2023 Annual Report

PSP

Investing for the long term

Public Sector Pension Investment Board

We are PSP Investments

We are one of Canada's largest pension investors.

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

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

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

Table of contents

Chair's message

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

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

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

Delivering on our priorities

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

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

Our thanks and optimism for the future

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

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

Sincerely,

Martin Glynn
Chair of the Board

President and Chief Executive Officer's message

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

Investing for the long term

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

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

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

Achieving success through our people

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

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

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

Strength for the future

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

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

Heartfelt thanks

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

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

Sincerely,

Deborah K. Orida
President and Chief Executive Officer

Our executive team

Deborah K. Orida
President and Chief Executive Officer

Mélanie Bernier
Senior Vice President and Chief Legal and People Officer

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

Oliver Duff
Senior Vice President and Global Head of Credit Investments

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

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

David Ouellet
Senior Vice President and Chief Technology and Data Officer

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

Eduard van Gelderen
Senior Vice President and Chief Investment Officer

FY23 financial highlights

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

Net AUM[1]

$243.7 B

Increase in net AUM

5.7%

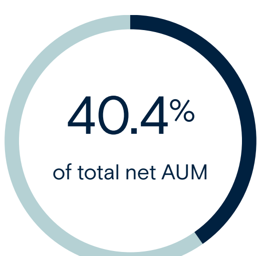
10-year net annualized return	5-year net annualized return	1-year net portfolio return
9.2%	7.9%	4.4%
$130.1 B Cumulative 10-year net portfolio income[2]	$74.3 B Cumulative 5-year net portfolio income[2]	$10.2 B Net portfolio income[2]
$31.8 B Cumulative net investment gains above the Reference Portfolio[3] over 10 years	$22.3 B Cumulative net investment gains above the Reference Portfolio over 5 years	$9.5 B Net investment gains above the Reference Portfolio

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

Capital Markets[1]

