions.

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing.

Natural resources investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas. Natural resources investments are presented net of all third-party financing.

The process for fair value measurement of private markets investments is described in Note 4.2.2 and the valuation techniques together with the significant inputs used are described in Note 4.2.3.

4.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and private debt securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Statements of Cash Flows and amounted to $514 million as at March 31, 2020 (March 31, 2019 – $1,337 million). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds, floating rate notes, asset-backed term notes and mortgage-backed securities. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

Private debt securities are fixed income securities of private companies held directly or through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt and primary and secondary investments in leveraged loans. Private debt securities also include third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products in the real estate sector.

Fair values of government and most corporate bonds, inflation-linked bonds and mortgage-backed securities are based on prices obtained from third-party pricing sources. Such prices are determined using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

The fair values of certain corporate bonds, private debt securities and asset-backed term notes are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

The fair value measurement of fund investments included as part of private debt securities is described in Note 4.2.2.

4 — Financial Assets and Financial Liabilities
(continued)

4.1. Classes of Financial Assets and Financial Liabilities
(continued)

4.1.4. Alternative Investments

Alternative investments consist mainly of units of funds that hold a mix of equity, fixed income and derivative instruments as well as hedge funds. The fair value of these investments is determined based on the fair values reported by the funds' administrators or general partners and reflects the fair value of the underlying equity, fixed income or derivative instruments, as applicable. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.5. Amounts Receivable and Payable from Pending Trades

Amounts receivable from pending trades consist of proceeds on sales of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

Amounts payable from pending trades consist of the cost of purchases of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

The fair value of amounts receivable and payable from pending trades reflects the value at which their underlying original sale or purchase transactions were undertaken.

4.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which due to their short-term maturity, approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.11, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

4.1.8. Securities Sold Short

Securities sold short reflect PSP Investments' obligation to purchase securities pursuant to short selling transactions. In such transactions, PSP Investments sells securities it does not own with an obligation to purchase similar securities on the market to cover its position.

Using quoted market prices that are based on the most representative price within the bid-ask spread, the fair value of securities sold short is measured using the same method as the similar long positions presented within public markets and fixed income.

4.1.9. Collateral Payable

As part of securities lending and certain OTC derivative transactions, cash collateral is received and reinvested by PSP Investments. PSP Investments recognizes cash collateral received with a corresponding payable. The payable balance reflects the obligation of the transferee to return cash collateral to the transferor at the end of the transaction in the absence of an event of default by the transferor.

4.1.10. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements

As described in Note 2.3.6, PSP Investments is party to repurchase and reverse repurchase agreements. Obligations to repurchase or resell the securities sold or purchased under such agreements are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value.

4.1.11. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 8.2. Short-term promissory notes are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

4 — Financial Assets and Financial Liabilities
(continued)

4.1. Classes of Financial Assets and Financial Liabilities
(continued)

4.1.12. Derivative-Related Assets and Liabilities

Derivative financial instruments are financial contracts that are settled at a future date. The value of such instruments is derived from changes in the value of the underlying assets, interest or exchange rates. Derivative financial instruments do not, typically, require an initial net investment. In certain cases, they require an initial net investment that is less than what would be required to hold the underlying position directly. Derivative financial instruments can be listed or traded OTC. OTC instruments consist of those that are bilaterally negotiated and settled, and those that are cleared (OTC-cleared) by a central clearing party (CCP).

PSP Investments uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

PSP Investments uses the following types of derivative financial instruments:

Swaps

Swaps are transactions whereby two counterparties exchange cash flow streams with each other based on predetermined conditions that include a notional amount and a term. Swaps are used to increase returns or to adjust exposures of certain assets without directly purchasing or selling the underlying assets.

Futures

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a predefined price and predefined future date. Futures are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Forwards

Forwards are contracts involving the sale by one party and the purchase by another party of a predefined amount of an underlying instrument, at a predefined price and at a predefined date in the future. Forwards are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Options

Options are contracts where the seller gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index, commodity, currency, interest rate, credit or other financial instrument, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

Warrants are options to purchase an underlying asset which is in the form of a transferable security and which can be listed on an exchange or traded OTC.

Rights are securities giving shareholders entitlement to purchase new shares issued by a corporation at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

Determination of Fair Value of Derivative Financial Instruments

Listed derivative financial instruments are recorded at fair value using quoted market prices that are based on the most representative price within the bid-ask spread. OTC-cleared derivatives are recorded at fair value using prices obtained from the CCP. OTC derivatives are valued using appropriate valuation techniques such as discounted cash flows. These techniques use significant inputs that are observable in the market such as current market yields.

Notional Values and Fair Values of Derivative-Related Assets and Liabilities

Notional values of derivative financial instruments are not recorded as assets or liabilities as they represent the face amount of the contract. Except for credit derivatives, notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions disclosed below. Rather, they serve as the basis upon which the cash flows and the fair value of the contracts are determined.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**527**	**–**	**–**	684	–	–
Warrants and rights	**–**	**–**	**–**	–	–	–
Options: Purchased	**743**	**27**	**–**	1,008	34	–
Written	**707**	**–**	**(13)**	907	–	(16)
OTC						
Swaps	**4,819**	**166**	**(608)**	5,145	126	(37)
Options: Purchased	**152**	**11**	**–**	132	4	–
Written	**192**	**–**	**(9)**	106	–	(6)
Currency derivatives						
Listed						
Futures	**24**	**–**	**–**	59	–	–
OTC						
Forwards	**5,360**	**155**	**(95)**	3,909	23	(10)
Swaps	**1,230**	**19**	**(6)**	1,296	4	(7)
Options: Purchased	**612**	**14**	**–**	1,266	10	–
Written	**669**	**–**	**(13)**	1,159	–	(10)
Interest rate derivatives						
Listed						
Futures	**809**	**–**	**–**	2,193	–	–
Options: Purchased	**6,491**	**11**	**–**	9,422	7	–
Written	**2,568**	**–**	**(9)**	8,637	–	(5)
OTC						
Forwards	**–**	**–**	**–**	117	2	(3)
Swaps	**1,341**	**29**	**(40)**	5,027	48	(52)
Options: Purchased	**8,043**	**112**	**–**	10,629	52	–
Written	**8,855**	**–**	**(95)**	10,059	–	(41)
OTC-cleared						
Forwards	**5,572**	**–**	**–**	–	–	–
Swaps	**21,015**	**–**	**–**	10,971	–	–
Credit derivatives						
OTC						
Credit default swaps: Purchased	**91**	**2**	**(1)**	131	–	(2)
Written[A]	**4**	**–**	**–**	17	–	–
OTC-cleared						
Credit default swaps: Purchased	**195**	**–**	**–**	162	–	–
Total		**546**	**(889)**		310	(189)

[A] PSP Investments, through written credit default swaps, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the written credit default swaps as shown in the table above.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**11,869**	**38**	**(22)**	22,910	41	(21)
OTC derivatives	**31,368**	**508**	**(867)**	38,993	269	(168)
OTC-cleared derivatives	**26,782**	**–**	**–**	11,133	–	–
Total		**546**	**(889)**		310	(189)

The terms to maturity based on notional value for the derivatives were as follows as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Less than 3 months	**33,946**	18,552
3 to 12 months	**17,873**	31,977
Over 1 year	**18,200**	22,507

4.2. Fair Value Hierarchy

4.2.1. Classification

Financial assets and financial liabilities described under Note 4.1 are classified within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
  (i) Quoted prices for similar assets or liabilities in active markets.
  (ii) Quoted prices for identical or similar assets or liabilities in markets that are not active.
  (iii) Inputs other than quoted prices that are observable for the asset or liability.
  (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

The classification within the levels of the hierarchy is established at the time of the initial determination of fair value of the asset or liability and reviewed at the end of each reporting period. PSP Investments determines whether a transfer between levels has occurred and recognizes such transfer at the beginning of the reporting period.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2020 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	511	139	9	659
Foreign equity	5,172	294	236	5,702
Private markets				
Real estate	–	–	5,837	5,837
Private equity	–	–	4,331	4,331
Infrastructure	–	–	4,398	4,398
Natural resources	–	–	2,048	2,048
Fixed income				
Cash and money market securities	252	697	–	949
Government and corporate bonds	2,258	3,899	1	6,158
Inflation-linked bonds	3,170	77	–	3,247
Private debt securities	–	–	3,420	3,420
Alternative investments	–	512	1,660	2,172
	11,363	5,618	21,940	38,921
Investment-related assets				
Amounts receivable from pending trades	–	149	–	149
Interest receivable	–	115	–	115
Dividends receivable	–	31	–	31
Securities purchased under reverse repurchase agreements	–	886	–	886
Derivative-related assets	36	510	–	546
	36	1,691	–	1,727
Investments representing financial assets at FVTPL	11,399	7,309	21,940	40,648
Investment-related liabilities				
Amounts payable from pending trades	–	(199)	–	(199)
Interest payable	–	(18)	–	(18)
Securities sold short	(721)	(42)	–	(763)
Collateral payable	–	(657)	–	(657)
Securities sold under repurchase agreements	–	(1,724)	–	(1,724)
Derivative-related liabilities	(21)	(868)	–	(889)
Investment-related liabilities representing financial liabilities at FVTPL	(742)	(3,508)	–	(4,250)
Borrowings				
Capital market debt financing	–	(3,100)	–	(3,100)
Borrowings representing financial liabilities designated at FVTPL	–	(3,100)	–	(3,100)
Net investments	10,657	701	21,940	33,298

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2019 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	486	170	12	668
Foreign equity	5,618	429	330	6,377
Private markets				
Real estate	–	–	5,535	5,535
Private equity	–	–	3,979	3,979
Infrastructure	–	–	3,953	3,953
Natural resources	–	–	1,477	1,477
Fixed income				
Cash and money market securities	–	2,340	–	2,340
Government and corporate bonds	–	5,155	7	5,162
Inflation-linked bonds	–	2,757	–	2,757
Private debt securities	–	–	3,077	3,077
Alternative investments	–	418	1,557	1,975
	6,104	11,269	19,927	37,300
Investment-related assets				
Amounts receivable from pending trades	–	231	–	231
Interest receivable	–	98	–	98
Dividends receivable	–	28	–	28
Securities purchased under reverse repurchase agreements	–	1,174	–	1,174
Derivative-related assets	26	284	–	310
	26	1,815	–	1,841
Investments representing financial assets at FVTPL	6,130	13,084	19,927	39,141
Investment-related liabilities				
Amounts payable from pending trades	–	(188)	–	(188)
Interest payable	–	(14)	–	(14)
Securities sold short	(770)	(468)	–	(1,238)
Collateral payable	–	(592)	–	(592)
Securities sold under repurchase agreements	–	(1,107)	–	(1,107)
Derivative-related liabilities	(21)	(168)	–	(189)
Investment-related liabilities representing financial liabilities at FVTPL	(791)	(2,537)	–	(3,328)
Borrowings				
Capital market debt financing	–	(2,777)	–	(2,777)
Borrowings representing financial liabilities designated at FVTPL	–	(2,777)	–	(2,777)
Net investments	5,339	7,770	19,927	33,036

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2020 (no significant transfers between Level 1 and Level 2 during the year ended March 31, 2019).

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

The valuation process is monitored and governed by an internal valuation committee ("VC"). This committee is responsible for overseeing all aspects of fair value determination. This includes establishing valuation methodologies and procedures for each type of investment and ensuring they are complied with. Valuation methodologies established are based on widely recognized practices that are consistent with professional appraisal standards. Such standards include, among others, the *International Private Equity and Venture Capital Valuation Guidelines*, the *Canadian Uniform Standards of Professional Appraisal Practice* and the *Uniform Standards of Professional Appraisal Practice* in the United States of America.

The fair value of investments classified as Level 3 is determined at least annually. Quarterly, the fair value is reviewed and adjusted, as appropriate, to reflect the impact of any significant market or investment-specific events or circumstances. For each investment, the relevant valuation methodology is applied consistently over time as appropriate in the prevailing circumstances. The appropriateness of significant changes in valuation methodologies is reviewed by the VC.

In cases where the services of third-party appraisers are used, management ensures their independence and that valuation methods used are consistent with professional appraisal standards outlined above. In validating the work performed by appraisers, management ensures that the assumptions used correspond to financial information and forecasts of the underlying investment.

With respect to fund investments classified as Level 3, the annual fair value is generally determined based on audited financial statements received from the fund's general partner. In certain cases, fair value is obtained from information provided by the fund's administrators and is reviewed by Management to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

To reflect the impact of the market disruption described in note 18 as at March 31, 2020, management used significant judgement in the determination of fair value of Level 3 investments, especially those in Private Markets. Where appropriate, adjustments were made based on public market trading comparables, investment specific characteristics as well as market conditions and uncertainties as at March 31, 2020.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2020:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	**9**	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	**236**	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	**5,509**	Discounted cash flow (DCF)	Discount rate[B, C]	2.90% – 20.00% (7.46%)
				Terminal capitalization rate[B, C]	3.95% – 10.25% (5.82%)
			Direct capitalization	Capitalization rate[B, D]	2.35% – 9.78% (4.88%)
				Stabilized occupancy rate[D, E]	67.50% – 100.00% (98.43%)
			Sales comparison approach	Price per square foot[D, E]	\$0.94 – \$1,895.16 (\$290.17)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**328**	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	**7,651**	DCF	Discount rate[B]	6.30% – 15% (8.20%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**3,126**	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	**1**	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	**2,430**	DCF	Discount rate[B]	6.63% – 22.64% (11.86%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**990**	NAV[A]	N/A	N/A
Alternative investments	Fund investments	**1,660**	NAV[A]	N/A	N/A
Total		**21,940**			

[A] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.
[B] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
[C] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.
[D] There is no predictable direct relationship between this input and any other significant unobservable input.
[E] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2019:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	12	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	330	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	5,174	Discounted cash flow (DCF)	Discount rate[B, C]	4.10% – 20.00% (7.55%)
				Terminal capitalization rate[B, C]	4.25% – 10.25% (5.92%)
			Direct capitalization	Capitalization rate[B, D]	2.50% – 8.98% (5.57%)
				Stabilized occupancy rate[D, E]	93.00% – 100.00% (98.22%)
			Sales comparison approach	Price per square foot[D, E]	$0.95 – $2,057.93 ($281.99)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	361	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	6,646	DCF	Discount rate[B]	6.00% – 12.50% (8.79%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	2,763	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	6	DCF	Discount rate[B]	52.50%
	Asset-backed term notes	1	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	2,124	DCF	Discount rate[B]	5.54% – 18.76% (9.77%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	953	NAV[A]	N/A	N/A
Alternative investments	Fund investments	1,557	NAV[A]	N/A	N/A
Total		19,927			

[A] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.
[B] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
[C] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.
[D] There is no predictable direct relationship between this input and any other significant unobservable input.
[E] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2020:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer in (out) of Level 3	Closing Balance
Public markets	**342**	**23**	**(174)**	**–**	**102**	**(48)**	**–**	**245**
Private markets	**14,944**	**3,725**	**(2,052)**	**–**	**724**	**(746)**	**19**	**16,614**
Fixed income	**3,084**	**1,511**	**(984)**	**–**	**21**	**(211)**	**–**	**3,421**
Alternative investments	**1,557**	**305**	**(239)**	**–**	**33**	**49**	**(45)**	**1,660**
Total	**19,927**	**5,564**	**(3,449)**	**–**	**880**	**(956)**	**(26)**	**21,940**

[A] Includes Plan Account allocation adjustments.

As at March 31, 2019, an alternative investment of $45 million in a non-listed fund that held listed securities was classified as Level 3 due to the nature of the contractual restrictions on the redemption of fund units. During the year ended March 31, 2020, the investment was transferred to Level 2 as the contractual restrictions were lifted. Additionally, as at March 31, 2019, a public market investment of $19 million was classified as Level 1 and was transferred to Level 3 during the year ended March 31, 2020, as the investment became privately held.

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2019:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer out of Level 3	Closing Balance
Public markets	374	109	(133)	–	85	(93)	–	342
Private markets	13,041	2,927	(1,864)	–	373	484	(17)	14,944
Fixed income	2,819	1,137	(886)	(12)	30	(4)	–	3,084
Alternative investments	1,396	173	(108)	–	9	87	–	1,557
Total	17,630	4,346	(2,991)	(12)	497	474	(17)	19,927

[A] Includes Plan Account allocation adjustments.

As at March 31, 2018, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2019, the investment was transferred to Level 1 as the related securities became publicly traded.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, with all other variables held constant, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2020 (March 31, 2019 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 2.3.5, 2.3.6 and 7.2.1. The following table illustrates the fair values of the Plan Account's allocated collateral, as well as the securities under the lending and borrowing programs and the securities under the repurchase and reverse repurchase agreements, as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Securities lending and borrowing		
Securities lent	**130**	1,571
Collateral held[A]	**138**	1,655
Securities borrowed	**202**	772
Collateral pledged[B]	**220**	794
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**1,735**	1,114
Collateral pledged	**1,727**	1,111
Securities purchased under reverse repurchase agreements	**888**	1,180
Collateral held[C]	**887**	1,178
Derivative contracts		
Collateral pledged	**568**	180
Collateral held[D]	**75**	109

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to nil for the Plan Account as at March 31, 2020 (March 31, 2019 – $586 million) and securities amounted to $138 million as at March 31, 2020 (March 31, 2019 – $1,069 million). All cash collateral is reinvested.

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

[C] The collateral received is in the form of securities of which $561 million has been used in connection with short selling transactions as at March 31, 2020 (March 31, 2019 – $468 million) and $26 million has been used in connection with securities sold under repurchase agreements (March 31, 2019 – $3 million).

[D] As part of collateral held, cash amounted to $9 million as at March 31, 2020 (March 31, 2019 – $1 million) and securities amounted to $66 million as at March 31, 2020 (March 31, 2019 – $108 million). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

As an investment entity, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. PSP Investments measures its investments in its subsidiaries, joint ventures and associates at FVTPL as described in Note 2.1.

For purposes of preparing this note, management assesses control, joint control and significant influence as follows:

(i) Control and significant influence

PSP Investments determines that it has control over an investee when it is exposed, or has rights, to variable returns from its investment in an entity and has the ability to affect those returns through its power over the investee.

In certain cases, PSP Investments does not have control over an investee but has the power to participate in the financial and operating policy decisions of the investee. In such cases, PSP Investments determines that it has significant influence over the investee.

In the context of control or significant influence, power over an investee is obtained through voting rights conveyed by PSP Investments' ownership interest, other contractual arrangements, or a combination thereof.

(ii) Joint control

PSP Investments determines that it is party to a joint venture arrangement when it has joint control over an investee and has rights to the net assets of the investee. Joint control is established through a contractual arrangement which requires the unanimous consent of the parties sharing control for the activities that significantly affect the returns of the arrangement.

Generally, decision making regarding such activities is governed through voting rights conveyed by the ownership interest of each party. In certain cases, it is governed solely through contractual arrangements or in conjunction with the ownership interest of each party.

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2020, 111 investment entity subsidiaries were incorporated in North America, 15 in Europe, 15 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2019 – 108 in North America, 17 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 84 investees directly or through its investment entity subsidiaries as at March 31, 2020 (March 31, 2019 – 81 investees).

The following tables present, in descending order, the most significant investees held directly or indirectly by PSP Investments where it has control, joint control or significant influence.

	March 31, 2020		
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments (%)**	**Relationship to PSP Investments**
AviAlliance GmbH	**Europe**	**100**	**Controlled investee**
Revera Inc.	**North America**	**100**	**Controlled investee**
Kaingaroa Timberlands Limited	**Oceania**	**56**	**Jointly controlled investee**
Roadis Transportation Holding, S.L.U.	**Global**	**100**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50**	**Jointly controlled investee**
Forth Ports Limited	**Europe**	**51**	**Jointly controlled investee**
TDF S.A.S.	**Europe**	**22**	**Associate**
Big Box Properties	**North America**	**49**	**Jointly controlled investee**
Roccapina Fund, L.P.	**North America**	**100**	**Controlled investee**
American Wholesale Insurance Holding Company, LLC	**North America**	**27**	**Associate**

	March 31, 2019		
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
AviAlliance GmbH	Europe	100	Controlled investee
Revera Inc.	North America	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Forth Ports Limited	Europe	51	Jointly controlled investee
TDF S.A.S.	Europe	22	Associate
Roccapina Fund, L.P.	North America	100	Controlled investee
Big Box Properties	North America	49	Jointly controlled investee

In addition to the above, PSP Investments consolidates wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services consist of investment management and financing of private market investments within the context of PSP Investments' capital market debt program described in Note 8.2.

6.2. Structured Entities

PSP Investments holds interests in partnerships and funds mainly in the context of its investments in private markets. Given their nature, such entities commonly have the characteristics of a structured entity as defined by IFRS. These entities are held as investments and do not expose PSP Investments to additional risks or returns compared to interests held in non-structured entities.

Information regarding structured entities is included, as applicable, within disclosures of investment risk management under Note 7, guarantees and indemnities under Note 16 and commitments under Note 17.

7 — Investment Risk Management

PSP Investments is required to act in the best interests of the contributors and beneficiaries under the Plans and for maximizing returns without undue risk of loss. In pursuit of this objective, PSP Investments established an Enterprise Risk Management Policy (ERM Policy). The ERM Policy provides a framework for identifying, evaluating, managing, mitigating, monitoring and reporting the investment and non-investment risks to which PSP Investments is exposed.

As part of the overall ERM policy, the objective of the Investment Risk Management Policy (IRM Policy) is to support the management of risk inherent to the investment decision making process. The IRM Policy outlines a framework detailing how investment activities should comply with PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite. The IRM Policy also supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), whose objective is to effectively manage investment risks related to the implementation of PSP Investments' various investment strategies. Investment risks include market, credit and liquidity risks.

