2016 ANNUAL REPORT

PUBLIC SECTOR PENSION INVESTMENT BOARD

PSP INVESTMENTS

WHO WE ARE AND WHAT WE DO

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

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

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2021

OUR VISION

PSP Investments' vision is to be a leading global institutional investor that reliably delivers on its risk-return objective by focusing on a total fund perspective, striving to be an agile and sought-after enabler of complex global investments and always acting in the best interests of its Canadian sponsor, contributors and beneficiaries.

Fiscal Year 2016

FINANCIAL HIGHLIGHTS

1.0%

TOTAL PORTFOLIO RETURN

$7.2 BILLION*

OF CUMULATIVE NET INVESTMENT GAINS ABOVE THE RETURN OBJECTIVE OVER 10 YEARS

8.9%

FIVE-YEAR ANNUALIZED RETURN

$45.3 BILLION

OF CUMULATIVE 10-YEAR NET INVESTMENT INCOME

5.9%

10-YEAR ANNUALIZED NET RETURN

$14.6 BILLION

IN NEW INVESTMENTS AND COMMITMENTS TO PRIVATE MARKETS AND PRIVATE DEBT IN FISCAL YEAR 2016

* Market value of assets as at March 31, 2016, taking into account timing and size of contributions.

NET ASSETS

$116.8

BILLION

INCREASE IN NET ASSETS

4%

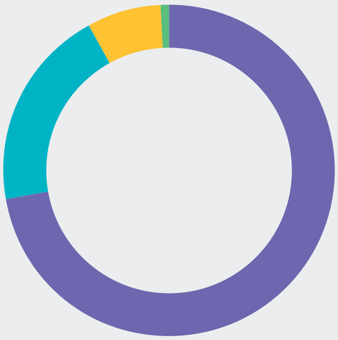
NET CONTRIBUTIONS

$4.0

BILLION

NET ASSETS PER PENSION PLAN ACCOUNT ($ billions)

As at March 31, 2016



$84.7 **72.5%** PUBLIC SERVICE

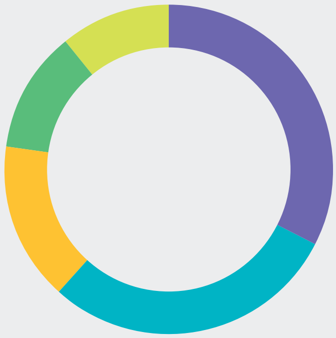
$23.0 **19.7%** CANADIAN FORCES

$8.5 **7.3%** RCMP

$0.6 **0.5%** RESERVE FORCE

ASSET MIX

As at March 31, 2016



32.5% REAL RETURN ASSETS

29.4% FOREIGN EQUITY

15.4% NOMINAL FIXED INCOME

12.0% CANADIAN EQUITY

10.7% PRIVATE EQUITY

PUBLIC MARKETS

Public Markets is composed of Canadian equities, foreign equities, fixed income and world inflation-linked bonds. Investments are managed by both internal and external managers using a combination of active and index-replication strategies.

$68.6 BILLION NET ASSETS

58.8% OF TOTAL NET ASSETS

(3.2%) ONE-YEAR RATE OF RETURN

7.9% FIVE-YEAR ANNUALIZED RETURN

- Over a five-year period, Public Markets has generated an annualized return of 7.9%, compared to a benchmark return of 7.5%.
- At the end of fiscal year 2016, net assets managed in active strategies totalled $34.3 billion, an increase of $0.8 billion from $33.5 billion at the end of fiscal year 2015. At March 31, 2016, net assets managed in internal active strategies totalled $21.3 billion, compared to $21.7 billion at the end of the previous fiscal year.

PUBLIC MARKETS MANAGES SCALABLE PORTFOLIOS IN DISTINCT AND COMPLEMENTARY STYLES. ACTIVELY MANAGED INTERNAL PORTFOLIOS ARE INVESTED IN 11 DIFFERENT SECTORS IN MORE THAN 39 COUNTRIES.

REAL ESTATE

Real Estate favours direct ownership and co-investment through joint ventures. To implement its investment strategy, it relies on strong in-house capabilities, local business relationships and specialized funds to gain access to specific investment strategies. Its continued focus is on urbanization, demographics, and a high rate of technological innovation and adoption as key themes upon which to base its strategies.

$20.4 BILLION NET ASSETS

17.4% OF TOTAL NET ASSETS

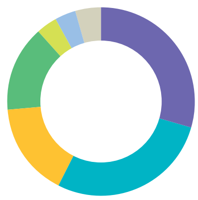
14.4% ONE-YEAR RATE OF RETURN

12.9% FIVE-YEAR ANNUALIZED RETURN

- Over a five-year period, Real Estate has generated an annualized return of 12.9%, compared to a benchmark return of 5.5%.
- In fiscal year 2016, the group deployed $3.5 billion in new investments and has unfunded commitments of $1.5 billion for investments closed during the year.
- Real Estate finalized several major transactions which substantially altered its geographic and sectorial exposures.

DIVERSIFICATION BY GEOGRAPHY
As at March 31, 2016

United States	**41.8%**
Canada	**21.9%**
Europe	**20.4%**
Emerging countries	**8.1%**
Australia, New Zealand and Japan	**7.8%**



DIVERSIFICATION BY SECTOR
As at March 31, 2016

Office	**29.5%**
Residential and retirement	**28.2%**
Industrial	**16.1%**
Retail	**14.6%**
Real estate debt	**3.8%**
Healthcare RE	**3.5%**
Other	**4.3%**

PRIVATE EQUITY

Private Equity focuses on constructing a portfolio of fund relationships which provide sector expertise and geographic diversity, and seeks to generate long-term direct investments and co-investments.

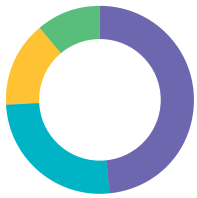
$12.5 BILLION NET ASSETS

10.7% OF TOTAL NET ASSETS

2.4% ONE-YEAR RATE OF RETURN

11.1% FIVE-YEAR ANNUALIZED RETURN

- Over a five-year period, Private Equity has generated an annualized return of 11.1%, compared to a benchmark return of 11.2%.
- In fiscal year 2016, Private Equity strategically committed a total of $2.7 billion to funds with existing and new partners, and completed new direct investments and co-investments totalling $1.2 billion. These investments included the acquisition of AmWINS Group, a leader in the US wholesale insurance industry, and the acquisition of Homeplus, one of South Korea's largest multi-channel retailers, in a deal led by fund partner MBK Partners.
- Net assets of the Private Equity portfolio increased by $2.4 billion from the end of fiscal year 2015.



DIVERSIFICATION BY GEOGRAPHY
As at March 31, 2016

United States	**48.6%**
Asia	**25.8%**
Canada	**14.5%**
Europe	**11.1%**

DIVERSIFICATION BY SECTOR[1]
As at March 31, 2016

Consumer non-cyclical	**21.7%**
Communications	**20.7%**
Financial	**20.6%**
Technology	**13.8%**
Consumer cyclical	**12.0%**
Industrial	**4.9%**
Energy	**3.0%**
Other	**3.3%**

[1] Excluding investments in funds of funds.

INFRASTRUCTURE

Infrastructure co-invests globally on a long-term basis, primarily in transportation, power generation and other public utilities.

$8.7 BILLION NET ASSETS

7.4% OF TOTAL NET ASSETS

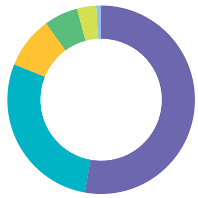
12.7% ONE-YEAR RATE OF RETURN

9.6% FIVE-YEAR ANNUALIZED RETURN

- Over a five-year period, Infrastructure has generated an annualized return of 9.6%, compared to a benchmark return of 6.5%.
- In fiscal year 2016, Infrastructure disbursed $1.6 billion in direct investments and existing platforms across various geographies. These investments include re-investments in Angel Trains, in Cubico Sustainables and in AviAlliance.
- Infrastructure also committed US$1.2 billion toward the acquisition of a portfolio of hydroelectric assets (1.4 GW) in New England from ENGIE Group.

DIVERSIFICATION BY GEOGRAPHY
As at March 31, 2016

Europe	**36.3%**
North America	**20.7%**
United Kingdom	**17.9%**
Latin America	**15.2%**
Australia	**4.4%**
Asia and others	**5.5%**



DIVERSIFICATION BY SECTOR
As at March 31, 2016

Transportation	**52.9%**
Electrical generation and transmission	**28.4%**
Telecom infrastructure	**8.8%**
Oil and gas storage and transport	**6.0%**
Water utilities	**3.3%**
Other	**0.6%**

NATURAL RESOURCES

Natural Resources invests in assets that include the production, harvest or extraction of natural resources, such as timber, agricultural commodities, oil and gas, and mining.

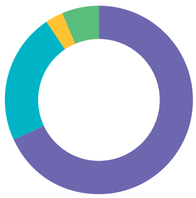
$2.5 BILLION NET ASSETS

2.1% OF TOTAL NET ASSETS

6.9% ONE-YEAR RATE OF RETURN

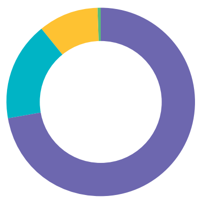
11.1% SINCE INCEPTION ANNUALIZED RETURN (4.75 years)

- Since its inception as an asset class (4.75 years), Natural Resources has generated an annualized return of 11.1%, compared to a benchmark return of 4.5%.
- The year-over-year increase in net assets reflects new investments, net valuation gains, primarily in timber, and the transfer of upstream oil and gas assets from the Infrastructure portfolio. Natural Resources was formerly known as Renewable Resources. The name was changed at the beginning of fiscal year 2016 to reflect the transfer of oil and gas assets.
- In agriculture, Natural Resources continued to expand and add to the number of platforms alongside high quality operators in some of the world's lowest cost regions. The group acquired more than 220,000 acres (approx. 90,000 hectares) of farmland, including seven cattle ranches in Australia and two dairy operations in New Zealand.



DIVERSIFICATION BY GEOGRAPHY
As at March 31, 2016

Australasia	**65.1%**
North America	**27.3%**
Latin America	**3.2%**
Other	**4.4%**



DIVERSIFICATION BY SECTOR
As at March 31, 2016

Timber	**72.5%**
Agriculture	**16.8%**
Oil and gas	**10.4%**
Mining	**0.3%**

PRIVATE DEBT

Private Debt focuses on principal debt and credit investments in primary and secondary markets worldwide. Its priority is to provide credit capital to non-investment grade US and European corporate borrowers.

$640 MILLION NET ASSETS

0.5% OF TOTAL NET ASSETS

3.0% SINCE INCEPTION RATE OF RETURN (0.3 years)

- Fiscal year 2016 operations resulted in a rate of return of 3.0% (0.3 years), compared to a benchmark return of negative 3.9%.
- Private Debt is PSP Investments' newest asset class, approved by the Board of Directors in November 2015.
- Private Debt offers portfolio diversification and synergy with respect to PSP Investments' total fund approach.
- During fiscal year 2016, Private Debt committed a total of US$2.3 billion, including a significant financing commitment to participate in the take private transaction of The ADT Corporation, a leading home and business security monitoring company.

STRONG MOMENTUM AND SIGNIFICANT FINANCING COMMITMENTS RESULTED IN CAPITAL DEPLOYMENT AND BENCHMARK OUTPERFORMANCE.

2016 CORPORATE OBJECTIVES

INVESTMENTS

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

ACHIEVEMENTS

- Established a local presence in New York and London: New York office has been operational since November 2015; London office will move to a permanent location in November 2016.
- Created a Chief Investment Officer group to support the organizational shift toward a more balanced approach to the Total Risk and Return and the Cross-Asset Total portfolios, which will be effective in fiscal year 2017.
- Created a Milestone Portfolio, which is a one-year articulation of the long-term Policy Portfolio, to be effective in fiscal year 2017.
- Consolidated Private Equity, Infrastructure and Natural Resources teams under the same leadership.
- Created a new Principal Debt and Credit Investments group to ensure a common approach across the entire PSP Investments portfolio with respect to this key asset class and to enable PSP Investments to build a presence in more illiquid and alternative debt securities.
- Further integrated environmental, social and governance into the investment concept clearance process to ensure alignment with best practices.

TALENT MANAGEMENT

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

ACHIEVEMENTS

- Defined PSP Investments' mobility policy and secondment program.
- Hired a team of nine employees in New York and three employees in London.
- Hosted several events to support and promote workplace diversity.
- Held the third edition of PSP Investments' Diversity Week.
- Approved a new incentive plan, to take effect in fiscal year 2017, that is aligned with PSP Investments' strategic plan, and a renewed pay-for-performance approach emphasizing total fund performance.
- Completed recruitment of key talent in the management team and the investment groups.
- Sustained employee engagement with measures focusing on recognition, appreciative team building and career development.

ENHANCE SCALABILITY

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

ACHIEVEMENTS

- Implemented a new portfolio order management system.
- Initiated the development of a coordinated approach to support private investments groups and consolidate information systems into one platform.
- Created an enterprise program management office.
- Initiated a review of the operational cash management process in private investments.
- Created a Document Management function.
- Continued to operate under a competitive cost structure.
- Further developed a crisis management and business continuity framework.

STRATEGIC PLAN

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

ACHIEVEMENTS

- Developed PSP Investments' five-year strategy, Vision 2021, and the roadmap for achieving the desired end state.
- Developed a consolidated business plan for fiscal year 2017 – a one-year articulation of Vision 2021.
- Introduced five strategic axes to guide the organization's actions and measure its success.
- Created a business planning function responsible for coordinating the business planning process and monitoring its progress.
- Developed corporate metrics and key performance indicators, as well as individual employee scorecards aligned with the corporate objectives.

CHAIR'S REPORT

Michael P. Mueller
CHAIR

PSP Investments is undergoing a period of tremendous growth. It is one of the top five pension investors in Canada and one of the world's top 30.

At the end of fiscal year 2016, we had nearly $117 billion of assets under management. They are expected to grow to $165 billion by 2021.

PSP Investments is also expanding as an organization. In addition to the inception of a new asset class, we are opening international offices. At the structural level, we are growing in size and complexity.

The Board of Directors is responsible for providing the requisite oversight and guidance to ensure the organization successfully manages growth and continues to serve our mission and meet our long-term mandate.

Our mission is to act in the best interests of our sponsor, the Government of Canada, and of plan contributors and beneficiaries. Our objective is to attain a long-term return currently set at 4.1%, excluding inflation, on an annualized basis.

This long-term perspective motivates our actions. One of the more significant challenges we face is to ensure alignment between the interests of internal and external stakeholders. We must act in a coordinated and cohesive manner in order to manage growth and to attain our objectives.

The relationship between the Board and the President and CEO and his management team is crucial to our success. Our relationship is respectful, open, constructive and productive.

Fiscal 2016 was a year of significant change. The Board endorsed André Bourbonnais, who assumed his position as President and CEO at the end of fiscal year 2015. One of André's key initiatives was to lead a broadly based strategic review. This review has resulted in a new direction and a shift in organizational responsibilities, as well as in investment, operational and compensation models.

The Board will continue to exercise strong governance as it oversees the implementation of this strategic transformation. I am confident the outcome will be worth the effort. As we guide PSP Investments into a more cohesive organization with resources that are integrated on cross-functional levels, we are truly becoming One PSP. We have an increased capacity to deliver on our mission and mandate.

PRUDENT INVESTING

One of the Board's primary responsibilities is to ensure effective risk management policies, practices and procedures are implemented on an enterprise-wide basis. Protecting against the undue risk of loss is a challenge for all institutional investors. The Board takes a disciplined approach to investment and non-investment risks. It oversees management's efforts to ensure there is an appropriate balance between risks and returns.

RESPONSIBLE INVESTING

Good governance is also grounded in responsible corporate behaviour. The Board oversees compliance with the environmental, social and governance (ESG) practices outlined in the Responsible Investment Policy. Board and senior management members understand that responsible corporate behaviour has a direct impact on long-term financial performance and positively affects organizational reputation.

DIVERSITY AND INCLUSION

In addition, the Board supports efforts to foster a more inclusive and diverse workforce. This is an issue that has been forcefully addressed by our new CEO in his first year of tenure and this has had a meaningful effect on the organization as a whole.

It is essential to have the right people to manage our growth. We want to attract talent that believes in our mission; individuals who want to work for a cause that is bigger than themselves.

The enlightened philosophy and values that PSP Investments endeavours to promote is an important factor in our ability to attract and retain employees. Just as we compete for investment opportunities, we compete for high quality asset managers and other professionals in a talent hungry industry.

COMPENSATION

Beginning in fiscal year 2017, we are shifting some of our compensation programs from relative to absolute performance based on our return objective. We are offering competitive compensation for superior performance according to long-term as opposed to short- and medium-term criteria. We are determined to align compensation with other strategic objectives.

The Board continues to ensure that PSP Investments and all its employees strive to deliver the same high level of competence and dedication our sponsor has come to expect.

In closing, I would like to express my sincere thanks to Anthony R. Gage who chaired our Investment Committee for many years and who also sat on the Audit and the Human Resources and Compensation committees. Tony stepped down as a Board member in fiscal year 2016. His contributions will be missed. His successor has yet to be named but we look forward to working with a new appointment to the Board.

My fellow Board members continue to be a source of inspiration. They enrich our discussions with interesting ideas and a positive and constructive attitude. I thank them for their counsel, commitment and support. It is also a pleasure engaging with members of senior management and offering guidance on their operational and strategic initiatives. I am optimistic that we can achieve our mutually shared objectives and enable PSP Investments to fulfill its long-term mandate.

Michael P. Mueller
Chair

Victoria Miller, *Executive Assistant, Principal Debt and Credit Investments, New York office*; Charles Lachapelle, *Analyst, Natural Resources*; André Bourbonnais, *President and Chief Executive Officer*; Valérie Bergeron, *Director, Service Delivery.*

André Bourbonnais
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

PRESIDENT'S REPORT

It has been a year since I assumed my duties as President and CEO and it remains an honour for me to serve in such a privileged position.

I work with colleagues who share a common vision and whose contributions I highly value. I am also fortunate to have joined this organization at a pivotal moment in its history and to have this unique opportunity to plan for its long-term success.

OUR VISION IS TO BE A LEADING GLOBAL INSTITUTIONAL INVESTOR THAT RELIABLY DELIVERS ON ITS RISK-RETURN OBJECTIVE BY FOCUSING ON A TOTAL FUND PERSPECTIVE.

Most CEOs would look back at their first 12 months in office as a year of transition. This was undoubtedly true for me in fiscal year 2016. But a $117 billion investment organization does not idle in neutral and, as I adapted to my new role and built the executive team, we kept performing and running our business with intensity and dedication. We also addressed the need for continuous improvement in all areas of operations and spent many long days setting a path to transform our organization and respond to the growth challenges ahead.

OUR VISION

As we grow, our strategy – especially our investment approach – must evolve. Already, our accountability, operating and incentive models are shifting from a traditional focus on asset class returns and preset benchmarks to a more holistic strategy: one that measures success – our ability to capture value – on total fund return. This is the conclusion all members of our management team reached after undertaking a comprehensive, five-year strategic review, Vision 2021.

The review identified five strategic axes to drive our transformation and guide us as we deliver on our vision while competing in an increasingly complex global market for coveted investment opportunities. (Details of Vision 2021 are on pp. 18-19.)

Our vision is to be a leading global institutional investor that reliably delivers on its risk-return objective by focusing on a total fund perspective. We aim to be an agile and sought-after enabler of complex global investments that acts in the best interests of our sponsor, and plan contributors and beneficiaries. Our shared purpose is to contribute to the long-term sustainability of the public sector pension plans whose assets we invest in order to provide financial protection for those who dedicate their lives to public service.

We believe our new focus will optimize our risk-adjusted returns. With increased collaboration and knowledge sharing across all investment teams and internal business partners, our returns will be better aligned with our mandate.

To fulfil our mandate and attain our objectives, we must actively seek opportunities to invest innovatively and capture value. With existing partners, we will develop and execute transactions by leveraging their deal sourcing capabilities. We expect other opportunities to arise with specialized investment platforms. We also need to continuously improve our efficiency so we can execute quickly on such complex transactions; speed of execution, flexibility and agility lie at the heart of our comparative advantages.

Looking forward, our success will depend on our ability to provide an appropriate environment in which we can pursue cross-functional investments. To this end, perhaps the most significant decision we made in 2016 was to enhance the position of Chief Investment Officer. He has been given responsibility to evolve our portfolio construct framework and to advance alternative opportunities that do not easily fit into traditional assets classes. The CIO serves as our *chef d'orchestre*, coordinating strategy while overseeing our investment decisions.

AS AN INVESTOR, WE REMAIN OPPORTUNISTIC AND AGILE.

2016 RESULTS: MEETING OUR LONG-TERM RETURN OBJECTIVE

Looking back at fiscal year 2016, we are satisfied that our active management produced a positive relative result against our policy benchmark return. Our absolute result, on the other hand, was disappointing. Public markets around the world underperformed and our overall performance suffered as a result. For the year ending March 31, 2016, our return on investment was 1.0%. We delivered this result after five consecutive years of positive, often double-digit returns. On a 10-year basis, we continue to meet our long-term return objective and delivered results that met our target real rate of return of 4.1% on an annualized basis.

To put our fiscal year 2016 results in perspective, our return reflects the overall decline in major Canadian and international equity markets, as well as in emerging markets and on key commodity indices, such as those for oil and natural gas. For most of the year, we had as much as 60% of assets allocated to public stock and bonds and this significantly affected performance.

Asset classes, such as Real Estate, Infrastructure and Natural Resources, recorded strong outcomes which partially offset the suboptimal return in Private Equity and the negative returns for Public Markets. Their positive impact, however, was limited because we were underweighted in some of them.

Over the short term, we will increase our allocations to these and other alternative asset classes, such as Private Debt.

INVESTMENT APPROACH: CAPTURING VALUE ON LONG-TERM OPPORTUNITIES

We have many options for constructing our portfolio and we remain flexible in our investment strategies. We are a patient investor with a long-term perspective. We will capture value with long-term assets which offer attractive premiums on the underlying illiquidity.

Our investment approach increasingly focuses on business-to-business relationships. Many alternative asset classes, such as Private Equity, Real Estate, Infrastructure, Natural Resources and Private Debt, operate on partnership-based models, and industry expertise and local market knowledge are key considerations in any decision to deploy capital.

As an investor, we remain opportunistic and agile. We have the capacity to respond quickly to volatility, evolving trends and opportunities that present themselves. We may dispose of long-term investments if the timing is appropriate.

In fiscal year 2016, we made the timely and far reaching decision to introduce a new asset class: Private Debt. Worldwide, the private debt market is the fastest growing asset class among alternative investments; it is valued at more than one trillion US dollars and offers attractive opportunities for investors like us. We had an opportunity to move into this market and we took it.

In February 2016, we opened an office in New York where private debt financing is centred. At the end of fiscal year 2016, we had more than $3 billion in commitments to Private Debt investments, including a participation in one of the year's largest leveraged buyouts.

GLOBAL EXPANSION: BUILDING AN INTERNATIONAL PRESENCE AND REPUTATION

In an increasingly competitive marketplace, PSP Investments will need to become a global institutional investor and build a presence in targeted financial capitals.

In addition to our New York office, we are developing London as our European hub. We are also planning our presence in Asia. In both markets, we will focus on private investment and private debt opportunities.

As we move into international markets, we often hire locally. We need talent and teams with local knowledge to gain the insight we lack. We need their networks to build relationships and identify investment opportunities.

But we remain committed to Canada. We will continue to seek investment in our home market where our local knowledge and network of business relationships give us a marked advantage.

Our continued presence in Canada coupled with our expanding international footprint strengthens our reputation as an institutional investor, both locally and globally. Our brand has made significant progress in the past year. It is enhanced at home and abroad when we participate in transactions. It is also strengthened as we continue to develop talent which believes in and is committed to the relationships we build.

MANAGING TALENT: DIVERSITY AND CAREER EVOLUTION

Success also depends on our ability to manage talent. We must attract and retain employees with appropriate skill sets. We continue to support the career development and professional fulfillment of all employees.

As part of the strategic review we undertook in fiscal year 2016, we revised our compensation plan and aligned it with our new investment approach and its emphasis on total fund performance. The revamped plan comes into effect at the beginning of fiscal year 2017.

In my last report, I announced that we would champion diversity as one of our core objectives. A diverse workforce, in terms of gender, ethnicity and cultural, professional and personal background, as well as other inherent and acquired traits, can ignite innovation and promote productivity through collaborative idea generation.

In fiscal year 2016, we increased the representation of our female colleagues in leadership roles and appointed two accomplished women to the position of senior vice president. As we continue to promote employment equity, I strongly believe our efforts to become a more inclusive workplace will enable us to be a more efficient and effective organization.

Talent management is also top of mind in all of our decision making processes. Our success depends on the devotion and diligence of all employees. Our ability to implement our strategies and leverage our comparative advantages ultimately depends on the collective commitment of our employees. It is my intention to reinforce this commitment with shared values and a strong culture built on collaboration, creativity and entrepreneurship.

I wish to thank our more than 640 employees for their strong work ethic and dedication to our common cause. I also wish to thank Board Chair Michael Mueller and all Board members for their continued guidance and support.

OUR FUTURE

The strategic review we undertook in fiscal year 2016 has laid the foundation for our future success. We will leverage our shared vision and strategic advantages to contribute to the long-term sustainability of the pension funds whose assets we invest. I believe we have the team in place with the professional knowledge and capabilities to deliver on our objectives. Together, we are becoming the agile and sought-after enabler of complex global investments that we envision.

André Bourbonnais
President and
Chief Executive Officer

VISION 2021

Our vision is to be a leading global institutional investor that reliably delivers on its risk-return objective by driving a total fund perspective, striving to be an agile and sought-after enabler of complex global investments and always acting in the best interests of its Canadian contributors and beneficiaries

Anik Lanthier, *Senior Vice President, Public Equities and Absolute Return;* Guthrie Stewart, *Senior Vice President, Global Head of Private Investments;* André Bourbonnais, *President and Chief Executive Officer;* Neil Cunningham, *Senior Vice President, Global Head of Real Estate Investments;* Nathalie Bernier, *Senior Vice President, Strategic and Business Planning and Chief Financial Officer;* Guy Archambault, *Senior Vice President, Human Resources and Talent Management;* David J. Scudellari, *Senior Vice President, Head of Principal Debt and Credit Investments;* Alain Deschênes, *Senior Vice President and Chief Operations Officer;* Daniel Garant, *Executive Vice President and Chief Investment Officer;* Jean-François Bureau, *Vice President and Chief Risk Officer;* Marc Lacourcière, *Senior Vice President and Chief Legal Officer;* Stéphanie Lachance, *Vice President, Responsible Investment and Corporate Secretary*

EXECUTION

We are leveraging a new business planning process and company scorecard to develop an integrated execution plan and ensure progress is rigorously tracked and measured. Ultimately, our success in realizing our vision depends on the collective commitment of our people and a strong culture built on collaboration, creativity and entrepreneurialism.

CULTIVATE ONE PSP

Shift the focus toward total fund risk and return, with the creation of the Chief Investment Officer group, alignment of incentives, pursuit of attractive non-traditional transactions and greater collaboration.

IMPROVE OUR BRAND LOCALLY AND INTERNATIONALLY

Strengthen our brand as an agile and sought-after enabler of complex global investments, which will form the basis of deeper partnerships.

INCREASE OUR GLOBAL FOOTPRINT

PSP Investments has and will continue to open international offices to improve local knowledge and enhance execution ability for global transactions.

CREATE SCALABLE AND EFFICIENT INVESTMENT AND OPERATIONAL ACTIVITIES

Actively seek opportunities to invest innovatively at scale and continually improve on our agility and efficiency as an organization to quickly execute on complex transactions.

DEVELOP OUR TALENT

Evolve our people processes to better identify, attract and develop a diverse and talented team of professionals.

Our 2017 KEY CORPORATE OBJECTIVES

To realize our five-year vision, we have introduced five strategic axes to guide our actions and measure our success as an organization. Each axis is a vital dimension of our strategy, along which we will launch initiatives to realize our vision.

CULTIVATE ONE PSP

Apply the total fund perspective when developing PSP Investments' investment strategies, making business decisions and managing risk, leverage and liquidity. Emphasize increasing collaboration and transparency between all units and levels.

Lead the organizational shift toward a more balanced consideration of both total risk and total return by evolving the portfolio construction. To support these changes and to ensure efficiency and alignment, we will develop analytical tools, review investment benchmarks and deploy a new compensation framework.

IMPROVE OUR BRAND BOTH LOCALLY AND INTERNATIONALLY

Develop a single well-defined reputation and brand image to assist us in achieving our long-term goals. Strive to be perceived as an agile and sought-after enabler of complex global investments. Increase PSP Investments' visibility by improving its communications with partners and potential talent. Continue to forge, nurture and strengthen PSP Investments' relationships with top strategic partners with whom we have complementary skills and aligned interests in order to access better investment opportunities.

INCREASE OUR GLOBAL FOOTPRINT

Expand our investment and support teams in New York and London and continue exploring opportunities in Asia. Create local connections and improve execution capabilities. Local presence will give us access to the best investment opportunities globally; being closer to these investments, partners, operating companies, platforms and foreign governments is important in managing our portfolio.

CREATE SCALABLE AND EFFICIENT INVESTMENT AND OPERATIONAL ACTIVITIES

Actively seek opportunities to invest innovatively at scale by developing external relationships, leveraging operating and originating investments and investment funds, and targeting larger investment opportunities. Evolve PSP Investments' operating model to more effectively support its activities by streamlining its processes to increase efficiency.

DEVELOP OUR TALENT

Focus on attracting, developing and retaining the right capabilities, driving robust management decisions, creating a diverse workplace and instilling a culture of execution. Communicate a clear employee value proposition, tap into a broader and more diverse talent pool and increase PSP Investments' visibility. Increase the representation of women and visible minorities, particularly in senior positions. Onboard new employees in a timely and effective manner, provide PSP Investments' key talent with exposure and access to training and industry events to improve and instill a culture of feedback and development. Clearly communicate PSP Investments' new performance standards.

TOTAL FUND PERSPECTIVE

Guillaume Lavoie, *Senior Analyst, Total Portfolio Management – Strategy and Analytics*; Daniel Garant, *Chief Investment Officer, CIO group*; Myriam Deslandes, *Director, Portfolio Construction*; Loïc Julé, *Director, External Manager Search and Monitoring.*

ONE PSP

Daniel Garant was named Chief Investment Officer or CIO in July 2015. In the past, this function had been combined with that of the President and CEO. As part of the strategic review undertaken in fiscal year 2016 to create a more unified organization – a One PSP – a separate CIO position was created. This decision reflects a shift in our investment approach and our determination to be more collaborative in our efforts to capture value in a challenging market. Daniel, who has extensive investment experience in both public and private markets, discusses his role and objectives.

Innovation and agility are two of our key mantras. Our job is to think outside the box and explore opportunities.

Q / YOURS IS A NEWLY-ENHANCED POSITION. WHAT ARE YOUR RESPONSIBILITIES?

DG / The CIO is responsible for implementing PSP Investments' total fund approach. Our team is championing a flexible approach to investing. Our goal is to capture value with innovative strategies and an efficient mix of asset classes. We have been tasked to pursue opportunities that will benefit overall performance, especially those that cannot be easily aligned with or "slotted" into more traditional definitions of asset class.

In this sense, innovation and agility are two of our key mantras. Our job is to think outside the box and explore opportunities that align internal and external resources so we can deploy capital and improve the portfolio's risk-return profile.

The creation of the CIO position is an important step in our evolution as an institutional investor. As our assets under management grow, we need to focus on portfolio construction and asset allocation. We emphasize our comparative advantages and our ability to execute effectively is definitely one of them.

ONE OF THE BIGGEST CHALLENGES FACING PENSION MANAGERS IS PORTFOLIO ASSET ALLOCATION. IT CAN ACCOUNT FOR AS MUCH AS 90% OF OVERALL RETURNS.

Q / WHAT DID YOU ACCOMPLISH IN FISCAL YEAR 2016?

DG / One of the biggest challenges facing pension managers is portfolio asset allocation. It can account for as much as 90% of overall returns. In fiscal year 2016, we continued to ramp up our allocation to private asset classes and diversify our overall portfolio in order to improve its risk-return profile.

With the addition of Private Debt as an asset class in fiscal year 2016, our portfolio is more diversified. We have what you might call an advanced portfolio structure with a good mix of asset classes. This is significant for potential total fund returns.

With negative absolute returns and a low return environment for public fixed income investments, fiscal year 2016 was a challenging year for public markets. Our Public Markets team focused on portfolio construction and continued to increase investments in both absolute return and defensive strategies.

In the short to medium term, we will increase our allocations to Private Debt and other alternative classes, such as Private Equity, Real Estate, Infrastructure and Natural Resources.

The decision to expand our global footprint and open offices in New York and London is equally important. With an on-the-ground presence in major international markets, we are gaining crucial market insights and improved access to deployment opportunities.

Our investment approach is based on a thorough understanding of the liability profile of the pension plans whose assets we invest.

Q / WHAT ARE SOME OF YOUR OTHER SHORT- AND LONG-TERM CHALLENGES?

DG / I think a lot about how to capture value in our low growth, low return market environment. Our investment approach is based on a thorough understanding of the liability profile of the pension plans whose assets we invest. This is one of the key inputs of our portfolio asset mix or, more specifically, of our allocation to such asset classes as real return assets, including inflation-linked bonds, real estate, infrastructure and natural resources.

Our investment approach is long term because it makes sense for us to capture illiquidity premiums considering the liability profile of the pension plans whose funds we manage. This is why we have a higher allocation to private assets than some of our peers.

We also target investment platforms and work closely with operating partners in specific industry sectors. Building business-to-business relationships is very important. Although we have expertise in structuring transactions, we need to line up external experts because we don't have extensive industry operational knowledge. It wouldn't make sense for us to develop such knowledge internally in all sectors, so we access it through our network of strategic partners. For PSP Investments, partnerships are essential to our success.

The research component of our decision making processes is increasingly significant. Diverging monetary policies are having profound impacts on investment opportunities, especially in the developed world. In emerging markets, there are material differences between most countries. Both micro and macro elements are at play. It will become more and more important to know what is priced into the market when we analyze opportunities. As we further develop our research agenda, we will develop thematic investing in order to increase potential returns.

The key to our long-term success is to have a well-structured and disciplined asset allocation and portfolio construction process, coupled with a thorough understanding of our portfolio using advanced portfolio analysis. We are currently developing an overall framework for portfolio analytics using a factor-based approach.

Implementation is a challenge for most institutional investors. For PSP Investments, it's a question of finding the right balance between the top down perspective in terms of portfolio construction and execution and the bottom up perspective that comes from the insight and knowledge of the various asset class groups. It's about pulling all of this together.

I am very happy with the structure of both the CIO group and our broader investment teams in our asset class groups. I am surrounded by very talented and dedicated individuals. They have clear mandates and attributions. We have everything in place to be successful.

MANAGEMENT'S DISCUSSION
of Fund Performance and Results

MANDATE, OBJECTIVE AND INVESTMENT APPROACH

PSP INVESTMENTS' MANDATE

PSP Investments manages the assets earmarked for the funding of the Plans' liabilities in relation to services accruing as of April 1, 2000 (the "Post-2000 Liabilities"). PSP Investments' statutory mandate, as described in section 4 of the *Public Sector Pension Investment Board Act* (the "Act"), is:

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

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

RETURN OBJECTIVE

The return objective is currently set at a long-term real rate of return of 4.1%. The return objective is the long-term rate of return assumption used by the Chief Actuary of Canada to determine the level of pension contributions required to fund the Post-2000 Liabilities. The Treasury Board of Canada Secretariat, which oversees the Government of Canada's (the "Government") relationship with PSP Investments, communicates the return objective to PSP Investments for the pension assets managed by PSP Investments. In the absence of other factors affecting the funding of the Plans, contributions and pension benefits would be maintained at current levels if the return objective were to be achieved.

RISK APPETITE

Investments that promise to deliver the return objective on a risk-free basis do not exist; PSP Investments must take investment risks to achieve the return objective. The Risk Appetite Statement ("RAS"), as approved by the Board of Directors and summarized in the Risk Appetite Overview, articulates PSP Investments' appetite, attitude and tolerance to risk in pursuit of the return objective.

A key element of the RAS is the Government's assumed appetite for risk ("risk appetite"), defined as the tolerance for a possible requirement to make supplementary pension contributions to the Plans due to less than favourable investment performance.

The risk appetite is determined by evaluating the pension funding risk that would result from investing in a simple, passively-managed portfolio composed of publicly traded securities representing broad market indices which are easy to replicate at a minimal cost. This passive portfolio (also defined as the "Reference Portfolio") is expected to achieve the return objective with the lowest possible investment risk.

INVESTMENT APPROACH

Based on the return objective and risk appetite, the Board of Directors and management implemented a two-pillared investment approach, as illustrated below:

FIRST PILLAR: POLICY PORTFOLIO

The first pillar of the investment approach is the Policy Portfolio. It represents the long-term target asset allocation among broad asset classes, as approved by the Board of Directors. The Policy Portfolio is expected to achieve a return equal to or greater than the return objective over the long term, with a level of risk within the defined risk appetite. The Policy Portfolio is a diversified portfolio that is reviewed at least once annually. Each review includes an asset-liability study conducted to ensure that the Policy Portfolio is developed according to the specific characteristics of the Post-2000 Liabilities, an approach expected to reduce the funding risk. For example, the Post-2000 Liabilities are long term in nature and the liquidity requirements, for the purpose of pension benefit payments, are expected to be minimal until 2030. For this reason, PSP Investments can make longer-term investments and invest in less liquid assets. Over time, it is assumed that the lower liquidity of these investments will be compensated with higher returns. Also, investing in real return assets offering inflation-hedging characteristics is expected to better reflect the inflation-sensitive nature of the pension liabilities.

Following a thorough review during the first half of fiscal year 2016, changes were made to the Policy Portfolio in November 2015. They included a reduced allocation to public equities, and an increased allocation to real return assets, as well as the addition of Private Debt. The latter is being used to further diversify the Policy Portfolio into more illiquid and alternative debt securities. The private debt market offers attractive opportunities for a long-term investor like PSP Investments. Additional changes to the Policy Portfolio asset allocation, as described on page 29, were approved by the Board of Directors at the end of the fiscal year and are effective in fiscal year 2017.

POLICY PORTFOLIO
Effective during fiscal year 2016

TARGET ASSET ALLOCATION

WORLD EQUITY	47%	Public Markets	**34%**
		Private Equity	**13%**
REAL RETURN ASSETS	35%	Real Estate	**15%**
		Infrastructure	**10%**
		World inflation-linked bonds	**5%**
		Natural Resources	**5%**
NOMINAL FIXED INCOME	18%	Fixed income	**11%**
		Cash & cash equivalents	**2%**
		Private Debt	**5%**

SECOND PILLAR: ACTIVE MANAGEMENT

The second pillar of the investment approach is active management. Based on thorough and proprietary research, PSP Investments seeks to invest in companies and securities whose risk adjusted returns are expected to outperform the market. PSP Investments believes that active management activities, when implemented within active risk limits and the defined risk appetite, can make significant contributions to Policy Portfolio returns without materially impacting risk.

PERFORMANCE OBJECTIVES

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

1. Investment approach – Achieve an absolute return, net of expenses, equal to or greater than the return objective over 10-year periods.
2. Active management – Achieve a return exceeding the Policy Portfolio benchmark return over four-year periods.

