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Management's Responsibility
for Financial Reporting

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

For fiscal year ended March 31, 2023 and March 31, 2022, we certify that the internal controls over financial reporting and disclosure controls and procedures are adequately designed and are operating effectively. We report any significant deficiencies to the Audit Committee ("Committee") of the Board of Directors of PSP Investments.

PSP Investments maintains records and systems of internal control and supporting procedures designed to provide reasonable assurance that PSP Investments' assets are safeguarded and controlled in accordance with the *Public Sector Pension Investment Board Act*.

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

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

Deborah K. Orida
President and Chief Executive Officer

May 15, 2023

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

May 15, 2023

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, 2023, were in accordance with the Act and PSP Investments' Statement of Investment Policies, Standards and Procedures".

Martin Glynn
Chair of the Board
May 16, 2023

— Public Sector Pension Investment Board
Consolidated Financial Statements

Independent Auditors' Report

To the President of the Treasury Board

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Public Sector Pension Investment Board (PSP Investments), which comprise the consolidated statements of financial position as at March 31, 2023 and 2022, and the consolidated statements of net income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of PSP Investments as at March 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PSP Investments' internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on PSP Investments' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause PSP Investments to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Montréal, Canada
May 15, 2023

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

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

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

Deloitte LLP[1]

Montréal, Canada
May 15, 2023

[1] CPA auditor, public accountancy permit No. A125494

Consolidated Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Assets		
Investments (Note 4.1)	**283,411**	263,836
Other assets	**184**	208
Total assets	**283,595**	264,044
Liabilities		
Trade payable and other liabilities	**523**	427
Investment-related liabilities (Note 4.1)	**15,715**	10,634
Borrowings (Notes 4.1, 8.2)	**24,042**	22,710
Total liabilities	**40,280**	33,771
Net assets	**243,315**	230,273
Equity		
Statutory rights held by the Government of Canada with respect to: (Note 9.1)		
Public Service Pension Plan Account	**177,962**	168,090
Canadian Forces Pension Plan Account	**46,802**	44,707
Royal Canadian Mounted Police Pension Plan Account	**17,546**	16,513
Reserve Force Pension Plan Account	**1,005**	963
Total equity	**243,315**	230,273
Total liabilities and equity	**283,595**	264,044

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

On behalf of the Board of Directors:

Martin Glynn
Chair of the Board

Katherine Lee
Chair of the Audit Committee

Consolidated Statements of Net Income

For the years ended March 31

(Canadian $ millions)	**2023**	2022
Investment income	**12,084**	23,562
Investment-related expenses (Note 11)	**(1,158)**	(502)
Net investment income	**10,926**	23,060
Operating expenses (Note 12)	**(744)**	(588)
Net income	**10,182**	22,472

Consolidated Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	**2023**	2022
Fund transfers		
Balance at beginning of year	**86,889**	83,387
Fund transfers received during the year (Note 9.3)	**2,860**	3,502
Balance at end of year	**89,749**	86,889
Retained earnings		
Balance at beginning of year	**143,384**	120,912
Net income	**10,182**	22,472
Balance at end of year	**153,566**	143,384
Total equity	**243,315**	230,273

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

Consolidated Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	**2023**	2022
Cash flows from operating activities		
Net income	**10,182**	22,472
Adjustments for non-cash items:		
Depreciation of property and equipment (Note 12)	**25**	31
Effect of exchange rate changes on cash and cash equivalents	**(141)**	52
Unrealized losses (gains) on borrowings	**252**	(689)
	10,318	21,866
Net changes in operating assets and liabilities		
Increase in investments	**(20,879)**	(27,241)
Decrease (increase) in other assets	**1**	(7)
Increase (decrease) in trade payables and other liabilities	**96**	(11)
Increase (decrease) in investment-related liabilities	**5,178**	(669)
Net cash flows used in operating activities	**(5,286)**	(6,062)
Cash flows from financing activities		
Proceeds from borrowings	**28,159**	32,418
Repayment of borrowings	**(27,161)**	(25,751)
Fund transfers received (Note 9.3)	**2,860**	3,502
Net cash flows provided by financing activities	**3,858**	10,169
Cash flows from investing activities		
Acquisitions of equipment	**(5)**	(16)
Net cash flows used in investing activities	**(5)**	(16)
Net change in cash and cash equivalents	**(1,433)**	4,091
Effect of exchange rate changes on cash and cash equivalents	**141**	(52)
Cash and cash equivalents at the beginning of the year	**8,329**	4,290
Cash and cash equivalents at the end of the year[A]	**7,037**	8,329
Supplementary disclosure of cash flow information		
Interest paid	**(686)**	(240)

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

[A] As at March 31, 2023, cash and cash equivalents were comprised of $6,998 million (March 31, 2022 – $8,302 million) held for investment purposes and included in Note 4.1, as well as $39 million (March 31, 2022 – $27 million) held for administrative purposes and included in Other assets.

Notes to the Consolidated Financial Statements

For the years ended March 31, 2023 and 2022

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. In certain foreign jurisdictions, income and capital gains remain taxable.

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

2 — Significant Accounting Policies

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

2.1. Basis of Presentation

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

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

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

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 15, 2023.

Plan Accounts

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

2 — Significant Accounting Policies
(continued)

2.2. Investment Entity Status

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

(i) *Mandate and business purpose*

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

(ii) *Performance evaluation*

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

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

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

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

2.3. Summary of Significant Accounting Policies

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

2.3.1. Financial Instruments

(i) *Classification*

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

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

(ii) *Recognition*

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

(iii) *Initial and subsequent measurement*

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

(iv) *Derecognition*

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

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

and

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

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

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

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

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

2.3.3. Functional and Presentation Currency

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

2.3.4. Foreign Currency Translation

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

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

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

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

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

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

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

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

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.7. Offsetting of Financial Instruments

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

2.3.8. Equity

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

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

2.3.9. Investment Income

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

2.3.10. Investment-Related Expenses

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

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

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

2.3.11. Fund Transfers

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

2.4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Sources of estimate uncertainty related to macroeconomic unpredictability and volatility include the current geopolitical context, supply chain disruptions and rising inflation and interest rates. This could continue to impact financial results, due to uncertainties including their extent and duration. The Consolidated Financial Statements of PSP Investments reflect the impacts resulting from the aforementioned macroeconomic factors to the extent known at the reporting date.

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

3 — Current and Future Changes in Accounting Standards

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

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Public markets		
Canadian equity	**4,483**	4,926
Foreign equity	**35,289**	42,034
Private markets		
Real estate	**41,143**	39,430
Private equity	**35,906**	33,341
Infrastructure	**35,952**	29,481
Natural resources	**18,662**	15,695
Fixed income		
Cash and money market securities	**15,335**	13,367
Government and corporate bonds	**23,217**	19,410
Inflation-linked bonds	**11,438**	13,027
Private debt securities	**30,362**	25,616
Alternative investments	**24,895**	21,601
	276,682	257,928
Investment-related assets		
Amounts receivable from pending trades	**2,541**	487
Interest receivable	**502**	316
Dividends receivable	**208**	181
Securities purchased under reverse repurchase agreements	**1,279**	2,870
Derivative-related assets	**2,199**	2,054
	6,729	5,908
Investments representing financial assets at FVTPL	**283,411**	263,836
Investment-related liabilities		
Amounts payable from pending trades	**(1,079)**	(1,069)
Interest payable	**(116)**	(81)
Securities sold short	**(2,495)**	(2,347)
Collateral payable	**(957)**	(671)
Securities sold under repurchase agreements	**(9,433)**	(3,928)
Derivative-related liabilities	**(1,635)**	(2,538)
Investment-related liabilities representing financial liabilities at FVTPL	**(15,715)**	(10,634)
Borrowings		
Capital market debt financing	**(24,042)**	(22,710)
Borrowings representing financial liabilities designated at FVTPL	**(24,042)**	(22,710)
Net investments	**243,654**	230,492

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.1. Public Markets

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

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

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

4.1.2. Private Markets

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

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

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

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

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

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

4.1.3. Fixed Income

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

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Consolidated Statements of Cash Flows and amounted to $6,998 million as at March 31, 2023 (March 31, 2022 – $8,302 million). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

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

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

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

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

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

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.4. Alternative Investments

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

4.1.5. Amounts Receivable and Payable from Pending Trades

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

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

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

4.1.6. Interest and Dividends Receivable

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

4.1.7. Interest Payable

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

4.1.8. Securities Sold Short

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

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

4.1.9. Collateral Payable

As part of securities lending and certain OTC derivative transactions, when cash is received, it is recognized as collateral payable. The payable balance reflects the obligation of the transferee to return the amount to the transferor at the end of the transaction in the absence of an event of default by the transferor.

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

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

4.1.11. Borrowings under the Capital Market Debt Program

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

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.12. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

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

Warrants and Rights

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

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

Determination of Fair Value of Derivative Financial Instruments

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2023			March 31, 2022		
		Fair Value			Fair Value	
(Canadian $ millions)	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**3,690**	**—**	**—**	5,261	—	—
Warrants and rights	**1**	**2**	**—**	12	8	—
Options: Purchased	**911**	**29**	**—**	405	7	—
Written	**1,194**	**—**	**(12)**	658	—	(7)
OTC						
Swaps	**20,687**	**658**	**(228)**	21,016	483	(231)
Options: Purchased	**84**	**—**	**—**	59	—	—
Currency derivatives						
Listed						
Futures	**229**	**—**	**—**	323	—	—
OTC						
Forwards	**107,457**	**704**	**(839)**	62,246	386	(1,294)
Swaps	**3,564**	**89**	**(33)**	742	—	(38)
Options: Purchased	**2,060**	**9**	**—**	1,520	13	—
Written	**2,663**	**—**	**(8)**	1,760	—	(10)
Interest rate derivatives						
Listed						
Futures	**2,200**	**—**	**—**	7,810	—	—
Options: Purchased	**48,521**	**8**	**—**	48,924	42	—
Written	**44,442**	**—**	**(7)**	42,212	—	(35)
OTC						
Forwards	**1,416**	**12**	**(4)**	—	—	—
Swaps	**3,481**	**33**	**(13)**	2,146	121	(13)
Options: Purchased	**65,627**	**641**	**—**	55,383	993	—
Written	**76,605**	**—**	**(480)**	59,299	—	(904)
OTC-cleared						
Swaps	**80,888**	**—**	**—**	60,592	—	—
Credit derivatives						
OTC						
Credit default swaps: Purchased	**562**	**—**	**(11)**	262	—	(6)
Written[A]	**1,206**	**14**	**—**	50	1	—
OTC-cleared						
Credit default swaps: Purchased	**2,021**	**—**	**—**	1,847	—	—
Written[A]	**—**	**—**	**—**	187	—	—
Total		**2,199**	**(1,635)**		2,054	(2,538)

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

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2023			March 31, 2022		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**101,188**	**39**	**(19)**	105,605	57	(42)
OTC derivatives	**285,412**	**2,160**	**(1,616)**	204,483	1,997	(2,496)
OTC-cleared derivatives	**82,909**	**—**	**—**	62,626	—	—
Total		**2,199**	**(1,635)**		2,054	(2,538)

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Less than 3 months	**229,680**	147,157
3 to 12 months	**148,978**	128,730
Over 1 year	**90,851**	96,827

4.2. Fair Value Hierarchy

4.2.1. Classification

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2023, classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	2,753	1,730	—	4,483
Foreign equity	33,276	1,032	981	35,289
Private markets				
Real estate	—	—	41,143	41,143
Private equity	—	—	35,906	35,906
Infrastructure	—	—	35,952	35,952
Natural resources	—	—	18,662	18,662
Fixed income				
Cash and money market securities	10,883	4,452	—	15,335
Government and corporate bonds	8,127	15,087	3	23,217
Inflation-linked bonds	11,438	—	—	11,438
Private debt securities	—	—	30,362	30,362
Alternative investments	—	15,402	9,493	24,895
	66,477	37,703	172,502	276,682
Investment-related assets				
Amounts receivable from pending trades	—	2,541	—	2,541
Interest receivable	—	502	—	502
Dividends receivable	—	208	—	208
Securities purchased under reverse repurchase agreements	—	1,279	—	1,279
Derivative-related assets	39	2,160	—	2,199
	39	6,690	—	6,729
Investments representing financial assets at FVTPL	66,516	44,393	172,502	283,411
Investment-related liabilities				
Amounts payable from pending trades	—	(1,079)	—	(1,079)
Interest payable	—	(116)	—	(116)
Securities sold short	(2,333)	(162)	—	(2,495)
Collateral payable	—	(957)	—	(957)
Securities sold under repurchase agreements	—	(9,433)	—	(9,433)
Derivative-related liabilities	(19)	(1,616)	—	(1,635)
Investment-related liabilities representing financial liabilities at FVTPL	(2,352)	(13,363)	—	(15,715)
Borrowings				
Capital market debt financing	—	(24,042)	—	(24,042)
Borrowings representing financial liabilities designated at FVTPL	—	(24,042)	—	(24,042)
Net investments	64,164	6,988	172,502	243,654

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, 2022, classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	3,139	1,787	—	4,926
Foreign equity	39,799	883	1,352	42,034
Private markets				
Real estate	—	—	39,430	39,430
Private equity	—	—	33,341	33,341
Infrastructure	—	—	29,481	29,481
Natural resources	—	—	15,695	15,695
Fixed income				
Cash and money market securities	3,307	10,060	—	13,367
Government and corporate bonds	4,639	14,768	3	19,410
Inflation-linked bonds	13,026	1	—	13,027
Private debt securities	—	—	25,616	25,616
Alternative investments	—	13,146	8,455	21,601
	63,910	40,645	153,373	257,928
Investment-related assets				
Amounts receivable from pending trades	—	487	—	487
Interest receivable	—	316	—	316
Dividends receivable	—	181	—	181
Securities purchased under reverse repurchase agreements	—	2,870	—	2,870
Derivative-related assets	57	1,997	—	2,054
	57	5,851	—	5,908
Investments representing financial assets at FVTPL	63,967	46,496	153,373	263,836
Investment-related liabilities				
Amounts payable from pending trades	—	(1,069)	—	(1,069)
Interest payable	—	(81)	—	(81)
Securities sold short	(2,347)	—	—	(2,347)
Collateral payable	—	(671)	—	(671)
Securities sold under repurchase agreements	—	(3,928)	—	(3,928)
Derivative-related liabilities	(42)	(2,496)	—	(2,538)
Investment-related liabilities representing financial liabilities at FVTPL	(2,389)	(8,245)	—	(10,634)
Borrowings				
Capital market debt financing	—	(22,710)	—	(22,710)
Borrowings representing financial liabilities designated at FVTPL	—	(22,710)	—	(22,710)
Net investments	61,578	15,541	153,373	230,492

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2023.

As at March 31, 2021, listed foreign equity securities with a fair value of $153 million were indirectly held and classified as Level 2. During the year ended March 31, 2022, these securities were transferred to Level 1 as they became directly held by PSP Investments.

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 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 in Private Markets, is determined at least semi-annually. For other interim reporting periods, 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 most recent audited financial statements received from the fund's general partner. In certain cases, fair value is obtained from information provided by the fund's administrators and is reviewed by Management to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

To reflect the impact, where applicable, of significant market movements or other events occurring up to the end of the reporting period, adjustments to Private Markets and fund investments are made as appropriate. Such adjustments are based on a number of factors including public market trading comparables, investment specific characteristics as well as market conditions and uncertainties at that time.

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 categorized within Level 3 as at March 31, 2023:

Financial Assets	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Foreign equity	Direct investments	**981**	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	**37,675**	Discounted cash flow (DCF)	Discount rate[B, C]	3.30% – 19.00% (7.40%)
				Terminal capitalization rate[B, C]	3.56% – 12.00% (5.60%)
			Direct capitalization	Capitalization rate[B, D]	2.35% – 10.00% (4.62%)
				Stabilized occupancy rate[D, E]	98.00% – 100.00% (99.55%)
			Sales comparison approach	Price per square foot[D, E]	$3.42 – $1,750.44 ($256.48)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**3,468**	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	**65,129**	DCF	Discount rate[B]	5.50% – 20.00% (9.68%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**25,391**	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	**3**	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	**22,957**	DCF	Discount rate[B]	4.25% – 23.48% (12.56%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**7,405**	NAV[A]	N/A	N/A
Alternative investments	Fund investments	**9,493**	NAV[A]	N/A	N/A
Total		**172,502**			

[A] In certain cases, when investments are held through funds, partnerships or similar structures, fair value is determined by third parties where valuation information is not available to PSP Investments.

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets categorized within Level 3 as at March 31, 2022:

Financial Assets	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Foreign equity	Direct investments	1,352	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	36,401	Discounted cash flow (DCF)	Discount rate[B, C]	4.50% – 19.00% (7.03%)
				Terminal capitalization rate[B, C]	2.90% – 13.33% (5.38%)
			Direct capitalization	Capitalization rate[B, D]	2.50% – 9.60% (4.36%)
				Stabilized occupancy rate[D, E]	94.00% – 100.00% (97.87%)
			Sales comparison approach	Price per square foot[D, E]	$4.30 – $2,077.86 ($325.66)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	3,029	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	55,018	DCF	Discount rate[B]	5.64% – 17.30% (8.96%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	23,499	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	3	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	19,509	DCF	Discount rate[B]	4.25% – 23.53% (10.33%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	6,107	NAV[A]	N/A	N/A
Alternative investments	Fund investments	8,455	NAV[A]	N/A	N/A
Total		153,373			

[A] In certain cases, when investments are held through funds, partnerships or similar structures, fair value is determined by third parties where valuation information is not available to PSP Investments.

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets categorized within Level 3 for the year ended March 31, 2023:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)	Transfer Out of Level 3	Closing Balance
Public markets	**1,352**	**37**	**(129)**	**—**	**27**	**(260)**	**(46)**	**981**
Private markets	**117,947**	**18,224**	**(10,103)**	**—**	**3,448**	**2,362**	**(215)**	**131,663**
Fixed income	**25,619**	**7,921**	**(4,338)**	**—**	**360**	**803**	**—**	**30,365**
Alternative investments	**8,455**	**690**	**(580)**	**—**	**107**	**821**	**—**	**9,493**
Total	**153,373**	**26,872**	**(15,150)**	**—**	**3,942**	**3,726**	**(261)**	**172,502**

As at March 31, 2022, a public market investment of $46 million in a non-listed fund that held listed securities was classified under Level 3 due to the nature of the contractual restrictions on the redemption of fund units. During the year ended March 31, 2023, the listed securities held by the fund were transferred to PSP Investments and were classified as Level 1. Additionally, as at March 31, 2022, a private market investment of $215 million was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2023, this investment was transferred to Level 2 as the related securities became publicly traded. These securities held by PSP Investments are unregistered and can only be sold upon their registration.

The following table shows a reconciliation of all movements related to financial assets categorized within Level 3 for the year ended March 31, 2022:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)	Transfer in (out) of Level 3	Closing Balance
Public markets	1,238	432	(271)	—	46	(452)	359	1,352
Private markets	97,880	20,114	(15,337)	—	5,153	11,830	(1,693)	117,947
Fixed income	18,125	13,101	(5,779)	(7)	99	80	—	25,619
Alternative investments	8,706	1,432	(2,176)	—	907	(414)	—	8,455
Total	125,949	35,079	(23,563)	(7)	6,205	11,044	(1,334)	153,373

As at March 31, 2021, private market investments totalling $1,693 million that were classified under Level 3, as their fair values were determined based on significant unobservable inputs, were transferred during the year ended March 31, 2022. One investment of $175 million was transferred to Level 1 as it became publicly traded, while the other investments of $1,518 million were transferred to Level 2 as the underlying instruments are indirectly held by PSP Investments and valued using publicly available quoted prices. In addition, public market investments of $359 million were transferred from Level 1 to Level 3 as their fair values were no longer based on observable inputs due to sanctions placed on international investing with respect to Russian securities.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, with all other variables held constant, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 4% increase and 4% decrease as at March 31, 2023 (March 31, 2022 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Securities lending and borrowing		
Securities lent	**4,378**	3,711
Collateral held[A]	**4,583**	4,040
Securities borrowed	**1,929**	1,836
Collateral pledged[B]	**2,049**	1,935
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**9,546**	3,872
Collateral pledged	**9,486**	3,907
Securities purchased under reverse repurchase agreements	**1,296**	2,862
Collateral held[C]	**1,292**	2,861
Derivative contracts		
Collateral pledged	**2,167**	2,456
Collateral held[D]	**1,864**	1,450

[A] The minimum fair value of securities collateral denominated in the same currency required is equal to 102%, and in the case of securities denominated in different currencies 105%. In exchange for securities lent, cash and securities received as at March 31, 2023, were $846 million and $3,737 million, respectively (March 31, 2022 – nil and $4,040 million, respectively). All cash amounts are 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 $566 million has been used in connection with short selling transactions as at March 31, 2023 (March 31, 2022 – $511 million) and $307 million has been used in connection with securities sold under repurchase agreements (March 31, 2022 – $76 million).

[D] As part of collateral held, cash amounted to $113 million as at March 31, 2023 (March 31, 2022 – $143 million) and securities amounted to $1,751 million as at March 31, 2023 (March 31, 2022 – $1,307 million). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

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

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

(i) Control and significant influence

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

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

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

(ii) Joint control

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

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

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2023, 128 investment entity subsidiaries were incorporated in North America, 28 in Europe, 19 in Oceania, 8 in Central and South America, 2 in Asia and 1 in Africa (March 31, 2022 – 126 in North America, 26 in Europe, 18 in Oceania, 9 in Central and South America, 1 in Asia and 1 in Africa).

In addition, PSP Investments controlled 84 investees directly or through its investment entity subsidiaries as at March 31, 2023 (March 31, 2022 – 85 investees).

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

	March 31, 2023		
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments (%)**	**Relationship to PSP Investments**
AviAlliance GmbH	**Europe**	**100**	**Controlled investee**
American Wholesale Insurance Holding Company, LLC	**North America**	**22**	**Associate**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50**	**Jointly controlled investee**
Kaingaroa Timberlands Limited	**Oceania**	**56**	**Jointly controlled investee**
Roadis Transportation Holding, S.L.U.	**Global**	**100**	**Controlled investee**
Willow Topco Limited	**Europe**	**74**	**Jointly controlled investee**
TDF S.A.S.	**Europe**	**22**	**Associate**
Revera Inc.	**North America**	**100**	**Controlled investee**
Forth Ports Limited	**Europe**	**51**	**Jointly controlled investee**
Alliant	**North America**	**12**	**Associate**

	March 31, 2022		
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
AviAlliance GmbH	Europe	100	Controlled investee
Kaingaroa Timberlands Limited	Oceania	56	Jointly controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Revera Inc.	North America	100	Controlled investee
Willow Topco Limited	Europe	74	Jointly controlled investee
American Wholesale Insurance Holding Company, LLC	North America	22	Associate
Roadis Transportation Holding, S.L.U.	Global	100	Controlled investee
Forth Ports Limited	Europe	51	Jointly controlled investee
Seaport Square Associates LP / Seaport Square Parallel LP	North America	50	Jointly controlled investee
TDF S.A.S.	Europe	22	Associate

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

6.2. Structured Entities

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

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

7 — Investment Risk Management

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

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

7.1. Market Risk

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

7.1.1. Measurement of Market Risk

The absolute annualized Value at Risk (VaR) is used as a key measure of total portfolio market risk. The VaR quantifies the loss in value of an investment or an investment portfolio that one can expect, with a given confidence level, not to be exceeded over a given period, due to fluctuations in market prices.

PSP Investments uses a historical VaR incorporating ten years' worth of market returns scaled to a twelve-month holding period at a 95% confidence level. That is, statistically PSP Investments would expect to see losses exceed the VaR only 5% of the time over a one-year period. For investments that are not actively traded, the calculation of the VaR uses securities with similar risk attributes as a proxy.

The VaR is statistically valid under normal market conditions. Although it includes potential losses derived from observed historical returns, it also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

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

	March 31, 2023 (%)	March 31, 2022 (%)
VaR	**19.6**	17.4

Stress Testing

Although the 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. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

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

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

	March 31, 2023					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	**—**	**—**	**—**	**—**	**15,335[A]**	**15,335**
Government and corporate bonds	**679**	**10,202**	**6,654**	**5,349**	**333[B]**	**23,217**
Inflation-linked bonds	**—**	**4,873**	**3,966**	**2,599**	**—**	**11,438**
Private debt securities	**1,038**	**6,696**	**11,386**	**4,148**	**7,094[C]**	**30,362**
Total fixed income	**1,717**	**21,771**	**22,006**	**12,096**	**22,762**	**80,352**

	March 31, 2022					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	—	—	—	—	13,367[A]	13,367
Government and corporate bonds	363	7,180	5,801	4,909	1,157[B]	19,410
Inflation-linked bonds	544	4,686	4,538	3,259	—	13,027
Private debt securities	199	5,163	10,364	3,450	6,440[C]	25,616
Total fixed income	1,106	17,029	20,703	11,618	20,964	71,420

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

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

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

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounting to $171,435 million as at March 31, 2023 ($164,907 million as at March 31, 2022) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in Note 4.1.4, which amounted to $24,895 million as at March 31, 2023 ($21,601 million as at March 31, 2022), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 7.1.1.

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

Interest Rate Benchmark Reform

PSP Investments holds a number of financial instruments that will mature after the date the Interbank Offered Rate ("IBOR") to which they refer is anticipated to be discontinued as a result of the reform. A steering committee oversees the transition from IBORs to alternative reference rates ("ARRs") to mitigate the risks related to the discontinuation or unavailability of such rates, which are primarily operational. With respect to non-derivative financial instruments, PSP Investments has been identifying agreements referring to IBORs and engaging in a timely contract remediation process with the related counterparties. For derivative contracts, PSP Investments has adhered to the International Swaps and Derivatives Association ("ISDA") Fallbacks Protocol that took effect on January 25, 2021, which provides an efficient mechanism to switch to ARRs as IBORs become unavailable.

The following table shows the fair value of non-derivative financial instruments and the notional value of derivative financial instruments that have yet to transition to ARRs. As at March 31, 2023, only instruments referencing US dollar London Interbank Offered Rate ("USD LIBOR") and expected to mature after June 30, 2023, or Canadian Dollar Offered Rate ("CDOR") and expected to mature after June 28, 2024, remain.

(Canadian $ millions)	USD LIBOR	CDOR
Non-derivative financial assets fair value	**7,586**	**435**
Derivatives notional	**7,560**	**9,074**

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

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

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

	March 31, 2023	
Currency	**Fair Value (Canadian $ millions)**	**% of Total**
US Dollar	**154,354**	**66.0**
Euro	**28,217**	**12.1**
Hong Kong Dollar	**10,547**	**4.5**
British Pound	**8,630**	**3.7**
Japanese Yen	**5,669**	**2.4**
Indian Rupee	**3,767**	**1.6**
Mexican Peso	**3,679**	**1.6**
New Taiwan Dollar	**2,089**	**0.9**
Singapore Dollar	**2,025**	**0.9**
Swiss Franc	**1,879**	**0.8**
South African Rand	**1,693**	**0.7**
Others	**11,201**	**4.8**
Total	**233,750**	**100.0**

As at March 31, 2023, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $32,663 million (US $20,533 million, €2,549 million, £416 million, 22 million South African rands, 1,807 million Mexican pesos, 236 million Australian dollars, 2,203 million Indian rupees and 4,253 million Japanese yen) which were not included in the foreign currency exposure table above.

	March 31, 2022	
Currency	**Fair Value (Canadian $ millions)**	**% of Total**
US Dollar	129,150	64.0
Euro	21,111	10.5
Japanese Yen	9,384	4.7
British Pound	8,990	4.5
Hong Kong Dollar	5,776	2.9
Australian Dollar	4,840	2.4
Indian Rupee	3,735	1.9
Mexican Peso	3,090	1.5
Swiss Franc	2,056	1.0
New Taiwan Dollar	1,543	0.8
Chinese Yuan	1,514	0.8
South Korean Won	1,160	0.6
Others	9,369	4.4
Total	201,718	100.0

As at March 31, 2022, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $28,168 million (US $18,711 million, €2,355 million, £642 million, 22 million South African rands, 1,931 million Mexican pesos, 247 million Australian dollars, 2,651 million Indian rupees, 4,267 million Japanese yen and 32 million New Zealand dollars) which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

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

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

As at March 31, 2023, PSP Investments' maximum exposure to credit risk amounted to $83 billion (March 31, 2022 – $76 billion). This amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

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

	March 31, 2023						
(Canadian $ millions)	**Government and corporate bonds[A]**	**Inflation-linked bonds[A]**	**Money market securities[A]**	**Reverse repurchase agreements**	**OTC derivatives[B]**	**Private debt securities[A]**	**Total[A]**
AAA–AA	**15,141**	**11,463**	**12,843**	**160**	**75**	**—**	**39,682**
A	**6,739**	**—**	**1,421**	**1,062**	**2,085**	**—**	**11,307**
BBB	**663**	**—**	**—**	**57**	**—**	**349**	**1,069**
BB or below	**753**	**—**	**—**	**—**	**—**	**30,023**	**30,776**
No rating[C]	**104**	**—**	**—**	**—**	**—**	**276**	**380**
Total	**23,400**	**11,463**	**14,264**	**1,279**	**2,160**	**30,648**	**83,214**

	March 31, 2022						
(Canadian $ millions)	Government and corporate bonds[A]	Inflation-linked bonds[A]	Money market securities[A]	Reverse repurchase agreements	OTC derivatives[B]	Private debt securities[A]	Total[A]
AAA–AA	12,507	13,049	10,036	440	77	—	36,109
A	5,938	—	2,518	1,743	1,920	—	12,119
BBB	396	—	—	687	—	405	1,488
BB or below	547	—	—	—	—	25,182	25,729
No rating[C]	139	—	—	—	—	204	343
Total	19,527	13,049	12,554	2,870	1,997	25,791	75,788

[A] Includes interest receivable.