7.1. Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of an adverse financial outcome due to changes in the factors that drive that value, such as changes in market prices, changes caused by factors specific to the individual investment, volatility in share and commodity prices, interest rate, foreign exchange or other factors affecting similar securities traded in the market.

7.1.1. Measurement of Market Risk

The absolute annualized volatility of the total portfolio is used as the primary measure of market risk. The absolute volatility is a statistical measure of the size of changes in investment returns of a given investment or portfolio of investments. It is used to illustrate the potential loss of value in an investment or portfolio of investments as a result of fluctuations in market prices.

PSP Investments uses seven years' worth of market returns scaled to a twelve-month holding period to calculate the absolute volatility. For investments that are not actively traded, the calculation of the absolute volatility uses securities with similar risk attributes as a proxy.

The absolute volatility is statistically valid under normal market conditions. Although it includes losses from severe market events such as those described in Note 18, it does not solely measure such events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

The following table shows the absolute volatility of the total portfolio expressed as a percentage of net investments as at the end of the period:

	March 31, 2020 (%)	March 31, 2019 (%)
Absolute volatility	**9.2**	7.3

Stress Testing

Although the absolute volatility is a widely accepted risk measure, it is complemented by other risk measurement methodologies that provide greater insight on market risk. PSP Investments uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of the Plan Account's net asset values.

The terms to maturity of the classes of financial instruments, outlined in Note 4.1, with the most significant exposure to interest rate risk were as follows as at:

	March 31, 2020					
(Canadian $ millions)	**Less than 1 Year**	**1 to 5 Years**	**5 to 10 Years**	**Over 10 Years**	**Other**	**Total**
Cash and money market securities	**–**	**–**	**–**	**–**	**949[A]**	**949**
Government and corporate bonds	**182**	**3,504**	**1,117**	**1,086**	**269[B]**	**6,158**
Inflation-linked bonds	**–**	**1,170**	**1,245**	**832**	**–**	**3,247**
Private debt securities	**60**	**851**	**1,222**	**292**	**995[C]**	**3,420**
Total fixed income	**242**	**5,525**	**3,584**	**2,210**	**2,213**	**13,774**

	March 31, 2019					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	2,340[A]	2,340
Government and corporate bonds	234	2,383	1,184	961	400[B]	5,162
Inflation-linked bonds	–	450	1,540	767	–	2,757
Private debt securities	17	501	1,182	410	967[C]	3,077
Total fixed income	251	3,334	3,906	2,138	3,707	13,336

[A] Due to their short-term maturity, these investments are not significantly exposed to interest rate risk.

[B] Certain fixed income securities are not significantly exposed to interest rate risk as their prescribed rates are variable.

[C] Information in connection with the terms to maturity of fund and certain directly held investments included as part of private debt securities is not available.

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounting to $22,975 million as at March 31, 2020 ($21,989 million as at March 31, 2019) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in 4.1.4, which amounted to $2,172 million as at March 31, 2020 ($1,975 million as at March 31, 2019), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the absolute volatility calculation described in Note 7.1.1.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 8.2.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through holding of investments (i.e. direct and indirect holdings of securities, units in pooled funds and units in limited partnerships) or investment-related liabilities in various currencies. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

	March 31, 2020		March 31, 2019	
Currency	**Fair Value (Canadian $ millions)**	**% of Total**	**Fair Value (Canadian $ millions)**	**% of Total**
US Dollar	**19,135**	**67.1**	17,145	63.6
Euro	**3,694**	**13.0**	4,017	14.9
Australian Dollar	**1,218**	**4.3**	593	2.2
British Pound	**939**	**3.3**	1,557	5.8
Japanese Yen	**686**	**2.4**	546	2.0
Hong Kong Dollar	**460**	**1.6**	508	1.9
Swiss Franc	**340**	**1.2**	181	0.7
Mexican Peso	**313**	**1.1**	474	1.8
Indian Rupee	**263**	**0.9**	314	1.2
Brazilian Real	**259**	**0.9**	315	1.2
Others	**1,188**	**4.2**	1,285	4.7
Total	**28,495**	**100.0**	26,935	100.0

As at March 31, 2020, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $4,883 million for the Plan Account (US$2,846 million, € 391 million, £ 53 million, 4 million South African rands, 437 million Mexican pesos, 5,177 million Indian Rupee, 10 million Danish Krone and 2 million Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2019, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $4,249 million for the Plan Account (US$2,686 million, € 390 million, £ 21 million, 4 million South African rands, 1 million Brazilian reals, 2,665 million Colombian pesos, 522 million Mexican pesos and 3 million Australian dollars) which were not included in the foreign currency exposure table above.

7— Investment Risk Management (continued)

7.2. Credit Risk

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities purchased under reverse repurchase agreements, is unable to meet its financial obligations.

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation for public issuers and counterparties, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings. For private issuers, PSP Investments assigns internal credit ratings to issuers and measures the combined risk profile against set targets. To assign risk ratings to issuers, PSP Investments uses methodologies comparable to those used by recognized rating agencies.

As at March 31, 2020, the Plan Account's maximum exposure to credit risk amounted to $15 billion (March 31, 2019 – $14 billion), of which Private Debt securities amounting to $46 million (March 31, 2019 – $57 million) were rated BBB and $3 billion (March 31, 2019 – $3 billion) were rated BB or below. The maximum credit risk amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating for credit-sensitive securities. The concentration of credit risk by credit rating was as follows as at:

Credit Rating	**March 31, 2020 (%)**	March 31, 2019 (%)
AAA-AA	**58.6**	48.4
A	**12.5**	23.6
BBB	**1.9**	2.3
BB or below	**26.4**	25.1
No rating[A]	**0.6**	0.6
Total	**100.0**	100.0

[A] Includes securities for public issuers and counterparties, that are either not rated by credit rating agencies or rated by a single credit rating agency.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts, securities lending and borrowing as well as securities repurchase and reverse repurchase agreements. In order to minimize counterparty risk, PSP Investments requires that counterparties provide adequate collateral and meet its credit rating requirements. PSP Investments frequently monitors the credit rating of its counterparties as determined by recognized credit rating agencies. With respect to derivative contracts, PSP Investments has the ability to terminate all trades with most counterparties whose credit rating is downgraded below its requirements.

For OTC derivatives, PSP Investments' policy also requires the use of the International Swaps and Derivative Association (ISDA) Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted. In the case of OTC-cleared derivatives, trading activities are regulated between parties under terms that are customary to such transactions.

As a credit mitigation technique, the ISDA Master Agreement contractually binds counterparties to close-out netting provisions in the case of default by one of the counterparties. Additionally, the Credit Support Annex (CSA) to the ISDA Master Agreement enables PSP Investments to realize any collateral placed with it in the case of default of the counterparty. The CSA also requires PSP Investments to contribute further collateral when requested. All collateral transactions under the CSA are in cash, high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. Counterparties are generally authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held in the form of securities but does reinvest all cash collateral, with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing agreements as well as securities repurchase and reverse repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 2.3.5 and 2.3.6 describe collateral requirements in securities lending and borrowing programs as well as securities repurchase and reverse repurchase agreements.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 5.

In the case of the securities lending program, PSP Investments' exposure to counterparty risk is further mitigated as the custodian of the securities lent assumes the risk that a counterparty will be unable to meet its obligations associated with the collateral requirements.

Management is responsible for counterparty risk monitoring and mitigation as well as maintaining a comprehensive, disciplined, and enterprise-wide process for tracking and managing counterparty risk. As such, management measures counterparty risk on an ongoing basis, evaluates and tracks the creditworthiness of current counterparties and mitigates counterparty risk through collateral management.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Statements of Financial Position. Securities repurchase and reverse repurchase agreements described in Notes 2.3.6 and 5 are subject to similar arrangements however they are not offset as the conditions for offsetting are not met.

The following tables present the financial assets and liabilities described above:

Financial Assets

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2020						
Reverse repurchase agreements	**886**	**–**	**886**[A]	**701**	**185**	**–**
OTC-derivatives	**516**	**8**	**508**[B]	**446**	**60**	**2**
Total	**1,402**	**8**	**1,394**	**1,147**	**245**	**2**
March 31, 2019						
Reverse repurchase agreements	1,174	–	1,174[A]	764	410	–
OTC-derivatives	270	1	269[B]	150	105	14
Total	1,444	1	1,443	914	515	14

Financial Liabilities

(Canadian $ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2020						
Repurchase agreements	**1,724**	**–**	**1,724**[A]	**701**	**1,022**	**1**
OTC-derivatives	**875**	**8**	**867**[B]	**442**	**410**	**15**
Collateral payable	**9**	**–**	**9**[C]	**4**	**1**	**4**
Total	**2,608**	**8**	**2,600**	**1,147**	**1,433**	**20**
March 31, 2019						
Repurchase agreements	1,107	–	1,107[A]	764	343	–
OTC-derivatives	169	1	168[B]	149	18	1
Collateral payable	1	–	1[C]	1	–	–
Total	1,277	1	1,276	914	361	1

[A] As described in Note 4.1.10.

[B] As described in Note 4.1.12.

[C] As described in Note 4.1.9. The balance consists of cash collateral received with respect to certain OTC derivative transactions and is included in Note 4.1 as part of collateral payable.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

Liquidity risk corresponds to the risk that PSP Investments will not be able to meet its financial obligations on a timely basis, with sufficient and readily available cash resources. PSP Investments' cash position is monitored on a daily basis. In general, investments in cash, money market securities, floating rate notes, bonds and public equities are expected to be highly liquid as they will be invested in securities that are actively traded. Management utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. A liquidity report taking into consideration future forecasted cash flows is prepared and presented to senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, sufficient sources of liquidity are maintained for deployment in case of market disruption such as that described in Note 18.

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 8.2 provides additional information on the usage of the capital market debt program. Furthermore, PSP Investments maintains credit facilities for general corporate purposes. Note 8.1 provides additional information with respect to such credit facilities.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4.1.12.

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2020 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(199)	–	–	(199)
Interest payable	(6)	(12)	–	(18)
Securities sold short	(763)	–	–	(763)
Collateral payable	(10)	–	(647)	(657)
Securities sold under repurchase agreements	(1,522)	(202)	–	(1,724)
Capital market debt financing	(709)	(717)	(1,674)	(3,100)
Trade payable and other liabilities	(26)	(25)	(36)	(87)
Total	**(3,235)**	**(956)**	**(2,357)**	**(6,548)**

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	377	99	70	546
Derivative-related liabilities[A]	(535)	(285)	(69)	(889)
Total	**(158)**	**(186)**	**1**	**(343)**

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2019 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(188)	–	–	(188)
Interest payable	(14)	–	–	(14)
Securities sold short	(1,238)	–	–	(1,238)
Collateral payable	(592)	–	–	(592)
Securities sold under repurchase agreements	(1,107)	–	–	(1,107)
Capital market debt financing	(931)	(418)	(1,428)	(2,777)
Trade payable and other liabilities	(14)	(23)	(25)	(62)
Total	(4,084)	(441)	(1,453)	(5,978)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	130	109	71	310
Derivative-related liabilities[A]	(46)	(69)	(74)	(189)
Total	84	40	(3)	121

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

8 — Borrowings

8.1. Credit Facilities

PSP Investments maintains a revolving credit facility in the amount of $2 billion and a demand line of credit in the amount of $1 billion (together “the Credit Facilities”).

The Credit Facilities are for general corporate purposes and are available in either Canadian or US currencies. Subject to customary terms and conditions, these Credit Facilities are available at variable interest rates such as the prime rate and the US base rate.

These Credit Facilities were not drawn upon as at March 31, 2020 and 2019.

8.2. Capital Market Debt Financing

PSP Investments’ capital market debt program consists of the private placement of short-term promissory notes as well as medium-term notes issued by PSP Capital Inc., a wholly-owned subsidiary of PSP Investments. The capital raised is primarily used to finance private market investments. It is unconditionally and irrevocably guaranteed by PSP Investments in accordance with its corporate leverage policy.

The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed $12 billion for issuances in Canada and the United States combined.

PSP Investments’ capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2020 and 2019.

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

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

	March 31, 2020		March 31, 2019	
(Canadian $ millions)	**Capital Amounts Payable at Maturity**	**Fair Value**	**Capital Amounts Payable at Maturity**	**Fair Value**
Short-term Canadian Dollar promissory notes, bearing interest between 0.97% and 1.87% and maturing within 27 and 364 days of issuance (March 31, 2019 – between 1.79% and 2.20%, maturing within 56 and 365 days)	**64**	**64**	128	127
Short-term US Dollar promissory notes, bearing interest between 0.03% and 2.02% and maturing within 7 and 366 days of issuance (March 31, 2019 – between 2.45% and 2.84%, maturing within 21 and 365 days)	**1,166**	**1,163**	1,229	1,222
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**196**	**199**	186	189
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**276**	**296**	185	197
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**232**	**233**	246	243
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**291**	**299**	197	198
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**327**	**333**	344	343
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**245**	**264**	246	258
Medium-term notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**245**	**249**	–	–
Total	**3,042**	**3,100**	2,761	2,777

Unrealized losses in connection with borrowings amounted to $100 million for the year ended March 31, 2020 (unrealized losses of $ 37 million for the year ended March 31, 2019).

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

(Canadian $ millions)	**2020**	2019
Short-term promissory notes	**29**	30
Medium-term notes	**36**	28
Total	**65**	58

8 — Borrowings (continued)

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2020.

				Non-cash changes		
(Canadian $ millions)	**Opening balance**	**Proceeds from borrowings**	**Repayment of borrowings**	**Foreign exchange losses**	**Fair value[A] losses**	**Closing balance**
Capital market debt financing	**2,777**	**5,112**	**(4,889)**	**70**	**30**	**3,100**
Borrowings	**2,777**	**5,112**	**(4,889)**	**70**	**30**	**3,100**

[A] Includes interest on short-term promissory notes, which added to cost approximates their fair value.

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2019.

				Non-cash changes		
(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Foreign exchange losses	Fair value[A] losses	Closing balance
Capital market debt financing	2,404	6,634	(6,301)	5	35	2,777
Borrowings	2,404	6,634	(6,301)	5	35	2,777

[A] Includes interest on short-term promissory notes, which added to cost approximates their fair value.

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

9.2. Fund Transfers

PSP Investments received fund transfers from the Government of Canada of $462 million for the year ended March 31, 2020 ($679 million for the year ended March 31, 2019) for the Fund, recorded in the Plan Account.

10 — Segment Information

In order to fulfil its mandate, PSP Investments manages a diversified global portfolio composed of investments in various asset classes and has implemented an investment approach that focuses in the total fund approach rather than only on individual asset classes. The total fund approach guides the long-term investment strategy and focuses on managing total fund allocations and exposures in terms of asset classes, sectors and risk factors.

Accordingly, PSP Investments' investment segments are presented below to reflect the way in which asset classes are managed and how results are reviewed by the entity's senior management for purposes of performance management and decision making. These investment segments include their respective share of investment-related assets and investment-related liabilities as well as borrowings, which are reported separately by nature of the underlying investments as disclosed in Note 4.1. Further, to support PSP Investments' investment approach, a Complementary Portfolio is managed in addition to the individual asset classes' portfolios, which enables PSP Investments to capture investment opportunities that fit the mandate but that are outside the scope of the individual asset classes' investment framework.

Investment segments consist of investments held through direct and co-ownership positions as well as through fund managers and include:

- Public Markets – invests in public market equities and other similar securities.
- Real Estate – invests in real estate assets mainly in retirement and residential, office, retail and other industrial sectors.
- Private Equity – invests in private entities with similar objectives.
- Infrastructure – invests in private entities with a focus on assets in transportation, power generation, telecommunications and other regulated businesses.
- Natural Resources – invests in real assets with a focus on assets in timberlands, agriculture and upstream oil and gas.
- Credit Investments – invests in non-investment grade primary and secondary credit investments.
- Fixed Income – invests in government and corporate fixed income.
- Complementary Portfolio – focuses on investments that are not within the mandate of existing asset classes but are deemed beneficial for the total fund.

The following table presents net investments by investment segment as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Public Markets[A]	**9,485**	10,037
Real Estate	**4,671**	4,629
Private Equity	**4,714**	4,630
Infrastructure	**3,589**	3,308
Natural Resources	**1,499**	1,329
Credit Investments	**2,607**	2,060
Fixed Income[A]	**6,416**	5,858
Complementary Portfolio	**185**	280
Other[B]	**132**	905
Total	**33,298**	33,036

[A] During the year ended March 31, 2020 government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present such net investments on a comparable basis, corresponding comparative balances of $5,858 million were reclassified accordingly.

[B] Includes cash and money market securities not managed within the operating segments.

10 — Segment Information (continued)

The following table presents net income (loss) from operations by investment segment for the years ended March 31:

	2020			2019		
(Canadian $ millions)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)
Public Markets[C]	**(1,216)**	**(60)**	**(1,276)**	412	(61)	351
Real Estate	**(182)**	**(59)**	**(241)**	372	(50)	322
Private Equity	**250**	**(23)**	**227**	634	(19)	615
Infrastructure	**336**	**(42)**	**294**	239	(35)	204
Natural Resources	**(72)**	**(18)**	**(90)**	119	(13)	106
Credit Investments	**107**	**(14)**	**93**	165	(12)	153
Fixed Income[C]	**671**	**(26)**	**645**	266	(17)	249
Complementary Portfolio	**27**	**(1)**	**26**	1	(3)	(2)
Other[D]	**123**	**(2)**	**121**	194	(3)	191
Total	**44**	**(245)**	**(201)**	2,402	(213)	2,189

[A] As described in note 11, embedded within investment income are other fees paid by certain pooled fund investments and management fees not paid directly by PSP Investments.

[B] Includes all investment-related and operating expenses as disclosed in notes 11 and 12, respectively.

[C] During the year ended March 31, 2020, government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present net income from operations for such investments on a comparable basis, corresponding comparative figures for Investment Income, Expenses and Net Income of $266 million, $17 million and $249 million respectively, for the year ended March 31, 2019, were reclassified accordingly.

[D] Includes cash and money market securities not managed within the operating segments.

11 — Investment-Related Expenses

Investment-related expenses allocated to the Plan Account are comprised of the following for the years ended March 31:

(Canadian $ millions)	2020	2019
Interest expense	**82**	66
Transaction costs	**33**	25
External investment management fees[A]	**10**	6
Other (net)	**12**	17
Total	**137**	114

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to $17 million for the year ended March 31, 2020 ($46 million for the year ended March 31, 2019). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.5% of the total invested and/or committed amount, totaled $81 million for the year ended March 31, 2020 ($65 million for the year ended March 31, 2019). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

Operating expenses allocated to the Plan Account consisted of the following for the years ended March 31:

(Canadian $ millions)	2020	2019
Salaries and employee benefits	**63**	57
Professional and consulting fees	**17**	15
Premises and equipment	**5**	6
Market data and business applications	**8**	7
Depreciation of equipment	**7**	7
Custodial fees	**1**	1
Other operating expenses	**7**	6
Total	**108**	99

13 — Allocation of Comprehensive Income

PSP Investments' comprehensive income is allocated to each Plan Account as follows:

13.1. Investment Income

The investment income is allocated proportionately based upon the net investments of each Plan Account at the time the income was incurred.

13.2. Expenses

The Act requires that the costs of operation of PSP Investments be charged to the Plan Accounts. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged, in consultation with the Minister of National Defence and the Minister of Public Safety and Emergency Preparedness. An allocation policy was developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, based upon the net investments of each Plan Account at the time the expense was incurred.

Operating expenses and other comprehensive income, excluding the direct cost of investment activities listed above, and for the years ended March 31, were allocated in proportion to the annual amount of net investments of each Plan Account as follows:

(%)	2020	2019
Public Service Pension Plan Account	**72.7**	72.6
Canadian Forces Pension Plan Account	**19.7**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.3
Reserve Force Pension Plan Account	**0.4**	0.4
Total	**100.0**	100.0

14 — Related Party Transactions

14.1. Certain Investees

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 16 and 17, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income as those with unrelated parties.

Transactions between PSP Investments and its consolidated subsidiaries as well as related balances are eliminated upon consolidation and, therefore, are not disclosed in this note.

14.2. The Government of Canada and Government-Related Entities

Since PSP Investments is a Crown corporation as described in Note 1, it is considered to be related to the Government of Canada as well as other entities that are controlled, jointly controlled or significantly influenced by the Government of Canada (together "government-related entities").

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the funds transfers outlined in Note 9.2.

(ii) Government-Related Entities

PSP Investments may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1. Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on net assets and comprehensive income as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

14.3. Compensation of Key Management Personnel

Members of key management personnel are related parties of PSP Investments. Key management personnel are those persons having authority and responsibility for planning, directing and controlling PSP Investments' activities, directly or indirectly and consist of members of the Board of Directors, PSP Investments' senior management team and officers. Compensation earned by key management personnel allocated to the Plan Account for the years ended March 31 was recorded in the Statements of Comprehensive Income (Loss) and was as follows:

(Canadian $ thousands)	2020	2019
Short-term compensation and other benefits	**2,864**	2,926
Long-term compensation and other benefits	**1,923**	1,844
Total	**4,787**	4,770

As disclosed in Note 16, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

15 — Capital Management

As an investment company, PSP Investments' objectives in managing its capital are:

- To invest fund transfers, outlined in Note 9.2, in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under the *Superannuation Acts* and the ability of the Plans to meet their financial obligations. The funds are also invested in accordance with the Investment Risk Management policies which are outlined in Note 7.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSP Investments has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 8.2 provides information on the capital market debt financing and Note 7.3 provides information on PSP Investments' liquidity.

The capital structure of PSP Investments consists of fund transfers and capital market debt financing. PSP Investments has no externally imposed restrictions on capital.