   The impact of active management is presented over a four-year period. This is considered a reasonable time frame in which to assess the success of these activities and is consistent with PSP Investments' compensation framework for fiscal year 2016. Other sections of the report focus on performance over five years, a time frame commonly used by the industry. For the most recent five-year period, the impact of active management was 1.2% per annum.

As of March 31, 2016, both objectives were met:

1. Over the past 10 years, PSP Investments has delivered a net return of 5.9%, resulting in $7.2 billion of cumulative net investment gains above the return objective.
2. Over the past four years, active management has generated a return of 1.3% over the Policy Portfolio on an annualized basis.

LOOKING FORWARD

In fiscal year 2016, PSP Investments undertook a comprehensive strategic review. The review's most significant outcome was to further direct organizational focus toward a total fund perspective. To support this shift, a number of changes were made to the organization's investment approach, including its portfolio construction framework, as illustrated below:

PORTFOLIO CONSTRUCTION

REFERENCE PORTFOLIO	POLICY PORTFOLIO	MILESTONE PORTFOLIO	ACTUAL PORTFOLIO	
Passive portfolio expected to achieve the return objective	PSP Investments' long-term asset allocation developed within the Government's risk appetite	Short-term path toward the Policy Portfolio	Active Programs	Aim to outperform a benchmark/hurdle rate
			Passive Programs	Aim to replicate benchmark returns
			TPM* Programs	Aim to improve total fund risk-return profile

*Total Portfolio Management

The four most significant changes to portfolio construction were to:

1. Increase the role and visibility of the Reference Portfolio
   - The Reference Portfolio represents what the Government could achieve in the absence of dedicated investment management. As such, the Reference Portfolio provides an anchor for PSP's investment approach in terms of risk and return targets. It will become the primary benchmark for evaluating PSP Investments' success at the total fund level.
2. Review the granularity of the Policy Portfolio
   - While the strategic asset allocation will continue to be articulated by the Policy Portfolio, its role and composition have evolved. The Policy Portfolio now articulates PSP Investments' aspirational five-year targeted exposures, as expressed across four broad asset categories structured around risk/return/liquidity characteristics and four distinct regions. The reduction in granularity is expected to provide more informed guidance for business planning and to support the flexibility and scalability required when strategies are developed.
3. Introduce the Milestone Portfolio
   - While the Policy Portfolio articulates PSP Investment's aspirational portfolio with a five-year perspective, the Milestone Portfolio was introduced to provide short-term guidance, better defined as the one-year path toward the Policy Portfolio. The Milestone Portfolio will guide ongoing asset allocation activities. It is expected to bring more transparency to the implementation of the Policy Portfolio and to allow more flexibility when targets are set for capital deployment in private markets.

4. Create the Chief Investment Officer group and the CIO Portfolio and adopt a total portfolio management approach:

- To further support the organizational shift toward a total portfolio perspective and a more balanced consideration of the fund's total risk and return, the CIO group was created and given the mandate for overall accountability of the oversight and management of the Total Portfolio.
- The CIO Portfolio was created to provide additional flexibility for the CIO group to directly support other investment groups and take actions expected to improve PSP Investments' overall, long-term risk-return profile. Although its structure will continue to be developed during fiscal year 2017, the CIO Portfolio will be composed of strategic and opportunistic investments.

Looking forward, PSP Investment's transition toward a total fund perspective will have major implications as we:

- Enhance capabilities to analyze the key risk-return drivers.
- Transition to a centrally coordinated pool of liquidity and leverage.
- Deploy the CIO Portfolio.
- Begin researching, coordinating and executing on key investment themes.

These changes were approved by the Board of Directors at the end of the fiscal year and take effect in fiscal year 2017.

ENTERPRISE RISK MANAGEMENT

Framework

As the manager of federal public sector pension plan assets, PSP Investments is primarily responsible for acting in the best interests of the contributors and beneficiaries under the Plans and for maximizing returns without undue risk of loss. PSP Investments acknowledges that it must take risks to achieve its statutory mandate and that the management of the full spectrum of risks must be integrated on an enterprise-wide basis.

Key policies and procedures which outline the guiding principles governing PSP Investments' overall philosophy, values, culture and approach with respect to risk management are:

- Risk Appetite Statement (RAS)
- Statement of Investment Policies, Standards and Procedures (SIP&P)
- Enterprise Risk Management (ERM) Policy
- Investment Risk Management (IRM) Policy
- Operational Risk Management (ORM) Policy

RISK APPETITE STATEMENT

The RAS formalizes and combines the key elements of risk management at PSP Investments and clearly defines the Government's assumed appetite for risk. The RAS outlines the Board of Directors and management's appetite for, and attitude and tolerance to risk. With regard to risk management, it also distinguishes the role of the Board of Directors in relation to that of management and defines PSP Investments' overall risk governance structure. The RAS sets basic goals, benchmarks, parameters and limits for the key risks assumed, and provides boundaries to PSP Investments' ongoing activities. For each risk area, the RAS framework also assigns clear metrics and related controls to specific departments.

The RAS emphasizes that all employees are active participants in risk identification, evaluation, management, mitigation, monitoring and reporting. It reiterates that all investment decisions, as well as management and operational activities, must be made in accordance with all applicable laws, regulations and other mandatory industry practices.

STATEMENT OF INVESTMENT POLICIES, STANDARDS AND PROCEDURES

PSP Investments' governing statute requires it to establish and comply with the SIP&P that outlines, among other matters, the composition of its Policy Portfolio, how it is to carry out its investment activities and its risk management framework. The Corporation has processes to ensure that its investment and other operations are compliant with the SIP&P. As required, the Board of Directors reviews and updates the SIP&P and its related risk management policies at least once annually.

ENTERPRISE RISK MANAGEMENT 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. With the continuing evolution of risk management strategies and processes, and of the business environment in which it operates, PSP Investments strives to ensure that the framework remains effective.

The ERM framework is guided by the following principles:

› To promote a risk-aware culture involving all employees.

› To integrate enterprise risk management into strategic and financial objectives.

› To operationalize sound risk management processes supporting investment and non-investment activities.

› To ensure effective and transparent communication of emerging risk trends.

ENTERPRISE RISK CATEGORIES

The ERM Policy defines and categorizes enterprise risks to facilitate an understanding of the risks faced by PSP Investments. In addition to investment risk, there are six types of non-investment risk. Each risk category encompasses different types of underlying risks, which must be identified accurately and managed efficiently to mitigate the risks inherent to PSP Investments' activities, as illustrated below:

INVESTMENT RISK				
Market risk	Liquidity risk	Credit and counterparty risk	Leverage risk	Concentration risk

NON-INVESTMENT RISK		
Strategic risk	**Governance risk**	**Stakeholder risk**
– Strategic planning – Strategy implementation	– Corporate oversight and management – Organizational structure – Policies and tolerance levels	– Plan sponsor relations – Business partner relations
Legal and regulatory risk	**Operational risk**	**Reputational risk**
– Misinterpretation of regulations – Change in regulations	– People management – Process and information management – Systems and data management – Fraud and corruption – Business disruption – Model and valuation	– Corporate visibility – Responsible investing

INVESTMENT RISK MANAGEMENT

As part of its overall ERM Policy, PSP Investments' IRM Policy supports the management of risk inherent to its investment decision making process. The IRM Policy outlines a framework that is designed to ensure that investment activities respect PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite.

The IRM Policy also supplements the SIP&P, whose objective is to effectively manage investment risks related to the implementation of the Policy Portfolio and active management:

› The Policy Portfolio, as defined in the SIP&P and described on page 27, includes a strategy to mitigate risk through a diversified investment portfolio.

› Active management is the sum of investment strategies that deviate from the approved Policy Portfolio. It supplements the returns of the Policy Portfolio within an active risk budget.

OPERATIONAL (NON-INVESTMENT) RISK MANAGEMENT

Given that the management of different risk categories requires a unique approach for each, all risk management policies and procedures are regularly reviewed to ensure they comply with the guiding principles of the ERM Policy.

Operational risk is one of the key enterprise risks to which PSP Investments is exposed on a daily basis. The ORM Policy complements the ERM Policy and is designed to mitigate internal and external sources of potential operational losses, as follow:

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

Governance and oversight

RISK MANAGEMENT DEPARTMENT

Risk Management is responsible for the independent oversight of investment and non-investment risks within the boundaries of PSP Investments' risk appetite. It supports enterprise-wide activities by establishing effective risk management practices, procedures and processes. Its mandate is derived from the ERM Policy, as established by the Board of Directors. The Risk Management department is headed by the Chief Risk Officer who reports directly to the President and CEO.

Risk Management ensures that key metrics are regularly monitored and findings reported to senior management and the Board of Directors. Complementary metrics, including stress tests, are also tracked on an ongoing basis for investments. Findings are shared with senior management and the Board of Directors.

RISK MANAGEMENT GOVERNANCE

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

To help ensure appropriate accountability and clarify responsibilities for enterprise risk management, both the ERM and ORM policies incorporate a "Three lines of defence risk management framework", as illustrated below:

THREE LINES OF DEFENCE RISK MANAGEMENT FRAMEWORK

<table>
<tr><th colspan="4">BOARD OF DIRECTORS AND BOARD COMMITTEES</th></tr>
<tr><th colspan="2">SENIOR MANAGEMENT – INTERNAL COMMITTEES</th><th colspan="2"></th></tr>
<tr><th>First Line of Defence</th><th>Second Line of Defence</th><th>Third Line of Defence</th><th rowspan="2">External Audit</th></tr>
<tr><td>– Departments (business units and corporate services)</td><td>– Risk management
– Compliance
– Others (e.g. legal, finance and administration)</td><td>– Internal audit</td></tr>
</table>

RISK AWARENESS CULTURE

Given that it faces risks in all aspects of its activities, PSP Investments promotes an enterprise-wide risk awareness culture and strives for a universal understanding of the key risks inherent to its activities. As outlined in the RAS and in the "Three lines of defence risk management framework", senior management and employees are active participants in risk identification, evaluation, management, monitoring and reporting.

BOARD OF DIRECTORS OVERSIGHT

The Board of Directors determines its risk oversight by:

› Establishing the Risk Appetite Statement, investment objectives, the SIP&P and the Policy Portfolio.
› Participating in the definition of PSP Investments' risk philosophy.
› Ensuring that Enterprise Risk Management is incorporated enterprise-wide.
› Being apprised of material risks and how PSP Investments' management is responding to them.

To effectively oversee risks related to investments and operations, senior management has created and relies on six internal committees:

› Senior Management Group
› Risk and Investment
› Valuation
› New Business Activity
› Portfolio Construction and Management
› Operations Coordination

CHANGE IN NET ASSETS AND FUND PERFORMANCE

1.0% ONE-YEAR RATE OF RETURN

8.9% FIVE-YEAR ANNUALIZED RETURN

$1.1 BILLION NET INVESTMENT INCOME

$4.0 BILLION NET CONTRIBUTIONS

$116.8 BILLION NET ASSETS

PERFORMANCE MEASUREMENT AND EVALUATION

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

PSP Investments measures its performance on a gross basis.

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

For the Total Portfolio return and for the asset class investment income and returns, performance is calculated gross of direct expenses and excludes external investment management fees for Public Markets asset classes and transaction costs for private market asset classes. Additionally, the private market asset class returns are presented net of currency hedging. PSP Investments also evaluates its cost structure to ensure the cost of delivering its return net of fees is competitive, as described on page 46.

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

[1] Formerly known as Renewable Resources.

BENCHMARKS

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

For fiscal year 2016, the following benchmarks were used to measure relative performance for each asset class.

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

[1] Customized benchmark.
[2] The Private Debt asset class was created in fiscal year 2016.

CHANGE IN NET ASSETS

The net assets of PSP Investments increased by $4.8 billion during fiscal year 2016, representing a gain of 4%. Gains were principally attributable to net contributions and strong performances in Real Estate, Infrastructure and Natural Resources asset classes. The net assets at the end of fiscal year 2016 were $116.8 billion, compared to $112.0 billion at the end of the previous fiscal year.

PSP Investments generated comprehensive income of $807 million during the latest fiscal year, compared to comprehensive income of $13.7 billion in fiscal year 2015. The results for fiscal year 2016 represent a consolidated rate of return of 1.0% compared to 14.5% in the previous fiscal year. PSP Investments received $4.0 billion in net contributions during fiscal year 2016 and $4.6 billion in fiscal year 2015.

CONSOLIDATED RETURNS

PSP Investments' overall return of 1.0% was negatively impacted by the performance of global markets. For the twelve-month period ended March 31, 2016, most global equity markets had negative returns. More than 50% of PSP Investments' portfolio is directly invested in public markets.

Developed market equity indices declined significantly as a result of sustained concerns about global economic growth. This resulted in falling commodity prices, which in turn has had a dramatically negative impact on resource-producing economies, such as Canada's. Consequently, the S&P/TSX returned negative 6.6%. The S&P 500 and MSCI EAFE posted returns of 1.8% (3.9% in Canadian dollars) and negative 11.2% (negative 6.3% in Canadian dollars), respectively. The MSCI EM index lost 7.7% (negative 10.2% in Canadian dollars) due to sustained concerns about economic growth in emerging market countries, such as China and Brazil.

Fixed income markets fared a little better than global equities with the JP Morgan Government Bond Index Global returning 2.9% (8.1% in Canadian dollars).

Most of the private market asset classes recorded strong returns for the fiscal year 2016 surpassing their respective benchmark returns. The only exception was Private Equity's 2.4% return, which was lower than the returns recorded by the other private market asset classes and below its respective benchmark.

The fiscal year 2016 portfolio return of 1.0% exceeded the Policy Benchmark rate of return of 0.3% and added $0.9 billion in value over and above the Policy Benchmark return. The excess return relative to the Policy Benchmark return was generated primarily by Real Estate and Infrastructure portfolios. The main drivers of the excess returns for each asset class are presented in further detail on pages 38 to 45.

Over the past five fiscal years, PSP Investments has recorded a compounded annualized rate of return of 8.9%, compared to 7.3% for the Policy Portfolio Benchmark. It generated investment income of $37.3 billion, and $6.4 billion of value added above the benchmark.

For the 10-year period ending March 31, 2016, PSP Investments recorded a net annualized investment return of 5.9%, above the Policy Portfolio return of 5.8%.

PORTFOLIO AND BENCHMARK RETURNS

As at March 31, 2016

ASSET CLASS	Fiscal Year 2016				5-year	
	Fair Value (millions $)[1]	Fair Value %	Portfolio Returns %	Benchmark Returns %	Portfolio Returns %	Benchmark Returns %
World Equity						
Canadian Equity	13,943	12.0	(6.5)	(6.6)	2.3	2.1
Foreign Equity						
US Large Cap Equity	9,812	8.4	(3.8)	3.9	16.2	18.1
EAFE Large Cap Equity	9,147	7.9	(5.8)	(6.3)	8.4	8.3
Small Cap Equity	6,556	5.6	(0.6)	(1.1)	17.2	16.7
Emerging Markets Equity	8,694	7.5	(9.8)	(10.2)	2.1	1.5
Private Equity	12,520	10.7	2.4	8.9	11.1	11.2
Nominal Fixed Income						
Cash & Cash Equivalents[2]	3,623	3.1	0.6	0.5	1.2	0.9
Fixed Income	13,768	11.8	3.6	3.5	6.1	6.1
Private Debt[4]	640	0.5	3.0	(3.9)	3.0	(3.9)
Real Return Assets						
World Inflation-linked Bonds	6,571	5.6	2.7	2.7	9.6	9.6
Real Estate	20,356	17.4	14.4	5.1	12.9	5.5
Infrastructure	8,701	7.4	12.7	5.5	9.6	6.5
Natural Resources[3]	2,470	2.1	6.9	5.1	11.1	4.5
Total	**116,801**	**100.0**	**1.0**	**0.3**	**8.9**	**7.3**

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

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

[3] Renewable Resources was created as an asset class in 2012 and had its name changed to Natural Resources in fiscal year 2016. The five-year portfolio and benchmark returns presented are since inception (4.75 years).

[4] The Private Debt asset class was created in fiscal year 2016. The five-year portfolio and benchmark returns presented are since inception (0.3 years).

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

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

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

PUBLIC MARKETS

$68.6 BILLION NET ASSETS	58.8% OF TOTAL NET ASSETS	(3.2%) ONE-YEAR RATE OF RETURN	7.9% FIVE-YEAR ANNUALIZED RETURN

Public Markets had net assets of $68.6 billion at March 31, 2016, compared to $76.3 billion at the end of fiscal year 2015.

In fiscal year 2016, Public Markets recorded investment income of negative $2.5 billion, for an overall return of negative 3.2%, compared to a benchmark return of negative 2.3%.

In fiscal year 2015, the overall return was 15.6% and the benchmark return was 15.2%.

Over a five-year period, Public Markets has generated an annualized return of 7.9%, compared to a benchmark return of 7.5%. Since inception, Public Markets has had an overall return of 5.9%, compared to a benchmark return of 6.1%.

Public Markets is composed of Canadian equities, foreign equities, fixed income and world inflation-linked bonds. Public Markets investments are managed by both internal and external managers using a combination of active and index-replication strategies. Net assets managed internally totalled $50 billion at the end of fiscal year 2016.

At the end of fiscal year 2016, net assets managed in active strategies totalled $34.3 billion, an increase of $0.8 billion from $33.5 billion at the end of fiscal year 2015. At March 31, 2016, net assets managed in internal active strategies totalled $21.3 billion, compared to $21.7 billion at the end of the previous fiscal year.

In fiscal year 2016, Public Markets funded one new external mandate and increased the allocation to three external absolute return mandates, for a combined total of US$1 billion.

EQUITIES

At the end of fiscal year 2016, 70% of Public Markets holdings were composed of equities: Canadian equity (20%), US large cap equity (14%), EAFE equity (13%), emerging markets equity (13%) and small cap equity (10%).

In fiscal year 2016, the overall performance of world equity indices was negative. Returns for the emerging markets equity, Canadian equity and EAFE large cap equity indices were negative 10.2%, negative 6.6% and negative 6.3%, respectively. The return on US small cap equities was negative 1.1%. US large cap equities generated a positive return of 3.9%. These returns impacted Public Markets equities which recorded an investment income of negative $3 billion in the current fiscal year, for a return of negative 5.3%, compared to a benchmark return of negative 4.3%.

At the end of fiscal year 2016, Public Markets equities accounted for $48.3 billion of net assets, compared to $56.3 billion in fiscal year 2015. Cash outflows due to asset allocation changes were $6 billion during fiscal year 2016.

FIXED INCOME

At the end of fiscal year 2016, 30% of Public Markets holdings were composed of fixed income (20%) and world inflation-linked bonds (10%). At March 31, 2016, net assets in fixed income and world inflation-linked bonds totalled $20.3 billion, compared to $20.0 billion at the end of fiscal year 2015. In fiscal year 2016, fixed income portfolios earned investment income of $0.7 billion, for a return of 3.3%, compared to a benchmark return of 3.2%. The internal actively managed fixed income portfolio added $9 million in relative value, mainly due to its corporate credit exposure, in both investment grade and high yield instruments, as well as its interest rate positioning. All three segments of the portfolio's strategy (credit, global developed market rates, and emerging markets) contributed positively to the performance of the portfolio.

Overall Value Added

INTERNAL PORTFOLIOS

Internal actively managed portfolios, representing net assets of approximately $21 billion, subtracted $668 million of relative value in the current fiscal year, mainly due to the underperformance of the Value Opportunity Portfolio which subtracted $713 million of relative value. Price declines in a few key holdings in the industrials, communications and energy sectors were the primary drivers of the underperformance. Selling restrictions, negative operational performance and declining oil prices were major factors in the negative performance of these holdings. The underperformance was partially offset by the long-only international equity portfolios which added $56 million of relative value. The increase was mainly due to stock selection in the telecommunications, materials, IT and financial sectors, as well as country allocation in emerging markets. Additionally, the Multi-strategy and Asset Management portfolio added $40 million of relative value in the current fiscal year, primarily due to investments in the materials sector and the positioning of the portfolio during the early 2016 market selloff.

EXTERNAL PORTFOLIOS

Public Markets has relationships with several global and North American fund managers. At March 31, 2016, net assets held in external actively managed portfolios totalled $13 billion and subtracted $24 million of relative value in fiscal year 2016. External absolute-return strategies subtracted $150 million in relative value, mainly due to long positions in Japanese, emerging market and European equity indices, and positions in global currencies, as well as losses in distressed debt and long/short equity strategies. This underperformance was partially offset by the external long-only equity mandates which added $126 million in relative value. The performance came primarily from an underweighting of the energy and materials sectors in the US, stock selection in the UK and Japan, and an underweight position in China.

REAL ESTATE

$20.4 BILLION NET ASSETS	17.4% OF TOTAL NET ASSETS	14.4% ONE-YEAR RATE OF RETURN	12.9% FIVE-YEAR ANNUALIZED RETURN

Real Estate had net assets of $20.4 billion at March 31, 2016, an increase of $6.0 billion from the previous fiscal year.

In fiscal year 2016, Real Estate generated investment income of $2.3 billion, for a total return of 14.4%, compared to a benchmark of 5.1%.

Over a five-year period, Real Estate investments produced an annualized return of 12.9%, compared to a benchmark return of 5.5%. Since its inception as an asset class in October 2003, Real Estate has generated an annualized return of 11.1%, compared to a benchmark return of 6.3%.

The Real Estate group ("group") favours direct ownership and co-investment through joint ventures. To implement its investment strategy, it relies on strong in-house capabilities and business relationships with more than 70 partners worldwide. The group also uses specialized funds to gain access to specific investment strategies and markets. It continues to favour markets in which it is established as a long-term investor and which have one or more of the following characteristics: a growing and increasingly urban population, a rising middle class and a high rate of technological innovation and adoption.

The Real Estate group has a long-term investment horizon and an investment approach that adjusts for short term macroeconomic conditions in various regions. In developed markets, the group focuses on Canada, the US, the UK, Europe, Australia and New Zealand. In emerging markets, it remains committed to Mexico, Colombia and China. In fiscal year 2016, it took a more measured approach to Brazil.

Commercial real estate remains an attractive asset class to investors looking for value in a low yield environment, and continues to benefit from significant inflows of capital. In fiscal year 2016, the increase in commercial real estate asset valuations had a strong and positive net impact on overall returns. The Real Estate group expects a more stable investment environment with lower overall returns in the future.

In fiscal year 2016, the group's returns were driven by direct investments in core properties, various value-added and opportunistic initiatives relating to specific assets, indirect investments in a limited number of top-performing funds, and strategic dispositions. The year-over-year increase in net assets reflects both new investments (net of dispositions) and valuation gains from existing assets.

Valuation increases and cash flow generation from core direct investments in industrial assets in the US, Canada, Europe and Australasia were important contributors to overall performance. Core retail assets in New Zealand also benefited from valuation increases, as did core and value-enhanced office assets in major cities in developed markets, such as London, Sydney, Toronto and New York. The group disposed of several assets upon realization of their respective business plans. The active management of multi-residential and senior housing portfolios in the US and Canada also yielded positive returns.

The Real Estate portfolio remains broadly diversified across geographies and sectors. In fiscal year 2016, the group deployed $3.5 billion in new investments and has unfunded commitments of $1.5 billion for investments closed during the year. The group finalized several major transactions which substantially altered its geographic and sectorial exposures. In the US, it made significant investments in an extensive core industrial portfolio, including a partnership with Exeter Property Group, and in sizable core and opportunistic retail assets. In London, the group acquired a substantial portion of a core and value-enhanced office portfolio in the City and west end in partnership with Aviva Investors. It also expanded many ongoing initiatives, such as its European industrial platform in partnership with SEGRO and its Mexican industrial and retail platforms, as well as its residential and retail development programs in targeted US cities, including the Wharf project in Washington, DC, and the Boston Seaport area.

The group disposed of Australian and US core office assets, an Australian regional mall and Canadian multi-residential assets following the successful realization of their respective business plans. The group also disposed of non-strategic office assets in the US.

In emerging markets, the picture was mixed. In Brazil, assets in all sectors were negatively impacted by the country's ongoing political and economic crisis. Investments in Colombia and Mexico, on the other hand, had valuations affected by currency fluctuations. However, they continue to perform well in local currency terms with the successful completion of the development of several retail assets realized in fiscal year 2016.

At March 31, 2016, direct ownership and co-investments accounted for 88% of Real Estate assets, an increase from 86% at the end of the previous fiscal year.

PRIVATE EQUITY

$12.5 BILLION NET ASSETS	10.7% OF TOTAL NET ASSETS	2.4% ONE-YEAR RATE OF RETURN	11.1% FIVE-YEAR ANNUALIZED RETURN

Private Equity had net assets of $12.5 billion at March 31, 2016, an increase of $2.4 billion from the previous fiscal year.

In fiscal year 2016, Private Equity generated investment income of $279 million, for a return of 2.4%, compared to a benchmark return of 8.9%. The portfolio generated distributions of more than $1.0 billion during the year, from realized capital gains, interest and dividends.

Private Equity portfolio income was generated by investments in funds, including our targeted funds of funds portfolio, and by gains in certain direct holdings. However, overall portfolio performance was offset by positions primarily in the communications and energy sectors. These positions were impacted by macro-economic factors, such as concerns about global economic growth and a decline in oil prices, resulting in lower valuation multiples for many investments.

Over a five-year period, Private Equity investments generated an annualized return of 11.1%, compared to a benchmark return of 11.2%. Since its inception as an asset class in July 2004, Private Equity has generated an annualized return of 8.3%, compared to a benchmark return of 6.1%.

In fiscal year 2016, Private Equity strategically committed a total of $2.7 billion to funds with existing and new partners. These partners were selected for their unique and specialized investment strategies, demonstrated performance, alignment of interests and the potential for collaboration on future co-investments. Private Equity also completed new direct and co-investments totalling $1.2 billion. These investments included the acquisition of AmWINS Group, a leader in the US wholesale insurance industry, and the acquisition of Homeplus, one of South Korea's largest multi-channel retailers, in a deal led by fund partner MBK Partners.

Strategically, Private Equity is focused on constructing a portfolio of fund relationships which provides sector expertise and geographic diversity. It also seeks to generate long-term direct investments and co-investments, mainly through those fund relationships. Another focus is on expanding our geographic footprint to enhance our market presence, to attract new investment opportunities and to manage our relationships and portfolio. In fiscal year 2016, Private Equity began to develop an important investment presence in London.

As at March 31, 2016, direct investments and co-investments accounted for 40% of the assets in the Private Equity portfolio, in line with the previous fiscal year.

INFRASTRUCTURE

$8.7 **BILLION** NET ASSETS	7.4% **OF TOTAL** NET ASSETS	12.7% **ONE-YEAR** RATE OF RETURN	9.6% **FIVE-YEAR** ANNUALIZED RETURN

Infrastructure had net assets of $8.7 billion at March 31, 2016, an increase of $1.6 billion from the previous fiscal year.

In fiscal year 2016, the Infrastructure portfolio generated investment income of $940 million, for a return of 12.7%, compared to a benchmark return of 5.5%. The portfolio return was driven mainly by direct investments in the transportation and utilities sectors in Europe and emerging markets. In fiscal year 2016, upstream oil and gas assets were transferred to the Natural Resources portfolio.

Over a five-year period, Infrastructure investments generated an annualized return of 9.6%, compared to a benchmark return of 6.5%. Infrastructure investments have a horizon of more than 10 years. Since its inception as an asset class in June 2006, Infrastructure has generated an annualized return of 8.0%, compared to a benchmark return of 5.3%.

The year-over-year increase in net assets of $1.6 billion included new direct investments across various geographies. In fiscal year 2016, the Infrastructure group acquired a participation in Allegheny Hydro, LLC, that owns two hydroelectric facilities in the US. The group also re-invested in Angel Trains Limited, a leading British rolling stock leasing company, in Cubico Sustainable Investments Limited, a renewable energy investment platform, and in AviAlliance GmbH, a leading private industrial airport investor and manager. Additionally, the Infrastructure group divested itself of two participations: one, in Sydney Airports (Australia); the other, in Myria Holdings Inc., owner of NGPL, a provider of natural gas transportation and storage services in the US.

At the end of fiscal year 2016, Infrastructure committed to an agreement to acquire a portfolio of hydroelectric assets (1.4 GW) in New England from ENGIE Group for an enterprise value of US$1.2 billion. The assets constitute the second largest, privately-owned hydroelectric portfolio within the ISO New England power market. They complement the Infrastructure group's existing hydroelectricity investment platform.

In terms of strategy, the Infrastructure group remains focused on further developing and expanding its existing base of direct investment platforms. It also seeks to build additional partnerships with other financial investors and strategic operators in order to acquire and develop assets which offer predictable cash flows and growth prospects.

As at March 31, 2016, direct investments accounted for 86% of the assets in the Infrastructure portfolio, up slightly from 85% at the end of the previous fiscal year.

NATURAL RESOURCES

$2.5 BILLION NET ASSETS

2.1% OF TOTAL NET ASSETS

6.9% ONE-YEAR RATE OF RETURN

11.1% SINCE INCEPTION ANNUALIZED RETURN (4.75 years)

Natural Resources had net assets of $2.5 billion at March 31, 2016, an increase of $1.0 billion from the previous fiscal year.

In fiscal year 2016, Natural Resources generated investment income of $150 million, for an overall return of 6.9%, compared to a benchmark return of 5.1%. Portfolio returns were primarily driven by investments in timber and agriculture, which generated a return of 20.5%. Valuation gains were materially offset by markdowns in oil and gas investments.

The year-over-year increase in net assets reflects the impact of new investments and the transfer of upstream oil and gas assets from the Infrastructure portfolio. Natural Resources, formerly known as Renewable Resources, changed its name at the beginning of fiscal year 2016 to reflect the transfer of these assets. Its increased scope now includes timber, agriculture, mining, and oil and gas.

Since its inception in June 2011, Natural Resources has generated an annualized return of 11.1%, compared to a benchmark return of 4.5%. Over the same period, the timber and agriculture portfolio generated an annualized return of 16.8%.

In agriculture, Natural Resources continues to expand and add to the number of platforms alongside high quality operators in some of the world's lowest cost regions. The group acquired more than 220,000 acres (approx. 90,000 hectares) of farmland, including seven cattle ranches in Australia and two dairy operations in New Zealand. The group also signed an agreement in principle to partner with a leading Australian agriculture investment operator on a new row-crop platform in Australasia.

In mining, the decline in the metals and mineral markets put downward pressure on margins and valuations for companies in this sector. In fiscal year 2016, the group considered several potential mining investment opportunities but has not yet deployed capital in the sector.

Natural Resources continues to focus on sizable, direct, long-term investments with like-minded partners and best-in-class operators. In sectors and/or regions lacking sufficient scale, the group favours the creation of investment platforms to acquire smaller assets.

Given the sustained decline in many commodity prices, Natural Resources expects to benefit from improved access to high quality properties in target geographies. Its investment pipeline includes opportunities in Canada, the US, Australia, New Zealand and Latin America.

As at March 31, 2016, direct investments accounted for 96% of Natural Resources assets.

PRIVATE DEBT

$640 MILLION NET ASSETS

0.5% OF TOTAL NET ASSETS

3.0% SINCE INCEPTION RATE OF RETURN (0.3 years)

Private Debt was approved by the Board of Directors as an asset class in November 2015. It focuses on principal debt and credit investments, in primary and secondary markets worldwide. Private Debt's priority is to provide credit capital to non-investment grade US and European corporate borrowers. It has a target allocation of 5% of PSP Investments' assets under management (AUM). At March 31, 2016, Private Debt had funded net assets of $640 million across six direct investment transactions.

In fiscal year 2016, Private Debt generated net investment income of $1.4 million, resulting in a rate of return of 3.0%, compared to a benchmark return of negative 3.9%. Portfolio returns were driven by upfront fees, coupon interest, valuation adjustments and foreign exchange gains and losses. The return of the asset class was negatively impacted by the fluctuation in the Canadian dollar, resulting in significant foreign exchange losses for the year. The rate of return in local currency (US dollars) amounted to 9.1% for the year.

US loan and bond markets were partially disrupted from November 2015 onward and provided a favourable environment in which to deploy credit capital. During fiscal year 2016, Private Debt committed a total of US$2.3 billion, including a significant financing commitment to participate in the take private transaction of The ADT Corporation, a leading home and business security monitoring company.

Private Debt provides an attractive risk-return profile through downside protection driven by rigorous business and sector selection, and structural protections, such as covenants and collateral, while generating upfront income by capturing an illiquidity premium and providing significant floating rate exposures in the form of a spread over LIBOR. In addition, Private Debt offers portfolio diversification and synergy with respect to PSP Investments' total fund approach.

Private Debt has a team of nine dedicated professionals based in New York. It is incorporated as PSP Investments Holding USA LLC (and its wholly-owned subsidiaries) and operates as an affiliate using funding from PSP Investments, its sole shareholder.

OPERATING EXPENSES AND COST RATIO

PSP Investments' total operating expenses for fiscal year 2016 increased to $295 million or 25.9 cents per $100 of average net investment assets, compared to $243 million or 24.0 cents per $100 of average net investment assets in fiscal year 2015. The increase in operating expenses for fiscal year 2016 is mainly attributable to increased headcount and related expenses to strengthen our internal management investment capabilities, particularly in private market asset classes, investments in systems to better support our growing internal investment capabilities and global footprint costs related to the opening of international offices.

For fiscal year 2016, PSP Investments' cost ratio (namely operating expenses and asset-management expenses as a percentage of average net investment assets) increased to 63.0 cents per $100 of average net investment assets from 58.8 cents per $100 of average net investment assets in fiscal year 2015. 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 increase in the cost ratio in the current fiscal year is due to the increase in operating expenses mentioned above, as well as increased management fees, primarily related to commitments for private market fund investments entered into in the latter part of fiscal year 2015, and foreign exchange impacts caused by the devaluation of the Canadian dollar.

INTERNAL AUDIT
and Compliance

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

Internal Audit

The Internal Audit function is an independent and objective assurance and consulting or advisory activity. It is designed to support, improve and add value to PSP Invesments' operations and internal controls. It brings a systematic and disciplined approach to the evaluation and improvement of the effectiveness of risk management, controls and governance processes.

MANDATE

Internal Audit:

- Audits all PSP Investments' activities, including those of its wholly-owned operating subsidiaries, with a focus on high-risk areas and the promotion of sound governance, risk management and control processes.
- Provides recommendations to management and the Audit Committee of the Board of Directors to support decision making at the operational and strategic levels.

Internal Audit achieves its mandate with a flexible annual audit plan developed according to a robust risk-based methodology. The plan includes any explicit risks or control concerns identified by management or the Audit Committee.

In fiscal year 2016, with the support of experts from outside consulting firms, Internal Audit performed a variety of risk-based recurring and non-recurring internal audit mandates. These mandates were undertaken as part of the annual review of PSP Investments' overall control environment, which includes key internal controls, as well as those related to fraud risk, as required under section 28 of the *Public Sector Pension Investment Board Act*. PSP Investments uses the definition of internal control of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Integrated Framework.

At the request of management and the Audit Committee, several advisory activities were undertaken in fiscal year 2016. Recommendations issued by the Internal Audit team help PSP Investments to continuously strengthen its controls and improve the efficiency of its processes.

EXTERNAL QUALITY ASSESSMENT OF PSP INVESTMENTS' INTERNAL AUDIT FUNCTION

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

BUSINESS INFORMATION SECURITY

Business Information Security is an independent and objective function designed to provide assurance and advisory support to the Audit Committee and PSP Investments as a whole. Business Information Security ensures that corporate security strategy and security activities are aligned to safeguard PSP Investments' information assets. It oversees the development, implementation and management of the organization's corporate security vision, strategy and programs in order to reduce risks, respond to incidents and limit exposure to liability.

Compliance

The Compliance function acts to ensure that all employees, business practices and behaviour are fully aligned with internal policies, procedures and regulatory requirements. Compliance also oversees and monitors the Corporation's investment activities.

ETHICS

The standards of integrity and ethics that employees must uphold at all times are outlined in the Code of Conduct for Officers, Employees and Others (the "Employee Code"). Compliance is responsible for ensuring that employees adhere to the rigorous standards of the Employee Code and act in accordance with relevant laws and statutory requirements, as well as with other internal policies and procedures.

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

The Compliance Officer is responsible for Employee Code procedures and reports on a quarterly basis to the Governance Committee of the Board, which monitors the application of the Employee Code.

The Employee Code may be consulted at: **investpsp.com**.

INVESTMENT COMPLIANCE, OVERSIGHT AND ADVISORY

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

FRAUD PREVENTION

Integrity is one of PSP Investments' core values. The Corporation has a zero tolerance policy with respect to fraud. Fraud of any kind, including insider trading, collusion, falsification of records or information, and asset misappropriation, is strictly prohibited. Any form of corruption, including the abuse of position or the direct or indirect payment or acceptance of any form of bribe, is strictly forbidden, as well.

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

GOVERNANCE

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

Mandate

PSP Investments is a Crown corporation created in 1999 by an Act of Parliament (the *Public Sector Pension Investment Board Act*, or the "Act"). PSP Investments' mandate is two-fold:

- To manage the funds transferred to it by the Government of Canada (the "Government") for the Canadian Forces, the Reserve Force, the Public Service and the Royal Canadian Mounted Police (RCMP) pension plans (the "Plans") in the best interests of the contributors and beneficiaries.
- 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 Plans and their ability to meet their financial obligations.

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

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

Board of Directors

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

At March 31, there was one vacant position on the Board following the resignation of Mr. Anthony R. Gage on December 31, 2015. The vacant position is in the process of being filled. On March 31, 2016, the Board was composed of the following 10 Directors:

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

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

Accountability

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

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

The President and CEO, and the Chair of the Board are required to meet once a year with advisory committees appointed to oversee the Plans. PSP Investments is also required to hold an annual public meeting. The most recent annual meeting was held on November 26, 2015, in Ottawa. In the execution of its statutory mandate, PSP Investments also communicates on an ongoing basis with the Chief Actuary of the Office of the Superintendent of Financial Institutions Canada, and Treasury Board Secretariat and other Government officials.

Pursuant to the *Financial Administration Act* (FAA), the Auditor General of Canada and Deloitte LLP were appointed to serve as joint external auditors of PSP Investments for fiscal year 2016. The Office of the Auditor General of Canada is funded directly by Parliament and its costs and expenses are paid from an annual appropriation. This funding mechanism ensures the independence of the Auditor General from the organizations it audits. For Deloitte LLP, PSP Investments has a formal process to evaluate the impacts of non-audit services on auditor independence. In fiscal year 2016, audit or audit-related fees paid to Deloitte LLP totalled approximately $1.4 million. Deloitte LLP did not provide non-audit services in fiscal year 2016. PSP Investments has implemented procedures when hiring current and former employees of the external auditors to ensure that auditor independence is maintained.

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

Directors' Commitment, Experience and Competencies

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

All Directors of PSP Investments must have an excellent understanding of the role of a Director and possess a general knowledge of pensions. As a group, they are also expected to have broad knowledge of investment management and its related risks.

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

Directors' Experience and Competencies

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

Biographies of all Directors can be found beginning on page 81.

Conduct of Board and Committee Meetings

Board members' deep knowledge of the Corporation allows them to exercise management oversight and provide insight, where appropriate, in terms of strategy. This leads to active discussion at the Board and committee levels between Directors and management. Upon request, Board members have access to PSP Investments' records and PSP Investments' management and employees. All regular Board and committee meetings include in-camera sessions, at which no member of management is in attendance. As discussed below, the Audit Committee also has individual in-camera meetings with each of the internal and external auditors, as well as with the Chief Financial Officer. In addition, the Board has individual in-camera meetings with the President and CEO. The Investment Committee has individual in-camera meetings with the Chief Risk Officer.