[B] As disclosed in Note 4.1.12.

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

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

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

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

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

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

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

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

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

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

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

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

Financial Assets

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Consolidated Statements of Financial Position	Less: Related Amounts Not Set Off in the Consolidated Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2023						
Reverse repurchase agreements	**1,279**	**—**	**1,279**[A]	**1,221**	**58**	**—**
OTC-derivatives	**2,160**	**—**	**2,160**[B]	**1,541**	**459**	**160**
Total	**3,439**	**—**	**3,439**	**2,762**	**517**	**160**
March 31, 2022						
Reverse repurchase agreements	2,870	—	2,870[A]	1,384	1,482	4
OTC-derivatives	2,192	195	1,997[B]	1,681	295	21
Total	5,062	195	4,867	3,065	1,777	25

Financial Liabilities

(Canadian $ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Consolidated Statements of Financial Position	Less: Related Amounts Not Set Off in the Consolidated Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2023						
Repurchase agreements	**9,433**	**—**	**9,433**[A]	**1,221**	**8,212**	**—**
OTC-derivatives	**1,616**	**—**	**1,616**[B]	**1,437**	**172**	**7**
Collateral payable	**113**	**—**	**113**[C]	**104**	**—**	**9**
Total	**11,162**	**—**	**11,162**	**2,762**	**8,384**	**16**
March 31, 2022						
Repurchase agreements	3,928	—	3,928[A]	1,384	2,533	11
OTC-derivatives	2,691	195	2,496[B]	1,538	909	49
Collateral payable	143	—	143[C]	143	—	—
Total	6,762	195	6,567	3,065	3,442	60

[A] As described in Note 4.1.10.

[B] As described in Note 4.1.12.

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

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

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

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

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2023 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	**(1,079)**	**—**	**—**	**(1,079)**
Interest payable	**(104)**	**(12)**	**—**	**(116)**
Securities sold short	**(2,495)**	**—**	**—**	**(2,495)**
Collateral payable	**(957)**	**—**	**—**	**(957)**
Securities sold under repurchase agreements	**(8,772)**	**(661)**	**—**	**(9,433)**
Capital market debt financing	**(3,740)**	**(4,853)**	**(15,449)**	**(24,042)**
Trade payable and other liabilities	**(373)**	**(4)**	**(146)**	**(523)**
Total	**(17,520)**	**(5,530)**	**(15,595)**	**(38,645)**

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	**1,207**	**622**	**370**	**2,199**
Derivative-related liabilities[A]	**(921)**	**(512)**	**(202)**	**(1,635)**
Total	**286**	**110**	**168**	**564**

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2022 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(1,069)	—	—	(1,069)
Interest payable	(73)	(8)	—	(81)
Securities sold short	(2,347)	—	—	(2,347)
Collateral payable	(146)	—	(525)	(671)
Securities sold under repurchase agreements	(2,200)	(1,728)	—	(3,928)
Capital market debt financing	(7,884)	(1,949)	(12,877)	(22,710)
Trade payable and other liabilities	(264)	(3)	(160)	(427)
Total	(13,983)	(3,688)	(13,562)	(31,233)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	846	725	483	2,054
Derivative-related liabilities[A]	(1,339)	(875)	(324)	(2,538)
Total	(493)	(150)	159	(484)

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

8 — Borrowings

8.1. Credit Facilities

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

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

These Credit Facilities were not drawn upon as at March 31, 2023 and 2022.

8.2. Capital Market Debt Financing

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

The maximum amount authorized by the Board of Directors for the capital market debt program is limited to $12 billion for short-term promissory notes for issuances in Canada and the United States combined, and $20 billion for medium-term notes issued globally.

PSP Investments’ capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2023 and 2022.

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

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

	March 31, 2023		March 31, 2022	
(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 4.41% and 4.44% and maturing within 120 and 180 days of issuance (March 31, 2022 – between 0.25% and 1.00%, maturing within 30 and 360 days)	**40**	**40**	235	235
Short-term US Dollar promissory notes, bearing interest between 2.40% and 5.56% and maturing within 32 and 365 days of issuance (March 31, 2022 – between 0.15% and 1.15%, maturing within 25 and 365 days)	**7,237**	**7,158**	7,881	7,874
Medium-term Canadian Dollar notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**1,315**	**1,301**	1,315	1,335
Medium-term Canadian Dollar notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**1,416**	**1,395**	1,416	1,410
Medium-term Canadian Dollar notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**—**	**—**	1,720	1,724
Medium-term Canadian Dollar notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**1,250**	**1,225**	1,250	1,261
Medium-term Canadian Dollar notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**1,236**	**1,127**	1,156	1,082
Medium-term Canadian Dollar notes Series 13, bearing interest of 0.90% per annum and maturing on June 15, 2026	**1,445**	**1,328**	1,500	1,390
Medium-term Canadian Dollar notes Series 14, bearing interest of 1.50% per annum and maturing on March 15, 2028	**1,000**	**911**	940	870
Medium-term US Dollar notes Series G1, bearing interest of 1.00% per annum and maturing on June 29, 2026	**1,353**	**1,225**	1,249	1,159
Medium-term US Dollar notes Series G2, bearing interest of 0.50% per annum and maturing on September 15, 2024	**1,692**	**1,597**	1,561	1,487
Medium-term US Dollar notes Series G3, bearing interest of 1.63% per annum and maturing on October 26, 2028	**1,353**	**1,192**	1,249	1,172
Medium-term Canadian Dollar notes Series G4 (Green bonds), bearing interest of 2.60% per annum and maturing on March 1, 2032	**1,000**	**920**	1,000	962
Medium-term US Dollar notes Series G5, bearing interest at a rate per annum equal to compounded SOFR plus 24 basis points and maturing on March 3, 2025	**1,353**	**1,348**	749	749
Medium-term US Dollar notes Series G6, bearing interest of 3.50% per annum and maturing on June 29, 2027	**1,353**	**1,322**	—	—
Medium-term Australian Dollar notes Series G7, bearing interest of 4.57% per annum and maturing on August 5, 2032	**208**	**208**	—	—
Medium-term Canadian Dollar notes Series G8, bearing interest of 3.75% per annum and maturing on June 15, 2029	**1,390**	**1,410**	—	—
Medium-term Australian Dollar notes Series G9, bearing interest of 4.82% per annum and maturing on January 31, 2033	**181**	**184**	—	—
Medium-term Euro notes Series G10, bearing interest of 3.68% per annum and maturing on March 1, 2038	**147**	**151**	—	—
Total	**24,969**	**24,042**	23,221	22,710

Unrealized losses in connection with borrowings amounted to $252 million for the year ended March 31, 2023 (unrealized gains of $689 million for the year ended March 31, 2022).

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

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

(Canadian $ millions)	**2023**	2022
Short-term promissory notes	**221**	15
Medium-term notes	**331**	227
Total	**552**	242

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2023.

				Non-cash changes		
(Canadian $ millions)	**Opening balance**	**Proceeds from borrowings**	**Repayment of borrowings**	**Foreign exchange losses**	**Fair value[A] gains**	**Closing balance**
Capital market debt financing	**22,710**	**28,159**	**(27,161)**	**600**	**(266)**	**24,042**
Borrowings	**22,710**	**28,159**	**(27,161)**	**600**	**(266)**	**24,042**

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

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2022.

				Non-cash changes		
(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Foreign exchange losses	Fair value[A] gains	Closing balance
Capital market debt financing	16,731	32,418	(25,751)	52	(740)	22,710
Borrowings	16,731	32,418	(25,751)	52	(740)	22,710

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

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

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

9.2. Shares Issued

Pursuant to the Act, PSP Investments issued 10 shares having a par value of $10 each to the President of the Treasury Board, to be held on behalf of His Majesty[1] in Right of Canada. The Act does not attribute any voting, dividend, residual or other rights to these shares.

[1] In accordance with the Public Sector Pension Investment Board Act, the shares shall be issued to the President of the Treasury Board to be held on behalf of Her Majesty in right of Canada. On September 8, 2022, following the passing of Queen Elizabeth II, King Charles III acceded to the throne and became Sovereign of Canada.

9 — Equity (continued)

9.3. Fund Transfers

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

(Canadian $ millions)	**2023**	2022
Public Service Pension Fund	**2,428**	2,791
Canadian Forces Pension Fund	**135**	485
Royal Canadian Mounted Police Pension Fund	**297**	226
Reserve Force Pension Fund	**—**	—
Total	**2,860**	3,502

10 — Segment Information

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

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

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

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

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Public Equity	**53,440**	59,142
Private Equity	**37,238**	35,375
Fixed Income	**45,036**	40,719
Credit Investments	**26,113**	21,892
Real Estate	**32,038**	31,089
Infrastructure	**29,362**	23,506
Natural Resources	**12,277**	11,615
Complementary Portfolio	**2,173**	1,427
Other[A]	**5,977**	5,727
Total	**243,654**	230,492

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

10 — Segment Information (continued)

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

	2023			2022		
(Canadian $ millions)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)
Public Equity	**(412)**	**(429)**	**(841)**	3,801	(283)	3,518
Private Equity	**1,204**	**(139)**	**1,065**	8,601	(127)	8,474
Fixed Income	**637**	**(160)**	**477**	(818)	(78)	(896)
Credit Investments	**3,073**	**(116)**	**2,957**	1,234	(86)	1,148
Real Estate	**540**	**(353)**	**187**	6,605	(219)	6,386
Infrastructure	**5,012**	**(343)**	**4,669**	2,804	(186)	2,618
Natural Resources	**1,593**	**(187)**	**1,406**	1,651	(112)	1,539
Complementary Portfolio	**(81)**	**(3)**	**(84)**	36	2	38
Other[C]	**518**	**(172)**	**346**	(352)	(1)	(353)
Total	**12,084**	**(1,902)**	**10,182**	23,562	(1,090)	22,472

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

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

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

11 — Investment-Related Expenses

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

(Canadian $ millions)	2023	2022
Interest expense	**802**	250
Transaction costs	**139**	155
External investment management fees[A]	**66**	39
Other (net)	**151**	58
Total	**1,158**	502

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to $194 million for the year ended March 31, 2023 ($396 million for the year ended March 31, 2022). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.5% of the total invested and/or committed amount, totaled $590 million for the year ended March 31, 2023 ($489 million for the year ended March 31, 2022). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

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

(Canadian $ millions)	2023	2022
Salaries and employee benefits	**459**	365
Professional and consulting fees	**137**	99
Premises and equipment	**19**	16
Market data and business applications	**60**	53
Depreciation of property and equipment	**25**	31
Custodial fees	**5**	5
Other operating expenses	**39**	19
Total	**744**	588

13 — Allocation of Net Income

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

13.1. Investment Income

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

13.2. Expenses

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

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

(%)	**2023**	2022
Public Service Pension Plan Account	**73.0**	72.9
Canadian Forces Pension Plan Account	**19.4**	19.5
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.2
Reserve Force Pension Plan Account	**0.4**	0.4
Total	**100.0**	100.0

14 — Related Party Transactions

14.1. Certain Investees

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

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

14.2. The Government of Canada and Government-Related Entities

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

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the fund 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 net income as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

14.3. Compensation of Key Management Personnel

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

(Canadian $ millions)	**2023**	2022
Short-term compensation and other benefits	**17**	12
Long-term compensation and other benefits	**9**	10
Total	**26**	22

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

15 — Capital Management

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

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

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

16 — Guarantees and Indemnities

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

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

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

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

- As at March 31, 2023 and 2022, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to $2,643 million as at March 31, 2023 (March 31, 2022 – $2,051 million) plus applicable interest and other related costs. The arrangements mature between June 2023 and June 2042 as of March 31, 2023 (March 31, 2022 – between May 2022 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $1 million as at March 31, 2023 (March 31, 2022 – $1 million) in relation to investment transactions.

17 — Commitments

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Foreign equity	**3**	3
Real estate	**4,584**	4,325
Private equity	**13,148**	12,761
Infrastructure	**5,904**	3,716
Natural resources	**673**	517
Private debt securities	**6,963**	5,548
Alternative investments	**2,047**	1,964
Total	**33,322**	28,834

Funding in connection with the above commitments can be called upon at various dates extending until 2041 as at March 31, 2023 (March 31, 2022 – 2040).

— Public Service Pension Plan Account

Financial Statements

Independent Auditors' Report

To the President of the Treasury Board

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Sector Pension Investment Board – Public Service Pension Plan Account (the Public Service Pension Plan Account), which comprise the statements of financial position as at March 31, 2023 and 2022, and the statements of net income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Public Service Pension Plan Account as at March 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Public Service Pension Plan Account's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Public Service Pension Plan Account's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause Public Service Pension Plan Account to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Montréal, Canada
May 15, 2023

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

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

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

Deloitte LLP[1]

Montréal, Canada
May 15, 2023

[1] CPA auditor, public accountancy permit No. A125494

Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Assets		
Investments (Note 4.1)	**207,287**	192,589
Other assets	**135**	153
Total assets	**207,422**	192,742
Liabilities		
Trade payable and other liabilities	**382**	313
Investment-related liabilities (Note 4.1)	**11,494**	7,762
Borrowings (Notes 4.1, 8.2)	**17,584**	16,577
Total liabilities	**29,460**	24,652
Net assets	**177,962**	168,090
Equity (Note 9)	**177,962**	168,090
Total liabilities and equity	**207,422**	192,742

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

On behalf of the Board of Directors:

Martin Glynn
Chair of the Board

Katherine Lee
Chair of the Audit Committee

Statements of Net Income

For the years ended March 31

(Canadian $ millions)	**2023**	2022
Investment income	**8,834**	17,179
Investment-related expenses (Note 11)	**(846)**	(366)
Net investment income	**7,988**	16,813
Operating expenses (Note 12)	**(544)**	(429)
Net income	**7,444**	16,384

Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	**2023**	2022
Fund transfers		
Balance at beginning of year	**63,843**	61,052
Fund transfers received during the year (Note 9.2)	**2,428**	2,791
Balance at end of year	**66,271**	63,843
Retained earnings		
Balance at beginning of year	**104,247**	87,863
Net income	**7,444**	16,384
Balance at end of year	**111,691**	104,247
Total equity	**177,962**	168,090

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	**2023**	2022
Cash flows from operating activities		
Net income	**7,444**	16,384
Adjustments for non-cash items:		
Depreciation of property and equipment (Note 12)	**19**	23
Effect of exchange rate changes on cash and cash equivalents	**(103)**	38
Unrealized losses (gains) on borrowings	**184**	(503)
	7,544	15,942
Net changes in operating assets and liabilities		
Increase in investments	**(15,640)**	(20,124)
Decrease (increase) in other assets	**1**	(7)
Increase (decrease) in trade payables and other liabilities	**69**	(5)
Increase (decrease) in investment-related liabilities	**3,802**	(478)
Net cash flows used in operating activities	**(4,224)**	(4,672)
Cash flows from financing activities		
Proceeds from borrowings	**20,566**	23,627
Repayment of borrowings	**(19,802)**	(18,744)
Fund transfers received (Note 9.2)	**2,428**	2,791
Net cash flows provided by financing activities	**3,192**	7,674
Cash flows from investing activities		
Acquisitions of equipment	**(4)**	(11)
Net cash flows used in investing activities	**(4)**	(11)
Net change in cash and cash equivalents	**(1,036)**	2,991
Effect of exchange rate changes on cash and cash equivalents	**103**	(38)
Cash and cash equivalents at the beginning of the year	**6,080**	3,127
Cash and cash equivalents at the end of the year[A]	**5,147**	6,080
Supplementary disclosure of cash flow information		
Interest paid	**(501)**	(175)

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

[A] As at March 31, 2023, cash and cash equivalents were comprised of $5,118 million (March 31, 2022 – $6,060 million) held for investment purposes and included in Note 4.1, as well as $29 million (March 31, 2022 – $20 million) held for administrative purposes and included in Other assets.

Notes to the Financial Statements

For the years ended March 31, 2023 and 2022

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. In certain foreign jurisdictions, income and capital gains remain taxable.

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

2 — Significant Accounting Policies

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

2.1. Basis of Presentation

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

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

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

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 15, 2023.

2 — Significant Accounting Policies
(continued)

2.2. Investment Entity Status

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

(i) Mandate and business purpose

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

(ii) Performance evaluation

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

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

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

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

2.3. Summary of Significant Accounting Policies

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

2.3.1. Financial Instruments

(i) Classification

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

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

(ii) Recognition

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

(iii) Initial and subsequent measurement

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

(iv) Derecognition

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

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

and

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

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

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

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

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

2.3.3. Functional and Presentation Currency

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

2.3.4. Foreign Currency Translation

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

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

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

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

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

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

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

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

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.7. Offsetting of Financial Instruments

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

2.3.8. Equity

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

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

2.3.9. Investment Income

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

2.3.10. Investment-Related Expenses

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

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

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

2.3.11. Fund Transfers

Amounts are recorded for the Fund when received from the Government of Canada.

2.4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Sources of estimate uncertainty related to macroeconomic unpredictability and volatility include the current geopolitical context, supply chain disruptions and rising inflation and interest rates. This could continue to impact financial results, due to uncertainties including their extent and duration. These Financial Statements reflect the impacts resulting from the aforementioned macroeconomic factors to the extent known at the reporting date.

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

3 — Current and Future Changes in Accounting Standards

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

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Public markets		
Canadian equity	**3,279**	3,596
Foreign equity	**25,812**	30,682
Private markets		
Real estate	**30,092**	28,783
Private equity	**26,262**	24,338
Infrastructure	**26,295**	21,520
Natural resources	**13,649**	11,457
Fixed income		
Cash and money market securities	**11,216**	9,757
Government and corporate bonds	**16,981**	14,168
Inflation-linked bonds	**8,365**	9,509
Private debt securities	**22,207**	18,699
Alternative investments	**18,208**	15,768
	202,366	188,277
Investment-related assets		
Amounts receivable from pending trades	**1,859**	355
Interest receivable	**367**	231
Dividends receivable	**152**	132
Securities purchased under reverse repurchase agreements	**935**	2,095
Derivative-related assets	**1,608**	1,499
	4,921	4,312
Investments representing financial assets at FVTPL	**207,287**	192,589
Investment-related liabilities		
Amounts payable from pending trades	**(789)**	(779)
Interest payable	**(85)**	(59)
Securities sold short	**(1,825)**	(1,714)
Collateral payable	**(700)**	(490)
Securities sold under repurchase agreements	**(6,899)**	(2,867)
Derivative-related liabilities	**(1,196)**	(1,853)
Investment-related liabilities representing financial liabilities at FVTPL	**(11,494)**	(7,762)
Borrowings		
Capital market debt financing	**(17,584)**	(16,577)
Borrowings representing financial liabilities designated at FVTPL	**(17,584)**	(16,577)
Net investments	**178,209**	168,250

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.1. Public Markets

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

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

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

4.1.2. Private Markets

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

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

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

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

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

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

4.1.3. Fixed Income

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

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Statements of Cash Flows and amounted to $5,118 million as at March 31, 2023 (March 31, 2022 – $6,060 million). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

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

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

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

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

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

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.4. Alternative Investments

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

4.1.5. Amounts Receivable and Payable from Pending Trades

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

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

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

4.1.6. Interest and Dividends Receivable

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

4.1.7. Interest Payable

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

4.1.8. Securities Sold Short

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

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

4.1.9. Collateral Payable

As part of securities lending and certain OTC derivative transactions, when cash is received, it is recognized as collateral payable. The payable balance reflects the obligation of the transferee to return the amount to the transferor at the end of the transaction in the absence of an event of default by the transferor.

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

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

4.1.11. Borrowings under the Capital Market Debt Program

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

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.12. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

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

Warrants and Rights

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

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

Determination of Fair Value of Derivative Financial Instruments

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2023			March 31, 2022		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**2,699**	**—**	**—**	3,840	—	—
Warrants and rights	**1**	**2**	**—**	9	6	—
Options: Purchased	**666**	**21**	**—**	295	5	—
Written	**873**	**—**	**(9)**	480	—	(5)
OTC						
Swaps	**15,130**	**481**	**(167)**	15,341	353	(169)
Options: Purchased	**62**	**—**	**—**	43	—	—
Currency derivatives						
Listed						
Futures	**168**	**—**	**—**	236	—	—
OTC						
Forwards	**78,594**	**514**	**(613)**	45,437	282	(944)
Swaps	**2,607**	**65**	**(24)**	542	—	(28)
Options: Purchased	**1,507**	**7**	**—**	1,110	10	—
Written	**1,948**	**—**	**(6)**	1,285	—	(7)
Interest rate derivatives						
Listed						
Futures	**1,609**	**—**	**—**	5,701	—	—
Options: Purchased	**35,488**	**5**	**—**	35,714	31	—
Written	**32,505**	**—**	**(5)**	30,813	—	(26)
OTC						
Forwards	**1,036**	**9**	**(3)**	—	—	—
Swaps	**2,546**	**24**	**(10)**	1,566	88	(9)
Options: Purchased	**48,000**	**469**	**—**	40,428	723	—
Written	**56,029**	**—**	**(351)**	43,286	—	(660)
OTC-cleared						
Swaps	**59,162**	**—**	**—**	44,229	—	—
Credit derivatives						
OTC						
Credit default swaps: Purchased	**411**	**—**	**(8)**	191	—	(5)
Written[A]	**882**	**11**	**—**	36	1	—
OTC-cleared						
Credit default swaps: Purchased	**1,478**	**—**	**—**	1,348	—	—
Written[A]	**—**	**—**	**—**	137	—	—
Total		**1,608**	**(1,196)**		1,499	(1,853)

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

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2023			March 31, 2022		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**74,009**	**28**	**(14)**	77,088	42	(31)
OTC derivatives	**208,752**	**1,580**	**(1,182)**	149,265	1,457	(1,822)
OTC-cleared derivatives	**60,640**	**—**	**—**	45,714	—	—
Total		**1,608**	**(1,196)**		1,499	(1,853)

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Less than 3 months	**167,989**	107,420
3 to 12 months	**108,963**	93,967
Over 1 year	**66,449**	70,680

4.2. Fair Value Hierarchy

4.2.1. Classification

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2023, classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	2,014	1,265	—	3,279
Foreign equity	24,339	755	718	25,812
Private markets				
Real estate	—	—	30,092	30,092
Private equity	—	—	26,262	26,262
Infrastructure	—	—	26,295	26,295
Natural resources	—	—	13,649	13,649
Fixed income				
Cash and money market securities	7,960	3,256	—	11,216
Government and corporate bonds	5,944	11,035	2	16,981
Inflation-linked bonds	8,365	—	—	8,365
Private debt securities	—	—	22,207	22,207
Alternative investments	—	11,265	6,943	18,208
	48,622	27,576	126,168	202,366
Investment-related assets				
Amounts receivable from pending trades	—	1,859	—	1,859
Interest receivable	—	367	—	367
Dividends receivable	—	152	—	152
Securities purchased under reverse repurchase agreements	—	935	—	935
Derivative-related assets	28	1,580	—	1,608
	28	4,893	—	4,921
Investments representing financial assets at FVTPL	48,650	32,469	126,168	207,287
Investment-related liabilities				
Amounts payable from pending trades	—	(789)	—	(789)
Interest payable	—	(85)	—	(85)
Securities sold short	(1,706)	(119)	—	(1,825)
Collateral payable	—	(700)	—	(700)
Securities sold under repurchase agreements	—	(6,899)	—	(6,899)
Derivative-related liabilities	(14)	(1,182)	—	(1,196)
Investment-related liabilities representing financial liabilities at FVTPL	(1,720)	(9,774)	—	(11,494)
Borrowings				
Capital market debt financing	—	(17,584)	—	(17,584)
Borrowings representing financial liabilities designated at FVTPL	—	(17,584)	—	(17,584)
Net investments	46,930	5,111	126,168	178,209

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, 2022, classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	2,292	1,304	–	3,596
Foreign equity	29,053	644	985	30,682
Private markets				
Real estate	–	–	28,783	28,783
Private equity	–	–	24,338	24,338
Infrastructure	–	–	21,520	21,520
Natural resources	–	–	11,457	11,457
Fixed income				
Cash and money market securities	2,414	7,343	–	9,757
Government and corporate bonds	3,386	10,780	2	14,168
Inflation-linked bonds	9,508	1	–	9,509
Private debt securities	–	–	18,699	18,699
Alternative investments	–	9,596	6,172	15,768
	46,653	29,668	111,956	188,277
Investment-related assets				
Amounts receivable from pending trades	–	355	–	355
Interest receivable	–	231	–	231
Dividends receivable	–	132	–	132
Securities purchased under reverse repurchase agreements	–	2,095	–	2,095
Derivative-related assets	42	1,457	–	1,499
	42	4,270	–	4,312
Investments representing financial assets at FVTPL	46,695	33,938	111,956	192,589
Investment-related liabilities				
Amounts payable from pending trades	–	(779)	–	(779)
Interest payable	–	(59)	–	(59)
Securities sold short	(1,714)	–	–	(1,714)
Collateral payable	–	(490)	–	(490)
Securities sold under repurchase agreements	–	(2,867)	–	(2,867)
Derivative-related liabilities	(31)	(1,822)	–	(1,853)
Investment-related liabilities representing financial liabilities at FVTPL	(1,745)	(6,017)	–	(7,762)
Borrowings				
Capital market debt financing	–	(16,577)	–	(16,577)
Borrowings representing financial liabilities designated at FVTPL	–	(16,577)	–	(16,577)
Net investments	44,950	11,344	111,956	168,250

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2023.

As at March 31, 2021, listed foreign equity securities with a fair value of $112 million were indirectly held and classified as Level 2. During the year ended March 31, 2022, these securities were transferred to Level 1 as they became directly held by PSP Investments.

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 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 in Private Markets, is determined at least semi-annually. For other interim reporting periods, 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 most recent audited financial statements received from the fund's general partner. In certain cases, fair value is obtained from information provided by the fund's administrators and is reviewed by Management to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

To reflect the impact, where applicable, of significant market movements or other events occurring up to the end of the reporting period, adjustments to Private Markets and fund investments are made as appropriate. Such adjustments are based on a number of factors including public market trading comparables, investment specific characteristics as well as market conditions and uncertainties at that time.

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 categorized within Level 3 as at March 31, 2023:

Financial Assets	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Foreign equity	Direct investments	**718**	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	**27,555**	Discounted cash flow (DCF)	Discount rate[B, C]	3.30% – 19.00% (7.40%)
				Terminal capitalization rate[B, C]	3.56% – 12.00% (5.60%)
			Direct capitalization	Capitalization rate[B, D]	2.35% – 10.00% (4.62%)
				Stabilized occupancy rate[D, E]	98.00% – 100.00% (99.55%)
			Sales comparison approach	Price per square foot[D, E]	$3.42 – $1,750.44 ($256.48)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**2,537**	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	**47,635**	DCF	Discount rate[B]	5.50% – 20.00% (9.68%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**18,571**	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	**2**	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	**16,791**	DCF	Discount rate[B]	4.25% – 23.48% (12.56%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**5,416**	NAV[A]	N/A	N/A
Alternative investments	Fund investments	**6,943**	NAV[A]	N/A	N/A
Total		**126,168**			

[A] In certain cases, when investments are held through funds, partnerships or similar structures, fair value is determined by third parties where valuation information is not available to PSP Investments.

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets categorized within Level 3 as at March 31, 2022:

Financial Assets	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Foreign equity	Direct investments	985	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	26,572	Discounted cash flow (DCF)	Discount rate[B, C]	4.50% – 19.00% (7.03%)
				Terminal capitalization rate[B, C]	2.90% – 13.33% (5.38%)
			Direct capitalization	Capitalization rate[B, D]	2.50% – 9.60% (4.36%)
				Stabilized occupancy rate[D, E]	94.00% – 100.00% (97.87%)
			Sales comparison approach	Price per square foot[D, E]	$4.30 – $2,077.86 ($325.66)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	2,211	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	40,161	DCF	Discount rate[B]	5.64% – 17.30% (8.96%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	17,154	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	2	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	14,241	DCF	Discount rate[B]	4.25% – 23.53% (10.33%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	4,458	NAV[A]	N/A	N/A
Alternative investments	Fund investments	6,172	NAV[A]	N/A	N/A
Total		111,956			

[A] In certain cases, when investments are held through funds, partnerships or similar structures, fair value is determined by third parties where valuation information is not available to PSP Investments.