$98.5 B
Net AUM

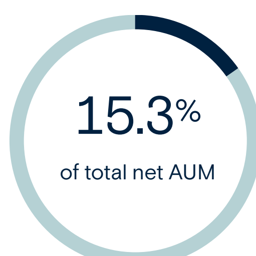
5.8%
5-year annualized return



Private Equity

$37.2 B
Net AUM

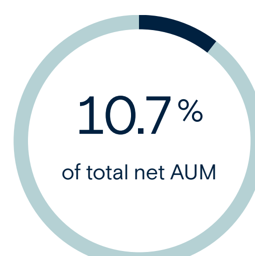
15.6%
5-year annualized return



Credit Investments

$26.1 B
Net AUM

8.9%
5-year annualized return



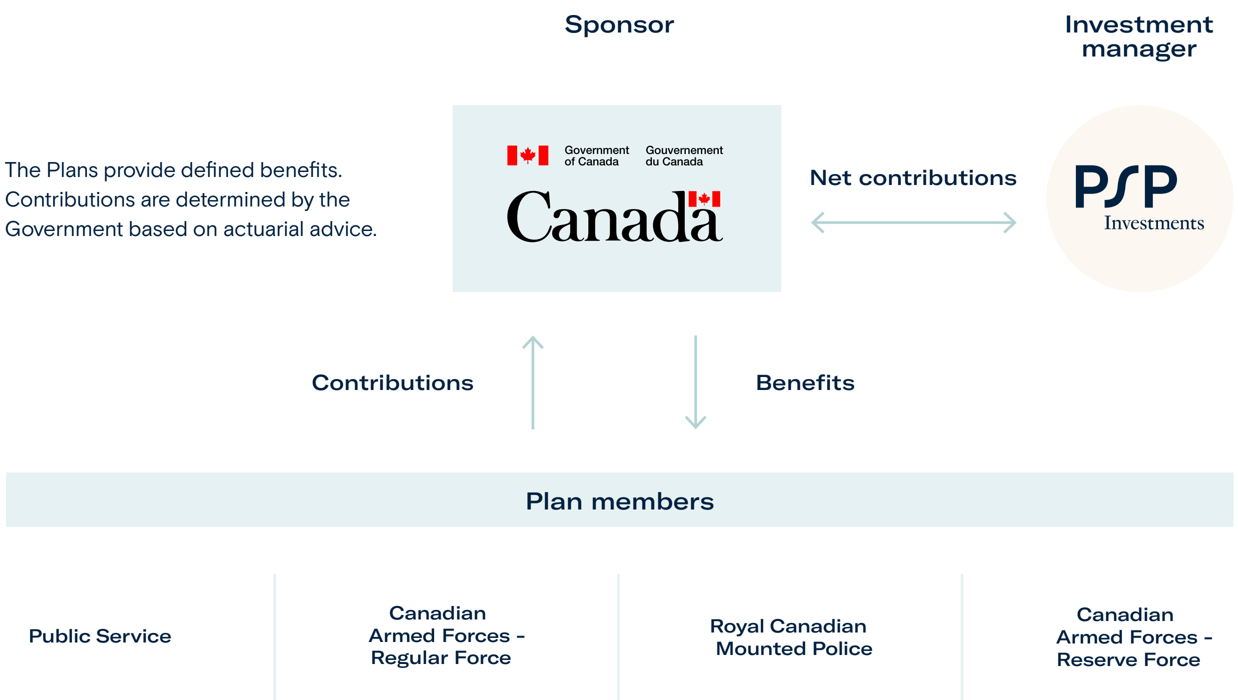
[1] Includes Public Market Equities and Government Fixed Income (excludes Cash and Cash Equivalents).

Real Estate	Infrastructure	Natural Resources
$32.0 B Net AUM	$29.4 B Net AUM	$12.3 B Net AUM
6.0% 5-year annualized return	10.5% 5-year annualized return	8.5% 5-year annualized return
13.1% of total net AUM	12.1% of total net AUM	5.0% of total net AUM

Our mandate

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

In accordance with the *Public Sector Pension Investment Board Act*, our statutory mandate is to: (1) manage amounts that are transferred to us in the best interests of the contributors and beneficiaries under the acts related to the Plans; and (2) invest our assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans and the ability of the Plans to meet their financial obligations.



How we support the sustainability of the public sector pension plans

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

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

In fiscal 2023, we advanced several important corporate priorities:

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

Fiscal 2024 priorities

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

Energize and inspire our people through actions

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

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

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

Our investment approach

We invest for the long term.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Invested in 100+ sectors and industries

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

Asset class mix

As of March 31, 2023

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

[1] Includes Cash and Cash Equivalents.

We make the most of our patient capital.

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

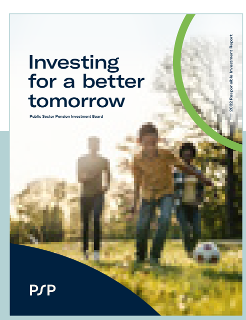
We consider ESG factors in our investment and asset management activities.

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

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

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

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



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Our portfolio in action

Investing in the next frontier for clean energy

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

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

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

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

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

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

Building long-term value

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

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

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

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

Finding success in changing credit markets

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

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

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

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

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

Our people

We owe our success to our people.