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

To fulfill the duties set out in the Act and in their respective Terms of Reference, the Board and its committees may use external advisors. This was the case for the Human Resources and Compensation Committee and the Board during fiscal year 2016. While the Board and its committees take the independent recommendations of external advisors into account, final decisions are solely those of the Board or the committee in question, as the case may be.

Assessment of Board Performance

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

Roles and Responsibilities of the Board of Directors and Board Committees

BOARD OF DIRECTORS

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

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

The approval of a strategic plan is a key element of the Board's responsibilities. In fiscal year 2016, senior management with the support of the Board undertook a comprehensive review to define PSP Investments' investment and operational philosophies, as PSP Investments scales in an increasingly competitive marketplace. The review culminated in the development of PSP Investments' five-year strategic plan, Vision 2021, that was approved by the Board. The Terms of Reference describing the roles and responsibilities of the Board of Directors, the Board Chair, Board committees and the Chairs of Board committees may be viewed in their entirety at: **investpsp.com**.

BOARD COMMITTEES

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

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

INVESTMENT COMMITTEE

The Investment Committee is responsible for overseeing PSP Investments' investment management function. These duties are assigned to it by the Board or provided for in the Act, and include:

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

In fiscal year 2016, the Investment Committee reviewed and approved 32 investment proposals (direct and fund investments, and external investment managers with discretionary authority).

The Investment Committee is composed of all members of the Board of Directors. In fiscal year 2016, it was chaired by Mr. Timothy E. Hodgson.

AUDIT COMMITTEE

The Audit Committee reviews financial statements and the adequacy and effectiveness of PSP Investments' internal control systems. This work includes internal controls of the accounting and financial-reporting systems within PSP Investments, as well as information systems controls and security. Many of the Audit Committee's duties are outlined in the Act. They include:

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

A key responsibility of the Audit Committee is to recommend the appointment of external auditors to the Board of Directors and to the President of the Treasury Board of Canada is a key responsibility of the Audit Committee. In fiscal year 2016, the Audit Committee implemented a new process to ensure appropriate oversight of the work of the external auditors. An annual comprehensive assessment of the external auditors was performed to ensure a high degree of audit quality. The results of the assessment were discussed with the external auditors and taken into account when the appointment of Deloitte LLP as external auditor was recommended to the President of the Treasury Board.

On March 31, 2016, the Audit Committee was composed of the following Directors:

- William A. MacKinnon, Chair
- Lynn Haight
- Garnet Garven
- Timothy E. Hodgson

All Audit Committee members are literate in accounting or finance, and possess the requisite experience and knowledge to read and understand PSP Investments' and the Pension Plan Accounts' financial statements, and to properly fulfill their role. For more information on the educational and professional backgrounds of Audit Committee members, please refer to the Directors' Experience and Competencies table on page 52 and the Directors' biographies beginning on page 81.

GOVERNANCE COMMITTEE

The Governance Committee assists the Board of Directors in monitoring governance matters and developing related policies. The Governance Committee is responsible for the application of the Director Code and the Employee Code. Other duties of the Governance Committee include:

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

The Governance Committee undertakes governance-related initiatives which are necessary and desirable to contribute to the success of PSP Investments. In fiscal year 2016, the Governance Committee approved a revised Responsible Investment Policy and oversaw new processes for the further integration of environmental, social and governance factors in investment decision making. It also undertook an important review of PSP Investments' governance framework. The review led to the implementation of a new governance and escalation process for the approval of investments, as well as changes to the responsibilities assigned to the Board Committees, and other changes to PSP Investments' policies and procedures.

On March 31, 2016, the Governance Committee was composed of the following Directors:

- Garnet Garven, Chair
- Micheline Bouchard
- Léon Courville
- Martin J. Glynn
- Lynn Haight

HUMAN RESOURCES AND COMPENSATION COMMITTEE

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

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

In fiscal year 2016, the Human Resources and Compensation Committee undertook a special review of PSP Investments' compensation programs and approved a new incentive compensation plan. Information on the new incentive compensation plan may be found in the report of the Chair of the Human Resources and Compensation Committee on pages 69 to 70.

On March 31, 2016, the Human Resources and Compensation Committee was composed of the following Directors:

- Diane Bean, Chair
- Cheryl Barker
- Léon Courville
- Micheline Bouchard
- Martin J. Glynn

All Human Resources and Compensation Committee members are knowledgeable about issues relating to human resources, talent management and executive compensation. They gained this understanding through professional experience as former chief executives or senior officers with oversight of human resources functions. For more information on committee members, including their educational and professional experiences, please see their biographies beginning on page 81.

Code of Conduct for Directors

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

Among other stipulations, the Director Code:

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

The Governance Committee is responsible for monitoring the application of the Director Code that may be viewed in its entirety at: **investpsp.com**.

Director Education and Orientation

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

To enhance Directors' financial knowledge and skills, PSP Investments created a Director Education Program. Through this program, Directors are allocated an education and training budget to be used primarily for individual courses, conferences and reading material to strengthen their understanding of investment management. All Directors are required to report on their individual development plans on an annual basis. On occasion, the Director Education Program also provides for educational forums during Board of Directors meetings to which speakers are invited to make presentations that contribute to the individual and collective expertise of Board members. During fiscal year 2016, presentations were made on thematic investments, the outlook of global financial markets, and investment opportunities in specific asset classes and industry sectors.

In addition, newly appointed Directors are expected to complete an in-house Orientation Program. It provides them with information about PSP Investments' culture and operations so they can contribute effectively as Board members.

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

Directors' Remuneration

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

The Board reviews Directors' remuneration once every two years and considers any warranted changes based on a report and recommendations provided to it by the Governance Committee. Following a remuneration review undertaken in fiscal year 2015, the Board agreed to the following remuneration changes, effective April 1, 2015:

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

During fiscal year 2016, Directors were remunerated as follows:

› Annual retainer for the Board Chair – $160,000
› Annual retainer for each Director other than the Board Chair – $35,000
› Annual retainer for each Board Committee Chair – $15,000
› Attendance fee for each Board meeting – $1,500[1,2]
› Attendance fee for each committee meeting – $1,500[1,2]
› Travel fees for a Director attending a Board meeting in person if his or her primary residence is outside Québec or Ontario, or when a Board of Directors or committee meeting is held in a location outside Québec and a Director is required to travel more than three hours from his or her primary residence to attend it – $1,500.

[1] $500 for a meeting of less than one hour.

[2] A single meeting fee will be paid to a Director who attends meetings of the Board of Directors and the Investment Committee held concurrently.

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

In fiscal year 2016, the Board of Directors met 12 times and its committees held 34 meetings. Total remuneration for Directors was $1,023,250. The following tables provide details.

Attendance at Directors Board and Committee Meetings
Fiscal Year 2016

	Board of Directors		Investment 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 2016[1]	10	2	7	4	7	1	4	1	6	4
Cheryl Barker	10/10	1/2	7/7	4/4	–	–	–	–	6/6	4/4
Diane Bean	10/10	2/2	7/7	3/4	–	–	–	–	6/6	4/4
Micheline Bouchard	10/10	2/2	7/7	4/4	–	–	4/4	1/1	6/6	3/4
Léon Courville	10/10	2/2	6/7	3/4	–	–	3/4	1/1	5/6	4/4
Anthony R. Gage	8/8	0/1	5/5	3/3	5/5	1/1	–	–	–	–
Garnet Garven	8/10	2/2	7/7	4/4	7/7	1/1	4/4	1/1	–	–
Martin J. Glynn	9/10	2/2	7/7	4/4	–	–	4/4	1/1	5/6	4/4
Lynn Haight	10/10	1/2	7/7	2/4	7/7	1/1	4/4	1/1	–	–
Timothy E. Hodgson[2]	9/10	1/2	7/7	3/4	7/7	1/1	–	–	4/4	3/4
William A. MacKinnon	10/10	2/2	7/7	4/4	7/7	1/1	–	–	–	–
Michael P. Mueller[3]	10/10	2/2	7/7	4/4	5/7	1/1	4/4	1/1	6/6	3/4

[1] Certain Committee meetings were held concurrently with Board of Directors meetings.

[2] As part of the review of the incentive remuneration design, Mr. Hodgson as Chair of the Investment Committee attended certain meetings of the Human Resources and Compensation Committee.

[3] Mr. Mueller is an ex-officio member of the Audit Committee, Governance Committee and Human Resources and Compensation Committee. Meetings of the Audit Committee and Human Resources and Compensation Committee are often held concurrently.

Remuneration of Directors
Fiscal Year 2016[1]

NAME	Remuneration[1]				
	Annual Retainer	Chair of a Committee/ Annual Retainer	Boards/ Committees[2] Meeting Fees	Travel Fees	Total
Cheryl Barker	$35,000	–	$41,500	$13,500	$90,000
Diane Bean	$35,000	$15,000	$41,500	$1,500	$93,000
Micheline Bouchard	$35,000	–	$46,500	$1,500	$83,000
Léon Courville	$35,000	–	$43,000	$1,500	$79,500
Anthony R. Gage	$26,250	–	$26,500	$9,000	$61,750
Garnet Garven	$35,000	$15,000	$41,000	$13,500	$104,500
Martin J. Glynn	$35,000	–	$43,500	$10,500	$89,000
Lynn Haight	$35,000	–	$41,500	$1,500	$78,000
Timothy E. Hodgson[3]	$35,000	$15,000	$42,000	$1,500	$93,500
William A. MacKinnon	$35,000	$15,000	$38,000	$1,500	$89,500
Michael P. Mueller	$160,000	–	–	$1,500	$161,500

1 In fiscal year 2016, in addition to their total remuneration, Directors received an allowance of $500 to cover computer and office supply related expenses because meeting materials are only delivered electronically.

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

3 As part of the review of the incentive compensation plan design, Mr. Hodgson, as Chair of the Investment Committee, attended certain meetings of the Human Resources and Compensation Committee. Mr. Hodgson received full or partial remuneration for some of these meetings.

INVESTMENT GOVERNANCE
Oversight

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

Proxy Voting

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

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

PSP Investments amended the Guidelines in fiscal year 2016, primarily to further articulate its expectations of issuers in certain governance areas.

The Guidelines may be viewed at: **investpsp.com**.

PROXY VOTING ACTIVITIES

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

PSP Investments strives to vote all the shares held in its portfolio. In limited circumstances, however, PSP Investments chooses not to vote because of share-blocking restrictions which apply in some jurisdictions. Share-blocking is the practice whereby shares, when voted, can be temporarily blocked from trading for a certain period of time leading up to and, sometimes, following the date of the shareholders' annual or special meeting. PSP Investments does not support share-blocking restrictions because they limit its ability to vote shares and obstruct its portfolio management capabilities. In fiscal year 2016, PSP Investments exercised its voting rights at 3,715 meetings. Due to share-blocking restrictions, PSP Investments was not able to exercise its voting rights at fewer than 1% of the meetings of public companies whose securities are held in its portfolio.

In fiscal year 2016, PSP Investments voted against or abstained from management's recommendations on approximately 10% of 40,849 proposed resolutions. The subject matter of the resolutions against which PSP Investments voted or abstained from voting is shown in the table below, followed by a description of each issue.

ISSUES
Fiscal Year 2016

Board independence and effectiveness	**40%**
Compensation	**18%**
Capital structure	**14%**
Shareholder proposals	**9%**
Auditors' irregularities	**7%**
Amendments to articles	**4%**
Anti-takeover protection and M&A	**1%**
Other	**7%**

BOARD INDEPENDENCE AND EFFECTIVENESS

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

COMPENSATION

PSP Investments believes that compensation incentives to executives should be suitably structured to enhance shareholder value while rewarding performance which meets or exceeds stated objectives. During the last fiscal year, PSP Investments voted against several compensation-related proposals due to a misalignment with performance or a failure to adequately disclose performance conditions.

CAPITAL STRUCTURE

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

SHAREHOLDER PROPOSALS

Shareholder-initiated proxy proposals can be a useful and relevant means of addressing concerns and effecting change at companies that underperform or have poor environmental, social and governance practices. PSP Investments reviews all shareholder proposals on a case-by-case basis. PSP Investments generally supports shareholder proposals that increase the Board of Directors' level of accountability to shareholders and serve the company's financial interest, without putting excessive constraints on the company, its Board of Directors or its management. Examples of shareholder proposals PSP Investments supported are provided on page 62.

AUDITORS' IRREGULARITIES

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

AMENDMENTS TO ARTICLES

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

ANTI-TAKEOVER PROTECTION AND M&A

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

EXAMPLES OF SHAREHOLDER PROPOSALS SUPPORTED

In fiscal year 2016, PSP Investments voted on 1,069 shareholder proposals, and supported 43% of them.

SHAREHOLDER PROPOSALS	FOR VOTES	RATIONALE
Proxy access	62	We believe that shareholders should have a meaningful say in the nomination of Directors process.
Compensation-related proposals	50	We support proposals that would increase compensation disclosure and further align the interests of executives with those of shareholders.
Report on sustainability and other environmental matters	35	We support proposals that seek to increase Board of Directors' level of accountability to shareholders on sustainability and environmental matters.
Political contributions and lobbying reports	21	We encourage the full and transparent disclosure of company practices regarding political contributions and lobbying. On occasion, when this disclosure is not found, we will support shareholder proposals requesting greater disclosure.
Independent Board Chair and separation of Chair and CEO	17	We believe that the Chair of the Board should be an independent Director.

Responsible Investing

PSP Investments recognizes that a broad range of financial and non-financial considerations are relevant in terms of making investment decisions. PSP Investments has adopted a Responsible Investment Policy that embodies its belief that responsible corporate behaviour with respect to environmental, social and governance (ESG) factors can have a positive influence on long-term financial performance. In the last fiscal year, PSP Investments amended the policy to elaborate its beliefs and approach toward investment restrictions and confirm its commitment to transparency and reporting with regard to responsible investment matters.

EXAMPLES OF ESG FACTORS ARE:

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

In analyzing the risks inherent in any investment, PSP Investments undertakes to identify, monitor and mitigate ESG issues which are or could become material to long-term financial performance.

The integration of ESG factors is well established across asset classes. These risks are discussed in the business plans of PSP Investments' various asset classes. They are considered part of the due-diligence process and addressed in each investment recommendation submitted to the Board of Directors' Investment Committee, the President and CEO, or other approving officers. The monitoring of ESG risks is also part of an ongoing dialogue with external managers, Boards of Directors and senior management of the private and public companies in which PSP Investments invests.

The Responsible Investment Policy may be viewed at: **investpsp.com**.

PRIVATE ASSET CLASSES – ESG INTEGRATION

For all its investments in Real Estate, Private Equity, Infrastructure, Natural Resources and Private Debt, PSP Investments undertakes to identify ESG risks and ensure that such risks are appropriately managed at the business entity or asset-class level by exercising due diligence and, where appropriate, seeking the advice of experts. Through active monitoring, the integration of ESG factors extends throughout the life of an investment.

The following are examples of companies or other assets in which PSP Investments' has invested and whose operators are strongly committed to further enhancing their performance with respect to environmental, social and governance considerations — of which several have been singled out for awards.

The 24-storey, Grade A office building at 1 Martin Place in Sydney, Australia, in which PSP Investments owns approximately 42%, was awarded a Five Star Green Rating in the office interiors category by the Green Building Council of Australia. The rating recognizes actions to: implement a waste management plan for reusing or recycling 80% of construction waste; use materials with reduced environmental impacts for indoor furniture and fixtures; ensure all thermal insulation avoids the use of ozone-depleting substances; improve energy usage and reduce CO_2 by 20%; and install indoor plants at workstations.

Cubico Sustainable Investments Limited was formed by PSP Investments in March 2015 with two other equal partners as an investment platform for sustainable and renewable power generating projects.

Cooke Aquaculture, a private salmon farming company with operations in North America, South America and Europe, in which PSP Investments has a structured investment, has demonstrated a commitment to industry leading ESG practices. The majority of its operating sites are certified by the industry-standard Best Aquaculture Practices (BAP) and the Global Aquaculture Alliance (GAA). In February 2016, Cooke Aquaculture became the first North American producer of ocean-raised salmon to receive a "good alternative" rating from the Monterey Bay Aquarium's Seafood Watch program. The rating was awarded because Cooke salmon is produced sustainably, without the use of dangerous chemicals and with a low incidence of diseases and escapes.

[1] Formerly known as Renewable Resources.

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

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

PUBLIC EQUITIES – ESG INTEGRATION

PSP Investments invests both actively and passively in publicly-traded companies and fixed income securities. The degree to which ESG factors are integrated into investment decision making varies according to the investment strategy. As an active and engaged investor, PSP Investments believes that direct engagement with companies and collaborative initiatives with like-minded institutional investors are the best ways in which to influence behaviours and improve ESG practices.

DIRECT ENGAGEMENT ACTIVITIES

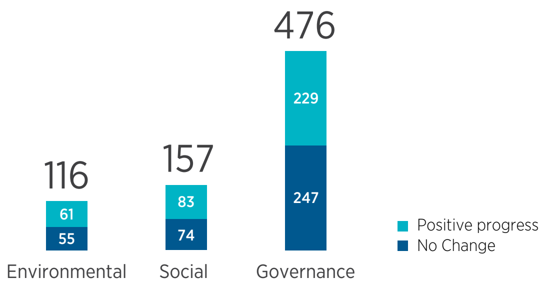
With the assistance of a service provider, PSP Investments actively engages in direct dialogue with public companies to improve their ESG practices. Public companies are selected for engagement based on a process that takes into account such factors as ability to create shareholder value, prospects for successful engagement and relevant ESG issues. The intensity of PSP Investments' involvement with public companies evolves over time. Some engagements entail one or two meetings over a period of months; others are more complex and warrant multiple meetings with board members and senior management over several years. PSP Investments tracks its engagement objectives primarily on issues for which it believes changes in behaviour are justified. Often, multiple ESG issues need to be addressed within a given company, each of which may require different levels of effort and engagement approaches, as well as different contact points.

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

MILESTONE 0	New objective
MILESTONE 1	Raised concerns
MILESTONE 2	Acknowledgement of issue
MILESTONE 3	Develop credible strategy/ set stretching targets
MILESTONE 4	Strategy implemented

In fiscal year 2016, PSP Investments made progress in delivering engagement objectives across themes and regions. The progress it has made in the achievement of new milestones for each objective is shown in the following graph.

ENGAGEMENT OBJECTIVES
Fiscal Year 2016 (number of issues)



In fiscal year 2016, PSP Investments engaged directly with 451 public companies whose securities it holds. This represents an increase of approximately 24% from the previous fiscal year. The engagements are undertaken globally.

PSP Investments engages with public companies on a range of ESG issues. A breakdown of its engagement activities by issue is shown below, followed by a description of each category.

ENGAGEMENT BY COUNTRY OR REGION
Fiscal Year 2016

United States	**32%**
Europe	**30%**
Asia Pacific, Australia and New Zealand	**17%**
Emerging markets	**15%**
Canada	**6%**

ENGAGEMENTS
Fiscal Year 2016

Governance	**63%**
Social	**21%**
Environmental	**16%**

GOVERNANCE ISSUES

Governance is defined as the framework of rules and practices which guide a Board of Directors to ensure a company is accountable and transparent in its relationship with its shareholders. During the past fiscal year, PSP Investments engaged with public companies on a number of governance issues. Examples of the issues raised include: Director independence, majority voting, separation of Board Chair and CEO roles, succession planning, committee structures, performance-linked compensation, disclosure, and risk management, including bribery and corruption risk.

Example of an engagement with a Canadian retail company

Engagement objectives

- Encourage greater diversity on the Board.
- Improve supply chain management and product safety from a risk management perspective.
- Ensure that Director remuneration is aligned with long-term performance.

What PSP Investments achieved

Following several engagement meetings with PSP Investments, the company has made progress on several fronts. It has moved away from an all-male Board by appointing a new female Director with highly relevant experience. With regard to supply management, the company mapped out its risk profile and implemented procedures to mitigate these risks. This includes a new supplier code of conduct and more thorough monitoring of suppliers' compliance with company policies.

In terms of ongoing engagement, PSP Investments has expressed concerns about the use of stock options as remuneration for Directors. The company has confirmed it will replace stock options with deferred share units to create a better alignment with long-term performance.

SOCIAL ISSUES

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

Example of an engagement with a European chemicals company

Engagement objective

- Improve labour standards in the supply chain.

What PSP Investments achieved

The company was engaged to ensure that it was meeting the highest ethical standards in terms of sustainable business practices and fair labour conditions. The company undertook an independent assessment of its supply chain activities in India. This assessment is expected to contribute to ensuring fair compensation for third party workers in India.

ENVIRONMENTAL ISSUES

In fiscal year 2016, PSP Investments met with a significant number of public companies to discuss environmental issues. These engagements focused on such issues as climate change, water stress, oil and gas, mineral and metals extraction, forestry and biodiversity.

Example of an engagement with a US beverage company

Engagement objective

- Encourage the implementation of best practice water management systems and controls.

What PSP Investments achieved

The company has conducted a comprehensive site-level water stress survey at more than 50% of its manufacturing facilities by volume. This initiative has been accompanied by a strategy to ensure resilience of water supply over the next decade and beyond. With a focus on irrigated crops, the company has appraised the risks of water scarcity to its agricultural supply chains. PSP Investments will continue to press for greater disclosure of water risk management.

ENVIRONMENTAL ASSESSMENT

As a Crown corporation, PSP Investments is subject to the *Canadian Environmental Assessment Act*, 2012. In fiscal year 2016, PSP Investments did not pursue any investment in which it identified any existing or potentially significant adverse environmental effects.

COLLABORATIVE INITIATIVES

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

PRINCIPLES FOR RESPONSIBLE INVESTMENT

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

		ACTIONS TAKEN
PRINCIPLE 1	We will incorporate ESG issues into investment analysis and decision-making processes.	– Commitment to integration of ESG factors across all asset classes.
PRINCIPLE 2	We will be active owners and incorporate ESG issues into our ownership policies and practices.	– Proxy voting is an important component of PSP Investments' responsible investment activities. – PSP Investments pursues an active engagement program across all geographies to improve companies' ESG practices.
PRINCIPLE 3	We will seek appropriate disclosure on ESG issues by the entities in which we invest.	– PSP Investments is a signatory to the CDP* and CDP water program and is a supporter of the Extractive Industries Transparency Initiative. – Improvement of ESG disclosure is a standard engagement objective with public companies. – PSP Investments also supports various shareholders' proposals requesting additional ESG disclosure.
PRINCIPLE 4	We will promote acceptance and implementation of the Principles within the investment industry.	– PSP Investments representatives act as speakers at ESG conferences held from time to time. – A representative of PSP Investments is on the Board of the Canadian Coalition for Good Governance.
PRINCIPLE 5	We will work together to enhance our effectiveness in implementing the Principles.	– PSP Investments collaborates with Canadian peers and like-minded global investors to more effectively deploy resources and more effectively encourage change.
PRINCIPLE 6	We will each report on our activities and progress towards implementing the Principles.	– PSP Investments is committed to reporting on its responsible investment activities and provides such information through its annual report and PRI's annual reporting and assessment process.

* Formerly known as Carbon Disclosure Project

CANADIAN COALITION FOR GOOD GOVERNANCE

PSP Investments is an active member of the Canadian Coalition for Good Governance (CCGG) that represents a wide range of institutional investors with a total of approximately $3 trillion in assets under management. On behalf of its members, CCGG engages with the Boards of Directors of as many as 50 Canadian issuers every year. Discussion topics include all aspects of corporate governance. PSP Investments' CCGG engagements are undertaken in addition to its other direct engagement activities.

CDP

PSP Investments is a signatory of the CDP, formerly known as the Carbon Disclosure Project. The CDP acts on behalf of 822 institutional investors with more than US$95 trillion in assets under management. It encourages public companies to disclose how they manage the risks and opportunities associated with climate change which affect or may affect their businesses. Each year, the CDP sends questionnaires to the world's largest companies. PSP Investments invites companies to continue improving their climate disclosure scores and performance.

Since fiscal year 2010, PSP Investments has also been a signatory to the CDP water program that enables institutional investors to access high quality information about the business risks and opportunities associated with water scarcity and other water-related risks.

EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE

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

The multi-stakeholder EITI process ensures better disclosure of taxes and other payments made by oil, gas and mining companies. This allows for more accountability of resource-driven economic development. By supporting the EITI and its efforts to improve governance and transparency in the extractive sector, PSP Investments joins more than 90 institutional investors who manage an estimated US$19 trillion in assets.

OTHER COLLABORATIVE INITIATIVES

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

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

Public Consultations

During fiscal year 2016, PSP Investments responded to more than 21 public requests for consultations on governance-related topics. PSP Investments also met with securities regulators over the last year to promote governance practices and shareholder rights.

HUMAN RESOURCES AND COMPENSATION COMMITTEE

Chair's Report

For the second year, I have had the pleasure to chair the Human Resources and Compensation Committee (HRCC) whose members assist the Board of Directors with human resources policies and procedures. Our primary concerns are compensation, pensions, talent management and succession planning, and workforce diversity and inclusion. In fiscal year 2016, our efforts focused on the need to align the human resources policies with the transformational changes recommended by the strategic review, Vision 2021.

NEW PRESIDENT AND CEO, NEW EXECUTIVE TEAM AND NEWLY-HIRED EMPLOYEES

Fiscal 2016 was a year of transition. André Bourbonnais, our recently appointed President and CEO, named new executive team members and created a new management structure. HRCC members endorsed the decision to enhance the position of Chief Investment Officer and commit to an enterprise-wide investment approach that targets total fund return.

PSP Investments' expects its rapid growth to continue over the short to medium term. To successfully fulfil its mandate, it must continue to attract and retain top talent from the investment and finance industries. The HRCC is apprised of industry standards and employment trends among our Canadian peers and uses this information to ensure our employment offer is compelling and aligned.

At March 31, 2016, PSP Investments had 642 employees, an increase of 13% over fiscal year 2015. Current projections indicate that the organization's ambitious hiring trend will continue. The overall turnover rate was stable at slightly less than 8% for the year.

The HRCC reconfirms its support for the organization's shared purpose of contributing to the financial protection of plan contributors and beneficiaries, by investing the assets the Government of Canada transfers to it for that purpose. Management is encouraged to develop employment strategies which appeal to individuals who are interested in advancing their careers while serving others and working for the greater good.

COMPENSATION

PSP Investments operates in an industry hungry for highly-skilled professionals. Our employee value proposition, with compensation at its forefront, must be competitive. It must reflect industry practices and seek alignment with PSP Investments' particular obligations to its long-term stakeholders. Given the appointment of our new President and CEO, the tone he set and the new strategic plan, it was also time for a comprehensive review of compensation programs and incentive structures. Working with management and in close collaboration with an outside consultancy hired by the Board of Directors, the HRCC spent most of fiscal year 2016 articulating the desired elements of a revised incentive compensation system for PSP Investments and reviewing evolving industry practices.

It was agreed that the incentive compensation framework should be less formulaic and produce less volatility in year-to-year payouts while allowing management and the Board to differentiate rewards based on components which go beyond investment performance alone. An overriding goal was to shift investment performance measurement from purely relative, medium-term metrics to long-term absolute, total fund results. Another goal was to encourage more cooperation across the organization, again aligning individual success with the total fund, not just its component parts. This is a key element of One PSP. It was also decided that senior management should have a larger proportion of its compensation deferred and performance conditioned.

The HRCC believes that the new incentive compensation framework achieves its goals. The revised design will pay appropriately for jobs well done, reward outstanding performance, discourage undue risk taking and give the Board and management the tools and flexibility they need to make sensible reward decisions. The new framework will be implemented in fiscal year 2017.

INTERNATIONAL OFFICES

As the organization expands its global footprint with offices in New York and London, PSP Investments is implementing compensation and benefits structures for employees working outside Canada. This structure also includes a global mobility policy for expatriate assignments. The new incentive compensation framework will be implemented in a manner consistent with PSP Investments' compensation philosophy pursuant to a comprehensive review of pay practices in foreign markets.

WORKFORCE DIVERSITY AND INCLUSION

PSP Investments is committed to employee equity and HRCC members commend André Bourbonnais for taking steps to foster increased workplace diversity and inclusion during his first year of tenure as President and CEO.

Most notable is the continuing rise in the percentage of women occupying managerial positions. Two women were named senior vice presidents in fiscal year 2016.

The HRCC also supported a review of employment systems to identify and address representation gaps in hiring and employee development practices. Management worked with the Canadian Human Rights Commission to develop a plan to deliver on required undertakings as identified by a survey and information gathering process.

TALENT MANAGEMENT AND SUCCESSION PLANNING

Succession planning – the ability to recruit, retain and develop high performing employees – is critical to PSP Investments' ongoing success.

The HRCC concurs with management's focus on continuous learning and leadership development programs, as well as other policies to identify clear objectives for employee advancement. Such investments promote superior, long-term performance, as does the increased access to networking opportunities offered to employees in fiscal year 2016. The Student Program, which provides entry-level summer positions and four-month internships to university students, continues to be successful and strategically positions PSP Investments as an employer of choice on campus.

The HRCC will continue to discharge its mandate and offer sound judgment on human resources matters to management. I wish to thank my fellow committee members for their contributions in fiscal year 2016. I also wish to express my gratitude to PSP Investments' human resources professionals for their work. It has been a busy year of accomplishment – a job well done – for all of us.

Diane Bean
Chair, Human Resources and Compensation Committee

DIVERSITY
and Inclusion

PSP Investments is an innovative organization committed to attracting and retaining a talented, diverse and global team of professionals. A skilled and inclusive workforce best reflects the collective wealth of its organizational values, of its worldwide business partners and of the communities in which it operates. A diverse workforce is also representative of the contributors and beneficiaries it serves. Employees with different perspectives, backgrounds, experiences, strengths and ideas help to create a stimulating work environment. They provide a comparative advantage in the competitive financial sector. Studies indicate that diversity and inclusion boost performance over the long term because they unlock innovation and drive market growth. For example, a team with a member who shares a client's ethnicity is 152% more likely than another team to understand that client.[1]

PSP Investments has a Diversity Action Plan designed to promote the adoption of proactive recruitment, career evolution and retention strategies for members of four designated groups: women, visible minorities, Aboriginals and persons with disabilities. The plan has the full support of the cross-departmental Diversity Committee.

In fiscal year 2016, PSP Investments reviewed its employment systems to identify and address representation gaps in its hiring and employee development practices. A survey was conducted with members of the designated groups. The data collected and comments received are being used to identify and eliminate barriers to inclusion, whether existing or potential, and to elaborate the Diversity Action Plan. In this context, senior managers were given unconscious bias training.

In fiscal year 2016, PSP Investments participated in a series of external events to foster workplace advancement, especially for women. Internally, it organized the third edition of Diversity Week during which two external speakers addressed employees on "Leveraging multi-generational teams in the workplace" and "The Drivers and realities of the Asian market". For a second year, PSP also partnered with the Association of Québec Women in Finance (*Association des femmes en finance du Québec*, AFFQ) and offered AFFQ memberships to women in middle and senior management. Membership provides access to career development activities. With the AFFQ, it also organized internal workshops on how to develop interpersonal and networking skills for both women and men with leadership potential.

Policies to promote an inclusive work environment are proving successful. Over the past five years, the number of women in senior management positions has risen from 19% to more than 25%.

[1] "How Diversity Can Drive Innovation", by Sylvia Ann Hewlett, Melinda Marshall and Laura Sherbin; *Harvard Business Review*, December 2013 https://hbr.org//2013/12/how-diversity-can-drive-innovation

COMPENSATION

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

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

To that end, the Board of Directors has established a Compensation Policy that aims to maintain total compensation at a fair and competitive level. Compensation plans are aligned with PSP Investments' strategic plan and integrated with business performance measurement. PSP Investments' Compensation Policy provides balanced performance-based compensation and is effectively designed to reward responsible risk-taking. Total compensation includes base salary, short-term and long-term incentives, benefits, pension and other remuneration.

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

PSP Investments is committed to ensuring that its compensation framework is designed to reduce the potential for excessive risk-taking and is aligned with the Corporation's strategic objectives and investment policies. The Corporation also aims to follow compensation practices that are comparable to industry standards. In that regard, during fiscal year 2016, PSP Investments completed a comprehensive review of its short-term and long-term incentive plans in order to achieve a number of objectives related to incentive compensation, including solidifying alignment with long-term stakeholders' interests, making incentive compensation less formulaic and more subject to informed discretion and ensuring alignment with the Corporation's new five-year business strategy. The new incentive plan, which includes annual and deferred payout components, will be in effect for fiscal year 2017, and is further described below.

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

The main comparator group in fiscal year 2016 included the following pension funds: Alberta Investment Management Corporation, British Columbia Investment Management Corporation, *Caisse de dépôt et placement du Québec*, Canada Pension Plan Investment Board, Ontario Municipal Employees Retirement System and the Ontario Teachers' Pension Plan. These organizations were selected based on three main criteria: the size of the assets under management, their business sector (pension fund investment) and the commonality of the talent pool.

Data from these peer organizations are gathered periodically and on an ad hoc basis using compensation surveys published by well-established, specialized compensation consulting firms, such as Willis Towers Watson's Canadian Investment Management Compensation Survey and Canadian General Industry Middle Management, Professional and Support Compensation Survey, as well as McLagan's Canadian Investment Management Compensation Survey and Canadian Private Equity Survey. As part of the review of the incentive compensation framework this year, other data sources were considered in order to increase the depth of the comparator groups. These included Willis Towers Watson's Canadian Executive Compensation Survey and McLagan's US Investment Management Survey and US Private Equity Survey.

To remain competitive, PSP Investments strives to offer:

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

The Board of Directors continually ensures that PSP Investments' executive compensation is consistent with PSP Investments' Compensation Policy. For this purpose, the services of an independent compensation consulting firm was again retained in fiscal year 2016 to assist the HRCC in its review of executive compensation and the incentive compensation framework. This compensation consulting firm reports solely to the HRCC when executing its mandates.

PRINCIPLES OF PSP INVESTMENTS' COMPENSATION FRAMEWORK

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

- Rewards long-term performance.
- Discourages short-term decision-making and undue risk-taking.
- Ensures that total fund investment performance is a component of incentive compensation at all levels of PSP Investments, in order to encourage and reinforce the benefits of teamwork, while aligning efforts towards the Corporation's mandate.
- Establishes incentive compensation as significant component of target total compensation for executives.

FISCAL YEARS 2015 AND 2016 COMPENSATION REVIEW

As noted above, initiated in fiscal year 2015 and completed at the end of fiscal year 2016, an extensive review of PSP Investments' incentive compensation framework led to a new incentive compensation plan that was approved by the Board of Directors on March 31, 2016, effective for fiscal year 2017. The guiding principles for the new incentive compensation plan are that it:

- Be sufficiently competitive to attract and retain the right people.
- Provide better alignment with the stakeholders' key measure of success, which is the long-term real rate of return objective (currently set at 4.1%).
- Use the right measurement periods, to be aligned with the stakeholders' long-term horizon.
- Be flexible enough to be adapted to changing circumstances, through the use of informed discretion.
- Align pay with performance while avoiding excessive volatility of payouts (up and down).
- Promote collaboration across the entire organization.
- Enable the organization to better differentiate based on individual performance.

The new incentive compensation plan will be driven by two key elements: 1) an annual overall assessment of PSP Investment's performance based on a mix of relative (five-year) and absolute (seven-year) total fund investment performance, as well as five-year relative investment performance for individual asset classes, and the achievement of business units' respective annual objectives derived from PSP Investments' five-year business strategy, and 2) an annual assessment of personal objectives. Employees' position level and their business unit provide the basis for establishing the allocation between components of the plan. Most employees will benefit from an annual cash incentive payout only, the short-term component, while for more senior employees, a long-term component will include deferred incentive payments tied to the measures of long-term performance of the total fund described above, and rising in relative importance with the position level of employees, thereby ensuring that senior management has a greater portion of their total compensation based on the achievement of long-term total fund investment performance.

BASE SALARY

Base salary reviews take place annually and any changes are effective from the beginning of each fiscal year.

The annual budget for base salary increases in fiscal year 2016 was consistent with PSP Investments' comparator group and in accordance with the Compensation Policy.

INCENTIVE PLANS

As noted above, in the course of fiscal year 2016, PSP Investments adopted a new incentive plan, with short-term and long-term components, to replace the short-term (STIP) and long-term (LTIP) incentive plans that were in effect for fiscal year 2016 and prior years.

For fiscal year 2016, incentive compensation at PSP Investments included:

1) A STIP, to recognize performance results for the current year and the previous three years, payable annually.
2) An LTIP, based on four-year, forward-looking cycles with possible payouts after the fourth year, to recognize long-term results.
3) A Restricted Fund Unit Plan (RFU), designed to support retention of key employees.

SHORT-TERM INCENTIVE PLAN

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

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

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

The STIP provided that the investment performance of each year is independently weighted. A greater weight, ranging from 60% to 100%, was given to performance of the current year in order to more closely link shorter-term contribution and rewards, while still taking into account the investment performance of the previous three years. Investment performance floors and maximum levels were applied according to the STIP calculation methodology, in order to ensure that the results of a single year's investment performance did not unduly impact the overall calculation.

The HRCC reviewed the annual incentive compensation payment process for all eligible employees on an aggregate basis and ensured that payments were calculated in accordance with the terms of the STIP. In addition, the Board of Directors approved the annual incentive compensation payable to PSP Investments' senior management and officers.

Fiscal Year 2016 Performance

For fiscal year 2016, investment performance by asset class for STIP purposes has been summarized in the table below:

ASSET CLASS	1-YEAR[1]	4-YEAR[1]
Public Equities and Absolute Return[2]	Below threshold	Below threshold
Private Equity	Below threshold	Below threshold
Real Estate	Exceeded target	Exceeded target
Infrastructure	Exceeded target	Exceeded target
Natural Resources	Exceeded target	Exceeded target
Private Debt[3]	Not applicable	Not applicable
Total Fund	Exceeded target	Exceeded target

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

[2] Formerly known as Public Markets.

[3] Newly created asset class in fiscal year 2016.

The total incentive amount paid under the STIP was $36.5 million in fiscal year 2016 (619 employees), $37.5 million in fiscal year 2015 (536 employees) and $36.5 million in fiscal year 2014 (465 employees).

LONG-TERM INCENTIVE PLAN

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

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

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

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

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

LONG-TERM INCENTIVE PLAN PAYMENTS

In fiscal year 2016, the four-year total fund investment performance of PSP Investments as well as that of the various asset classes was above the incentive threshold and, therefore, payouts were earned for those components of the LTIP for eligible participants.

ASSET CLASS	4-YEAR[1]
Public Equities and Absolute Return[2]	Above threshold but below target
Private Equity	Above threshold but below target
Real Estate	Exceeded target
Infrastructure	Exceeded target
Natural Resources	Exceeded target
Private Debt[3]	Not applicable
Total Fund	Exceeded target

[1] For the purpose of describing the performance level, a multiplier of target ranging between 0.95 and 1.05 shall be considered as achieving target.
[2] Formerly known as Public Markets.
[3] Newly created asset class in fiscal year 2016.

The total incentive amount paid under the LTIP was $16.3 million in fiscal year 2016, (88 employees), $18.8 million in fiscal year 2015 (88 employees) and $17.5 million in fiscal year 2014 (73 employees).