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets categorized within Level 3 for the year ended March 31, 2023:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains[A] (Losses)	Transfer Out of Level 3	Closing Balance
Public markets	**985**	**27**	**(92)**	**—**	**20**	**(188)**	**(34)**	**718**
Private markets	**86,098**	**13,311**	**(7,383)**	**—**	**2,519**	**1,910**	**(157)**	**96,298**
Fixed income	**18,701**	**5,786**	**(3,170)**	**—**	**263**	**629**	**—**	**22,209**
Alternative investments	**6,172**	**504**	**(424)**	**—**	**78**	**613**	**—**	**6,943**
Total	**111,956**	**19,628**	**(11,069)**	**—**	**2,880**	**2,964**	**(191)**	**126,168**

[A] Includes Plan Account allocation adjustments.

As at March 31, 2022, a public market investment of $34 million in a non-listed fund that held listed securities was classified under Level 3 due to the nature of the contractual restrictions on the redemption of fund units. During the year ended March 31, 2023, the listed securities held by the fund were transferred to PSP Investments and were classified as Level 1. Additionally, as at March 31, 2022, a private market investment of $157 million was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2023, this investment was transferred to Level 2 as the related securities became publicly traded. These securities held by PSP Investments are unregistered and can only be sold upon their registration.

The following table shows a reconciliation of all movements related to financial assets categorized within Level 3 for the year ended March 31, 2022:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains[A] (Losses)	Transfer in (out) of Level 3	Closing Balance
Public markets	902	313	(198)	—	34	(328)	262	985
Private markets	71,345	14,661	(11,178)	—	3,757	8,747	(1,234)	86,098
Fixed income	13,212	9,549	(4,211)	(5)	72	84	—	18,701
Alternative investments	6,346	1,043	(1,586)	—	662	(293)	—	6,172
Total	91,805	25,566	(17,173)	(5)	4,525	8,210	(972)	111,956

[A] Includes Plan Account allocation adjustments.

As at March 31, 2021, private market investments totalling $1,234 million that were classified under Level 3, as their fair values were determined based on significant unobservable inputs, were transferred during the year ended March 31, 2022. One investment of $128 million was transferred to Level 1 as it became publicly traded, while the other investments of $1,106 million were transferred to Level 2 as the underlying instruments are indirectly held by PSP Investments and valued using publicly available quoted prices. In addition, public market investments of $262 million were transferred from Level 1 to Level 3 as their fair values were no longer based on observable inputs due to sanctions placed on international investing with respect to Russian securities.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, with all other variables held constant, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 4% increase and 4% decrease as at March 31, 2023 (March 31, 2022 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Securities lending and borrowing		
Securities lent	**3,202**	2,709
Collateral held[A]	**3,352**	2,949
Securities borrowed	**1,411**	1,340
Collateral pledged[B]	**1,499**	1,412
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**6,982**	2,826
Collateral pledged	**6,938**	2,852
Securities purchased under reverse repurchase agreements	**948**	2,089
Collateral held[C]	**945**	2,089
Derivative contracts		
Collateral pledged	**1,585**	1,793
Collateral held[D]	**1,363**	1,058

[A] The minimum fair value of securities collateral denominated in the same currency required is equal to 102%, and in the case of securities denominated in different currencies 105%. In exchange for securities lent, cash and securities received as at March 31, 2023, were $619 million and $2,733 million, respectively (March 31, 2022 – nil and $2,949 million, respectively). All cash amounts are 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 $414 million has been used in connection with short selling transactions as at March 31, 2023 (March 31, 2022 – $373 million) and $224 million has been used in connection with securities sold under repurchase agreements (March 31, 2022 – $55 million).

[D] As part of collateral held, cash amounted to $83 million as at March 31, 2023 (March 31, 2022 – $104 million) and securities amounted to $1,280 million as at March 31, 2023 (March 31, 2022 – $954 million). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

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

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

(i) Control and significant influence

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

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

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

(ii) Joint control

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

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

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2023, 128 investment entity subsidiaries were incorporated in North America, 28 in Europe, 19 in Oceania, 8 in Central and South America, 2 in Asia and 1 in Africa (March 31, 2022 – 126 in North America, 26 in Europe, 18 in Oceania, 9 in Central and South America, 1 in Asia and 1 in Africa).

In addition, PSP Investments controlled 84 investees directly or through its investment entity subsidiaries as at March 31, 2023 (March 31, 2022 – 85 investees).

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

	March 31, 2023		
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments (%)**	**Relationship to PSP Investments**
AviAlliance GmbH	**Europe**	**100**	**Controlled investee**
American Wholesale Insurance Holding Company, LLC	**North America**	**22**	**Associate**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50**	**Jointly controlled investee**
Kaingaroa Timberlands Limited	**Oceania**	**56**	**Jointly controlled investee**
Roadis Transportation Holding, S.L.U.	**Global**	**100**	**Controlled investee**
Willow Topco Limited	**Europe**	**74**	**Jointly controlled investee**
TDF S.A.S.	**Europe**	**22**	**Associate**
Revera Inc.	**North America**	**100**	**Controlled investee**
Forth Ports Limited	**Europe**	**51**	**Jointly controlled investee**
Alliant	**North America**	**12**	**Associate**

	March 31, 2022		
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
AviAlliance GmbH	Europe	100	Controlled investee
Kaingaroa Timberlands Limited	Oceania	56	Jointly controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Revera Inc.	North America	100	Controlled investee
Willow Topco Limited	Europe	74	Jointly controlled investee
American Wholesale Insurance Holding Company, LLC	North America	22	Associate
Roadis Transportation Holding, S.L.U.	Global	100	Controlled investee
Forth Ports Limited	Europe	51	Jointly controlled investee
Seaport Square Associates LP / Seaport Square Parallel LP	North America	50	Jointly controlled investee
TDF S.A.S.	Europe	22	Associate

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

6.2. Structured Entities

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

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

7 — Investment Risk Management

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

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

7.1. Market Risk

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

7.1.1. Measurement of Market Risk

The absolute annualized Value at Risk (VaR) is used as a key measure of total portfolio market risk. The VaR quantifies the loss in value of an investment or an investment portfolio that one can expect, with a given confidence level, not to be exceeded over a given period, due to fluctuations in market prices.

PSP Investments uses a historical VaR incorporating ten years' worth of market returns scaled to a twelve-month holding period at a 95% confidence level. That is, statistically PSP Investments would expect to see losses exceed the VaR only 5% of the time over a one-year period. For investments that are not actively traded, the calculation of the VaR uses securities with similar risk attributes as a proxy.

The VaR is statistically valid under normal market conditions. Although it includes potential losses derived from observed historical returns, it also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

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

	March 31, 2023 (%)	March 31, 2022 (%)
VaR	**19.6**	17.4

Stress Testing

Although the 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. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

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

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

	March 31, 2023					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	—	—	—	—	11,216[A]	11,216
Government and corporate bonds	497	7,462	4,867	3,912	243[B]	16,981
Inflation-linked bonds	—	3,563	2,901	1,901	—	8,365
Private debt securities	759	4,898	8,328	3,034	5,188[C]	22,207
Total fixed income	1,256	15,923	16,096	8,847	16,647	58,769

	March 31, 2022					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	—	—	—	—	9,757[A]	9,757
Government and corporate bonds	265	5,239	4,235	3,584	845[B]	14,168
Inflation-linked bonds	397	3,420	3,313	2,379	—	9,509
Private debt securities	145	3,769	7,565	2,519	4,701[C]	18,699
Total fixed income	807	12,428	15,113	8,482	15,303	52,133

[A] Due to their short-term maturity, these investments are not significantly exposed to interest rate risk.
[B] Certain fixed income securities are not significantly exposed to interest rate risk as their prescribed rates are variable.
[C] Information in connection with the terms to maturity of fund and certain directly held investments included as part of private debt securities is not available.

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounting to $125,389 million as at March 31, 2023 ($120,376 million as at March 31, 2022) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in Note 4.1.4, which amounted to $18,208 million as at March 31, 2023 ($15,768 million as at March 31, 2022), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 7.1.1.

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

Interest Rate Benchmark Reform

PSP Investments holds a number of financial instruments that will mature after the date the Interbank Offered Rate ("IBOR") to which they refer is anticipated to be discontinued as a result of the reform. A steering committee oversees the transition from IBORs to alternative reference rates ("ARRs") to mitigate the risks related to the discontinuation or unavailability of such rates, which are primarily operational. With respect to non-derivative financial instruments, PSP Investments has been identifying agreements referring to IBORs and engaging in a timely contract remediation process with the related counterparties. For derivative contracts, PSP Investments has adhered to the International Swaps and Derivatives Association ("ISDA") Fallbacks Protocol that took effect on January 25, 2021, which provides an efficient mechanism to switch to ARRs as IBORs become unavailable.

The following table shows the fair value of non-derivative financial instruments and the notional value of derivative financial instruments that have yet to transition to ARRs. As at March 31, 2023, only instruments referencing US dollar London Interbank Offered Rate ("USD LIBOR") and expected to mature after June 30, 2023, or Canadian Dollar Offered Rate ("CDOR") and expected to mature after June 28, 2024, remain.

(Canadian $ millions)	USD LIBOR	CDOR
Non-derivative financial assets fair value	5,548	318
Derivatives notional	5,529	6,637

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

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

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

	March 31, 2023	
Currency	Fair Value (Canadian $ millions)	% of Total
US Dollar	**112,895**	**66.0**
Euro	**20,638**	**12.1**
Hong Kong Dollar	**7,714**	**4.5**
British Pound	**6,312**	**3.7**
Japanese Yen	**4,147**	**2.4**
Indian Rupee	**2,755**	**1.6**
Mexican Peso	**2,691**	**1.6**
New Taiwan Dollar	**1,528**	**0.9**
Singapore Dollar	**1,481**	**0.9**
Swiss Franc	**1,374**	**0.8**
South African Rand	**1,238**	**0.7**
Others	**8,192**	**4.8**
Total	**170,965**	**100.0**

As at March 31, 2023, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $23,890 million for the Plan Account (US $15,018 million, €1,865 million, £304 million, 16 million South African rands, 1,322 million Mexican pesos, 172 million Australian dollars, 1,611 million Indian rupees and 3,111 million Japanese yen) which were not included in the foreign currency exposure table above.

	March 31, 2022	
Currency	Fair Value (Canadian $ millions)	% of Total
US Dollar	94,274	64.0
Euro	15,410	10.5
Japanese Yen	6,850	4.7
British Pound	6,563	4.5
Hong Kong Dollar	4,217	2.9
Australian Dollar	3,533	2.4
Indian Rupee	2,726	1.9
Mexican Peso	2,256	1.5
Swiss Franc	1,501	1.0
New Taiwan Dollar	1,126	0.8
Chinese Yuan	1,105	0.8
South Korean Won	847	0.6
Others	6,839	4.4
Total	147,247	100.0

As at March 31, 2022, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $20,562 million for the Plan Account (US $13,658 million, €1,719 million, £468 million, 16 million South African rands, 1,409 million Mexican pesos, 180 million Australian dollars, 1,935 million Indian rupees, 3,115 million Japanese yen and 24 million New Zealand dollars) which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

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

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

As at March 31, 2023, the Plan Account's maximum exposure to credit risk amounted to $61 billion (March 31, 2022 – $55 billion). This amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

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

	March 31, 2023						
(Canadian $ millions)	**Government and corporate bonds**[A]	**Inflation-linked bonds**[A]	**Money market securities**[A]	**Reverse repurchase agreements**	**OTC derivatives**[B]	**Private debt securities**[A]	**Total**[A]
AAA-AA	**11,074**	**8,384**	**9,393**	**117**	**55**	**—**	**29,023**
A	**4,929**	**—**	**1,040**	**776**	**1,525**	**—**	**8,270**
BBB	**485**	**—**	**—**	**42**	**—**	**255**	**782**
BB or below	**551**	**—**	**—**	**—**	**—**	**21,959**	**22,510**
No rating[C]	**76**	**—**	**—**	**—**	**—**	**202**	**278**
Total	**17,115**	**8,384**	**10,433**	**935**	**1,580**	**22,416**	**60,863**

	March 31, 2022						
(Canadian $ millions)	Government and corporate bonds[A]	Inflation-linked bonds[A]	Money market securities[A]	Reverse repurchase agreements	OTC derivatives[B]	Private debt securities[A]	Total[A]
AAA-AA	9,129	9,525	7,326	322	56	—	26,358
A	4,334	—	1,838	1,271	1,401	—	8,844
BBB	289	—	—	502	—	296	1,087
BB or below	400	—	—	—	—	18,382	18,782
No rating[C]	102	—	—	—	—	149	251
Total	14,254	9,525	9,164	2,095	1,457	18,827	55,322

[A] Includes interest receivable.

[B] As disclosed in Note 4.1.12.

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

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

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

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

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

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

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

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

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

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

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

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

Financial Assets

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2023						
Reverse repurchase agreements	**935**	**—**	**935**[A]	**893**	**42**	**—**
OTC-derivatives	**1,580**	**—**	**1,580**[B]	**1,127**	**336**	**117**
Total	**2,515**	**—**	**2,515**	**2,020**	**378**	**117**
March 31, 2022						
Reverse repurchase agreements	2,095	—	2,095[A]	1,010	1,082	3
OTC-derivatives	1,600	143	1,457[B]	1,227	215	15
Total	3,695	143	3,552	2,237	1,297	18

Financial Liabilities

(Canadian $ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2023						
Repurchase agreements	**6,899**	**—**	**6,899**[A]	**893**	**6,006**	**—**
OTC-derivatives	**1,182**	**—**	**1,182**[B]	**1,051**	**127**	**4**
Collateral payable	**83**	**—**	**83**[C]	**76**	**—**	**7**
Total	**8,164**	**—**	**8,164**	**2,020**	**6,133**	**11**
March 31, 2022						
Repurchase agreements	2,867	—	2,867[A]	1,010	1,849	8
OTC-derivatives	1,965	143	1,822[B]	1,123	663	36
Collateral payable	104	—	104[C]	104	—	—
Total	4,936	143	4,793	2,237	2,512	44

[A] As described in Note 4.1.10.

[B] As described in Note 4.1.12.

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

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

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

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

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2023 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(789)	—	—	(789)
Interest payable	(76)	(9)	—	(85)
Securities sold short	(1,825)	—	—	(1,825)
Collateral payable	(700)	—	—	(700)
Securities sold under repurchase agreements	(6,416)	(483)	—	(6,899)
Capital market debt financing	(2,735)	(3,549)	(11,300)	(17,584)
Trade payable and other liabilities	(272)	(3)	(107)	(382)
Total	(12,813)	(4,044)	(11,407)	(28,264)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	883	455	270	1,608
Derivative-related liabilities[A]	(674)	(374)	(148)	(1,196)
Total	209	81	122	412

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2022 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(779)	—	—	(779)
Interest payable	(53)	(6)	—	(59)
Securities sold short	(1,714)	—	—	(1,714)
Collateral payable	(107)	—	(383)	(490)
Securities sold under repurchase agreements	(1,606)	(1,261)	—	(2,867)
Capital market debt financing	(5,754)	(1,423)	(9,400)	(16,577)
Trade payable and other liabilities	(194)	(2)	(117)	(313)
Total	(10,207)	(2,692)	(9,900)	(22,799)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	617	529	353	1,499
Derivative-related liabilities[A]	(978)	(639)	(236)	(1,853)
Total	(361)	(110)	117	(354)

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

8 — Borrowings

8.1. Credit Facilities

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

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

These Credit Facilities were not drawn upon as at March 31, 2023 and 2022.

8.2. Capital Market Debt Financing

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

The maximum amount authorized by the Board of Directors for the capital market debt program is limited to $12 billion for short-term promissory notes for issuances in Canada and the United States combined, and $20 billion for medium-term notes issued globally.

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2023 and 2022.

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

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

	March 31, 2023		March 31, 2022	
(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 4.41% and 4.44% and maturing within 120 and 180 days of issuance (March 31, 2022 – between 0.25% and 1.00%, maturing within 30 and 360 days)	**29**	**29**	172	171
Short-term US Dollar promissory notes, bearing interest between 2.40% and 5.56% and maturing within 32 and 365 days of issuance (March 31, 2022 – between 0.15% and 1.15%, maturing within 25 and 365 days)	**5,293**	**5,235**	5,750	5,748
Medium-term Canadian Dollar notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**961**	**951**	960	975
Medium-term Canadian Dollar notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**1,036**	**1,020**	1,034	1,030
Medium-term Canadian Dollar notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**—**	**—**	1,256	1,258
Medium-term Canadian Dollar notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**914**	**896**	912	921
Medium-term Canadian Dollar notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**904**	**824**	844	790
Medium-term Canadian Dollar notes Series 13, bearing interest of 0.90% per annum and maturing on June 15, 2026	**1,057**	**971**	1,095	1,014
Medium-term Canadian Dollar notes Series 14, bearing interest of 1.50% per annum and maturing on March 15, 2028	**731**	**666**	686	635
Medium-term US Dollar notes Series G1, bearing interest of 1.00% per annum and maturing on June 29, 2026	**990**	**896**	912	846
Medium-term US Dollar notes Series G2, bearing interest of 0.50% per annum and maturing on September 15, 2024	**1,237**	**1,171**	1,140	1,086
Medium-term US Dollar notes Series G3, bearing interest of 1.63% per annum and maturing on October 26, 2028	**990**	**872**	912	855
Medium-term Canadian Dollar notes Series G4 (Green bonds), bearing interest of 2.60% per annum and maturing on March 1, 2032	**731**	**673**	730	702
Medium-term US Dollar notes Series G5, bearing interest at a rate per annum equal to compounded SOFR plus 24 basis points and maturing on March 3, 2025	**990**	**986**	547	546
Medium-term US Dollar notes Series G6, bearing interest of 3.50% per annum and maturing on June 29, 2027	**990**	**967**	—	—
Medium-term Australian Dollar notes Series G7, bearing interest of 4.57% per annum and maturing on August 5, 2032	**152**	**152**	—	—
Medium-term Canadian Dollar notes Series G8, bearing interest of 3.75% per annum and maturing on June 15, 2029	**1,017**	**1,031**	—	—
Medium-term Australian Dollar notes Series G9, bearing interest of 4.82% per annum and maturing on January 31, 2033	**133**	**134**	—	—
Medium-term Euro notes Series G10, bearing interest of 3.68% per annum and maturing on March 1, 2038	**108**	**110**	—	—
Total	**18,263**	**17,584**	16,950	16,577

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

Unrealized losses in connection with borrowings amounted to $184 million for the year ended March 31, 2023 (unrealized gains of $503 million for the year ended March 31, 2022).

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

(Canadian $ millions)	**2023**	2022
Short-term promissory notes	**162**	11
Medium-term notes	**241**	166
Total	**403**	177

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2023.

				Non-cash changes		
(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Foreign exchange losses	Fair value[A] gains	Closing balance
Capital market debt financing	**16,577**	**20,566**	**(19,802)**	**439**	**(196)**	**17,584**
Borrowings	**16,577**	**20,566**	**(19,802)**	**439**	**(196)**	**17,584**

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

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2022.

				Non-cash changes		
(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Foreign exchange losses	Fair value[A] gains	Closing balance
Capital market debt financing	12,196	23,627	(18,744)	38	(540)	16,577
Borrowings	12,196	23,627	(18,744)	38	(540)	16,577

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

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

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

9.2. Fund Transfers

PSP Investments received fund transfers from the Government of Canada of $2,428 million for the year ended March 31, 2023 ($2,791 million for the year ended March 31, 2022) for the Fund, recorded in the Plan Account.

10 — Segment Information

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

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

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

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

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Public Equity	**39,087**	43,170
Private Equity	**27,236**	25,823
Fixed Income	**32,938**	29,723
Credit Investments	**19,099**	15,981
Real Estate	**23,433**	22,694
Infrastructure	**21,476**	17,158
Natural Resources	**8,979**	8,479
Complementary Portfolio	**1,589**	1,041
Other[A]	**4,372**	4,181
Total	**178,209**	168,250

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

10 — Segment Information (continued)

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

	2023			2022		
(Canadian $ millions)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)
Public Equity	**(301)**	**(314)**	**(615)**	2,771	(206)	2,565
Private Equity	**880**	**(101)**	**779**	6,269	(91)	6,178
Fixed Income	**466**	**(117)**	**349**	(596)	(57)	(653)
Credit Investments	**2,245**	**(84)**	**2,161**	900	(63)	837
Real Estate	**395**	**(258)**	**137**	4,816	(160)	4,656
Infrastructure	**3,664**	**(251)**	**3,413**	2,045	(136)	1,909
Natural Resources	**1,165**	**(137)**	**1,028**	1,204	(82)	1,122
Complementary Portfolio	**(59)**	**(2)**	**(61)**	27	1	28
Other[C]	**379**	**(126)**	**253**	(257)	(1)	(258)
Total	**8,834**	**(1,390)**	**7,444**	17,179	(795)	16,384

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

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

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

11 — Investment-Related Expenses

Investment-related expenses allocated to the Plan Account are comprised of the following for the years ended March 31:

(Canadian $ millions)	2023	2022
Interest expense	**587**	183
Transaction costs	**101**	113
External investment management fees[A]	**48**	28
Other (net)	**110**	42
Total	**846**	366

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to $142 million for the year ended March 31, 2023 ($289 million for the year ended March 31, 2022). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.5% of the total invested and/or committed amount, totaled $431 million for the year ended March 31, 2023 ($357 million for the year ended March 31, 2022). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

Operating expenses allocated to the Plan Account consisted of the following for the years ended March 31:

(Canadian $ millions)	2023	2022
Salaries and employee benefits	**334**	265
Professional and consulting fees	**100**	72
Premises and equipment	**14**	12
Market data and business applications	**44**	39
Depreciation of property and equipment	**19**	23
Custodial fees	**4**	4
Other operating expenses	**29**	14
Total	**544**	429

13 — Allocation of Net Income

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

13.1. Investment Income

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

13.2. Expenses

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

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

(%)	**2023**	2022
Public Service Pension Plan Account	**73.0**	72.9
Canadian Forces Pension Plan Account	**19.4**	19.5
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.2
Reserve Force Pension Plan Account	**0.4**	0.4
Total	**100.0**	100.0

14 — Related Party Transactions

14.1. Certain Investees

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

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

14.2. The Government of Canada and Government-Related Entities

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

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the fund 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 net income as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

14.3. Compensation of Key Management Personnel

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

(Canadian $ millions)	**2023**	2022
Short-term compensation and other benefits	**12**	9
Long-term compensation and other benefits	**7**	7
Total	**19**	16

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

15 — Capital Management

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

- To invest fund transfers, outlined in Note 9.2, in the best interests of the beneficiaries and contributors under the Superannuation Acts. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under the *Superannuation Acts* and the ability of the Plans to meet their financial obligations. The funds are also invested in accordance with the Investment Risk Management policies which are outlined in Note 7.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSP Investments has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 8.2 provides information on the capital market debt financing and Note 7.3 provides information on PSP Investments' liquidity.

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

16 — Guarantees and Indemnities

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

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

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

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

- As at March 31, 2023 and 2022, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to $2,643 million as at March 31, 2023 (March 31, 2022 – $2,051 million), of which $1,933 million has been allocated to the Plan Account (March 31, 2022 – $1,497 million) plus applicable interest and other related costs. The arrangements mature between June 2023 and June 2042 as of March 31, 2023 (March 31, 2022 – between May 2022 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $1 million as at March 31, 2023 (March 31, 2022 – $1 million), of which nil has been allocated to the Plan Account (March 31, 2022 – nil) in relation to investment transactions.

17 — Commitments

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at:

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Foreign equity	**2**	2
Real estate	**3,352**	3,157
Private equity	**9,619**	9,314
Infrastructure	**4,318**	2,713
Natural resources	**492**	377
Private debt securities	**5,092**	4,050
Alternative investments	**1,497**	1,434
Total	**24,372**	21,047

Funding in connection with the above commitments can be called upon at various dates extending until 2041 as at March 31, 2023 (March 31, 2022 – 2040).

— Canadian Forces Pension Plan Account
Financial Statements

Independent Auditors' Report

To the Minister of National Defence

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Sector Pension Investment Board – Canadian Forces Pension Plan Account (the Canadian Forces Pension Plan Account), which comprise the statements of financial position as at March 31, 2023 and 2022, and the statements of net income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Canadian Forces Pension Plan Account as at March 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Canadian Forces Pension Plan Account's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Canadian Forces Pension Plan Account's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Canadian Forces Pension Plan Account to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Montréal, Canada
May 15, 2023

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

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

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

Deloitte LLP[1]

Montréal, Canada
May 15, 2023

[1] CPA auditor, public accountancy permit No. A125494

Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Assets		
Investments (Note 4.1)	**54,514**	51,223
Other assets	**36**	40
Total assets	**54,550**	51,263
Liabilities		
Trade payable and other liabilities	**101**	82
Investment-related liabilities (Note 4.1)	**3,023**	2,065
Borrowings (Notes 4.1, 8.2)	**4,624**	4,409
Total liabilities	**7,748**	6,556
Net assets	**46,802**	44,707
Equity (Note 9)	**46,802**	44,707
Total liabilities and equity	**54,550**	51,263

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

On behalf of the Board of Directors:

Martin Glynn
Chair of the Board

Katherine Lee
Chair of the Audit Committee

Statements of Net Income

For the years ended March 31

(Canadian $ millions)	2023	2022
Investment income	**2,328**	4,596
Investment-related expenses (Note 11)	**(224)**	(98)
Net investment income	**2,104**	4,498
Operating expenses (Note 12)	**(144)**	(114)
Net income	**1,960**	4,384

Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	2023	2022
Fund transfers		
Balance at beginning of year	**16,507**	16,022
Fund transfers received during the year (Note 9.2)	**135**	485
Balance at end of year	**16,642**	16,507
Retained earnings		
Balance at beginning of year	**28,200**	23,816
Net income	**1,960**	4,384
Balance at end of year	**30,160**	28,200
Total equity	**46,802**	44,707

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	2023	2022
Cash flows from operating activities		
Net income	**1,960**	4,384
Adjustments for non-cash items:		
Depreciation of property and equipment (Note 12)	**5**	6
Effect of exchange rate changes on cash and cash equivalents	**(27)**	10
Unrealized losses (gains) on borrowings	**50**	(134)
	1,988	4,266
Net changes in operating assets and liabilities		
Increase in investments	**(3,557)**	(5,095)
Increase in other assets	**—**	(1)
Increase (decrease) in trade payables and other liabilities	**19**	(3)
Increase (decrease) in investment-related liabilities	**977**	(139)
Net cash flows used in operating activities	**(573)**	(972)
Cash flows from financing activities		
Proceeds from borrowings	**5,444**	6,342
Repayment of borrowings	**(5,294)**	(5,062)
Fund transfers received (Note 9.2)	**135**	485
Net cash flows provided by financing activities	**285**	1,765
Cash flows from investing activities		
Acquisitions of equipment	**(2)**	(3)
Net cash flows used in investing activities	**(2)**	(3)
Net change in cash and cash equivalents	**(290)**	790
Effect of exchange rate changes on cash and cash equivalents	**27**	(10)
Cash and cash equivalents at the beginning of the year	**1,617**	837
Cash and cash equivalents at the end of the year[A]	**1,354**	1,617
Supplementary disclosure of cash flow information		
Interest paid	**(133)**	(47)

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

[A] As at March 31, 2023, cash and cash equivalents were comprised of $1,346 million (March 31, 2022 – $1,612 million) held for investment purposes and included in Note 4.1, as well as $8 million (March 31, 2022 – $5 million) held for administrative purposes and included in Other assets.

Notes to the Financial Statements

For the years ended March 31, 2023 and 2022

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. In certain foreign jurisdictions, income and capital gains remain taxable.

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

2 — Significant Accounting Policies

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

2.1. Basis of Presentation

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

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

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

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 15, 2023.

2 — Significant Accounting Policies
(continued)

2.2. Investment Entity Status

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

(i) Mandate and business purpose

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

(ii) Performance evaluation

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

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

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

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

2.3. Summary of Significant Accounting Policies

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

2.3.1. Financial Instruments

(i) Classification

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

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

(ii) Recognition

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

(iii) Initial and subsequent measurement

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

(iv) Derecognition

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

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

and

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

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

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

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

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

2.3.3. Functional and Presentation Currency

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

2.3.4. Foreign Currency Translation

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

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

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

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

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

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

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

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

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.7. Offsetting of Financial Instruments

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

2.3.8. Equity

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

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

2.3.9. Investment Income

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

2.3.10. Investment-Related Expenses

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

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

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

2.3.11. Fund Transfers

Amounts are recorded for the Fund when received from the Government of Canada.