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

997
employees

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

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

3% of employees have Veteran status

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

Health and well-being

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

32% women in senior leadership

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

16% BIPOC* in senior leadership

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

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

57 people took on new positions

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

132 employees in director level and above participated in leadership training

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

Future-focused learning

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

Management's discussion of fund performance and results

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

Forward-looking statements

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

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

Mandate

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

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

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

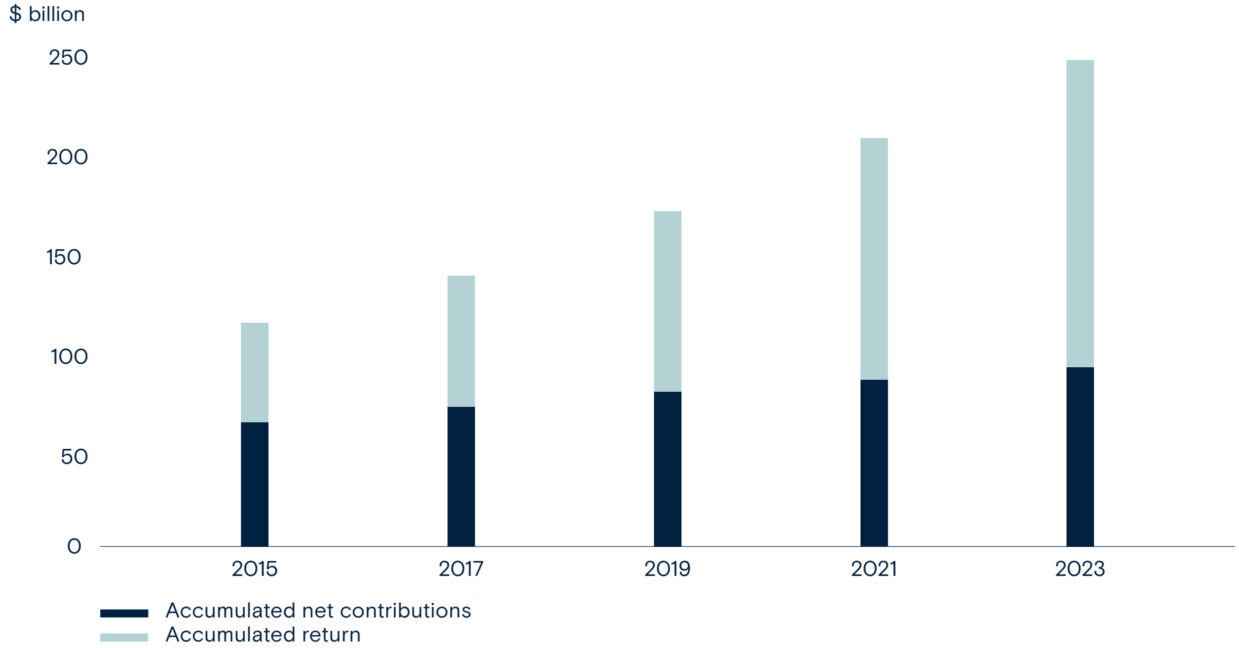
b) invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the pension plans and the ability of those plans to meet their financial obligations.

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

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

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

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



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

Investment framework

The chart below illustrates our investment framework.

Mandate

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

Total portfolio management

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

- Design
- Protect
- Enhance

Active management

Includes the execution of active investment strategies within risk limits

Mandate

Government's funding risk tolerance

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

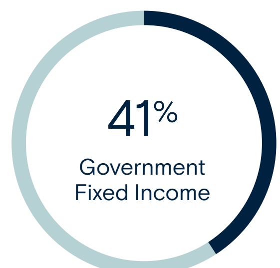
The Treasury Board of Canada Secretariat (TBS) communicates the Government's tolerance for funding risk to PSP Investments, on behalf of the President of the Treasury Board, through a Reference Portfolio, a simple, easily investible portfolio composed of liquid asset classes that could be passively managed.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