RESTRICTED FUND UNIT PLAN

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

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

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

The total incentive amount paid under the RFU in fiscal year 2016 to recognize the contributions of key individuals to the performance of PSP Investments was $0.9 million. The amount paid in fiscal year 2015 was $1.1 million, while fiscal year 2014 amounted to $2.7 million.

GROUP INSURANCE BENEFITS

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

OTHER REMUNERATION

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

RETIREMENT PLANS

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

The Employee Defined Benefit (DB) Pension Plan, closed to new entrants as of January 1, 2014, provides partially indexed post-retirement pension benefits for each year of participation, calculated on the basis of 2% of the participant's average of the best consecutive three years of salary. Benefits payable under the DB Pension Plan are limited by the *Income Tax Act* (Canada). The DB SERP has been established for all eligible employees enrolled in the DB Pension Plan, as an unfunded arrangement, to provide defined benefits in excess of the Employee DB Pension Plan, where such benefits are so limited. Employees participating in the DB Pension Plan and the DB SERP contribute 5.75% of their base salary, up to the maximum contribution allowable under the *Income Tax Act* (Canada). This contribution was increased from 5% on January 1, 2015 and will represent a 50/50 cost-sharing ratio by January 1, 2017.

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

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

Retirement Benefits

Defined Contribution Pension plan

NAME	Accumulated Value at Beginning of Year[1]	Compensatory Increase[2]	Non-Compensatory Increase[3]	Accumulated Value at End of Year
André Bourbonnais	$0	$24,519	$24,488	$49,007

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

[2] Includes employer contributions under both the DC Pension Plan and the DC Supplemental Employee Retirement Plan.

[3] Includes employee contributions and regular investment earnings on employer and employee contributions under both the DC Pension Plan and the DC Supplemental Employee Retirement Plan.

Defined Benefit Pension Plan

NAME	Number of Years of Credited Service[1]	Annual Benefit		Accrued Obligation at Beginning of Year (Final Regulations)[2,4]	Compensatory Increase[5]	Non-Compensatory Increase[6]	Accrued Obligation at Year End[2,7]
		At Year End[2]	At Age 65[2,3]				
Neil Cunningham	8.4	$53,900	$103,500	$794,700	$54,500	$45,400	$894,600
Daniel Garant	7.6	$51,800	$155,400	$670,100	$197,600	$197,600	$924,900
Former Officers							
Bruno Guilmette	10.2	$62,200	$62,200	$889,100	$55,600	$(226,700)	$718,000
John Valentini	10.5	$81,500	$81,500	$1,440,400	$53,100	$(430,200)	$1,063,300

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

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

[3] For the purpose of calculating the annual benefits payable at age 65, the final average earnings are calculated as at March 31, 2016.

[4] Accrued obligation using a discount rate of 4.2%. The obligations are calculated as at March 31, 2015 using the assumptions and methods that were used for the accounting disclosures as at December 31, 2014.

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

[6] Includes employee contributions and benefit payments made in the year, change in assumptions, non-pay-related experience and the interest cost for the year.

[7] Accrued obligation using a discount rate of 4.3%. The obligations are calculated as at March 31, 2016 using the assumptions and methods that were used for the accounting disclosures as at December 31, 2015.

Summary Compensation Table

NAME	Fiscal Year	Base Salary	Short-term Incentive Plan	Long-term Incentive Plan	Restricted Fund Units	Benefits and Other Compensation	Pension and SERP Plans	Total Compensation
André Bourbonnais[1] President and Chief Executive Officer	2016 2015 2014	$500,000 $3,846	$691,933 $0	$0 $0	$0 $0	$2,069,350 $3,057,481	$24,519 $0	$3,285,802 $3,061,327
Neil Cunningham Senior Vice President, Global Head of Real Estate Investments	2016 2015 2014	$320,000 $320,000 $320,000	$679,376 $849,584 $889,392	$1,296,000 $1,239,300 $1,215,000	$0 $70,070 $181,816	$27,468 $26,145 $25,971	$54,500 $48,900 $65,800	$2,377,344 $2,553,999 $2,697,979
Daniel Garant[2] Executive Vice President and Chief Investment Officer	2016 2015 2014	$380,615 $330,000 $330,000	$487,919 $667,921 $718,922	$864,270 $1,079,010 $1,213,144	$100,690 $144,519 $247,014	$23,720 $24,627 $23,722	$197,600 $42,200 $64,200	$2,054,814 $2,288,277 $2,597,002

Former Officers

NAME	Fiscal Year	Base Salary	Short-term Incentive Plan	Long-term Incentive Plan	Restricted Fund Units	Benefits and Other Compensation	Pension and SERP Plans	Total Compensation
Bruno Guilmette[3] Senior Vice President, Infrastructure Investments	2016 2015 2014	$240,093 $306,000 $306,000	$482,441 $683,956 $718,259	$2,630,972 $1,089,327 $671,395	$0 $0 $90,340	$928,174 $26,143 $25,970	$55,600 $31,300 $50,200	$4,337,279 $2,136,726 $1,862,164
John Valentini[4,5] Executive Vice President, Chief Operating Officer and Chief Financial Officer	2016 2015 2014	$174,519 $431,250 $375,000	$298,078 $685,651 $532,500	$1,224,607 $656,250 $621,250	$0 $0 $86,109	$1,357,509 $534,249 $30,978	$53,100 $219,000 $62,200	$3,107,813 $2,526,400 $1,708,037

1 Mr. Bourbonnais was appointed President and Chief Executive Officer as of March 30, 2015. With the exception of the base salary he earned, amounts shown for fiscal year 2015 were paid in accordance with his employment agreement and include a signing bonus of $3 million that was paid to partially offset accrued incentive compensation forfeited upon leaving his former employer. In addition, pursuant to his employment agreement, Mr. Bourbonnais was given a guarantee that his total direct compensation payments for each of fiscal years 2016, 2017 and 2018, in respect of base salary and total incentive plan payments, will be no less than $2,5 million per year (the "Compensation Guarantee").

2 Mr. Garant was appointed Executive Vice President and Chief Investment Officer as of July 1, 2015. For fiscal year 2016, compensation components such as base salary, short-term incentive as well as pension plans include adjustments to his compensation that reflect the new responsibilities he undertook.

3 Mr. Guilmette was employed by PSP Investments until December 31, 2015. For fiscal year 2016, the base salary shown was earned until December 31, 2015. Short-term and long-term incentive amounts were earned under the terms of the STIP and LTIP plans in effect for fiscal year 2016. Benefits and other compensation include severance amount payable in accordance with post-employment policies in effect.

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

5 Mr. Valentini was employed by PSP Investments until September 4, 2015. For fiscal year 2016, the base salary shown was earned until September 4, 2015. Short-term and long-term incentive amounts were earned under the terms of the STIP and LTIP plans in effect for fiscal year 2016. Benefits and other compensation include severance amount paid.

Long-Term Incentive Plan Awards Granted for Fiscal Year 2016

The following table shows the range of future potential payouts[1]. Payments will be based on PSP Investments' total fund investment and asset class performance.

NAME	Award Type	Fiscal Year 2016 Grant	Vesting Period	Estimated Future Payouts: Threshold[2]	Target	Maximum
André Bourbonnais[3]	LTIP RFU	$500,000 $0	4 years 3 years	$0 n/a	$500,000 $0	$2,000,000 $0
Neil Cunningham	LTIP RFU	$288,000 $0	4 years 3 years	$0 n/a	$288,000 $0	$1,296,000 $0
Daniel Garant	LTIP RFU	$344,408 $300,000	4 years 3 years	$0 n/a	$344,408 $300,000	$1,388,395 $0

Former Officers[4]

NAME	Award Type	
Bruno Guilmette	LTIP RFU	Not applicable
John Valentini	LTIP RFU	Not applicable

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

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

3 Pursuant to his employment agreement, Mr. Bourbonnais was also awarded a $700,000 RFU grant for fiscal year 2017 and a $500,000 RFU grant for fiscal year 2018.

4 Mr. Guilmette was employed by PSP Investments until December 31, 2015 and Mr. Valentini was employed by PSP Investments until September 4, 2015. LTIP and, where applicable RFUs were paid out in accordance with the terms of the plans and are reflected above under the Summary Compensation Table. No future payouts will be made under these plans.

Long-Term Incentive Plan Awards Cumulative Value

The total cumulative value[1, 2] as at March 31, 2016 of all long-term incentive awards granted but not yet vested or paid to PSP Investments' five highest-paid officers is shown in the following table.

NAME	Plan	Awards Paying Out at the End of Fiscal Year[1]			Total
		2017	2018	2019	
André Bourbonnais	LTIP RFU	$0 $233,333	$0 $400,000	$750,000 $400,000	$750,000 $1,033,333
Neil Cunningham	LTIP RFU	$1,008,000 $0	$864,000 $0	$720,000 $0	$2,592,000 $0
Daniel Garant	LTIP RFU	$617,203 $100,690	$547,594 $100,690	$511,231 $0	$1,676,028 $201,380
Former Officers[2]					
Bruno Guilmette	LTIP RFU	Not applicable			
John Valentini	LTIP RFU	Not applicable			

[1] LTIP accumulated values are estimated using total fund and asset class performance in accordance with the LTIP transition measures adopted in conjunction with the approval of the new incentive plan. RFUs' accumulated values reflect PSP Investments' total fund rate of return for fiscal years 2015 and 2016, where applicable, but no returns for future years.

[2] Mr. Guilmette was employed by PSP Investments until December 31, 2015 and Mr. Valentini was employed by PSP Investments until September 4, 2015. LTIP and, where applicable RFUs were paid out in accordance with the terms of the plans and are reflected above under the Summary Compensation Table. No future payouts will be made under these plans.

Post-Employment Policies

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

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

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

NAME	Years of Service[1]	Severance	Resignation
André Bourbonnais	1.0	See above[2]	See above[2]
Neil Cunningham	11.8	$912,000	$0
Daniel Garant	7.6	$1,140,000	$0
Former Officers[3]			
Bruno Guilmette	Not applicable		
John Valentini	Not applicable		

[1] Assumes a notional termination as at March 31, 2016.

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

[3] Post-Employment Policies are no longer relevant. Former Officers were no longer employed by the organization as at March 31, 2016.

DIRECTORS' BIOGRAPHIES

Michael P. Mueller

Chair of the Board

Member:
Investment Committee

Board member since
December 18, 2006

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

Cheryl Barker

Corporate Director

Member:
Investment Committee /
Human Resources and
Compensation Committee

Board member since
December 18, 2006

Ms. Barker is a Board member and Chair of the Audit Committee of Canada Media Fund. She was President of Manitoba Telecom Services Inc. (MTS) from 2004 until her retirement in 2006. Ms. Barker's career at MTS spanned 19 years, during which time she served in a variety of key positions, including: President and COO of MTS Communications Inc.; Chair, President and CEO of Bell Intrigna Inc.; and CFO and Treasurer of MTS. A Chartered Professional Accountant (CPA, CA), Ms. Barker holds a BSc and a General Certificate of Education from the University of Manitoba.

Diane Bean

Corporate Director

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

Board member since
June 18, 2010

Ms. Bean is a member of the Boards of Directors of Manulife International Ltd. (Asia) and The Insurance Company of the West Indies Ltd. and was founding Co-Chair of the Toronto Region Immigrant Employment Council. At the time of her retirement in 2011, she was Executive Vice President of Corporate Affairs and Human Resources, with responsibility for global HR, at Manulife Financial Corp. During her 30-year career with the company, she also served as Regional Executive in Canada, the US, Asia and Europe, and held senior positions in IT and Business Development. Ms. Bean holds a BCom from the University of Toronto.

DIRECTORS' BIOGRAPHIES

Micheline Bouchard

Corporate Director

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

Board member since September 29, 2011

Ms. Bouchard is a member of the Board of Directors of TELUS Corporation. She has extensive experience as a Director with public and private companies and volunteer boards. Past Board memberships include Banque Nationale de Paris, Ford Motor Company of Canada, London Insurance Group Inc. and Home Capital Group Inc./Home Trust Company. 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 a MASc (Electrical Engineering) from the École Polytechnique, affiliated with the Université de Montréal. She has been awarded five honorary doctorates from Canadian universities. Ms. Bouchard is a Member of the Order of Canada and of the Ordre national du Québec, one of the top 100 women of influence in Canada and a Certified Member of the Institute of Corporate Directors.

Léon Courville

Corporate Director

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

Board member since March 5, 2007

Mr. Courville has devoted his entire career to the sciences of management and finance, serving as a professor and researcher at universities in Canada and the US before being appointed President of the National Bank of Canada. He is enjoying an active "retirement" as a corporate Director, an Associate Professor at the École des Hautes Études Commerciales, the business school affiliated with the Université de Montréal, and as proprietor of the vineyard, LÉON COURVILLE, 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 Montréal Institute of Structured Finance and Derivative Instruments (IFSID). 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

Corporate Director

Member:
Investment Committee / Audit Committee / Governance Committee – Chair

Board member since September 29, 2011

Mr. Garven is Dean Emeritus of the Paul J. Hill School of Business and of the Kenneth Levene Graduate School of Business at the University of Regina. He is a Management Board member of the Pension Budget and Reserve Fund at the Organization for Economic Co-operation and Development (OECD) in Paris, and a voting member of the Accounting Standards Board (Canada). Most recently, he was a Senior Fellow at Canada's Public Policy Forum, a national think tank based in Ottawa. He has served as Deputy Minister to the Premier of Saskatchewan, Cabinet Secretary and Head of the Saskatchewan Public Service. He holds a BBA from the University of Regina, an MBA (Finance) from the University of Saskatchewan and an Honorary CPA from the Chartered Professional Accountants of Canada. Mr. Garven was a Research Fellow in Corporate Governance at the Ivey Business School, Western University. A founding Director of Greystone Managed Investments Inc. and former Chair and CEO of the Saskatchewan Workers' Compensation Board, he has also served on a variety of other public, private and not-for-profit boards. In addition, he is a recipient of the Queen Elizabeth II Diamond Jubilee Medal for leadership in business education and public policy.

Martin J. Glynn

Corporate Director

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

Board member since January 30, 2014

Mr. Glynn is a Board member of two public companies: Sun Life Financial Inc. and Husky Energy Inc. He also serves as Chair of UBC Investment Management Trust Inc. and is a Board member of the VGH & UBC Hospital Foundation and SOI Group Limited, a subsidiary of the University of St. Andrews associated with the Scottish Oceans Institute. 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.

Lynn Haight

Corporate Director

Member:
Investment Committee / Audit Committee / Governance Committee

Board member since January 14, 2010

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

DIRECTORS' BIOGRAPHIES

Timothy E. Hodgson

Corporate Director

Member:
Investment Committee – Chair / Audit Committee

Board member since December 17, 2013

Mr. Hodgson is Managing Partner of Alignvest Management Corporation. 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 sits on the Boards of KGS-Alpha Capital Markets, LP, the Global Risk Institute in Financial Services, the Ivey Business School at Western University and The Next 36. He is a past Board member of Goldman Sachs Canada, Inc. Mr. Hodgson holds an MBA from the Ivey Business School, and a BComm from the University of Manitoba. He is a Chartered Professional Accountant (CPA, CA) and a member of the Institute of Corporate Directors.

William A. MacKinnon

Corporate Director

Member:
Investment Committee / Audit Committee – Chair

Board member since January 14, 2010

Mr. MacKinnon is a Board member of TELUS Corporation, Pioneer Energy LP and Novadaq Technologies Inc. He is very active in professional and community circles and serves on the Boards of the Toronto Community Foundation and Roy Thomson Hall in Toronto. 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 also served on the KPMG International Board of Directors. Mr. MacKinnon holds a BComm 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 (FCPA, FCA).

SENIOR MANAGEMENT AND OFFICERS

André Bourbonnais
President and Chief Executive Officer

Daniel Garant
Executive Vice President and Chief Investment Officer

Guy Archambault
Senior Vice President, Human Resources and Talent Management

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

Neil Cunningham
Senior Vice President, Global Head of Real Estate Investments

Alain Deschênes
Senior Vice President and Chief Operations Officer

Marc Lacourcière
Senior Vice President and Chief Legal Officer

Anik Lanthier
Senior Vice President, Public Equities and Absolute Return

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

Guthrie Stewart
Senior Vice President, Global Head of Private Investments

Jean-François Bureau
Vice President and Chief Risk Officer

Stéphanie Lachance
Vice President, Responsible Investment and Corporate Secretary

Consolidated 10-Year Financial Review

($ millions)	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
CHANGE IN NET ASSETS[1]										
Net investment income (loss)	**$ 1,098**	$13,966	$12,793	$ 7,194	$ 1,888	$ 7,043	$ 7,605	$ (9,493)	$ (197)	$ 3,414
Operating expenses	**295**	243	216	184	148	114	92	86	77	52
Other comprehensive income (loss)	**4**	(15)	17	–	–	–	–	–	–	–
Comprehensive income (loss)	**$ 807**	$13,708	$12,594	$ 7,010	$ 1,740	$ 6,929	$ 7,513	$ (9,579)	$ (274)	$ 3,362
Fund transfers	**$ 3,987**	$ 4,554	$ 4,997	$ 4,635	$ 4,733	$ 4,814	$ 4,980	$ 4,431	$ 4,237	$ 3,990
Increase/(decrease) in net assets	**$ 4,794**	$18,262	$17,591	$11,645	$ 6,473	$11,743	$12,493	$ (5,148)	$ 3,963	$ 7,352
NET INVESTMENT ASSETS										
World Equity										
Canadian Equity	**$ 13,943**	$16,840	$16,731	$15,425	$14,464	$18,665	$13,547	$ 8,815	$11,538	$10,328
Foreign Equity:										
US Large Cap Equity	**9,812**	11,178	9,097	7,163	5,294	3,829	2,111	926	1,763	2,498
EAFE Large Cap Equity	**9,147**	10,512	9,000	6,745	4,760	3,052	2,043	1,043	1,831	1,720
Small Cap Equity	**6,556**	8,071	6,535	4,738	3,641	3,221	1,977	781	1,930	2,936
Emerging Markets Equity	**8,694**	9,640	8,116	6,163	4,787	4,062	2,987	2,122	2,726	2,501
Private Equity	**12,520**	10,103	8,425	6,924	6,444	5,582	5,426	4,191	3,972	1,669
Nominal Fixed Income										
Cash & Cash Equivalents[2,3]	**3,623**	2,647	1,756	1,456	1,597	1,254	1,892	73	533	468
Fixed Income	**13,768**	13,638	11,578	9,481	8,569	7,685	6,958	6,358	7,097	7,089
Private Debt[4]	**640**	–	–	–	–	–	–	–	–	–
Real Return Assets										
World Inflation-linked Bonds	**6,571**	6,396	5,036	4,427	3,982	3,022	2,145	2,389	2,211	1,714
Real Estate[3]	**20,356**	14,377	10,650	9,427	7,055	5,312	5,118	4,653	4,029	3,596
Infrastructure	**8,701**	7,080	6,011	3,854	3,607	2,356	2,073	2,446	1,343	479
Natural Resources[5]	**2,470**	1,536	795	382	325	–	–	–	–	–
Net investments	**$116,801**	**$112,018**	**$93,730**	**$76,185**	**$64,525**	**$58,040**	**$46,277**	**$33,797**	**$38,973**	**$34,998**
PERFORMANCE (%)										
Annual rate of return	**1.0**	**14.5**	**16.3**	**10.7**	**3.0**	**14.5**	**21.5**	**(22.7)**	**(0.3)**	**11.3**
Benchmark	**0.3**	13.1	13.9	8.6	1.6	12.7	19.8	(17.6)	1.2	10.1

The 10-year annualized net return is 5.9% and is in line with the return objective for the period.

[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.

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

[4] The Private Debt asset class was created in fiscal year 2016.

[5] Formerly known as Renewable Resources.

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 Forces Pension Plan Accounts (the "financial statements") have been prepared by management and approved by the Board of Directors. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and incorporated into the *CPA Canada Handbook*. Management is responsible for the contents of the financial statements and the financial information contained in the annual report.

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

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

In this regard, investments of PSP Investments held during the year ended March 31, 2016 were in accordance with the Act and the SIP&P.

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

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

André Bourbonnais
President and
Chief Executive Officer
May 12, 2016

Nathalie Bernier
Senior Vice President, Strategic and Business Planning
and Chief Financial Officer
May 12, 2016

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, 2016, were in accordance with the Act and PSP Investments' Statement of Investment Policies, Standards and Procedures".

Michael P. Mueller
Chair of the Board
May 12, 2016

Public Sector Pension Investment Board

CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditors' Report

To the President of the Treasury Board

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Public Sector Pension Investment Board ("PSP Investments"), which comprise the consolidated statement of financial position as at March 31, 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PSP Investments as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards as issued by the International Accounting Standards Board have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of PSP Investments and its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with the applicable provisions of Part X of the *Financial Administration Act* and regulations, the *Public Sector Pension Investment Board Act* and regulations and the by-laws of PSP Investments and its wholly-owned subsidiaries.

Deloitte LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A116635

May 12, 2016
Montréal, Canada

Lissa Lamarche

Lissa Lamarche, CPA, CA
Principal
for the Auditor General of Canada

May 12, 2016
Ottawa, Canada

Consolidated Statement of Financial Position

As at

(Canadian $ millions)	March 31, 2016	March 31, 2015
Assets		
Investments (Note 4.1)	**$ 131,513**	$ 124,493
Other assets	**147**	144
Total assets	**$ 131,660**	$ 124,637
Liabilities		
Trade payable and other liabilities	**$ 187**	$ 195
Investment-related liabilities (Note 4.1)	**5,861**	5,062
Borrowings (Notes 4.1, 8)	**8,851**	7,413
Total liabilities	**$ 14,899**	$ 12,670
Net assets	**$ 116,761**	$ 111,967
Equity		
Statutory rights held by the Government of Canada with respect to: (Note 9.1)		
Public Service Pension Plan Account	**$ 84,723**	$ 81,348
Canadian Forces Pension Plan Account	**22,999**	21,991
Royal Canadian Mounted Police Pension Plan Account	**8,483**	8,076
Reserve Force Pension Plan Account	**556**	552
Total equity	**$ 116,761**	$ 111,967
Total liabilities and equity	**$ 131,660**	$ 124,637

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

On behalf of the Board of Directors:

Michael P. Mueller
Chair of the Board

W.A. MacKinnon

William A. MacKinnon
Chair of the Audit Committee

Consolidated Statement of Comprehensive Income

For the year ended March 31

(Canadian $ millions)	2016	2015
Investment income	**$ 1,369**	$ 14,276
Investment-related expenses (Note 10)	**(271)**	(310)
Net investment income	**$ 1,098**	$ 13,966
Operating expenses (Note 11)	**(295)**	(243)
Net income	**$ 803**	$ 13,723
Other comprehensive income		
Remeasurement of the net defined benefit liability	**4**	(15)
Comprehensive income	**$ 807**	$ 13,708

Consolidated Statement of Changes in Equity

For the year ended March 31

(Canadian $ millions)	2016	2015
Fund transfers		
Balance at beginning of period	**$ 62,201**	$ 57,647
Fund transfers received during the period (Note 9.3)	**3,987**	4,554
Balance at end of period	**$ 66,188**	$ 62,201
Retained earnings		
Balance at beginning of period	**$ 49,766**	$ 36,058
Comprehensive income	**807**	13,708
Balance at end of period	**$ 50,573**	$ 49,766
Total equity	**$ 116,761**	$ 111,967

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

Consolidated Statement of Cash Flows

For the year ended March 31

(Canadian $ millions)	2016	2015
Cash flows from operating activities		
Net income	$ 803	$ 13,723
Adjustments for non-cash items:		
Depreciation of equipment (Note 11)	26	16
Effect of exchange rate changes on cash and cash equivalents	(38)	(55)
Unrealized (gains) losses on borrowings	(545)	174
	$ 246	$ 13,858
Net changes in operating assets and liabilities		
Increase in investments	$ (6,499)	$ (20,946)
(Increase) decrease in other assets	(6)	17
(Decrease) increase in trade payable and other liabilities	(4)	28
Increase in investment-related liabilities	799	1,538
Net cash used in operating activities	$ (5,464)	$ (5,505)
Cash flow from financing activities		
Proceeds from borrowings	$ 23,966	$ 14,240
Repayment of borrowings	(21,983)	(13,243)
Fund transfers received	3,987	4,554
Net cash flows provided by financing activities	$ 5,970	$ 5,551
Cash flow from investing activities		
Acquisitions of equipment	$ (27)	$ (39)
Net cash flows used in investing activities	$ (27)	$ (39)
Net change in cash and cash equivalents	$ 479	$ 7
Effect of exchange rate changes on cash and cash equivalents	38	55
Cash and cash equivalents at the beginning of the period	871	809
Cash and cash equivalents at the end of the period [A]	$ 1,388	$ 871
Supplementary disclosure of cash flow information		
Interest paid	$ (121)	$ (84)

[A] Cash and cash equivalents are comprised of amounts held for investment purposes (included in Note 4.1), as well as amounts held for administrative purposes (included in Other assets). Cash equivalents held for investment purposes represent short-term deposits and other arrangements with a maturity of 90 days or less that are held to meet short-term financial commitments. These amounts are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

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

Notes to the Consolidated Financial Statements

For the year ended March 31, 2016

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 440 Laurier Avenue West, 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 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are summarized below. These accounting policies have been used throughout all periods presented.

2.1. BASIS OF PRESENTATION

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

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

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 12, 2016.

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 13, 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 under the capital market debt financing program, 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. Purchases and sales are recorded as of the trade date.

(iii) Initial and subsequent measurement

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

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 (loss). All other changes in fair value are recorded in investment income (loss).

(iv) Derecognition

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

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

and

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

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

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 real estate, private equity, infrastructure and natural resources, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 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. Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

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.

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

Foreign currency transaction gains and losses on all financial instruments are included in investment income (loss).

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 recognize securities borrowed.

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

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 (loss) 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. 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 (loss).

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 Statement of Financial Position only if PSP Investments has a current enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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 (loss) is made up of interest, dividends, gains (losses) on the disposal of investments as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the reporting period. Interest is recognized, 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 and other fixed income securities as outlined in Note 10.

2.3.11. Fund Transfers

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

2.4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

3 CURRENT AND FUTURE CHANGES IN ACCOUNTING STANDARDS

3.1. CURRENT ACCOUNTING STANDARDS ADOPTED BEFORE THE EFFECTIVE DATE

IFRS 9 Financial Instruments

In 2014, the IASB completed its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9. The Standard includes requirements for recognition, derecognition, classification and measurement of financial assets and liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted.

PSP Investments initially adopted IFRS 9 in the Consolidated Financial Statements for the year ended March 31, 2015. Significant accounting policies in connection with IFRS 9 are described under Note 2.3.1.

3.2. FUTURE ACCOUNTING STANDARDS

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

IFRS 11 Joint Arrangements

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

IAS 7 Statement of Cash Flows

IAS 7 was amended, effective for annual periods beginning on or after January 1, 2017, to add new guidance on disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Management is currently assessing the impact of adopting this amendment.

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, 2016	March 31, 2015
Public markets		
Canadian equity	$ 6,369	$ 8,271
Foreign equity	26,019	33,322
Private markets		
Real estate	22,478	17,010
Private equity	11,249	10,017
Infrastructure [A]	9,502	7,475
Natural resources [A]	3,033	2,567
Fixed income		
Cash and money market securities	5,917	3,891
Government and corporate bonds	19,943	18,229
Inflation-linked bonds	7,405	6,429
Other fixed income securities	7,939	7,690
Alternative investments	6,627	5,512
	$ 126,481	$ 120,413
Investment-related assets		
Amounts receivable from pending trades	$ 441	$ 2,013
Interest receivable	223	212
Dividends receivable	104	98
Securities purchased under reverse repurchase agreements	1,071	–
Derivative-related assets	3,193	1,757
	$ 5,032	$ 4,080
Investments representing financial assets at FVTPL	$ 131,513	$ 124,493
Investment-related liabilities		
Amounts payable from pending trades	$ (576)	$ (1,604)
Interest payable	(27)	(32)
Securities sold short	(2,661)	(534)
Securities sold under repurchase agreements	(1,438)	–
Derivative-related liabilities	(1,159)	(2,892)
Investment-related liabilities representing financial liabilities at FVTPL	$ (5,861)	$ (5,062)
Borrowings		
Capital market debt financing	$ (8,851)	$ (7,413)
Borrowings representing financial liabilities designated at FVTPL	$ (8,851)	$ (7,413)
Net investments	$ 116,801	$ 112,018

[A] During the year ended March 31, 2016, certain investments were transferred from the infrastructure to the natural resources asset class to reflect a change in the scope of the asset classes. In order to present such investments on a comparable basis, corresponding comparative balances of $277 million were reclassified accordingly.

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 to ensure reasonableness. 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. As at March 31, 2016, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSP Investments was $6,286 million (March 31, 2015 – $5,471 million).

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

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing. As at March 31, 2016, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSP Investments was $1,594 million (March 31, 2015 – $1,436 million).

Natural resources investments are comprised of direct equity positions, fund investments and partnerships. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas.

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 other fixed income securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

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

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

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009. Potential margin calls on the ABTNs are supported by funding facilities, as described in Note 15.

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

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

The fair values of ABTNs as well as private debt investments are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

The fair value measurement of fund investments included as part of private debt investments 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 to ensure reasonableness. 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 approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.10, 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. 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 approximates fair value.

4.1.10. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 8. Short-term promissory notes are recorded at cost plus accrued interest, which approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

Options are the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

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

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

Collateralized Debt Obligations

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

Determination of Fair Value of Derivative Financial Instruments

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

The fair value of credit derivatives is determined using valuation techniques that incorporate significant inputs that are not observable in the market. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2016			March 31, 2015		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**$ 670**	**$ –**	**$ –**	$ 680	$ –	$ –
Warrants and rights	**3**	**4**	**–**	2	6	–
Options: Purchased	**1,506**	**20**	**–**	552	18	–
Written	**1,397**	**–**	**(23)**	535	–	(8)
OTC						
Forwards	**–**	**–**	**–**	381	30	(59)
Total return swaps	**20,880**	**947**	**(33)**	16,450	261	(63)
Options: Purchased	**5,822**	**66**	**–**	4,256	183	–
Written	**5,876**	**–**	**(54)**	4,312	–	(176)
Currency derivatives						
Listed						
Futures	**175**	**–**	**–**	156	–	–
OTC						
Forwards	**43,501**	**1,694**	**(234)**	44,345	484	(1,468)
Swaps	**3,251**	**19**	**(316)**	3,176	25	(325)
Options: Purchased	**8,783**	**102**	**–**	11,570	410	–
Written	**10,744**	**–**	**(87)**	11,733	–	(391)
Interest rate derivatives						
Listed						
Futures	**7,473**	**–**	**–**	7,749	–	–
Options: Purchased	**2,371**	**1**	**–**	48,307	15	–
Written	**20,470**	**–**	**(2)**	49,789	–	(9)
OTC						
Bond forwards	**326**	**1**	**–**	2,880	–	(5)
Interest rate swaps	**11,231**	**162**	**(198)**	8,270	134	(164)
Inflation swaps	**543**	**4**	**(6)**	–	–	–
Swaptions	**29,111**	**152**	**(151)**	46,414	182	(189)
Options: Purchased	**8,462**	**10**	**–**	5,555	4	–
Written	**12,629**	**–**	**(12)**	1,801	–	(3)
OTC-cleared						
Interest rate swaps	**7,949**	**–**	**–**	12,883	–	–
Credit derivatives [A]						
OTC						
Purchased	**1,794**	**8**	**(23)**	1,256	–	(22)
Sold	**514**	**3**	**(20)**	599	5	(10)
OTC-cleared						
Purchased	**628**	**–**	**–**	614	–	–
Sold	**1,441**	**–**	**–**	1,160	–	–
Total		**$ 3,193**	**$ (1,159)**		$ 1,757	$ (2,892)

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2016			March 31, 2015		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**$ 34,065**	**$ 25**	**$ (25)**	$ 107,770	$ 39	$ (17)
OTC derivatives	**163,467**	**3,168**	**(1,134)**	162,998	1,718	(2,875)
OTC-cleared derivatives	**10,018**	**–**	**–**	14,657	–	–
Total		**$ 3,193**	**$ (1,159)**		$ 1,757	$ (2,892)

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

(Canadian $ millions)	**March 31, 2016**
Less than 3 months	**$ 95,940**
3 to 12 months	**56,217**
Over 1 year	**55,393**

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 of liabilities in markets that are not active.
  (iii) Inputs other than quoted prices that are observable for the asset or liability.
  (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

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

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, 2016 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 5,644	$ 725	$ –	$ 6,369
Foreign equity	21,397	4,622	–	26,019
Private markets				
Real estate	–	–	22,478	22,478
Private equity	–	–	11,249	11,249
Infrastructure	–	–	9,502	9,502
Natural resources	–	–	3,033	3,033
Fixed income				
Cash and money market securities	–	5,917	–	5,917
Government and corporate bonds	–	19,660	283	19,943
Inflation-linked bonds	–	7,405	–	7,405
Other fixed income securities	–	1,935	6,004	7,939
Alternative investments	–	1,229	5,398	6,627
	$ 27,041	$ 41,493	$ 57,947	$ 126,481
Investment-related assets				
Amounts receivable from pending trades	$ –	$ 441	$ –	$ 441
Interest receivable	–	223	–	223
Dividends receivable	–	104	–	104
Securities purchased under reverse repurchase agreements	–	1,071	–	1,071
Derivative-related assets	25	3,168	–	3,193
	$ 25	$ 5,007	$ –	$ 5,032
Investments representing financial assets at FVTPL	$ 27,066	$ 46,500	$ 57,947	$ 131,513
Investment-related liabilities				
Amounts payable from pending trades	$ –	$ (576)	$ –	$ (576)
Interest payable	–	(27)	–	(27)
Securities sold short	(2,207)	(454)	–	(2,661)
Securities sold under repurchase agreements	–	(1,438)	–	(1,438)
Derivative-related liabilities	(25)	(1,134)	–	(1,159)
Investment-related liabilities representing financial liabilities at FVTPL	$ (2,232)	$ (3,629)	$ –	$ (5,861)
Borrowings				
Capital market debt financing	$ –	$ (8,851)	$ –	$ (8,851)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (8,851)	$ –	$ (8,851)
Net investments	$ 24,834	$ 34,020	$ 57,947	$ 116,801

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, 2015 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 7,532	$ 739	$ –	$ 8,271
Foreign equity	27,968	5,354	–	33,322
Private markets				
Real estate	–	–	17,010	17,010
Private equity	–	–	10,017	10,017
Infrastructure	–	–	7,475	7,475
Natural resources	–	–	2,567	2,567
Fixed income				
Cash and money market securities [A]	–	3,891	–	3,891
Government and corporate bonds	–	17,957	272	18,229
Inflation-linked bonds	–	6,429	–	6,429
Other fixed income securities	–	2,396	5,294	7,690
Alternative investments	–	1,410	4,102	5,512
	$ 35,500	$ 38,176	$ 46,737	$ 120,413
Investment-related assets				
Amounts receivable from pending trades [A]	$ –	$ 2,013	$ –	$ 2,013
Interest receivable [A]	–	212	–	212
Dividends receivable [A]	–	98	–	98
Derivative-related assets	39	1,718	–	1,757
	$ 39	$ 4,041	$ –	$ 4,080
Investments representing financial assets at FVTPL	$ 35,539	$ 42,217	$ 46,737	$ 124,493
Investment-related liabilities				
Amounts payable from pending trades [A]	$ –	$ (1,604)	$ –	$ (1,604)
Interest payable [A]	–	(32)	–	(32)
Securities sold short	(534)	–	–	(534)
Derivative-related liabilities	(17)	(2,868)	(7)	(2,892)
Investment-related liabilities representing financial liabilities at FVTPL	$ (551)	$ (4,504)	$ (7)	$ (5,062)
Borrowings				
Capital market debt financing	$ –	$ (7,413)	$ –	$ (7,413)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (7,413)	$ –	$ (7,413)
Net investments	$ 34,988	$ 30,300	$ 46,730	$ 112,018

[A] As at March 31, 2015, short-term balances for which cost approximated fair value were not classified in the fair value hierarchy. In order to be consistent with the classification of other financial instruments, they have been included in Level 2 in the current year. The comparative figures were reclassified in Level 2 to conform to the current year presentation. As a result, investments representing financial assets at FVTPL of $3,806 million and investment-related liabilities representing financial liabilities at FVTPL of $1,636 million are now disclosed as Level 2.

There were no transfers between Level 1 and Level 2 during the year ended March 31, 2016.

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2016:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Private markets					
Real estate	Direct and co-investments	**$21,034**	Discounted cash flow (DCF)	Discount rate [A, B]	5.25% – 25.00% (8.27%)
				Terminal capitalization rate [A, B]	4.25% – 14.00% (6.29%)
			Direct capitalization	Capitalization rate [A, C]	3.25% – 7.50% (5.91%)
				Stabilized occupancy rate [C, D]	93.00% – 100.00% (96.84%)
			Sales comparison approach	Price per square foot [C, D]	$25.00 – $665.89 ($170.43)
			Net asset value method (NAV) [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 1,444**	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	**$16,079**	DCF	Discount rate [A]	5.20% – 12.50% (9.70%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 7,705**	NAV [E]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	**$ 283**	DCF	Discount rate [A]	3.70% – 13.50% (6.30%)
Asset-backed securities	Term notes and mortgage-backed securities	**$ 702**	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	**$ 1,813**	DCF	Discount rate [A]	8.00% – 13.50% (11.09%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 3,489**	NAV [E]	N/A	N/A
Alternative investments	Fund investments	**$ 5,398**	NAV [E]	N/A	N/A
Total		**$57,947**			

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

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

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

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

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

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, 2015:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Private markets					
Real estate	Direct and co-investments	$15,460	DCF	Discount rate [A, B]	6.00% – 26.00% (8.21%)
				Terminal capitalization rate [A, B]	4.00% – 12.00% (6.36%)
			Direct capitalization	Capitalization rate [A, C]	3.25% – 9.25% (6.72%)
				Stabilized occupancy rate [C, D]	93.00% – 98.50% (96.49%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 1,550	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$13,005	DCF	Discount rate [A]	5.69% – 13.40% (9.49%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 7,054	NAV [E]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	$ 272	DCF	Discount rate [A]	3.87% – 14.02% (5.21%)
Asset-backed securities	Term notes and mortgage-backed securities	$ 1,389	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 1,037	DCF	Discount rate [A]	9.50% – 13.40% (11.22%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 2,868	NAV [E]	N/A	N/A
Alternative investments	Fund investments	$ 4,102	NAV [E]	N/A	N/A
Derivative-related instruments	Credit derivatives	$ (7)	Third-party pricing [E]	N/A	N/A
Total		$46,730			

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

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

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

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

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

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, 2016:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)	Transfer	Closing Balance
Private markets	$ 37,069	$ 9,551	$ (3,774)	$ –	$ 944	$ 2,472	$ –	$ 46,262
Fixed income	5,566	2,075	(516)	(695)	420	(563)	–	6,287
Alternative investments	4,102	1,643	(439)	–	65	27	–	5,398
Derivative-related assets/liabilities (net)	(7)	–	–	(2)	2	7	–	–
Total	**$ 46,730**	**$ 13,269**	**$ (4,729)**	**$ (697)**	**$ 1,431**	**$ 1,943**	**$ –**	**$ 57,947**

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2015:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains (Losses)	Unrealized Gains (Losses)	Transfer out	Closing Balance
Private markets	$ 28,363	$ 7,721	$ (2,745)	$ –	$ 481	$ 3,562	$ (313)	$ 37,069
Fixed income	4,524	1,862	(1,108)	(146)	103	331	–	5,566
Alternative investments	1,887	2,286	(583)	–	(44)	556	–	4,102
Derivative-related assets/liabilities (net)	–	–	–	(2)	1	(6)	–	(7)
Total	$ 34,774	$ 11,869	$ (4,436)	$ (148)	$ 541	$ 4,443	$ (313)	$ 46,730

During the year ended March 31, 2015, a private markets investment classified under Level 3 as at March 31, 2014, was transferred to Level 1 when the underlying investee 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, 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, 2016 (March 31, 2015 – 4% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. Management ensures the appropriateness of the work performed by third-party appraisers as described under Note 4.2.2. 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, 2016**	March 31, 2015
Securities lending and borrowing		
Securities lent	**$ 9,163**	$ 13,297
Collateral held [A]	**9,782**	14,349
Securities borrowed	**2,290**	534
Collateral pledged [B]	**2,405**	561
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**1,443**	–
Collateral pledged	**1,438**	–
Securities purchased under reverse repurchase agreements	**1,071**	–
Collateral held [C]	**1,071**	–
Derivative contracts		
Collateral pledged	**287**	1,405
Collateral held	**2,181**	170

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to $2,083 million as at March 31, 2016 (March 31, 2015 – $2,680 million) and securities amounted to $7,699 million as at March 31, 2016 (March 31, 2015 – $11,669 million). All cash collateral is re-invested.