16 — Guarantees and Indemnities

PSP Investments provides indemnification to its Directors, its Officers, its vice-presidents and to certain PSP Investments representatives who are asked to serve on boards of directors (or like bodies) or investment advisory boards (or like bodies) of entities in which PSP Investments or its investment entity subsidiaries have made an investment or have a financial interest. As a result, but subject to the Act, PSP Investments may be required to indemnify these representatives for costs incurred, such as claims, actions or litigation in connection with the exercise of their duties, unless the liability of such a representative relates to a failure to act honestly and in good faith. To date, PSP Investments has not received any claims or made any payment for such indemnities.

In certain cases, PSP Investments also provides indemnification to third parties in the normal course of business. As a result, PSP Investments may be required to indemnify such third parties in connection with the performance of their contractual obligations. To date, PSP Investments has not received any claims nor made any payments for such indemnities.

PSP Investments unconditionally and irrevocably guarantees all credit facilities, as well as short-term promissory notes and medium-term notes issued by PSP Capital Inc., as described in Note 8.

In certain investment transactions, PSP Investments and its investment entity subsidiaries provided guarantees, indemnifications or issued letters of credit to third parties, the most significant of which are as follows:

- As at March 31, 2020 and 2019, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to $2,802 million as at March 31, 2020 (March 31, 2019 – $2,602 million), of which $549 million has been allocated to the Plan Account (March 31, 2019 – $512 million) plus applicable interest and other related costs. The arrangements mature between April 2020 and November 2029 as of March 31, 2020 (March 31, 2019 – between July 2019 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $89 million as at March 31, 2020 (March 31, 2019 – $54 million), of which $17 million has been allocated to the Plan Account (March 31, 2019 – $11 million) in relation to investment transactions.

17 — Commitments

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Real estate	**692**	480
Private equity	**2,554**	2,025
Infrastructure	**579**	526
Natural resources	**52**	82
Private debt securities	**745**	815
Alternative investments	**332**	408
Total	**4,954**	4,336

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2020 (March 31, 2019–2035).

18 — Uncertainties Related to COVID-19

The outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. The Financial Statements of PSP Investments prepared as of, and for the year ended March 31, 2020, reflect the impacts resulting from COVID-19 to the extent known at the reporting date.

The ongoing worldwide spread of COVID-19 and its effect on international business operations, supply chains, travel, commodity prices, consumer confidence and business forecasts are expected to continue to have significant impacts on domestic and international equity markets and fixed income yields for the near term.

Management continues to monitor developments in equity and fixed income markets generally and specifically in connection with PSP Investments' portfolio. The full potential impact of the COVID-19 outbreak on the fair value of PSP Investments' portfolio is unknown as it will depend on future developments that are uncertain. Such uncertainties include the duration and depth of the outbreak. Management expects that the fair value of PSP Investments' portfolio will continue to be affected for the near term.

— Royal Canadian Mounted Police Pension Plan Account

Financial Statements

Independent Auditors' Report

To the Minister of Public Safety and Emergency Preparedness

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Sector Pension Investment Board – Royal Canadian Mounted Police Pension Plan Account (the Royal Canadian Mounted Police Pension Plan Account), which comprise the statements of financial position as at March 31, 2020 and 2019, and the statements of comprehensive income (loss), statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Royal Canadian Mounted Police Pension Plan Account as at March 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the Royal Canadian Mounted Police Pension Plan Account's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Royal Canadian Mounted Police Pension Plan Account or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Royal Canadian Mounted Police Pension Plan Account's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Royal Canadian Mounted Police Pension Plan Account's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Royal Canadian Mounted Police Pension Plan Account to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the financial statements, we have audited transactions of the Public Sector Pension Investment Board – Royal Canadian Mounted Police Pension Plan Account coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are the applicable provisions of Part X of the *Financial Administration Act* and regulations, the *Public Sector Pension Investment Board Act* and regulations and the by-laws of the Public Sector Pension Investment Board and its wholly owned subsidiaries.

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

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Public Sector Pension Investment Board – Royal Canadian Mounted Police Pension Plan Account's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Public Sector Pension Investment Board – Royal Canadian Mounted Police Pension Plan Account to comply with the specified authorities.

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

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

Montréal, Canada
4 June 2020

Deloitte LLP[1]

Montréal, Canada
4 June 2020

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

Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Assets		
Investments (Note 4.1)	**14,984**	14,383
Other assets	**22**	14
Total assets	**15,006**	14,397
Liabilities		
Trade payable and other liabilities	**31**	23
Investment-related liabilities (Note 4.1)	**1,567**	1,224
Borrowings (Notes 4.1, 8.2)	**1,143**	1,020
Total liabilities	**2,741**	2,267
Net assets	**12,265**	12,130
Equity (Note 9)	**12,265**	12,130
Total liabilities and equity	**15,006**	14,397

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

On behalf of the Board of Directors:

Martin Glynn
Chair of the Board

William A. Mackinnon
Chair of the Audit Committee

Statements of Comprehensive Income (Loss)

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Investment income	**15**	881
Investment-related expenses (Note 11)	**(52)**	(42)
Net investment income (loss)	**(37)**	839
Operating expenses (Note 12)	**(40)**	(36)
Net income (loss)	**(77)**	803
Other comprehensive income		
Remeasurement of the net defined benefit liability	**1**	–
Comprehensive income (loss)	**(76)**	803

Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Fund transfers		
Balance at beginning of period	**5,632**	5,400
Fund transfers received during the period (Note 9.2)	**211**	232
Balance at end of period	**5,843**	5,632
Retained earnings		
Balance at beginning of period	**6,498**	5,695
Comprehensive income (loss)	**(76)**	803
Balance at end of period	**6,422**	6,498
Total equity	**12,265**	12,130

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Cash flows from operating activities		
Net income (loss)	**(77)**	803
Adjustments for non-cash items:		
Depreciation of equipment (Note 12)	**3**	2
Effect of exchange rate changes on cash and cash equivalents	**(6)**	(3)
Unrealized losses on borrowings	**37**	14
	(43)	816
Net changes in operating assets and liabilities		
Increase in investments	**(903)**	(1,208)
Decrease in other assets	**–**	1
Increase in trade payables and other liabilities	**6**	4
Increase in investment-related liabilities	**344**	231
Net cash flows used in operating activities	**(596)**	(156)
Cash flows from financing activities		
Proceeds from borrowings	**1,915**	2,437
Repayment of borrowings	**(1,830)**	(2,317)
Repayment to the Public Service Pension Plan Account	**–**	(38)
Advances from the Public Service Pension Plan Account	**–**	30
Fund transfers received (Note 9.2)	**211**	232
Net cash flows provided by financing activities	**296**	344
Cash flows used in investing activities		
Acquisitions of equipment	**(1)**	(4)
Net cash flows used in investing activities	**(1)**	(4)
Net change in cash and cash equivalents	**(301)**	184
Effect of exchange rate changes on cash and cash equivalents	**6**	2
Cash and cash equivalents at the beginning of the period	**492**	306
Cash and cash equivalents at the end of the period[A]	**197**	492
Supplementary disclosure of cash flow information		
Interest paid	**(29)**	(22)

[A] As at March 31, 2020 cash and cash equivalents were comprised of $189 million (March 31, 2019 - $490 million) held for investment purposes and included in Note 4.1, as well as $8 million (March 31, 2019 - $2 million) held for administrative purposes and included in Other assets.

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

Notes to the Financial Statements

For the years ended March 31, 2020 and 2019

1 — Corporate Information

The Public Sector Pension Investment Board ("PSP Investments") is a Crown corporation created under the *Public Sector Pension Investment Board Act* (the "Act") to manage and invest amounts that are transferred to it pursuant to the *Superannuation Acts* (defined below), for the funds (as defined in the Act) of the pension plans established under the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act* ("CFSA"), the *Royal Canadian Mounted Police Superannuation Act* (collectively the "*Superannuation Acts*"), and certain regulations under the CFSA (the "CFSA Regulations"). The pension plans established under the *Superannuation Acts* consist of the Public Service pension plan, the Canadian Forces pension plan, and the Royal Canadian Mounted Police pension plan (the "Plan"), and the pension plan established under the CFSA Regulations is the Reserve Force pension plan. The Plan and the other pension plans are herein referred to collectively as the "Plans".

The fund for which amounts are currently transferred to PSP Investments by the Government of Canada (the "Fund") relates to pension obligations under the Plan for service on or after April 1, 2000 ("Post-2000 Service"). The account managed by PSP Investments for the Fund is herein referred to as the "Plan Account". PSP Investments maintains records of the net contributions for the Fund, as well as the allocation of its investments and the results of its operations for the Fund in the Plan Account. PSP Investments also manages a plan account for the funds of the other Plans, and these and the Plan Account are collectively referred to herein as the "Plan Accounts".

PSP Investments is responsible for managing amounts that are transferred to it for the Fund in the best interests of the beneficiaries and contributors under the *Royal Canadian Mounted Police Superannuation Act*. The amounts are to be invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plan and the Plan's ability to meet its financial obligations.

Pursuant to the *Royal Canadian Mounted Police Superannuation Act*, the Government of Canada, which administers the Plan and the Fund, may at any time call upon the net assets of PSP Investments allocated to the Fund's Plan Account for amounts required for the purpose of paying benefits under the Plan in respect of Post-2000 Service, or generally, for the purpose of reducing any non-permitted surplus in the Fund.

PSP Investments and the majority of its subsidiaries are exempt from Part I tax under paragraphs 149(1)*(d)* and 149(1)*(d.2)* of the *Income Tax Act* (Canada), respectively.

PSP Investments' registered office is located at 1 Rideau Street, Ottawa, Ontario, Canada and its principal business office is at 1250 René-Lévesque Boulevard West, Montreal, Quebec, Canada.

2 — Significant Accounting Policies

The significant accounting policies that have been applied in the preparation of these Financial Statements are summarized below and have been used throughout all periods presented.

2.1. Basis of Presentation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

PSP Investments qualifies as an investment entity as defined under IFRS 10 *Consolidated Financial Statements* and, consequently, does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. Instead, PSP Investments measures its investments in subsidiaries at fair value through profit or loss ("FVTPL") in accordance with IFRS 9 *Financial Instruments* ("IFRS 9"), including those that are formed by PSP Investments and that qualify as investment entities ("investment entity subsidiaries"). PSP Investments also measures its investments in associates, joint ventures and financial assets and financial liabilities at FVTPL in accordance with IAS 28 *Investments in Associates and Joint Ventures* and IFRS 9.

These Financial Statements present the Plan Account's financial position and results of operations of PSP Investments and its subsidiaries that solely provide it with services that relate to its investment activities, as allocated to the Plan Account. They reflect the economic activity of PSP Investments as it pertains to the investment of the net contributions transferred to it for the Fund in respect of Post-2000 Service. Accordingly, they do not reflect all of the assets or the details of the pension contributions, payments and liabilities under the Plan.

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on June 4, 2020.

2 — Significant Accounting Policies
(continued)

2.2. Investment Entity Status

PSP Investments has determined that it meets the mandatory items of the definition of an investment entity under IFRS 10 on the basis of the facts and circumstances as at the end of the period. They are as follows:

(i) Mandate and business purpose

As further described in Note 1, PSP Investments' mandate is to manage and invest the amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. Consequently, PSP Investments' business purpose is to invest with a view of achieving a maximum rate of return from capital appreciation and income from investments, without undue risk of loss.

(ii) Performance evaluation

PSP Investments measures and evaluates the performance of its investments on a fair value basis.

In addition to the mandatory items of the definition, IFRS 10 also outlines certain typical characteristics of an investment entity, the absence of any of which does not necessarily preclude an entity from qualifying as an investment entity. One of these characteristics is that an investment entity should have investors that are not related parties of the entity.

As described in Note 14, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

Should any changes occur in the facts and circumstances, PSP Investments will evaluate the impact of any such changes on its investment entity status.

2.3. Summary of Significant Accounting Policies

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

2.3.1. Financial Instruments

(i) Classification

Financial assets representing investments are managed, together with related financial liabilities, according to the entity's business model to maximize the rate of return. The performance of such financial instruments is evaluated on a fair value basis and they are classified at FVTPL. They are described in detail in Note 4.1.

Borrowings, as described under Note 8, are financial liabilities that are designated to be measured at FVTPL since they are part of the portfolios of investments that are managed together and whose performance is evaluated on a fair value basis.

(ii) Recognition

Financial assets and financial liabilities are recorded at the date upon which PSP Investments becomes a party to the associated contractual provisions. In the case of traded financial assets, they are recorded as of the trade date.

(iii) Initial and subsequent measurement

All financial assets and financial liabilities are recorded in the Statements of Financial Position at fair value and continue to be measured as such on a recurring basis. After initial measurement, subsequent changes in the fair value of financial assets and financial liabilities classified at FVTPL are recorded in the Statements of Comprehensive Income.

If fair value changes in financial liabilities designated to be measured at FVTPL result from fluctuations in PSP Investments' own credit risk, they are recorded in other comprehensive income. All other changes in fair value are recorded in investment income.

(iv) Derecognition

A financial asset (or, where applicable, a part thereof) is derecognized when the following conditions are met:

- The rights to receive cash flows from the asset have expired, or
- PSP Investments has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows to a third party,

and

- PSP Investments has transferred substantially all the risks and rewards of the asset, or
- In cases where PSP Investments has neither transferred nor retained substantially all the risks and rewards of the asset, it has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At initial recognition, PSP Investments evaluates the facts and circumstances related to a transaction to confirm that the transaction price represents the fair value of an asset or a liability. At each subsequent reporting date, market prices are used to determine fair value where an active market exists (such as a recognized securities exchange), as they reflect actual and regularly occurring market transactions on an arm's length basis. If quoted market prices are not available, then fair value is estimated using valuation techniques based on inputs existing at the end of the reporting period that are derived from observable market data.

Valuation techniques are generally applied to investments in private markets, alternative investments, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 4.

2.3.3. Functional and Presentation Currency

The functional and presentation currency of PSP Investments and its consolidated subsidiaries is the Canadian dollar, which is the currency of the primary economic environment in which each entity within the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars.

2.3.4. Foreign Currency Translation

Foreign currency transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities that are denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the end of the reporting period.

Foreign currency transaction gains and losses on all monetary assets and liabilities are included in investment income.

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or pledged as collateral, or recognize securities borrowed or received as collateral. Cash collateral received is recognized as described in Note 4.1.9.

The securities lending and borrowing programs require collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standard securities lending and borrowing programs. PSP Investments and its counterparties are authorized to sell, repledge or otherwise use collateral held. The same securities or equivalent securities must be returned to the counterparty at the end of the contract, unless an event of default occurs.

2.3.6. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements and Related Collateral

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

Securities sold or purchased under the repurchase and reverse repurchase agreements respectively, including related collateral, are not derecognized or recognized as all risks and rewards of ownership related to such securities are not transferred. As such, in the case where PSP Investments is the counterparty selling securities under such agreements, all income (loss) related to such securities continues to be reported in investment income and obligations to repurchase the securities sold are accounted for as investment-related liabilities. The difference between the fair value of the securities sold and the repurchase price is recorded as interest expense within investment related expenses. In the case where PSP Investments is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income.

Transactions under repurchase and reverse repurchase agreements involve pledging collateral consisting of cash or securities deemed acceptable by the counterparties. Collateral transactions are conducted under terms that are usual and customary in standard repurchase arrangements. Such terms require the relevant counterparty to pledge additional collateral based on the changes in the fair value of the existing collateral pledged as well as the related securities sold or purchased. The counterparties are authorized to sell, repledge or otherwise use collateral held. The securities pledged as collateral must be returned to the relevant counterparty at the end of the contract, unless an event of default occurs.

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.7. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset with the net amount reported in the Statements of Financial Position only if PSP Investments has a current legally enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.3.8. Equity

The statutory rights of the Government of Canada pursuant to the *Superannuation Acts* are described under Note 1 and are classified as equity instruments on the following basis:

- Under such rights the Government of Canada is entitled to PSP Investments' net assets at any time for the purposes set out in the *Superannuation Acts*. Such rights do not contain any additional obligations for PSP Investments to deliver amounts to the Government of Canada.
- Such rights are the most subordinate claim on PSP Investments' net assets.
- The total expected cash flows attributable to such rights, at any time, is solely based on the fair value of the net assets of PSP Investments at that time. Further, the fair value of the net assets of PSP Investments in its entirety represents the amounts that the Government of Canada may call upon at any time.

2.3.9. Investment Income

Investment income is made up of interest, dividends, gains (losses) on the disposal of financial assets and financial liabilities as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of financial assets held and financial liabilities outstanding at the end of the reporting period. Interest is recognized, on a consistent basis, using the prescribed rates until maturity. Dividends are recognized when the right to receive them has been obtained, generally on the ex-dividend date.

2.3.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, as described in Note 4.1.7, transaction costs, external investment management fees and other (net).

Transaction costs are incremental costs directly attributable to the acquisition, due diligence, issue, or disposal of a financial asset or financial liability, and they are expensed as incurred.

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets as outlined in Note 11.

2.3.11. Fund Transfers

Amounts are recorded for the Fund when received from the Government of Canada.

2.4. Significant Accounting Judgments, Estimates and Assumptions

In preparing the Financial Statements, management makes certain judgments, estimates and assumptions that can affect the amounts reported therein. Significant judgments include those related to the determination of the investment entity status as described in Note 2.2.

Management also makes estimates and assumptions in the measurement, risk assessment and related disclosures surrounding investments in private markets and certain fixed income securities. The main assumptions made by management regarding measurement of financial instruments are outlined in Note 4.2.3 and those regarding the assessment of risk are outlined in Note 7.

Although assumptions reflect management's best estimates, actual results may differ from such estimates due to the uncertainties involved in using them. As further described in Note 18, such uncertainties were significant as at March 31, 2020 due to the substantial disruption of global economic activity as well as financial markets' volatility at the reporting date.

3 — Current and Future Changes in Accounting Standards

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

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are aggregated, in the following table, in classes that reflect their respective exposure as well as investment sectors. Their fair values were as follows, as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Public markets		
Canadian equity	**243**	245
Foreign equity	**2,101**	2,343
Private markets		
Real estate	**2,151**	2,034
Private equity	**1,597**	1,462
Infrastructure	**1,621**	1,453
Natural resources	**755**	543
Fixed income		
Cash and money market securities	**350**	861
Government and corporate bonds	**2,270**	1,897
Inflation-linked bonds	**1,197**	1,013
Private debt securities	**1,261**	1,130
Alternative investments	**801**	725
	14,347	13,706
Investment-related assets		
Amounts receivable from pending trades	**55**	85
Interest receivable	**42**	36
Dividends receivable	**12**	10
Securities purchased under reverse repurchase agreements	**327**	432
Derivative-related assets	**201**	114
	637	677
Investments representing financial assets at FVTPL	**14,984**	14,383
Investment-related liabilities		
Amounts payable from pending trades	**(73)**	(69)
Interest payable	**(7)**	(5)
Securities sold short	**(281)**	(456)
Collateral payable	**(242)**	(218)
Securities sold under repurchase agreements	**(636)**	(406)
Derivative-related liabilities	**(328)**	(70)
Investment-related liabilities representing financial liabilities at FVTPL	**(1,567)**	(1,224)
Borrowings		
Capital market debt financing	**(1,143)**	(1,020)
Borrowings representing financial liabilities designated at FVTPL	**(1,143)**	(1,020)
Net investments	**12,274**	12,139

4 — Financial Assets and Financial Liabilities
(continued)

4.1. Classes of Financial Assets and Financial Liabilities
(continued)

4.1.1. Public Markets

Public markets consist of Canadian and foreign investments in the following securities: common shares, American depository receipts, global depository receipts, participation notes, preferred shares, income trust units, exchange traded funds units, pooled funds units, and securities convertible into common shares of publicly listed issuers.

Direct investments in Canadian and foreign equities are measured at fair value using quoted prices in active markets and are based on the most representative price within the bid-ask spread.

In the case of investments in pooled funds, fair value is measured using unit values obtained from each of the funds' administrators, which are derived from the fair value of the underlying investments in each pooled fund. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and natural resources.

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financing.

Private equity investments are comprised of fund investments with similar objectives, co-investments in private entities as well as direct equity positions.

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing.

Natural resources investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas. Natural resources investments are presented net of all third-party financing.

The process for fair value measurement of private markets investments is described in Note 4.2.2 and the valuation techniques together with the significant inputs used are described in Note 4.2.3.

4.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and private debt securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Statements of Cash Flows and amounted to $189 million as at March 31, 2020 (March 31, 2019 – $490 million). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds, floating rate notes, asset-backed term notes and mortgage-backed securities. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

Private debt securities are fixed income securities of private companies held directly or through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt and primary and secondary investments in leveraged loans. Private debt securities also include third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products in the real estate sector.

Fair values of government and most corporate bonds, inflation-linked bonds and mortgage-backed securities are based on prices obtained from third-party pricing sources. Such prices are determined using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

The fair values of certain corporate bonds, private debt securities and asset-backed term notes are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

The fair value measurement of fund investments included as part of private debt securities is described in Note 4.2.2.

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.4. Alternative Investments

Alternative investments consist mainly of units of funds that hold a mix of equity, fixed income and derivative instruments as well as hedge funds. The fair value of these investments is determined based on the fair values reported by the funds' administrators or general partners and reflects the fair value of the underlying equity, fixed income or derivative instruments, as applicable. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.5. Amounts Receivable and Payable from Pending Trades

Amounts receivable from pending trades consist of proceeds on sales of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

Amounts payable from pending trades consist of the cost of purchases of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

The fair value of amounts receivable and payable from pending trades reflects the value at which their underlying original sale or purchase transactions were undertaken.

4.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which due to their short-term maturity, approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.11, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

4.1.8. Securities Sold Short

Securities sold short reflect PSP Investments' obligation to purchase securities pursuant to short selling transactions. In such transactions, PSP Investments sells securities it does not own with an obligation to purchase similar securities on the market to cover its position.

Using quoted market prices that are based on the most representative price within the bid-ask spread, the fair value of securities sold short is measured using the same method as the similar long positions presented within public markets and fixed income.