Reference Portfolio asset allocation

27% EAFE Equity

19% US Equity

13% Canadian Equity



29% Canadian Government Bonds

5% World Government Bonds

5% World Inflation-Linked Bonds

2% Cash and Cash Equivalents

Portfolio Management

Design of the Policy Portfolio

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

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

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

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

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

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

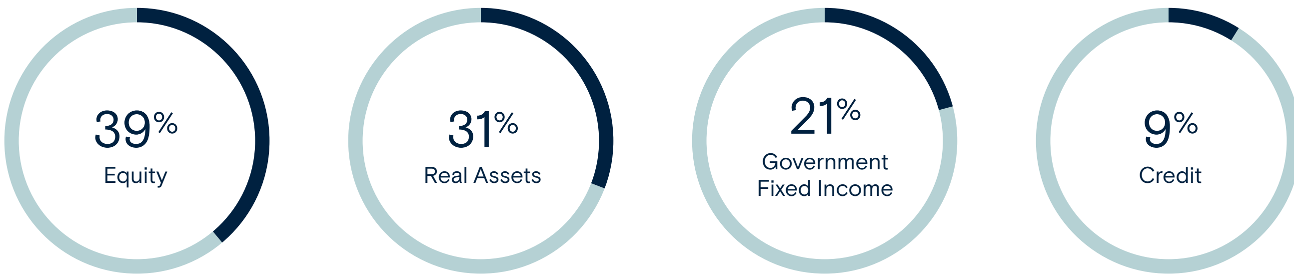
Efforts continue to be focused on enhancing the integration between the design of the Policy Portfolio, which is based on long-term pension funding risk, and the risk management practices that allow daily monitoring of short-term investment risk. A strong link exists between the two and while the Policy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

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

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

Policy Portfolio asset allocation[1]

Effective during fiscal year 2023



27% Public Equity

12% Private Equity

14% Real Estate

12% Infrastructure

5% Natural Resources

19% Fixed Income

2% Cash and Cash Equivalents

Credit Investments

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

Protect the Policy Portfolio

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

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

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

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

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

Enhance the Total Fund

Complementary Portfolio

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

Active management

Actual portfolio

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

Sustainable Investment

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

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

Evaluating the performance of the investment approach

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

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

Measures of success at the total fund level

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

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

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

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

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

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

Asset class performance evaluation

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

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

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

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

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

3 Customized benchmark based on HFRX index.

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

Analysis of total fund results

Net AUM

$243.7 B

Net AUM (FY2022)

$230.5 B

Net Income

$10.2 B

9.2%	7.9%	4.4%
10-year annualized return[1]	**5-year annualized return[1]**	**1-year rate of return[1]**
7.4% 10-year Total Fund Benchmark return[1]	5.5% 5-year Total Fund Benchmark return[1]	(2.8)% 1-year Total Fund Benchmark return[1]
7.6% 10-year Reference Portfolio return[1]	5.8% 5-year Reference Portfolio return[1]	0.2% 1-year Reference Portfolio return[1]

Long-term results

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

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

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

Return compared to Reference Portfolio return

10-year net annualized return[1]

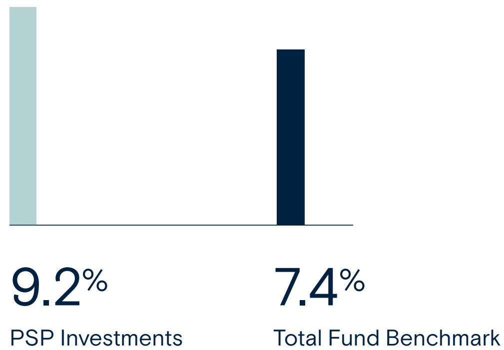
[1] These measures may not have a standardized meaning under IFRS and may not be comparable to similar measures disclosed by our peers. The 10-year and the 5-year annualized net returns are calculated using a time-weighted return methodology. Management views the 10-year and the 5-year net annualized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

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

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

Return compared to the Total Fund Benchmark return

10-year net annualized return[1]



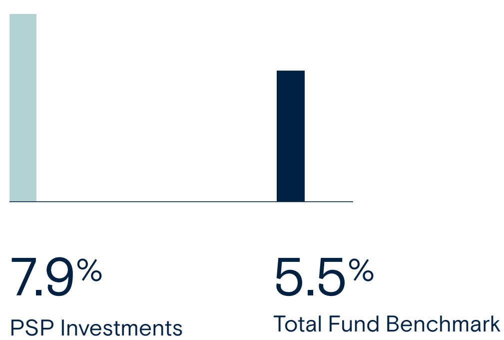
3. Actual Return compared to the Total Fund Benchmark return (5-year)