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

[C] The collateral received is in the form of securities of which $453 million as at March 31, 2016 (March 31, 2015 – nil) has been used in connection with short selling transactions.

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.

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, 2016, 102 investment entity subsidiaries were incorporated in North America, 19 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa. (March 31, 2015 – 92 in North America, 14 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa).

In addition, PSP Investments controlled 73 investees directly or through its investment entity subsidiaries as at March 31, 2016 (March 31, 2015 – 68 investees).

6 INTERESTS IN OTHER ENTITIES (continued)

6.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

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, 2016
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments**	**Relationship to PSP Investments**
Revera Inc.	**North America**	**100%**	**Controlled investee**
AviAlliance GmbH	**Europe**	**100%**	**Controlled investee**
Kaingaroa Timberlands Ltd.	**Oceania**	**56%**	**Jointly controlled investee**
Telesat Holdings Inc.	**North America**	**34%**	**Associate**
Isolux Infrastructure Netherlands B.V.	**Central and South America**	**19%**	**Jointly controlled investee**
Roccapina Fund, L.P.	**North America**	**100%**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50%**	**Jointly controlled investee**
Big Box Properties	**North America**	**49%**	**Jointly controlled investee**
Acelity Inc.	**North America**	**21%**	**Associate**
TDF S.A.S.	**Europe**	**22%**	**Associate**

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

In addition to the above, PSP Investments controls and 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.

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 15 and commitments under Note 16.

7 INVESTMENT RISK MANAGEMENT

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

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

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

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.

Market risk management focuses on the following two key components:

- Policy Portfolio
  The Policy Portfolio (long-term asset mix), as defined in the SIP&P, determines a diversification strategy to mitigate risk whereby PSP Investments invests in a diversified portfolio expected to achieve a return at least equal to the Actuarial Rate of Return (ARR); defined as the rate of return assumption used by the Chief Actuary of Canada in the latest actuarial valuation reports of the Plans. In the absence of other factors affecting the funding of the Plans or changes to pension benefits under the Plans, the ARR is the rate of return required to maintain funding requirements and pension benefits at their current levels.
- Active Management
  Active management is defined as the sum of investment strategies that deviate from the approved Policy Portfolio. It is designed to supplement the returns of the Policy Portfolio within an active risk budget.

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

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

7.1.1. Measurement of Market Risk

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

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

VaR is statistically valid under normal market conditions and does not specifically consider losses from severe market events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.1. Measurement of Market Risk (continued)

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

	March 31, 2016	March 31, 2015
Policy Portfolio VaR	**21.5 %**	20.6 %
Active VaR	**3.6**	2.6
Total VaR (undiversified)	**25.1**	23.2
Diversification effect	**(1.5)**	(0.9)
Total VaR	**23.6 %**	22.3 %

Stress Testing

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

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, 2016:

(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Government bonds	$ 672	$ 6,538	$ 3,285	$ 3,586	$ –	$ 14,081
Corporate bonds	434	3,183	1,703	542	–	5,862
Inflation-linked bonds	24	1,650	2,465	3,266	–	7,405
Asset-backed securities	727	201	1	–	–	929
Private debt investments:						
Directly held	5	1,213	308	–	51	1,577
Held through funds	–	–	–	–	3,724 [A]	3,724
Total investments with significant exposure to interest rate risk	**1,862**	**12,785**	**7,762**	**7,394**	**3,775**	**33,578**
Other investments	**–**	**–**	**–**	**–**	**7,626 [B]**	**7,626**
Total fixed income	**$ 1,862**	**$ 12,785**	**$ 7,762**	**$ 7,394**	**$ 11,401**	**$ 41,204**

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

[B] Consists of $5,917 million in cash and money market securities and $1,709 million in floating rate notes, which, due to their nature, are not significantly exposed to interest rate risk.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 8.

Alternative investments, reverse repurchase agreements, as well as derivative contracts described in Notes 4.1.4, 4.1.9 and 4.1.11, respectively, are also subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 7.1.1.

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through direct and indirect holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies. PSP Investments' policy is to hedge foreign currency investments in government and corporate bonds, inflation-linked bonds, certain other fixed income securities, as well as investments in real estate, infrastructure and natural resources. Additional factors are considered when implementing the hedging target for investments in emerging countries, namely, total relative exposure and cost effectiveness.

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

Currency	March 31, 2016		March 31, 2015	
(Canadian $ millions)	Fair Value	% of Total	Fair Value	% of Total
US Dollar	$ 30,325	60.3 %	$ 29,110	58.8 %
Euro	3,581	7.1	3,595	7.3
South Korean Won	2,146	4.3	1,792	3.6
British Pound	2,056	4.1	2,211	4.5
Hong Kong Dollar	1,798	3.6	2,133	4.3
Japanese Yen	1,701	3.4	2,295	4.7
Brazilian Real	1,555	3.1	1,406	2.8
Indian Rupee	996	2.0	703	1.4
Swiss Franc	993	2.0	1,136	2.3
Taiwanese New Dollar	909	1.8	992	2.0
Mexican Peso	648	1.3	366	0.7
Australian Dollar	623	1.2	645	1.3
South African Rand	535	1.1	608	1.2
Others	2,392	4.7	2,480	5.1
Total	$ 50,258	100.0 %	$ 49,472	100.0 %

As at March 31, 2016, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $19,799 million (US$13,901 million, €919 million, £204 million, R182 million South African Rands, R$83 million Brazilian Reals, $19,415 million Colombian pesos and $391 million Mexican pesos) which were not included in the foreign currency exposure table above.

7 INVESTMENT RISK MANAGEMENT
(continued)

7.2. CREDIT RISK

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

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. Except for ABTNs, securities rated by only one agency are classified as "not rated". If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings.

As at March 31, 2016, PSP Investments' maximum exposure to credit risk amounted to approximately $36 billion (March 31, 2015 – approximately $31 billion). This amount excludes investments in distressed debt in the amount of approximately $2.7 billion as at March 31, 2016 (March 31, 2015 – approximately $2.5 billion). The maximum exposure to credit risk also excludes collateralized debt obligations, collateral held as disclosed in Notes 4.1.11 and 5, respectively, and the impact of guarantees and indemnities disclosed in Note 15.

As at March 31, 2016, PSP Investments had no exposure to collateralized debt obligations (March 31, 2015 – $63 million of net notional exposure to various tranches of collateralized debt obligations, of which approximately 45% of the underlying dollar exposure was rated "Investment grade"). Additionally, PSP Investments had funding facilities, as described in Note 15, to support potential margin calls on the ABTNs.

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

PSP Investments' concentration of credit risk by credit rating, excluding the items described above and any other credit enhancement, was as follows as at March 31:

	2016	2015
Investment grade (AAA to BBB–)	**97.3 %**	97.5 %
Below investment grade (BB+ and below)	**0.8**	0.4
Not rated:		
Rated by a single credit rating agency	**0.8**	0.6
Not rated by credit rating agencies	**1.1**	1.5
Total	**100.0 %**	100.0 %

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 high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. In certain cases, counterparties are authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing 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.

7.3. LIQUIDITY RISK

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

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 8 provides additional information on the usage of the capital market debt program.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4.1.11.

7 INVESTMENT RISK MANAGEMENT (continued)

7.3. LIQUIDITY RISK (continued)

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2016 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(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	$ (576)	$ –	$ –	$ (576)
Interest payable	(25)	(2)	–	(27)
Securities sold short	(2,661)	–	–	(2,661)
Securities sold under repurchase agreements	(1,438)	–	–	(1,438)
Capital market debt financing	(5,211)	(2,016)	(1,624)	(8,851)
Trade payable and other liabilities	(123)	(2)	(62)	(187)
Total	**$ (10,034)**	**$ (2,020)**	**$ (1,686)**	**$ (13,740)**

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 1,861	$ 789	$ 543	$ 3,193
Derivative-related liabilities[A]	(314)	(202)	(643)	(1,159)
Total	**$ 1,547**	**$ 587**	**$ (100)**	**$ 2,034**

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.4. OFFSETTING

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described in Note 7.2.1. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Consolidated Statement of Financial Position. Securities repurchase and reverse repurchase agreements described in Notes 2.3.6 and 5 are subject to similar arrangements though are not offset.

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

Financial Assets

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set off	Net Amount of Financial Assets Presented in the Consolidated Statement of Financial Position	Less: Related Amounts not Set off in the Consolidated Statement of Financial Position – Recognized Financial Liabilities	Less: Related Amounts not Set off in the Consolidated Statement of Financial Position – Collateral Held and Not Recognized	Net
March 31, 2016						
OTC-derivatives	**$ 3,177**	**$ 9**	**$ 3,168[A]**	**$ 953**	**$ 2,101**	**$ 114**
Reverse repurchase agreements	**1,071**	**–**	**1,071[B]**	**–**	**1,071**	**–**
Total	**$ 4,248**	**$ 9**	**$ 4,239**	**$ 953**	**$ 3,172**	**$ 114**
March 31, 2015						
OTC-derivatives	$ 1,744	$ 26	$ 1,718[A]	$ 1,542	$ 115	$ 61
Total	$ 1,744	$ 26	$ 1,718	$ 1,542	$ 115	$ 61

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 Statement of Financial Position	Less: Related Amounts not Set off in the Consolidated Statements of Financial Position – Recognized Financial Assets	Less: Related Amounts not Set off in the Consolidated Statements of Financial Position – Collateral Pledged and Not Derecognized	Net
March 31, 2016						
OTC-derivatives	**$ 1,143**	**$ 9**	**$ 1,134[A]**	**$ 953**	**$ 178**	**$ 3**
Repurchase agreements	**1,438**	**–**	**1,438[B]**	**–**	**1,438**	**–**
Total	**$ 2,581**	**$ 9**	**$ 2,572**	**$ 953**	**$ 1,616**	**$ 3**
March 31, 2015						
OTC-derivatives	$ 2,901	$ 26	$ 2,875[A]	$ 1,542	$ 1,221	$ 112
Total	$ 2,901	$ 26	$ 2,875	$ 1,542	$ 1,221	$ 112

[A] As described in Note 4.1.11.

[B] As described in Note 4.1.

8 CAPITAL MARKET DEBT FINANCING

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

The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed $3 billion for issuances in Canada and US$5 billion for issuances in the United States.

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2016 and March 31, 2015.

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

(Canadian $ millions)	**March 31, 2016** Capital Amounts Payable at Maturity	**March 31, 2016** Fair Value	March 31, 2015 Capital Amounts Payable at Maturity	March 31, 2015 Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.58% and 0.70% and maturing within 56 and 185 days of issuance (March 31, 2015 – 17 and 359 days)	**$ 1,217**	**$ 1,215**	$ 698	$ 697
Short-term US Dollar promissory notes, bearing interest between 0.40% and 0.85% and maturing within 63 and 196 days of issuance (March 31, 2015 – 84 and 367 days)	**4,905**	**4,901**	3,232	3,230
Medium-term notes Series 2, bearing interest of 2.94% per annum and matured on December 3, 2015	**–**	**–**	700	710
Medium-term notes Series 4, bearing interest of 2.26% per annum and maturing on February 16, 2017	**900**	**911**	900	924
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**500**	**537**	500	544
Medium-term notes Series 6, bearing variable interest of 3-month CDOR and maturing on April 4, 2016	**200**	**200**	200	200
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**1,000**	**1,087**	1,000	1,108
Total	**$ 8,722**	**$ 8,851**	$ 7,230	$ 7,413

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

(Canadian $ millions)	**2016**	2015
Short-term promissory notes	**$ 21**	$ 14
Medium-term notes	**84**	86
Total	**$ 105**	$ 100

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 (loss) to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 12.

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 year ended March 31, as follows:

(Canadian $ millions)		2016		2015
Public Service Pension Fund	**$**	**2,792**	$	3,221
Canadian Forces Pension Fund		**849**		940
Royal Canadian Mounted Police Pension Fund		**346**		374
Reserve Force Pension Fund		**–**		19
Total	**$**	**3,987**	$	4,554

10 INVESTMENT-RELATED EXPENSES

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

(Canadian $ millions)		2016		2015
Interest expense	**$**	**116**	$	110
Transaction costs		**102**		103
External investment management fees [A]		**36**		43
Other (net)		**17**		54
Total	**$**	**271**	$	310

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. This excludes fees for certain pooled fund investments classified under alternative investments which amounted to $61 million for the year ended March 31, 2016 ($104 million for the year ended March 31, 2015).

This also excludes management fees related to investments in private markets and other fixed income securities that are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.0% of the total invested and/or committed amount, totaled $239 million for the year ended March 31, 2016 ($195 million for the year ended March 31, 2015).

11 OPERATING EXPENSES

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

(Canadian $ millions)		2016		2015
Salaries and employee benefits	**$**	**168**	$	148
Professional and consulting fees		**45**		30
Premises and equipment		**16**		12
Market data and business applications		**22**		20
Depreciation of equipment		**26**		16
Custodial fees		**4**		4
Other operating expenses		**14**		13
Total	**$**	**295**	$	243

12 ALLOCATION OF COMPREHENSIVE INCOME (LOSS)

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

12.1. INVESTMENT INCOME (LOSS)

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

12.2. 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 (loss), excluding the direct cost of investment activities listed above, for the year ended March 31, were allocated in proportion to the annual amount of net investments of each Plan Account, which were as follows:

	2016	2015
Public Service Pension Plan Account	**72.6 %**	72.7 %
Canadian Forces Pension Plan Account	**19.7**	19.6
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.2
Reserve Force Pension Plan Account	**0.5**	0.5
Total	**100.0 %**	100.0 %

Expenses are paid by PSP Investments by way of advances from the Public Service Pension Plan Account, which are reimbursed by the other Plan Accounts on a quarterly basis.

13 RELATED PARTY TRANSACTIONS

13.1. 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 15 and 16, 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 (loss) as those with unrelated parties.

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

13.2. 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 (loss) as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

13.3. 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 year ended March 31 was recorded in the Consolidated Statement of Comprehensive Income (Loss) and was as follows:

(Canadian $ millions)		2016		2015
Short-term compensation and other benefits	**$**	**16**	$	14
Long-term compensation and other benefits		**4**		6
	$	**20**	$	20

As disclosed in Note 15, 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.

14 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 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.

15 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.

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

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

- As at March 31, 2016, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to $1,891 million as at March 31, 2016 (March 31, 2015 – $1,147 million) plus applicable interest and other related costs. The arrangements mature between May 2016 and September 2028.
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $29 million as at March 31, 2016 (March 31, 2015 – $64 million) in relation to investment transactions.

16 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, 2016
Real estate	$ 2,411
Private equity	7,088
Infrastructure	3,991
Natural resources	848
Other fixed income securities	4,514
Alternative investments	1,900
Total	**$ 20,752**

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

Public Service
Pension Plan Account

FINANCIAL STATEMENTS

Independent Auditors' Report

To the President of the Treasury Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Sector Pension Investment Board – Public Service Pension Plan Account (the Public Service Pension Plan Account), which comprise the statement of financial position as at March 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Public Service Pension Plan Account as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards as issued by the International Accounting Standards Board have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Public Service Pension Plan Account that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the applicable provisions of Part X of the *Financial Administration Act* and regulations, the *Public Sector Pension Investment Board Act* and regulations and the by-laws of the Public Sector Pension Investment Board and its wholly-owned subsidiaries.

Deloitte LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A116635

May 12, 2016
Montréal, Canada

Lissa Lamarche, CPA, CA
Principal
for the Auditor General of Canada

May 12, 2016
Ottawa, Canada

Statement of Financial Position

As at

(Canadian $ millions)	**March 31, 2016**	March 31, 2015
Assets		
Investments (Note 4.1)	**$ 95,400**	$ 90,426
Other assets	**108**	105
Due from the Canadian Forces Pension Plan Account	**17**	16
Due from the Royal Canadian Mounted Police Pension Plan Account	**6**	6
Total assets	**$ 95,531**	$ 90,553
Liabilities		
Trade payable and other liabilities	**$ 136**	$ 143
Investment-related liabilities (Note 4.1)	**4,251**	3,678
Borrowings (Notes 4.1, 8)	**6,421**	5,384
Total liabilities	**$ 10,808**	$ 9,205
Net assets	**$ 84,723**	$ 81,348
Equity (Note 9)	**$ 84,723**	$ 81,348
Total liabilities and equity	**$ 95,531**	$ 90,553

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

On behalf of the Board of Directors:

Michael P. Mueller
Chair of the Board

William A. MacKinnon
Chair of the Audit Committee

Statement of Comprehensive Income

For the year ended March 31

(Canadian $ millions)	2016	2015
Investment income	**$ 991**	$ 10,372
Investment-related expenses (Note 10)	**(196)**	(225)
Net investment income	**$ 795**	$ 10,147
Operating expenses (Note 11)	**(215)**	(177)
Net income	**$ 580**	$ 9,970
Other comprehensive income		
Remeasurement of the net defined benefit liability	**3**	(11)
Comprehensive income	**$ 583**	$ 9,959

Statement of Changes in Equity

For the year ended March 31

(Canadian $ millions)	2016	2015
Fund transfers		
Balance at beginning of period	**$ 45,180**	$ 41,959
Fund transfers received during the period (Note 9.2)	**2,792**	3,221
Balance at end of period	**$ 47,972**	$ 45,180
Retained earnings		
Balance at beginning of period	**$ 36,168**	$ 26,209
Comprehensive income	**583**	9,959
Balance at end of period	**$ 36,751**	$ 36,168
Total equity	**$ 84,723**	$ 81,348

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

Statement of Cash Flows

For the year ended March 31

(Canadian $ millions)	2016	2015
Cash flows from operating activities		
Net income	$ 580	$ 9,970
Adjustments for non-cash items:		
Depreciation of equipment (Note 11)	19	12
Effect of exchange rate changes on cash and cash equivalents	(28)	(40)
Unrealized (gains) losses on borrowings	(396)	126
	$ 175	$ 10,068
Net changes in operating assets and liabilities		
Increase in investments	$ (4,596)	$ (15,118)
(Increase) decrease in other assets	(5)	11
(Decrease) increase in trade payable and other liabilities	(4)	22
Increase in investment-related liabilities	573	1,114
Net cash used in operating activities	$ (3,857)	$ (3,903)
Cash flow from financing activities		
Repayments of amounts due from:		
Canadian Forces Pension Plan Account	$ 76	$ 63
Royal Canadian Mounted Police Pension Plan Account	28	23
Reserve Force Pension Plan Account	2	2
Advances to:		
Canadian Forces Pension Plan Account	(77)	(65)
Royal Canadian Mounted Police Pension Plan Account	(28)	(24)
Reserve Force Pension Plan Account	(2)	(2)
Proceeds from borrowings	17,310	10,978
Repayment of borrowings	(15,877)	(10,260)
Fund transfers received	2,792	3,221
Net cash flows provided by financing activities	$ 4,224	$ 3,936
Cash flow from investing activities		
Acquisitions of equipment	$ (20)	$ (29)
Net cash flows used in investing activities	$ (20)	$ (29)
Net change in cash and cash equivalents	$ 347	$ 4
Effect of exchange rate changes on cash and cash equivalents	28	40
Cash and cash equivalents at the beginning of the period	632	588
Cash and cash equivalents at the end of the period[A]	$ 1,007	$ 632
Supplementary disclosure of cash flow information		
Interest paid	$ (89)	$ (61)

[A] Cash and cash equivalents are comprised of amounts held for investment purposes (included in Note 4.1), as well as amounts held for administrative purposes (included in Other assets). Cash equivalents held for investment purposes represent short-term deposits and other arrangements with a maturity of 90 days or less that are held to meet short-term financial commitments. These amounts are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

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

Notes to the Financial Statements

For the year ended March 31, 2016

1 CORPORATE INFORMATION

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

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

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

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

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

PSP Investments' registered office is located at 440 Laurier Avenue West, 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 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are summarized below. These accounting policies have been used throughout all periods presented.

2.1. BASIS OF PRESENTATION

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

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

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 12, 2016.

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 13, 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 under the capital market debt financing program, 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. Purchases and sales are recorded as of the trade date.

(iii) Initial and subsequent measurement

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

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 (loss). All other changes in fair value are recorded in investment income (loss).

(iv) Derecognition

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

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

and

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

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

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 real estate, private equity, infrastructure and natural resources, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 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. Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

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.

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

Foreign currency transaction gains and losses on all financial instruments are included in investment income (loss).

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 recognize securities borrowed.

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

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 (loss) 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. 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 (loss).

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 Statement of Financial Position only if PSP Investments has a current enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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 (loss) is made up of interest, dividends, gains (losses) on the disposal of investments as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the reporting period. Interest is recognized, 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 and other fixed income securities as outlined in Note 10.

2.3.11. Fund Transfers

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

2.4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

3 CURRENT AND FUTURE CHANGES IN ACCOUNTING STANDARDS

3.1. CURRENT ACCOUNTING STANDARDS ADOPTED BEFORE THE EFFECTIVE DATE

IFRS 9 Financial Instruments

In 2014, the IASB completed its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9. The Standard includes requirements for recognition, derecognition, classification and measurement of financial assets and liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted.

PSP Investments initially adopted IFRS 9 in its Consolidated Financial Statements for the year ended March 31, 2015. Significant accounting policies in connection with IFRS 9 are described under Note 2.3.1.

3.2. FUTURE ACCOUNTING STANDARDS

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

IFRS 11 Joint Arrangements

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

IAS 7 Statement of Cash Flows

IAS 7 was amended, effective for annual periods beginning on or after January 1, 2017, to add new guidance on disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Management is currently assessing the impact of adopting this amendment.

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, 2016	March 31, 2015
Public markets		
Canadian equity	$ 4,620	$ 6,009
Foreign equity	18,874	24,203
Private markets		
Real estate	16,306	12,355
Private equity	8,160	7,276
Infrastructure[A]	6,893	5,429
Natural resources[A]	2,200	1,865
Fixed income		
Cash and money market securities	4,293	2,826
Government and corporate bonds	14,466	13,240
Inflation-linked bonds	5,372	4,670
Other fixed income securities	5,759	5,586
Alternative investments	4,807	4,004
	$ 91,750	$ 87,463
Investment-related assets		
Amounts receivable from pending trades	$ 320	$ 1,462
Interest receivable	162	154
Dividends receivable	75	71
Securities purchased under reverse repurchase agreements	777	–
Derivative-related assets	2,316	1,276
	$ 3,650	$ 2,963
Investments representing financial assets at FVTPL	$ 95,400	$ 90,426
Investment-related liabilities		
Amounts payable from pending trades	$ (418)	$ (1,165)
Interest payable	(19)	(24)
Securities sold short	(1,930)	(387)
Securities sold under repurchase agreements	(1,043)	–
Derivative-related liabilities	(841)	(2,102)
Investment-related liabilities representing financial liabilities at FVTPL	$ (4,251)	$ (3,678)
Borrowings		
Capital market debt financing	$ (6,421)	$ (5,384)
Borrowings representing financial liabilities designated at FVTPL	$ (6,421)	$ (5,384)
Net investments	$ 84,728	$ 81,364

[A] During the year ended March 31, 2016, certain investments were transferred from the infrastructure to the natural resources asset class to reflect a change in the scope of the asset classes. In order to present such investments on a comparable basis, corresponding comparative balances of $202 million were reclassified accordingly.

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 to ensure reasonableness. 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. As at March 31, 2016, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSP Investments was $4,560 million for the Plan Account (March 31, 2015 – $3,974 million).

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

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing. As at March 31, 2016, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSP Investments was $1,156 million for the Plan Account (March 31, 2015 – $1,043 million).

Natural resources investments are comprised of direct equity positions, fund investments and partnerships. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas.

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 other fixed income securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

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

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

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009. Potential margin calls on the ABTNs are supported by funding facilities, as described in Note 15.

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

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

The fair values of ABTNs as well as private debt investments are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

The fair value measurement of fund investments included as part of private debt investments 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 to ensure reasonableness. 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 approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.10, 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. 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 approximates fair value.

4.1.10. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 8. Short-term promissory notes are recorded at cost plus accrued interest, which approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

Options are the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

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

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

Collateralized Debt Obligations

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

Determination of Fair Value of Derivative Financial Instruments

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

The fair value of credit derivatives is determined using valuation techniques that incorporate significant inputs that are not observable in the market. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2016			March 31, 2015		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**$ 486**	**$ –**	**$ –**	$ 494	$ –	$ –
Warrants and rights	**2**	**3**	**–**	1	5	–
Options: Purchased	**1,092**	**14**	**–**	401	13	–
Written	**1,013**	**–**	**(17)**	388	–	(6)
OTC						
Forwards	**–**	**–**	**–**	277	22	(43)
Total return swaps	**15,146**	**687**	**(24)**	11,949	189	(46)
Options: Purchased	**4,223**	**48**	**–**	3,091	134	–
Written	**4,263**	**–**	**(39)**	3,131	–	(128)
Currency derivatives						
Listed						
Futures	**127**	**–**	**–**	113	–	–
OTC						
Forwards	**31,556**	**1,229**	**(170)**	32,209	352	(1,066)
Swaps	**2,359**	**14**	**(229)**	2,307	18	(236)
Options: Purchased	**6,371**	**75**	**–**	8,404	297	–
Written	**7,794**	**–**	**(63)**	8,522	–	(286)
Interest rate derivatives						
Listed						
Futures	**5,421**	**–**	**–**	5,629	–	–
Options: Purchased	**1,721**	**1**	**–**	35,088	10	–
Written	**14,849**	**–**	**(2)**	36,163	–	(6)
OTC						
Bond forwards	**236**	**1**	**–**	2,092	–	(4)
Interest rate swaps	**8,146**	**117**	**(144)**	6,007	97	(119)
Inflation swaps	**394**	**3**	**(4)**	–	–	–
Swaptions	**21,117**	**110**	**(110)**	33,713	132	(137)
Options: Purchased	**6,139**	**7**	**–**	4,035	3	–
Written	**9,161**	**–**	**(9)**	1,308	–	(2)
OTC-cleared						
Interest rate swaps	**5,766**	**–**	**–**	9,358	–	–
Credit derivatives [A]						
OTC						
Purchased	**1,301**	**5**	**(16)**	913	–	(16)
Sold	**373**	**2**	**(14)**	435	4	(7)
OTC-cleared						
Purchased	**455**	**–**	**–**	446	–	–
Sold	**1,046**	**–**	**–**	842	–	–
Total		**$ 2,316**	**$ (841)**		$ 1,276	$ (2,102)

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2016			March 31, 2015		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**$ 24,711**	**$ 18**	**$ (19)**	$ 78,277	$ 28	$ (12)
OTC derivatives	**118,579**	**2,298**	**(822)**	118,393	1,248	(2,090)
OTC-cleared derivatives	**7,267**	**–**	**–**	10,646	–	–
Total		**$ 2,316**	**$ (841)**		$ 1,276	$ (2,102)

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

(Canadian $ millions)	**March 31, 2016**
Less than 3 months	**$ 69,595**
3 to 12 months	**40,780**
Over 1 year	**40,182**

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 of liabilities in markets that are not active.
  (iii) Inputs other than quoted prices that are observable for the asset or liability.
  (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

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

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, 2016 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 4,094	$ 526	$ –	$ 4,620
Foreign equity	15,521	3,353	–	18,874
Private markets				
Real estate	–	–	16,306	16,306
Private equity	–	–	8,160	8,160
Infrastructure	–	–	6,893	6,893
Natural resources	–	–	2,200	2,200
Fixed income				
Cash and money market securities	–	4,293	–	4,293
Government and corporate bonds	–	14,261	205	14,466
Inflation-linked bonds	–	5,372	–	5,372
Other fixed income securities	–	1,404	4,355	5,759
Alternative investments	–	891	3,916	4,807
	$ 19,615	$ 30,100	$ 42,035	$ 91,750
Investment-related assets				
Amounts receivable from pending trades	$ –	$ 320	$ –	$ 320
Interest receivable	–	162	–	162
Dividends receivable	–	75	–	75
Securities purchased under reverse repurchase agreements	–	777	–	777
Derivative-related assets	18	2,298	–	2,316
	$ 18	$ 3,632	$ –	$ 3,650
Investments representing financial assets at FVTPL	$ 19,633	$ 33,732	$ 42,035	$ 95,400
Investment-related liabilities				
Amounts payable from pending trades	$ –	$ (418)	$ –	$ (418)
Interest payable	–	(19)	–	(19)
Securities sold short	(1,600)	(330)	–	(1,930)
Securities sold under repurchase agreements	–	(1,043)	–	(1,043)
Derivative-related liabilities	(19)	(822)	–	(841)
Investment-related liabilities representing financial liabilities at FVTPL	$ (1,619)	$ (2,632)	$ –	$ (4,251)
Borrowings				
Capital market debt financing	$ –	$ (6,421)	$ –	$ (6,421)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (6,421)	$ –	$ (6,421)
Net investments	$ 18,014	$ 24,679	$ 42,035	$ 84,728

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, 2015 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 5,471	$ 538	$ –	$ 6,009
Foreign equity	20,313	3,890	–	24,203
Private markets				
Real estate	–	–	12,355	12,355
Private equity	–	–	7,276	7,276
Infrastructure	–	–	5,429	5,429
Natural resources	–	–	1,865	1,865
Fixed income				
Cash and money market securities [A]	–	2,826	–	2,826
Government and corporate bonds	–	13,043	197	13,240
Inflation-linked bonds	–	4,670	–	4,670
Other fixed income securities	–	1,740	3,846	5,586
Alternative investments	–	1,024	2,980	4,004
	$ 25,784	$ 27,731	$ 33,948	$ 87,463
Investment-related assets				
Amounts receivable from pending trades [A]	$ –	$ 1,462	$ –	$ 1,462
Interest receivable [A]	–	154	–	154
Dividends receivable [A]	–	71	–	71
Derivative-related assets	28	1,248	–	1,276
	$ 28	$ 2,935	$ –	$ 2,963
Investments representing financial assets at FVTPL	$ 25,812	$ 30,666	$ 33,948	$ 90,426
Investment-related liabilities				
Amounts payable from pending trades [A]	$ –	$ (1,165)	$ –	$ (1,165)
Interest payable [A]	–	(24)	–	(24)
Securities sold short	(387)	–	–	(387)
Derivative-related liabilities	(12)	(2,084)	(6)	(2,102)
Investment-related liabilities representing financial liabilities at FVTPL	$ (399)	$ (3,273)	$ (6)	$ (3,678)
Borrowings				
Capital market debt financing	$ –	$ (5,384)	$ –	$ (5,384)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (5,384)	$ –	$ (5,384)
Net investments	$ 25,413	$ 22,009	$ 33,942	$ 81,364

[A] As at March 31, 2015, short-term balances for which cost approximated fair value were not classified in the fair value hierarchy. In order to be consistent with the classification of other financial instruments, they have been included in Level 2 in the current year. The comparative figures were reclassified in Level 2 to conform to the current year presentation. As a result, investments representing financial assets at FVTPL of $2,764 million and investment-related liabilities representing financial liabilities at FVTPL of $1,189 million are now disclosed as Level 2.

There were no transfers between Level 1 and Level 2 during the year ended March 31, 2016.

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2016:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Private markets					
Real estate	Direct and co-investments	**$15,258**	Discounted cash flow (DCF)	Discount rate [A, B]	5.25% – 25.00% (8.27%)
				Terminal capitalization rate [A, B]	4.25% – 14.00% (6.29%)
			Direct capitalization	Capitalization rate [A, C]	3.25% – 7.50% (5.91%)
				Stabilized occupancy rate [C, D]	93.00% – 100.00% (96.84%)
			Sales comparison approach	Price per square foot [C, D]	$25.00 – $665.89 ($170.43)
			Net asset value method (NAV) [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 1,048**	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	**$11,664**	DCF	Discount rate [A]	5.20% – 12.50% (9.70%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 5,589**	NAV [E]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	**$ 205**	DCF	Discount rate [A]	3.70% – 13.50% (6.30%)
Asset-backed securities	Term notes and mortgage-backed securities	**$ 509**	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	**$ 1,315**	DCF	Discount rate [A]	8.00% – 13.50% (11.09%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 2,531**	NAV [E]	N/A	N/A
Alternative investments	Fund investments	**$ 3,916**	NAV [E]	N/A	N/A
Total		**$42,035**			

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

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

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

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

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

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, 2015:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Private markets					
Real estate	Direct and co-investments	$11,230	DCF	Discount rate [A, B]	6.00% – 26.00% (8.21%)
				Terminal capitalization rate [A, B]	4.00% – 12.00% (6.36%)
			Direct capitalization	Capitalization rate [A, C]	3.25% – 9.25% (6.72%)
				Stabilized occupancy rate [C, D]	93.00% – 98.50% (96.49%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 1,125	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 9,446	DCF	Discount rate [A]	5.69% – 13.40% (9.49%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 5,124	NAV [E]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	$ 197	DCF	Discount rate [A]	3.87% – 14.02% (5.21%)
Asset-backed securities	Term notes and mortgage-backed securities	$ 1,010	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 753	DCF	Discount rate [A]	9.50% – 13.40% (11.22%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 2,083	NAV [E]	N/A	N/A
Alternative investments	Fund investments	$ 2,980	NAV [E]	N/A	N/A
Derivative-related instruments	Credit derivatives	$ (6)	Third-party pricing [E]	N/A	N/A
Total		$33,942			

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

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

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

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

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

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, 2016:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer	Closing Balance
Private markets	$ 26,925	$ 6,933	$ (2,739)	$ –	$ 685	$ 1,755	$ –	$ 33,559
Fixed income	4,043	1,506	(375)	(504)	305	(415)	–	4,560
Alternative investments	2,980	1,192	(319)	–	47	16	–	3,916
Derivative-related assets/liabilities (net)	(6)	–	–	(2)	2	6	–	–
Total	**$ 33,942**	**$ 9,631**	**$ (3,433)**	**$ (506)**	**$ 1,039**	**$ 1,362**	**$ –**	**$ 42,035**

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2015:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains (Losses)	Unrealized Gains (Losses)[A]	Transfer out	Closing Balance
Private markets	$ 20,628	$ 5,608	$ (1,994)	$ –	$ 350	$ 2,561	$ (228)	$ 26,925
Fixed income	3,290	1,352	(805)	(105)	75	236	–	4,043
Alternative investments	1,373	1,661	(424)	–	(33)	403	–	2,980
Derivative-related assets/liabilities (net)	–	–	–	(2)	1	(5)	–	(6)
Total	$ 25,291	$ 8,621	$ (3,223)	$ (107)	$ 393	$ 3,195	$ (228)	$ 33,942

[A] Includes Plan Account allocation adjustments.

During the year ended March 31, 2015, a private markets investment classified under Level 3 as at March 31, 2014, was transferred to Level 1 when the underlying investee 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, 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, 2016 (March 31, 2015 – 4% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. Management ensures the appropriateness of the work performed by third-party appraisers as described under Note 4.2.2. 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, 2016**	March 31, 2015
Securities lending and borrowing		
Securities lent	**$ 6,647**	$ 9,658
Collateral held [A]	**7,096**	10,423
Securities borrowed	**1,661**	387
Collateral pledged [B]	**1,745**	408
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**1,047**	–
Collateral pledged	**1,043**	–
Securities purchased under reverse repurchase agreements	**777**	–
Collateral held [C]	**777**	–
Derivative contracts		
Collateral pledged	**208**	1,021
Collateral held	**1,582**	124

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to $1,511 million for the Plan Account as at March 31, 2016 (March 31, 2015 – $1,947 million) and securities amounted to $5,585 million as at March 31, 2016 (March 31, 2015 – $8,476 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 $329 million as at March 31, 2016 (March 31, 2015 – nil) has been used in connection with short selling transactions.

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.

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, 2016, 102 investment entity subsidiaries were incorporated in North America, 19 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa (March 31, 2015 – 92 in North America, 14 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa).

In addition, PSP Investments controlled 73 investees directly or through its investment entity subsidiaries as at March 31, 2016 (March 31, 2015 – 68 investees).

6 INTERESTS IN OTHER ENTITIES (continued)

6.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

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, 2016

Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments**	**Relationship to PSP Investments**
Revera Inc.	**North America**	**100%**	**Controlled investee**
AviAlliance GmbH	**Europe**	**100%**	**Controlled investee**
Kaingaroa Timberlands Ltd.	**Oceania**	**56%**	**Jointly controlled investee**
Telesat Holdings Inc.	**North America**	**34%**	**Associate**
Isolux Infrastructure Netherlands B.V.	**Central and South America**	**19%**	**Jointly controlled investee**
Roccapina Fund, L.P.	**North America**	**100%**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50%**	**Jointly controlled investee**
Big Box Properties	**North America**	**49%**	**Jointly controlled investee**
Acelity Inc.	**North America**	**21%**	**Associate**
TDF S.A.S.	**Europe**	**22%**	**Associate**

March 31, 2015

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

In addition to the above, PSP Investments controls and 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.

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 15 and commitments under Note 16.

7 INVESTMENT RISK MANAGEMENT

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

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

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

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.

Market risk management focuses on the following two key components:

- Policy Portfolio
  The Policy Portfolio (long-term asset mix), as defined in the SIP&P, determines a diversification strategy to mitigate risk whereby PSP Investments invests in a diversified portfolio expected to achieve a return at least equal to the Actuarial Rate of Return (ARR); defined as the rate of return assumption used by the Chief Actuary of Canada in the latest actuarial valuation reports of the Plans. In the absence of other factors affecting the funding of the Plans or changes to pension benefits under the Plans, the ARR is the rate of return required to maintain funding requirements and pension benefits at their current levels.
- Active Management
  Active management is defined as the sum of investment strategies that deviate from the approved Policy Portfolio. It is designed to supplement the returns of the Policy Portfolio within an active risk budget.