4.1.9. Collateral Payable

As part of securities lending and certain OTC derivative transactions, cash collateral is received and reinvested by PSP Investments. PSP Investments recognizes cash collateral received with a corresponding payable. The payable balance reflects the obligation of the transferee to return cash collateral to the transferor at the end of the transaction in the absence of an event of default by the transferor.

4.1.10. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements

As described in Note 2.3.6, PSP Investments is party to repurchase and reverse repurchase agreements. Obligations to repurchase or resell the securities sold or purchased under such agreements are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value.

4.1.11. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 8.2. Short-term promissory notes are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

4 — Financial Assets and Financial Liabilities
(continued)

4.1. Classes of Financial Assets and Financial Liabilities
(continued)

4.1.12. Derivative-Related Assets and Liabilities

Derivative financial instruments are financial contracts that are settled at a future date. The value of such instruments is derived from changes in the value of the underlying assets, interest or exchange rates. Derivative financial instruments do not, typically, require an initial net investment. In certain cases, they require an initial net investment that is less than what would be required to hold the underlying position directly. Derivative financial instruments can be listed or traded OTC. OTC instruments consist of those that are bilaterally negotiated and settled, and those that are cleared (OTC-cleared) by a central clearing party (CCP).

PSP Investments uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

PSP Investments uses the following types of derivative financial instruments:

Swaps

Swaps are transactions whereby two counterparties exchange cash flow streams with each other based on predetermined conditions that include a notional amount and a term. Swaps are used to increase returns or to adjust exposures of certain assets without directly purchasing or selling the underlying assets.

Futures

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a predefined price and predefined future date. Futures are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Forwards

Forwards are contracts involving the sale by one party and the purchase by another party of a predefined amount of an underlying instrument, at a predefined price and at a predefined date in the future. Forwards are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Options

Options are contracts where the seller gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index, commodity, currency, interest rate, credit or other financial instrument, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

Warrants are options to purchase an underlying asset which is in the form of a transferable security and which can be listed on an exchange or traded OTC.

Rights are securities giving shareholders entitlement to purchase new shares issued by a corporation at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

Determination of Fair Value of Derivative Financial Instruments

Listed derivative financial instruments are recorded at fair value using quoted market prices that are based on the most representative price within the bid-ask spread. OTC-cleared derivatives are recorded at fair value using prices obtained from the CCP. OTC derivatives are valued using appropriate valuation techniques such as discounted cash flows. These techniques use significant inputs that are observable in the market such as current market yields.

Notional Values and Fair Values of Derivative-Related Assets and Liabilities

Notional values of derivative financial instruments are not recorded as assets or liabilities as they represent the face amount of the contract. Except for credit derivatives, notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions disclosed below. Rather, they serve as the basis upon which the cash flows and the fair value of the contracts are determined.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**194**	**–**	**–**	251	–	–
Warrants and rights	**–**	**–**	**–**	–	–	–
Options: Purchased	**274**	**10**	**–**	370	12	–
Written	**261**	**–**	**(5)**	333	–	(6)
OTC						
Swaps	**1,776**	**61**	**(225)**	1,890	47	(14)
Options: Purchased	**56**	**4**	**–**	49	2	–
Written	**71**	**–**	**(3)**	39	–	(2)
Currency derivatives						
Listed						
Futures	**9**	**–**	**–**	22	–	–
OTC						
Forwards	**1,976**	**57**	**(35)**	1,436	8	(4)
Swaps	**453**	**7**	**(2)**	476	1	(3)
Options: Purchased	**225**	**5**	**–**	465	4	–
Written	**247**	**–**	**(5)**	426	–	(3)
Interest rate derivatives						
Listed						
Futures	**298**	**–**	**–**	806	–	–
Options: Purchased	**2,393**	**4**	**–**	3,462	2	–
Written	**946**	**–**	**(3)**	3,174	–	(2)
OTC						
Forwards	**–**	**–**	**–**	43	1	(1)
Swaps	**494**	**11**	**(15)**	1,846	18	(19)
Options: Purchased	**2,965**	**41**	**–**	3,906	19	–
Written	**3,264**	**–**	**(35)**	3,696	–	(15)
OTC-cleared						
Forwards	**2,054**	**–**	**–**	–	–	–
Swaps	**7,746**	**–**	**–**	4,031	–	–
Credit derivatives						
OTC						
Credit default swaps: Purchased	**33**	**1**	**–**	48	–	(1)
Written[A]	**2**	**–**	**–**	7	–	–
OTC-cleared						
Credit default swaps: Purchased	**72**	**–**	**–**	59	–	–
Total		**201**	**(328)**		114	(70)

[A] PSP Investments, through written credit default swaps, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the written credit default swaps as shown in the table above.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ millions)	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities
Listed derivatives	**4,375**	**14**	**(8)**	8,418	14	(8)
OTC derivatives	**11,562**	**187**	**(320)**	14,327	100	(62)
OTC-cleared derivatives	**9,872**	**–**	**–**	4,090	–	–
Total		**201**	**(328)**		114	(70)

The terms to maturity based on notional value for the derivatives were as follows as at:

(Canadian $ millions)	March 31, 2020	March 31, 2019
Less than 3 months	**12,513**	6,817
3 to 12 months	**6,588**	11,749
Over 1 year	**6,708**	8,269

4.2. Fair Value Hierarchy

4.2.1. Classification

Financial assets and financial liabilities described under Note 4.1 are classified within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
  (i) Quoted prices for similar assets or liabilities in active markets.
  (ii) Quoted prices for identical or similar assets or liabilities in markets that are not active.
  (iii) Inputs other than quoted prices that are observable for the asset or liability.
  (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

The classification within the levels of the hierarchy is established at the time of the initial determination of fair value of the asset or liability and reviewed at the end of each reporting period. PSP Investments determines whether a transfer between levels has occurred and recognizes such transfer at the beginning of the reporting period.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2020 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	189	51	3	243
Foreign equity	1,906	108	87	2,101
Private markets				
Real estate	–	–	2,151	2,151
Private equity	–	–	1,597	1,597
Infrastructure	–	–	1,621	1,621
Natural resources	–	–	755	755
Fixed income				
Cash and money market securities	93	257	–	350
Government and corporate bonds	832	1,438	–	2,270
Inflation-linked bonds	1,169	28	–	1,197
Private debt securities	–	–	1,261	1,261
Alternative investments	–	189	612	801
	4,189	2,071	8,087	14,347
Investment-related assets				
Amounts receivable from pending trades	–	55	–	55
Interest receivable	–	42	–	42
Dividends receivable	–	12	–	12
Securities purchased under reverse repurchase agreements	–	327	–	327
Derivative-related assets	13	188	–	201
	13	624	–	637
Investments representing financial assets at FVTPL	4,202	2,695	8,087	14,984
Investment-related liabilities				
Amounts payable from pending trades	–	(73)	–	(73)
Interest payable	–	(7)	–	(7)
Securities sold short	(266)	(15)	–	(281)
Collateral payable	–	(242)	–	(242)
Securities sold under repurchase agreements	–	(636)	–	(636)
Derivative-related liabilities	(8)	(320)	–	(328)
Investment-related liabilities representing financial liabilities at FVTPL	(274)	(1,293)	–	(1,567)
Borrowings				
Capital market debt financing	–	(1,143)	–	(1,143)
Borrowings representing financial liabilities designated at FVTPL	–	(1,143)	–	(1,143)
Net investments	3,928	259	8,087	12,274

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2019 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	179	62	4	245
Foreign equity	2,065	156	122	2,343
Private markets				
Real estate	–	–	2,034	2,034
Private equity	–	–	1,462	1,462
Infrastructure	–	–	1,453	1,453
Natural resources	–	–	543	543
Fixed income				
Cash and money market securities	–	861	–	861
Government and corporate bonds	–	1,894	3	1,897
Inflation-linked bonds	–	1,013	–	1,013
Private debt securities	–	–	1,130	1,130
Alternative investments	–	154	571	725
	2,244	4,140	7,322	13,706
Investment-related assets				
Amounts receivable from pending trades	–	85	–	85
Interest receivable	–	36	–	36
Dividends receivable	–	10	–	10
Securities purchased under reverse repurchase agreements	–	432	–	432
Derivative-related assets	9	105	–	114
	9	668	–	677
Investments representing financial assets at FVTPL	2,253	4,808	7,322	14,383
Investment-related liabilities				
Amounts payable from pending trades	–	(69)	–	(69)
Interest payable	–	(5)	–	(5)
Securities sold short	(284)	(172)	–	(456)
Collateral payable	–	(218)	–	(218)
Securities sold under repurchase agreements	–	(406)	–	(406)
Derivative-related liabilities	(8)	(62)	–	(70)
Investment-related liabilities representing financial liabilities at FVTPL	(292)	(932)	–	(1,224)
Borrowings				
Capital market debt financing	–	(1,020)	–	(1,020)
Borrowings representing financial liabilities designated at FVTPL	–	(1,020)	–	(1,020)
Net investments	1,961	2,856	7,322	12,139

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2020 (no significant transfers between Level 1 and Level 2 during the year ended March 31, 2019).

4 — Financial Assets and Financial Liabilities
(continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

The valuation process is monitored and governed by an internal valuation committee ("VC"). This committee is responsible for overseeing all aspects of fair value determination. This includes establishing valuation methodologies and procedures for each type of investment and ensuring they are complied with. Valuation methodologies established are based on widely recognized practices that are consistent with professional appraisal standards. Such standards include, among others, the *International Private Equity and Venture Capital Valuation Guidelines*, the *Canadian Uniform Standards of Professional Appraisal Practice* and the *Uniform Standards of Professional Appraisal Practice* in the United States of America.

The fair value of investments classified as Level 3 is determined at least annually. Quarterly, the fair value is reviewed and adjusted, as appropriate, to reflect the impact of any significant market or investment-specific events or circumstances. For each investment, the relevant valuation methodology is applied consistently over time as appropriate in the prevailing circumstances. The appropriateness of significant changes in valuation methodologies is reviewed by the VC.

In cases where the services of third-party appraisers are used, management ensures their independence and that valuation methods used are consistent with professional appraisal standards outlined above. In validating the work performed by appraisers, management ensures that the assumptions used correspond to financial information and forecasts of the underlying investment.

With respect to fund investments classified as Level 3, the annual fair value is generally determined based on audited financial statements received from the fund's general partner. In certain cases, fair value is obtained from information provided by the fund's administrators and is reviewed by Management to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

To reflect the impact of the market disruption described in note 18 as at March 31, 2020, management used significant judgement in the determination of fair value of Level 3 investments, especially those in Private Markets. Where appropriate, adjustments were made based on public market trading comparables, investment specific characteristics as well as market conditions and uncertainties as at March 31, 2020.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2020:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	3	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	87	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	2,030	Discounted cash flow (DCF)	Discount rate[B, C]	2.90% – 20.00% (7.46%)
				Terminal capitalization rate[B, C]	3.95% – 10.25% (5.82%)
			Direct capitalization	Capitalization rate[B, D]	2.35% – 9.78% (4.88%)
				Stabilized occupancy rate[D, E]	67.50% – 100.00% (98.43%)
			Sales comparison approach	Price per square foot[D, E]	$0.94 – $1,895.16 ($290.17)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	121	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	2,821	DCF	Discount rate[B]	6.30% – 15% (8.20%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	1,152	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	–	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	896	DCF	Discount rate[B]	6.63% – 22.64% (11.86%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	365	NAV[A]	N/A	N/A
Alternative investments	Fund investments	612	NAV[A]	N/A	N/A
Total		**8,087**			

[A] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.
[B] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
[C] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.
[D] There is no predictable direct relationship between this input and any other significant unobservable input.
[E] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2019:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	4	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	122	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	1,901	Discounted cash flow (DCF)	Discount rate[B, C]	4.10% – 20.00% (7.55%)
				Terminal capitalization rate[B, C]	4.25% – 10.25% (5.92%)
			Direct capitalization	Capitalization rate[B, D]	2.50% – 8.98% (5.57%)
				Stabilized occupancy rate[D, E]	93.00% – 100.00% (98.22%)
			Sales comparison approach	Price per square foot[D, E]	$0.95 – $2,057.93 ($281.99)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	133	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	2,442	DCF	Discount rate[B]	6.00% – 12.50% (8.79%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	1,016	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	2	DCF	Discount rate[B]	52.50%
	Asset-backed term notes	1	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	780	DCF	Discount rate[B]	5.54% – 18.76% (9.77%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	350	NAV[A]	N/A	N/A
Alternative investments	Fund investments	571	NAV[A]	N/A	N/A
Total		7,322			

[A] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.
[B] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
[C] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.
[D] There is no predictable direct relationship between this input and any other significant unobservable input.
[E] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2020:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer in (out) of Level 3	Closing Balance
Public markets	**126**	**7**	**(64)**	**–**	**38**	**(17)**	**–**	**90**
Private markets	**5,492**	**1,410**	**(775)**	**–**	**273**	**(283)**	**7**	**6,124**
Fixed income	**1,133**	**568**	**(375)**	**–**	**8**	**(73)**	**–**	**1,261**
Alternative investments	**571**	**126**	**(89)**	**–**	**12**	**9**	**(17)**	**612**
Total	**7,322**	**2,111**	**(1,303)**	**–**	**331**	**(364)**	**(10)**	**8,087**

[A] Includes Plan Account allocation adjustments.

As at March 31, 2019, an alternative investment of $17 million in a non-listed fund that held listed securities was classified as Level 3 due to the nature of the contractual restrictions on the redemption of fund units. During the year ended March 31, 2020, the investment was transferred to Level 2 as the contractual restrictions were lifted. Additionally, as at March 31, 2019, a public market investment of $7 million was classified as Level 1 and was transferred to Level 3 during the year ended March 31, 2020, as the investment became privately held.

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2019:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer out of Level 3	Closing Balance
Public markets	138	40	(49)	–	31	(34)	–	126
Private markets	4,800	1,075	(685)	–	137	170	(5)	5,492
Fixed income	1,038	418	(326)	(4)	11	(4)	–	1,133
Alternative investments	514	63	(40)	–	3	31	–	571
Total	6,490	1,596	(1,100)	(4)	182	163	(5)	7,322

[A] Includes Plan Account allocation adjustments.

As at March 31, 2018, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2019, the investment was transferred to Level 1 as the related securities became publicly traded.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, with all other variables held constant, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2020 (March 31, 2019 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 2.3.5, 2.3.6 and 7.2.1. The following table illustrates the fair values of the Plan Account's allocated collateral, as well as the securities under the lending and borrowing programs and the securities under the repurchase and reverse repurchase agreements, as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Securities lending and borrowing		
Securities lent	**48**	577
Collateral held[A]	**51**	609
Securities borrowed	**75**	283
Collateral pledged[B]	**81**	292
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**640**	410
Collateral pledged	**637**	408
Securities purchased under reverse repurchase agreements	**327**	434
Collateral held[C]	**327**	433
Derivative contracts		
Collateral pledged	**209**	66
Collateral held[D]	**28**	41

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to nil for the Plan Account as at March 31, 2020 (March 31, 2019 – $216 million) and securities amounted to $51 million as at March 31, 2020 (March 31, 2019 – $393 million). All cash collateral is reinvested.

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

[C] The collateral received is in the form of securities of which $207 million has been used in connection with short selling transactions as at March 31, 2020 (March 31, 2019 – $172 million) and $10 million has been used in connection with securities sold under repurchase agreements (March 31, 2019 – $1 million).

[D] As part of collateral held, cash amounted to $3 million as at March 31, 2020 (March 31, 2019 – $1 million) and securities amounted to $25 million as at March 31, 2020 (March 31, 2019 – $40 million). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

As an investment entity, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. PSP Investments measures its investments in its subsidiaries, joint ventures and associates at FVTPL as described in Note 2.1.

For purposes of preparing this note, management assesses control, joint control and significant influence as follows:

(i) Control and significant influence

PSP Investments determines that it has control over an investee when it is exposed, or has rights, to variable returns from its investment in an entity and has the ability to affect those returns through its power over the investee.

In certain cases, PSP Investments does not have control over an investee but has the power to participate in the financial and operating policy decisions of the investee. In such cases, PSP Investments determines that it has significant influence over the investee.

In the context of control or significant influence, power over an investee is obtained through voting rights conveyed by PSP Investments' ownership interest, other contractual arrangements, or a combination thereof.

(ii) Joint control

PSP Investments determines that it is party to a joint venture arrangement when it has joint control over an investee and has rights to the net assets of the investee. Joint control is established through a contractual arrangement which requires the unanimous consent of the parties sharing control for the activities that significantly affect the returns of the arrangement.

Generally, decision making regarding such activities is governed through voting rights conveyed by the ownership interest of each party. In certain cases, it is governed solely through contractual arrangements or in conjunction with the ownership interest of each party.

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2020, 111 investment entity subsidiaries were incorporated in North America, 15 in Europe, 15 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2019 – 108 in North America, 17 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 84 investees directly or through its investment entity subsidiaries as at March 31, 2020 (March 31, 2019 – 81 investees).

The following tables present, in descending order, the most significant investees held directly or indirectly by PSP Investments where it has control, joint control or significant influence.

	March 31, 2020		
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments (%)**	**Relationship to PSP Investments**
AviAlliance GmbH	**Europe**	**100**	**Controlled investee**
Revera Inc.	**North America**	**100**	**Controlled investee**
Kaingaroa Timberlands Limited	**Oceania**	**56**	**Jointly controlled investee**
Roadis Transportation Holding, S.L.U.	**Global**	**100**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50**	**Jointly controlled investee**
Forth Ports Limited	**Europe**	**51**	**Jointly controlled investee**
TDF S.A.S.	**Europe**	**22**	**Associate**
Big Box Properties	**North America**	**49**	**Jointly controlled investee**
Roccapina Fund, L.P.	**North America**	**100**	**Controlled investee**
American Wholesale Insurance Holding Company, LLC	**North America**	**27**	**Associate**

	March 31, 2019		
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
AviAlliance GmbH	Europe	100	Controlled investee
Revera Inc.	North America	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Forth Ports Limited	Europe	51	Jointly controlled investee
TDF S.A.S.	Europe	22	Associate
Roccapina Fund, L.P.	North America	100	Controlled investee
Big Box Properties	North America	49	Jointly controlled investee

In addition to the above, PSP Investments consolidates wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services consist of investment management and financing of private market investments within the context of PSP Investments' capital market debt program described in Note 8.2.

6.2. Structured Entities

PSP Investments holds interests in partnerships and funds mainly in the context of its investments in private markets. Given their nature, such entities commonly have the characteristics of a structured entity as defined by IFRS. These entities are held as investments and do not expose PSP Investments to additional risks or returns compared to interests held in non-structured entities.

Information regarding structured entities is included, as applicable, within disclosures of investment risk management under Note 7, guarantees and indemnities under Note 16 and commitments under Note 17.

7 — Investment Risk Management

PSP Investments is required to act in the best interests of the contributors and beneficiaries under the Plans and for maximizing returns without undue risk of loss. In pursuit of this objective, PSP Investments established an Enterprise Risk Management Policy (ERM Policy). The ERM Policy provides a framework for identifying, evaluating, managing, mitigating, monitoring and reporting the investment and non-investment risks to which PSP Investments is exposed.

As part of the overall ERM policy, the objective of the Investment Risk Management Policy (IRM Policy) is to support the management of risk inherent to the investment decision making process. The IRM Policy outlines a framework detailing how investment activities should comply with PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite. The IRM Policy also supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), whose objective is to effectively manage investment risks related to the implementation of PSP Investments' various investment strategies. Investment risks include market, credit and liquidity risks.

7.1. Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of an adverse financial outcome due to changes in the factors that drive that value, such as changes in market prices, changes caused by factors specific to the individual investment, volatility in share and commodity prices, interest rate, foreign exchange or other factors affecting similar securities traded in the market.

7.1.1. Measurement of Market Risk

The absolute annualized volatility of the total portfolio is used as the primary measure of market risk. The absolute volatility is a statistical measure of the size of changes in investment returns of a given investment or portfolio of investments. It is used to illustrate the potential loss of value in an investment or portfolio of investments as a result of fluctuations in market prices.

PSP Investments uses seven years' worth of market returns scaled to a twelve-month holding period to calculate the absolute volatility. For investments that are not actively traded, the calculation of the absolute volatility uses securities with similar risk attributes as a proxy.

The absolute volatility is statistically valid under normal market conditions. Although it includes losses from severe market events such as those described in Note 18, it does not solely measure such events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

The following table shows the absolute volatility of the total portfolio expressed as a percentage of net investments as at the end of the period:

	March 31, 2020 (%)	March 31, 2019 (%)
Absolute volatility	**9.2**	7.3

Stress Testing

Although the absolute volatility is a widely accepted risk measure, it is complemented by other risk measurement methodologies that provide greater insight on market risk. PSP Investments uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of the Plan Account's net asset values.

The terms to maturity of the classes of financial instruments, outlined in Note 4.1, with the most significant exposure to interest rate risk were as follows as at:

	March 31, 2020					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	350[A]	350
Government and corporate bonds	67	1,292	412	400	99[B]	2,270
Inflation-linked bonds	–	431	459	307	–	1,197
Private debt securities	22	314	450	108	367[C]	1,261
Total fixed income	**89**	**2,037**	**1,321**	**815**	**816**	**5,078**

	March 31, 2019					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	861[A]	861
Government and corporate bonds	86	875	435	354	147[B]	1,897
Inflation-linked bonds	–	165	566	282	–	1,013
Private debt securities	6	184	434	151	355[C]	1,130
Total fixed income	92	1,224	1,435	787	1,363	4,901

[A] Due to their short-term maturity, these investments are not significantly exposed to interest rate risk.

[B] Certain fixed income securities are not significantly exposed to interest rate risk as their prescribed rates are variable.