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

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

Return compared to the Total Fund Benchmark return

5-year net annualized return[1]



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

Short-term results

Macroeconomic and financial market context

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

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

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

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

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

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

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

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

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

Summary of total fund portfolio evolution

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

Total fund performance analysis

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

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

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

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

Currency exposure

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

Complementary Portfolio Performance

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

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

Analysis of results by asset class

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

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

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

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

1 Total portfolio return is net of all expenses.

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

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

4 Annualized return since inception (6.2 years).

5 Annualized return since inception (7.3 years).

6 Figures do not add up due to rounding.

Capital Markets

Net AUM

$98.5 B

Net AUM (FY2022)

$99.9 B

Portfolio Income

$0.1 B

5-year annualized return

5.8%

5.0% Benchmark return

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

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

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

Summary of portfolio evolution

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

[1] Excludes Cash and Cash Equivalents

Public Market Equities

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

Performance analysis

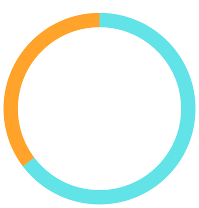
Following years where global markets were swayed by the global pandemic, the emergence of variants and worldwide vaccination efforts, fiscal year 2023 continued to prove challenging for equity markets globally. This year was marked by a series of noteworthy events, including concrete measures taken by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

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

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

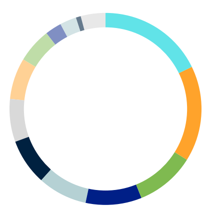
Active Equity investments took advantage of the opportunities presented by the heightened volatility experienced over the last rolling five-year period. While maintaining a long-term focus on its individual holdings, Active Equity employed a more dynamic portfolio allocation process during this time.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

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



Allocation
As at March 31, 2023 (%)

64.9	Passive
35.1	Active



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

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

Fixed Income

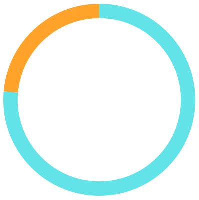
Net AUM	Net AUM (FY2022)	Portfolio Income	5-year annualized return
$45.0 B	$40.7 B	$0.6 B	2.4%
			2.1% Benchmark return

Performance analysis

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

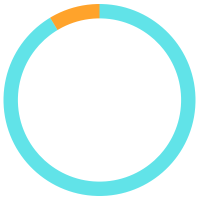
More specifically, prior to the emergence of the significant inflationary pressure observed over the last two years, the Fixed Income asset class was positioned with a strong bias on inflation-protected bonds and in corporate credit, which had a favourable performance impact. Furthermore, due to its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

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



Allocation
As at March 31, 2023 (%)

76.5	Developed Markets
23.5	Emerging Markets



Investment types
As at March 31, 2023 (%)

91.6	Government Bonds
8.4	Corporate Bonds

Private Equity

Net AUM

$37.2 B

Net AUM (FY2022)

$35.4 B

Portfolio Income

$1.2 B

5-year annualized return

15.6%

12.3% Benchmark return[1]

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

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

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

Summary of portfolio evolution

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

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

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

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

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

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

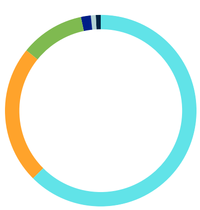
Private Equity investments remain well diversified by geography and sector.

Performance analysis

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

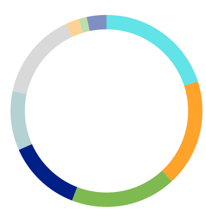
The portfolio has generally proven to be resilient despite market downturn except for certain investments facing specific challenges in the consumer discretionary and communications sectors. The valuation losses are primarily attributable to the unfavourable valuation environment and rising interest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

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



Geographic diversification
As at March 31, 2023 (%)

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



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

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

Credit Investments

Net AUM

$26.1 B

Net AUM (FY2022)

$21.9 B

Portfolio Income

$3.1 B

5-year annualized return

8.9%

3.7% Benchmark return[1]