2.4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Sources of estimate uncertainty related to macroeconomic unpredictability and volatility include the current geopolitical context, supply chain disruptions and rising inflation and interest rates. This could continue to impact financial results, due to uncertainties including their extent and duration. These Financial Statements reflect the impacts resulting from the aforementioned macroeconomic factors to the extent known at the reporting date.

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

3 — Current and Future Changes in Accounting Standards

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

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Public markets		
Canadian equity	**862**	956
Foreign equity	**6,787**	8,162
Private markets		
Real estate	**7,914**	7,655
Private equity	**6,907**	6,473
Infrastructure	**6,915**	5,724
Natural resources	**3,590**	3,047
Fixed income		
Cash and money market securities	**2,950**	2,595
Government and corporate bonds	**4,466**	3,768
Inflation-linked bonds	**2,200**	2,529
Private debt securities	**5,840**	4,973
Alternative investments	**4,789**	4,194
	53,220	50,076
Investment-related assets		
Amounts receivable from pending trades	**488**	95
Interest receivable	**97**	61
Dividends receivable	**40**	35
Securities purchased under reverse repurchase agreements	**246**	557
Derivative-related assets	**423**	399
	1,294	1,147
Investments representing financial assets at FVTPL	**54,514**	51,223
Investment-related liabilities		
Amounts payable from pending trades	**(209)**	(207)
Interest payable	**(22)**	(16)
Securities sold short	**(480)**	(456)
Collateral payable	**(184)**	(130)
Securities sold under repurchase agreements	**(1,814)**	(763)
Derivative-related liabilities	**(314)**	(493)
Investment-related liabilities representing financial liabilities at FVTPL	**(3,023)**	(2,065)
Borrowings		
Capital market debt financing	**(4,624)**	(4,409)
Borrowings representing financial liabilities designated at FVTPL	**(4,624)**	(4,409)
Net investments	**46,867**	44,749

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.1. Public Markets

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

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

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

4.1.2. Private Markets

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

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

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

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

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

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

4.1.3. Fixed Income

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

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Statements of Cash Flows and amounted to $1,346 million as at March 31, 2023 (March 31, 2022 – $1,612 million). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

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

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

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

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

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

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.4. Alternative Investments

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

4.1.5. Amounts Receivable and Payable from Pending Trades

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

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

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

4.1.6. Interest and Dividends Receivable

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

4.1.7. Interest Payable

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

4.1.8. Securities Sold Short

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

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

4.1.9. Collateral Payable

As part of securities lending and certain OTC derivative transactions, when cash is received, it is recognized as collateral payable. The payable balance reflects the obligation of the transferee to return the amount to the transferor at the end of the transaction in the absence of an event of default by the transferor.

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

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

4.1.11. Borrowings under the Capital Market Debt Program

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

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.12. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

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

Warrants and Rights

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

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

Determination of Fair Value of Derivative Financial Instruments

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2023			March 31, 2022		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**710**	**—**	**—**	1,021	—	—
Warrants and rights	**—**	**—**	**—**	2	1	—
Options: Purchased	**175**	**6**	**—**	79	1	—
Written	**230**	**—**	**(3)**	128	—	(1)
OTC						
Swaps	**3,979**	**127**	**(44)**	4,080	94	(45)
Options: Purchased	**16**	**—**	**—**	12	—	—
Currency derivatives						
Listed						
Futures	**44**	**—**	**—**	63	—	—
OTC						
Forwards	**20,670**	**136**	**(160)**	12,082	75	(252)
Swaps	**686**	**17**	**(6)**	144	—	(7)
Options: Purchased	**396**	**2**	**—**	295	3	—
Written	**512**	**—**	**(2)**	342	—	(2)
Interest rate derivatives						
Listed						
Futures	**423**	**—**	**—**	1,516	—	—
Options: Purchased	**9,334**	**1**	**—**	9,499	9	—
Written	**8,548**	**—**	**(1)**	8,195	—	(7)
OTC						
Forwards	**272**	**2**	**(1)**	—	—	—
Swaps	**670**	**6**	**(3)**	417	24	(2)
Options: Purchased	**12,623**	**123**	**—**	10,753	192	—
Written	**14,735**	**—**	**(92)**	11,513	—	(176)
OTC-cleared						
Swaps	**15,559**	**—**	**—**	11,764	—	—
Credit derivatives						
OTC						
Credit default swaps: Purchased	**108**	**—**	**(2)**	51	—	(1)
Written[A]	**232**	**3**	**—**	10	—	—
OTC-cleared						
Credit default swaps: Purchased	**389**	**—**	**—**	359	—	—
Written[A]	**—**	**—**	**—**	36	—	—
Total		**423**	**(314)**		399	(493)

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

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2023			March 31, 2022		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**19,464**	**7**	**(4)**	20,503	11	(8)
OTC derivatives	**54,899**	**416**	**(310)**	39,699	388	(485)
OTC-cleared derivatives	**15,948**	**—**	**—**	12,159	—	—
Total		**423**	**(314)**		399	(493)

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Less than 3 months	**44,180**	28,570
3 to 12 months	**28,656**	24,992
Over 1 year	**17,475**	18,799

4.2. Fair Value Hierarchy

4.2.1. Classification

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2023, classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	529	333	—	862
Foreign equity	6,400	199	188	6,787
Private markets				
Real estate	—	—	7,914	7,914
Private equity	—	—	6,907	6,907
Infrastructure	—	—	6,915	6,915
Natural resources	—	—	3,590	3,590
Fixed income				
Cash and money market securities	2,094	856	—	2,950
Government and corporate bonds	1,563	2,902	1	4,466
Inflation-linked bonds	2,200	—	—	2,200
Private debt securities	—	—	5,840	5,840
Alternative investments	—	2,963	1,826	4,789
	12,786	7,253	33,181	53,220
Investment-related assets				
Amounts receivable from pending trades	—	488	—	488
Interest receivable	—	97	—	97
Dividends receivable	—	40	—	40
Securities purchased under reverse repurchase agreements	—	246	—	246
Derivative-related assets	7	416	—	423
	7	1,287	—	1,294
Investments representing financial assets at FVTPL	12,793	8,540	33,181	54,514
Investment-related liabilities				
Amounts payable from pending trades	—	(209)	—	(209)
Interest payable	—	(22)	—	(22)
Securities sold short	(449)	(31)	—	(480)
Collateral payable	—	(184)	—	(184)
Securities sold under repurchase agreements	—	(1,814)	—	(1,814)
Derivative-related liabilities	(4)	(310)	—	(314)
Investment-related liabilities representing financial liabilities at FVTPL	(453)	(2,570)	—	(3,023)
Borrowings				
Capital market debt financing	—	(4,624)	—	(4,624)
Borrowings representing financial liabilities designated at FVTPL	—	(4,624)	—	(4,624)
Net investments	12,340	1,346	33,181	46,867

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, 2022, classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	609	347	–	956
Foreign equity	7,729	171	262	8,162
Private markets				
Real estate	–	–	7,655	7,655
Private equity	–	–	6,473	6,473
Infrastructure	–	–	5,724	5,724
Natural resources	–	–	3,047	3,047
Fixed income				
Cash and money market securities	642	1,953	–	2,595
Government and corporate bonds	901	2,866	1	3,768
Inflation-linked bonds	2,529	–	–	2,529
Private debt securities	–	–	4,973	4,973
Alternative investments	–	2,552	1,642	4,194
	12,410	7,889	29,777	50,076
Investment-related assets				
Amounts receivable from pending trades	–	95	–	95
Interest receivable	–	61	–	61
Dividends receivable	–	35	–	35
Securities purchased under reverse repurchase agreements	–	557	–	557
Derivative-related assets	11	388	–	399
	11	1,136	–	1,147
Investments representing financial assets at FVTPL	12,421	9,025	29,777	51,223
Investment-related liabilities				
Amounts payable from pending trades	–	(207)	–	(207)
Interest payable	–	(16)	–	(16)
Securities sold short	(456)	–	–	(456)
Collateral payable	–	(130)	–	(130)
Securities sold under repurchase agreements	–	(763)	–	(763)
Derivative-related liabilities	(8)	(485)	–	(493)
Investment-related liabilities representing financial liabilities at FVTPL	(464)	(1,601)	–	(2,065)
Borrowings				
Capital market debt financing	–	(4,409)	–	(4,409)
Borrowings representing financial liabilities designated at FVTPL	–	(4,409)	–	(4,409)
Net investments	11,957	3,015	29,777	44,749

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2023.

As at March 31, 2021, listed foreign equity securities with a fair value of $30 million were indirectly held and classified as Level 2. During the year ended March 31, 2022, these securities were transferred to Level 1 as they became directly held by PSP Investments.

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 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 in Private Markets, is determined at least semi-annually. For other interim reporting periods, 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 most recent audited financial statements received from the fund's general partner. In certain cases, fair value is obtained from information provided by the fund's administrators and is reviewed by Management to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

To reflect the impact, where applicable, of significant market movements or other events occurring up to the end of the reporting period, adjustments to Private Markets and fund investments are made as appropriate. Such adjustments are based on a number of factors including public market trading comparables, investment specific characteristics as well as market conditions and uncertainties at that time.

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 categorized within Level 3 as at March 31, 2023:

Financial Assets	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Foreign equity	Direct investments	**188**	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	**7,247**	Discounted cash flow (DCF)	Discount rate[B, C]	3.30% – 19.00% (7.40%)
				Terminal capitalization rate[B, C]	3.56% – 12.00% (5.60%)
			Direct capitalization	Capitalization rate[B, D]	2.35% – 10.00% (4.62%)
				Stabilized occupancy rate[D, E]	98.00% – 100.00% (99.55%)
			Sales comparison approach	Price per square foot[D, E]	$3.42 – $1,750.44 ($256.48)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**667**	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	**12,528**	DCF	Discount rate[B]	5.50% – 20.00% (9.68%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**4,884**	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	**1**	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	**4,416**	DCF	Discount rate[B]	4.25% – 23.48% (12.56%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**1,424**	NAV[A]	N/A	N/A
Alternative investments	Fund investments	**1,826**	NAV[A]	N/A	N/A
Total		**33,181**			

[A] In certain cases, when investments are held through funds, partnerships or similar structures, fair value is determined by third parties where valuation information is not available to PSP Investments.

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets categorized within Level 3 as at March 31, 2022:

Financial Assets	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Foreign equity	Direct investments	262	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	7,067	Discounted cash flow (DCF)	Discount rate[B, C]	4.50% – 19.00% (7.03%)
				Terminal capitalization rate[B, C]	2.90% – 13.33% (5.38%)
			Direct capitalization	Capitalization rate[B, D]	2.50% – 9.60% (4.36%)
				Stabilized occupancy rate[D, E]	94.00% – 100.00% (97.87%)
			Sales comparison approach	Price per square foot[D, E]	$4.30 – $2,077.86 ($325.66)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	588	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	10,682	DCF	Discount rate[B]	5.64% – 17.30% (8.96%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	4,562	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	1	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	3,787	DCF	Discount rate[B]	4.25% – 23.53% (10.33%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	1,186	NAV[A]	N/A	N/A
Alternative investments	Fund investments	1,642	NAV[A]	N/A	N/A
Total		29,777			

[A] In certain cases, when investments are held through funds, partnerships or similar structures, fair value is determined by third parties where valuation information is not available to PSP Investments.

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets categorized within Level 3 for the year ended March 31, 2023:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer Out of Level 3	Closing Balance
Public markets	**262**	**7**	**(25)**	**—**	**5**	**(52)**	**(9)**	**188**
Private markets	**22,899**	**3,522**	**(1,951)**	**—**	**666**	**232**	**(42)**	**25,326**
Fixed income	**4,974**	**1,531**	**(837)**	**—**	**69**	**104**	**—**	**5,841**
Alternative investments	**1,642**	**133**	**(113)**	**—**	**21**	**143**	**—**	**1,826**
Total	**29,777**	**5,193**	**(2,926)**	**—**	**761**	**427**	**(51)**	**33,181**

[A] Includes Plan Account allocation adjustments.

As at March 31, 2022, a public market investment of $9 million in a non-listed fund that held listed securities was classified under Level 3 due to the nature of the contractual restrictions on the redemption of fund units. During the year ended March 31, 2023, the listed securities held by the fund were transferred to PSP Investments and were classified as Level 1. Additionally, as at March 31, 2022, a private market investment of $42 million was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2023, this investment was transferred to Level 2 as the related securities became publicly traded. These securities held by PSP Investments are unregistered and can only be sold upon their registration.

The following table shows a reconciliation of all movements related to financial assets categorized within Level 3 for the year ended March 31, 2022:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer in (out) of Level 3	Closing Balance
Public markets	242	83	(53)	—	9	(89)	70	262
Private markets	19,086	3,934	(3,000)	—	1,007	2,202	(330)	22,899
Fixed income	3,534	2,560	(1,130)	(1)	19	(8)	—	4,974
Alternative investments	1,698	279	(425)	—	178	(88)	—	1,642
Total	24,560	6,856	(4,608)	(1)	1,213	2,017	(260)	29,777

[A] Includes Plan Account allocation adjustments.

As at March 31, 2021, private market investments totalling $330 million that were classified under Level 3, as their fair values were determined based on significant unobservable inputs, were transferred during the year ended March 31, 2022. One investment of $34 million was transferred to Level 1 as it became publicly traded, while the other investments of $296 million were transferred to Level 2 as the underlying instruments are indirectly held by PSP Investments and valued using publicly available quoted prices. In addition, public market investments of $70 million were transferred from Level 1 to Level 3 as their fair values were no longer based on observable inputs due to sanctions placed on international investing with respect to Russian securities.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, with all other variables held constant, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 4% increase and 4% decrease as at March 31, 2023 (March 31, 2022 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Securities lending and borrowing		
Securities lent	**842**	720
Collateral held[A]	**882**	784
Securities borrowed	**371**	357
Collateral pledged[B]	**394**	376
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**1,836**	752
Collateral pledged	**1,825**	758
Securities purchased under reverse repurchase agreements	**249**	556
Collateral held[C]	**248**	555
Derivative contracts		
Collateral pledged	**417**	477
Collateral held[D]	**359**	281

[A] The minimum fair value of securities collateral denominated in the same currency required is equal to 102%, and in the case of securities denominated in different currencies 105%. In exchange for securities lent, cash and securities received as at March 31, 2023, were $163 million and $719 million, respectively (March 31, 2022 – nil and $784 million, respectively). All cash amounts are 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 $109 million has been used in connection with short selling transactions as at March 31, 2023 (March 31, 2022 – $99 million) and $59 million has been used in connection with securities sold under repurchase agreements (March 31, 2022 – $15 million).

[D] As part of collateral held, cash amounted to $22 million as at March 31, 2023 (March 31, 2022 – $28 million) and securities amounted to $337 million as at March 31, 2023 (March 31, 2022 – $253 million). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

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

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

(i) Control and significant influence

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

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

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

(ii) Joint control

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

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

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2023, 128 investment entity subsidiaries were incorporated in North America, 28 in Europe, 19 in Oceania, 8 in Central and South America, 2 in Asia and 1 in Africa (March 31, 2022 – 126 in North America, 26 in Europe, 18 in Oceania, 9 in Central and South America, 1 in Asia and 1 in Africa).

In addition, PSP Investments controlled 84 investees directly or through its investment entity subsidiaries as at March 31, 2023 (March 31, 2022 – 85 investees).

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

	March 31, 2023		
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments (%)**	**Relationship to PSP Investments**
AviAlliance GmbH	**Europe**	**100**	**Controlled investee**
American Wholesale Insurance Holding Company, LLC	**North America**	**22**	**Associate**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50**	**Jointly controlled investee**
Kaingaroa Timberlands Limited	**Oceania**	**56**	**Jointly controlled investee**
Roadis Transportation Holding, S.L.U.	**Global**	**100**	**Controlled investee**
Willow Topco Limited	**Europe**	**74**	**Jointly controlled investee**
TDF S.A.S.	**Europe**	**22**	**Associate**
Revera Inc.	**North America**	**100**	**Controlled investee**
Forth Ports Limited	**Europe**	**51**	**Jointly controlled investee**
Alliant	**North America**	**12**	**Associate**

	March 31, 2022		
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
AviAlliance GmbH	Europe	100	Controlled investee
Kaingaroa Timberlands Limited	Oceania	56	Jointly controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Revera Inc.	North America	100	Controlled investee
Willow Topco Limited	Europe	74	Jointly controlled investee
American Wholesale Insurance Holding Company, LLC	North America	22	Associate
Roadis Transportation Holding, S.L.U.	Global	100	Controlled investee
Forth Ports Limited	Europe	51	Jointly controlled investee
Seaport Square Associates LP / Seaport Square Parallel LP	North America	50	Jointly controlled investee
TDF S.A.S.	Europe	22	Associate

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

6.2. Structured Entities

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

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

7 — Investment Risk Management

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

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

7.1. Market Risk

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

7.1.1. Measurement of Market Risk

The absolute annualized Value at Risk (VaR) is used as a key measure of total portfolio market risk. The VaR quantifies the loss in value of an investment or an investment portfolio that one can expect, with a given confidence level, not to be exceeded over a given period, due to fluctuations in market prices.

PSP Investments uses a historical VaR incorporating ten years' worth of market returns scaled to a twelve-month holding period at a 95% confidence level. That is, statistically PSP Investments would expect to see losses exceed the VaR only 5% of the time over a one-year period. For investments that are not actively traded, the calculation of the VaR uses securities with similar risk attributes as a proxy.

The VaR is statistically valid under normal market conditions. Although it includes potential losses derived from observed historical returns, it also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

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

	March 31, 2023 (%)	March 31, 2022 (%)
VaR	**19.6**	17.4

Stress Testing

Although the 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. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

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

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

	March 31, 2023					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	—	—	—	—	2,950[A]	2,950
Government and corporate bonds	131	1,962	1,280	1,029	64[B]	4,466
Inflation-linked bonds	—	937	763	500	—	2,200
Private debt securities	200	1,288	2,190	798	1,364[C]	5,840
Total fixed income	331	4,187	4,233	2,327	4,378	15,456

	March 31, 2022					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	—	—	—	—	2,595[A]	2,595
Government and corporate bonds	70	1,394	1,126	953	225[B]	3,768
Inflation-linked bonds	106	909	881	633	—	2,529
Private debt securities	39	1,002	2,012	670	1,250[C]	4,973
Total fixed income	215	3,305	4,019	2,256	4,070	13,865

[A] Due to their short-term maturity, these investments are not significantly exposed to interest rate risk.
[B] Certain fixed income securities are not significantly exposed to interest rate risk as their prescribed rates are variable.
[C] Information in connection with the terms to maturity of fund and certain directly held investments included as part of private debt securities is not available.

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounting to $32,975 million as at March 31, 2023 ($32,017 million as at March 31, 2022) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in Note 4.1.4, which amounted to $4,789 million as at March 31, 2023 ($4,194 million as at March 31, 2022), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 7.1.1.

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

Interest Rate Benchmark Reform

PSP Investments holds a number of financial instruments that will mature after the date the Interbank Offered Rate ("IBOR") to which they refer is anticipated to be discontinued as a result of the reform. A steering committee oversees the transition from IBORs to alternative reference rates ("ARRs") to mitigate the risks related to the discontinuation or unavailability of such rates, which are primarily operational. With respect to non-derivative financial instruments, PSP Investments has been identifying agreements referring to IBORs and engaging in a timely contract remediation process with the related counterparties. For derivative contracts, PSP Investments has adhered to the International Swaps and Derivatives Association ("ISDA") Fallbacks Protocol that took effect on January 25, 2021, which provides an efficient mechanism to switch to ARRs as IBORs become unavailable.

The following table shows the fair value of non-derivative financial instruments and the notional value of derivative financial instruments that have yet to transition to ARRs. As at March 31, 2023, only instruments referencing US dollar London Interbank Offered Rate ("USD LIBOR") and expected to mature after June 30, 2023, or Canadian Dollar Offered Rate ("CDOR") and expected to mature after June 28, 2024, remain.

(Canadian $ millions)	USD LIBOR	CDOR
Non-derivative financial assets fair value	1,459	84
Derivatives notional	1,454	1,745

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

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

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

	March 31, 2023	
Currency	**Fair Value (Canadian $ millions)**	**% of Total**
US Dollar	**29,690**	**66.0**
Euro	**5,428**	**12.1**
Hong Kong Dollar	**2,029**	**4.5**
British Pound	**1,660**	**3.7**
Japanese Yen	**1,091**	**2.4**
Indian Rupee	**725**	**1.6**
Mexican Peso	**708**	**1.6**
New Taiwan Dollar	**402**	**0.9**
Singapore Dollar	**390**	**0.9**
Swiss Franc	**361**	**0.8**
South African Rand	**326**	**0.7**
Others	**2,154**	**4.8**
Total	**44,964**	**100.0**

As at March 31, 2023, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $6,283 million for the Plan Account (US $3,950 million, €490 million, £80 million, 4 million South African rands, 348 million Mexican pesos, 45 million Australian dollars, 424 million Indian rupees and 818 million Japanese yen) which were not included in the foreign currency exposure table above.

	March 31, 2022	
Currency	**Fair Value (Canadian $ millions)**	**% of Total**
US Dollar	25,074	64.0
Euro	4,099	10.5
Japanese Yen	1,822	4.7
British Pound	1,745	4.5
Hong Kong Dollar	1,121	2.9
Australian Dollar	940	2.4
Indian Rupee	725	1.9
Mexican Peso	600	1.5
Swiss Franc	399	1.0
New Taiwan Dollar	300	0.8
Chinese Yuan	294	0.8
South Korean Won	225	0.6
Others	1,819	4.4
Total	39,163	100.0

As at March 31, 2022, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $5,469 million for the Plan Account (US $3,633 million, €457 million, £125 million, 4 million South African rands, 375 million Mexican pesos, 48 million Australian dollars, 515 million Indian rupees, 829 million Japanese yen and 6 million New Zealand dollars) which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

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

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

As at March 31, 2023, the Plan Account's maximum exposure to credit risk amounted to $16 billion (March 31, 2022 – $15 billion). This amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

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

	March 31, 2023						
(Canadian $ millions)	Government and corporate bonds[A]	Inflation-linked bonds[A]	Money market securities[A]	Reverse repurchase agreements	OTC derivatives[B]	Private debt securities[A]	Total[A]
AAA–AA	**2,912**	**2,205**	**2,471**	**31**	**14**	**—**	**7,633**
A	**1,296**	**—**	**273**	**204**	**402**	**—**	**2,175**
BBB	**128**	**—**	**—**	**11**	**—**	**67**	**206**
BB or below	**145**	**—**	**—**	**—**	**—**	**5,774**	**5,919**
No rating[C]	**20**	**—**	**—**	**—**	**—**	**53**	**73**
Total	**4,501**	**2,205**	**2,744**	**246**	**416**	**5,894**	**16,006**

	March 31, 2022						
(Canadian $ millions)	Government and corporate bonds[A]	Inflation-linked bonds[A]	Money market securities[A]	Reverse repurchase agreements	OTC derivatives[B]	Private debt securities[A]	Total[A]
AAA–AA	2,428	2,533	1,948	86	15	—	7,010
A	1,153	—	489	338	373	—	2,353
BBB	77	—	—	133	—	79	289
BB or below	106	—	—	—	—	4,889	4,995
No rating[C]	27	—	—	—	—	40	67
Total	3,791	2,533	2,437	557	388	5,008	14,714

[A] Includes interest receivable.

[B] As disclosed in Note 4.1.12.

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

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

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

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

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

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

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

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

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

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

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

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

Financial Assets

				Less: Related Amounts Not Set Off in the Statements of Financial Position		
(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Recognized Financial Liabilities	Collateral Held and Not Recognized	Net
March 31, 2023						
Reverse repurchase agreements	**246**	**—**	**246**[A]	**235**	**11**	**—**
OTC-derivatives	**416**	**—**	**416**[B]	**296**	**89**	**31**
Total	**662**	**—**	**662**	**531**	**100**	**31**
March 31, 2022						
Reverse repurchase agreements	557	—	557[A]	269	287	1
OTC-derivatives	426	38	388[B]	326	58	4
Total	983	38	945	595	345	5

Financial Liabilities

				Less: Related Amounts Not Set Off in the Statements of Financial Position		
(Canadian $ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Recognized Financial Assets	Collateral Pledged and Not Derecognized	Net
March 31, 2023						
Repurchase agreements	**1,814**	**—**	**1,814**[A]	**235**	**1,579**	**—**
OTC-derivatives	**310**	**—**	**310**[B]	**276**	**33**	**1**
Collateral payable	**22**	**—**	**22**[C]	**20**	**—**	**2**
Total	**2,146**	**—**	**2,146**	**531**	**1,612**	**3**
March 31, 2022						
Repurchase agreements	763	—	763[A]	269	492	2
OTC-derivatives	523	38	485[B]	298	177	10
Collateral payable	28	—	28[C]	28	—	—
Total	1,314	38	1,276	595	669	12

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

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

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

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

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2023 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	**(209)**	**—**	**—**	**(209)**
Interest payable	**(20)**	**(2)**	**—**	**(22)**
Securities sold short	**(480)**	**—**	**—**	**(480)**
Collateral payable	**(184)**	**—**	**—**	**(184)**
Securities sold under repurchase agreements	**(1,687)**	**(127)**	**—**	**(1,814)**
Capital market debt financing	**(719)**	**(933)**	**(2,972)**	**(4,624)**
Trade payable and other liabilities	**(72)**	**(1)**	**(28)**	**(101)**
Total	**(3,371)**	**(1,063)**	**(3,000)**	**(7,434)**

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	**232**	**120**	**71**	**423**
Derivative-related liabilities[A]	**(177)**	**(98)**	**(39)**	**(314)**
Total	**55**	**22**	**32**	**109**

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2022 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(207)	–	–	(207)
Interest payable	(14)	(2)	–	(16)
Securities sold short	(456)	–	–	(456)
Collateral payable	(28)	–	(102)	(130)
Securities sold under repurchase agreements	(427)	(336)	–	(763)
Capital market debt financing	(1,531)	(378)	(2,500)	(4,409)
Trade payable and other liabilities	(50)	(1)	(31)	(82)
Total	(2,713)	(717)	(2,633)	(6,063)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	164	141	94	399
Derivative-related liabilities[A]	(260)	(170)	(63)	(493)
Total	(96)	(29)	31	(94)

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

8 — Borrowings

8.1. Credit Facilities

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

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

These Credit Facilities were not drawn upon as at March 31, 2023 and 2022.

8.2. Capital Market Debt Financing

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

The maximum amount authorized by the Board of Directors for the capital market debt program is limited to $12 billion for short-term promissory notes for issuances in Canada and the United States combined, and $20 billion for medium-term notes issued globally.

PSP Investments’ capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2023 and 2022.

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

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

	March 31, 2023		March 31, 2022	
(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 4.41% and 4.44% and maturing within 120 and 180 days of issuance (March 31, 2022 – between 0.25% and 1.00%, maturing within 30 and 360 days)	**8**	**8**	46	46
Short-term US Dollar promissory notes, bearing interest between 2.40% and 5.56% and maturing within 32 and 365 days of issuance (March 31, 2022 – between 0.15% and 1.15%, maturing within 25 and 365 days)	**1,395**	**1,376**	1,532	1,528
Medium-term Canadian Dollar notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**253**	**250**	255	259
Medium-term Canadian Dollar notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**272**	**268**	275	274
Medium-term Canadian Dollar notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**—**	**—**	334	335
Medium-term Canadian Dollar notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**240**	**236**	243	245
Medium-term Canadian Dollar notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**238**	**217**	224	210
Medium-term Canadian Dollar notes Series 13, bearing interest of 0.90% per annum and maturing on June 15, 2026	**278**	**255**	291	270
Medium-term Canadian Dollar notes Series 14, bearing interest of 1.50% per annum and maturing on March 15, 2028	**192**	**175**	182	169
Medium-term US Dollar notes Series G1, bearing interest of 1.00% per annum and maturing on June 29, 2026	**260**	**236**	242	225
Medium-term US Dollar notes Series G2, bearing interest of 0.50% per annum and maturing on September 15, 2024	**325**	**309**	303	288
Medium-term US Dollar notes Series G3, bearing interest of 1.63% per annum and maturing on October 26, 2028	**260**	**229**	242	228
Medium-term Canadian Dollar notes Series G4 (Green bonds), bearing interest of 2.60% per annum and maturing on March 1, 2032	**192**	**177**	194	187
Medium-term US Dollar notes Series G5, bearing interest at a rate per annum equal to compounded SOFR plus 24 basis points and maturing on March 3, 2025	**260**	**259**	145	145
Medium-term US Dollar notes Series G6, bearing interest of 3.50% per annum and maturing on June 29, 2027	**260**	**254**	—	—
Medium-term Australian Dollar notes Series G7, bearing interest of 4.57% per annum and maturing on August 5, 2032	**40**	**40**	—	—
Medium-term Canadian Dollar notes Series G8, bearing interest of 3.75% per annum and maturing on June 15, 2029	**267**	**271**	—	—
Medium-term Australian Dollar notes Series G9, bearing interest of 4.82% per annum and maturing on January 31, 2033	**35**	**35**	—	—
Medium-term Euro notes Series G10, bearing interest of 3.68% per annum and maturing on March 1, 2038	**28**	**29**	—	—
Total	**4,803**	**4,624**	4,508	4,409

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

Unrealized losses in connection with borrowings amounted to $50 million for the year ended March 31, 2023 (unrealized gains of $134 million for the year ended March 31, 2022).