[C] Information in connection with the terms to maturity of fund and certain directly held investments included as part of private debt securities is not available.

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounting to $8,468 million as at March 31, 2020 ($8,079 million as at March 31, 2019) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in 4.1.4, which amounted to $801 million as at March 31, 2020 ($725 million as at March 31, 2019), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the absolute volatility calculation described in Note 7.1.1.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 8.2.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through holding of investments (i.e. direct and indirect holdings of securities, units in pooled funds and units in limited partnerships) or investment-related liabilities in various currencies. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

	March 31, 2020		March 31, 2019	
Currency	**Fair Value (Canadian $ millions)**	**% of Total**	**Fair Value (Canadian $ millions)**	**% of Total**
US Dollar	**7,054**	**67.1**	6,300	63.6
Euro	**1,362**	**13.0**	1,475	14.9
Australian Dollar	**449**	**4.3**	218	2.2
British Pound	**346**	**3.3**	572	5.8
Japanese Yen	**253**	**2.4**	201	2.0
Hong Kong Dollar	**169**	**1.6**	186	1.9
Swiss Franc	**125**	**1.2**	66	0.7
Mexican Peso	**115**	**1.1**	174	1.8
Indian Rupee	**97**	**0.9**	115	1.2
Brazilian Real	**95**	**0.9**	116	1.2
Others	**438**	**4.2**	473	4.7
Total	**10,503**	**100.0**	9,896	100.0

As at March 31, 2020, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $1,801 million for the Plan Account (US$1,049 million, €144 million, £20 million, 2 million South African rands, 161 million Mexican pesos, 1,908 million Indian Rupee, 4 million Danish Krone and 1 million Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2019, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $1,561 million for the Plan Account (US$987 million, €143 million, £7 million, 2 million South African rands, 979 million Colombian pesos, 192 million Mexican pesos and 1 million Australian dollars) which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities purchased under reverse repurchase agreements, is unable to meet its financial obligations.

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation for public issuers and counterparties, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings. For private issuers, PSP Investments assigns internal credit ratings to issuers and measures the combined risk profile against set targets. To assign risk ratings to issuers, PSP Investments uses methodologies comparable to those used by recognized rating agencies.

As at March 31, 2020, the Plan Account's maximum exposure to credit risk amounted to $5 billion (March 31, 2019 – $5 billion), of which Private Debt securities amounting to $17 million (March 31, 2019 – $21 million) were rated BBB and $1 billion (March 31, 2019 – $1 billion) were rated BB or below. The maximum credit risk amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating for credit-sensitive securities. The concentration of credit risk by credit rating was as follows as at:

Credit Rating	**March 31, 2020 (%)**	March 31, 2019 (%)
AAA–AA	**58.6**	48.4
A	**12.5**	23.6
BBB	**1.9**	2.3
BB or below	**26.4**	25.1
No rating[A]	**0.6**	0.6
Total	**100.0**	100.0

[A] Includes securities for public issuers and counterparties, that are either not rated by credit rating agencies or rated by a single credit rating agency.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts, securities lending and borrowing as well as securities repurchase and reverse repurchase agreements. In order to minimize counterparty risk, PSP Investments requires that counterparties provide adequate collateral and meet its credit rating requirements. PSP Investments frequently monitors the credit rating of its counterparties as determined by recognized credit rating agencies. With respect to derivative contracts, PSP Investments has the ability to terminate all trades with most counterparties whose credit rating is downgraded below its requirements.

For OTC derivatives, PSP Investments' policy also requires the use of the International Swaps and Derivative Association (ISDA) Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted. In the case of OTC-cleared derivatives, trading activities are regulated between parties under terms that are customary to such transactions.

As a credit mitigation technique, the ISDA Master Agreement contractually binds counterparties to close-out netting provisions in the case of default by one of the counterparties. Additionally, the Credit Support Annex (CSA) to the ISDA Master Agreement enables PSP Investments to realize any collateral placed with it in the case of default of the counterparty. The CSA also requires PSP Investments to contribute further collateral when requested. All collateral transactions under the CSA are in cash, high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. Counterparties are generally authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held in the form of securities but does reinvest all cash collateral, with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing agreements as well as securities repurchase and reverse repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 2.3.5 and 2.3.6 describe collateral requirements in securities lending and borrowing programs as well as securities repurchase and reverse repurchase agreements.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 5.

In the case of the securities lending program, PSP Investments' exposure to counterparty risk is further mitigated as the custodian of the securities lent assumes the risk that a counterparty will be unable to meet its obligations associated with the collateral requirements.

Management is responsible for counterparty risk monitoring and mitigation as well as maintaining a comprehensive, disciplined, and enterprise-wide process for tracking and managing counterparty risk. As such, management measures counterparty risk on an ongoing basis, evaluates and tracks the creditworthiness of current counterparties and mitigates counterparty risk through collateral management.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Statements of Financial Position. Securities repurchase and reverse repurchase agreements described in Notes 2.3.6 and 5 are subject to similar arrangements however they are not offset as the conditions for offsetting are not met.

The following tables present the financial assets and liabilities described above:

Financial Assets

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2020						
Reverse repurchase agreements	**327**	**–**	**327**[A]	**258**	**69**	**–**
OTC-derivatives	**190**	**3**	**187**[B]	**164**	**22**	**1**
Total	**517**	**3**	**514**	**422**	**91**	**1**
March 31, 2019						
Reverse repurchase agreements	432	–	432[A]	281	151	–
OTC-derivatives	100	–	100[B]	56	39	5
Total	532	–	532	337	190	5

Financial Liabilities

(Canadian $ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2020						
Repurchase agreements	**636**	**–**	**636**[A]	**258**	**378**	**–**
OTC-derivatives	**323**	**3**	**320**[B]	**162**	**153**	**5**
Collateral payable	**3**	**–**	**3**[C]	**2**	**(1)**	**2**
Total	**962**	**3**	**959**	**422**	**530**	**7**
March 31, 2019						
Repurchase agreements	406	–	406[A]	281	125	–
OTC-derivatives	62	–	62[B]	55	6	1
Collateral payable	1	–	1[C]	1	–	–
Total	469	–	469	337	131	1

[A] As described in Note 4.1.10.

[B] As described in Note 4.1.12.

[C] As described in Note 4.1.9. The balance consists of cash collateral received with respect to certain OTC derivative transactions and is included in Note 4.1 as part of collateral payable.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

Liquidity risk corresponds to the risk that PSP Investments will not be able to meet its financial obligations on a timely basis, with sufficient and readily available cash resources. PSP Investments' cash position is monitored on a daily basis. In general, investments in cash, money market securities, floating rate notes, bonds and public equities are expected to be highly liquid as they will be invested in securities that are actively traded. Management utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. A liquidity report taking into consideration future forecasted cash flows is prepared and presented to senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, sufficient sources of liquidity are maintained for deployment in case of market disruption such as that described in Note 18.

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 8.2 provides additional information on the usage of the capital market debt program. Furthermore, PSP Investments maintains credit facilities for general corporate purposes. Note 8.1 provides additional information with respect to such credit facilities.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4.1.12.

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2020 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	**(73)**	**–**	**–**	**(73)**
Interest payable	**(2)**	**(5)**	**–**	**(7)**
Securities sold short	**(281)**	**–**	**–**	**(281)**
Collateral payable	**(3)**	**–**	**(239)**	**(242)**
Securities sold under repurchase agreements	**(562)**	**(74)**	**–**	**(636)**
Capital market debt financing	**(261)**	**(265)**	**(617)**	**(1,143)**
Trade payable and other liabilities	**(9)**	**(9)**	**(13)**	**(31)**
Total	**(1,191)**	**(353)**	**(869)**	**(2,413)**

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	**139**	**36**	**26**	**201**
Derivative-related liabilities[A]	**(198)**	**(105)**	**(25)**	**(328)**
Total	**(59)**	**(69)**	**1**	**(127)**

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2019 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(69)	–	–	(69)
Interest payable	(5)	–	–	(5)
Securities sold short	(456)	–	–	(456)
Collateral payable	(218)	–	–	(218)
Securities sold under repurchase agreements	(406)	–	–	(406)
Capital market debt financing	(342)	(154)	(524)	(1,020)
Trade payable and other liabilities	(5)	(9)	(9)	(23)
Total	(1,501)	(163)	(533)	(2,197)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	48	40	26	114
Derivative-related liabilities[A]	(17)	(25)	(28)	(70)
Total	31	15	(2)	44

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

8 — Borrowings

8.1. Credit Facilities

PSP Investments maintains a revolving credit facility in the amount of $2 billion and a demand line of credit in the amount of $1 billion (together "the Credit Facilities").

The Credit Facilities are for general corporate purposes and are available in either Canadian or US currencies. Subject to customary terms and conditions, these Credit Facilities are available at variable interest rates such as the prime rate and the US base rate.

These Credit Facilities were not drawn upon as at March 31, 2020 and 2019.

8.2. Capital Market Debt Financing

PSP Investments' capital market debt program consists of the private placement of short-term promissory notes as well as medium-term notes issued by PSP Capital Inc., a wholly-owned subsidiary of PSP Investments. The capital raised is primarily used to finance private market investments. It is unconditionally and irrevocably guaranteed by PSP Investments in accordance with its corporate leverage policy.

The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed $12 billion for issuances in Canada and the United States combined.

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2020 and 2019.

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

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

	March 31, 2020		March 31, 2019	
(Canadian $ millions)	**Capital Amounts Payable at Maturity**	**Fair Value**	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.97% and 1.87% and maturing within 27 and 364 days of issuance (March 31, 2019 – between 1.79% and 2.20%, maturing within 56 and 365 days)	**23**	**23**	47	47
Short-term US Dollar promissory notes, bearing interest between 0.03% and 2.02% and maturing within 7 and 366 days of issuance (March 31, 2019 – between 2.45% and 2.84%, maturing within 21 and 365 days)	**431**	**430**	451	449
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**72**	**73**	69	70
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**102**	**109**	68	72
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**85**	**86**	91	90
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**107**	**110**	72	72
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**121**	**123**	126	126
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**90**	**97**	90	94
Medium-term notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**90**	**92**	–	–
Total	**1,121**	**1,143**	1,014	1,020

Unrealized losses in connection with borrowings amounted to $37 million for the year ended March 31, 2020 (unrealized losses of $ 14 million for the year ended March 31, 2019).

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

(Canadian $ millions)	**2020**	2019
Short-term promissory notes	**11**	11
Medium-term notes	**13**	10
Total	**24**	21

8 — Borrowings (continued)

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2020.

(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Non-cash changes: Foreign exchange losses	Non-cash changes: Fair value[A] losses	Closing balance
Capital market debt financing	**1,020**	**1,915**	**(1,830)**	**27**	**11**	**1,143**
Borrowings	**1,020**	**1,915**	**(1,830)**	**27**	**11**	**1,143**

[A] Includes interest on short-term promissory notes, which added to cost approximates their fair value.

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2019.

(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Non-cash changes: Foreign exchange losses	Non-cash changes: Fair value[A] losses	Closing balance
Capital market debt financing	885	2,437	(2,317)	2	13	1,020
Borrowings	885	2,437	(2,317)	2	13	1,020

[A] Includes interest on short-term promissory notes, which added to cost approximates their fair value.

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

9.2. Fund Transfers

PSP Investments received fund transfers from the Government of Canada of $211 million for the year ended March 31, 2020 ($232 million for the year ended March 31, 2019) for the Fund, recorded in the Plan Account.

10 — Segment Information

In order to fulfil its mandate, PSP Investments manages a diversified global portfolio composed of investments in various asset classes and has implemented an investment approach that focuses in the total fund approach rather than only on individual asset classes. The total fund approach guides the long-term investment strategy and focuses on managing total fund allocations and exposures in terms of asset classes, sectors and risk factors.

Accordingly, PSP Investments' investment segments are presented below to reflect the way in which asset classes are managed and how results are reviewed by the entity's senior management for purposes of performance management and decision making. These investment segments include their respective share of investment-related assets and investment-related liabilities as well as borrowings, which are reported separately by nature of the underlying investments as disclosed in Note 4.1. Further, to support PSP Investments' investment approach, a Complementary Portfolio is managed in addition to the individual asset classes' portfolios, which enables PSP Investments to capture investment opportunities that fit the mandate but that are outside the scope of the individual asset classes' investment framework.

Investment segments consist of investments held through direct and co-ownership positions as well as through fund managers and include:

- Public Markets – invests in public market equities and other similar securities.
- Real Estate – invests in real estate assets mainly in retirement and residential, office, retail and other industrial sectors.
- Private Equity – invests in private entities with similar objectives.
- Infrastructure – invests in private entities with a focus on assets in transportation, power generation, telecommunications and other regulated businesses.
- Natural Resources – invests in real assets with a focus on assets in timberlands, agriculture and upstream oil and gas.
- Credit Investments – invests in non-investment grade primary and secondary credit investments.
- Fixed Income – invests in government and corporate fixed income.
- Complementary Portfolio – focuses on investments that are not within the mandate of existing asset classes but are deemed beneficial for the total fund.

The following table presents net investments by investment segment as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Public Markets[A]	**3,496**	3,689
Real Estate	**1,722**	1,701
Private Equity	**1,738**	1,701
Infrastructure	**1,323**	1,215
Natural Resources	**553**	488
Credit Investments	**961**	757
Fixed Income[A]	**2,364**	2,152
Complementary Portfolio	**68**	103
Other[B]	**49**	333
Total	**12,274**	12,139

[A] During the year ended March 31, 2020 government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present such net investments on a comparable basis, corresponding comparative balances of $2,152 million were reclassified accordingly.

[B] Includes cash and money market securities not managed within the operating segments.

10 — Segment Information (continued)

The following table presents net income (loss) from operations by investment segment for the years ended March 31:

	2020			2019		
(Canadian $ millions)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)
Public Markets[C]	**(401)**	**(22)**	**(423)**	152	(23)	129
Real Estate	**(60)**	**(22)**	**(82)**	136	(18)	118
Private Equity	**82**	**(8)**	**74**	233	(7)	226
Infrastructure	**111**	**(16)**	**95**	87	(13)	74
Natural Resources	**(23)**	**(7)**	**(30)**	44	(5)	39
Credit Investments	**35**	**(5)**	**30**	61	(4)	57
Fixed Income[C]	**221**	**(10)**	**211**	97	(6)	91
Complementary Portfolio	**9**	**(1)**	**8**	–	(1)	(1)
Other[D]	**41**	**(1)**	**40**	71	(1)	70
Total	**15**	**(92)**	**(77)**	881	(78)	803

[A] As described in note 11, embedded within investment income are other fees paid by certain pooled fund investments and management fees not paid directly by PSP Investments.

[B] Includes all investment-related and operating expenses as disclosed in notes 11 and 12, respectively.

[C] During the year ended March 31, 2020, government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present net income from operations for such investments on a comparable basis, corresponding comparative figures for Investment Income, Expenses and Net Income of $97 million, $6 million and $91 million respectively, for the year ended March 31, 2019, were reclassified accordingly.

[D] Includes cash and money market securities not managed within the operating segments.

11 — Investment-Related Expenses

Investment-related expenses allocated to the Plan Account are comprised of the following for the years ended March 31:

(Canadian $ millions)	2020	2019
Interest expense	**32**	25
Transaction costs	**12**	9
External investment management fees[A]	**4**	2
Other (net)	**4**	6
Total	**52**	42

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to $6 million for the year ended March 31, 2020 ($17 million for the year ended March 31, 2019). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.5% of the total invested and/or committed amount, totaled $30 million for the year ended March 31, 2020 ($24 million for the year ended March 31, 2019). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

Operating expenses allocated to the Plan Account consisted of the following for the years ended March 31:

(Canadian $ thousands)	2020	2019
Salaries and employee benefits	**23,055**	21,151
Professional and consulting fees	**6,333**	5,568
Premises and equipment	**1,802**	2,268
Market data and business applications	**2,984**	2,677
Depreciation of equipment	**2,532**	2,362
Custodial fees	**461**	387
Other operating expenses	**2,645**	2,058
Total	**39,812**	36,471

13 — Allocation of Comprehensive Income

PSP Investments' comprehensive income is allocated to each Plan Account as follows:

13.1. Investment Income

The investment income is allocated proportionately based upon the net investments of each Plan Account at the time the income was incurred.

13.2. Expenses

The Act requires that the costs of operation of PSP Investments be charged to the Plan Accounts. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged, in consultation with the Minister of National Defence and the Minister of Public Safety and Emergency Preparedness. An allocation policy was developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, based upon the net investments of each Plan Account at the time the expense was incurred.

Operating expenses and other comprehensive income, excluding the direct cost of investment activities listed above, and for the years ended March 31, were allocated in proportion to the annual amount of net investments of each Plan Account as follows:

(%)	**2020**	2019
Public Service Pension Plan Account	**72.7**	72.6
Canadian Forces Pension Plan Account	**19.7**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.3
Reserve Force Pension Plan Account	**0.4**	0.4
Total	**100.0**	100.0

14 — Related Party Transactions

14.1. Certain Investees

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 16 and 17, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income as those with unrelated parties.

Transactions between PSP Investments and its consolidated subsidiaries as well as related balances are eliminated upon consolidation and, therefore, are not disclosed in this note.

14.2. The Government of Canada and Government-Related Entities

Since PSP Investments is a Crown corporation as described in Note 1, it is considered to be related to the Government of Canada as well as other entities that are controlled, jointly controlled or significantly influenced by the Government of Canada (together "government-related entities").

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the funds transfers outlined in Note 9.2.

(ii) Government-Related Entities

PSP Investments may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1. Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on net assets and comprehensive income as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

14.3. Compensation of Key Management Personnel

Members of key management personnel are related parties of PSP Investments. Key management personnel are those persons having authority and responsibility for planning, directing and controlling PSP Investments' activities, directly or indirectly and consist of members of the Board of Directors, PSP Investments' senior management team and officers. Compensation earned by key management personnel allocated to the Plan Account for the years ended March 31 was recorded in the Statements of Comprehensive Income (Loss) and was as follows:

(Canadian $ thousands)	**2020**	2019
Short-term compensation and other benefits	**1,052**	1,075
Long-term compensation and other benefits	**707**	678
Total	**1,759**	1,753

As disclosed in Note 16, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

15 — Capital Management

As an investment company, PSP Investments' objectives in managing its capital are:

- To invest fund transfers, outlined in Note 9.2, in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under the *Superannuation Acts* and the ability of the Plans to meet their financial obligations. The funds are also invested in accordance with the Investment Risk Management policies which are outlined in Note 7.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSP Investments has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 8.2 provides information on the capital market debt financing and Note 7.3 provides information on PSP Investments' liquidity.

The capital structure of PSP Investments consists of fund transfers and capital market debt financing. PSP Investments has no externally imposed restrictions on capital.

16 — Guarantees and Indemnities

PSP Investments provides indemnification to its Directors, its Officers, its vice-presidents and to certain PSP Investments representatives who are asked to serve on boards of directors (or like bodies) or investment advisory boards (or like bodies) of entities in which PSP Investments or its investment entity subsidiaries have made an investment or have a financial interest. As a result, but subject to the Act, PSP Investments may be required to indemnify these representatives for costs incurred, such as claims, actions or litigation in connection with the exercise of their duties, unless the liability of such a representative relates to a failure to act honestly and in good faith. To date, PSP Investments has not received any claims or made any payment for such indemnities.

In certain cases, PSP Investments also provides indemnification to third parties in the normal course of business. As a result, PSP Investments may be required to indemnify such third parties in connection with the performance of their contractual obligations. To date, PSP Investments has not received any claims nor made any payments for such indemnities.

PSP Investments unconditionally and irrevocably guarantees all credit facilities, as well as short-term promissory notes and medium-term notes issued by PSP Capital Inc., as described in Note 8.

In certain investment transactions, PSP Investments and its investment entity subsidiaries provided guarantees, indemnifications or issued letters of credit to third parties, the most significant of which are as follows:

- As at March 31, 2020 and 2019, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to $2,802 million as at March 31, 2020 (March 31, 2019 – $2,602 million), of which $203 million has been allocated to the Plan Account (March 31, 2019 – $188 million) plus applicable interest and other related costs. The arrangements mature between April 2020 and November 2029 as of March 31, 2020 (March 31, 2019 – between July 2019 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $89 million as at March 31, 2020 (March 31, 2019 – $54 million), of which $6 million has been allocated to the Plan Account (March 31, 2019 – $4 million) in relation to investment transactions.

17 — Commitments

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Real estate	**255**	177
Private equity	**942**	744
Infrastructure	**213**	193
Natural resources	**19**	30
Private debt securities	**275**	299
Alternative investments	**122**	150
Total	**1,826**	1,593

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2020 (March 31, 2019–2035).

18 — Uncertainties Related to COVID-19

The outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. The Financial Statements of PSP Investments prepared as of, and for the year ended March 31, 2020, reflect the impacts resulting from COVID-19 to the extent known at the reporting date.

The ongoing worldwide spread of COVID-19 and its effect on international business operations, supply chains, travel, commodity prices, consumer confidence and business forecasts are expected to continue to have significant impacts on domestic and international equity markets and fixed income yields for the near term.

Management continues to monitor developments in equity and fixed income markets generally and specifically in connection with PSP Investments' portfolio. The full potential impact of the COVID-19 outbreak on the fair value of PSP Investments' portfolio is unknown as it will depend on future developments that are uncertain. Such uncertainties include the duration and depth of the outbreak. Management expects that the fair value of PSP Investments' portfolio will continue to be affected for the near term.

— Reserve Force Pension Plan Account

Financial Statements

Independent Auditors' Report

To the Minister of National Defence

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Sector Pension Investment Board – Reserve Force Pension Plan Account (the Reserve Force Pension Plan Account), which comprise the statements of financial position as at March 31, 2020 and 2019, and the statements of comprehensive income (loss), statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Reserve Force Pension Plan Account as at March 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the Reserve Force Pension Plan Account's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Reserve Force Pension Plan Account or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Reserve Force Pension Plan Account's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for the Public Sector Pension Investment Board – Reserve Force Pension Plan Account's compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable the Public Sector Pension Investment Board – Reserve Force Pension Plan Account to comply with the specified authorities.