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

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

Summary of portfolio evolution

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

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

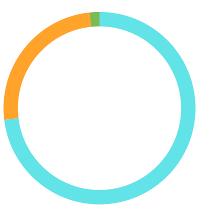
Performance analysis

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

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

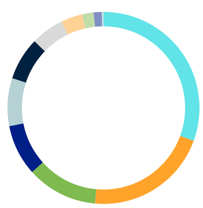
The portfolio was well positioned for rising interest rates with majority floating rate exposure and consequently has not been as significantly impacted from a valuation standpoint. Credit Investments continues to benefit from disciplined credit selection via its investments in private transactions,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

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



Geographic diversification
As at March 31, 2023 (%)

73.2	United States
25.3	Europe
1.5	Canada



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

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

Real Estate

Net AUM

$32.0 B

Net AUM (FY2022)

$31.1 B

Portfolio Income

$0.06 B

5-year annualized return

6.0%

3.0% Benchmark return[1]

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

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

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

Summary of portfolio evolution

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

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

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

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

Fiscal year 2023 acquisitions included:

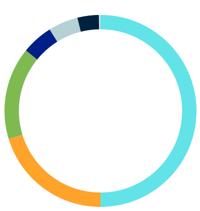
- An expansion of the venture with Longfellow in the UK through an acquisition of an office portfolio to be converted into life science properties.
- A large portfolio of manufactured home communities in the US, in partnership with Cove Communities.
- A Grade A office building in Singapore, to pursue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

Performance analysis

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

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

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



Geographic diversification
As at March 31, 2023 (%)

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

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

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

Infrastructure

Net AUM

$29.4 B

Net AUM (FY2022)

$23.5 B

Portfolio Income

$4.6 B

5-year annualized return

10.5%

4.8% Benchmark return[1]

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

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

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

Summary of portfolio evolution

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

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

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

Notable new investments included:

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

Performance analysis

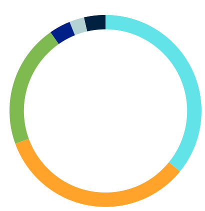
Infrastructure achieved a one-year rate of return of 19.0% in fiscal year 2023. Total portfolio income reached $4.6 billion, driven by valuation gains of $1.8 billion, distributed income net of financing cost of $1.2 billion and currency gains of $1.6 billion.

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

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

Geographic diversification
As at March 31, 2023 (%)

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



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

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

Natural Resources

Net AUM

$12.3 B

Net AUM (FY2022)

$11.6 B

Portfolio Income

$1.3 B

5-year annualized return

8.5%

3.1% Benchmark return[1]

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

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

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

Summary of portfolio evolution

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

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

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

Notable developments throughout the year include:

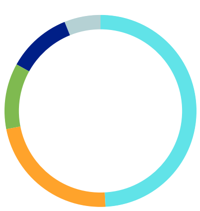
- Expanded the portfolio's wine grape footprint in Australia and in North America for a total of $0.4 billion.
- Bolstered the group's European presence through investments totaling $0.5 billion, including in a new buy and lease opportunity alongside a leading vertically integrated fresh fruit producer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

Performance analysis

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

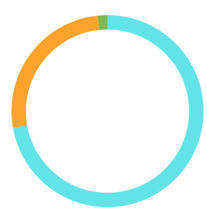
The portfolio demonstrated robust and resilient return performance during a period of rising inflationary pressures, increasing interest rates and global political uncertainty. A large component of valuation gains is attributed to an increase in land value driven by overall higher commodity prices and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

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



Geographic diversification
As at March 31, 2023 (%)

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



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

72.3	Agriculture
26.2	Timber
1.5	Oil and gas

Managing costs

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

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

Total cost ratio

The total cost ratio measures operating and asset management costs as a percentage of average net AUM. Asset management costs include management fees paid to external asset managers and transaction costs. Transaction costs can vary significantly year over year, depending on the complexity and size of investment activities.