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

(Canadian $ millions)	**2023**	2022
Short-term promissory notes	**43**	3
Medium-term notes	**64**	44
Total	**107**	47

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2023.

				Non-cash changes		
(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Foreign exchange losses	Fair value[A] gains	Closing balance
Capital market debt financing	**4,409**	**5,444**	**(5,294)**	**115**	**(50)**	**4,624**
Borrowings	**4,409**	**5,444**	**(5,294)**	**115**	**(50)**	**4,624**

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

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2022.

				Non-cash changes		
(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Foreign exchange losses	Fair value[A] gains	Closing balance
Capital market debt financing	3,263	6,342	(5,062)	10	(144)	4,409
Borrowings	3,263	6,342	(5,062)	10	(144)	4,409

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

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

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

9.2. Fund Transfers

PSP Investments received fund transfers from the Government of Canada of $135 million for the year ended March 31, 2023 ($485 million for the year ended March 31, 2022) for the Fund, recorded in the Plan Account.

10 — Segment Information

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

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

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

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

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Public Equity	**10,279**	11,483
Private Equity	**7,163**	6,868
Fixed Income	**8,663**	7,905
Credit Investments	**5,023**	4,250
Real Estate	**6,162**	6,036
Infrastructure	**5,648**	4,563
Natural Resources	**2,361**	2,255
Complementary Portfolio	**418**	277
Other[A]	**1,150**	1,112
Total	**46,867**	44,749

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

10 — Segment Information (continued)

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

	2023			2022		
(Canadian $ millions)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)
Public Equity	**(79)**	**(83)**	**(162)**	741	(55)	686
Private Equity	**232**	**(27)**	**205**	1,678	(24)	1,654
Fixed Income	**123**	**(31)**	**92**	(160)	(15)	(175)
Credit Investments	**591**	**(22)**	**569**	241	(17)	224
Real Estate	**104**	**(68)**	**36**	1,289	(43)	1,246
Infrastructure	**965**	**(67)**	**898**	547	(36)	511
Natural Resources	**307**	**(36)**	**271**	322	(22)	300
Complementary Portfolio	**(15)**	**(1)**	**(16)**	7	—	7
Other[C]	**100**	**(33)**	**67**	(69)	—	(69)
Total	**2,328**	**(368)**	**1,960**	4,596	(212)	4,384

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

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

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

11 — Investment-Related Expenses

Investment-related expenses allocated to the Plan Account are comprised of the following for the years ended March 31:

(Canadian $ millions)	2023	2022
Interest expense	**155**	49
Transaction costs	**27**	30
External investment management fees[A]	**13**	8
Other (net)	**29**	11
Total	**224**	98

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to $37 million for the year ended March 31, 2023 ($77 million for the year ended March 31, 2022). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.5% of the total invested and/or committed amount, totaled $113 million for the year ended March 31, 2023 ($95 million for the year ended March 31, 2022). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

Operating expenses allocated to the Plan Account consisted of the following for the years ended March 31:

(Canadian $ millions)	2023	2022
Salaries and employee benefits	**88**	72
Professional and consulting fees	**27**	19
Premises and equipment	**4**	3
Market data and business applications	**12**	10
Depreciation of property and equipment	**5**	6
Custodial fees	**1**	1
Other operating expenses	**7**	3
Total	**144**	114

13 — Allocation of Net Income

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

13.1. Investment Income

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

13.2. Expenses

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

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

(%)	**2023**	2022
Public Service Pension Plan Account	**73.0**	72.9
Canadian Forces Pension Plan Account	**19.4**	19.5
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.2
Reserve Force Pension Plan Account	**0.4**	0.4
Total	**100.0**	100.0

14 — Related Party Transactions

14.1. Certain Investees

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

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

14.2. The Government of Canada and Government-Related Entities

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

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the fund 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 net income as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

14.3. Compensation of Key Management Personnel

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

(Canadian $ thousands)	**2023**	2022
Short-term compensation and other benefits	**3,168**	2,394
Long-term compensation and other benefits	**1,816**	1,943
Total	**4,984**	4,337

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

15 — Capital Management

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

- To invest fund transfers, outlined in Note 9.2, in the best interests of the beneficiaries and contributors under the Superannuation Acts. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under the *Superannuation Acts* and the ability of the Plans to meet their financial obligations. The funds are also invested in accordance with the Investment Risk Management policies which are outlined in Note 7.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSP Investments has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 8.2 provides information on the capital market debt financing and Note 7.3 provides information on PSP Investments' liquidity.

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

16 — Guarantees and Indemnities

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

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

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

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

- As at March 31, 2023 and 2022, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to $2,643 million as at March 31, 2023 (March 31, 2022 – $2,051 million), of which $508 million has been allocated to the Plan Account (March 31, 2022 – $398 million) plus applicable interest and other related costs. The arrangements mature between June 2023 and June 2042 as of March 31, 2023 (March 31, 2022 – between May 2022 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $1 million as at March 31, 2023 (March 31, 2022 – $1 million), of which nil has been allocated to the Plan Account (March 31, 2022 – nil) in relation to investment transactions.

17 — Commitments

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at:

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Foreign equity	**1**	1
Real estate	**882**	840
Private equity	**2,529**	2,477
Infrastructure	**1,136**	722
Natural resources	**129**	100
Private debt securities	**1,339**	1,077
Alternative investments	**394**	381
Total	**6,410**	5,598

Funding in connection with the above commitments can be called upon at various dates extending until 2041 as at March 31, 2023 (March 31, 2022 – 2040).

— Royal Canadian Mounted Police Pension Plan Account

Financial Statements

Independent Auditors' Report

To the Minister of Public Safety

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Sector Pension Investment Board – Royal Canadian Mounted Police Pension Plan Account (the Royal Canadian Mounted Police Pension Plan Account), which comprise the statements of financial position as at March 31, 2023 and 2022, and the statements of net income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Royal Canadian Mounted Police Pension Plan Account as at March 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

Those charged with governance are responsible for overseeing the Royal Canadian Mounted Police Pension Plan Account's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Royal Canadian Mounted Police Pension Plan Account's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Royal Canadian Mounted Police Pension Plan Account's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Royal Canadian Mounted Police Pension Plan Account to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Montréal, Canada
May 15, 2023

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

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

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

Deloitte LLP[1]

Montréal, Canada
May 15, 2023

[1] CPA auditor, public accountancy permit No. A125494

Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Assets		
Investments (Note 4.1)	**20,438**	18,921
Other assets	**13**	14
Total assets	**20,451**	18,935
Liabilities		
Trade payable and other liabilities	**38**	30
Investment-related liabilities (Note 4.1)	**1,133**	763
Borrowings (Notes 4.1, 8.2)	**1,734**	1,629
Total liabilities	**2,905**	2,422
Net assets	**17,546**	16,513
Equity (Note 9)	**17,546**	16,513
Total liabilities and equity	**20,451**	18,935

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

On behalf of the Board of Directors:

Martin Glynn
Chair of the Board

Katherine Lee
Chair of the Audit Committee

Statements of Net Income

For the years ended March 31

(Canadian $ millions)	**2023**	2022
Investment income	**873**	1,687
Investment-related expenses (Note 11)	**(84)**	(36)
Net investment income	**789**	1,651
Operating expenses (Note 12)	**(53)**	(42)
Net income	**736**	1,609

Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	**2023**	2022
Fund transfers		
Balance at beginning of year	**6,209**	5,983
Fund transfers received during the year (Note 9.2)	**297**	226
Balance at end of year	**6,506**	6,209
Retained earnings		
Balance at beginning of year	**10,304**	8,695
Net income	**736**	1,609
Balance at end of year	**11,040**	10,304
Total equity	**17,546**	16,513

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	**2023**	2022
Cash flows from operating activities		
Net income	**736**	1,609
Adjustments for non-cash items:		
Depreciation of property and equipment (Note 12)	**2**	2
Effect of exchange rate changes on cash and cash equivalents	**(10)**	4
Unrealized losses (gains) on borrowings	**18**	(49)
	746	1,566
Net changes in operating assets and liabilities		
Increase in investments	**(1,607)**	(1,924)
Decrease in other assets	**—**	2
Increase (decrease) in trade payables and other liabilities	**8**	(2)
Increase (decrease) in investment-related liabilities	**375**	(50)
Net cash flows used in operating activities	**(478)**	(408)
Cash flows from financing activities		
Proceeds from borrowings	**2,032**	2,312
Repayment of borrowings	**(1,951)**	(1,836)
Fund transfers received (Note 9.2)	**297**	226
Net cash flows provided by financing activities	**378**	702
Cash flows from investing activities		
Acquisitions of equipment	**—**	(1)
Net cash flows used in investing activities	**—**	(1)
Net change in cash and cash equivalents	**(100)**	293
Effect of exchange rate changes on cash and cash equivalents	**10**	(4)
Cash and cash equivalents at the beginning of the year	**597**	308
Cash and cash equivalents at the end of the year[A]	**507**	597
Supplementary disclosure of cash flow information		
Interest paid	**(50)**	(17)

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

[A] As at March 31, 2023, cash and cash equivalents were comprised of $505 million (March 31, 2022 – $595 million) held for investment purposes and included in Note 4.1, as well as $2 million (March 31, 2022 – $2 million) held for administrative purposes and included in Other assets.

Notes to the Financial Statements

For the years ended March 31, 2023 and 2022

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. In certain foreign jurisdictions, income and capital gains remain taxable.

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

2 — Significant Accounting Policies

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

2.1. Basis of Presentation

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

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

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

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 15, 2023.

2 — Significant Accounting Policies
(continued)

2.2. Investment Entity Status

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

(i) Mandate and business purpose

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

(ii) Performance evaluation

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

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

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

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

2.3. Summary of Significant Accounting Policies

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

2.3.1. Financial Instruments

(i) Classification

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

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

(ii) Recognition

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

(iii) Initial and subsequent measurement

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

(iv) Derecognition

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

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

and

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

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

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

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

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

2.3.3. Functional and Presentation Currency

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

2.3.4. Foreign Currency Translation

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

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

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

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

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

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

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

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

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.7. Offsetting of Financial Instruments

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

2.3.8. Equity

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

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

2.3.9. Investment Income

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

2.3.10. Investment-Related Expenses

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

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

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

2.3.11. Fund Transfers

Amounts are recorded for the Fund when received from the Government of Canada.

2.4. Significant Accounting Judgments, Estimates and Assumptions

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

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

Sources of estimate uncertainty related to macroeconomic unpredictability and volatility include the current geopolitical context, supply chain disruptions and rising inflation and interest rates. This could continue to impact financial results, due to uncertainties including their extent and duration. These Financial Statements reflect the impacts resulting from the aforementioned macroeconomic factors to the extent known at the reporting date.

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

3 — Current and Future Changes in Accounting Standards

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

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Public markets		
Canadian equity	**323**	353
Foreign equity	**2,545**	3,013
Private markets		
Real estate	**2,967**	2,828
Private equity	**2,589**	2,391
Infrastructure	**2,593**	2,114
Natural resources	**1,346**	1,126
Fixed income		
Cash and money market securities	**1,106**	959
Government and corporate bonds	**1,674**	1,392
Inflation-linked bonds	**825**	934
Private debt securities	**2,190**	1,837
Alternative investments	**1,795**	1,549
	19,953	18,496
Investment-related assets		
Amounts receivable from pending trades	**183**	36
Interest receivable	**36**	23
Dividends receivable	**15**	13
Securities purchased under reverse repurchase agreements	**92**	206
Derivative-related assets	**159**	147
	485	425
Investments representing financial assets at FVTPL	**20,438**	18,921
Investment-related liabilities		
Amounts payable from pending trades	**(78)**	(77)
Interest payable	**(8)**	(6)
Securities sold short	**(180)**	(168)
Collateral payable	**(69)**	(48)
Securities sold under repurchase agreements	**(680)**	(282)
Derivative-related liabilities	**(118)**	(182)
Investment-related liabilities representing financial liabilities at FVTPL	**(1,133)**	(763)
Borrowings		
Capital market debt financing	**(1,734)**	(1,629)
Borrowings representing financial liabilities designated at FVTPL	**(1,734)**	(1,629)
Net investments	**17,571**	16,529

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.1. Public Markets

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

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

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

4.1.2. Private Markets

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

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

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

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

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

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

4.1.3. Fixed Income

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

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Statements of Cash Flows and amounted to $505 million as at March 31, 2023 (March 31, 2022 – $595 million). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

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

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

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

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

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

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.4. Alternative Investments

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

4.1.5. Amounts Receivable and Payable from Pending Trades

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

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

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

4.1.6. Interest and Dividends Receivable

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

4.1.7. Interest Payable

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

4.1.8. Securities Sold Short

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

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

4.1.9. Collateral Payable

As part of securities lending and certain OTC derivative transactions, when cash is received, it is recognized as collateral payable. The payable balance reflects the obligation of the transferee to return the amount to the transferor at the end of the transaction in the absence of an event of default by the transferor.

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

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

4.1.11. Borrowings under the Capital Market Debt Program

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

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.12. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

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

Warrants and Rights

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

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

Determination of Fair Value of Derivative Financial Instruments

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2023			March 31, 2022		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**266**	**—**	**—**	377	—	—
Warrants and rights	**—**	**—**	**—**	1	1	—
Options: Purchased	**66**	**2**	**—**	29	1	—
Written	**86**	**—**	**(1)**	47	—	—
OTC						
Swaps	**1,492**	**47**	**(16)**	1,507	35	(17)
Options: Purchased	**6**	**—**	**—**	4	—	—
Currency derivatives						
Listed						
Futures	**17**	**—**	**—**	23	—	—
OTC						
Forwards	**7,748**	**52**	**(61)**	4,464	28	(92)
Swaps	**257**	**6**	**(2)**	53	—	(3)
Options: Purchased	**149**	**1**	**—**	109	1	—
Written	**192**	**—**	**(1)**	126	—	(1)
Interest rate derivatives						
Listed						
Futures	**159**	**—**	**—**	560	—	—
Options: Purchased	**3,498**	**1**	**—**	3,509	2	—
Written	**3,205**	**—**	**—**	3,027	—	(3)
OTC						
Forwards	**102**	**1**	**—**	—	—	—
Swaps	**251**	**2**	**(1)**	154	9	(1)
Options: Purchased	**4,733**	**46**	**—**	3,972	70	—
Written	**5,524**	**—**	**(35)**	4,252	—	(65)
OTC-cleared						
Swaps	**5,833**	**—**	**—**	4,346	—	—
Credit derivatives						
OTC						
Credit default swaps: Purchased	**41**	**—**	**(1)**	19	—	—
Written[A]	**87**	**1**	**—**	4	—	—
OTC-cleared						
Credit default swaps: Purchased	**146**	**—**	**—**	132	—	—
Written[A]	**—**	**—**	**—**	13	—	—
Total		**159**	**(118)**		147	(182)

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

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2023			March 31, 2022		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**7,297**	**3**	**(1)**	7,573	4	(3)
OTC derivatives	**20,582**	**156**	**(117)**	14,664	143	(179)
OTC-cleared derivatives	**5,979**	**—**	**—**	4,491	—	—
Total		**159**	**(118)**		147	(182)

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Less than 3 months	**16,563**	10,553
3 to 12 months	**10,743**	9,231
Over 1 year	**6,552**	6,944

4.2. Fair Value Hierarchy

4.2.1. Classification

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2023, classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	198	125	—	323
Foreign equity	2,401	74	70	2,545
Private markets				
Real estate	—	—	2,967	2,967
Private equity	—	—	2,589	2,589
Infrastructure	—	—	2,593	2,593
Natural resources	—	—	1,346	1,346
Fixed income				
Cash and money market securities	785	321	—	1,106
Government and corporate bonds	586	1,088	—	1,674
Inflation-linked bonds	825	—	—	825
Private debt securities	—	—	2,190	2,190
Alternative investments	—	1,110	685	1,795
	4,795	2,718	12,440	19,953
Investment-related assets				
Amounts receivable from pending trades	—	183	—	183
Interest receivable	—	36	—	36
Dividends receivable	—	15	—	15
Securities purchased under reverse repurchase agreements	—	92	—	92
Derivative-related assets	3	156	—	159
	3	482	—	485
Investments representing financial assets at FVTPL	4,798	3,200	12,440	20,438
Investment-related liabilities				
Amounts payable from pending trades	—	(78)	—	(78)
Interest payable	—	(8)	—	(8)
Securities sold short	(168)	(12)	—	(180)
Collateral payable	—	(69)	—	(69)
Securities sold under repurchase agreements	—	(680)	—	(680)
Derivative-related liabilities	(1)	(117)	—	(118)
Investment-related liabilities representing financial liabilities at FVTPL	(169)	(964)	—	(1,133)
Borrowings				
Capital market debt financing	—	(1,734)	—	(1,734)
Borrowings representing financial liabilities designated at FVTPL	—	(1,734)	—	(1,734)
Net investments	4,629	502	12,440	17,571

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, 2022, classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	225	128	—	353
Foreign equity	2,853	63	97	3,013
Private markets				
Real estate	—	—	2,828	2,828
Private equity	—	—	2,391	2,391
Infrastructure	—	—	2,114	2,114
Natural resources	—	—	1,126	1,126
Fixed income				
Cash and money market securities	237	722	—	959
Government and corporate bonds	333	1,059	—	1,392
Inflation-linked bonds	934	—	—	934
Private debt securities	—	—	1,837	1,837
Alternative investments	—	943	606	1,549
	4,582	2,915	10,999	18,496
Investment-related assets				
Amounts receivable from pending trades	—	36	—	36
Interest receivable	—	23	—	23
Dividends receivable	—	13	—	13
Securities purchased under reverse repurchase agreements	—	206	—	206
Derivative-related assets	4	143	—	147
	4	421	—	425
Investments representing financial assets at FVTPL	4,586	3,336	10,999	18,921
Investment-related liabilities				
Amounts payable from pending trades	—	(77)	—	(77)
Interest payable	—	(6)	—	(6)
Securities sold short	(168)	—	—	(168)
Collateral payable	—	(48)	—	(48)
Securities sold under repurchase agreements	—	(282)	—	(282)
Derivative-related liabilities	(3)	(179)	—	(182)
Investment-related liabilities representing financial liabilities at FVTPL	(171)	(592)	—	(763)
Borrowings				
Capital market debt financing	—	(1,629)	—	(1,629)
Borrowings representing financial liabilities designated at FVTPL	—	(1,629)	—	(1,629)
Net investments	4,415	1,115	10,999	16,529

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2023.

As at March 31, 2021, listed foreign equity securities with a fair value of $11 million were indirectly held and classified as Level 2. During the year ended March 31, 2022, these securities were transferred to Level 1 as they became directly held by PSP Investments.

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 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 in Private Markets, is determined at least semi-annually. For other interim reporting periods, 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 most recent audited financial statements received from the fund's general partner. In certain cases, fair value is obtained from information provided by the fund's administrators and is reviewed by Management to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

To reflect the impact, where applicable, of significant market movements or other events occurring up to the end of the reporting period, adjustments to Private Markets and fund investments are made as appropriate. Such adjustments are based on a number of factors including public market trading comparables, investment specific characteristics as well as market conditions and uncertainties at that time.

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 categorized within Level 3 as at March 31, 2023:

Financial Assets	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Foreign equity	Direct investments	**70**	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	**2,717**	Discounted cash flow (DCF)	Discount rate[B, C]	3.30% – 19.00% (7.40%)
				Terminal capitalization rate[B, C]	3.56% – 12.00% (5.60%)
			Direct capitalization	Capitalization rate[B, D]	2.35% – 10.00% (4.62%)
				Stabilized occupancy rate[D, E]	98.00% – 100.00% (99.55%)
			Sales comparison approach	Price per square foot[D, E]	$3.42 – $1,750.44 ($256.48)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**250**	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	**4,697**	DCF	Discount rate[B]	5.50% – 20.00% (9.68%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**1,831**	NAV[A]	N/A	N/A
Fixed income					
Private debt securities	Direct and co-investments	**1,656**	DCF	Discount rate[B]	4.25% – 23.48% (12.56%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**534**	NAV[A]	N/A	N/A
Alternative investments	Fund investments	**685**	NAV[A]	N/A	N/A
Total		**12,440**			

[A] In certain cases, when investments are held through funds, partnerships or similar structures, fair value is determined by third parties where valuation information is not available to PSP Investments.

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets categorized within Level 3 as at March 31, 2022:

Financial Assets	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Foreign equity	Direct investments	97	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	2,611	Discounted cash flow (DCF)	Discount rate[B, C]	4.50% – 19.00% (7.03%)
				Terminal capitalization rate[B, C]	2.90% – 13.33% (5.38%)
			Direct capitalization	Capitalization rate[B, D]	2.50% – 9.60% (4.36%)
				Stabilized occupancy rate[D, E]	94.00% – 100.00% (97.87%)
			Sales comparison approach	Price per square foot[D, E]	$4.30 – $2,077.86 ($325.66)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	217	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	3,946	DCF	Discount rate[B]	5.64% – 17.30% (8.96%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	1,685	NAV[A]	N/A	N/A
Fixed income					
Private debt securities	Direct and co-investments	1,399	DCF	Discount rate[B]	4.25% – 23.53% (10.33%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	438	NAV[A]	N/A	N/A
Alternative investments	Fund investments	606	NAV[A]	N/A	N/A
Total		10,999			

[A] In certain cases, when investments are held through funds, partnerships or similar structures, fair value is determined by third parties where valuation information is not available to PSP Investments.

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets categorized within Level 3 for the year ended March 31, 2023:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer Out of Level 3	Closing Balance
Public markets	**97**	**3**	**(11)**	**—**	**2**	**(18)**	**(3)**	**70**
Private markets	**8,459**	**1,315**	**(730)**	**—**	**249**	**217**	**(15)**	**9,495**
Fixed income	**1,837**	**572**	**(313)**	**—**	**26**	**68**	**—**	**2,190**
Alternative investments	**606**	**50**	**(42)**	**—**	**8**	**63**	**—**	**685**
Total	**10,999**	**1,940**	**(1,096)**	**—**	**285**	**330**	**(18)**	**12,440**

[A] Includes Plan Account allocation adjustments.

As at March 31, 2022, a public market investment of $3 million in a non-listed fund that held listed securities was classified under Level 3 due to the nature of the contractual restrictions on the redemption of fund units. During the year ended March 31, 2023, the listed securities held by the fund were transferred to PSP Investments and were classified as Level 1. Additionally, as at March 31, 2022, a private market investment of $15 million was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2023, this investment was transferred to Level 2 as the related securities became publicly traded. These securities held by PSP Investments are unregistered and can only be sold upon their registration.

The following table shows a reconciliation of all movements related to financial assets categorized within Level 3 for the year ended March 31, 2022:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer in (out) of Level 3	Closing Balance
Public markets	90	30	(19)	—	3	(33)	26	97
Private markets	7,032	1,437	(1,095)	—	368	839	(122)	8,459
Fixed income	1,302	937	(413)	(1)	7	5	—	1,837
Alternative investments	625	102	(155)	—	65	(31)	—	606
Total	9,049	2,506	(1,682)	(1)	443	780	(96)	10,999

[A] Includes Plan Account allocation adjustments.

As at March 31, 2021, private market investments totalling $122 million that were classified under Level 3, as their fair values were determined based on significant unobservable inputs, were transferred during the year ended March 31, 2022. One investment of $13 million was transferred to Level 1 as it became publicly traded, while the other investments of $109 million were transferred to Level 2 as the underlying instruments are indirectly held by PSP Investments and valued using publicly available quoted prices. In addition, public market investments of $26 million were transferred from Level 1 to Level 3 as their fair values were no longer based on observable inputs due to sanctions placed on international investing with respect to Russian securities.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, with all other variables held constant, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 4% increase and 4% decrease as at March 31, 2023 (March 31, 2022 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Securities lending and borrowing		
Securities lent	**316**	266
Collateral held[A]	**331**	290
Securities borrowed	**139**	132
Collateral pledged[B]	**148**	139
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**688**	278
Collateral pledged	**684**	280
Securities purchased under reverse repurchase agreements	**93**	205
Collateral held[C]	**93**	205
Derivative contracts		
Collateral pledged	**156**	176
Collateral held[D]	**134**	104

[A] The minimum fair value of securities collateral denominated in the same currency required is equal to 102%, and in the case of securities denominated in different currencies 105%. In exchange for securities lent, cash and securities received as at March 31, 2023, were $61 million and $270 million, respectively (March 31, 2022 – nil and $290 million, respectively). All cash amounts are 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 $41 million has been used in connection with short selling transactions as at March 31, 2023 (March 31, 2022 – $37 million) and $22 million has been used in connection with securities sold under repurchase agreements (March 31, 2022 – $5 million).

[D] As part of collateral held, cash amounted to $8 million as at March 31, 2023 (March 31, 2022 – $10 million) and securities amounted to $126 million as at March 31, 2023 (March 31, 2022 – $94 million). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

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

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

(i) Control and significant influence

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

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

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

(ii) Joint control

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

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

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2023, 128 investment entity subsidiaries were incorporated in North America, 28 in Europe, 19 in Oceania, 8 in Central and South America, 2 in Asia and 1 in Africa (March 31, 2022 – 126 in North America, 26 in Europe, 18 in Oceania, 9 in Central and South America, 1 in Asia and 1 in Africa).

In addition, PSP Investments controlled 84 investees directly or through its investment entity subsidiaries as at March 31, 2023 (March 31, 2022 – 85 investees).

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

	March 31, 2023		
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments (%)**	**Relationship to PSP Investments**
AviAlliance GmbH	**Europe**	**100**	**Controlled investee**
American Wholesale Insurance Holding Company, LLC	**North America**	**22**	**Associate**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50**	**Jointly controlled investee**
Kaingaroa Timberlands Limited	**Oceania**	**56**	**Jointly controlled investee**
Roadis Transportation Holding, S.L.U.	**Global**	**100**	**Controlled investee**
Willow Topco Limited	**Europe**	**74**	**Jointly controlled investee**
TDF S.A.S.	**Europe**	**22**	**Associate**
Revera Inc.	**North America**	**100**	**Controlled investee**
Forth Ports Limited	**Europe**	**51**	**Jointly controlled investee**
Alliant	**North America**	**12**	**Associate**

	March 31, 2022		
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
AviAlliance GmbH	Europe	100	Controlled investee
Kaingaroa Timberlands Limited	Oceania	56	Jointly controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Revera Inc.	North America	100	Controlled investee
Willow Topco Limited	Europe	74	Jointly controlled investee
American Wholesale Insurance Holding Company, LLC	North America	22	Associate
Roadis Transportation Holding, S.L.U.	Global	100	Controlled investee
Forth Ports Limited	Europe	51	Jointly controlled investee
Seaport Square Associates LP / Seaport Square Parallel LP	North America	50	Jointly controlled investee
TDF S.A.S.	Europe	22	Associate

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

6.2. Structured Entities

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

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

7 — Investment Risk Management

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

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

7.1. Market Risk

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

7.1.1. Measurement of Market Risk

The absolute annualized Value at Risk (VaR) is used as a key measure of total portfolio market risk. The VaR quantifies the loss in value of an investment or an investment portfolio that one can expect, with a given confidence level, not to be exceeded over a given period, due to fluctuations in market prices.

PSP Investments uses a historical VaR incorporating ten years' worth of market returns scaled to a twelve-month holding period at a 95% confidence level. That is, statistically PSP Investments would expect to see losses exceed the VaR only 5% of the time over a one-year period. For investments that are not actively traded, the calculation of the VaR uses securities with similar risk attributes as a proxy.

The VaR is statistically valid under normal market conditions. Although it includes potential losses derived from observed historical returns, it also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

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

	March 31, 2023 (%)	March 31, 2022 (%)
VaR	**19.6**	17.4

Stress Testing

Although the 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. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

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

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

	March 31, 2023					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	—	—	—	—	1,106[A]	1,106
Government and corporate bonds	49	735	480	386	24[B]	1,674
Inflation-linked bonds	—	352	286	187	—	825
Private debt securities	75	483	821	299	512[C]	2,190
Total fixed income	124	1,570	1,587	872	1,642	5,795

	March 31, 2022					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	—	—	—	—	959[A]	959
Government and corporate bonds	26	515	416	352	83[B]	1,392
Inflation-linked bonds	39	336	325	234	—	934
Private debt securities	14	370	744	247	462[C]	1,837
Total fixed income	79	1,221	1,485	833	1,504	5,122

[A] Due to their short-term maturity, these investments are not significantly exposed to interest rate risk.
[B] Certain fixed income securities are not significantly exposed to interest rate risk as their prescribed rates are variable.
[C] Information in connection with the terms to maturity of fund and certain directly held investments included as part of private debt securities is not available.