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

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

Montréal, Canada
4 June 2020

Deloitte LLP[1]

Montréal, Canada
4 June 2020

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

Statements of Financial Position

As at

(Canadian $ thousands)	**March 31, 2020**	March 31, 2019
Assets		
Investments (Note 4.1)	**895,508**	874,172
Other assets	**1,400**	850
Total assets	**896,908**	875,022
Liabilities		
Trade payable and other liabilities	**1,904**	1,470
Investment-related liabilities (Note 4.1)	**93,633**	74,335
Borrowings (Notes 4.1, 8.2)	**68,295**	62,013
Total liabilities	**163,832**	137,818
Net assets	**733,076**	737,204
Equity (Note 9)	**733,076**	737,204
Total liabilities and equity	**896,908**	875,022

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

On behalf of the Board of Directors:

Martin Glynn
Chair of the Board

William A. Mackinnon
Chair of the Audit Committee

Statements of Comprehensive Income (Loss)

For the years ended March 31

(Canadian $ thousands)	2020	2019
Investment income	**1,226**	53,873
Investment-related expenses (Note 11)	**(3,022)**	(2,577)
Net investment income (loss)	**(1,796)**	51,296
Operating expenses (Note 12)	**(2,420)**	(2,262)
Net income (loss)	**(4,216)**	49,034
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability	**88**	(16)
Comprehensive income (loss)	**(4,128)**	49,018

Statements of Changes in Equity

For the years ended March 31

(Canadian $ thousands)	2020	2019
Fund transfers		
Balance at beginning of period	**329,631**	329,631
Fund transfers received during the period (Note 9.2)	**–**	–
Balance at end of period	**329,631**	329,631
Retained earnings		
Balance at beginning of period	**407,573**	358,555
Comprehensive income (loss)	**(4,128)**	49,018
Balance at end of period	**403,445**	407,573
Total equity	**733,076**	737,204

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ thousands)	**2020**	2019
Cash flows from operating activities		
Net income (loss)	**(4,216)**	49,034
Adjustments for non-cash items:		
Depreciation of equipment (Note 12)	**154**	147
Effect of exchange rate changes on cash and cash equivalents	**(380)**	(142)
Unrealized losses on borrowings	**2,203**	835
	(2,239)	49,874
Net changes in operating assets and liabilities		
Increase in investments	**(39,864)**	(57,613)
Decrease in other assets	**10**	38
Increase in trade payables and other liabilities	**282**	166
Increase in investment-related liabilities	**19,291**	12,806
Net cash flows (used in) provided by operating activities	**(22,520)**	5,271
Cash flows from financing activities		
Proceeds from borrowings	**113,058**	150,216
Repayment of borrowings	**(108,973)**	(143,985)
Repayment to the Public Service Pension Plan Account	**–**	(2,380)
Advances from the Public Service Pension Plan Account	**–**	1,831
Net cash flows provided by financing activities	**4,085**	5,682
Cash flows used in investing activities		
Acquisitions of equipment	**(85)**	(186)
Net cash flows used in investing activities	**(85)**	(186)
Net change in cash and cash equivalents	**(18,520)**	10,767
Effect of exchange rate changes on cash and cash equivalents	**380**	142
Cash and cash equivalents at the beginning of the period	**29,936**	19,027
Cash and cash equivalents at the end of the period[A]	**11,796**	29,936
Supplementary disclosure of cash flow information		
Interest paid	**(1,707)**	(1,387)

[A] As at March 31, 2020 cash and cash equivalents were comprised of $11,331 thousand (March 31, 2019 - $29,851 thousand) held for investment purposes and included in Note 4.1, as well as $465 thousand (March 31, 2019 - $85 thousand) held for administrative purposes and included in Other assets.

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

Notes to the Financial Statements

For the years ended March 31, 2020 and 2019

1 — Corporate Information

The Public Sector Pension Investment Board ("PSP Investments") is a Crown corporation created under the *Public Sector Pension Investment Board Act* (the "Act") to manage and invest amounts that are transferred to it pursuant to the *Superannuation Acts* (defined below), for the funds (as defined in the Act) of the pension plans established under the *Public Service Superannuation Act*, the *Canadian Forces Superannuation Act* ("CFSA"), the *Royal Canadian Mounted Police Superannuation Act* (collectively the "*Superannuation Acts*"), and certain regulations under the CFSA (the "CFSA Regulations"). The pension plans established under the *Superannuation Acts* consist of the Public Service pension plan, the Canadian Forces pension plan, and the Royal Canadian Mounted Police pension plan, and the pension plan established under the CFSA Regulations is the Reserve Force pension plan (the "Plan"). The Plan and the other pension plans are herein referred to collectively as the "Plans".

The fund for which amounts are currently transferred to PSP Investments by the Government of Canada (the "Fund") relates to pension obligations under the Plan for service on or after March 1, 2007 ("Post-2007 Service"). The account managed by PSP Investments for the Fund is herein referred to as the "Plan Account". PSP Investments maintains records of the net contributions for the Fund, as well as the allocation of its investments and the results of its operations for the Fund in the Plan Account. PSP Investments also manages a plan account for the funds of the other Plans, and these and the Plan Account are collectively referred to herein as the "Plan Accounts".

PSP Investments is responsible for managing amounts that are transferred to it for the Fund in the best interests of the beneficiaries and contributors under the CFSA Regulations. The amounts are to be invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plan and the Plan's ability to meet its financial obligations.

Pursuant to the CFSA and the CFSA Regulations, the Government of Canada, which administers the Plan and the Fund, may at any time call upon the net assets of PSP Investments allocated to the Fund's Plan Account for amounts required for the purpose of paying benefits under the Plan in respect of Post-2007 Service.

PSP Investments and the majority of its subsidiaries are exempt from Part I tax under paragraphs 149(1)*(d)* and 149(1)*(d.2)* of the *Income Tax Act* (Canada), respectively.

PSP Investments' registered office is located at 1 Rideau Street, Ottawa, Ontario, Canada and its principal business office is at 1250 René-Lévesque Boulevard West, Montreal, Quebec, Canada.

2 — Significant Accounting Policies

The significant accounting policies that have been applied in the preparation of these Financial Statements are summarized below and have been used throughout all periods presented.

2.1. Basis of Presentation

These Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

PSP Investments qualifies as an investment entity as defined under IFRS 10 *Consolidated Financial Statements* and, consequently, does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. Instead, PSP Investments measures its investments in subsidiaries at fair value through profit or loss ("FVTPL") in accordance with IFRS 9 *Financial Instruments* ("IFRS 9"), including those that are formed by PSP Investments and that qualify as investment entities ("investment entity subsidiaries"). PSP Investments also measures its investments in associates, joint ventures and financial assets and financial liabilities at FVTPL in accordance with IAS 28 *Investments in Associates and Joint Ventures* and IFRS 9.

These Financial Statements present the Plan Account's financial position and results of operations of PSP Investments and its subsidiaries that solely provide it with services that relate to its investment activities, as allocated to the Plan Account. They reflect the economic activity of PSP Investments as it pertains to the investment of the net contributions transferred to it for the Fund in respect of Post-2000 Service. Accordingly, they do not reflect all of the assets or the details of the pension contributions, payments and liabilities under the Plan.

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on June 4, 2020.

2 — Significant Accounting Policies

(continued)

2.2. Investment Entity Status

PSP Investments has determined that it meets the mandatory items of the definition of an investment entity under IFRS 10 on the basis of the facts and circumstances as at the end of the period. They are as follows:

(i) Mandate and business purpose

As further described in Note 1, PSP Investments' mandate is to manage and invest the amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. Consequently, PSP Investments' business purpose is to invest with a view of achieving a maximum rate of return from capital appreciation and income from investments, without undue risk of loss.

(ii) Performance evaluation

PSP Investments measures and evaluates the performance of its investments on a fair value basis.

In addition to the mandatory items of the definition, IFRS 10 also outlines certain typical characteristics of an investment entity, the absence of any of which does not necessarily preclude an entity from qualifying as an investment entity. One of these characteristics is that an investment entity should have investors that are not related parties of the entity.

As described in Note 14, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

Should any changes occur in the facts and circumstances, PSP Investments will evaluate the impact of any such changes on its investment entity status.

2.3. Summary of Significant Accounting Policies

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

2.3.1. Financial Instruments

(i) Classification

Financial assets representing investments are managed, together with related financial liabilities, according to the entity's business model to maximize the rate of return. The performance of such financial instruments is evaluated on a fair value basis and they are classified at FVTPL. They are described in detail in Note 4.1.

Borrowings, as described under Note 8, are financial liabilities that are designated to be measured at FVTPL since they are part of the portfolios of investments that are managed together and whose performance is evaluated on a fair value basis.

(ii) Recognition

Financial assets and financial liabilities are recorded at the date upon which PSP Investments becomes a party to the associated contractual provisions. In the case of traded financial assets, they are recorded as of the trade date.

(iii) Initial and subsequent measurement

All financial assets and financial liabilities are recorded in the Statements of Financial Position at fair value and continue to be measured as such on a recurring basis. After initial measurement, subsequent changes in the fair value of financial assets and financial liabilities classified at FVTPL are recorded in the Statements of Comprehensive Income.

If fair value changes in financial liabilities designated to be measured at FVTPL result from fluctuations in PSP Investments' own credit risk, they are recorded in other comprehensive income. All other changes in fair value are recorded in investment income.

(iv) Derecognition

A financial asset (or, where applicable, a part thereof) is derecognized when the following conditions are met:

- The rights to receive cash flows from the asset have expired, or
- PSP Investments has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows to a third party,

and

- PSP Investments has transferred substantially all the risks and rewards of the asset, or
- In cases where PSP Investments has neither transferred nor retained substantially all the risks and rewards of the asset, it has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At initial recognition, PSP Investments evaluates the facts and circumstances related to a transaction to confirm that the transaction price represents the fair value of an asset or a liability. At each subsequent reporting date, market prices are used to determine fair value where an active market exists (such as a recognized securities exchange), as they reflect actual and regularly occurring market transactions on an arm's length basis. If quoted market prices are not available, then fair value is estimated using valuation techniques based on inputs existing at the end of the reporting period that are derived from observable market data.

Valuation techniques are generally applied to investments in private markets, alternative investments, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 4.

2.3.3. Functional and Presentation Currency

The functional and presentation currency of PSP Investments and its consolidated subsidiaries is the Canadian dollar, which is the currency of the primary economic environment in which each entity within the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars.

2.3.4. Foreign Currency Translation

Foreign currency transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities that are denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the end of the reporting period.

Foreign currency transaction gains and losses on all monetary assets and liabilities are included in investment income.

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or pledged as collateral, or recognize securities borrowed or received as collateral. Cash collateral received is recognized as described in Note 4.1.9.

The securities lending and borrowing programs require collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standard securities lending and borrowing programs. PSP Investments and its counterparties are authorized to sell, repledge or otherwise use collateral held. The same securities or equivalent securities must be returned to the counterparty at the end of the contract, unless an event of default occurs.

2.3.6. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements and Related Collateral

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

Securities sold or purchased under the repurchase and reverse repurchase agreements respectively, including related collateral, are not derecognized or recognized as all risks and rewards of ownership related to such securities are not transferred. As such, in the case where PSP Investments is the counterparty selling securities under such agreements, all income (loss) related to such securities continues to be reported in investment income and obligations to repurchase the securities sold are accounted for as investment-related liabilities. The difference between the fair value of the securities sold and the repurchase price is recorded as interest expense within investment related expenses. In the case where PSP Investments is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income.

Transactions under repurchase and reverse repurchase agreements involve pledging collateral consisting of cash or securities deemed acceptable by the counterparties. Collateral transactions are conducted under terms that are usual and customary in standard repurchase arrangements. Such terms require the relevant counterparty to pledge additional collateral based on the changes in the fair value of the existing collateral pledged as well as the related securities sold or purchased. The counterparties are authorized to sell, repledge or otherwise use collateral held. The securities pledged as collateral must be returned to the relevant counterparty at the end of the contract, unless an event of default occurs.

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.7. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset with the net amount reported in the Statements of Financial Position only if PSP Investments has a current legally enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.3.8. Equity

The statutory rights of the Government of Canada pursuant to the *Superannuation Acts* are described under Note 1 and are classified as equity instruments on the following basis:

- Under such rights the Government of Canada is entitled to PSP Investments' net assets at any time for the purposes set out in the *Superannuation Acts*. Such rights do not contain any additional obligations for PSP Investments to deliver amounts to the Government of Canada.
- Such rights are the most subordinate claim on PSP Investments' net assets.
- The total expected cash flows attributable to such rights, at any time, is solely based on the fair value of the net assets of PSP Investments at that time. Further, the fair value of the net assets of PSP Investments in its entirety represents the amounts that the Government of Canada may call upon at any time.

2.3.9. Investment Income

Investment income is made up of interest, dividends, gains (losses) on the disposal of financial assets and financial liabilities as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of financial assets held and financial liabilities outstanding at the end of the reporting period. Interest is recognized, on a consistent basis, using the prescribed rates until maturity. Dividends are recognized when the right to receive them has been obtained, generally on the ex-dividend date.

2.3.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, as described in Note 4.1.7, transaction costs, external investment management fees and other (net).

Transaction costs are incremental costs directly attributable to the acquisition, due diligence, issue, or disposal of a financial asset or financial liability, and they are expensed as incurred.

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets as outlined in Note 11.

2.3.11. Fund Transfers

Amounts are recorded for the Fund when received from the Government of Canada.

2.4. Significant Accounting Judgments, Estimates and Assumptions

In preparing the Financial Statements, management makes certain judgments, estimates and assumptions that can affect the amounts reported therein. Significant judgments include those related to the determination of the investment entity status as described in Note 2.2.

Management also makes estimates and assumptions in the measurement, risk assessment and related disclosures surrounding investments in private markets and certain fixed income securities. The main assumptions made by management regarding measurement of financial instruments are outlined in Note 4.2.3 and those regarding the assessment of risk are outlined in Note 7.

Although assumptions reflect management's best estimates, actual results may differ from such estimates due to the uncertainties involved in using them. As further described in Note 18, such uncertainties were significant as at March 31, 2020 due to the substantial disruption of global economic activity as well as financial markets' volatility at the reporting date.

3 — Current and Future Changes in Accounting Standards

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

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are aggregated, in the following table, in classes that reflect their respective exposure as well as investment sectors. Their fair values were as follows, as at:

(Canadian $ thousands)	**March 31, 2020**	March 31, 2019
Public markets		
Canadian equity	**14,515**	14,908
Foreign equity	**125,608**	142,418
Private markets		
Real estate	**128,583**	123,609
Private equity	**95,424**	88,875
Infrastructure	**96,897**	88,282
Natural resources	**45,117**	33,001
Fixed income		
Cash and money market securities	**20,912**	52,285
Government and corporate bonds	**135,670**	115,295
Inflation-linked bonds	**71,530**	61,565
Private debt securities	**75,349**	68,712
Alternative investments	**47,854**	44,097
	857,459	833,047
Investment-related assets		
Amounts receivable from pending trades	**3,284**	5,167
Interest receivable	**2,539**	2,189
Dividends receivable	**688**	628
Securities purchased under reverse repurchase agreements	**19,510**	26,220
Derivative-related assets	**12,028**	6,921
	38,049	41,125
Investments representing financial assets at FVTPL	**895,508**	874,172
Investment-related liabilities		
Amounts payable from pending trades	**(4,389)**	(4,200)
Interest payable	**(407)**	(304)
Securities sold short	**(16,807)**	(27,661)
Collateral payable	**(14,478)**	(13,228)
Securities sold under repurchase agreements	**(37,960)**	(24,716)
Derivative-related liabilities	**(19,592)**	(4,226)
Investment-related liabilities representing financial liabilities at FVTPL	**(93,633)**	(74,335)
Borrowings		
Capital market debt financing	**(68,295)**	(62,013)
Borrowings representing financial liabilities designated at FVTPL	**(68,295)**	(62,013)
Net investments	**733,580**	737,824

4 — Financial Assets and Financial Liabilities
(continued)

4.1. Classes of Financial Assets and Financial Liabilities
(continued)

4.1.1. Public Markets

Public markets consist of Canadian and foreign investments in the following securities: common shares, American depository receipts, global depository receipts, participation notes, preferred shares, income trust units, exchange traded funds units, pooled funds units, and securities convertible into common shares of publicly listed issuers.

Direct investments in Canadian and foreign equities are measured at fair value using quoted prices in active markets and are based on the most representative price within the bid-ask spread.

In the case of investments in pooled funds, fair value is measured using unit values obtained from each of the funds' administrators, which are derived from the fair value of the underlying investments in each pooled fund. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and natural resources.

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financing.

Private equity investments are comprised of fund investments with similar objectives, co-investments in private entities as well as direct equity positions.

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing.

Natural resources investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas. Natural resources investments are presented net of all third-party financing.

The process for fair value measurement of private markets investments is described in Note 4.2.2 and the valuation techniques together with the significant inputs used are described in Note 4.2.3.

4.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and private debt securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Statements of Cash Flows and amounted to $11,331 thousand as at March 31, 2020 (March 31, 2019 – $29,851 thousand). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds, floating rate notes, asset-backed term notes and mortgage-backed securities. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

Private debt securities are fixed income securities of private companies held directly or through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt and primary and secondary investments in leveraged loans. Private debt securities also include third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products in the real estate sector.

Fair values of government and most corporate bonds, inflation-linked bonds and mortgage-backed securities are based on prices obtained from third-party pricing sources. Such prices are determined using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

The fair values of certain corporate bonds, private debt securities and asset-backed term notes are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

The fair value measurement of fund investments included as part of private debt securities is described in Note 4.2.2.

4 — Financial Assets and Financial Liabilities
(continued)

4.1. Classes of Financial Assets and Financial Liabilities
(continued)

4.1.4. Alternative Investments

Alternative investments consist mainly of units of funds that hold a mix of equity, fixed income and derivative instruments as well as hedge funds. The fair value of these investments is determined based on the fair values reported by the funds' administrators or general partners and reflects the fair value of the underlying equity, fixed income or derivative instruments, as applicable. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.5. Amounts Receivable and Payable from Pending Trades

Amounts receivable from pending trades consist of proceeds on sales of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

Amounts payable from pending trades consist of the cost of purchases of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

The fair value of amounts receivable and payable from pending trades reflects the value at which their underlying original sale or purchase transactions were undertaken.

4.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which due to their short-term maturity, approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.11, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

4.1.8. Securities Sold Short

Securities sold short reflect PSP Investments' obligation to purchase securities pursuant to short selling transactions. In such transactions, PSP Investments sells securities it does not own with an obligation to purchase similar securities on the market to cover its position.

Using quoted market prices that are based on the most representative price within the bid-ask spread, the fair value of securities sold short is measured using the same method as the similar long positions presented within public markets and fixed income.

4.1.9. Collateral Payable

As part of securities lending and certain OTC derivative transactions, cash collateral is received and reinvested by PSP Investments. PSP Investments recognizes cash collateral received with a corresponding payable. The payable balance reflects the obligation of the transferee to return cash collateral to the transferor at the end of the transaction in the absence of an event of default by the transferor.

4.1.10. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements

As described in Note 2.3.6, PSP Investments is party to repurchase and reverse repurchase agreements. Obligations to repurchase or resell the securities sold or purchased under such agreements are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value.

4.1.11. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 8.2. Short-term promissory notes are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities

Derivative financial instruments are financial contracts that are settled at a future date. The value of such instruments is derived from changes in the value of the underlying assets, interest or exchange rates. Derivative financial instruments do not, typically, require an initial net investment. In certain cases, they require an initial net investment that is less than what would be required to hold the underlying position directly. Derivative financial instruments can be listed or traded OTC. OTC instruments consist of those that are bilaterally negotiated and settled, and those that are cleared (OTC-cleared) by a central clearing party (CCP).

PSP Investments uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

PSP Investments uses the following types of derivative financial instruments:

Swaps

Swaps are transactions whereby two counterparties exchange cash flow streams with each other based on predetermined conditions that include a notional amount and a term. Swaps are used to increase returns or to adjust exposures of certain assets without directly purchasing or selling the underlying assets.

Futures

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a predefined price and predefined future date. Futures are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Forwards

Forwards are contracts involving the sale by one party and the purchase by another party of a predefined amount of an underlying instrument, at a predefined price and at a predefined date in the future. Forwards are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Options

Options are contracts where the seller gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index, commodity, currency, interest rate, credit or other financial instrument, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

Warrants are options to purchase an underlying asset which is in the form of a transferable security and which can be listed on an exchange or traded OTC.

Rights are securities giving shareholders entitlement to purchase new shares issued by a corporation at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

Determination of Fair Value of Derivative Financial Instruments

Listed derivative financial instruments are recorded at fair value using quoted market prices that are based on the most representative price within the bid-ask spread. OTC-cleared derivatives are recorded at fair value using prices obtained from the CCP. OTC derivatives are valued using appropriate valuation techniques such as discounted cash flows. These techniques use significant inputs that are observable in the market such as current market yields.