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

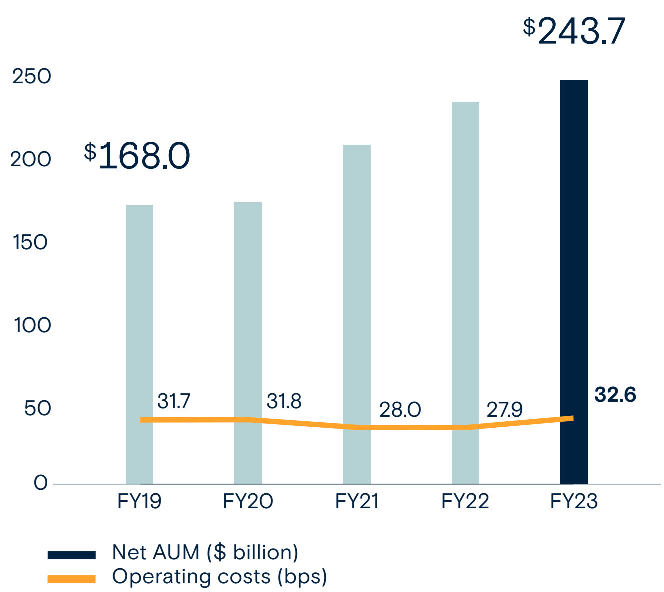
PSP Investments' total cost ratio was 69.4 for fiscal year 2023 compared to 62.8 bps in fiscal year 2022, which marked the more assertive and dynamic recovery following COVID containment measures, including the normalization of travel and employees' activities. The increase was also driven by the higher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

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

Operating costs

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

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



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

Enterprise risk management

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

Risk governance

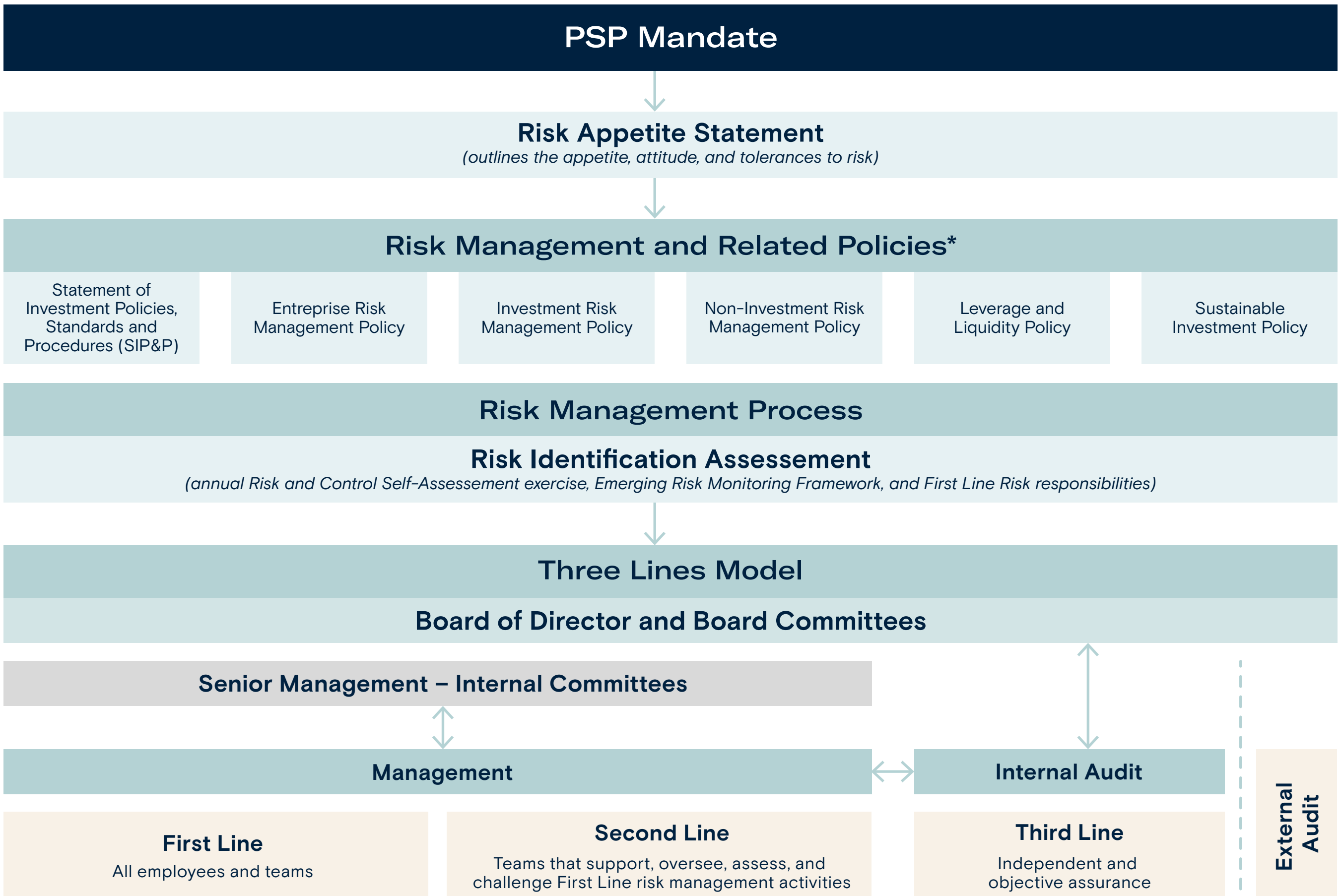
Effective risk management starts with risk governance. The Board of Directors (Board) provides insight on risks, and its Investment and Risk Committee (IRC) reviews, evaluates and approves the guiding principles, limits and policies that govern the overall approach with respect to PSP Investments' risk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