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounting to $12,363 million as at March 31, 2023 ($11,825 million as at March 31, 2022) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in Note 4.1.4, which amounted to $1,795 million as at March 31, 2023 ($1,549 million as at March 31, 2022), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 7.1.1.

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

Interest Rate Benchmark Reform

PSP Investments holds a number of financial instruments that will mature after the date the Interbank Offered Rate ("IBOR") to which they refer is anticipated to be discontinued as a result of the reform. A steering committee oversees the transition from IBORs to alternative reference rates ("ARRs") to mitigate the risks related to the discontinuation or unavailability of such rates, which are primarily operational. With respect to non-derivative financial instruments, PSP Investments has been identifying agreements referring to IBORs and engaging in a timely contract remediation process with the related counterparties. For derivative contracts, PSP Investments has adhered to the International Swaps and Derivatives Association ("ISDA") Fallbacks Protocol that took effect on January 25, 2021, which provides an efficient mechanism to switch to ARRs as IBORs become unavailable.

The following table shows the fair value of non-derivative financial instruments and the notional value of derivative financial instruments that have yet to transition to ARRs. As at March 31, 2023, only instruments referencing US dollar London Interbank Offered Rate ("USD LIBOR") and expected to mature after June 30, 2023, or Canadian Dollar Offered Rate ("CDOR") and expected to mature after June 28, 2024, remain.

(Canadian $ millions)	USD LIBOR	CDOR
Non-derivative financial assets fair value	547	31
Derivatives notional	545	654

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

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

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

	March 31, 2023	
Currency	**Fair Value (Canadian $ millions)**	**% of Total**
US Dollar	**11,131**	**66.0**
Euro	**2,035**	**12.1**
Hong Kong Dollar	**761**	**4.5**
British Pound	**622**	**3.7**
Japanese Yen	**409**	**2.4**
Indian Rupee	**272**	**1.6**
Mexican Peso	**265**	**1.6**
New Taiwan Dollar	**151**	**0.9**
Singapore Dollar	**146**	**0.9**
Swiss Franc	**136**	**0.8**
South African Rand	**122**	**0.7**
Others	**808**	**4.8**
Total	**16,858**	**100.0**

As at March 31, 2023, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $2,355 million for the Plan Account (US $1,481 million, €184 million, £30 million, 2 million South African rands, 130 million Mexican pesos, 17 million Australian dollars, 159 million Indian rupees and 307 million Japanese yen) which were not included in the foreign currency exposure table above.

	March 31, 2022	
Currency	**Fair Value** (Canadian $ millions)	**% of Total**
US Dollar	9,262	64.0
Euro	1,514	10.5
Japanese Yen	673	4.7
British Pound	645	4.5
Hong Kong Dollar	414	2.9
Australian Dollar	347	2.4
Indian Rupee	268	1.9
Mexican Peso	222	1.5
Swiss Franc	147	1.0
New Taiwan Dollar	111	0.8
Chinese Yuan	109	0.8
South Korean Won	83	0.6
Others	672	4.4
Total	14,467	100.0

As at March 31, 2022, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $2,020 million for the Plan Account (US $1,342 million, €169 million, £46 million, 2 million South African rands, 138 million Mexican pesos, 18 million Australian dollars, 190 million Indian rupees, 306 million Japanese yen and 2 million New Zealand dollars) which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

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

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

As at March 31, 2023, the Plan Account's maximum exposure to credit risk amounted to $6 billion (March 31, 2022 – $5 billion). This amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

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

	March 31, 2023						
(Canadian $ millions)	**Government and corporate bonds**[A]	**Inflation-linked bonds**[A]	**Money market securities**[A]	**Reverse repurchase agreements**	**OTC derivatives**[B]	**Private debt securities**[A]	**Total**[A]
AAA–AA	**1,092**	**827**	**927**	**12**	**5**	**—**	**2,863**
A	**486**	**—**	**102**	**76**	**151**	**—**	**815**
BBB	**48**	**—**	**—**	**4**	**—**	**25**	**77**
BB or below	**54**	**—**	**—**	**—**	**—**	**2,165**	**2,219**
No rating[C]	**7**	**—**	**—**	**—**	**—**	**20**	**27**
Total	**1,687**	**827**	**1,029**	**92**	**156**	**2,210**	**6,001**

	March 31, 2022						
(Canadian $ millions)	Government and corporate bonds[A]	Inflation-linked bonds[A]	Money market securities[A]	Reverse repurchase agreements	OTC derivatives[B]	Private debt securities[A]	Total[A]
AAA–AA	897	936	719	32	6	—	2,590
A	426	—	181	125	137	—	869
BBB	28	—	—	49	—	29	106
BB or below	39	—	—	—	—	1,806	1,845
No rating[C]	10	—	—	—	—	15	25
Total	1,400	936	900	206	143	1,850	5,435

[A] Includes interest receivable.

[B] As disclosed in Note 4.1.12.

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

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

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

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

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

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

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

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

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

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

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

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

Financial Assets

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2023						
Reverse repurchase agreements	**92**	**—**	**92**[A]	**88**	**4**	**—**
OTC-derivatives	**156**	**—**	**156**[B]	**111**	**33**	**12**
Total	**248**	**—**	**248**	**199**	**37**	**12**
March 31, 2022						
Reverse repurchase agreements	206	—	206[A]	99	107	—
OTC-derivatives	157	14	143[B]	121	20	2
Total	363	14	349	220	127	2

Financial Liabilities

(Canadian $ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2023						
Repurchase agreements	**680**	**—**	**680**[A]	**88**	**592**	**—**
OTC-derivatives	**117**	**—**	**117**[B]	**104**	**13**	**—**
Collateral payable	**8**	**—**	**8**[C]	**7**	**—**	**1**
Total	**805**	**—**	**805**	**199**	**605**	**1**
March 31, 2022						
Repurchase agreements	282	—	282[A]	99	182	1
OTC-derivatives	193	14	179[B]	111	65	3
Collateral payable	10	—	10[C]	10	—	—
Total	485	14	471	220	247	4

[A] As described in Note 4.1.10.

[B] As described in Note 4.1.12.

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

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

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

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

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2023 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	**(78)**	**—**	**—**	**(78)**
Interest payable	**(7)**	**(1)**	**—**	**(8)**
Securities sold short	**(180)**	**—**	**—**	**(180)**
Collateral payable	**(69)**	**—**	**—**	**(69)**
Securities sold under repurchase agreements	**(632)**	**(48)**	**—**	**(680)**
Capital market debt financing	**(270)**	**(350)**	**(1,114)**	**(1,734)**
Trade payable and other liabilities	**(27)**	**—**	**(11)**	**(38)**
Total	**(1,263)**	**(399)**	**(1,125)**	**(2,787)**

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	**87**	**45**	**27**	**159**
Derivative-related liabilities[A]	**(66)**	**(37)**	**(15)**	**(118)**
Total	**21**	**8**	**12**	**41**

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2022 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(77)	—	—	(77)
Interest payable	(5)	(1)	—	(6)
Securities sold short	(168)	—	—	(168)
Collateral payable	(10)	—	(38)	(48)
Securities sold under repurchase agreements	(158)	(124)	—	(282)
Capital market debt financing	(566)	(140)	(923)	(1,629)
Trade payable and other liabilities	(19)	—	(11)	(30)
Total	(1,003)	(265)	(972)	(2,240)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	60	52	35	147
Derivative-related liabilities[A]	(96)	(63)	(23)	(182)
Total	(36)	(11)	12	(35)

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

8 — Borrowings

8.1. Credit Facilities

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

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

These Credit Facilities were not drawn upon as at March 31, 2023 and 2022.

8.2. Capital Market Debt Financing

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

The maximum amount authorized by the Board of Directors for the capital market debt program is limited to $12 billion for short-term promissory notes for issuances in Canada and the United States combined, and $20 billion for medium-term notes issued globally.

PSP Investments’ capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2023 and 2022.

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

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

	March 31, 2023		March 31, 2022	
(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 4.41% and 4.44% and maturing within 120 and 180 days of issuance (March 31, 2022 – between 0.25% and 1.00%, maturing within 30 and 360 days)	**3**	**3**	17	17
Short-term US Dollar promissory notes, bearing interest between 2.40% and 5.56% and maturing within 32 and 365 days of issuance (March 31, 2022 – between 0.15% and 1.15%, maturing within 25 and 365 days)	**521**	**516**	563	565
Medium-term Canadian Dollar notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**95**	**94**	94	96
Medium-term Canadian Dollar notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**102**	**101**	102	101
Medium-term Canadian Dollar notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**—**	**—**	123	124
Medium-term Canadian Dollar notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**90**	**88**	90	90
Medium-term Canadian Dollar notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**89**	**81**	83	78
Medium-term Canadian Dollar notes Series 13, bearing interest of 0.90% per annum and maturing on June 15, 2026	**104**	**96**	108	100
Medium-term Canadian Dollar notes Series 14, bearing interest of 1.50% per annum and maturing on March 15, 2028	**72**	**66**	67	62
Medium-term US Dollar notes Series G1, bearing interest of 1.00% per annum and maturing on June 29, 2026	**98**	**88**	90	83
Medium-term US Dollar notes Series G2, bearing interest of 0.50% per annum and maturing on September 15, 2024	**122**	**116**	112	106
Medium-term US Dollar notes Series G3, bearing interest of 1.63% per annum and maturing on October 26, 2028	**98**	**86**	90	84
Medium-term Canadian Dollar notes Series G4 (Green bonds), bearing interest of 2.60% per annum and maturing on March 1, 2032	**72**	**66**	72	69
Medium-term US Dollar notes Series G5, bearing interest at a rate per annum equal to compounded SOFR plus 24 basis points and maturing on March 3, 2025	**98**	**97**	54	54
Medium-term US Dollar notes Series G6, bearing interest of 3.50% per annum and maturing on June 29, 2027	**98**	**95**	—	—
Medium-term Australian Dollar notes Series G7, bearing interest of 4.57% per annum and maturing on August 5, 2032	**15**	**15**	—	—
Medium-term Canadian Dollar notes Series G8, bearing interest of 3.75% per annum and maturing on June 15, 2029	**100**	**102**	—	—
Medium-term Australian Dollar notes Series G9, bearing interest of 4.82% per annum and maturing on January 31, 2033	**13**	**13**	—	—
Medium-term Euro notes Series G10, bearing interest of 3.68% per annum and maturing on March 1, 2038	**11**	**11**	—	—
Total	**1,801**	**1,734**	1,665	1,629

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

Unrealized losses in connection with borrowings amounted to $18 million for the year ended March 31, 2023 (unrealized gains of $49 million for the year ended March 31, 2022).

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

(Canadian $ millions)	**2023**	2022
Short-term promissory notes	**16**	1
Medium-term notes	**24**	16
Total	**40**	17

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2023.

				Non-cash changes		
(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Foreign exchange losses	Fair value[A] gains	Closing balance
Capital market debt financing	**1,629**	**2,032**	**(1,951)**	**43**	**(19)**	**1,734**
Borrowings	**1,629**	**2,032**	**(1,951)**	**43**	**(19)**	**1,734**

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

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2022.

				Non-cash changes		
(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Foreign exchange losses	Fair value[A] gains	Closing balance
Capital market debt financing	1,202	2,312	(1,836)	4	(53)	1,629
Borrowings	1,202	2,312	(1,836)	4	(53)	1,629

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

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

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

9.2. Fund Transfers

PSP Investments received fund transfers from the Government of Canada of $297 million for the year ended March 31, 2023 ($226 million for the year ended March 31, 2022) for the Fund, recorded in the Plan Account.

10 — Segment Information

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

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

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

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

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

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Public Equity	**3,856**	4,242
Private Equity	**2,685**	2,537
Fixed Income	**3,247**	2,920
Credit Investments	**1,883**	1,570
Real Estate	**2,310**	2,229
Infrastructure	**2,117**	1,685
Natural Resources	**885**	833
Complementary Portfolio	**157**	102
Other[A]	**431**	411
Total	**17,571**	16,529

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

10 — Segment Information (continued)

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

	2023			2022		
(Canadian $ millions)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)
Public Equity	**(30)**	**(31)**	**(61)**	272	(20)	252
Private Equity	**87**	**(10)**	**77**	616	(9)	607
Fixed Income	**46**	**(11)**	**35**	(58)	(6)	(64)
Credit Investments	**222**	**(8)**	**214**	88	(6)	82
Real Estate	**39**	**(25)**	**14**	473	(16)	457
Infrastructure	**362**	**(26)**	**336**	200	(13)	187
Natural Resources	**116**	**(14)**	**102**	118	(8)	110
Complementary Portfolio	**(6)**	**—**	**(6)**	3	—	3
Other[C]	**37**	**(12)**	**25**	(25)	—	(25)
Total	**873**	**(137)**	**736**	1,687	(78)	1,609

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

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

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

11 — Investment-Related Expenses

Investment-related expenses allocated to the Plan Account are comprised of the following for the years ended March 31:

(Canadian $ millions)	2023	2022
Interest expense	**58**	18
Transaction costs	**10**	11
External investment management fees[A]	**5**	3
Other (net)	**11**	4
Total	**84**	36

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to $14 million for the year ended March 31, 2023 ($28 million for the year ended March 31, 2022). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.5% of the total invested and/or committed amount, totaled $43 million for the year ended March 31, 2023 ($35 million for the year ended March 31, 2022). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

Operating expenses allocated to the Plan Account consisted of the following for the years ended March 31:

(Canadian $ thousands)	2023	2022
Salaries and employee benefits	**32,886**	26,177
Professional and consulting fees	**9,843**	7,117
Premises and equipment	**1,330**	1,178
Market data and business applications	**4,336**	3,800
Depreciation of property and equipment	**1,826**	2,258
Custodial fees	**358**	350
Other operating expenses	**2,862**	1,391
Total	**53,441**	42,271

13 — Allocation of Net Income

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

13.1. Investment Income

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

13.2. Expenses

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

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

(%)	**2023**	2022
Public Service Pension Plan Account	**73.0**	72.9
Canadian Forces Pension Plan Account	**19.4**	19.5
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.2
Reserve Force Pension Plan Account	**0.4**	0.4
Total	**100.0**	100.0

14 — Related Party Transactions

14.1. Certain Investees

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

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

14.2. The Government of Canada and Government-Related Entities

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

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the fund 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 net income as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

14.3. Compensation of Key Management Personnel

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

(Canadian $ thousands)	**2023**	2022
Short-term compensation and other benefits	**1,170**	882
Long-term compensation and other benefits	**671**	716
Total	**1,841**	1,598

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

15 — Capital Management

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

- To invest fund transfers, outlined in Note 9.2, in the best interests of the beneficiaries and contributors under the Superannuation Acts. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under the *Superannuation Acts* and the ability of the Plans to meet their financial obligations. The funds are also invested in accordance with the Investment Risk Management policies which are outlined in Note 7.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSP Investments has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 8.2 provides information on the capital market debt financing and Note 7.3 provides information on PSP Investments' liquidity.

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

16 — Guarantees and Indemnities

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

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

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

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

- As at March 31, 2023 and 2022, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to $2,643 million as at March 31, 2023 (March 31, 2022 – $2,051 million), of which $191 million has been allocated to the Plan Account (March 31, 2022 – $147 million) plus applicable interest and other related costs. The arrangements mature between June 2023 and June 2042 as of March 31, 2023 (March 31, 2022 – between May 2022 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $1 million as at March 31, 2023 (March 31, 2022 – $1 million), of which nil has been allocated to the Plan Account (March 31, 2022 – nil) in relation to investment transactions.

17 — Commitments

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at:

(Canadian $ millions)	**March 31, 2023**	March 31, 2022
Real estate	**331**	310
Private equity	**947**	915
Infrastructure	**426**	267
Natural resources	**49**	37
Private debt securities	**502**	398
Alternative investments	**148**	141
Total	**2,403**	2,068

Funding in connection with the above commitments can be called upon at various dates extending until 2041 as at March 31, 2023 (March 31, 2022 – 2040).

— Reserve Force Pension Plan Account
Financial Statements

Independent Auditors' Report

To the Minister of National Defence

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Sector Pension Investment Board – Reserve Force Pension Plan Account (the Reserve Force Pension Plan Account), which comprise the statements of financial position as at March 31, 2023 and 2022, and the statements of net income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Reserve Force Pension Plan Account as at March 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditors' report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Reserve Force Pension Plan Account's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Reserve Force Pension Plan Account's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Reserve Force Pension Plan Account to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Montréal, Canada
May 15, 2023

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

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

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

Deloitte LLP[1]

Montréal, Canada
May 15, 2023

[1] CPA auditor, public accountancy permit No. A125494

Statements of Financial Position

As at

(Canadian $ thousands)	**March 31, 2023**	March 31, 2022
Assets		
Investments (Note 4.1)	**1,170,828**	1,103,389
Other assets	**762**	872
Total assets	**1,171,590**	1,104,261
Liabilities		
Trade payable and other liabilities	**2,160**	1,785
Investment-related liabilities (Note 4.1)	**64,921**	44,472
Borrowings (Notes 4.1, 8.2)	**99,322**	94,976
Total liabilities	**166,403**	141,233
Net assets	**1,005,187**	963,028
Equity (Note 9)	**1,005,187**	963,028
Total liabilities and equity	**1,171,590**	1,104,261

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

On behalf of the Board of Directors:

Martin Glynn
Chair of the Board

Katherine Lee
Chair of the Audit Committee

Statements of Net Income

For the years ended March 31

(Canadian $ thousands)	**2023**	2022
Investment income	**50,073**	99,379
Investment-related expenses **(Note 11)**	**(4,812)**	(2,113)
Net investment income	**45,261**	97,266
Operating expenses **(Note 12)**	**(3,102)**	(2,490)
Net income	**42,159**	94,776

Statements of Changes in Equity

For the years ended March 31

(Canadian $ thousands)	**2023**	2022
Fund transfers		
Balance at beginning of year	**329,631**	329,631
Fund transfers received during the year (Note 9.2)	**—**	—
Balance at end of year	**329,631**	329,631
Retained earnings		
Balance at beginning of year	**633,397**	538,621
Net income	**42,159**	94,776
Balance at end of year	**675,556**	633,397
Total equity	**1,005,187**	963,028

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ thousands)	**2023**	2022
Cash flows from operating activities		
Net income	**42,159**	94,776
Adjustments for non-cash items:		
Depreciation of property and equipment (Note 12)	**107**	134
Effect of exchange rate changes on cash and cash equivalents	**(588)**	212
Unrealized losses (gains) on borrowings	**1,075**	(2,885)
	42,753	92,237
Net changes in operating assets and liabilities		
Increase in investments	**(73,247)**	(98,442)
Decrease (increase) in other assets	**8**	(31)
Increase (decrease) in trade payables and other liabilities	**375**	(74)
Increase (decrease) in investment-related liabilities	**20,848**	(3,568)
Net cash flows used in operating activities	**(9,263)**	(9,878)
Cash flows from financing activities		
Proceeds from borrowings	**117,211**	136,196
Repayment of borrowings	**(114,274)**	(109,448)
Net cash flows provided by financing activities	**2,937**	26,748
Cash flows from investing activities		
Acquisitions of equipment	**(22)**	(58)
Net cash flows used in investing activities	**(22)**	(58)
Net change in cash and cash equivalents	**(6,348)**	16,812
Effect of exchange rate changes on cash and cash equivalents	**588**	(212)
Cash and cash equivalents at the beginning of the year	**34,832**	18,232
Cash and cash equivalents at the end of the year[A]	**29,072**	34,832
Supplementary disclosure of cash flow information		
Interest paid	**(2,859)**	(1,016)

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

[A] As at March 31, 2023, cash and cash equivalents were comprised of $28,911 thousand (March 31, 2022 – $34,719 thousand) held for investment purposes and included in Note 4.1, as well as $161 thousand (March 31, 2022 – $113 thousand) held for administrative purposes and included in Other assets.

Notes to the Financial Statements

For the years ended March 31, 2023 and 2022

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. In certain foreign jurisdictions, income and capital gains remain taxable.

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

2— Significant Accounting Policies

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

2.1. Basis of Presentation

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

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

These Financial Statements present the Plan Account's financial position and results of operations of PSP Investments and its subsidiaries that solely provide it with services that relate to its investment activities, as allocated to the Plan Account. They reflect the economic activity of PSP Investments as it pertains to the investment of the net contributions transferred to it for the Fund in respect of Post-2007 Service. Accordingly, they do not reflect all of the assets or the details of the pension contributions, payments and liabilities under the Plan.

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 15, 2023.

2 — Significant Accounting Policies
(continued)

2.2. Investment Entity Status

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

(i) Mandate and business purpose

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

(ii) Performance evaluation

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

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

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

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

2.3. Summary of Significant Accounting Policies

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

2.3.1. Financial Instruments

(i) Classification

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

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

(ii) Recognition

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

(iii) Initial and subsequent measurement

All financial assets and financial liabilities are recorded in the Statements of Financial Position at fair value and continue to be measured as such on a recurring basis. After initial measurement, subsequent changes in the fair value of financial assets and financial liabilities classified at FVTPL are recorded in investment income in the Statements of Net Income.

(iv) Derecognition

A financial asset (or, where applicable, a part thereof) is derecognized when the following conditions are met:

- The rights to receive cash flows from the asset have expired, or
- PSP Investments has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows to a third party,

and

- PSP Investments has transferred substantially all the risks and rewards of the asset, or
- In cases where PSP Investments has neither transferred nor retained substantially all the risks and rewards of the asset, it has transferred control of the asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

At initial recognition, PSP Investments evaluates the facts and circumstances related to a transaction to confirm that the transaction price represents the fair value of an asset or a liability. At each subsequent reporting date, market prices are used to determine fair value where an active market exists (such as a recognized securities exchange), as they reflect actual and regularly occurring market transactions on an arm's length basis. If quoted market prices are not available, then fair value is estimated using valuation techniques based on inputs existing at the end of the reporting period that are derived from observable market data.

Valuation techniques are generally applied to investments in private markets, alternative investments, over-the-counter (OTC) derivatives and certain fixed income securities. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk. In certain cases, such assumptions are not supported by market observable data.

The determination of fair value of all financial assets and financial liabilities is described in Note 4.

2.3.3. Functional and Presentation Currency

The functional and presentation currency of PSP Investments and its consolidated subsidiaries is the Canadian dollar, which is the currency of the primary economic environment in which each entity within the consolidated group operates. PSP Investments' performance and that of its consolidated subsidiaries is evaluated and its liquidity is managed in Canadian dollars.

2.3.4. Foreign Currency Translation

Foreign currency transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities that are denominated in foreign currencies are translated at the functional currency rate of exchange prevailing at the end of the reporting period.

Foreign currency transaction gains and losses on all monetary assets and liabilities are included in investment income.

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or pledged as collateral, or recognize securities borrowed or received as collateral. Cash amounts received are recognized as described in Note 4.1.9.

The securities lending and borrowing programs require collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standard securities lending and borrowing programs. PSP Investments and its counterparties are authorized to sell, repledge or otherwise use collateral held. The same securities or equivalent securities must be returned to the counterparty at the end of the contract, unless an event of default occurs.

2.3.6. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements and Related Collateral

PSP Investments is party to repurchase and reverse repurchase agreements. Such agreements involve the sale of securities by one counterparty with a simultaneous agreement to repurchase such securities at a specified price and at a specified future date.

Securities sold or purchased under the repurchase and reverse repurchase agreements respectively, including related collateral, are not derecognized or recognized as all risks and rewards of ownership related to such securities are not transferred. As such, in the case where PSP Investments is the counterparty selling securities under such agreements, all income (loss) related to such securities continues to be reported in investment income and obligations to repurchase the securities sold are accounted for as investment-related liabilities. The difference between the fair value of the securities sold and the repurchase price is recorded as interest expense within investment related expenses. In the case where PSP Investments is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income.

Transactions under repurchase and reverse repurchase agreements involve pledging collateral consisting of cash or securities deemed acceptable by the counterparties. Collateral transactions are conducted under terms that are usual and customary in standard repurchase arrangements. Such terms require the relevant counterparty to pledge additional collateral based on the changes in the fair value of the existing collateral pledged as well as the related securities sold or purchased. The counterparties are authorized to sell, repledge or otherwise use collateral held. The securities pledged as collateral must be returned to the relevant counterparty at the end of the contract, unless an event of default occurs.

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.7. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset with the net amount reported in the Statements of Financial Position only if PSP Investments has a current legally enforceable right to offset the recognized amounts and the intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

2.3.8. Equity

The statutory rights of the Government of Canada pursuant to the *Superannuation Acts* are described under Note 1 and are classified as equity instruments on the following basis:

- Under such rights the Government of Canada is entitled to PSP Investments' net assets at any time for the purposes set out in the Superannuation Acts. Such rights do not contain any additional obligations for PSP Investments to deliver amounts to the Government of Canada.
- Such rights are the most subordinate claim on PSP Investments' net assets.
- The total expected cash flows attributable to such rights, at any time, is solely based on the fair value of the net assets of PSP Investments at that time. Further, the fair value of the net assets of PSP Investments in its entirety represents the amounts that the Government of Canada may call upon at any time.

2.3.9. Investment Income

Investment income is made up of interest, dividends, gains (losses) on the disposal of financial assets and financial liabilities as well as gains (losses) which reflect the change in unrealized appreciation (depreciation) of financial assets held and financial liabilities outstanding at the end of the reporting period. Interest is recognized, on a consistent basis, using the prescribed rates until maturity. Dividends are recognized when the right to receive them has been obtained, generally on the ex-dividend date.

2.3.10. Investment-Related Expenses

Investment-related expenses are made up of interest expense, transaction costs, external investment management fees and other (net).

Transaction costs are incremental costs directly attributable to the acquisition, due diligence, issue, or disposal of a financial asset or financial liability, and they are expensed as incurred.

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets as outlined in Note 11.

2.3.11. Fund Transfers

Amounts are recorded for the Fund when received from the Government of Canada.

2.4. Significant Accounting Judgments, Estimates and Assumptions

In preparing the Financial Statements, management makes certain judgments, estimates and assumptions that can affect the amounts reported therein. Significant judgments include those related to the determination of the investment entity status as described in Note 2.2.

Management also makes estimates and assumptions in the measurement, risk assessment and related disclosures surrounding investments in private markets and certain fixed income securities. The main assumptions made by management regarding measurement of financial instruments are outlined in Note 4.2.3 and those regarding the assessment of risk are outlined in Note 7.

Sources of estimate uncertainty related to macroeconomic unpredictability and volatility include the current geopolitical context, supply chain disruptions and rising inflation and interest rates. This could continue to impact financial results, due to uncertainties including their extent and duration. These Financial Statements reflect the impacts resulting from the aforementioned macroeconomic factors to the extent known at the reporting date.

Although assumptions reflect management's best estimates, actual results may differ from such estimates due to the uncertainties involved in using them.

3 — Current and Future Changes in Accounting Standards

PSP Investments has determined that there is no anticipated material impact on its Financial Statements arising from new standards, amendments and interpretations that have been issued by the IASB but that are not yet effective.

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

Financial assets and financial liabilities are aggregated, in the following table, in classes that reflect their respective exposure as well as investment sectors. Their fair values were as follows, as at:

(Canadian $ thousands)	**March 31, 2023**	March 31, 2022
Public markets		
Canadian equity	**18,520**	20,601
Foreign equity	**145,785**	175,789
Private markets		
Real estate	**169,971**	164,902
Private equity	**148,336**	139,435
Infrastructure	**148,525**	123,293
Natural resources	**77,095**	65,640
Fixed income		
Cash and money market securities	**63,353**	55,900
Government and corporate bonds	**95,915**	81,174
Inflation-linked bonds	**47,251**	54,479
Private debt securities	**125,433**	107,129
Alternative investments	**102,847**	90,339
	1,143,031	1,078,681
Investment-related assets		
Amounts receivable from pending trades	**10,497**	2,039
Interest receivable	**2,073**	1,321
Dividends receivable	**860**	758
Securities purchased under reverse repurchase agreements	**5,282**	12,001
Derivative-related assets	**9,085**	8,589
	27,797	24,708
Investments representing financial assets at FVTPL	**1,170,828**	1,103,389
Investment-related liabilities		
Amounts payable from pending trades	**(4,455)**	(4,468)
Interest payable	**(481)**	(338)
Securities sold short	**(10,308)**	(9,817)
Collateral payable	**(3,954)**	(2,806)
Securities sold under repurchase agreements	**(38,970)**	(16,428)
Derivative-related liabilities	**(6,753)**	(10,615)
Investment-related liabilities representing financial liabilities at FVTPL	**(64,921)**	(44,472)
Borrowings		
Capital market debt financing	**(99,322)**	(94,976)
Borrowings representing financial liabilities designated at FVTPL	**(99,322)**	(94,976)
Net investments	**1,006,585**	963,941

4 — Financial Assets and Financial Liabilities
(continued)

4.1. Classes of Financial Assets and Financial Liabilities
(continued)

4.1.1. Public Markets

Public markets consist of Canadian and foreign investments in the following securities: common shares, American depository receipts, global depository receipts, participation notes, preferred shares, income trust units, exchange traded funds units, pooled funds units, and securities convertible into common shares of publicly listed issuers.