Notional Values and Fair Values of Derivative-Related Assets and Liabilities

Notional values of derivative financial instruments are not recorded as assets or liabilities as they represent the face amount of the contract. Except for credit derivatives, notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions disclosed below. Rather, they serve as the basis upon which the cash flows and the fair value of the contracts are determined.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ thousands)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**11,603**	**–**	**–**	15,279	–	–
Warrants and rights	**6**	**1**	**–**	6	6	–
Options: Purchased	**16,379**	**592**	**–**	22,510	750	–
Written	**15,586**	**–**	**(283)**	20,249	–	(347)
OTC						
Swaps	**106,164**	**3,680**	**(13,391)**	114,901	2,809	(832)
Options: Purchased	**3,348**	**245**	**–**	2,951	100	–
Written	**4,224**	**–**	**(207)**	2,377	–	(134)
Currency derivatives						
Listed						
Futures	**537**	**–**	**–**	1,323	–	–
OTC						
Forwards	**118,078**	**3,413**	**(2,094)**	87,289	513	(227)
Swaps	**27,090**	**417**	**(130)**	28,938	79	(159)
Options: Purchased	**13,477**	**301**	**–**	28,283	230	–
Written	**14,738**	**–**	**(291)**	25,882	–	(212)
Interest rate derivatives						
Listed						
Futures	**17,818**	**–**	**–**	48,970	–	–
Options: Purchased	**142,978**	**241**	**–**	210,417	150	–
Written	**56,568**	**–**	**(192)**	192,914	–	(121)
OTC						
Forwards	**–**	**–**	**–**	2,604	45	(72)
Swaps	**29,545**	**641**	**(891)**	112,261	1,077	(1,160)
Options: Purchased	**177,199**	**2,458**	**–**	237,383	1,157	–
Written	**195,109**	**–**	**(2,087)**	224,627	–	(916)
OTC-cleared						
Forwards	**122,759**	**–**	**–**	–	–	–
Swaps	**462,949**	**–**	**–**	245,018	–	–
Credit derivatives						
OTC						
Credit default swaps: Purchased	**1,999**	**37**	**(26)**	2,934	1	(46)
Written[A]	**92**	**2**	**–**	396	4	–
OTC-cleared						
Credit default swaps: Purchased	**4,305**	**–**	**–**	3,607	–	–
Total		**12,028**	**(19,592)**		6,921	(4,226)

[A] PSP Investments, through written credit default swaps, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the written credit default swaps as shown in the table above.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ thousands)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**261,475**	**834**	**(475)**	511,668	906	(468)
OTC derivatives	**691,063**	**11,194**	**(19,117)**	870,826	6,015	(3,758)
OTC-cleared derivatives	**590,013**	**–**	**–**	248,625	–	–
Total		**12,028**	**(19,592)**		6,921	(4,226)

The terms to maturity based on notional value for the derivatives were as follows as at:

(Canadian $ thousands)	**March 31, 2020**	March 31, 2019
Less than 3 months	**747,845**	414,333
3 to 12 months	**393,759**	714,136
Over 1 year	**400,947**	502,650

4.2. Fair Value Hierarchy

4.2.1. Classification

Financial assets and financial liabilities described under Note 4.1 are classified within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
  (i) Quoted prices for similar assets or liabilities in active markets.
  (ii) Quoted prices for identical or similar assets or liabilities in markets that are not active.
  (iii) Inputs other than quoted prices that are observable for the asset or liability.
  (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

The classification within the levels of the hierarchy is established at the time of the initial determination of fair value of the asset or liability and reviewed at the end of each reporting period. PSP Investments determines whether a transfer between levels has occurred and recognizes such transfer at the beginning of the reporting period.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2020 classified within the fair value hierarchy:

(Canadian $ thousands)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	11,263	3,057	195	14,515
Foreign equity	113,936	6,472	5,200	125,608
Private markets				
Real estate	–	–	128,583	128,583
Private equity	1	–	95,423	95,424
Infrastructure	–	–	96,897	96,897
Natural resources	–	–	45,117	45,117
Fixed income				
Cash and money market securities	5,563	15,349	–	20,912
Government and corporate bonds	49,748	85,893	29	135,670
Inflation-linked bonds	69,843	1,687	–	71,530
Private debt securities	–	–	75,349	75,349
Alternative investments	–	11,291	36,563	47,854
	250,354	123,749	483,356	857,459
Investment-related assets				
Amounts receivable from pending trades	–	3,284	–	3,284
Interest receivable	–	2,539	–	2,539
Dividends receivable	–	688	–	688
Securities purchased under reverse repurchase agreements	–	19,510	–	19,510
Derivative-related assets	795	11,233	–	12,028
	795	37,254	–	38,049
Investments representing financial assets at FVTPL	251,149	161,003	483,356	895,508
Investment-related liabilities				
Amounts payable from pending trades	–	(4,389)	–	(4,389)
Interest payable	–	(407)	–	(407)
Securities sold short	(15,886)	(921)	–	(16,807)
Collateral payable	–	(14,478)	–	(14,478)
Securities sold under repurchase agreements	–	(37,960)	–	(37,960)
Derivative-related liabilities	(459)	(19,133)	–	(19,592)
Investment-related liabilities representing financial liabilities at FVTPL	(16,345)	(77,288)	–	(93,633)
Borrowings				
Capital market debt financing	–	(68,295)	–	(68,295)
Borrowings representing financial liabilities designated at FVTPL	–	(68,295)	–	(68,295)
Net investments	234,804	15,420	483,356	733,580

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2019 classified within the fair value hierarchy:

(Canadian $ thousands)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	10,858	3,785	265	14,908
Foreign equity	125,488	9,566	7,364	142,418
Private markets				
Real estate	–	–	123,609	123,609
Private equity	–	–	88,875	88,875
Infrastructure	–	–	88,282	88,282
Natural resources	–	–	33,001	33,001
Fixed income				
Cash and money market securities	–	52,285	–	52,285
Government and corporate bonds	–	115,126	169	115,295
Inflation-linked bonds	–	61,565	–	61,565
Private debt securities	–	–	68,712	68,712
Alternative investments	–	9,331	34,766	44,097
	136,346	251,658	445,043	833,047
Investment-related assets				
Amounts receivable from pending trades	–	5,167	–	5,167
Interest receivable	–	2,189	–	2,189
Dividends receivable	–	628	–	628
Securities purchased under reverse repurchase agreements	–	26,220	–	26,220
Derivative-related assets	570	6,351	–	6,921
	570	40,555	–	41,125
Investments representing financial assets at FVTPL	136,916	292,213	445,043	874,172
Investment-related liabilities				
Amounts payable from pending trades	–	(4,200)	–	(4,200)
Interest payable	–	(304)	–	(304)
Securities sold short	(17,212)	(10,449)	–	(27,661)
Collateral payable	–	(13,228)	–	(13,228)
Securities sold under repurchase agreements	–	(24,716)	–	(24,716)
Derivative-related liabilities	(468)	(3,758)	–	(4,226)
Investment-related liabilities representing financial liabilities at FVTPL	(17,680)	(56,655)	–	(74,335)
Borrowings				
Capital market debt financing	–	(62,013)	–	(62,013)
Borrowings representing financial liabilities designated at FVTPL	–	(62,013)	–	(62,013)
Net investments	119,236	173,545	445,043	737,824

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2020 (no significant transfers between Level 1 and Level 2 during the year ended March 31, 2019.)

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

The valuation process is monitored and governed by an internal valuation committee (“VC”). This committee is responsible for overseeing all aspects of fair value determination. This includes establishing valuation methodologies and procedures for each type of investment and ensuring they are complied with. Valuation methodologies established are based on widely recognized practices that are consistent with professional appraisal standards. Such standards include, among others, the *International Private Equity and Venture Capital Valuation Guidelines*, the *Canadian Uniform Standards of Professional Appraisal Practice* and the *Uniform Standards of Professional Appraisal Practice* in the United States of America.

The fair value of investments classified as Level 3 is determined at least annually. Quarterly, the fair value is reviewed and adjusted, as appropriate, to reflect the impact of any significant market or investment-specific events or circumstances. For each investment, the relevant valuation methodology is applied consistently over time as appropriate in the prevailing circumstances. The appropriateness of significant changes in valuation methodologies is reviewed by the VC.

In cases where the services of third-party appraisers are used, management ensures their independence and that valuation methods used are consistent with professional appraisal standards outlined above. In validating the work performed by appraisers, management ensures that the assumptions used correspond to financial information and forecasts of the underlying investment.

With respect to fund investments classified as Level 3, the annual fair value is generally determined based on audited financial statements received from the fund’s general partner. In certain cases, fair value is obtained from information provided by the fund’s administrators and is reviewed by Management to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

To reflect the impact of the market disruption described in note 18 as at March 31, 2020, management used significant judgement in the determination of fair value of Level 3 investments, especially those in Private Markets. Where appropriate, adjustments were made based on public market trading comparables, investment specific characteristics as well as market conditions and uncertainties as at March 31, 2020.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2020:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ thousands)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	**195**	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	**5,200**	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	**121,350**	Discounted cash flow (DCF)	Discount rate[B, C]	2.90% – 20.00% (7.46%)
				Terminal capitalization rate[B, C]	3.95% – 10.25% (5.82%)
			Direct capitalization	Capitalization rate[B, D]	2.35% – 9.78% (4.88%)
				Stabilized occupancy rate[D, E]	67.50% – 100.00% (98.43%)
			Sales comparison approach	Price per square foot[D, E]	$0.94 – $1,895.16 ($290.17)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**7,233**	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	**168,563**	DCF	Discount rate[B]	6.30% – 15% (8.20%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**68,874**	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	**29**	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	**53,529**	DCF	Discount rate[B]	6.63% – 22.64% (11.86%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**21,820**	NAV[A]	N/A	N/A
Alternative investments	Fund investments	**36,563**	NAV[A]	N/A	N/A
Total		**483,356**			

[A] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.
[B] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
[C] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.
[D] There is no predictable direct relationship between this input and any other significant unobservable input.
[E] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2019:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ thousands)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	265	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	7,364	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	115,549	Discounted cash flow (DCF)	Discount rate[B, C]	4.10% – 20.00% (7.55%)
				Terminal capitalization rate[B, C]	4.25% – 10.25% (5.92%)
			Direct capitalization	Capitalization rate[B, D]	2.50% – 8.98% (5.57%)
				Stabilized occupancy rate[D, E]	93.00% – 100.00% (98.22%)
			Sales comparison approach	Price per square foot[D, E]	$0.95 – $2,057.93 ($281.99)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	8,060	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	148,427	DCF	Discount rate[B]	6.00% – 12.50% (8.79%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	61,731	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	129	DCF	Discount rate[B]	52.50%
	Asset-backed term notes	40	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	47,425	DCF	Discount rate[B]	5.54% – 18.76% (9.77%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	21,287	NAV[A]	N/A	N/A
Alternative investments	Fund investments	34,766	NAV[A]	N/A	N/A
Total		445,043			

[A] In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.
[B] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.
[C] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.
[D] There is no predictable direct relationship between this input and any other significant unobservable input.
[E] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2020:

(Canadian $ thousands)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer in (out) of Level 3	Closing Balance
Public markets	**7,629**	**501**	**(3,842)**	**–**	**2,270**	**(1,163)**	**–**	**5,395**
Private markets	**333,767**	**82,205**	**(45,378)**	**–**	**16,018**	**(21,025)**	**433**	**366,020**
Fixed income	**68,881**	**33,377**	**(21,719)**	**(5)**	**467**	**(5,623)**	**–**	**75,378**
Alternative investments	**34,766**	**6,685**	**(5,292)**	**–**	**739**	**674**	**(1,009)**	**36,563**
Total	**445,043**	**122,768**	**(76,231)**	**(5)**	**19,494**	**(27,137)**	**(576)**	**483,356**

[A] Includes Plan Account allocation adjustments.

As at March 31, 2019, an alternative investment of $1,009 thousand in a non-listed fund that held listed securities was classified as Level 3 due to the nature of the contractual restrictions on the redemption of fund units. During the year ended March 31, 2020, the investment was transferred to Level 2 as the contractual restrictions were lifted. Additionally, as at March 31, 2019 a public market investment of $433 thousand was classified as Level 1 and was transferred to Level 3 during the year ended March 31, 2020, as the investment became privately held.

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2019:

(Canadian $ thousands)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer in (out) of Level 3	Closing Balance
Public markets	8,527	2,457	(2,997)	–	1,896	(2,256)	2	7,629
Private markets	297,758	66,185	(42,046)	–	8,444	3,820	(394)	333,767
Fixed income	64,383	25,841	(20,082)	(264)	681	(1,678)	–	68,881
Alternative investments	31,874	3,913	(2,484)	–	200	1,263	–	34,766
Total	402,542	98,396	(67,609)	(264)	11,221	1,149	(392)	445,043

[A] Includes Plan Account allocation adjustments.

As at March 31, 2018, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2019, the investment was transferred to Level 1 as the related securities became publicly traded.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, with all other variables held constant, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2020 (March 31, 2019 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 2.3.5, 2.3.6 and 7.2.1. The following table illustrates the fair values of the Plan Account's allocated collateral, as well as the securities under the lending and borrowing programs and the securities under the repurchase and reverse repurchase agreements, as at:

(Canadian $ thousands)	**March 31, 2020**	March 31, 2019
Securities lending and borrowing		
Securities lent	**2,859**	35,088
Collateral held[A]	**3,041**	36,980
Securities borrowed	**4,455**	17,222
Collateral pledged[B]	**4,837**	17,746
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**38,223**	24,881
Collateral pledged	**38,043**	24,818
Securities purchased under reverse repurchase agreements	**19,559**	26,360
Collateral held[C]	**19,540**	26,314
Derivative contracts		
Collateral pledged	**12,508**	4,018
Collateral held[D]	**1,663**	2,442

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to nil for the Plan Account as at March 31, 2020 (March 31, 2019 – $13,099 thousand) and securities amounted to $3,040 thousand as at March 31, 2020 (March 31, 2019 – $23,881 thousand). All cash collateral is reinvested.

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

[C] The collateral received is in the form of securities of which $12,351 thousand has been used in connection with short selling transactions as at March 31, 2020 (March 31, 2019 – $10,449 thousand) and $579 thousand has been used in connection with securities sold under repurchase agreements (March 31, 2019 – $69 thousand).

[D] As part of collateral held, cash amounted to $193 thousand as at March 31, 2020 (March 31, 2019 – $33 thousand) and securities amounted to $1,470 thousand as at March 31, 2020 (March 31, 2019 – $2,409 thousand). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

As an investment entity, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. PSP Investments measures its investments in its subsidiaries, joint ventures and associates at FVTPL as described in Note 2.1.

For purposes of preparing this note, management assesses control, joint control and significant influence as follows:

(i) Control and significant influence

PSP Investments determines that it has control over an investee when it is exposed, or has rights, to variable returns from its investment in an entity and has the ability to affect those returns through its power over the investee.

In certain cases, PSP Investments does not have control over an investee but has the power to participate in the financial and operating policy decisions of the investee. In such cases, PSP Investments determines that it has significant influence over the investee.

In the context of control or significant influence, power over an investee is obtained through voting rights conveyed by PSP Investments' ownership interest, other contractual arrangements, or a combination thereof.

(ii) Joint control

PSP Investments determines that it is party to a joint venture arrangement when it has joint control over an investee and has rights to the net assets of the investee. Joint control is established through a contractual arrangement which requires the unanimous consent of the parties sharing control for the activities that significantly affect the returns of the arrangement.

Generally, decision making regarding such activities is governed through voting rights conveyed by the ownership interest of each party. In certain cases, it is governed solely through contractual arrangements or in conjunction with the ownership interest of each party.

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2020, 111 investment entity subsidiaries were incorporated in North America, 15 in Europe, 15 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2019 – 108 in North America, 17 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 84 investees directly or through its investment entity subsidiaries as at March 31, 2020 (March 31, 2019 – 81 investees).

The following tables present, in descending order, the most significant investees held directly or indirectly by PSP Investments where it has control, joint control or significant influence.

	March 31, 2020		
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments (%)**	**Relationship to PSP Investments**
AviAlliance GmbH	**Europe**	**100**	**Controlled investee**
Revera Inc.	**North America**	**100**	**Controlled investee**
Kaingaroa Timberlands Limited	**Oceania**	**56**	**Jointly controlled investee**
Roadis Transportation Holding, S.L.U.	**Global**	**100**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50**	**Jointly controlled investee**
Forth Ports Limited	**Europe**	**51**	**Jointly controlled investee**
TDF S.A.S.	**Europe**	**22**	**Associate**
Big Box Properties	**North America**	**49**	**Jointly controlled investee**
Roccapina Fund, L.P.	**North America**	**100**	**Controlled investee**
American Wholesale Insurance Holding Company, LLC	**North America**	**27**	**Associate**

	March 31, 2019		
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
AviAlliance GmbH	Europe	100	Controlled investee
Revera Inc.	North America	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Forth Ports Limited	Europe	51	Jointly controlled investee
TDF S.A.S.	Europe	22	Associate
Roccapina Fund, L.P.	North America	100	Controlled investee
Big Box Properties	North America	49	Jointly controlled investee

In addition to the above, PSP Investments consolidates wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services consist of investment management and financing of private market investments within the context of PSP Investments' capital market debt program described in Note 8.2.

6.2. Structured Entities

PSP Investments holds interests in partnerships and funds mainly in the context of its investments in private markets. Given their nature, such entities commonly have the characteristics of a structured entity as defined by IFRS. These entities are held as investments and do not expose PSP Investments to additional risks or returns compared to interests held in non-structured entities.

Information regarding structured entities is included, as applicable, within disclosures of investment risk management under Note 7, guarantees and indemnities under Note 16 and commitments under Note 17.

7 — Investment Risk Management

PSP Investments is required to act in the best interests of the contributors and beneficiaries under the Plans and for maximizing returns without undue risk of loss. In pursuit of this objective, PSP Investments established an Enterprise Risk Management Policy (ERM Policy). The ERM Policy provides a framework for identifying, evaluating, managing, mitigating, monitoring and reporting the investment and non-investment risks to which PSP Investments is exposed.

As part of the overall ERM policy, the objective of the Investment Risk Management Policy (IRM Policy) is to support the management of risk inherent to the investment decision making process. The IRM Policy outlines a framework detailing how investment activities should comply with PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite. The IRM Policy also supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), whose objective is to effectively manage investment risks related to the implementation of PSP Investments' various investment strategies. Investment risks include market, credit and liquidity risks.

7.1. Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of an adverse financial outcome due to changes in the factors that drive that value, such as changes in market prices, changes caused by factors specific to the individual investment, volatility in share and commodity prices, interest rate, foreign exchange or other factors affecting similar securities traded in the market.

7.1.1. Measurement of Market Risk

The absolute annualized volatility of the total portfolio is used as the primary measure of market risk. The absolute volatility is a statistical measure of the size of changes in investment returns of a given investment or portfolio of investments. It is used to illustrate the potential loss of value in an investment or portfolio of investments as a result of fluctuations in market prices.

PSP Investments uses seven years' worth of market returns scaled to a twelve-month holding period to calculate the absolute volatility. For investments that are not actively traded, the calculation of the absolute volatility uses securities with similar risk attributes as a proxy.

The absolute volatility is statistically valid under normal market conditions. Although it includes losses from severe market events such as those described in Note 18, it does not solely measure such events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

The following table shows the absolute volatility of the total portfolio expressed as a percentage of net investments as at the end of the period:

	March 31, 2020 (%)	March 31, 2019 (%)
Absolute volatility	**9.2**	7.3

Stress Testing

Although the absolute volatility is a widely accepted risk measure, it is complemented by other risk measurement methodologies that provide greater insight on market risk. PSP Investments uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of the Plan Account's net asset values.

The terms to maturity of the classes of financial instruments, outlined in Note 4.1, with the most significant exposure to interest rate risk were as follows as at:

	March 31, 2020					
(Canadian $ thousands)	**Less than 1 Year**	**1 to 5 Years**	**5 to 10 Years**	**Over 10 Years**	**Other**	**Total**
Cash and money market securities	**–**	**–**	**–**	**–**	**20,912**[A]	**20,912**
Government and corporate bonds	**4,002**	**77,213**	**24,609**	**23,915**	**5,931**[B]	**135,670**
Inflation-linked bonds	**3**	**25,785**	**27,411**	**18,331**	**–**	**71,530**
Private debt securities	**1,329**	**18,747**	**26,922**	**6,436**	**21,915**[C]	**75,349**
Total fixed income	**5,334**	**121,745**	**78,942**	**48,682**	**48,758**	**303,461**

	March 31, 2019					
(Canadian $ thousands)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	52,285[A]	52,285
Government and corporate bonds	5,233	53,213	26,433	21,487	8,929[B]	115,295
Inflation-linked bonds	–	10,051	34,391	17,123	–	61,565
Private debt securities	371	11,196	26,391	9,151	21,603[C]	68,712
Total fixed income	5,604	74,460	87,215	47,761	82,817	297,857

[A] Due to their short-term maturity, these investments are not significantly exposed to interest rate risk.

[B] Certain fixed income securities are not significantly exposed to interest rate risk as their prescribed rates are variable.

[C] Information in connection with the terms to maturity of fund and certain directly held investments included as part of private debt securities is not available.

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounting to $506,144 thousand as at March 31, 2020 ($491,093 thousand as at March 31, 2019) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in 4.1.4, which amounted to $47,854 thousand as at March 31, 2020 ($44,097 thousand as at March 31, 2019), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the absolute volatility calculation described in Note 7.1.1.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 8.2.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through holding of investments (i.e. direct and indirect holdings of securities, units in pooled funds and units in limited partnerships) or investment-related liabilities in various currencies. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

	March 31, 2020		March 31, 2019	
Currency	**Fair Value (Canadian $ thousands)**	**% of Total**	**Fair Value (Canadian $ thousands)**	**% of Total**
US Dollar	**421,560**	**67.1**	382,917	63.6
Euro	**81,386**	**13.0**	89,705	14.9
Australian Dollar	**26,837**	**4.3**	13,243	2.2
British Pound	**20,686**	**3.3**	34,777	5.8
Japanese Yen	**15,117**	**2.4**	12,208	2.0
Hong Kong Dollar	**10,126**	**1.6**	11,323	1.9
Swiss Franc	**7,486**	**1.2**	4,035	0.7
Mexican Peso	**6,889**	**1.1**	10,587	1.8
Indian Rupee	**5,789**	**0.9**	7,005	1.2
Brazilian Real	**5,702**	**0.9**	7,036	1.2
Others	**26,180**	**4.2**	28,709	4.7
Total	**627,758**	**100.0**	601,545	100.0

As at March 31, 2020, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $107,588 thousand for the Plan Account (US$62,693 thousand, €8,622 thousand, £1,176 thousand, 95 thousand South African rands, 9,629 thousand Mexican pesos, 114,056 thousand Indian Rupee, 215 thousand Danish Krone and 35 thousand Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2019, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $94,893 thousand for the Plan Account (US$59,981 thousand, €8,713 thousand, £450 thousand, 97 thousand South African rands, 13 thousand Brazilian reals, 59,527 thousand Colombian pesos, 11,652 thousand Mexican pesos and 69 thousand Australian dollars) which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities purchased under reverse repurchase agreements, is unable to meet its financial obligations.