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

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

7.1.1. Measurement of Market Risk

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

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

VaR is statistically valid under normal market conditions and does not specifically consider losses from severe market events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.1. Measurement of Market Risk (continued)

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

	March 31, 2016	March 31, 2015
Policy Portfolio VaR	**21.5 %**	20.6 %
Active VaR	**3.6**	2.6
Total VaR (undiversified)	**25.1**	23.2
Diversification effect	**(1.5)**	(0.9)
Total VaR	**23.6 %**	22.3 %

Stress Testing

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

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, 2016:

(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Government bonds	**$ 487**	**$ 4,743**	**$ 2,382**	**$ 2,601**	**$ –**	**$ 10,213**
Corporate bonds	**315**	**2,310**	**1,235**	**393**	**–**	**4,253**
Inflation-linked bonds	**18**	**1,197**	**1,788**	**2,369**	**–**	**5,372**
Asset-backed securities	**528**	**145**	**1**	**–**	**–**	**674**
Private debt investments:						
Directly held	**3**	**880**	**224**	**–**	**37**	**1,144**
Held through funds	**–**	**–**	**–**	**–**	**2,702 [A]**	**2,702**
Total investments with significant exposure to interest rate risk	**1,351**	**9,275**	**5,630**	**5,363**	**2,739**	**24,358**
Other investments	**–**	**–**	**–**	**–**	**5,532 [B]**	**5,532**
Total fixed income	**$ 1,351**	**$ 9,275**	**$ 5,630**	**$ 5,363**	**$ 8,271**	**$ 29,890**

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

[B] Consists of $4,293 million in cash and money market securities and $1,239 million in floating rate notes, which, due to their nature, are not significantly exposed to interest rate risk.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 8.

Alternative investments, reverse repurchase agreements, as well as derivative contracts described in Notes 4.1.4, 4.1.9 and 4.1.11, respectively, are also subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 7.1.1.

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through direct and indirect holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies. PSP Investments' policy is to hedge foreign currency investments in government and corporate bonds, inflation-linked bonds, certain other fixed income securities, as well as investments in real estate, infrastructure and natural resources. Additional factors are considered when implementing the hedging target for investments in emerging countries, namely, total relative exposure and cost effectiveness.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

Currency	March 31, 2016		March 31, 2015	
(Canadian $ millions)	Fair Value	% of Total	Fair Value	% of Total
US Dollar	$ 21,998	60.3 %	$ 21,144	58.8 %
Euro	2,598	7.1	2,611	7.3
South Korean Won	1,557	4.3	1,302	3.6
British Pound	1,491	4.1	1,606	4.5
Hong Kong Dollar	1,304	3.6	1,549	4.3
Japanese Yen	1,234	3.4	1,667	4.7
Brazilian Real	1,128	3.1	1,022	2.8
Indian Rupee	723	2.0	511	1.4
Swiss Franc	720	2.0	825	2.3
Taiwanese New Dollar	659	1.8	720	2.0
Mexican Peso	470	1.3	266	0.7
Australian Dollar	452	1.2	468	1.3
South African Rand	388	1.1	442	1.2
Others	1,735	4.7	1,801	5.1
Total	$ 36,457	100.0 %	$ 35,934	100.0 %

As at March 31, 2016, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $14,362 million for the Plan Account (US$10,084 million, €667 million, £148 million, R132 million South African Rands, R$60 million Brazilian Reals, $14,084 million Colombian pesos and $284 million Mexican pesos) which were not included in the foreign currency exposure table above.

7 INVESTMENT RISK MANAGEMENT
(continued)

7.2. CREDIT RISK

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

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. Except for ABTNs, securities rated by only one agency are classified as "not rated". If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings.

As at March 31, 2016, the Plan Account's maximum exposure to credit risk amounted to approximately $26 billion (March 31, 2015 – approximately $23 billion). This amount excludes investments in distressed debt in the amount of approximately $2.0 billion as at March 31, 2016 (March 31, 2015 – approximately $1.8 billion). The maximum exposure to credit risk also excludes collateralized debt obligations, collateral held as disclosed in Notes 4.1.11 and 5, respectively, and the impact of guarantees and indemnities disclosed in Note 15.

As at March 31, 2016, the Plan Account had no exposure to collateralized debt obligations (March 31, 2015 – $46 million of net notional exposure to various tranches of collateralized debt obligations, of which approximately 45% of the underlying dollar exposure was rated "Investment grade"). Additionally, PSP Investments had funding facilities, as described in Note 15, to support potential margin calls on the ABTNs.

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

PSP Investments' concentration of credit risk by credit rating, excluding the items described above and any other credit enhancement, for the Plan Account was as follows as at March 31:

	2016	2015
Investment grade (AAA to BBB–)	**97.3%**	97.5%
Below investment grade (BB+ and below)	**0.8**	0.4
Not rated:		
Rated by a single credit rating agency	**0.8**	0.6
Not rated by credit rating agencies	**1.1**	1.5
Total	**100.0%**	100.0%

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 high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. In certain cases, counterparties are authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing 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.

7.3. LIQUIDITY RISK

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

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 8 provides additional information on the usage of the capital market debt program.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4.1.11.

7 INVESTMENT RISK MANAGEMENT (continued)

7.3. LIQUIDITY RISK (continued)

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2016 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(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	$ (418)	$ –	$ –	$ (418)
Interest payable	(17)	(2)	–	(19)
Securities sold short	(1,930)	–	–	(1,930)
Securities sold under repurchase agreements	(1,043)	–	–	(1,043)
Capital market debt financing	(3,780)	(1,463)	(1,178)	(6,421)
Trade payable and other liabilities	(89)	(2)	(45)	(136)
Total	$ (7,277)	$ (1,467)	$ (1,223)	$ (9,967)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 1,350	$ 572	$ 394	$ 2,316
Derivative-related liabilities [A]	(228)	(146)	(467)	(841)
Total	$ 1,122	$ 426	$ (73)	$ 1,475

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.4. OFFSETTING

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described in Note 7.2.1. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Statement of Financial Position. Securities repurchase and reverse repurchase agreements described in Notes 2.3.6 and 5 are subject to similar arrangements though are not offset.

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

Financial Assets

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set off	Net Amount of Financial Assets Presented in the Statement of Financial Position	Less: Related Amounts not Set off in the Statement of Financial Position: Recognized Financial Liabilities	Collateral Held and Not Recognized	Net
March 31, 2016						
OTC-derivatives	**$ 2,305**	**$ 7**	**$ 2,298[A]**	**$ 691**	**$ 1,524**	**$ 83**
Reverse repurchase agreements	**777**	**–**	**777[B]**	**–**	**777**	**–**
Total	**$ 3,082**	**$ 7**	**$ 3,075**	**$ 691**	**$ 2,301**	**$ 83**
March 31, 2015						
OTC-derivatives	$ 1,266	$ 18	$ 1,248[A]	$ 1,121	$ 83	$ 44
Total	$ 1,266	$ 18	$ 1,248	$ 1,121	$ 83	$ 44

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 Statement of Financial Position	Less: Related Amounts not Set off in the Statement of Financial Position: Recognized Financial Assets	Collateral Pledged and Not Derecognized	Net
March 31, 2016						
OTC-derivatives	**$ 829**	**$ 7**	**$ 822[A]**	**$ 691**	**$ 129**	**$ 2**
Repurchase agreements	**1,043**	**–**	**1,043[B]**	**–**	**1,043**	**–**
Total	**$ 1,872**	**$ 7**	**$ 1,865**	**$ 691**	**$ 1,172**	**$ 2**
March 31, 2015						
OTC-derivatives	$ 2,108	$ 18	$ 2,090[A]	$ 1,121	$ 888	$ 81
Total	$ 2,108	$ 18	$ 2,090	$ 1,121	$ 888	$ 81

[A] As described in Note 4.1.11.

[B] As described in Note 4.1.

8 CAPITAL MARKET DEBT FINANCING

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

The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed $3 billion for issuances in Canada and US$5 billion for issuances in the United States.

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2016 and March 31, 2015.

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, 2016		March 31, 2015	
(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 0.58% and 0.70% and maturing within 56 and 185 days of issuance (March 31, 2015 – 17 and 359 days)	**$ 883**	**$ 881**	$ 507	$ 506
Short-term US Dollar promissory notes, bearing interest between 0.40% and 0.85% and maturing within 63 and 196 days of issuance (March 31, 2015 – 84 and 367 days)	**3,558**	**3,556**	2,348	2,346
Medium-term notes Series 2, bearing interest of 2.94% per annum and matured on December 3, 2015	**–**	**–**	508	516
Medium-term notes Series 4, bearing interest of 2.26% per annum and maturing on February 16, 2017	**653**	**661**	654	671
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**363**	**389**	363	395
Medium-term notes Series 6, bearing variable interest of 3-month CDOR and maturing on April 4, 2016	**145**	**145**	145	145
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**725**	**789**	726	805
Total	**$ 6,327**	**$ 6,421**	$ 5,251	$ 5,384

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

(Canadian $ millions)	**2016**	2015
Short-term promissory notes	**$ 15**	$ 10
Medium-term notes	**62**	63
Total	**$ 77**	$ 73

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 (loss) to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 12.

9.2. FUND TRANSFERS

PSP Investments received fund transfers from the Government of Canada of $2,792 million for the year ended March 31, 2016 ($3,221 million for the year ended March 31, 2015) for the Fund, recorded in the Plan Account.

10 INVESTMENT-RELATED EXPENSES

Investment-related expenses allocated to the Plan Account are comprised of the following for the year ended March 31:

(Canadian $ millions)		**2016**		2015
Interest expense	**$**	**84**	$	80
Transaction costs		**74**		75
External investment management fees[A]		**26**		31
Other (net)		**12**		39
Total	**$**	**196**	$	225

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. This excludes fees for certain pooled fund investments classified under alternative investments which amounted to $44 million for the year ended March 31, 2016 ($75 million for the year ended March 31, 2015).

This also excludes management fees related to investments in private markets and other fixed income securities that are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.0% of the total invested and/or committed amount, totaled $174 million for the year ended March 31, 2016 ($142 million for the year ended March 31, 2015).

11 OPERATING EXPENSES

Operating expenses allocated to the Plan Account consisted of the following for the year ended March 31:

(Canadian $ millions)		**2016**		2015
Salaries and employee benefits	**$**	**122**	$	107
Professional and consulting fees		**33**		22
Premises and equipment		**12**		9
Market data and business applications		**16**		15
Depreciation of equipment		**19**		12
Custodial fees		**3**		3
Other operating expenses		**10**		9
Total	**$**	**215**	$	177

12 ALLOCATION OF COMPREHENSIVE INCOME (LOSS)

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

12.1. INVESTMENT INCOME (LOSS)

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

12.2. 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 (loss), excluding the direct cost of investment activities listed above, for the year ended March 31, were allocated in proportion to the annual amount of net investments of each Plan Account, which were as follows:

	2016	2015
Public Service Pension Plan Account	**72.6 %**	72.7 %
Canadian Forces Pension Plan Account	**19.7**	19.6
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.2
Reserve Force Pension Plan Account	**0.5**	0.5
Total	**100.0 %**	100.0 %

Expenses are paid by PSP Investments by way of advances from the Public Service Pension Plan Account, which are reimbursed by the other Plan Accounts on a quarterly basis.

13 RELATED PARTY TRANSACTIONS

13.1. 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 15 and 16, 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 (loss) as those with unrelated parties.

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

13.2. 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 (loss) as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

13.3. 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 year ended March 31 was recorded in the Statement of Comprehensive Income (Loss) and was as follows:

(Canadian $ millions)	**2016**	2015
Short-term compensation and other benefits	**$ 12**	$ 10
Long-term compensation and other benefits	**3**	5
	$ 15	$ 15

As disclosed in Note 15, 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.

14 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 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.

15 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.

PSP Capital Inc. provided funding facilities of a maximum amount of $969 million to support potential margin calls on the ABTNs, of which $705 million has been allocated to the Plan Account. The margin funding facilities have not been drawn upon since inception; this arrangement matures in July 2017.

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

- As at March 31, 2016, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to $1,891 million as at March 31, 2016 (March 31, 2015 – $1,147 million), of which $1,372 million has been allocated to the Plan Account (March 31, 2015 – $833 million) plus applicable interest and other related costs. The arrangements mature between May 2016 and September 2028.
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $29 million as at March 31, 2016 (March 31, 2015 – $64 million), of which $21 million has been allocated to the Plan Account (March 31, 2015 – $46 million) in relation to investment transactions.

16 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, 2016
Real estate	$ 1,749
Private equity	5,142
Infrastructure	2,895
Natural resources	615
Other fixed income securities	3,274
Alternative investments	1,378
Total	**$ 15,053**

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

Canadian Forces Pension Plan Account
FINANCIAL STATEMENTS

Independent Auditors' Report

To the Minister of National Defence

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Sector Pension Investment Board – Canadian Forces Pension Plan Account (the Canadian Forces Pension Plan Account), which comprise the statement of financial position as at March 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Forces Pension Plan Account as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards as issued by the International Accounting Standards Board have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Canadian Forces Pension Plan Account that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the applicable provisions of Part X of the *Financial Administration Act* and regulations, the *Public Sector Pension Investment Board Act* and regulations and the by-laws of the Public Sector Pension Investment Board and its wholly-owned subsidiaries.

Deloitte LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A116635

May 12, 2016
Montréal, Canada

Lissa Lamarche, CPA, CA
Principal
for the Auditor General of Canada

May 12, 2016
Ottawa, Canada

Statement of Financial Position

As at

(Canadian $ millions)	**March 31, 2016**	March 31, 2015
Assets		
Investments (Note 4.1)	**$ 25,925**	$ 24,468
Other assets	**28**	29
Total assets	**$ 25,953**	$ 24,497
Liabilities		
Trade payable and other liabilities	**$ 37**	$ 38
Investment-related liabilities (Note 4.1)	**1,155**	995
Borrowings (Notes 4.1, 8)	**1,745**	1,457
Due to the Public Service Pension Plan Account	**17**	16
Total liabilities	**$ 2,954**	$ 2,506
Net assets	**$ 22,999**	$ 21,991
Equity (Note 9)	**$ 22,999**	$ 21,991
Total liabilities and equity	**$ 25,953**	$ 24,497

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

On behalf of the Board of Directors:

Michael P. Mueller
Chair of the Board

William A. MacKinnon
Chair of the Audit Committee

Statement of Comprehensive Income

For the year ended March 31

(Canadian $ millions)	2016	2015
Investment income	**$ 270**	$ 2,811
Investment-related expenses (Note 10)	**(54)**	(61)
Net investment income	**$ 216**	$ 2,750
Operating expenses (Note 11)	**(58)**	(48)
Net income	**$ 158**	$ 2,702
Other comprehensive income		
Remeasurement of the net defined benefit liability	**1**	(3)
Comprehensive income	**$ 159**	$ 2,699

Statement of Changes in Equity

For the year ended March 31

(Canadian $ millions)	2016	2015
Fund transfers		
Balance at beginning of period	**$ 12,168**	$ 11,228
Fund transfers received during the period (Note 9.2)	**849**	940
Balance at end of period	**$ 13,017**	$ 12,168
Retained earnings		
Balance at beginning of period	**$ 9,823**	$ 7,124
Comprehensive income	**159**	2,699
Balance at end of period	**$ 9,982**	$ 9,823
Total equity	**$ 22,999**	$ 21,991

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

Statement of Cash Flows

For the year ended March 31

(Canadian $ millions)	2016	2015
Cash flows from operating activities		
Net income	$ 158	$ 2,702
Adjustments for non-cash items:		
Depreciation of equipment (Note 11)	5	3
Effect of exchange rate changes on cash and cash equivalents	(7)	(11)
Unrealized (gains) losses on borrowings	(107)	35
	$ 49	$ 2,729
Net changes in operating assets and liabilities		
Increase in investments	$ (1,354)	$ (4,172)
Decrease in other assets	–	3
Increase in trade payable and other liabilities	–	5
Increase in investment-related liabilities	160	304
Net cash used in operating activities	$ (1,145)	$ (1,131)
Cash flow from financing activities		
Proceeds from borrowings	$ 4,771	$ 1,777
Repayment of borrowings	(4,376)	(1,578)
Repayment to the Public Service Pension Plan Account	(76)	(63)
Advances from the Public Service Pension Plan Account	77	65
Fund transfers received	849	940
Net cash flows provided by financing activities	$ 1,245	$ 1,141
Cash flow from investing activities		
Acquisitions of equipment	$ (6)	$ (7)
Net cash flows used in investing activities	$ (6)	$ (7)
Net change in cash and cash equivalents	$ 94	$ 3
Effect of exchange rate changes on cash and cash equivalents	7	11
Cash and cash equivalents at the beginning of the period	172	158
Cash and cash equivalents at the end of the period[A]	$ 273	$ 172
Supplementary disclosure of cash flow information		
Interest paid	$ (23)	$ (18)

[A] Cash and cash equivalents are comprised of amounts held for investment purposes (included in Note 4.1), as well as amounts held for administrative purposes (included in Other assets). Cash equivalents held for investment purposes represent short-term deposits and other arrangements with a maturity of 90 days or less that are held to meet short-term financial commitments. These amounts are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

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

Notes to the Financial Statements

For the year ended March 31, 2016

1 CORPORATE INFORMATION

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

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

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

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

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

PSP Investments' registered office is located at 440 Laurier Avenue West, 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 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are summarized below. These accounting policies have been used throughout all periods presented.

2.1. BASIS OF PRESENTATION

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

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

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 12, 2016.

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 13, 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 under the capital market debt financing program, 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. Purchases and sales are recorded as of the trade date.

(iii) Initial and subsequent measurement

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

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 (loss). All other changes in fair value are recorded in investment income (loss).

(iv) Derecognition

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

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

and

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

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

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 real estate, private equity, infrastructure and natural resources, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 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. Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

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.

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

Foreign currency transaction gains and losses on all financial instruments are included in investment income (loss).

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 recognize securities borrowed.

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

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 (loss) 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. 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 (loss).

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 Statement of Financial Position only if PSP Investments has a current enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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 (loss) is made up of interest, dividends, gains (losses) on the disposal of investments as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the reporting period. Interest is recognized, 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 and other fixed income securities as outlined in Note 10.

2.3.11. Fund Transfers

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

2.4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

3 CURRENT AND FUTURE CHANGES IN ACCOUNTING STANDARDS

3.1. CURRENT ACCOUNTING STANDARDS ADOPTED BEFORE THE EFFECTIVE DATE

IFRS 9 Financial Instruments

In 2014, the IASB completed its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9. The Standard includes requirements for recognition, derecognition, classification and measurement of financial assets and liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted.

PSP Investments initially adopted IFRS 9 in its Consolidated Financial Statements for the year ended March 31, 2015. Significant accounting policies in connection with IFRS 9 are described under Note 2.3.1.

3.2. FUTURE ACCOUNTING STANDARDS

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

IFRS 11 Joint Arrangements

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

IAS 7 Statement of Cash Flows

IAS 7 was amended, effective for annual periods beginning on or after January 1, 2017, to add new guidance on disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Management is currently assessing the impact of adopting this amendment.

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, 2016	March 31, 2015
Public markets		
Canadian equity	$ 1,256	$ 1,625
Foreign equity	5,129	6,549
Private markets		
Real estate	4,431	3,343
Private equity	2,217	1,969
Infrastructure [A]	1,873	1,470
Natural resources [A]	598	505
Fixed income		
Cash and money market securities	1,166	765
Government and corporate bonds	3,932	3,583
Inflation-linked bonds	1,459	1,263
Other fixed income securities	1,565	1,511
Alternative investments	1,306	1,083
	$ 24,932	$ 23,666
Investment-related assets		
Amounts receivable from pending trades	$ 87	$ 396
Interest receivable	44	42
Dividends receivable	21	19
Securities purchased under reverse repurchase agreements	211	–
Derivative-related assets	630	345
	$ 993	$ 802
Investments representing financial assets at FVTPL	$ 25,925	$ 24,468
Investment-related liabilities		
Amounts payable from pending trades	$ (113)	$ (315)
Interest payable	(6)	(6)
Securities sold short	(525)	(106)
Securities sold under repurchase agreements	(283)	–
Derivative-related liabilities	(228)	(568)
Investment-related liabilities representing financial liabilities at FVTPL	$ (1,155)	$ (995)
Borrowings		
Capital market debt financing	$ (1,745)	$ (1,457)
Borrowings representing financial liabilities designated at FVTPL	$ (1,745)	$ (1,457)
Net investments	$ 23,025	$ 22,016

[A] During the year ended March 31, 2016, certain investments were transferred from the infrastructure to the natural resources asset class to reflect a change in the scope of the asset classes. In order to present such investments on a comparable basis, corresponding comparative balances of $54 million were reclassified accordingly.

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 to ensure reasonableness. 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. As at March 31, 2016, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSP Investments was $1,239 million for the Plan Account (March 31, 2015 – $1,075 million).

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

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing. As at March 31, 2016, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSP Investments was $314 million for the Plan Account (March 31, 2015 – $282 million).

Natural resources investments are comprised of direct equity positions, fund investments and partnerships. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas.

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 other fixed income securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

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

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

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009. Potential margin calls on the ABTNs are supported by funding facilities, as described in Note 15.

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

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

The fair values of ABTNs as well as private debt investments are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

The fair value measurement of fund investments included as part of private debt investments 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 to ensure reasonableness. 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 approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.10, 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. 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 approximates fair value.

4.1.10. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 8. Short-term promissory notes are recorded at cost plus accrued interest, which approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

Options are the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

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

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

Collateralized Debt Obligations

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

Determination of Fair Value of Derivative Financial Instruments

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

The fair value of credit derivatives is determined using valuation techniques that incorporate significant inputs that are not observable in the market. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2016			March 31, 2015		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**$ 132**	**$ –**	**$ –**	$ 134	$ –	$ –
Warrants and rights	**1**	**1**	**–**	1	1	–
Options: Purchased	**297**	**4**	**–**	108	5	–
Written	**275**	**–**	**(4)**	105	–	(1)
OTC						
Forwards	**–**	**–**	**–**	75	6	(12)
Total return swaps	**4,116**	**186**	**(7)**	3,233	51	(12)
Options: Purchased	**1,148**	**13**	**–**	837	35	–
Written	**1,158**	**–**	**(11)**	848	–	(33)
Currency derivatives						
Listed						
Futures	**35**	**–**	**–**	31	–	–
OTC						
Forwards	**8,575**	**334**	**(46)**	8,715	94	(290)
Swaps	**641**	**4**	**(62)**	624	5	(64)
Options: Purchased	**1,731**	**20**	**–**	2,274	81	–
Written	**2,118**	**–**	**(17)**	2,306	–	(77)
Interest rate derivatives						
Listed						
Futures	**1,473**	**–**	**–**	1,523	–	–
Options: Purchased	**467**	**–**	**–**	9,494	3	–
Written	**4,035**	**–**	**–**	9,786	–	(2)
OTC						
Bond forwards	**64**	**–**	**–**	566	–	(1)
Interest rate swaps	**2,214**	**32**	**(39)**	1,625	26	(32)
Inflation swaps	**107**	**1**	**(2)**	–	–	–
Swaptions	**5,739**	**30**	**(29)**	9,122	36	(37)
Options: Purchased	**1,668**	**2**	**–**	1,092	1	–
Written	**2,490**	**–**	**(2)**	354	–	(1)
OTC-cleared						
Interest rate swaps	**1,567**	**–**	**–**	2,532	–	–
Credit derivatives [A]						
OTC						
Purchased	**354**	**2**	**(5)**	246	–	(4)
Sold	**101**	**1**	**(4)**	118	1	(2)
OTC-cleared						
Purchased	**124**	**–**	**–**	121	–	–
Sold	**284**	**–**	**–**	228	–	–
Total		**$ 630**	**$ (228)**		$ 345	$ (568)

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2016			March 31, 2015		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**$ 6,715**	**$ 5**	**$ (4)**	$ 21,182	$ 9	$ (3)
OTC derivatives	**32,224**	**625**	**(224)**	32,035	336	(565)
OTC-cleared derivatives	**1,975**	**–**	**–**	2,881	–	–
Total		**$ 630**	**$ (228)**		$ 345	$ (568)

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

(Canadian $ millions)	**March 31, 2016**
Less than 3 months	**$ 18,912**
3 to 12 months	**11,082**
Over 1 year	**10,920**

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 of liabilities in markets that are not active.
  (iii) Inputs other than quoted prices that are observable for the asset or liability.
  (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

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

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, 2016 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 1,113	$ 143	$ –	$ 1,256
Foreign equity	4,218	911	–	5,129
Private markets				
Real estate	–	–	4,431	4,431
Private equity	–	–	2,217	2,217
Infrastructure	–	–	1,873	1,873
Natural resources	–	–	598	598
Fixed income				
Cash and money market securities	–	1,166	–	1,166
Government and corporate bonds	–	3,876	56	3,932
Inflation-linked bonds	–	1,459	–	1,459
Other fixed income securities	–	381	1,184	1,565
Alternative investments	–	242	1,064	1,306
	$ 5,331	$ 8,178	$ 11,423	$ 24,932
Investment-related assets				
Amounts receivable from pending trades	$ –	$ 87	$ –	$ 87
Interest receivable	–	44	–	44
Dividends receivable	–	21	–	21
Securities purchased under reverse repurchase agreements	–	211	–	211
Derivative-related assets	5	625	–	630
	$ 5	$ 988	$ –	$ 993
Investments representing financial assets at FVTPL	$ 5,336	$ 9,166	$ 11,423	$ 25,925
Investment-related liabilities				
Amounts payable from pending trades	$ –	$ (113)	$ –	$ (113)
Interest payable	–	(6)	–	(6)
Securities sold short	(436)	(89)	–	(525)
Securities sold under repurchase agreements	–	(283)	–	(283)
Derivative-related liabilities	(4)	(224)	–	(228)
Investment-related liabilities representing financial liabilities at FVTPL	$ (440)	$ (715)	$ –	$ (1,155)
Borrowings				
Capital market debt financing	$ –	$ (1,745)	$ –	$ (1,745)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (1,745)	$ –	$ (1,745)
Net investments	$ 4,896	$ 6,706	$ 11,423	$ 23,025

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, 2015 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 1,480	$ 145	$ –	$ 1,625
Foreign equity	5,497	1,052	–	6,549
Private markets				
Real estate	–	–	3,343	3,343
Private equity	–	–	1,969	1,969
Infrastructure	–	–	1,470	1,470
Natural resources	–	–	505	505
Fixed income				
Cash and money market securities [A]	–	765	–	765
Government and corporate bonds	–	3,529	54	3,583
Inflation-linked bonds	–	1,263	–	1,263
Other fixed income securities	–	471	1,040	1,511
Alternative investments	–	278	805	1,083
	$ 6,977	$ 7,503	$ 9,186	$ 23,666
Investment-related assets				
Amounts receivable from pending trades [A]	$ –	$ 396	$ –	$ 396
Interest receivable [A]	–	42	–	42
Dividends receivable [A]	–	19	–	19
Derivative-related assets	9	336	–	345
	$ 9	$ 793	$ –	$ 802
Investments representing financial assets at FVTPL	$ 6,986	$ 8,296	$ 9,186	$ 24,468
Investment-related liabilities				
Amounts payable from pending trades [A]	$ –	$ (315)	$ –	$ (315)
Interest payable [A]	–	(6)	–	(6)
Securities sold short	(106)	–	–	(106)
Derivative-related liabilities	(3)	(564)	(1)	(568)
Investment-related liabilities representing financial liabilities at FVTPL	$ (109)	$ (885)	$ (1)	$ (995)
Borrowings				
Capital market debt financing	$ –	$ (1,457)	$ –	$ (1,457)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (1,457)	$ –	$ (1,457)
Net investments	$ 6,877	$ 5,954	$ 9,185	$ 22,016

[A] As at March 31, 2015, short-term balances for which cost approximated fair value were not classified in the fair value hierarchy. In order to be consistent with the classification of other financial instruments, they have been included in Level 2 in the current year. The comparative figures were reclassified in Level 2 to conform to the current year presentation. As a result, investments representing financial assets at FVTPL of $748 million and investment-related liabilities representing financial liabilities at FVTPL of $321 million are now disclosed as Level 2.

There were no transfers between Level 1 and Level 2 during the year ended March 31, 2016.

During the year ended March 31, 2015, listed foreign equity securities with a fair value of $94 million, held by a non-listed fund and classified as Level 2 as at March 31, 2014, were transferred to PSP Investments and classified as Level 1 as at March 31, 2015.

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2016:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Private markets					
Real estate	Direct and co-investments	$ 4,147	Discounted cash flow (DCF)	Discount rate [A, B]	5.25% – 25.00% (8.27%)
				Terminal capitalization rate [A, B]	4.25% – 14.00% (6.29%)
			Direct capitalization	Capitalization rate [A, C]	3.25% – 7.50% (5.91%)
				Stabilized occupancy rate [C, D]	93.00% – 100.00% (96.84%)
			Sales comparison approach	Price per square foot [C, D]	$25.00 – $665.89 ($170.43)
			Net asset value method (NAV) [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 284	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 3,169	DCF	Discount rate [A]	5.20% – 12.50% (9.70%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 1,519	NAV [E]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	$ 56	DCF	Discount rate [A]	3.70% – 13.50% (6.30%)
Asset-backed securities	Term notes and mortgage-backed securities	$ 139	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 357	DCF	Discount rate [A]	8.00% – 13.50% (11.09%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 688	NAV [E]	N/A	N/A
Alternative investments	Fund investments	$ 1,064	NAV [E]	N/A	N/A
Total		$11,423			

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

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

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

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

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

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, 2015:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Private markets					
Real estate	Direct and co-investments	$ 3,038	DCF	Discount rate [A, B]	6.00% – 26.00% (8.21%)
				Terminal capitalization rate [A, B]	4.00% – 12.00% (6.36%)
			Direct capitalization	Capitalization rate [A, C]	3.25% – 9.25% (6.72%)
				Stabilized occupancy rate [C, D]	93.00% – 98.50% (96.49%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 305	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 2,557	DCF	Discount rate [A]	5.69% – 13.40% (9.49%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 1,387	NAV [E]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	$ 54	DCF	Discount rate [A]	3.87% – 14.02% (5.21%)
Asset-backed securities	Term notes and mortgage-backed securities	$ 272	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 204	DCF	Discount rate [A]	9.50% – 13.40% (11.22%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 564	NAV [E]	N/A	N/A
Alternative investments	Fund investments	$ 805	NAV [E]	N/A	N/A
Derivative-related instruments	Credit derivatives	$ (1)	Third-party pricing [E]	N/A	N/A
Total		$ 9,185			

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

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

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

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

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

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, 2016:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer	Closing Balance
Private markets	$ 7,287	$ 1,886	$ (746)	$ –	$ 186	$ 506	$ –	$ 9,119
Fixed income	1,094	410	(101)	(138)	83	(108)	–	1,240
Alternative investments	805	325	(86)	–	13	7	–	1,064
Derivative-related assets/liabilities (net)	(1)	–	–	–	–	1	–	–
Total	$ 9,185	$ 2,621	$ (933)	$ (138)	$ 282	$ 406	$ –	$ 11,423

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2015:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains (Losses)	Unrealized Gains (Losses)[A]	Transfer out	Closing Balance
Private markets	$ 5,559	$ 1,521	$ (540)	$ –	$ 95	$ 713	$ (61)	$ 7,287
Fixed income	887	367	(219)	(29)	20	68	–	1,094
Alternative investments	370	450	(115)	–	(9)	109	–	805
Derivative-related assets/liabilities (net)	–	–	–	–	–	(1)	–	(1)
Total	$ 6,816	$ 2,338	$ (874)	$ (29)	$ 106	$ 889	$ (61)	$ 9,185

[A] Includes Plan Account allocation adjustments.

During the year ended March 31, 2015, a private markets investment classified under Level 3 as at March 31, 2014, was transferred to Level 1 when the underlying investee 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, 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, 2016 (March 31, 2015 – 4% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. Management ensures the appropriateness of the work performed by third-party appraisers as described under Note 4.2.2. 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, 2016**	March 31, 2015
Securities lending and borrowing		
Securities lent	**$ 1,806**	$ 2,613
Collateral held [A]	**1,928**	2,820
Securities borrowed	**451**	106
Collateral pledged [B]	**474**	110
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**284**	–
Collateral pledged	**283**	–
Securities purchased under reverse repurchase agreements	**211**	–
Collateral held [C]	**211**	–
Derivative contracts		
Collateral pledged	**57**	276
Collateral held	**430**	33

[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 $411 million for the Plan Account as at March 31, 2016 (March 31, 2015 – $527 million) and securities amounted to $1,517 million as at March 31, 2016 (March 31, 2015 – $2,293 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 $89 million as at March 31, 2016 (March 31, 2015 – nil) has been used in connection with short selling transactions.

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.

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, 2016, 102 investment entity subsidiaries were incorporated in North America, 19 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa (March 31, 2015 – 92 in North America, 14 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa).

In addition, PSP Investments controlled 73 investees directly or through its investment entity subsidiaries as at March 31, 2016 (March 31, 2015 – 68 investees).

6 INTERESTS IN OTHER ENTITIES (continued)

6.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

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, 2016
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments**	**Relationship to PSP Investments**
Revera Inc.	**North America**	**100%**	**Controlled investee**
AviAlliance GmbH	**Europe**	**100%**	**Controlled investee**
Kaingaroa Timberlands Ltd.	**Oceania**	**56%**	**Jointly controlled investee**
Telesat Holdings Inc.	**North America**	**34%**	**Associate**
Isolux Infrastructure Netherlands B.V.	**Central and South America**	**19%**	**Jointly controlled investee**
Roccapina Fund, L.P.	**North America**	**100%**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50%**	**Jointly controlled investee**
Big Box Properties	**North America**	**49%**	**Jointly controlled investee**
Acelity Inc.	**North America**	**21%**	**Associate**
TDF S.A.S.	**Europe**	**22%**	**Associate**

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

In addition to the above, PSP Investments controls and 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.

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 15 and commitments under Note 16.

7 INVESTMENT RISK MANAGEMENT

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

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

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

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.

Market risk management focuses on the following two key components:

- Policy Portfolio
  The Policy Portfolio (long-term asset mix), as defined in the SIP&P, determines a diversification strategy to mitigate risk whereby PSP Investments invests in a diversified portfolio expected to achieve a return at least equal to the Actuarial Rate of Return (ARR); defined as the rate of return assumption used by the Chief Actuary of Canada in the latest actuarial valuation reports of the Plans. In the absence of other factors affecting the funding of the Plans or changes to pension benefits under the Plans, the ARR is the rate of return required to maintain funding requirements and pension benefits at their current levels.
- Active Management
  Active management is defined as the sum of investment strategies that deviate from the approved Policy Portfolio. It is designed to supplement the returns of the Policy Portfolio within an active risk budget.

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

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

7.1.1. Measurement of Market Risk

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

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

VaR is statistically valid under normal market conditions and does not specifically consider losses from severe market events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.1. Measurement of Market Risk (continued)

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

	March 31, 2016	March 31, 2015
Policy Portfolio VaR	**21.5 %**	20.6 %
Active VaR	**3.6**	2.6
Total VaR (undiversified)	**25.1**	23.2
Diversification effect	**(1.5)**	(0.9)
Total VaR	**23.6 %**	22.3 %

Stress Testing

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

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, 2016:

(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Government bonds	$ 133	$ 1,289	$ 648	$ 707	$ –	$ 2,777
Corporate bonds	85	627	336	107	–	1,155
Inflation-linked bonds	4	325	486	644	–	1,459
Asset-backed securities	143	40	–	–	–	183
Private debt investments:						
Directly held	1	239	61	–	10	311
Held through funds	–	–	–	–	734 [A]	734
Total investments with significant exposure to interest rate risk	366	2,520	1,531	1,458	744	6,619
Other investments	–	–	–	–	1,503 [B]	1,503
Total fixed income	$ 366	$ 2,520	$ 1,531	$ 1,458	$ 2,247	$ 8,122

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

[B] Consists of $1,166 million in cash and money market securities and $337 million in floating rate notes, which, due to their nature, are not significantly exposed to interest rate risk.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 8.

Alternative investments, reverse repurchase agreements, as well as derivative contracts described in Notes 4.1.4, 4.1.9 and 4.1.11, respectively, are also subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 7.1.1.

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through direct and indirect holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies. PSP Investments' policy is to hedge foreign currency investments in government and corporate bonds, inflation-linked bonds, certain other fixed income securities, as well as investments in real estate, infrastructure and natural resources. Additional factors are considered when implementing the hedging target for investments in emerging countries, namely, total relative exposure and cost effectiveness.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

Currency	**March 31, 2016**		March 31, 2015	
(Canadian $ millions)	**Fair Value**	**% of Total**	Fair Value	% of Total
US Dollar	**$ 5,978**	**60.3 %**	$ 5,721	58.8 %
Euro	**706**	**7.1**	707	7.3
South Korean Won	**423**	**4.3**	352	3.6
British Pound	**405**	**4.1**	435	4.5
Hong Kong Dollar	**354**	**3.6**	419	4.3
Japanese Yen	**335**	**3.4**	451	4.7
Brazilian Real	**307**	**3.1**	276	2.8
Indian Rupee	**196**	**2.0**	138	1.4
Swiss Franc	**196**	**2.0**	223	2.3
Taiwanese New Dollar	**179**	**1.8**	195	2.0
Mexican Peso	**128**	**1.3**	72	0.7
Australian Dollar	**123**	**1.2**	127	1.3
South African Rand	**105**	**1.1**	119	1.2
Others	**472**	**4.7**	488	5.1
Total	**$ 9,907**	**100.0 %**	$ 9,723	100.0 %

As at March 31, 2016, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $3,903 million for the Plan Account (US$2,740 million, €181 million, £40 million, R36 million South African Rands, R$17 million Brazilian Reals, $3,827 million Colombian pesos and $77 million Mexican pesos) which were not included in the foreign currency exposure table above.

7 INVESTMENT RISK MANAGEMENT
(continued)

7.2. CREDIT RISK

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

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. Except for ABTNs, securities rated by only one agency are classified as "not rated". If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings.

As at March 31, 2016, the Plan Account's maximum exposure to credit risk amounted to approximately $7 billion (March 31, 2015 – approximately $6 billion). This amount excludes investments in distressed debt in the amount of approximately $0.5 billion as at March 31, 2016 (March 31, 2015 – approximately $0.5 billion). The maximum exposure to credit risk also excludes collateralized debt obligations, collateral held as disclosed in Notes 4.1.11 and 5, respectively, and the impact of guarantees and indemnities disclosed in Note 15.

As at March 31, 2016, the Plan Account had no exposure to collateralized debt obligations (March 31, 2015 – $12 million of net notional exposure to various tranches of collateralized debt obligations, of which approximately 45% of the underlying dollar exposure was rated "Investment grade"). Additionally, PSP Investments had funding facilities, as described in Note 15, to support potential margin calls on the ABTNs.

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

PSP Investments' concentration of credit risk by credit rating, excluding the items described above and any other credit enhancement, for the Plan Account was as follows as at March 31:

	2016	2015
Investment grade (AAA to BBB–)	**97.3 %**	97.5 %
Below investment grade (BB+ and below)	**0.8**	0.4
Not rated:		
Rated by a single credit rating agency	**0.8**	0.6
Not rated by credit rating agencies	**1.1**	1.5
Total	**100.0 %**	100.0 %

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 high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. In certain cases, counterparties are authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing 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.

7.3. LIQUIDITY RISK

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

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 8 provides additional information on the usage of the capital market debt program.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4.1.11.