Direct investments in Canadian and foreign equities are measured at fair value using quoted prices in active markets and are based on the most representative price within the bid-ask spread.

In the case of investments in pooled funds, fair value is measured using unit values obtained from each of the funds' administrators, which are derived from the fair value of the underlying investments in each pooled fund. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.2. Private Markets

Private markets consist of investments in real estate, private equity, infrastructure and natural resources.

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financing.

Private equity investments are comprised of fund investments with similar objectives, co-investments in private entities as well as direct equity positions.

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing.

Natural resources investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Natural resources investments focus on entities engaged in the management, ownership or operation of assets in timberlands, agriculture and upstream oil and gas. Natural resources investments are presented net of all third-party financing.

The process for fair value measurement of private markets investments is described in Note 4.2.2 and the valuation techniques together with the significant inputs used are described in Note 4.2.3.

4.1.3. Fixed Income

Fixed income consists of cash and money market securities, government and corporate bonds, inflation-linked bonds and private debt securities.

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Statements of Cash Flows and amounted to $28,911 thousand as at March 31, 2023 (March 31, 2022 – $34,719 thousand). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

Government and corporate bonds include Canadian and foreign, federal, provincial, territorial and municipal bonds, floating rate notes, asset-backed term notes and mortgage-backed securities. Inflation-linked bonds are fixed income securities that earn inflation-adjusted returns.

Private debt securities are fixed income securities of private companies held directly or through private funds. Such debt securities take the form of senior debt, mezzanine and distressed debt and primary and secondary investments in leveraged loans. Private debt securities also include third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, as well as other structured finance products in the real estate sector.

Fair values of government and most corporate bonds, inflation-linked bonds and mortgage-backed securities are based on prices obtained from third-party pricing sources. Such prices are determined using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

The fair values of certain corporate bonds, private debt securities and asset-backed term notes are determined using valuation techniques. Such techniques, together with the significant inputs used, are described in Note 4.2.3.

The fair value measurement of fund investments included as part of private debt securities is described in Note 4.2.2.

4 — Financial Assets and Financial Liabilities
(continued)

4.1. Classes of Financial Assets and Financial Liabilities
(continued)

4.1.4. Alternative Investments

Alternative investments consist mainly of units of funds that hold a mix of equity, fixed income and derivative instruments as well as hedge funds. The fair value of these investments is determined based on the fair values reported by the funds' administrators or general partners and reflects the fair value of the underlying equity, fixed income or derivative instruments, as applicable. Management reviews the fair value received and, where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration.

4.1.5. Amounts Receivable and Payable from Pending Trades

Amounts receivable from pending trades consist of proceeds on sales of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

Amounts payable from pending trades consist of the cost of purchases of investments, excluding derivative financial instruments, which have been traded but remain unsettled at the end of the reporting period.

The fair value of amounts receivable and payable from pending trades reflects the value at which their underlying original sale or purchase transactions were undertaken.

4.1.6. Interest and Dividends Receivable

Interest and dividends are recorded at the amounts expected to be received at the end of the reporting period, which due to their short-term maturity, approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.11, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

4.1.8. Securities Sold Short

Securities sold short reflect PSP Investments' obligation to purchase securities pursuant to short selling transactions. In such transactions, PSP Investments sells securities it does not own with an obligation to purchase similar securities on the market to cover its position.

Using quoted market prices that are based on the most representative price within the bid-ask spread, the fair value of securities sold short is measured using the same method as the similar long positions presented within public markets and fixed income.

4.1.9. Collateral Payable

As part of securities lending and certain OTC derivative transactions, when cash is received, it is recognized as collateral payable. The payable balance reflects the obligation of the transferee to return the amount to the transferor at the end of the transaction in the absence of an event of default by the transferor.

4.1.10. Securities Sold under Repurchase Agreements and Purchased under Reverse Repurchase Agreements

As described in Note 2.3.6, PSP Investments is party to repurchase and reverse repurchase agreements. Obligations to repurchase or resell the securities sold or purchased under such agreements are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value.

4.1.11. Borrowings under the Capital Market Debt Program

PSP Investments' capital market debt program is described in Note 8.2. Short-term promissory notes are recorded at cost plus accrued interest, which due to their short-term maturity, approximates fair value. The fair value of PSP Investments' medium-term notes is based on prices that are obtained from third-party pricing sources. Such prices are determined using an interest rate curve with a spread consistent with PSP Investments' credit quality.

4 — Financial Assets and Financial Liabilities
(continued)

4.1. Classes of Financial Assets and Financial Liabilities
(continued)

4.1.12. Derivative-Related Assets and Liabilities

Derivative financial instruments are financial contracts that are settled at a future date. The value of such instruments is derived from changes in the value of the underlying assets, interest or exchange rates. Derivative financial instruments do not, typically, require an initial net investment. In certain cases, they require an initial net investment that is less than what would be required to hold the underlying position directly. Derivative financial instruments can be listed or traded OTC. OTC instruments consist of those that are bilaterally negotiated and settled, and those that are cleared (OTC-cleared) by a central clearing party (CCP).

PSP Investments uses derivative financial instruments to enhance returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

PSP Investments uses the following types of derivative financial instruments:

Swaps

Swaps are transactions whereby two counterparties exchange cash flow streams with each other based on predetermined conditions that include a notional amount and a term. Swaps are used to increase returns or to adjust exposures of certain assets without directly purchasing or selling the underlying assets.

Futures

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a predefined price and predefined future date. Futures are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Forwards

Forwards are contracts involving the sale by one party and the purchase by another party of a predefined amount of an underlying instrument, at a predefined price and at a predefined date in the future. Forwards are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

Options

Options are contracts where the seller gives the purchaser the right, but not the obligation, to buy or sell a given amount of an underlying security, index, commodity, currency, interest rate, credit or other financial instrument, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

Warrants are options to purchase an underlying asset which is in the form of a transferable security and which can be listed on an exchange or traded OTC.

Rights are securities giving shareholders entitlement to purchase new shares issued by a corporation at a predetermined price (normally less than the current market price) in proportion to the number of shares already owned. Rights are issued only for a short period of time, after which they expire.

Determination of Fair Value of Derivative Financial Instruments

Listed derivative financial instruments are recorded at fair value using quoted market prices that are based on the most representative price within the bid-ask spread. OTC-cleared derivatives are recorded at fair value using prices obtained from the CCP. OTC derivatives are valued using appropriate valuation techniques such as discounted cash flows. These techniques use significant inputs that are observable in the market such as current market yields.

Notional Values and Fair Values of Derivative-Related Assets and Liabilities

Notional values of derivative financial instruments are not recorded as assets or liabilities as they represent the face amount of the contract. Except for credit derivatives, notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions disclosed below. Rather, they serve as the basis upon which the cash flows and the fair value of the contracts are determined.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

(Canadian $ thousands)	March 31, 2023 Notional Value	March 31, 2023 Fair Value Assets	March 31, 2023 Fair Value Liabilities	March 31, 2022 Notional Value	March 31, 2022 Fair Value Assets	March 31, 2022 Fair Value Liabilities
Equity and commodity derivatives						
Listed						
Futures	**15,242**	**—**	**—**	22,001	—	—
Warrants and rights	**4**	**9**	**—**	51	32	—
Options: Purchased	**3,762**	**120**	**—**	1,692	31	—
Written	**4,933**	**—**	**(49)**	2,750	—	(28)
OTC						
Swaps	**85,461**	**2,720**	**(941)**	87,891	2,021	(967)
Options: Purchased	**349**	**—**	**—**	248	2	—
Currency derivatives						
Listed						
Futures	**948**	**—**	**—**	1,349	—	—
OTC						
Forwards	**443,932**	**2,906**	**(3,465)**	260,316	1,615	(5,406)
Swaps	**14,724**	**366**	**(136)**	3,103	—	(161)
Options: Purchased	**8,512**	**38**	**—**	6,358	56	—
Written	**11,001**	**—**	**(34)**	7,360	—	(42)
Interest rate derivatives						
Listed						
Futures	**9,089**	**—**	**—**	32,661	—	—
Options: Purchased	**200,451**	**31**	**—**	204,613	177	—
Written	**183,600**	**—**	**(29)**	176,536	—	(149)
OTC						
Forwards	**5,851**	**51**	**(17)**	—	—	—
Swaps	**14,379**	**135**	**(55)**	8,974	507	(53)
Options: Purchased	**271,117**	**2,649**	**—**	231,620	4,143	—
Written	**316,470**	**—**	**(1,983)**	247,993	—	(3,782)
OTC-cleared						
Swaps	**334,165**	**—**	**—**	253,399	—	—
Credit derivatives						
OTC						
Credit default swaps: Purchased	**2,320**	**—**	**(44)**	1,097	—	(27)
Written[A]	**4,982**	**60**	**—**	209	5	—
OTC-cleared						
Credit default swaps: Purchased	**8,349**	**—**	**—**	7,725	—	—
Written[A]	**—**	**—**	**—**	784	—	—
Total		**9,085**	**(6,753)**		8,589	(10,615)

[A] PSP Investments, through written credit default swaps, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the written credit default swaps as shown in the table above.

4 — Financial Assets and Financial Liabilities (continued)

4.1. Classes of Financial Assets and Financial Liabilities (continued)

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2023			March 31, 2022		
		Fair Value			Fair Value	
(Canadian $ thousands)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**418,029**	**160**	**(78)**	441,653	240	(177)
OTC derivatives	**1,179,098**	**8,925**	**(6,675)**	855,169	8,349	(10,438)
OTC-cleared derivatives	**342,514**	**—**	**—**	261,908	—	—
Total		**9,085**	**(6,753)**		8,589	(10,615)

The terms to maturity based on notional value for the derivatives were as follows as at:

(Canadian $ thousands)	**March 31, 2023**	March 31, 2022
Less than 3 months	**948,859**	615,429
3 to 12 months	**615,459**	538,361
Over 1 year	**375,323**	404,940

4.2. Fair Value Hierarchy

4.2.1. Classification

Financial assets and financial liabilities described under Note 4.1 are classified within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
  (i) Quoted prices for similar assets or liabilities in active markets.
  (ii) Quoted prices for identical or similar assets or liabilities in markets that are not active.
  (iii) Inputs other than quoted prices that are observable for the asset or liability.
  (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

The classification within the levels of the hierarchy is established at the time of the initial determination of fair value of the asset or liability and reviewed at the end of each reporting period. PSP Investments determines whether a transfer between levels has occurred and recognizes such transfer at the beginning of the reporting period.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2023, classified within the fair value hierarchy:

(Canadian $ thousands)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	11,375	7,145	—	18,520
Foreign equity	137,468	4,265	4,052	145,785
Private markets				
Real estate	—	—	169,971	169,971
Private equity	—	—	148,336	148,336
Infrastructure	—	—	148,525	148,525
Natural resources	—	—	77,095	77,095
Fixed income				
Cash and money market securities	44,963	18,390	—	63,353
Government and corporate bonds	33,573	62,331	11	95,915
Inflation-linked bonds	47,250	1	—	47,251
Private debt securities	—	—	125,433	125,433
Alternative investments	—	63,630	39,217	102,847
	274,629	155,762	712,640	1,143,031
Investment-related assets				
Amounts receivable from pending trades	—	10,497	—	10,497
Interest receivable	—	2,073	—	2,073
Dividends receivable	—	860	—	860
Securities purchased under reverse repurchase agreements	—	5,282	—	5,282
Derivative-related assets	160	8,925	—	9,085
	160	27,637	—	27,797
Investments representing financial assets at FVTPL	274,789	183,399	712,640	1,170,828
Investment-related liabilities				
Amounts payable from pending trades	—	(4,455)	—	(4,455)
Interest payable	—	(481)	—	(481)
Securities sold short	(9,638)	(670)	—	(10,308)
Collateral payable	—	(3,954)	—	(3,954)
Securities sold under repurchase agreements	—	(38,970)	—	(38,970)
Derivative-related liabilities	(78)	(6,675)	—	(6,753)
Investment-related liabilities representing financial liabilities at FVTPL	(9,716)	(55,205)	—	(64,921)
Borrowings				
Capital market debt financing	—	(99,322)	—	(99,322)
Borrowings representing financial liabilities designated at FVTPL	—	(99,322)	—	(99,322)
Net investments	265,073	28,872	712,640	1,006,585

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, 2022, classified within the fair value hierarchy:

(Canadian $ thousands)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	13,128	7,473	—	20,601
Foreign equity	166,448	3,692	5,649	175,789
Private markets				
Real estate	—	—	164,902	164,902
Private equity	—	—	139,435	139,435
Infrastructure	—	—	123,293	123,293
Natural resources	—	—	65,640	65,640
Fixed income				
Cash and money market securities	13,832	42,068	—	55,900
Government and corporate bonds	19,400	61,763	11	81,174
Inflation-linked bonds	54,476	3	—	54,479
Private debt securities	—	—	107,129	107,129
Alternative investments	—	54,977	35,362	90,339
	267,284	169,976	641,421	1,078,681
Investment-related assets				
Amounts receivable from pending trades	—	2,039	—	2,039
Interest receivable	—	1,321	—	1,321
Dividends receivable	—	758	—	758
Securities purchased under reverse repurchase agreements	—	12,001	—	12,001
Derivative-related assets	239	8,350	—	8,589
	239	24,469	—	24,708
Investments representing financial assets at FVTPL	267,523	194,445	641,421	1,103,389
Investment-related liabilities				
Amounts payable from pending trades	—	(4,468)	—	(4,468)
Interest payable	—	(338)	—	(338)
Securities sold short	(9,817)	—	—	(9,817)
Collateral payable	—	(2,806)	—	(2,806)
Securities sold under repurchase agreements	—	(16,428)	—	(16,428)
Derivative-related liabilities	(177)	(10,438)	—	(10,615)
Investment-related liabilities representing financial liabilities at FVTPL	(9,994)	(34,478)	—	(44,472)
Borrowings				
Capital market debt financing	—	(94,976)	—	(94,976)
Borrowings representing financial liabilities designated at FVTPL	—	(94,976)	—	(94,976)
Net investments	257,529	64,991	641,421	963,941

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2023.

As at March 31, 2021, listed foreign equity securities with a fair value of $651 thousand were indirectly held and classified as Level 2. During the year ended March 31, 2022, these securities were transferred to Level 1 as they became directly held by PSP Investments.

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 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 in Private Markets, is determined at least semi-annually. For other interim reporting periods, 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 most recent audited financial statements received from the fund's general partner. In certain cases, fair value is obtained from information provided by the fund's administrators and is reviewed by Management to ensure reasonableness and adherence to acceptable industry valuation methods. Where necessary, the impact of restrictions on the sale or redemption of such investments is taken into consideration in determining fair value.

To reflect the impact, where applicable, of significant market movements or other events occurring up to the end of the reporting period, adjustments to Private Markets and fund investments are made as appropriate. Such adjustments are based on a number of factors including public market trading comparables, investment specific characteristics as well as market conditions and uncertainties at that time.

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 categorized within Level 3 as at March 31, 2023:

Financial Assets	Type of Investment	Fair Value (Canadian $ thousands)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Foreign equity	Direct investments	**4,052**	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	**155,644**	Discounted cash flow (DCF)	Discount rate[B, C]	3.30% – 19.00% (7.40%)
				Terminal capitalization rate[B, C]	3.56% – 12.00% (5.60%)
			Direct capitalization	Capitalization rate[B, D]	2.35% – 10.00% (4.62%)
				Stabilized occupancy rate[D, E]	98.00% – 100.00% (99.55%)
			Sales comparison approach	Price per square foot[D, E]	$3.42 – $1,750.44 ($256.48)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**14,327**	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	**269,062**	DCF	Discount rate[B]	5.50% – 20.00% (9.68%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**104,894**	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	**11**	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	**94,843**	DCF	Discount rate[B]	4.25% – 23.48% (12.56%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**30,590**	NAV[A]	N/A	N/A
Alternative investments	Fund investments	**39,217**	NAV[A]	N/A	N/A
Total		**712,640**			

[A] In certain cases, when investments are held through funds, partnerships or similar structures, fair value is determined by third parties where valuation information is not available to PSP Investments.

[B] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[C] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[D] There is no predictable direct relationship between this input and any other significant unobservable input.

[E] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets categorized within Level 3 as at March 31, 2022:

Financial Assets	Type of Investment	Fair Value (Canadian $ thousands)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Foreign equity	Direct investments	5,649	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	152,235	Discounted cash flow (DCF)	Discount rate[B, C]	4.50% – 19.00% (7.03%)
				Terminal capitalization rate[B, C]	2.90% – 13.33% (5.38%)
			Direct capitalization	Capitalization rate[B, D]	2.50% – 9.60% (4.36%)
				Stabilized occupancy rate[D, E]	94.00% – 100.00% (97.87%)
			Sales comparison approach	Price per square foot[D, E]	$4.30 – $2,077.86 ($325.66)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	12,667	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	230,091	DCF	Discount rate[B]	5.64% – 17.30% (8.96%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	98,277	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	11	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	81,591	DCF	Discount rate[B]	4.25% – 23.53% (10.33%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	25,538	NAV[A]	N/A	N/A
Alternative investments	Fund investments	35,362	NAV[A]	N/A	N/A
Total		641,421			

[A] In certain cases, when investments are held through funds, partnerships or similar structures, fair value is determined by third parties where valuation information is not available to PSP Investments.

[B] An increase (decrease) in this unobservable input, taken individually, generally results in a decrease (increase) in fair value.

[C] An increase (decrease) in the discount rate is generally accompanied by an increase (decrease) of the terminal capitalization rate.

[D] There is no predictable direct relationship between this input and any other significant unobservable input.

[E] An increase (decrease) in this unobservable input, taken individually, generally results in an increase (decrease) in fair value.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets categorized within Level 3 for the year ended March 31, 2023:

(Canadian $ thousands)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer Out of Level 3	Closing Balance
Public markets	**5,649**	**153**	**(529)**	**—**	**112**	**(1,139)**	**(194)**	**4,052**
Private markets	**493,270**	**75,805**	**(41,994)**	**—**	**14,328**	**3,417**	**(899)**	**543,927**
Fixed income	**107,140**	**32,960**	**(18,026)**	**—**	**1,494**	**1,876**	**—**	**125,444**
Alternative investments	**35,362**	**2,870**	**(2,416)**	**—**	**445**	**2,956**	**—**	**39,217**
Total	**641,421**	**111,788**	**(62,965)**	**—**	**16,379**	**7,110**	**(1,093)**	**712,640**

[A] Includes Plan Account allocation adjustments.

As at March 31, 2022, a public market investment of $194 thousand in a non-listed fund that held listed securities was classified under Level 3 due to the nature of the contractual restrictions on the redemption of fund units. During the year ended March 31, 2023, the listed securities held by the fund were transferred to PSP Investments and were classified as Level 1. Additionally, as at March 31, 2022, a private market investment of $899 thousand was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2023, this investment was transferred to Level 2 as the related securities became publicly traded. These securities held by PSP Investments are unregistered and can only be sold upon their registration.

The following table shows a reconciliation of all movements related to financial assets categorized within Level 3 for the year ended March 31, 2022:

(Canadian $ thousands)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer in (out) of Level 3	Closing Balance
Public markets	5,261	1,813	(1,140)	—	194	(2,007)	1,528	5,649
Private markets	415,983	84,525	(64,429)	—	21,640	42,746	(7,195)	493,270
Fixed income	77,030	55,086	(24,320)	(31)	426	(1,051)	—	107,140
Alternative investments	36,999	6,032	(9,146)	—	3,815	(2,338)	—	35,362
Total	535,273	147,456	(99,035)	(31)	26,075	37,350	(5,667)	641,421

[A] Includes Plan Account allocation adjustments.

As at March 31, 2021, private market investments totalling $7,195 thousand that were classified under Level 3, as their fair values were determined based on significant unobservable inputs, were transferred during the year ended March 31, 2022. One investment of $745 thousand was transferred to Level 1 as it became publicly traded, while the other investments of $6,450 thousand were transferred to Level 2 as the underlying instruments are indirectly held by PSP Investments and valued using publicly available quoted prices. In addition, public market investments of $1,528 thousand were transferred from Level 1 to Level 3 as their fair values were no longer based on observable inputs due to sanctions placed on international investing with respect to Russian securities.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, with all other variables held constant, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 4% increase and 4% decrease as at March 31, 2023 (March 31, 2022 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

PSP Investments is party to agreements that involve pledging and holding collateral, as outlined in Notes 2.3.5, 2.3.6 and 7.2.1. The following table illustrates the fair values of the Plan Account's allocated collateral, as well as the securities under the lending and borrowing programs and the securities under the repurchase and reverse repurchase agreements, as at:

(Canadian $ thousands)	**March 31, 2023**	March 31, 2022
Securities lending and borrowing		
Securities lent	**18,087**	15,518
Collateral held[A]	**18,935**	16,896
Securities borrowed	**7,969**	7,679
Collateral pledged[B]	**8,466**	8,091
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**39,435**	16,191
Collateral pledged	**39,189**	16,339
Securities purchased under reverse repurchase agreements	**5,354**	11,968
Collateral held[C]	**5,337**	11,966
Derivative contracts		
Collateral pledged	**8,954**	10,271
Collateral held[D]	**7,701**	6,063

[A] The minimum fair value of securities collateral denominated in the same currency required is equal to 102%, and in the case of securities denominated in different currencies 105%. In exchange for securities lent, cash and securities received as at March 31, 2023, were $3,495 thousand and $15,440 thousand, respectively (March 31, 2022 – nil and $16,896 thousand, respectively). All cash amounts are reinvested.

[B] The minimum fair value of collateral required is equal to 100% of the fair value of the securities borrowed.

[C] The collateral received is in the form of securities of which $2,339 thousand has been used in connection with short selling transactions as at March 31, 2023 (March 31, 2022 – $2,138 thousand) and $1,267 thousand has been used in connection with securities sold under repurchase agreements (March 31, 2022 – $318 thousand).

[D] As part of collateral held, cash amounted to $468 thousand as at March 31, 2023 (March 31, 2022 – $597 thousand) and securities amounted to $7,233 thousand as at March 31, 2023 (March 31, 2022 – $5,466 thousand). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

As an investment entity, PSP Investments does not consolidate its subsidiaries other than those that solely provide it with services that relate to its investment activities. PSP Investments measures its investments in its subsidiaries, joint ventures and associates at FVTPL as described in Note 2.1.

For purposes of preparing this note, management assesses control, joint control and significant influence as follows:

(i) Control and significant influence

PSP Investments determines that it has control over an investee when it is exposed, or has rights, to variable returns from its investment in an entity and has the ability to affect those returns through its power over the investee.

In certain cases, PSP Investments does not have control over an investee but has the power to participate in the financial and operating policy decisions of the investee. In such cases, PSP Investments determines that it has significant influence over the investee.

In the context of control or significant influence, power over an investee is obtained through voting rights conveyed by PSP Investments' ownership interest, other contractual arrangements, or a combination thereof.

(ii) Joint control

PSP Investments determines that it is party to a joint venture arrangement when it has joint control over an investee and has rights to the net assets of the investee. Joint control is established through a contractual arrangement which requires the unanimous consent of the parties sharing control for the activities that significantly affect the returns of the arrangement.

Generally, decision making regarding such activities is governed through voting rights conveyed by the ownership interest of each party. In certain cases, it is governed solely through contractual arrangements or in conjunction with the ownership interest of each party.

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2023, 128 investment entity subsidiaries were incorporated in North America, 28 in Europe, 19 in Oceania, 8 in Central and South America, 2 in Asia and 1 in Africa (March 31, 2022 – 126 in North America, 26 in Europe, 18 in Oceania, 9 in Central and South America, 1 in Asia and 1 in Africa).

In addition, PSP Investments controlled 84 investees directly or through its investment entity subsidiaries as at March 31, 2023 (March 31, 2022 – 85 investees).

The following tables present, in descending order, the most significant investees held directly or indirectly by PSP Investments where it has control, joint control or significant influence.

	March 31, 2023		
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments (%)**	**Relationship to PSP Investments**
AviAlliance GmbH	**Europe**	**100**	**Controlled investee**
American Wholesale Insurance Holding Company, LLC	**North America**	**22**	**Associate**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50**	**Jointly controlled investee**
Kaingaroa Timberlands Limited	**Oceania**	**56**	**Jointly controlled investee**
Roadis Transportation Holding, S.L.U.	**Global**	**100**	**Controlled investee**
Willow Topco Limited	**Europe**	**74**	**Jointly controlled investee**
TDF S.A.S.	**Europe**	**22**	**Associate**
Revera Inc.	**North America**	**100**	**Controlled investee**
Forth Ports Limited	**Europe**	**51**	**Jointly controlled investee**
Alliant	**North America**	**12**	**Associate**

	March 31, 2022		
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
AviAlliance GmbH	Europe	100	Controlled investee
Kaingaroa Timberlands Limited	Oceania	56	Jointly controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Revera Inc.	North America	100	Controlled investee
Willow Topco Limited	Europe	74	Jointly controlled investee
American Wholesale Insurance Holding Company, LLC	North America	22	Associate
Roadis Transportation Holding, S.L.U.	Global	100	Controlled investee
Forth Ports Limited	Europe	51	Jointly controlled investee
Seaport Square Associates LP / Seaport Square Parallel LP	North America	50	Jointly controlled investee
TDF S.A.S.	Europe	22	Associate

In addition to the above, PSP Investments consolidates wholly owned subsidiaries that solely provide it with services that relate to its investment activities. Such services consist of investment management and financing of private market investments within the context of PSP Investments' capital market debt program described in Note 8.2.

6.2. Structured Entities

PSP Investments holds interests in partnerships and funds mainly in the context of its investments in private markets. Given their nature, such entities commonly have the characteristics of a structured entity as defined by IFRS. These entities are held as investments and do not expose PSP Investments to additional risks or returns compared to interests held in non-structured entities.

Information regarding structured entities is included, as applicable, within disclosures of investment risk management under Note 7, guarantees and indemnities under Note 16 and commitments under Note 17.

7 — Investment Risk Management

PSP Investments is required to act in the best interests of the contributors and beneficiaries under the Plans and for maximizing returns without undue risk of loss. In pursuit of this objective, PSP Investments established an Enterprise Risk Management Policy (ERM Policy). The ERM Policy provides a framework for identifying, evaluating, managing, mitigating, monitoring and reporting the investment and non-investment risks to which PSP Investments is exposed.

As part of the overall ERM policy, the objective of the Investment Risk Management Policy (IRM Policy) is to support the management of risk inherent to the investment decision making process. The IRM Policy outlines a framework detailing how investment activities should comply with PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite. The IRM Policy also supplements the Statement of Investment Policies, Standards and Procedures (SIP&P), whose objective is to effectively manage investment risks related to the implementation of PSP Investments' various investment strategies. Investment risks include market, credit and liquidity risks.

7.1. Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of an adverse financial outcome due to changes in the factors that drive that value, such as changes in market prices, changes caused by factors specific to the individual investment, volatility in share and commodity prices, interest rate, foreign exchange or other factors affecting similar securities traded in the market.

7.1.1. Measurement of Market Risk

The absolute annualized Value at Risk (VaR) is used as a key measure of total portfolio market risk. The VaR quantifies the loss in value of an investment or an investment portfolio that one can expect, with a given confidence level, not to be exceeded over a given period, due to fluctuations in market prices.

PSP Investments uses a historical VaR incorporating ten years' worth of market returns scaled to a twelve-month holding period at a 95% confidence level. That is, statistically PSP Investments would expect to see losses exceed the VaR only 5% of the time over a one-year period. For investments that are not actively traded, the calculation of the VaR uses securities with similar risk attributes as a proxy.

The VaR is statistically valid under normal market conditions. Although it includes potential losses derived from observed historical returns, it also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

The following table shows the VaR of the total portfolio expressed as a percentage of net investments as at the end of the period:

	March 31, 2023 (%)	March 31, 2022 (%)
VaR	**19.6**	17.4

Stress Testing

Although the 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. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of the Plan Account's net asset values.