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation for public issuers and counterparties, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings. For private issuers, PSP Investments assigns internal credit ratings to issuers and measures the combined risk profile against set targets. To assign risk ratings to issuers, PSP Investments uses methodologies comparable to those used by recognized rating agencies.

As at March 31, 2020, the Plan Account's maximum exposure to credit risk amounted to $329 million (March 31, 2019 - $322 million), of which Private Debt securities amounting to $1 million (March 31, 2019 - $1 million) were rated BBB and $77 million (March 31, 2019 - $73 million) were rated BB or below. The maximum credit risk amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating for credit-sensitive securities. The concentration of credit risk by credit rating was as follows as at:

Credit Rating	**March 31, 2020 (%)**	March 31, 2019 (%)
AAA-AA	**58.6**	48.4
A	**12.5**	23.6
BBB	**1.9**	2.3
BB or below	**26.4**	25.1
No rating[A]	**0.6**	0.6
Total	**100.0**	100.0

[A] Includes securities for public issuers and counterparties, that are either not rated by credit rating agencies or rated by a single credit rating agency.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts, securities lending and borrowing as well as securities repurchase and reverse repurchase agreements. In order to minimize counterparty risk, PSP Investments requires that counterparties provide adequate collateral and meet its credit rating requirements. PSP Investments frequently monitors the credit rating of its counterparties as determined by recognized credit rating agencies. With respect to derivative contracts, PSP Investments has the ability to terminate all trades with most counterparties whose credit rating is downgraded below its requirements.

For OTC derivatives, PSP Investments' policy also requires the use of the International Swaps and Derivative Association (ISDA) Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted. In the case of OTC-cleared derivatives, trading activities are regulated between parties under terms that are customary to such transactions.

As a credit mitigation technique, the ISDA Master Agreement contractually binds counterparties to close-out netting provisions in the case of default by one of the counterparties. Additionally, the Credit Support Annex (CSA) to the ISDA Master Agreement enables PSP Investments to realize any collateral placed with it in the case of default of the counterparty. The CSA also requires PSP Investments to contribute further collateral when requested. All collateral transactions under the CSA are in cash, high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. Counterparties are generally authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held in the form of securities but does reinvest all cash collateral, with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing agreements as well as securities repurchase and reverse repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 2.3.5 and 2.3.6 describe collateral requirements in securities lending and borrowing programs as well as securities repurchase and reverse repurchase agreements.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 5.

In the case of the securities lending program, PSP Investments' exposure to counterparty risk is further mitigated as the custodian of the securities lent assumes the risk that a counterparty will be unable to meet its obligations associated with the collateral requirements.

Management is responsible for counterparty risk monitoring and mitigation as well as maintaining a comprehensive, disciplined, and enterprise-wide process for tracking and managing counterparty risk. As such, management measures counterparty risk on an ongoing basis, evaluates and tracks the creditworthiness of current counterparties and mitigates counterparty risk through collateral management.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Statements of Financial Position. Securities repurchase and reverse repurchase agreements described in Notes 2.3.6 and 5 are subject to similar arrangements however they are not offset as the conditions for offsetting are not met.

The following tables present the financial assets and liabilities described above:

Financial Assets

(Canadian $ thousands)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2020						
Reverse repurchase agreements	**19,510**	**–**	**19,510**[A]	**15,437**	**4,062**	**11**
OTC-derivatives	**11,381**	**187**	**11,194**[B]	**9,822**	**1,328**	**44**
Total	**30,891**	**187**	**30,704**	**25,259**	**5,390**	**55**
March 31, 2019						
Reverse repurchase agreements	26,220	–	26,220[A]	17,060	9,156	4
OTC-derivatives	6,042	27	6,015[B]	3,346	2,345	324
Total	32,262	27	32,235	20,406	11,501	328

Financial Liabilities

(Canadian $ thousands)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2020						
Repurchase agreements	**37,960**	**–**	**37,960**[A]	**15,437**	**22,506**	**17**
OTC-derivatives	**19,304**	**187**	**19,117**[B]	**9,726**	**8,878**	**513**
Collateral payable	**193**	**–**	**193**[C]	**96**	**–**	**97**
Total	**57,457**	**187**	**57,270**	**25,259**	**31,384**	**627**
March 31, 2019						
Repurchase agreements	24,716	–	24,716[A]	17,060	7,648	8
OTC-derivatives	3,785	27	3,758[B]	3,320	408	30
Collateral payable	33	–	33[C]	26	–	7
Total	28,534	27	28,507	20,406	8,056	45

[A] As described in Note 4.1.10.

[B] As described in Note 4.1.12.

[C] As described in Note 4.1.9. The balance consists of cash collateral received with respect to certain OTC derivative transactions and is included in Note 4.1 as part of collateral payable.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

Liquidity risk corresponds to the risk that PSP Investments will not be able to meet its financial obligations on a timely basis, with sufficient and readily available cash resources. PSP Investments' cash position is monitored on a daily basis. In general, investments in cash, money market securities, floating rate notes, bonds and public equities are expected to be highly liquid as they will be invested in securities that are actively traded. Management utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. A liquidity report taking into consideration future forecasted cash flows is prepared and presented to senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, sufficient sources of liquidity are maintained for deployment in case of market disruption such as that described in Note 18.

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 8.2 provides additional information on the usage of the capital market debt program. Furthermore, PSP Investments maintains credit facilities for general corporate purposes. Note 8.1 provides additional information with respect to such credit facilities.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4.1.12.

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2020 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	**(4,389)**	**–**	**–**	**(4,389)**
Interest payable	**(142)**	**(265)**	**–**	**(407)**
Securities sold short	**(16,807)**	**–**	**–**	**(16,807)**
Collateral payable	**(218)**	**–**	**(14,260)**	**(14,478)**
Securities sold under repurchase agreements	**(33,521)**	**(4,439)**	**–**	**(37,960)**
Capital market debt financing	**(15,624)**	**(15,788)**	**(36,883)**	**(68,295)**
Trade payable and other liabilities	**(550)**	**(493)**	**(861)**	**(1,904)**
Total	**(71,251)**	**(20,985)**	**(52,004)**	**(144,240)**

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	**8,303**	**2,173**	**1,552**	**12,028**
Derivative-related liabilities[A]	**(11,802)**	**(6,279)**	**(1,511)**	**(19,592)**
Total	**(3,499)**	**(4,106)**	**41**	**(7,564)**

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2019 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(4,200)	–	–	(4,200)
Interest payable	(296)	(8)	–	(304)
Securities sold short	(27,661)	–	–	(27,661)
Collateral payable	(13,228)	–	–	(13,228)
Securities sold under repurchase agreements	(24,716)	–	–	(24,716)
Capital market debt financing	(20,797)	(9,340)	(31,876)	(62,013)
Trade payable and other liabilities	(339)	(559)	(572)	(1,470)
Total	(91,237)	(9,907)	(32,448)	(133,592)

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	2,901	2,434	1,586	6,921
Derivative-related liabilities[A]	(1,031)	(1,540)	(1,655)	(4,226)
Total	1,870	894	(69)	2,695

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

8 — Borrowings

8.1. Credit Facilities

PSP Investments maintains a revolving credit facility in the amount of $2 billion and a demand line of credit in the amount of $1 billion (together "the Credit Facilities").

The Credit Facilities are for general corporate purposes and are available in either Canadian or US currencies. Subject to customary terms and conditions, these Credit Facilities are available at variable interest rates such as the prime rate and the US base rate.

These Credit Facilities were not drawn upon as at March 31, 2020 and 2019.

8.2. Capital Market Debt Financing

PSP Investments' capital market debt program consists of the private placement of short-term promissory notes as well as medium-term notes issued by PSP Capital Inc., a wholly-owned subsidiary of PSP Investments. The capital raised is primarily used to finance private market investments. It is unconditionally and irrevocably guaranteed by PSP Investments in accordance with its corporate leverage policy.

The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed $12 billion for issuances in Canada and the United States combined.

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2020 and 2019.

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

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

	March 31, 2020		March 31, 2019	
(Canadian $ thousands)	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.97% and 1.87% and maturing within 27 and 364 days of issuance (March 31, 2019 – between 1.79% and 2.20%, maturing within 56 and 365 days)	**1,404**	**1,402**	2,863	2,844
Short-term US Dollar promissory notes, bearing interest between 0.03% and 2.02% and maturing within 7 and 366 days of issuance (March 31, 2019 – between 2.45% and 2.84%, maturing within 21 and 365 days)	**25,690**	**25,632**	27,441	27,293
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**4,320**	**4,378**	4,160	4,241
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**6,083**	**6,531**	4,138	4,378
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**5,105**	**5,143**	5,490	5,435
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**6,403**	**6,589**	4,392	4,405
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**7,211**	**7,330**	7,687	7,653
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**5,400**	**5,815**	5,490	5,764
Medium-term notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**5,400**	**5,475**	–	–
Total	**67,016**	**68,295**	61,661	62,013

Unrealized losses in connection with borrowings amounted to $2,203 thousand for the year ended March 31, 2020 (unrealized losses of $835 thousand for the year ended March 31, 2019).

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

(Canadian $ thousands)	2020	2019
Short-term promissory notes	**640**	668
Medium-term notes	**807**	637
Total	**1,447**	1,305

8 — Borrowings (continued)

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2020.

				Non-cash changes		
(Canadian $ thousands)	**Opening balance**	**Proceeds from borrowings**	**Repayment of borrowings**	**Foreign exchange losses**	**Fair value[A] losses**	**Closing balance**
Capital market debt financing	**62,013**	**113,058**	**(108,973)**	**1,548**	**649**	**68,295**
Borrowings	**62,013**	**113,058**	**(108,973)**	**1,548**	**649**	**68,295**

[A] Includes interest on short-term promissory notes, which added to cost approximates their fair value.

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2019.

				Non-cash changes		
(Canadian $ thousands)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Foreign exchange losses	Fair value[A] losses	Closing balance
Capital market debt financing	54,893	150,216	(143,985)	100	789	62,013
Borrowings	54,893	150,216	(143,985)	100	789	62,013

[A] Includes interest on short-term promissory notes, which added to cost approximates their fair value.

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

9.2. Fund Transfers

PSP Investments did not receive any fund transfers from the Government of Canada for the year ended March 31, 2020 (no transfers for the year ended March 31, 2019) for the Fund.

10 — Segment Information

In order to fulfil its mandate, PSP Investments manages a diversified global portfolio composed of investments in various asset classes and has implemented an investment approach that focuses in the total fund approach rather than only on individual asset classes. The total fund approach guides the long-term investment strategy and focuses on managing total fund allocations and exposures in terms of asset classes, sectors and risk factors.

Accordingly, PSP Investments' investment segments are presented below to reflect the way in which asset classes are managed and how results are reviewed by the entity's senior management for purposes of performance management and decision making. These investment segments include their respective share of investment-related assets and investment-related liabilities as well as borrowings, which are reported separately by nature of the underlying investments as disclosed in Note 4.1. Further, to support PSP Investments' investment approach, a Complementary Portfolio is managed in addition to the individual asset classes' portfolios, which enables PSP Investments to capture investment opportunities that fit the mandate but that are outside the scope of the individual asset classes' investment framework.

Investment segments consist of investments held through direct and co-ownership positions as well as through fund managers and include:

- Public Markets – invests in public market equities and other similar securities.
- Real Estate – invests in real estate assets mainly in retirement and residential, office, retail and other industrial sectors.
- Private Equity – invests in private entities with similar objectives.
- Infrastructure – invests in private entities with a focus on assets in transportation, power generation, telecommunications and other regulated businesses.
- Natural Resources – invests in real assets with a focus on assets in timberlands, agriculture and upstream oil and gas.
- Credit Investments – invests in non-investment grade primary and secondary credit investments.
- Fixed Income – invests in government and corporate fixed income.
- Complementary Portfolio – focuses on investments that are not within the mandate of existing asset classes but are deemed beneficial for the total fund.

The following table presents net investments by investment segment as at:

(Canadian $ thousands)	**March 31, 2020**	March 31, 2019
Public Markets[A]	**208,964**	224,165
Real Estate	**102,896**	103,388
Private Equity	**103,852**	103,392
Infrastructure	**79,070**	73,870
Natural Resources	**33,030**	29,688
Credit Investments	**57,437**	46,010
Fixed Income[A]	**141,334**	130,830
Complementary Portfolio	**4,083**	6,263
Other[B]	**2,914**	20,218
Total	**733,580**	737,824

[A] During the year ended March 31, 2020, government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present such net investments on a comparable basis, corresponding comparative balances of $130,830 thousand were reclassified accordingly.

[B] Includes cash and money market securities not managed within the operating segments.

10 — Segment Information (continued)

The following table presents net income (loss) from operations by investment segment for the years ended March 31:

	2020			2019		
(Canadian $ thousands)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)
Public Markets[C]	**(33,518)**	**(1,349)**	**(34,867)**	8,941	(1,379)	7,562
Real Estate	**(5,043)**	**(1,301)**	**(6,344)**	8,407	(1,152)	7,255
Private Equity	**6,886**	**(511)**	**6,375**	14,346	(446)	13,900
Infrastructure	**9,270**	**(928)**	**8,342**	5,400	(792)	4,608
Natural Resources	**(1,982)**	**(396)**	**(2,378)**	2,700	(302)	2,398
Credit Investments	**2,952**	**(312)**	**2,640**	3,729	(270)	3,459
Fixed Income[C]	**18,512**	**(574)**	**17,938**	5,957	(376)	5,581
Complementary Portfolio	**747**	**(30)**	**717**	(4)	(59)	(63)
Other[D]	**3,402**	**(41)**	**3,361**	4,397	(63)	4,334
Total	**1,226**	**(5,442)**	**(4,216)**	53,873	(4,839)	49,034

[A] As described in note 11, embedded within investment income are other fees paid by certain pooled fund investments and management fees not paid directly by PSP Investments.

[B] Includes all investment-related and operating expenses as disclosed in notes 11 and 12, respectively.

[C] During the year ended March 31, 2020, government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present net income from operations for such investments on a comparable basis, corresponding comparative figures for Investment Income, Expenses and Net Income of $5,957 thousand, $376 thousand and $5,581 thousand respectively, for the year ended March 31, 2019, were reclassified accordingly.

[D] Includes cash and money market securities not managed within the operating segments.

11 — Investment-Related Expenses

Investment-related expenses allocated to the Plan Account are comprised of the following for the years ended March 31:

(Canadian $ thousands)	2020	2019
Interest expense	**1,804**	1,497
Transaction costs	**736**	569
External investment management fees[A]	**221**	125
Other (net)	**261**	386
Total	**3,022**	2,577

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to $372 thousand for the year ended March 31, 2020 ($1,038 thousand for the year ended March 31, 2019). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.5% of the total invested and/or committed amount, totaled $1,790 thousand for the year ended March 31, 2020 ($1,451 thousand for the year ended March 31, 2019). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

Operating expenses allocated to the Plan Account consisted of the following for the years ended March 31:

(Canadian $ thousands)	2020	2019
Salaries and employee benefits	**1,401**	1,312
Professional and consulting fees	**385**	345
Premises and equipment	**110**	141
Market data and business applications	**181**	166
Depreciation of equipment	**154**	147
Custodial fees	**28**	24
Other operating expenses	**161**	127
Total	**2,420**	2,262

13 — Allocation of Comprehensive Income

PSP Investments' comprehensive income is allocated to each Plan Account as follows:

13.1. Investment Income

The investment income is allocated proportionately based upon the net investments of each Plan Account at the time the income was incurred.

13.2. Expenses

The Act requires that the costs of operation of PSP Investments be charged to the Plan Accounts. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged, in consultation with the Minister of National Defence and the Minister of Public Safety and Emergency Preparedness. An allocation policy was developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, based upon the net investments of each Plan Account at the time the expense was incurred.

Operating expenses and other comprehensive income, excluding the direct cost of investment activities listed above, and for the years ended March 31, were allocated in proportion to the annual amount of net investments of each Plan Account as follows:

(%)	**2020**	2019
Public Service Pension Plan Account	**72.7**	72.6
Canadian Forces Pension Plan Account	**19.7**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.3
Reserve Force Pension Plan Account	**0.4**	0.4
Total	**100.0**	100.0

14 — Related Party Transactions

14.1. Certain Investees

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 16 and 17, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income as those with unrelated parties.

Transactions between PSP Investments and its consolidated subsidiaries as well as related balances are eliminated upon consolidation and, therefore, are not disclosed in this note.

14.2. The Government of Canada and Government-Related Entities

Since PSP Investments is a Crown corporation as described in Note 1, it is considered to be related to the Government of Canada as well as other entities that are controlled, jointly controlled or significantly influenced by the Government of Canada (together "government-related entities").

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the funds transfers outlined in Note 9.2.

(ii) Government-Related Entities

PSP Investments may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1. Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on net assets and comprehensive income as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

14.3. Compensation of Key Management Personnel

Members of key management personnel are related parties of PSP Investments. Key management personnel are those persons having authority and responsibility for planning, directing and controlling PSP Investments' activities, directly or indirectly and consist of members of the Board of Directors, PSP Investments' senior management team and officers. Compensation earned by key management personnel allocated to the Plan Account for the years ended March 31 was recorded in the Statements of Comprehensive Income (Loss) and was as follows:

(Canadian $ thousands)	**2020**	2019
Short-term compensation and other benefits	**64**	66
Long-term compensation and other benefits	**43**	41
Total	**107**	107

As disclosed in Note 16, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

15 — Capital Management

As an investment company, PSP Investments' objectives in managing its capital are:

- To invest fund transfers, outlined in Note 9.2, in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under the *Superannuation Acts* and the ability of the Plans to meet their financial obligations. The funds are also invested in accordance with the Investment Risk Management policies which are outlined in Note 7.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSP Investments has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 8.2 provides information on the capital market debt financing and Note 7.3 provides information on PSP Investments' liquidity.

The capital structure of PSP Investments consists of fund transfers and capital market debt financing. PSP Investments has no externally imposed restrictions on capital.

16 — Guarantees and Indemnities

PSP Investments provides indemnification to its Directors, its Officers, its vice-presidents and to certain PSP Investments representatives who are asked to serve on boards of directors (or like bodies) or investment advisory boards (or like bodies) of entities in which PSP Investments or its investment entity subsidiaries have made an investment or have a financial interest. As a result, but subject to the Act, PSP Investments may be required to indemnify these representatives for costs incurred, such as claims, actions or litigation in connection with the exercise of their duties, unless the liability of such a representative relates to a failure to act honestly and in good faith. To date, PSP Investments has not received any claims or made any payment for such indemnities.

In certain cases, PSP Investments also provides indemnification to third parties in the normal course of business. As a result, PSP Investments may be required to indemnify such third parties in connection with the performance of their contractual obligations. To date, PSP Investments has not received any claims nor made any payments for such indemnities.

PSP Investments unconditionally and irrevocably guarantees all credit facilities, as well as short-term promissory notes and medium-term notes issued by PSP Capital Inc., as described in Note 8.

In certain investment transactions, PSP Investments and its investment entity subsidiaries provided guarantees, indemnifications or issued letters of credit to third parties, the most significant of which are as follows:

- As at March 31, 2020 and 2019, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to $2,802 million as at March 31, 2020 (March 31, 2019 – $2,602 million), of which $12,105 thousand has been allocated to the Plan Account (March 31, 2019 – $11,429 thousand) plus applicable interest and other related costs. The arrangements mature between April 2020 and November 2029 as of March 31, 2020 (March 31, 2019 – between July 2019 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $89 million as at March 31, 2020 (March 31, 2019 – $54 million), of which $384 thousand has been allocated to the Plan Account (March 31, 2019 – $239 thousand) in relation to investment transactions.

17 — Commitments

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at:

(Canadian $ thousands)	**March 31, 2020**	March 31, 2019
Real estate	**15,243**	10,725
Private equity	**56,270**	45,225
Infrastructure	**12,748**	11,744
Natural resources	**1,149**	1,837
Private debt securities	**16,423**	18,190
Alternative investments	**7,304**	9,110
Total	**109,137**	96,831

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2020 (March 31, 2019–2035).

18 — Uncertainties Related to COVID-19

The outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. The Financial Statements of PSP Investments prepared as of, and for the year ended March 31, 2020, reflect the impacts resulting from COVID-19 to the extent known at the reporting date.

The ongoing worldwide spread of COVID-19 and its effect on international business operations, supply chains, travel, commodity prices, consumer confidence and business forecasts are expected to continue to have significant impacts on domestic and international equity markets and fixed income yields for the near term.

Management continues to monitor developments in equity and fixed income markets generally and specifically in connection with PSP Investments' portfolio. The full potential impact of the COVID-19 outbreak on the fair value of PSP Investments' portfolio is unknown as it will depend on future developments that are uncertain. Such uncertainties include the duration and depth of the outbreak. Management expects that the fair value of PSP Investments' portfolio will continue to be affected for the near term.

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