7 INVESTMENT RISK MANAGEMENT (continued)

7.3. LIQUIDITY RISK (continued)

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2016 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(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	$ (113)	$ –	$ –	$ (113)
Interest payable	(6)	–	–	(6)
Securities sold short	(525)	–	–	(525)
Securities sold under repurchase agreements	(283)	–	–	(283)
Capital market debt financing	(1,027)	(398)	(320)	(1,745)
Trade payable and other liabilities	(24)	–	(13)	(37)
Total	$ (1,978)	$ (398)	$ (333)	$ (2,709)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 367	$ 156	$ 107	$ 630
Derivative-related liabilities [A]	(62)	(39)	(127)	(228)
Total	$ 305	$ 117	$ (20)	$ 402

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.4. OFFSETTING

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described in Note 7.2.1. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Statement of Financial Position. Securities repurchase and reverse repurchase agreements described in Notes 2.3.6 and 5 are subject to similar arrangements though are not offset.

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

Financial Assets

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set off	Net Amount of Financial Assets Presented in the Statement of Financial Position	Less: Related Amounts not Set off in the Statement of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2016						
OTC-derivatives	**$ 626**	**$ 1**	**$ 625[A]**	**$ 188**	**$ 415**	**$ 22**
Reverse repurchase agreements	**211**	**–**	**211[B]**	**–**	**211**	**–**
Total	**$ 837**	**$ 1**	**$ 836**	**$ 188**	**$ 626**	**$ 22**
March 31, 2015						
OTC-derivatives	$ 342	$ 6	$ 336[A]	$ 303	$ 22	$ 11
Total	$ 342	$ 6	$ 336	$ 303	$ 22	$ 11

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 Statement of Financial Position	Less: Related Amounts not Set off in the Statement of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2016						
OTC-derivatives	**$ 225**	**$ 1**	**$ 224[A]**	**$ 188**	**$ 35**	**$ 1**
Repurchase agreements	**283**	**–**	**283[B]**	**–**	**283**	**–**
Total	**$ 508**	**$ 1**	**$ 507**	**$ 188**	**$ 318**	**$ 1**
March 31, 2015						
OTC-derivatives	$ 571	$ 6	$ 565[A]	$ 303	$ 240	$ 22
Total	$ 571	$ 6	$ 565	$ 303	$ 240	$ 22

[A] As described in Note 4.1.11.

[B] As described in Note 4.1.

8 CAPITAL MARKET DEBT FINANCING

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

The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed $3 billion for issuances in Canada and US$5 billion for issuances in the United States.

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2016 and March 31, 2015.

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, 2016		March 31, 2015	
(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 0.58% and 0.70% and maturing within 56 and 185 days of issuance (March 31, 2015 – 17 and 359 days)	**$ 240**	**$ 240**	$ 137	$ 137
Short-term US Dollar promissory notes, bearing interest between 0.40% and 0.85% and maturing within 63 and 196 days of issuance (March 31, 2015 – 84 and 367 days)	**967**	**966**	635	635
Medium-term notes Series 2, bearing interest of 2.94% per annum and matured on December 3, 2015	**–**	**–**	138	139
Medium-term notes Series 4, bearing interest of 2.26% per annum and maturing on February 16, 2017	**177**	**180**	177	182
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**99**	**106**	98	107
Medium-term notes Series 6, bearing variable interest of 3-month CDOR and maturing on April 4, 2016	**39**	**39**	39	39
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**197**	**214**	197	218
Total	**$ 1,719**	**$ 1,745**	$ 1,421	$ 1,457

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

(Canadian $ millions)	**2016**	2015
Short-term promissory notes	**$ 4**	$ 3
Medium-term notes	**16**	17
Total	**$ 20**	$ 20

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 (loss) to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 12.

9.2. FUND TRANSFERS

PSP Investments received fund transfers from the Government of Canada of $849 million for the year ended March 31, 2016 ($940 million for the year ended March 31, 2015) for the Fund, recorded in the Plan Account.

10 INVESTMENT-RELATED EXPENSES

Investment-related expenses allocated to the Plan Account are comprised of the following for the year ended March 31:

(Canadian $ millions)	2016	2015
Interest expense	$ 23	$ 22
Transaction costs	20	20
External investment management fees[A]	7	8
Other (net)	4	11
Total	**$ 54**	$ 61

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. This excludes fees for certain pooled fund investments classified under alternative investments which amounted to $12 million for the year ended March 31, 2016 ($20 million for the year ended March 31, 2015).

This also excludes management fees related to investments in private markets and other fixed income securities that are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.0% of the total invested and/or committed amount, totaled $47 million for the year ended March 31, 2016 ($38 million for the year ended March 31, 2015).

11 OPERATING EXPENSES

Operating expenses allocated to the Plan Account consisted of the following for the year ended March 31:

(Canadian $ thousands)	2016	2015
Salaries and employee benefits	$ 32,935	$ 28,985
Professional and consulting fees	8,913	5,922
Premises and equipment	3,138	2,417
Market data and business applications	4,408	3,955
Depreciation of equipment	5,096	3,143
Custodial fees	855	723
Other operating expenses	2,642	2,411
Total	**$ 57,987**	$ 47,556

12 ALLOCATION OF COMPREHENSIVE INCOME (LOSS)

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

12.1. INVESTMENT INCOME (LOSS)

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

12.2. 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 (loss), excluding the direct cost of investment activities listed above, for the year ended March 31, were allocated in proportion to the annual amount of net investments of each Plan Account, which were as follows:

	2016	2015
Public Service Pension Plan Account	**72.6%**	72.7%
Canadian Forces Pension Plan Account	**19.7**	19.6
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.2
Reserve Force Pension Plan Account	**0.5**	0.5
Total	**100.0%**	100.0%

Expenses are paid by PSP Investments by way of advances from the Public Service Pension Plan Account, which are reimbursed by the other Plan Accounts on a quarterly basis.

13 RELATED PARTY TRANSACTIONS

13.1. 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 15 and 16, 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 (loss) as those with unrelated parties.

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

13.2. 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 (loss) as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

13.3. 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 year ended March 31 was recorded in the Statement of Comprehensive Income (Loss) and was as follows:

(Canadian $ thousands)		**2016**		2015
Short-term compensation and other benefits	**$**	**3,170**	$	2,753
Long-term compensation and other benefits		**720**		1,167
	$	**3,890**	$	3,920

As disclosed in Note 15, 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.

14 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 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.

15 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.

PSP Capital Inc. provided funding facilities of a maximum amount of $969 million to support potential margin calls on the ABTNs, of which $190 million has been allocated to the Plan Account. The margin funding facilities have not been drawn upon since inception; this arrangement matures in July 2017.

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

- As at March 31, 2016, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to $1,891 million as at March 31, 2016 (March 31, 2015 – $1,147 million), of which $373 million has been allocated to the Plan Account (March 31, 2015 – $225 million) plus applicable interest and other related costs. The arrangements mature between May 2016 and September 2028.
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $29 million as at March 31, 2016 (March 31, 2015 – $64 million), of which $6 million has been allocated to the Plan Account (March 31, 2015 – $13 million) in relation to investment transactions.

16 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, 2016
Real estate	$ 475
Private equity	1,397
Infrastructure	787
Natural resources	167
Other fixed income securities	890
Alternative investments	375
Total	**$ 4,091**

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

Royal Canadian Mounted Police Pension Plan Account
FINANCIAL STATEMENTS

Independent Auditors' Report

To the Minister of Public Safety and Emergency Preparedness

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Sector Pension Investment Board – Royal Canadian Mounted Police Pension Plan Account (the Royal Canadian Mounted Police Pension Plan Account), which comprise the statement of financial position as at March 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Royal Canadian Mounted Police Pension Plan Account as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards as issued by the International Accounting Standards Board have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Royal Canadian Mounted Police Pension Plan Account that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the applicable provisions of Part X of the *Financial Administration Act* and regulations, the *Public Sector Pension Investment Board Act* and regulations and the by-laws of the Public Sector Pension Investment Board and its wholly-owned subsidiaries.

Deloitte LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A116635

May 12, 2016
Montréal, Canada

Lissa Lamarche

Lissa Lamarche, CPA, CA
Principal
for the Auditor General of Canada

May 12, 2016
Ottawa, Canada

Statement of Financial Position

As at

(Canadian $ millions)		**March 31, 2016**		March 31, 2015
Assets				
Investments (Note 4.1)	**$**	**9,561**	$	8,984
Other assets		**11**		10
Total assets	**$**	**9,572**	$	8,994
Liabilities				
Trade payable and other liabilities	**$**	**13**	$	13
Investment-related liabilities (Note 4.1)		**427**		364
Borrowings (Notes 4.1, 8)		**643**		535
Due to the Public Service Pension Plan Account		**6**		6
Total liabilities	**$**	**1,089**	$	918
Net assets	**$**	**8,483**	$	8,076
Equity (Note 9)	**$**	**8,483**	$	8,076
Total liabilities and equity	**$**	**9,572**	$	8,994

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

On behalf of the Board of Directors:

Michael P. Mueller
Chair of the Board

William A. MacKinnon
Chair of the Audit Committee

Statement of Comprehensive Income

For the year ended March 31

(Canadian $ millions)	2016	2015
Investment income	**$ 102**	$ 1,023
Investment-related expenses (Note 10)	**(20)**	(23)
Net investment income	**$ 82**	$ 1,000
Operating expenses (Note 11)	**(21)**	(17)
Net income	**$ 61**	$ 983
Other comprehensive income		
Remeasurement of the net defined benefit liability	**–**	(1)
Comprehensive income	**$ 61**	$ 982

Statement of Changes in Equity

For the year ended March 31

(Canadian $ millions)	2016	2015
Fund transfers		
Balance at beginning of period	**$ 4,523**	$ 4,149
Fund transfers received during the period (Note 9.2)	**346**	374
Balance at end of period	**$ 4,869**	$ 4,523
Retained earnings		
Balance at beginning of period	**$ 3,553**	$ 2,571
Comprehensive income	**61**	982
Balance at end of period	**$ 3,614**	$ 3,553
Total equity	**$ 8,483**	$ 8,076

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

Statement of Cash Flows

For the year ended March 31

(Canadian $ millions)		2016		2015
Cash flows from operating activities				
Net income	**$**	**61**	$	983
Adjustments for non-cash items:				
Depreciation of equipment (Note 11)		**2**		1
Effect of exchange rate changes on cash and cash equivalents		**(3)**		(4)
Unrealized (gains) losses on borrowings		**(39)**		12
	$	**21**	$	992
Net changes in operating assets and liabilities				
Increase in investments	**$**	**(539)**	$	(1,554)
(Increase) decrease in other assets		**(1)**		2
Increase in trade payable and other liabilities		**–**		1
Increase in investment-related liabilities		**63**		112
Net cash used in operating activities	**$**	**(456)**	$	(447)
Cash flow from financing activities				
Proceeds from borrowings	**$**	**1,785**	$	1,369
Repayment of borrowings		**(1,638)**		(1,294)
Repayment to the Public Service Pension Plan Account		**(28)**		(23)
Advances from the Public Service Pension Plan Account		**28**		24
Fund transfers received		**346**		374
Net cash flows provided by financing activities	**$**	**493**	$	450
Cash flow from investing activities				
Acquisitions of equipment	**$**	**(2)**	$	(2)
Net cash flows used in investing activities	**$**	**(2)**	$	(2)
Net change in cash and cash equivalents	**$**	**35**	$	1
Effect of exchange rate changes on cash and cash equivalents		**3**		4
Cash and cash equivalents at the beginning of the period		**63**		58
Cash and cash equivalents at the end of the period [A]	**$**	**101**	$	63
Supplementary disclosure of cash flow information				
Interest paid	**$**	**(8)**	$	(6)

[A] Cash and cash equivalents are comprised of amounts held for investment purposes (included in Note 4.1), as well as amounts held for administrative purposes (included in Other assets). Cash equivalents held for investment purposes represent short-term deposits and other arrangements with a maturity of 90 days or less that are held to meet short-term financial commitments. These amounts are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

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

Notes to the Financial Statements

For the year ended March 31, 2016

1 CORPORATE INFORMATION

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

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

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

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

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

PSP Investments' registered office is located at 440 Laurier Avenue West, 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 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are summarized below. These accounting policies have been used throughout all periods presented.

2.1. BASIS OF PRESENTATION

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

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

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 12, 2016.

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 13, 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 under the capital market debt financing program, 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. Purchases and sales are recorded as of the trade date.

(iii) Initial and subsequent measurement

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

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 (loss). All other changes in fair value are recorded in investment income (loss).

(iv) Derecognition

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

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

and

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

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

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 real estate, private equity, infrastructure and natural resources, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 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. Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

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.

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

Foreign currency transaction gains and losses on all financial instruments are included in investment income (loss).

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 recognize securities borrowed.

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

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 (loss) 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. 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 (loss).

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 Statement of Financial Position only if PSP Investments has a current enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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 (loss) is made up of interest, dividends, gains (losses) on the disposal of investments as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the reporting period. Interest is recognized, 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 and other fixed income securities as outlined in Note 10.

2.3.11. Fund Transfers

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

2.4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

3 CURRENT AND FUTURE CHANGES IN ACCOUNTING STANDARDS

3.1. CURRENT ACCOUNTING STANDARDS ADOPTED BEFORE THE EFFECTIVE DATE

IFRS 9 Financial Instruments

In 2014, the IASB completed its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9. The Standard includes requirements for recognition, derecognition, classification and measurement of financial assets and liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted.

PSP Investments initially adopted IFRS 9 in its Consolidated Financial Statements for the year ended March 31, 2015. Significant accounting policies in connection with IFRS 9 are described under Note 2.3.1.

3.2. FUTURE ACCOUNTING STANDARDS

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

IFRS 11 Joint Arrangements

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

IAS 7 Statement of Cash Flows

IAS 7 was amended, effective for annual periods beginning on or after January 1, 2017, to add new guidance on disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Management is currently assessing the impact of adopting this amendment.

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, 2016	March 31, 2015
Public markets		
Canadian equity	**$ 463**	$ 596
Foreign equity	**1,892**	2,405
Private markets		
Real estate	**1,634**	1,228
Private equity	**818**	723
Infrastructure [A]	**691**	539
Natural resources [A]	**221**	185
Fixed income		
Cash and money market securities	**430**	281
Government and corporate bonds	**1,450**	1,316
Inflation-linked bonds	**538**	464
Other fixed income securities	**577**	555
Alternative investments	**482**	398
	$ 9,196	$ 8,690
Investment-related assets		
Amounts receivable from pending trades	**$ 32**	$ 145
Interest receivable	**16**	15
Dividends receivable	**7**	7
Securities purchased under reverse repurchase agreements	**78**	–
Derivative-related assets	**232**	127
	$ 365	$ 294
Investments representing financial assets at FVTPL	**$ 9,561**	$ 8,984
Investment-related liabilities		
Amounts payable from pending trades	**$ (42)**	$ (116)
Interest payable	**(2)**	(2)
Securities sold short	**(194)**	(38)
Securities sold under repurchase agreements	**(105)**	–
Derivative-related liabilities	**(84)**	(208)
Investment-related liabilities representing financial liabilities at FVTPL	**$ (427)**	$ (364)
Borrowings		
Capital market debt financing	**$ (643)**	$ (535)
Borrowings representing financial liabilities designated at FVTPL	**$ (643)**	$ (535)
Net investments	**$ 8,491**	$ 8,085

[A] During the year ended March 31, 2016, certain investments were transferred from the infrastructure to the natural resources asset class to reflect a change in the scope of the asset classes. In order to present such investments on a comparable basis, corresponding comparative balances of $20 million were reclassified accordingly.

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 to ensure reasonableness. 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. As at March 31, 2016, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSP Investments was $457 million for the Plan Account (March 31, 2015 – $395 million).

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

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing. As at March 31, 2016, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSP Investments was $116 million for the Plan Account (March 31, 2015 – $104 million).

Natural resources investments are comprised of direct equity positions, fund investments and partnerships. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas.

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 other fixed income securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

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

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

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009. Potential margin calls on the ABTNs are supported by funding facilities, as described in Note 15.

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

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

The fair values of ABTNs as well as private debt investments are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

The fair value measurement of fund investments included as part of private debt investments 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 to ensure reasonableness. 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 approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.10, 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. 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 approximates fair value.

4.1.10. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 8. Short-term promissory notes are recorded at cost plus accrued interest, which approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

Options are the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

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

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

Collateralized Debt Obligations

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

Determination of Fair Value of Derivative Financial Instruments

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

The fair value of credit derivatives is determined using valuation techniques that incorporate significant inputs that are not observable in the market. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2016			March 31, 2015		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**$ 49**	**$ –**	**$ –**	$ 49	$ –	$ –
Options: Purchased	**110**	**2**	**–**	40	1	–
Written	**102**	**–**	**(2)**	39	–	(1)
OTC						
Forwards	**–**	**–**	**–**	27	2	(4)
Total return swaps	**1,518**	**69**	**(2)**	1,187	20	(5)
Options: Purchased	**423**	**5**	**–**	307	13	–
Written	**427**	**–**	**(4)**	312	–	(13)
Currency derivatives						
Listed						
Futures	**12**	**–**	**–**	11	–	–
OTC						
Forwards	**3,163**	**123**	**(17)**	3,201	35	(105)
Swaps	**236**	**1**	**(23)**	229	2	(23)
Options: Purchased	**639**	**7**	**–**	835	30	–
Written	**781**	**–**	**(6)**	847	–	(27)
Interest rate derivatives						
Listed						
Futures	**544**	**–**	**–**	559	–	–
Options: Purchased	**172**	**–**	**–**	3,487	1	–
Written	**1,488**	**–**	**–**	3,594	–	(1)
OTC						
Bond forwards	**24**	**–**	**–**	208	–	–
Interest rate swaps	**817**	**12**	**(14)**	597	10	(12)
Inflation swaps	**39**	**–**	**–**	–	–	–
Swaptions	**2,116**	**11**	**(11)**	3,350	13	(14)
Options: Purchased	**615**	**1**	**–**	401	–	–
Written	**918**	**–**	**(1)**	130	–	–
OTC-cleared						
Interest rate swaps	**578**	**–**	**–**	930	–	–
Credit derivatives [A]						
OTC						
Purchased	**131**	**1**	**(2)**	91	–	(2)
Sold	**38**	**–**	**(2)**	43	–	(1)
OTC-cleared						
Purchased	**46**	**–**	**–**	44	–	–
Sold	**104**	**–**	**–**	84	–	–
Total		**$ 232**	**$ (84)**		$ 127	$ (208)

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2016			March 31, 2015		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**$ 2,477**	**$ 2**	**$ (2)**	$ 7,779	$ 2	$ (2)
OTC derivatives	**11,885**	**230**	**(82)**	11,765	125	(206)
OTC-cleared derivatives	**728**	**–**	**–**	1,058	–	–
Total		**$ 232**	**$ (84)**		$ 127	$ (208)

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

(Canadian $ millions)	**March 31, 2016**
Less than 3 months	**$ 6,976**
3 to 12 months	**4,087**
Over 1 year	**4,027**

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 of liabilities in markets that are not active.
  (iii) Inputs other than quoted prices that are observable for the asset or liability.
  (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

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

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, 2016 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 410	$ 53	$ –	$ 463
Foreign equity	1,556	336	–	1,892
Private markets				
Real estate	–	–	1,634	1,634
Private equity	–	–	818	818
Infrastructure	–	–	691	691
Natural resources	–	–	221	221
Fixed income				
Cash and money market securities	–	430	–	430
Government and corporate bonds	–	1,429	21	1,450
Inflation-linked bonds	–	538	–	538
Other fixed income securities	–	141	436	577
Alternative investments	–	90	392	482
	$ 1,966	$ 3,017	$ 4,213	$ 9,196
Investment-related assets				
Amounts receivable from pending trades	$ –	$ 32	$ –	$ 32
Interest receivable	–	16	–	16
Dividends receivable	–	7	–	7
Securities purchased under reverse repurchase agreements	–	78	–	78
Derivative-related assets	2	230	–	232
	$ 2	$ 363	$ –	$ 365
Investments representing financial assets at FVTPL	$ 1,968	$ 3,380	$ 4,213	$ 9,561
Investment-related liabilities				
Amounts payable from pending trades	$ –	$ (42)	$ –	$ (42)
Interest payable	–	(2)	–	(2)
Securities sold short	(161)	(33)	–	(194)
Securities sold under repurchase agreements	–	(105)	–	(105)
Derivative-related liabilities	(2)	(82)	–	(84)
Investment-related liabilities representing financial liabilities at FVTPL	$ (163)	$ (264)	$ –	$ (427)
Borrowings				
Capital market debt financing	$ –	$ (643)	$ –	$ (643)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (643)	$ –	$ (643)
Net investments	$ 1,805	$ 2,473	$ 4,213	$ 8,491

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, 2015 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 544	$ 52	$ –	$ 596
Foreign equity	2,019	386	–	2,405
Private markets				
Real estate	–	–	1,228	1,228
Private equity	–	–	723	723
Infrastructure	–	–	539	539
Natural resources	–	–	185	185
Fixed income				
Cash and money market securities [A]	–	281	–	281
Government and corporate bonds	–	1,296	20	1,316
Inflation-linked bonds	–	464	–	464
Other fixed income securities	–	173	382	555
Alternative investments	–	102	296	398
	$ 2,563	$ 2,754	$ 3,373	$ 8,690
Investment-related assets				
Amounts receivable from pending trades [A]	$ –	$ 145	$ –	$ 145
Interest receivable [A]	–	15	–	15
Dividends receivable [A]	–	7	–	7
Derivative-related assets	2	125	–	127
	$ 2	$ 292	$ –	$ 294
Investments representing financial assets at FVTPL	$ 2,565	$ 3,046	$ 3,373	$ 8,984
Investment-related liabilities				
Amounts payable from pending trades [A]	$ –	$ (116)	$ –	$ (116)
Interest payable [A]	–	(2)	–	(2)
Securities sold short	(38)	–	–	(38)
Derivative-related liabilities	(2)	(206)	–	(208)
Investment-related liabilities representing financial liabilities at FVTPL	$ (40)	$ (324)	$ –	$ (364)
Borrowings				
Capital market debt financing	$ –	$ (535)	$ –	$ (535)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (535)	$ –	$ (535)
Net investments	$ 2,525	$ 2,187	$ 3,373	$ 8,085

[A] As at March 31, 2015, short-term balances for which cost approximated fair value were not classified in the fair value hierarchy. In order to be consistent with the classification of other financial instruments, they have been included in Level 2 in the current year. The comparative figures were reclassified in Level 2 to conform to the current year presentation. As a result, investments representing financial assets at FVTPL of $275 million and investment-related liabilities representing financial liabilities at FVTPL of $118 million are now disclosed as Level 2.

There were no transfers between Level 1 and Level 2 during the year ended March 31, 2016.

During the year ended March 31, 2015, listed foreign equity securities with a fair value of $35 million, held by a non-listed fund and classified as Level 2 as at March 31, 2014, were transferred to PSP Investments and classified as Level 1 as at March 31, 2015.

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2016:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Private markets					
Real estate	Direct and co-investments	**$ 1,529**	Discounted cash flow (DCF)	Discount rate [A, B]	5.25% – 25.00% (8.27%)
				Terminal capitalization rate [A, B]	4.25% – 14.00% (6.29%)
			Direct capitalization	Capitalization rate [A, C]	3.25% – 7.50% (5.91%)
				Stabilized occupancy rate [C, D]	93.00% – 100.00% (96.84%)
			Sales comparison approach	Price per square foot [C, D]	$25.00 – $665.89 ($170.43)
			Net asset value method (NAV) [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 105**	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	**$ 1,169**	DCF	Discount rate [A]	5.20% – 12.50% (9.70%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 561**	NAV [E]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	**$ 21**	DCF	Discount rate [A]	3.70% – 13.50% (6.30%)
Asset-backed securities	Term notes and mortgage-backed securities	**$ 51**	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	**$ 132**	DCF	Discount rate [A]	8.00% – 13.50% (11.09%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 253**	NAV [E]	N/A	N/A
Alternative investments	Fund investments	**$ 392**	NAV [E]	N/A	N/A
Total		**$ 4,213**			

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

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

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

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

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

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, 2015:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Private markets					
Real estate	Direct and co-investments	$ 1,116	DCF	Discount rate [A, B]	6.00% – 26.00% (8.21%)
				Terminal capitalization rate [A, B]	4.00% – 12.00% (6.36%)
			Direct capitalization	Capitalization rate [A, C]	3.25% – 9.25% (6.72%)
				Stabilized occupancy rate [C, D]	93.00% – 98.50% (96.49%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 112	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 938	DCF	Discount rate [A]	5.69% – 13.40% (9.49%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 509	NAV [E]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	$ 20	DCF	Discount rate [A]	3.87% – 14.02% (5.21%)
Asset-backed securities	Term notes and mortgage-backed securities	$ 100	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 75	DCF	Discount rate [A]	9.50% – 13.40% (11.22%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 207	NAV [E]	N/A	N/A
Alternative investments	Fund investments	$ 296	NAV [E]	N/A	N/A
Total		$ 3,373			

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

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

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

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

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

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, 2016:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer	Closing Balance
Private markets	$ 2,675	$ 686	$ (271)	$ –	$ 68	$ 206	$ –	$ 3,364
Fixed income	402	149	(37)	(50)	30	(37)	–	457
Alternative investments	296	118	(32)	–	5	5	–	392
Total	**$ 3,373**	**$ 953**	**$ (340)**	**$ (50)**	**$ 103**	**$ 174**	**$ –**	**$ 4,213**

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2015:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains (Losses)	Unrealized Gains[A]	Transfer out	Closing Balance
Private markets	$ 2,036	$ 553	$ (198)	$ –	$ 34	$ 272	$ (22)	$ 2,675
Fixed income	324	134	(78)	(11)	7	26	–	402
Alternative investments	135	164	(42)	–	(2)	41	–	296
Total	$ 2,495	$ 851	$ (318)	$ (11)	$ 39	$ 339	$ (22)	$ 3,373

[A] Includes Plan Account allocation adjustments.

During the year ended March 31, 2015, a private markets investment classified under Level 3 as at March 31, 2014, was transferred to Level 1 when the underlying investee 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, 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, 2016 (March 31, 2015 – 4% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. Management ensures the appropriateness of the work performed by third-party appraisers as described under Note 4.2.2. 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, 2016**	March 31, 2015
Securities lending and borrowing		
Securities lent	**$ 666**	$ 960
Collateral held [A]	**711**	1,035
Securities borrowed	**167**	38
Collateral pledged [B]	**175**	40
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**105**	–
Collateral pledged	**105**	–
Securities purchased under reverse repurchase agreements	**78**	–
Collateral held [C]	**78**	–
Derivative contracts		
Collateral pledged	**21**	101
Collateral held	**159**	12

[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 $151 million for the Plan Account as at March 31, 2016 (March 31, 2015 – $193 million) and securities amounted to $560 million as at March 31, 2016 (March 31, 2015 – $842 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 $33 million as at March 31, 2016 (March 31, 2015 – nil) has been used in connection with short selling transactions.

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.

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, 2016, 102 investment entity subsidiaries were incorporated in North America, 19 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa (March 31, 2015 – 92 in North America, 14 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa).

In addition, PSP Investments controlled 73 investees directly or through its investment entity subsidiaries as at March 31, 2016 (March 31, 2015 – 68 investees).

6 INTERESTS IN OTHER ENTITIES (continued)

6.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

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, 2016

Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments**	**Relationship to PSP Investments**
Revera Inc.	**North America**	**100%**	**Controlled investee**
AviAlliance GmbH	**Europe**	**100%**	**Controlled investee**
Kaingaroa Timberlands Ltd.	**Oceania**	**56%**	**Jointly controlled investee**
Telesat Holdings Inc.	**North America**	**34%**	**Associate**
Isolux Infrastructure Netherlands B.V.	**Central and South America**	**19%**	**Jointly controlled investee**
Roccapina Fund, L.P.	**North America**	**100%**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50%**	**Jointly controlled investee**
Big Box Properties	**North America**	**49%**	**Jointly controlled investee**
Acelity Inc.	**North America**	**21%**	**Associate**
TDF S.A.S.	**Europe**	**22%**	**Associate**

March 31, 2015

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

In addition to the above, PSP Investments controls and 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.

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 15 and commitments under Note 16.

7 INVESTMENT RISK MANAGEMENT

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

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

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

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.

Market risk management focuses on the following two key components:

- Policy Portfolio
  The Policy Portfolio (long-term asset mix), as defined in the SIP&P, determines a diversification strategy to mitigate risk whereby PSP Investments invests in a diversified portfolio expected to achieve a return at least equal to the Actuarial Rate of Return (ARR); defined as the rate of return assumption used by the Chief Actuary of Canada in the latest actuarial valuation reports of the Plans. In the absence of other factors affecting the funding of the Plans or changes to pension benefits under the Plans, the ARR is the rate of return required to maintain funding requirements and pension benefits at their current levels.
- Active Management
  Active management is defined as the sum of investment strategies that deviate from the approved Policy Portfolio. It is designed to supplement the returns of the Policy Portfolio within an active risk budget.

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

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

7.1.1. Measurement of Market Risk

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

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

VaR is statistically valid under normal market conditions and does not specifically consider losses from severe market events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.1. Measurement of Market Risk (continued)

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

	March 31, 2016	March 31, 2015
Policy Portfolio VaR	21.5 %	20.6 %
Active VaR	3.6	2.6
Total VaR (undiversified)	25.1	23.2
Diversification effect	(1.5)	(0.9)
Total VaR	**23.6 %**	22.3 %

Stress Testing

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

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, 2016:

(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Government bonds	$ 49	$ 475	$ 239	$ 261	$ –	$ 1,024
Corporate bonds	32	231	124	39	–	426
Inflation-linked bonds	2	120	179	237	–	538
Asset-backed securities	53	15	–	–	–	68
Private debt investments:						
Directly held	–	88	22	–	4	114
Held through funds	–	–	–	–	270 [A]	270
Total investments with significant exposure to interest rate risk	136	929	564	537	274	2,440
Other investments	–	–	–	–	555 [B]	555
Total fixed income	$ 136	$ 929	$ 564	$ 537	$ 829	$ 2,995

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

[B] Consists of $430 million in cash and money market securities and $125 million in floating rate notes, which, due to their nature, are not significantly exposed to interest rate risk.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 8.

Alternative investments, reverse repurchase agreements, as well as derivative contracts described in Notes 4.1.4, 4.1.9 and 4.1.11, respectively, are also subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 7.1.1.

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through direct and indirect holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies. PSP Investments' policy is to hedge foreign currency investments in government and corporate bonds, inflation-linked bonds, certain other fixed income securities, as well as investments in real estate, infrastructure and natural resources. Additional factors are considered when implementing the hedging target for investments in emerging countries, namely, total relative exposure and cost effectiveness.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

Currency	March 31, 2016		March 31, 2015	
(Canadian $ millions)	**Fair Value**	**% of Total**	Fair Value	% of Total
US Dollar	**$ 2,204**	**60.3 %**	$ 2,101	58.8 %
Euro	**260**	**7.1**	259	7.3
South Korean Won	**156**	**4.3**	129	3.6
British Pound	**150**	**4.1**	160	4.5
Hong Kong Dollar	**131**	**3.6**	154	4.3
Japanese Yen	**124**	**3.4**	166	4.7
Brazilian Real	**113**	**3.1**	101	2.8
Indian Rupee	**72**	**2.0**	51	1.4
Swiss Franc	**72**	**2.0**	82	2.3
Taiwanese New Dollar	**67**	**1.8**	72	2.0
Mexican Peso	**47**	**1.3**	26	0.7
Australian Dollar	**45**	**1.2**	47	1.3
South African Rand	**39**	**1.1**	44	1.2
Others	**174**	**4.7**	179	5.1
Total	**$ 3,654**	**100.0 %**	$ 3,571	100.0 %

As at March 31, 2016, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $1,440 million for the Plan Account (US$1,011 million, €67 million, £15 million, R13 million South African Rands, R$6 million Brazilian Reals, $1,411 million Colombian pesos and $28 million Mexican pesos) which were not included in the foreign currency exposure table above.

7 INVESTMENT RISK MANAGEMENT

(continued)

7.2. CREDIT RISK

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

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. Except for ABTNs, securities rated by only one agency are classified as "not rated". If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings.

As at March 31, 2016, the Plan Account's maximum exposure to credit risk amounted to approximately $3 billion (March 31, 2015 – approximately $2 billion). This amount excludes investments in distressed debt in the amount of approximately $0.2 billion as at March 31, 2016 (March 31, 2015 – approximately $0.2 billion). The maximum exposure to credit risk also excludes collateralized debt obligations, collateral held as disclosed in Notes 4.1.11 and 5, respectively, and the impact of guarantees and indemnities disclosed in Note 15.

As at March 31, 2016, the Plan Account had no exposure to collateralized debt obligations (March 31, 2015 – $5 million of net notional exposure to various tranches of collateralized debt obligations, of which approximately 45% of the underlying dollar exposure was rated "Investment grade"). Additionally, PSP Investments had funding facilities, as described in Note 15, to support potential margin calls on the ABTNs.

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

PSP Investments' concentration of credit risk by credit rating, excluding the items described above and any other credit enhancement, for the Plan Account was as follows as at March 31:

	2016	2015
Investment grade (AAA to BBB–)	**97.3 %**	97.5 %
Below investment grade (BB+ and below)	**0.8**	0.4
Not rated:		
Rated by a single credit rating agency	**0.8**	0.6
Not rated by credit rating agencies	**1.1**	1.5
Total	**100.0 %**	100.0 %

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 high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. In certain cases, counterparties are authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing 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.

7.3. LIQUIDITY RISK

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

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 8 provides additional information on the usage of the capital market debt program.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4.1.11.

7 INVESTMENT RISK MANAGEMENT (continued)

7.3. LIQUIDITY RISK (continued)

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2016 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(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	$ (42)	$ –	$ –	$ (42)
Interest payable	(2)	–	–	(2)
Securities sold short	(194)	–	–	(194)
Securities sold under repurchase agreements	(105)	–	–	(105)
Capital market debt financing	(379)	(146)	(118)	(643)
Trade payable and other liabilities	(9)	–	(4)	(13)
Total	$ (731)	$ (146)	$ (122)	$ (999)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 136	$ 57	$ 39	$ 232
Derivative-related liabilities [A]	(23)	(15)	(46)	(84)
Total	$ 113	$ 42	$ (7)	$ 148

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.4. OFFSETTING

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described in Note 7.2.1. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Statement of Financial Position. Securities repurchase and reverse repurchase agreements described in Notes 2.3.6 and 5 are subject to similar arrangements though are not offset.

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

Financial Assets

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set off	Net Amount of Financial Assets Presented in the Statement of Financial Position	Less: Related Amounts not Set off in the Statement of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2016						
OTC-derivatives	**$ 231**	**$ 1**	**$ 230[A]**	**$ 69**	**$ 153**	**$ 8**
Reverse repurchase agreements	**78**	**–**	**78[B]**	**–**	**78**	**–**
Total	**$ 309**	**$ 1**	**$ 308**	**$ 69**	**$ 231**	**$ 8**
March 31, 2015						
OTC-derivatives	$ 127	$ 2	$ 125[A]	$ 111	$ 9	$ 5
Total	$ 127	$ 2	$ 125	$ 111	$ 9	$ 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 Statement of Financial Position	Less: Related Amounts not Set off in the Statement of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2016						
OTC-derivatives	**$ 83**	**$ 1**	**$ 82[A]**	**$ 69**	**$ 13**	**$ –**
Repurchase agreements	**105**	**–**	**105[B]**	**–**	**105**	**–**
Total	**$ 188**	**$ 1**	**$ 187**	**$ 69**	**$ 118**	**$ –**
March 31, 2015						
OTC-derivatives	$ 208	$ 2	$ 206[A]	$ 111	$ 87	$ 8
Total	$ 208	$ 2	$ 206	$ 111	$ 87	$ 8

[A] As described in Note 4.1.11.

[B] As described in Note 4.1.

8 CAPITAL MARKET DEBT FINANCING

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

The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed $3 billion for issuances in Canada and US$5 billion for issuances in the United States.

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2016 and March 31, 2015.

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, 2016		March 31, 2015	
(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 0.58% and 0.70% and maturing within 56 and 185 days of issuance (March 31, 2015 – 17 and 359 days)	**$ 88**	**$ 88**	$ 51	$ 51
Short-term US Dollar promissory notes, bearing interest between 0.40% and 0.85% and maturing within 63 and 196 days of issuance (March 31, 2015 – 84 and 367 days)	**357**	**356**	233	233
Medium-term notes Series 2, bearing interest of 2.94% per annum and matured on December 3, 2015	**–**	**–**	51	51
Medium-term notes Series 4, bearing interest of 2.26% per annum and maturing on February 16, 2017	**65**	**66**	65	66
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**36**	**39**	36	39
Medium-term notes Series 6, bearing variable interest of 3-month CDOR and maturing on April 4, 2016	**15**	**15**	14	15
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**73**	**79**	72	80
Total	**$ 634**	**$ 643**	$ 522	$ 535

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

(Canadian $ thousands)	**2016**	2015
Short-term promissory notes	**$ 1,532**	$ 1,004
Medium-term notes	**6,087**	6,164
Total	**$ 7,619**	$ 7,168

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 (loss) to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 12.

9.2. FUND TRANSFERS

PSP Investments received fund transfers from the Government of Canada of $346 million for the year ended March 31, 2016 ($374 million for the year ended March 31, 2015) for the Fund, recorded in the Plan Account.

10 INVESTMENT-RELATED EXPENSES

Investment-related expenses allocated to the Plan Account are comprised of the following for the year ended March 31:

(Canadian $ millions)	2016	2015
Interest expense	$ 8	$ 8
Transaction costs	8	7
External investment management fees[A]	3	4
Other (net)	1	4
Total	**$ 20**	$ 23

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. This excludes fees for certain pooled fund investments classified under alternative investments which amounted to $5 million for the year ended March 31, 2016 ($8 million for the year ended March 31, 2015).

This also excludes management fees related to investments in private markets and other fixed income securities that are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.0% of the total invested and/or committed amount, totaled $17 million for the year ended March 31, 2016 ($14 million for the year ended March 31, 2015).

11 OPERATING EXPENSES

Operating expenses allocated to the Plan Account consisted of the following for the year ended March 31:

(Canadian $ thousands)	2016	2015
Salaries and employee benefits	$ 12,101	$ 10,618
Professional and consulting fees	3,275	2,170
Premises and equipment	1,153	886
Market data and business applications	1,620	1,449
Depreciation of equipment	1,872	1,151
Custodial fees	314	264
Other operating expenses	971	883
Total	**$ 21,306**	$ 17,421

12 ALLOCATION OF COMPREHENSIVE INCOME (LOSS)

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

12.1. INVESTMENT INCOME (LOSS)

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

12.2. 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 (loss), excluding the direct cost of investment activities listed above, for the year ended March 31, were allocated in proportion to the annual amount of net investments of each Plan Account, which were as follows:

	2016	2015
Public Service Pension Plan Account	72.6 %	72.7 %
Canadian Forces Pension Plan Account	19.7	19.6
Royal Canadian Mounted Police Pension Plan Account	7.2	7.2
Reserve Force Pension Plan Account	0.5	0.5
Total	**100.0 %**	100.0 %

Expenses are paid by PSP Investments by way of advances from the Public Service Pension Plan Account, which are reimbursed by the other Plan Accounts on a quarterly basis.

13 RELATED PARTY TRANSACTIONS

13.1. 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 15 and 16, 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 (loss) as those with unrelated parties.