The terms to maturity of the classes of financial instruments, outlined in Note 4.1, with the most significant exposure to interest rate risk were as follows as at:

	March 31, 2023					
(Canadian $ thousands)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	—	—	—	—	63,353[A]	63,353
Government and corporate bonds	2,805	42,147	27,491	22,097	1,375[B]	95,915
Inflation-linked bonds	—	20,129	16,386	10,736	—	47,251
Private debt securities	4,289	27,665	47,036	17,138	29,305[C]	125,433
Total fixed income	7,094	89,941	90,913	49,971	94,033	331,952

	March 31, 2022					
(Canadian $ thousands)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	—	—	—	—	55,900[A]	55,900
Government and corporate bonds	1,517	30,023	24,262	20,531	4,841[B]	81,174
Inflation-linked bonds	2,276	19,594	18,979	13,630	—	54,479
Private debt securities	832	21,592	43,340	14,430	26,935[C]	107,129
Total fixed income	4,625	71,209	86,581	48,591	87,676	298,682

[A] Due to their short-term maturity, these investments are not significantly exposed to interest rate risk.
[B] Certain fixed income securities are not significantly exposed to interest rate risk as their prescribed rates are variable.
[C] Information in connection with the terms to maturity of fund and certain directly held investments included as part of private debt securities is not available.

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounting to $708,232 thousand as at March 31, 2023 ($689,660 thousand as at March 31, 2022) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in Note 4.1.4, which amounted to $102,847 thousand as at March 31, 2023 ($90,339 thousand as at March 31, 2022), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 7.1.1.

The terms to maturity of PSP Investments' capital market debt financing are disclosed in Note 8.2.

Interest Rate Benchmark Reform

PSP Investments holds a number of financial instruments that will mature after the date the Interbank Offered Rate ("IBOR") to which they refer is anticipated to be discontinued as a result of the reform. A steering committee oversees the transition from IBORs to alternative reference rates ("ARRs") to mitigate the risks related to the discontinuation or unavailability of such rates, which are primarily operational. With respect to non-derivative financial instruments, PSP Investments has been identifying agreements referring to IBORs and engaging in a timely contract remediation process with the related counterparties. For derivative contracts, PSP Investments has adhered to the International Swaps and Derivatives Association ("ISDA") Fallbacks Protocol that took effect on January 25, 2021, which provides an efficient mechanism to switch to ARRs as IBORs become unavailable.

The following table shows the fair value of non-derivative financial instruments and the notional value of derivative financial instruments that have yet to transition to ARRs. As at March 31, 2023, only instruments referencing US dollar London Interbank Offered Rate ("USD LIBOR") and expected to mature after June 30, 2023, or Canadian Dollar Offered Rate ("CDOR") and expected to mature after June 28, 2024, remain.

(Canadian $ thousands)	USD LIBOR	CDOR
Non-derivative financial assets fair value	31,339	1,798
Derivatives notional	31,231	37,487

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through holding of investments (i.e. direct and indirect holdings of securities, units in pooled funds and units in limited partnerships) or investment-related liabilities in various currencies. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign forward contracts or cross currency swaps, positions in foreign currencies.

The underlying foreign currency exposures of net investments for the Plan Account were as follows as at:

	March 31, 2023	
Currency	Fair Value (Canadian $ thousands)	% of Total
US Dollar	**637,667**	**66.0**
Euro	**116,572**	**12.1**
Hong Kong Dollar	**43,571**	**4.5**
British Pound	**35,653**	**3.7**
Japanese Yen	**23,421**	**2.4**
Indian Rupee	**15,563**	**1.6**
Mexican Peso	**15,199**	**1.6**
New Taiwan Dollar	**8,630**	**0.9**
Singapore Dollar	**8,366**	**0.9**
Swiss Franc	**7,763**	**0.8**
South African Rand	**6,995**	**0.7**
Others	**46,273**	**4.8**
Total	**965,673**	**100.0**

As at March 31, 2023, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $134,938 thousand for the Plan Account (US $84,828 thousand, €10,532 thousand, £1,717 thousand, 91 thousand South African rands, 7,466 thousand Mexican pesos, 974 thousand Australian dollars, 9,101 thousand Indian rupees and 17,572 thousand Japanese yen) which were not included in the foreign currency exposure table above.

	March 31, 2022	
Currency	Fair Value (Canadian $ thousands)	% of Total
US Dollar	540,119	64.0
Euro	88,290	10.5
Japanese Yen	39,243	4.7
British Pound	37,599	4.5
Hong Kong Dollar	24,157	2.9
Australian Dollar	20,241	2.4
Indian Rupee	15,618	1.9
Mexican Peso	12,923	1.5
Swiss Franc	8,598	1.0
New Taiwan Dollar	6,454	0.8
Chinese Yuan	6,330	0.8
South Korean Won	4,851	0.6
Others	39,180	4.4
Total	843,603	100.0

As at March 31, 2022, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $117,803 thousand for the Plan Account (US $78,251 thousand, €9,847 thousand, £2,684 thousand, 92 thousand South African rands, 8,075 thousand Mexican pesos, 1,031 thousand Australian dollars, 11,087 thousand Indian rupees, 17,847 thousand Japanese yen and 135 thousand New Zealand dollars) which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities purchased under reverse repurchase agreements, is unable to meet its financial obligations.

Credit risk encompasses the risk of a deterioration of creditworthiness and the relevant concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer and counterparty that transacts with PSP Investments. To perform this evaluation for public issuers and counterparties, PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security. If the agencies disagree as to a security's credit quality, PSP Investments uses the lowest of the available ratings. For private issuers, PSP Investments assigns internal credit ratings to issuers and measures the combined risk profile against set targets. To assign risk ratings to issuers, PSP Investments uses methodologies comparable to those used by recognized rating agencies.

As at March 31, 2023, the Plan Account's maximum exposure to credit risk amounted to $344 million (March 31, 2022 – $317 million). This amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating for credit-sensitive securities. The concentration of credit risk by credit rating was as follows as at:

	March 31, 2023						
(Canadian $ thousands)	**Government and corporate bonds[A]**	**Inflation-linked bonds[A]**	**Money market securities[A]**	**Reverse repurchase agreements**	**OTC derivatives[B]**	**Private debt securities[A]**	**Total[A]**
AAA–AA	**62,550**	**47,355**	**53,054**	**660**	**308**	**—**	**163,927**
A	**27,840**	**—**	**5,872**	**4,387**	**8,617**	**—**	**46,716**
BBB	**2,739**	**—**	**—**	**235**	**—**	**1,441**	**4,415**
BB or below	**3,111**	**—**	**—**	**—**	**—**	**124,039**	**127,150**
No rating[C]	**429**	**—**	**—**	**—**	**—**	**1,138**	**1,567**
Total	**96,669**	**47,355**	**58,926**	**5,282**	**8,925**	**126,618**	**343,775**

	March 31, 2022						
(Canadian $ thousands)	Government and corporate bonds[A]	Inflation-linked bonds[A]	Money market securities[A]	Reverse repurchase agreements	OTC derivatives[B]	Private debt securities[A]	Total[A]
AAA–AA	52,305	54,573	41,973	1,842	323	—	151,016
A	24,832	—	10,529	7,285	8,026	—	50,672
BBB	1,654	—	—	2,874	—	1,695	6,223
BB or below	2,289	—	—	—	—	105,319	107,608
No rating[C]	582	—	—	—	—	853	1,435
Total	81,662	54,573	52,502	12,001	8,349	107,867	316,954

[A] Includes interest receivable.

[B] As disclosed in Note 4.1.12.

[C] Includes securities for public issuers and counterparties, that are either not rated by credit rating agencies or rated by a single credit rating agency.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts, securities lending and borrowing as well as securities repurchase and reverse repurchase agreements. In order to minimize counterparty risk, PSP Investments requires that counterparties provide adequate collateral and meet its credit rating requirements. PSP Investments frequently monitors the credit rating of its counterparties as determined by recognized credit rating agencies. With respect to derivative contracts, PSP Investments has the ability to terminate all trades with most counterparties whose credit rating is downgraded below its requirements.

For OTC derivatives, PSP Investments' policy also requires the use of the ISDA Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted. In the case of OTC-cleared derivatives, trading activities are regulated between parties under terms that are customary to such transactions.

As a credit mitigation technique, the ISDA Master Agreement contractually binds counterparties to close-out netting provisions in the case of default by one of the counterparties. Additionally, the Credit Support Annex (CSA) to the ISDA Master Agreement enables PSP Investments to realize any collateral placed with it in the case of default of the counterparty. The CSA also requires PSP Investments to contribute further collateral when requested. All collateral transactions under the CSA are in cash, high-quality debt instruments or securities. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. Counterparties are generally authorized to sell, repledge or otherwise use collateral held. Similarly, in the case of OTC-cleared derivatives, collateral is required in cash, high quality debt instruments or securities and can be sold, repledged or otherwise used. PSP Investments does not sell, repledge or otherwise use any collateral held in the form of securities but does reinvest all cash collateral, with respect to derivative contracts.

With respect to transactions involving securities lending and borrowing agreements as well as securities repurchase and reverse repurchase agreements, collateral requirements are in place to mitigate counterparty risk. Notes 2.3.5 and 2.3.6 describe collateral requirements in securities lending and borrowing programs as well as securities repurchase and reverse repurchase agreements.

Information in connection with collateral pledged by PSP Investments and its counterparties is disclosed in Note 5.

In the case of the securities lending program, PSP Investments' exposure to counterparty risk is further mitigated as the custodian of the securities lent assumes the risk that a counterparty will be unable to meet its obligations associated with the collateral requirements.

Management is responsible for counterparty risk monitoring and mitigation as well as maintaining a comprehensive, disciplined, and enterprise-wide process for tracking and managing counterparty risk. As such, management measures counterparty risk on an ongoing basis, evaluates and tracks the creditworthiness of current counterparties and mitigates counterparty risk through collateral management.

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

PSP Investments is subject to ISDA Master Agreements in relation to its OTC derivative financial instruments as described. Such agreements contain close-out netting provisions applicable only in the case of default. In certain cases, such agreements also allow for offsetting. In cases where the conditions for offsetting were met, financial instruments have been presented net in the Statements of Financial Position. Securities repurchase and reverse repurchase agreements described in Notes 2.3.6 and 5 are subject to similar arrangements however they are not offset as the conditions for offsetting are not met.

The following tables present the financial assets and liabilities described above:

Financial Assets

(Canadian $ thousands)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2023						
Reverse repurchase agreements	**5,282**	**—**	**5,282**[A]	**5,045**	**237**	**—**
OTC-derivatives	**8,925**	**—**	**8,925**[B]	**6,366**	**1,898**	**661**
Total	**14,207**	**—**	**14,207**	**11,411**	**2,135**	**661**
March 31, 2022						
Reverse repurchase agreements	12,001	—	12,001[A]	5,788	6,198	15
OTC-derivatives	9,166	817	8,349[B]	7,030	1,231	88
Total	21,167	817	20,350	12,818	7,429	103

Financial Liabilities

(Canadian $ thousands)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2023						
Repurchase agreements	**38,970**	**—**	**38,970**[A]	**5,045**	**33,925**	**—**
OTC-derivatives	**6,675**	**—**	**6,675**[B]	**5,937**	**713**	**25**
Collateral payable	**468**	**—**	**468**[C]	**429**	**—**	**39**
Total	**46,113**	**—**	**46,113**	**11,411**	**34,638**	**64**
March 31, 2022						
Repurchase agreements	16,428	—	16,428[A]	5,788	10,593	47
OTC-derivatives	11,255	817	10,438[B]	6,434	3,800	204
Collateral payable	597	—	597[C]	596	—	1
Total	28,280	817	27,463	12,818	14,393	252

[A] As described in Note 4.1.10.

[B] As described in Note 4.1.12.

[C] As described in Note 4.1.9. The balance consists of cash collateral received with respect to certain OTC derivative transactions and is included in Note 4.1 as part of collateral payable.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

Liquidity risk corresponds to the risk that PSP Investments will not be able to meet its financial obligations on a timely basis, with sufficient and readily available cash resources. PSP Investments' cash position is monitored on a daily basis. In general, investments in cash, money market securities, floating rate notes, bonds and public equities are expected to be highly liquid as they will be invested in securities that are actively traded. Management utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. A liquidity report taking into consideration future forecasted cash flows is prepared and presented to senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, sufficient sources of liquidity are maintained for deployment in case of market disruption.

PSP Investments has the ability to raise additional capital through the use of its capital market debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes. Note 8.2 provides additional information on the usage of the capital market debt program. Furthermore, PSP Investments maintains credit facilities for general corporate purposes. Note 8.1 provides additional information with respect to such credit facilities.

The terms to maturity of the notional amount of derivatives are disclosed in Note 4.1.12.

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2023 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(4,455)	—	—	(4,455)
Interest payable	(433)	(48)	—	(481)
Securities sold short	(10,308)	—	—	(10,308)
Collateral payable	(3,954)	—	—	(3,954)
Securities sold under repurchase agreements	(36,239)	(2,731)	—	(38,970)
Capital market debt financing	(15,450)	(20,049)	(63,823)	(99,322)
Trade payable and other liabilities	(1,540)	(18)	(602)	(2,160)
Total	**(72,379)**	**(22,846)**	**(64,425)**	**(159,650)**

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	4,987	2,570	1,528	9,085
Derivative-related liabilities[A]	(3,803)	(2,115)	(835)	(6,753)
Total	**1,184**	**455**	**693**	**2,332**

[A] Liabilities are presented in the earliest period in which the counterparty can request payment.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2022 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(4,468)	—	—	(4,468)
Interest payable	(303)	(35)	—	(338)
Securities sold short	(9,817)	—	—	(9,817)
Collateral payable	(612)	—	(2,194)	(2,806)
Securities sold under repurchase agreements	(9,201)	(7,227)	—	(16,428)
Capital market debt financing	(32,971)	(8,152)	(53,853)	(94,976)
Trade payable and other liabilities	(1,103)	(13)	(669)	(1,785)
Total	(58,475)	(15,427)	(56,716)	(130,618)

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	3,538	3,030	2,021	8,589
Derivative-related liabilities[A]	(5,601)	(3,661)	(1,353)	(10,615)
Total	(2,063)	(631)	668	(2,026)

[A] Liabilities are presented in the earliest period in which the counterparty can request payment.

8 — Borrowings

8.1. Credit Facilities

PSP Investments maintains a revolving credit facility in the amount of $2 billion and a demand line of credit in the amount of $1 billion (together “the Credit Facilities”).

The Credit Facilities are for general corporate purposes and are available in either Canadian or US currencies. Subject to customary terms and conditions, these Credit Facilities are available at variable interest rates such as the prime rate and the US base rate.

These Credit Facilities were not drawn upon as at March 31, 2023 and 2022.

8.2. Capital Market Debt Financing

PSP Investments’ capital market debt program consists of the private placement of short-term promissory notes as well as medium-term notes issued by PSP Capital Inc., a wholly-owned subsidiary of PSP Investments. The capital raised is primarily used to finance private market investments. It is unconditionally and irrevocably guaranteed by PSP Investments in accordance with its corporate leverage policy.

The maximum amount authorized by the Board of Directors for the capital market debt program is limited to $12 billion for short-term promissory notes for issuances in Canada and the United States combined, and $20 billion for medium-term notes issued globally.

PSP Investments’ capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2023 and 2022.

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

The following outlines the terms as well as the fair value of the notes issued under the capital market debt program allocated to the Plan Account as at:

	March 31, 2023		March 31, 2022	
(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 4.41% and 4.44% and maturing within 120 and 180 days of issuance (March 31, 2022 – between 0.25% and 1.00%, maturing within 30 and 360 days)	**165**	**165**	983	982
Short-term US Dollar promissory notes, bearing interest between 2.40% and 5.56% and maturing within 32 and 365 days of issuance (March 31, 2022 – between 0.15% and 1.15%, maturing within 25 and 365 days)	**29,895**	**29,571**	32,956	32,933
Medium-term Canadian Dollar notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**5,430**	**5,374**	5,497	5,584
Medium-term Canadian Dollar notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**5,850**	**5,763**	5,922	5,898
Medium-term Canadian Dollar notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**—**	**—**	7,193	7,208
Medium-term Canadian Dollar notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**5,164**	**5,063**	5,228	5,274
Medium-term Canadian Dollar notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**5,106**	**4,657**	4,835	4,525
Medium-term Canadian Dollar notes Series 13, bearing interest of 0.90% per annum and maturing on June 15, 2026	**5,970**	**5,484**	6,273	5,811
Medium-term Canadian Dollar notes Series 14, bearing interest of 1.50% per annum and maturing on March 15, 2028	**4,131**	**3,764**	3,931	3,640
Medium-term US Dollar notes Series G1, bearing interest of 1.00% per annum and maturing on June 29, 2026	**5,591**	**5,061**	5,224	4,847
Medium-term US Dollar notes Series G2, bearing interest of 0.50% per annum and maturing on September 15, 2024	**6,989**	**6,595**	6,530	6,219
Medium-term US Dollar notes Series G3, bearing interest of 1.63% per annum and maturing on October 26, 2028	**5,591**	**4,925**	5,224	4,901
Medium-term Canadian Dollar notes Series G4 (Green bonds), bearing interest of 2.60% per annum and maturing on March 1, 2032	**4,131**	**3,802**	4,182	4,023
Medium-term US Dollar notes Series G5, bearing interest at a rate per annum equal to compounded SOFR plus 24 basis points and maturing on March 3, 2025	**5,591**	**5,571**	3,134	3,131
Medium-term US Dollar notes Series G6, bearing interest of 3.50% per annum and maturing on June 29, 2027	**5,591**	**5,461**	—	—
Medium-term Australian Dollar notes Series G7, bearing interest of 4.57% per annum and maturing on August 5, 2032	**861**	**859**	—	—
Medium-term Canadian Dollar notes Series G8, bearing interest of 3.75% per annum and maturing on June 15, 2029	**5,742**	**5,824**	—	—
Medium-term Australian Dollar notes Series G9, bearing interest of 4.82% per annum and maturing on January 31, 2033	**749**	**759**	—	—
Medium-term Euro notes Series G10, bearing interest of 3.68% per annum and maturing on March 1, 2038	**607**	**624**	—	—
Total	**103,154**	**99,322**	97,112	94,976

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

Unrealized losses in connection with borrowings amounted to $1,075 thousand for the year ended March 31, 2023 (unrealized gains of $2,885 thousand for the year ended March 31, 2022).

Interest expense, for the years ended March 31, was as follows:

(Canadian $ thousands)	**2023**	2022
Short-term promissory notes	**919**	63
Medium-term notes	**1,375**	956
Total	**2,294**	1,019

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2023.

				Non-cash changes		
(Canadian $ thousands)	**Opening balance**	**Proceeds from borrowings**	**Repayment of borrowings**	**Foreign exchange losses**	**Fair value[A] gains**	**Closing balance**
Capital market debt financing	**94,976**	**117,211**	**(114,274)**	**2,482**	**(1,073)**	**99,322**
Borrowings	**94,976**	**117,211**	**(114,274)**	**2,482**	**(1,073)**	**99,322**

[A] Includes interest on short-term promissory notes, which added to cost approximates their fair value.

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2022.

				Non-cash changes		
(Canadian $ thousands)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Foreign exchange losses	Fair value[A] gains	Closing balance
Capital market debt financing	71,107	136,196	(109,448)	231	(3,110)	94,976
Borrowings	71,107	136,196	(109,448)	231	(3,110)	94,976

[A] Includes interest on short-term promissory notes, which added to cost approximates their fair value.

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and net income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 13.

9.2. Fund Transfers

PSP Investments did not receive any fund transfers from the Government of Canada for the year ended March 31, 2023 (no transfers for the year ended March 31, 2022) for the Fund.

10 — Segment Information

In order to fulfil its mandate, PSP Investments manages a diversified global portfolio composed of investments in various asset classes and has implemented an investment approach that focuses on the total fund approach rather than only on individual asset classes. The total fund approach guides the long-term investment strategy and focuses on managing total fund allocations and exposures in terms of asset classes, sectors and risk factors.

Accordingly, PSP Investments' investment segments are presented below to reflect the way in which asset classes are managed and how results are reviewed by the entity's senior management for purposes of performance management and decision making. These investment segments include their respective share of investment-related assets and investment-related liabilities as well as borrowings, which are reported separately by nature of the underlying investments as disclosed in Note 4.1. Further, to support PSP Investments' investment approach, a Complementary Portfolio is managed in addition to the individual asset classes' portfolios, which enables PSP Investments to capture investment opportunities that fit the mandate but that are outside the scope of the individual asset classes' investment framework.

Investment segments consist of investments held through direct and co-ownership positions as well as through fund managers and include:

- Public Equity – invests in public market equities and other similar securities.
- Private Equity – invests in private entities with similar objectives.
- Fixed Income – invests in government and corporate fixed income.
- Credit Investments – invests in non-investment grade primary and secondary credit investments.
- Real Estate – invests in real estate assets mainly in retirement and residential, office, retail and other industrial sectors.
- Infrastructure – invests in private entities with a focus on assets in transportation, power generation, telecommunications and other regulated businesses.
- Natural Resources – invests in real assets with a focus on assets in timberlands, agriculture and upstream oil and gas.
- Complementary Portfolio – focuses on investments that are not within the mandate of existing asset classes but are deemed beneficial for the total fund.

The following table presents net investments by investment segment as at:

(Canadian $ thousands)	**March 31, 2023**	March 31, 2022
Public Equity	**220,772**	247,336
Private Equity	**153,837**	147,944
Fixed Income	**186,052**	170,290
Credit Investments	**107,878**	91,556
Real Estate	**132,355**	130,017
Infrastructure	**121,304**	98,303
Natural Resources	**50,717**	48,577
Complementary Portfolio	**8,978**	5,966
Other[A]	**24,692**	23,952
Total	**1,006,585**	963,941

[A] Includes cash and money market securities not managed within the operating segments.

10 — Segment Information (continued)

The following table presents net income (loss) by investment segment for the years ended March 31:

(Canadian $ thousands)	2023			2022		
	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)
Public Equity	**(1,707)**	**(1,788)**	**(3,495)**	16,031	(1,198)	14,833
Private Equity	**4,988**	**(579)**	**4,409**	36,272	(528)	35,744
Fixed Income	**2,639**	**(665)**	**1,974**	(3,448)	(331)	(3,779)
Credit Investments	**12,730**	**(483)**	**12,247**	5,207	(366)	4,841
Real Estate	**2,235**	**(1,469)**	**766**	27,858	(924)	26,934
Infrastructure	**20,775**	**(1,425)**	**19,350**	11,825	(786)	11,039
Natural Resources	**6,603**	**(780)**	**5,823**	6,965	(472)	6,493
Complementary Portfolio	**(335)**	**(11)**	**(346)**	153	8	161
Other[C]	**2,145**	**(714)**	**1,431**	(1,484)	(6)	(1,490)
Total	**50,073**	**(7,914)**	**42,159**	99,379	(4,603)	94,776

[A] As described in Note 11, embedded within investment income are other fees paid by certain pooled fund investments and management fees not paid directly by PSP Investments.

[B] Includes all investment-related and operating expenses as disclosed in Notes 11 and 12, respectively.

[C] Includes cash and money market securities not managed within the operating segments.

11 — Investment-Related Expenses

Investment-related expenses allocated to the Plan Account are comprised of the following for the years ended March 31:

(Canadian $ thousands)	2023	2022
Interest expense	**3,338**	1,057
Transaction costs	**577**	650
External investment management fees[A]	**272**	162
Other (net)	**625**	244
Total	**4,812**	2,113

[A] Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to $802 thousand for the year ended March 31, 2023 ($1,657 thousand for the year ended March 31, 2022). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.5% of the total invested and/or committed amount, totaled $2,436 thousand for the year ended March 31, 2023 ($2,043 thousand for the year ended March 31, 2022). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

Operating expenses allocated to the Plan Account consisted of the following for the years ended March 31:

(Canadian $ thousands)	2023	2022
Salaries and employee benefits	**1,917**	1,547
Professional and consulting fees	**574**	421
Premises and equipment	**78**	70
Market data and business applications	**253**	225
Depreciation of property and equipment	**107**	134
Custodial fees	**21**	21
Other operating expenses	**152**	72
Total	**3,102**	2,490

13 — Allocation of Net Income

PSP Investments' net income is allocated to each Plan Account as follows:

13.1. Investment Income

The investment income is allocated proportionately based upon the net investments of each Plan Account at the time the income was earned.

13.2. Expenses

The Act requires that the costs of operation of PSP Investments be charged to the Plan Accounts. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which Plan Account these costs will be charged, in consultation with the Minister of National Defence and the Minister of Public Safety and Emergency Preparedness. An allocation policy was developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each Plan Account, based upon the net investments of each Plan Account at the time the expense was incurred.

Operating expenses excluding the direct cost of investment activities listed above, for the years ended March 31, were allocated in proportion to the annual amount of net investments of each Plan Account as follows:

(%)	**2023**	2022
Public Service Pension Plan Account	**73.0**	72.9
Canadian Forces Pension Plan Account	**19.4**	19.5
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.2
Reserve Force Pension Plan Account	**0.4**	0.4
Total	**100.0**	100.0

14 — Related Party Transactions

14.1. Certain Investees

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 16 and 17, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and net income as those with unrelated parties.

Transactions between PSP Investments and its consolidated subsidiaries as well as related balances are eliminated upon consolidation and, therefore, are not disclosed in this note.

14.2. The Government of Canada and Government-Related Entities

Since PSP Investments is a Crown corporation as described in Note 1, it is considered to be related to the Government of Canada as well as other entities that are controlled, jointly controlled or significantly influenced by the Government of Canada (together "government-related entities").

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the fund 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 net income as those with unrelated parties. Consequently, PSP Investments is availing itself of the exemption under IAS 24 *Related Parties* from making specific disclosures on transactions and balances with such government-related entities.

14.3. Compensation of Key Management Personnel

Members of key management personnel are related parties of PSP Investments. Key management personnel are those persons having authority and responsibility for planning, directing and controlling PSP Investments' activities, directly or indirectly and consist of members of the Board of Directors, PSP Investments' senior management team and officers. Compensation earned by key management personnel allocated to the Plan Account for the years ended March 31 was recorded in the Statements of Net Income and was as follows:

(Canadian $ thousands)	**2023**	2022
Short-term compensation and other benefits	**68**	53
Long-term compensation and other benefits	**39**	42
Total	**107**	95

As disclosed in Note 16, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

15 — Capital Management

As an investment company, PSP Investments' objectives in managing its capital are:

- To invest fund transfers, outlined in Note 9.2, in the best interests of the beneficiaries and contributors under the Superannuation Acts. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans established under the *Superannuation Acts* and the ability of the Plans to meet their financial obligations. The funds are also invested in accordance with the Investment Risk Management policies which are outlined in Note 7.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc. and its leverage policies, PSP Investments has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 8.2 provides information on the capital market debt financing and Note 7.3 provides information on PSP Investments' liquidity.

The capital structure of PSP Investments consists of fund transfers and capital market debt financing. PSP Investments has no externally imposed restrictions on capital.

16 — Guarantees and Indemnities

PSP Investments provides indemnification to its directors, its officers, its employees and to certain PSP Investments representatives asked to serve as directors or officers of entities in which PSP Investments or its investment entity subsidiaries have made an investment or have a financial interest. As a result, but subject to the Act, PSP Investments may be required to indemnify these representatives for costs incurred, such as claims, actions or litigation in connection with the exercise of their duties, unless the liability of such a representative relates to a failure to act honestly and in good faith. To date, PSP Investments has not received any claims or made any payment for such indemnities.

In certain cases, PSP Investments also provides indemnification to third parties in the normal course of business. As a result, PSP Investments may be required to indemnify such third parties in connection with the performance of their contractual obligations. To date, PSP Investments has not received any claims nor made any payments for such indemnities.

PSP Investments unconditionally and irrevocably guarantees all credit facilities, as well as short-term promissory notes and medium-term notes issued by PSP Capital Inc., as described in Note 8.

In certain investment transactions, PSP Investments and its investment entity subsidiaries provided guarantees, indemnifications or issued letters of credit to third parties, the most significant of which are as follows:

- As at March 31, 2023 and 2022, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to $2,643 million as at March 31, 2023 (March 31, 2022 – $2,051 million), of which $10,920 thousand has been allocated to the Plan Account (March 31, 2022 – $8,575 thousand) plus applicable interest and other related costs. The arrangements mature between June 2023 and June 2042 as of March 31, 2023 (March 31, 2022 – between May 2022 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $1 million as at March 31, 2023 (March 31, 2022 – $1 million), of which $3 thousand has been allocated to the Plan Account (March 31, 2022 – $3 thousand) in relation to investment transactions.

17 — Commitments

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at:

(Canadian $ thousands)	**March 31, 2023**	March 31, 2022
Foreign equity	**12**	12
Real estate	**18,936**	18,088
Private equity	**54,323**	53,364
Infrastructure	**24,389**	15,543
Natural resources	**2,781**	2,160
Private debt securities	**28,764**	23,204
Alternative investments	**8,456**	8,214
Total	**137,661**	120,585

Funding in connection with the above commitments can be called upon at various dates extending until 2041 as at March 31, 2023 (March 31, 2022 – 2040).

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