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

13.2. 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 (loss) as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

13.3. 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 year ended March 31 was recorded in the Statement of Comprehensive Income (Loss) and was as follows:

(Canadian $ thousands)	**2016**	2015
Short-term compensation and other benefits	**$ 1,164**	$ 1,008
Long-term compensation and other benefits	**264**	427
	$ 1,428	$ 1,435

As disclosed in Note 15, 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.

14 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 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.

15 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.

PSP Capital Inc. provided funding facilities of a maximum amount of $969 million to support potential margin calls on the ABTNs, of which $69 million has been allocated to the Plan Account. The margin funding facilities have not been drawn upon since inception; this arrangement matures in July 2017.

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

- As at March 31, 2016, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to $1,891 million as at March 31, 2016 (March 31, 2015 – $1,147 million), of which $137 million has been allocated to the Plan Account (March 31, 2015 – $83 million) plus applicable interest and other related costs. The arrangements mature between May 2016 and September 2028.
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $29 million as at March 31, 2016 (March 31, 2015 – $64 million), of which $2 million has been allocated to the Plan Account (March 31, 2015 – $5 million) in relation to investment transactions.

16 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, 2016
Real estate	$ 176
Private equity	515
Infrastructure	290
Natural resources	62
Other fixed income securities	328
Alternative investments	138
Total	**$ 1,509**

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

Reserve Force Pension Plan Account FINANCIAL STATEMENTS

Independent Auditors' Report

To the Minister of National Defence

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Sector Pension Investment Board – Reserve Force Pension Plan Account (the Reserve Force Pension Plan Account), which comprise the statement of financial position as at March 31, 2016, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Reserve Force Pension Plan Account as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards as issued by the International Accounting Standards Board have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Reserve Force Pension Plan Account that have come to our notice during our audit of the financial statements have, in all significant respects, been in accordance with the applicable provisions of Part X of the *Financial Administration Act* and regulations, the *Public Sector Pension Investment Board Act* and regulations and the by-laws of the Public Sector Pension Investment Board and its wholly-owned subsidiaries.

Deloitte LLP[1]

[1] CPA auditor, CA, public accountancy permit No. A116635

May 12, 2016
Montréal, Canada

Lissa Lamarche, CPA, CA
Principal
for the Auditor General of Canada

May 12, 2016
Ottawa, Canada

Statement of Financial Position

As at

(Canadian $ thousands)	**March 31, 2016**	March 31, 2015
Assets		
Investments (Note 4.1)	**$ 626,867**	$ 614,601
Other assets	**609**	595
Total assets	**$ 627,476**	$ 615,196
Liabilities		
Trade payable and other liabilities	**$ 830**	$ 868
Investment-related liabilities (Note 4.1)	**27,931**	24,993
Borrowings (Notes 4.1, 8)	**42,189**	36,597
Due to the Public Service Pension Plan Account	**430**	394
Total liabilities	**$ 71,380**	$ 62,852
Net assets	**$ 556,096**	$ 552,344
Equity (Note 9)	**$ 556,096**	$ 552,344
Total liabilities and equity	**$ 627,476**	$ 615,196

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

On behalf of the Board of Directors:

Michael P. Mueller
Chair of the Board

William A. MacKinnon
Chair of the Audit Committee

Statement of Comprehensive Income

For the year ended March 31

(Canadian $ thousands)	2016	2015
Investment income	**$ 6,492**	$ 70,672
Investment-related expenses (Note 10)	**(1,315)**	(1,529)
Net investment income	**$ 5,177**	$ 69,143
Operating expenses (Note 11)	**(1,446)**	(1,189)
Net income	**$ 3,731**	$ 67,954
Other comprehensive income		
Remeasurement of the net defined benefit liability	**21**	(75)
Comprehensive income	**$ 3,752**	$ 67,879

Statement of Changes in Equity

For the year ended March 31

(Canadian $ thousands)	2016	2015
Fund transfers		
Balance at beginning of period	**$ 329,631**	$ 310,572
Fund transfers received during the period (Note 9.2)	**–**	19,059
Balance at end of period	**$ 329,631**	$ 329,631
Retained earnings		
Balance at beginning of period	**$ 222,713**	$ 154,834
Comprehensive income	**3,752**	67,879
Balance at end of period	**$ 226,465**	$ 222,713
Total equity	**$ 556,096**	$ 552,344

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

Statement of Cash Flows

For the year ended March 31

(Canadian $ thousands)	2016	2015
Cash flows from operating activities		
Net income	**$ 3,731**	$ 67,954
Adjustments for non-cash items:		
Depreciation of equipment (Note 11)	**127**	79
Effect of exchange rate changes on cash and cash equivalents	**(187)**	(272)
Unrealized (gains) losses on borrowings	**(2,645)**	870
	$ 1,026	$ 68,631
Net changes in operating assets and liabilities		
Increase in investments	**$ (9,931)**	$ (99,897)
(Increase) decrease in other assets	**(27)**	78
(Decrease) increase in trade payable and other liabilities	**(17)**	148
Increase in investment-related liabilities	**2,938**	7,474
Net cash used in operating activities	**$ (6,011)**	$ (23,566)
Cash flow from financing activities		
Proceeds from borrowings	**$ 99,550**	$ 115,993
Repayment of borrowings	**(91,313)**	(111,296)
Repayment to the Public Service Pension Plan Account	**(1,874)**	(1,611)
Advances from the Public Service Pension Plan Account	**1,910**	1,635
Fund transfers received	**–**	19,059
Net cash flows provided by financing activities	**$ 8,273**	$ 23,780
Cash flow from investing activities		
Acquisitions of equipment	**$ (133)**	$ (193)
Net cash flows used in investing activities	**$ (133)**	$ (193)
Net change in cash and cash equivalents	**$ 2,129**	$ 21
Effect of exchange rate changes on cash and cash equivalents	**187**	272
Cash and cash equivalents at the beginning of the period	**4,299**	4,006
Cash and cash equivalents at the end of the period [A]	**$ 6,615**	$ 4,299
Supplementary disclosure of cash flow information		
Interest paid	**$ (593)**	$ (413)

[A] Cash and cash equivalents are comprised of amounts held for investment purposes (included in Note 4.1), as well as amounts held for administrative purposes (included in Other assets). Cash equivalents held for investment purposes represent short-term deposits and other arrangements with a maturity of 90 days or less that are held to meet short-term financial commitments. These amounts are readily convertible into known amounts of cash and have an insignificant risk of changes in value.

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

Notes to the Financial Statements

For the year ended March 31, 2016

1 CORPORATE INFORMATION

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

The fund for which amounts are currently transferred to PSP Investments by the Government of Canada (the "Fund") relates to pension obligations under the Plan for service on or after March 1, 2007 ("Post-2007 Service"). The account managed by PSP Investments for the Fund is herein referred to as the "Plan Account". PSP Investments maintains records of the net contributions for the Fund, as well as the allocation of its investments and the results of its operations for the Fund in the Plan Account. PSP Investments also manages a plan account for the funds of the other Plans, and these and the Plan Account are collectively referred to herein as the "Plan Accounts".

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

Pursuant to the CFSA and the CFSA Regulations, the Government of Canada, which administers the Plan and the Fund, may at any time call upon the net assets of PSP Investments allocated to the Fund's Plan Account for amounts required for the purpose of paying benefits under the Plan in respect of Post-2007 Service.

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

PSP Investments' registered office is located at 440 Laurier Avenue West, 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 in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are summarized below. These accounting policies have been used throughout all periods presented.

2.1. BASIS OF PRESENTATION

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

These Financial Statements present the Plan Account's financial position and results of operations of PSP Investments and its subsidiaries that solely provide it with services that relate to its investment activities, as allocated to the Plan Account. They reflect the economic activity of PSP Investments as it pertains to the investment of the net contributions transferred to it for the Fund in respect of Post-2007 Service. Accordingly, they do not reflect all of the assets or the details of the pension contributions, payments and liabilities under the Plan.

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 12, 2016.

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 13, 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 under the capital market debt financing program, 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. Purchases and sales are recorded as of the trade date.

(iii) Initial and subsequent measurement

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

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 (loss). All other changes in fair value are recorded in investment income (loss).

(iv) Derecognition

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

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

and

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

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

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 real estate, private equity, infrastructure and natural resources, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 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. Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

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.

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

Foreign currency transaction gains and losses on all financial instruments are included in investment income (loss).

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 recognize securities borrowed.

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

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 (loss) 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. 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 (loss).

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 Statement of Financial Position only if PSP Investments has a current enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

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 (loss) is made up of interest, dividends, gains (losses) on the disposal of investments as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the reporting period. Interest is recognized, 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 and other fixed income securities as outlined in Note 10.

2.3.11. Fund Transfers

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

2.4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

3 CURRENT AND FUTURE CHANGES IN ACCOUNTING STANDARDS

3.1. CURRENT ACCOUNTING STANDARDS ADOPTED BEFORE THE EFFECTIVE DATE

IFRS 9 Financial Instruments

In 2014, the IASB completed its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9. The Standard includes requirements for recognition, derecognition, classification and measurement of financial assets and liabilities. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted.

PSP Investments initially adopted IFRS 9 in its Consolidated Financial Statements for the year ended March 31, 2015. Significant accounting policies in connection with IFRS 9 are described under Note 2.3.1.

3.2. FUTURE ACCOUNTING STANDARDS

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

IFRS 11 Joint Arrangements

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

IAS 7 Statement of Cash Flows

IAS 7 was amended, effective for annual periods beginning on or after January 1, 2017, to add new guidance on disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Management is currently assessing the impact of adopting this amendment.

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, 2016**	March 31, 2015
Public markets		
Canadian equity	**$ 30,357**	$ 40,839
Foreign equity	**124,023**	164,502
Private markets		
Real estate	**107,144**	83,976
Private equity	**53,619**	49,450
Infrastructure [A]	**45,294**	36,900
Natural resources [A]	**14,457**	12,674
Fixed income		
Cash and money market securities	**28,205**	19,208
Government and corporate bonds	**95,059**	89,991
Inflation-linked bonds	**35,296**	31,738
Other fixed income securities	**37,843**	37,963
Alternative investments	**31,587**	27,212
	$ 602,884	$ 594,453
Investment-related assets		
Amounts receivable from pending trades	**$ 2,101**	$ 9,940
Interest receivable	**1,067**	1,050
Dividends receivable	**494**	482
Securities purchased under reverse repurchase agreements	**5,103**	–
Derivative-related assets	**15,218**	8,676
	$ 23,983	$ 20,148
Investments representing financial assets at FVTPL	**$ 626,867**	$ 614,601
Investment-related liabilities		
Amounts payable from pending trades	**$ (2,747)**	$ (7,921)
Interest payable	**(126)**	(160)
Securities sold short	**(12,682)**	(2,635)
Securities sold under repurchase agreements	**(6,852)**	–
Derivative-related liabilities	**(5,524)**	(14,277)
Investment-related liabilities representing financial liabilities at FVTPL	**$ (27,931)**	$ (24,993)
Borrowings		
Capital market debt financing	**$ (42,189)**	$ (36,597)
Borrowings representing financial liabilities designated at FVTPL	**$ (42,189)**	$ (36,597)
Net investments	**$ 556,747**	$ 553,011

[A] During the year ended March 31, 2016, certain investments were transferred from the infrastructure to the natural resources asset class to reflect a change in the scope of the asset classes. In order to present such investments on a comparable basis, corresponding comparative balances of $1,369 thousand were reclassified accordingly.

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 to ensure reasonableness. 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. As at March 31, 2016, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSP Investments was $29,962 thousand for the Plan Account (March 31, 2015 – $27,008 thousand).

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

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing. As at March 31, 2016, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSP Investments was $7,596 thousand for the Plan Account (March 31, 2015 – $7,088 thousand).

Natural resources investments are comprised of direct equity positions, fund investments and partnerships. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas.

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 other fixed income securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

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

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

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009. Potential margin calls on the ABTNs are supported by funding facilities, as described in Note 15.

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

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

The fair values of ABTNs as well as private debt investments are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

The fair value measurement of fund investments included as part of private debt investments 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 to ensure reasonableness. 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 approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.10, 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. 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 approximates fair value.

4.1.10. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 8. Short-term promissory notes are recorded at cost plus accrued interest, which approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

Options are the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

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

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

Collateralized Debt Obligations

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

Determination of Fair Value of Derivative Financial Instruments

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

The fair value of credit derivatives is determined using valuation techniques that incorporate significant inputs that are not observable in the market. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2016			March 31, 2015		
		Fair Value			Fair Value	
(Canadian $ thousands)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**$ 3,193**	**$ –**	**$ –**	$ 3,360	$ –	$ –
Warrants and rights	**13**	**18**	**–**	9	33	–
Options: Purchased	**7,179**	**94**	**–**	2,724	91	–
Written	**6,659**	**–**	**(108)**	2,636	–	(40)
OTC						
Forwards	**–**	**–**	**–**	1,880	147	(290)
Total return swaps	**99,528**	**4,512**	**(159)**	81,214	1,288	(312)
Options: Purchased	**27,749**	**314**	**–**	21,012	907	–
Written	**28,009**	**–**	**(257)**	21,283	–	(870)
Currency derivatives						
Listed						
Futures	**835**	**–**	**–**	768	–	–
OTC						
Forwards	**207,353**	**8,074**	**(1,114)**	218,921	2,390	(7,246)
Swaps	**15,496**	**89**	**(1,508)**	15,680	121	(1,602)
Options: Purchased	**41,865**	**492**	**–**	57,120	2,023	–
Written	**51,214**	**–**	**(415)**	57,923	–	(1,938)
Interest rate derivatives						
Listed						
Futures	**35,621**	**–**	**–**	38,256	–	–
Options: Purchased	**11,304**	**3**	**–**	238,484	72	–
Written	**97,572**	**–**	**(11)**	245,795	–	(42)
OTC						
Bond forwards	**1,556**	**5**	**–**	14,217	2	(25)
Interest rate swaps	**53,533**	**773**	**(942)**	40,825	660	(809)
Inflation swaps	**2,586**	**17**	**(27)**	–	–	–
Swaptions	**138,760**	**725**	**(720)**	229,137	894	(929)
Options: Purchased	**40,333**	**46**	**–**	27,427	23	–
Written	**60,198**	**–**	**(57)**	8,889	–	(16)
OTC-cleared						
Interest rate swaps	**37,889**	**–**	**–**	63,605	–	–
Credit derivatives [A]						
OTC						
Purchased	**8,551**	**42**	**(111)**	6,202	–	(111)
Sold	**2,451**	**14**	**(95)**	2,954	25	(47)
OTC-cleared						
Purchased	**2,992**	**–**	**–**	3,035	–	–
Sold	**6,870**	**–**	**–**	5,720	–	–
Total		**$ 15,218**	**$ (5,524)**		$ 8,676	$ (14,277)

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2016			March 31, 2015		
		Fair Value			Fair Value	
(Canadian $ thousands)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**$ 162,376**	**$ 115**	**$ (119)**	$ 532,032	$ 196	$ (82)
OTC derivatives	**779,182**	**15,103**	**(5,405)**	804,684	8,480	(14,195)
OTC-cleared derivatives	**47,751**	**–**	**–**	72,360	–	–
Total		**$ 15,218**	**$ (5,524)**		$ 8,676	$ (14,277)

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

(Canadian $ thousands)	**March 31, 2016**
Less than 3 months	**$ 457,308**
3 to 12 months	**267,966**
Over 1 year	**264,035**

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 of liabilities in markets that are not active.
  (iii) Inputs other than quoted prices that are observable for the asset or liability.
  (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

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

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, 2016 classified within the fair value hierarchy:

(Canadian $ thousands)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 26,904	$ 3,453	$ –	$ 30,357
Foreign equity	101,993	22,030	–	124,023
Private markets				
Real estate	–	–	107,144	107,144
Private equity	–	–	53,619	53,619
Infrastructure	–	–	45,294	45,294
Natural resources	–	–	14,457	14,457
Fixed income				
Cash and money market securities	–	28,205	–	28,205
Government and corporate bonds	–	93,713	1,346	95,059
Inflation-linked bonds	–	35,296	–	35,296
Other fixed income securities	–	9,223	28,620	37,843
Alternative investments	–	5,856	25,731	31,587
	$ 128,897	$ 197,776	$ 276,211	$ 602,884
Investment-related assets				
Amounts receivable from pending trades	$ –	$ 2,101	$ –	$ 2,101
Interest receivable	–	1,067	–	1,067
Dividends receivable	–	494	–	494
Securities purchased under reverse repurchase agreements	–	5,103	–	5,103
Derivative-related assets	115	15,103	–	15,218
	$ 115	$ 23,868	$ –	$ 23,983
Investments representing financial assets at FVTPL	$ 129,012	$ 221,644	$ 276,211	$ 626,867
Investment-related liabilities				
Amounts payable from pending trades	$ –	$ (2,747)	$ –	$ (2,747)
Interest payable	–	(126)	–	(126)
Securities sold short	(10,521)	(2,161)	–	(12,682)
Securities sold under repurchase agreements	–	(6,852)	–	(6,852)
Derivative-related liabilities	(119)	(5,405)	–	(5,524)
Investment-related liabilities representing financial liabilities at FVTPL	$ (10,640)	$ (17,291)	$ –	$ (27,931)
Borrowings				
Capital market debt financing	$ –	$ (42,189)	$ –	$ (42,189)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (42,189)	$ –	$ (42,189)
Net investments	$ 118,372	$ 162,164	$ 276,211	$ 556,747

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, 2015 classified within the fair value hierarchy:

(Canadian $ thousands)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 37,186	$ 3,653	$ –	$ 40,839
Foreign equity	138,069	26,433	–	164,502
Private markets				
Real estate	–	–	83,976	83,976
Private equity	–	–	49,450	49,450
Infrastructure	–	–	36,900	36,900
Natural resources	–	–	12,674	12,674
Fixed income				
Cash and money market securities [A]	–	19,208	–	19,208
Government and corporate bonds	–	88,646	1,345	89,991
Inflation-linked bonds	–	31,738	–	31,738
Other fixed income securities	–	11,830	26,133	37,963
Alternative investments	–	6,958	20,254	27,212
	$ 175,255	$ 188,466	$ 230,732	$ 594,453
Investment-related assets				
Amounts receivable from pending trades [A]	$ –	$ 9,940	$ –	$ 9,940
Interest receivable [A]	–	1,050	–	1,050
Dividends receivable [A]	–	482	–	482
Derivative-related assets	196	8,480	–	8,676
	$ 196	$ 19,952	$ –	$ 20,148
Investments representing financial assets at FVTPL	$ 175,451	$ 208,418	$ 230,732	$ 614,601
Investment-related liabilities				
Amounts payable from pending trades [A]	$ –	$ (7,921)	$ –	$ (7,921)
Interest payable [A]	–	(160)	–	(160)
Securities sold short	(2,635)	–	–	(2,635)
Derivative-related liabilities	(82)	(14,162)	(33)	(14,277)
Investment-related liabilities representing financial liabilities at FVTPL	$ (2,717)	$ (22,243)	$ (33)	$ (24,993)
Borrowings				
Capital market debt financing	$ –	$ (36,597)	$ –	$ (36,597)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (36,597)	$ –	$ (36,597)
Net investments	$ 172,734	$ 149,578	$ 230,699	$ 553,011

[A] As at March 31, 2015, short-term balances for which cost approximated fair value were not classified in the fair value hierarchy. In order to be consistent with the classification of other financial instruments, they have been included in Level 2 in the current year. The comparative figures were reclassified in Level 2 to conform to the current year presentation. As a result, investments representing financial assets at FVTPL of $18,793 thousand and investment-related liabilities representing financial liabilities at FVTPL of $8,081 thousand are now disclosed as Level 2.

There were no transfers between Level 1 and Level 2 during the year ended March 31, 2016.

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2016:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ thousands)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Private markets					
Real estate	Direct and co-investments	**$100,259**	Discounted cash flow (DCF)	Discount rate [A, B]	5.25% – 25.00% (8.27%)
				Terminal capitalization rate [A, B]	4.25% – 14.00% (6.29%)
			Direct capitalization	Capitalization rate [A, C]	3.25% – 7.50% (5.91%)
				Stabilized occupancy rate [C, D]	93.00% – 100.00% (96.84%)
			Sales comparison approach	Price per square foot [C, D]	$25.00 – $665.89 ($170.43)
			Net asset value method (NAV) [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 6,885**	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	**$ 76,642**	DCF	Discount rate [A]	5.20% – 12.50% (9.70%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 36,728**	NAV [E]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	**$ 1,346**	DCF	Discount rate [A]	3.70% – 13.50% (6.30%)
Asset-backed securities	Term notes and mortgage-backed securities	**$ 3,347**	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	**$ 8,642**	DCF	Discount rate [A]	8.00% – 13.50% (11.09%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 16,631**	NAV [E]	N/A	N/A
Alternative investments	Fund investments	**$ 25,731**	NAV [E]	N/A	N/A
Total		**$276,211**			

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

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

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

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

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

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, 2015:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ thousands)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Private markets					
Real estate	Direct and co-investments	$ 76,323	DCF	Discount rate [A, B]	6.00% – 26.00% (8.21%)
				Terminal capitalization rate [A, B]	4.00% – 12.00% (6.36%)
			Direct capitalization	Capitalization rate [A, C]	3.25% – 9.25% (6.72%)
				Stabilized occupancy rate [C, D]	93.00% – 98.50% (96.49%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 7,653	NAV [E]	N/A	N/A
Other private markets	Direct and co-investments	$ 64,201	DCF	Discount rate [A]	5.69% – 13.40% (9.49%)
			Market comparables	N/A	N/A
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 34,823	NAV [E]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	$ 1,345	DCF	Discount rate [A]	3.87% – 14.02% (5.21%)
Asset-backed securities	Term notes and mortgage-backed securities	$ 6,856	Third-party pricing [E]	N/A	N/A
Other fixed income securities	Direct and co-investments	$ 5,117	DCF	Discount rate [A]	9.50% – 13.40% (11.22%)
			NAV [E]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 14,160	NAV [E]	N/A	N/A
Alternative investments	Fund investments	$ 20,254	NAV [E]	N/A	N/A
Derivative-related instruments	Credit derivatives	$ (33)	Third-party pricing [E]	N/A	N/A
Total		$230,699			

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

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

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

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

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

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, 2016:

(Canadian $ thousands)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer	Closing Balance
Private markets	$ 183,000	$ 46,164	$ (18,290)	$ –	$ 4,592	$ 5,048	$ –	$ 220,514
Fixed income	27,478	10,027	(2,498)	(3,402)	2,039	(3,678)	–	29,966
Alternative investments	20,254	7,941	(2,128)	–	317	(653)	–	25,731
Derivative-related assets/liabilities (net)	(33)	–	–	(12)	12	33	–	–
Total	$ 230,699	$ 64,132	$ (22,916)	$ (3,414)	$ 6,960	$ 750	$ –	$ 276,211

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2015:

(Canadian $ thousands)	Opening Balance	Purchases	Sales	Settlements	Realized Gains (Losses)	Unrealized Gains (Losses)[A]	Transfer out	Closing Balance
Private markets	$ 140,993	$ 38,750	$ (13,629)	$ –	$ 2,370	$ 16,073	$ (1,557)	$ 183,000
Fixed income	22,488	9,343	(5,500)	(715)	508	1,354	–	27,478
Alternative investments	9,382	11,470	(2,895)	–	(206)	2,503	–	20,254
Derivative-related assets/liabilities (net)	2	–	–	(10)	4	(29)	–	(33)
Total	$ 172,865	$ 59,563	$ (22,024)	$ (725)	$ 2,676	$ 19,901	$ (1,557)	$ 230,699

[A] Includes Plan Account allocation adjustments.

During the year ended March 31, 2015, a private markets investment classified under Level 3 as at March 31, 2014, was transferred to Level 1, when the underlying investee 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, 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, 2016 (March 31, 2015 – 4% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. Management ensures the appropriateness of the work performed by third-party appraisers as described under Note 4.2.2. 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, 2016**	March 31, 2015
Securities lending and borrowing		
Securities lent	**$ 43,678**	$ 65,642
Collateral held [A]	**46,628**	70,839
Securities borrowed	**10,915**	2,635
Collateral pledged [B]	**11,466**	2,769
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**6,877**	–
Collateral pledged	**6,851**	–
Securities purchased under reverse repurchase agreements	**5,103**	–
Collateral held [C]	**5,103**	–
Derivative contracts		
Collateral pledged	**1,370**	6,935
Collateral held	**10,395**	839

[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 $9,930 thousand for the Plan Account as at March 31, 2016 (March 31, 2015 – $13,229 thousand) and securities amounted to $36,698 thousand as at March 31, 2016 (March 31, 2015 – $57,610 thousand). All cash collateral is re-invested.

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

[C] The collateral received is in the form of securities of which $2,161 thousand as at March 31, 2016 (March 31, 2015 – nil) has been used in connection with short selling transactions.

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.

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, 2016, 102 investment entity subsidiaries were incorporated in North America, 19 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa (March 31, 2015 – 92 in North America, 14 in Europe, 10 in Oceania, 4 in Central and South America, and 1 in Africa).

In addition, PSP Investments controlled 73 investees directly or through its investment entity subsidiaries as at March 31, 2016 (March 31, 2015 – 68 investees).

6 INTERESTS IN OTHER ENTITIES (continued)

6.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

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, 2016

Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	**North America**	**100%**	**Controlled investee**
AviAlliance GmbH	**Europe**	**100%**	**Controlled investee**
Kaingaroa Timberlands Ltd.	**Oceania**	**56%**	**Jointly controlled investee**
Telesat Holdings Inc.	**North America**	**34%**	**Associate**
Isolux Infrastructure Netherlands B.V.	**Central and South America**	**19%**	**Jointly controlled investee**
Roccapina Fund, L.P.	**North America**	**100%**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50%**	**Jointly controlled investee**
Big Box Properties	**North America**	**49%**	**Jointly controlled investee**
Acelity Inc.	**North America**	**21%**	**Associate**
TDF S.A.S.	**Europe**	**22%**	**Associate**

March 31, 2015

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

In addition to the above, PSP Investments controls and 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.

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 15 and commitments under Note 16.

7 INVESTMENT RISK MANAGEMENT

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

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

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

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.

Market risk management focuses on the following two key components:

- Policy Portfolio
  The Policy Portfolio (long-term asset mix), as defined in the SIP&P, determines a diversification strategy to mitigate risk whereby PSP Investments invests in a diversified portfolio expected to achieve a return at least equal to the Actuarial Rate of Return (ARR); defined as the rate of return assumption used by the Chief Actuary of Canada in the latest actuarial valuation reports of the Plans. In the absence of other factors affecting the funding of the Plans or changes to pension benefits under the Plans, the ARR is the rate of return required to maintain funding requirements and pension benefits at their current levels.
- Active Management
  Active management is defined as the sum of investment strategies that deviate from the approved Policy Portfolio. It is designed to supplement the returns of the Policy Portfolio within an active risk budget.

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

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

7.1.1. Measurement of Market Risk

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

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

VaR is statistically valid under normal market conditions and does not specifically consider losses from severe market events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.1. Measurement of Market Risk (continued)

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

	March 31, 2016	March 31, 2015
Policy Portfolio VaR	**21.5 %**	20.6 %
Active VaR	**3.6**	2.6
Total VaR (undiversified)	**25.1**	23.2
Diversification effect	**(1.5)**	(0.9)
Total VaR	**23.6 %**	22.3 %

Stress Testing

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

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, 2016:

(Canadian $ thousands)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Government bonds	$ 3,202	$ 31,163	$ 15,657	$ 17,095	$ –	$ 67,117
Corporate bonds	2,069	15,175	8,116	2,582	–	27,942
Inflation-linked bonds	115	7,864	11,752	15,565	–	35,296
Asset-backed securities	3,463	956	5	–	–	4,424
Private debt investments:						
Directly held	23	5,784	1,470	–	244	7,521
Held through funds	–	–	–	–	17,751 [A]	17,751
Total investments with significant exposure to interest rate risk	**8,872**	**60,942**	**37,000**	**35,242**	**17,995**	**160,051**
Other investments	**–**	**–**	**–**	**–**	**36,352 [B]**	**36,352**
Total fixed income	**$ 8,872**	**$ 60,942**	**$ 37,000**	**$ 35,242**	**$ 54,347**	**$ 196,403**

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

[B] Consists of $28,205 thousand in cash and money market securities and $8,147 thousand in floating rate notes, which, due to their nature, are not significantly exposed to interest rate risk.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 8.

Alternative investments, reverse repurchase agreements, as well as derivative contracts described in Notes 4.1.4, 4.1.9 and 4.1.11, respectively, are also subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 7.1.1.

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through direct and indirect holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies. PSP Investments' policy is to hedge foreign currency investments in government and corporate bonds, inflation-linked bonds, certain other fixed income securities, as well as investments in real estate, infrastructure and natural resources. Additional factors are considered when implementing the hedging target for investments in emerging countries, namely, total relative exposure and cost effectiveness.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

Currency	March 31, 2016		March 31, 2015	
(Canadian $ thousands)	Fair Value	% of Total	Fair Value	% of Total
US Dollar	$ 144,548	60.3 %	$ 143,713	58.8 %
Euro	17,072	7.1	17,746	7.3
South Korean Won	10,228	4.3	8,848	3.6
British Pound	9,799	4.1	10,915	4.5
Hong Kong Dollar	8,571	3.6	10,530	4.3
Japanese Yen	8,107	3.4	11,332	4.7
Brazilian Real	7,412	3.1	6,941	2.8
Indian Rupee	4,749	2.0	3,472	1.4
Swiss Franc	4,733	2.0	5,610	2.3
Taiwanese New Dollar	4,332	1.8	4,896	2.0
Mexican Peso	3,088	1.3	1,806	0.7
Australian Dollar	2,968	1.2	3,184	1.3
South African Rand	2,552	1.1	3,001	1.2
Others	11,403	4.7	12,239	5.1
Total	**$ 239,562**	**100.0 %**	$ 244,233	100.0 %

As at March 31, 2016, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $94,373 thousand for the Plan Account (US$66,260 thousand, €4,383 thousand, £973 thousand, R865 thousand South African Rands, R$395 thousand Brazilian Reals, $92,544 thousand Colombian pesos and $1,862 thousand Mexican pesos) which were not included in the foreign currency exposure table above.

7 INVESTMENT RISK MANAGEMENT
(continued)

7.2. CREDIT RISK

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

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. Except for ABTNs, securities rated by only one agency are classified as “not rated”. If the agencies disagree as to a security’s credit quality, PSP Investments uses the lowest of the available ratings.

As at March 31, 2016, the Plan Account’s maximum exposure to credit risk amounted to approximately $173 million (March 31, 2015 – approximately $156 million). This amount excludes investments in distressed debt in the amount of approximately $13 million as at March 31, 2016 (March 31, 2015 – approximately $12 million). The maximum exposure to credit risk also excludes collateralized debt obligations, collateral held as disclosed in Notes 4.1.11 and 5, respectively, and the impact of guarantees and indemnities disclosed in Note 15.

As at March 31, 2016, the Plan Account had no exposure to collateralized debt obligations (March 31, 2015 – $313 thousand of net notional exposure to various tranches of collateralized debt obligations, of which approximately 45% of the underlying dollar exposure was rated “Investment grade”). Additionally, PSP Investments had funding facilities, as described in Note 15, to support potential margin calls on the ABTNs.

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

PSP Investments’ concentration of credit risk by credit rating, excluding the items described above and any other credit enhancement, for the Plan Account was as follows as at March 31:

	2016	2015
Investment grade (AAA to BBB–)	**97.3%**	97.5%
Below investment grade (BB+ and below)	**0.8**	0.4
Not rated:		
Rated by a single credit rating agency	**0.8**	0.6
Not rated by credit rating agencies	**1.1**	1.5
Total	**100.0%**	100.0%

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 high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. In certain cases, counterparties are authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing 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.

7.3. LIQUIDITY RISK

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

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 8 provides additional information on the usage of the capital market debt program.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4.1.11.

7 INVESTMENT RISK MANAGEMENT (continued)

7.3. LIQUIDITY RISK (continued)

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2016 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(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	$ (2,747)	$ –	$ –	$ (2,747)
Interest payable	(115)	(11)	–	(126)
Securities sold short	(12,682)	–	–	(12,682)
Securities sold under repurchase agreements	(6,852)	–	–	(6,852)
Capital market debt financing	(24,837)	(9,611)	(7,741)	(42,189)
Trade payable and other liabilities	(544)	(10)	(276)	(830)
Total	$ (47,777)	$ (9,632)	$ (8,017)	$ (65,426)

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 8,873	$ 3,759	$ 2,586	$ 15,218
Derivative-related liabilities [A]	(1,495)	(962)	(3,067)	(5,524)
Total	$ 7,378	$ 2,797	$ (481)	$ 9,694

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.4. OFFSETTING

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described in Note 7.2.1. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Statement of Financial Position. Securities repurchase and reverse repurchase agreements described in Notes 2.3.6 and 5 are subject to similar arrangements though are not offset.

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

Financial Assets

(Canadian $ thousands)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set off	Net Amount of Financial Assets Presented in the Statement of Financial Position	Less: Related Amounts not Set off in the Statement of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2016						
OTC-derivatives	**$ 15,148**	**$ 45**	**$ 15,103[A]**	**$ 4,543**	**$ 10,016**	**$ 544**
Reverse repurchase agreements	**5,103**	**–**	**5,103[B]**	**–**	**5,103**	**–**
Total	**$ 20,251**	**$ 45**	**$ 20,206**	**$ 4,543**	**$ 15,119**	**$ 544**
March 31, 2015						
OTC-derivatives	$ 8,608	$ 128	$ 8,480[A]	$ 7,616	$ 564	$ 300
Total	$ 8,608	$ 128	$ 8,480	$ 7,616	$ 564	$ 300

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 Statement of Financial Position	Less: Related Amounts not Set off in the Statement of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2016						
OTC-derivatives	**$ 5,450**	**$ 45**	**$ 5,405[A]**	**$ 4,543**	**$ 849**	**$ 13**
Repurchase agreements	**6,852**	**–**	**6,852[B]**	**–**	**6,851**	**1**
Total	**$ 12,302**	**$ 45**	**$ 12,257**	**$ 4,543**	**$ 7,700**	**$ 14**
March 31, 2015						
OTC-derivatives	$ 14,323	$ 128	$ 14,195[A]	$ 7,616	$ 6,029	$ 550
Total	$ 14,323	$ 128	$ 14,195	$ 7,616	$ 6,029	$ 550

[A] As described in Note 4.1.11.

[B] As described in Note 4.1.

8 CAPITAL MARKET DEBT FINANCING

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

The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. Under this limit, the short-term promissory note component cannot exceed $3 billion for issuances in Canada and US$5 billion for issuances in the United States.

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2016 and March 31, 2015.

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, 2016		March 31, 2015	
(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 0.58% and 0.70% and maturing within 56 and 185 days of issuance (March 31, 2015 – 17 and 359 days)	**$ 5,801**	**$ 5,792**	$ 3,446	$ 3,441
Short-term US Dollar promissory notes, bearing interest between 0.40% and 0.85% and maturing within 63 and 196 days of issuance (March 31, 2015 – 84 and 367 days)	**23,381**	**23,360**	15,956	15,946
Medium-term notes Series 2, bearing interest of 2.94% per annum and matured on December 3, 2015	**–**	**–**	3,456	3,504
Medium-term notes Series 4, bearing interest of 2.26% per annum and maturing on February 16, 2017	**4,290**	**4,343**	4,443	4,561
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**2,383**	**2,559**	2,468	2,688
Medium-term notes Series 6, bearing variable interest of 3-month CDOR and maturing on April 4, 2016	**953**	**953**	987	988
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**4,767**	**5,182**	4,937	5,469
Total	**$ 41,575**	**$ 42,189**	$ 35,693	$ 36,597

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

(Canadian $ thousands)	**2016**	2015
Short-term promissory notes	**$ 102**	$ 69
Medium-term notes	**407**	423
Total	**$ 509**	$ 492

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 (loss) to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 12.

9.2. FUND TRANSFERS

PSP Investments did not receive any fund transfers from the Government of Canada for the year ended March 31, 2016 ($19,059 thousand for the year ended March 31, 2015) for the Fund.

10 INVESTMENT-RELATED EXPENSES

Investment-related expenses allocated to the Plan Account are comprised of the following for the year ended March 31:

(Canadian $ thousands)		**2016**		2015
Interest expense	**$**	**559**	$	544
Transaction costs		**499**		505
External investment management fees[A]		**173**		209
Other (net)		**84**		271
Total	**$**	**1,315**	$	1,529

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. This excludes fees for certain pooled fund investments classified under alternative investments which amounted to $289 thousand for the year ended March 31, 2016 ($513 thousand for the year ended March 31, 2015).

This also excludes management fees related to investments in private markets and other fixed income securities that are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.0% of the total invested and/or committed amount, totaled $1,140 thousand for the year ended March 31, 2016 ($961 thousand for the year ended March 31, 2015).

11 OPERATING EXPENSES

Operating expenses allocated to the Plan Account consisted of the following for the year ended March 31:

(Canadian $ thousands)		**2016**		2015
Salaries and employee benefits	**$**	**821**	$	725
Professional and consulting fees		**222**		148
Premises and equipment		**78**		60
Market data and business applications		**110**		99
Depreciation of equipment		**127**		79
Custodial fees		**22**		18
Other operating expenses		**66**		60
Total	**$**	**1,446**	$	1,189

12 ALLOCATION OF COMPREHENSIVE INCOME (LOSS)

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

12.1. INVESTMENT INCOME (LOSS)

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

12.2. 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 (loss), excluding the direct cost of investment activities listed above, for the year ended March 31, were allocated in proportion to the annual amount of net investments of each Plan Account, which were as follows:

	2016	2015
Public Service Pension Plan Account	**72.6 %**	72.7 %
Canadian Forces Pension Plan Account	**19.7**	19.6
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.2
Reserve Force Pension Plan Account	**0.5**	0.5
Total	**100.0 %**	100.0 %

Expenses are paid by PSP Investments by way of advances from the Public Service Pension Plan Account, which are reimbursed by the other Plan Accounts on a quarterly basis.

13 RELATED PARTY TRANSACTIONS

13.1. 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 15 and 16, 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 (loss) as those with unrelated parties.

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

13.2. 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 (loss) as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

13.3. 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 year ended March 31 was recorded in the Statement of Comprehensive Income (Loss) and was as follows:

(Canadian $ thousands)	2016	2015
Short-term compensation and other benefits	**$ 80**	$ 70
Long-term compensation and other benefits	**18**	29
	$ 98	$ 99

As disclosed in Note 15, 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.

14 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 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.

15 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.

PSP Capital Inc. provided funding facilities of a maximum amount of $969 million to support potential margin calls on the ABTNs, of which $4,840 thousand has been allocated to the Plan Account. The margin funding facilities have not been drawn upon since inception; this arrangement matures in July 2017.

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

- As at March 31, 2016, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to $1,891 million as at March 31, 2016 (March 31, 2015 – $1,147 million), of which $9,016 thousand has been allocated to the Plan Account (March 31, 2015 – $5,660 thousand) plus applicable interest and other related costs. The arrangements mature between May 2016 and September 2028.
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $29 million as at March 31, 2016 (March 31, 2015 – $64 million), of which $137 thousand has been allocated to the Plan Account (March 31, 2015 – $316 thousand) in relation to investment transactions.

16 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, 2016
Real estate	$ 11,492
Private equity	33,789
Infrastructure	19,021
Natural resources	4,042
Other fixed income securities	21,515
Alternative investments	9,057
Total	**$ 98,916**

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

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