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

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

Enterprise risk management framework

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



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

Risk Appetite Statement

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

Risk management and related policies

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

Enterprise risk categories

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

Risk management process

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

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

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

Three lines model

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

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

Management of Non-Investment Risks

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

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

Management of Investment Risks

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

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

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

Total fund market risk

Objectives

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

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

Stress scenarios

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

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

Credit and counterparty

Objectives

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

Governance

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

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

Liquidity

Objectives

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

Governance

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

Sources of liquidity

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

Collateral management

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

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

Risk management

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

Capital management

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

Funds transfers

As described in our mandate, PSP Investments receives fund transfers from the Government and invests these in the best interests of the beneficiaries and contributors under their respective Acts. The funds received are invested with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans and the ability of those Plans to meet their financial obligations. The funds are invested in accordance with the investment risk management policies established as an element within the enterprise risk management framework.

Leverage

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

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

Global Debt Program and Green Bond Framework

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

Guarantees, Indemnities and Commitments

Guarantees and indemnities

In the normal course of business, PSP Investments provides indemnifications to its Directors, its Officers, its employees and to certain PSP Investments representatives who are asked to serve on boards of directors or investment advisory boards of entities in which PSP Investments or its investment entity subsidiaries have made an investment or have a financial interest. In certain cases, indemnification is also provided to third parties and as a result, PSP Investments may be required to indemnify such third parties in connection with the performance of their contractual obligations. To date, PSP Investments has not received any claims nor made any payments for such indemnities.

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

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

Commitments

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. As at March 31, 2023, these commitments amounted to $33,322 million, compared to $28,834 million in the prior year. The increase compared to last year was due to new signed commitments, primarily in Private Equity, Infrastructure and Credit Investments, partially offset by deployments and asset sales.

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

Governance

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

Why it matters

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

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

Highlights of our corporate governance framework and practices

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

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

Governance framework

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

Board responsibilities

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

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

The Board's specific responsibilities include:

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

Board committees

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

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

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

Learn more
Terms of Reference

Special Committee of the Board

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

Reporting obligations

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

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

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

Ethics and compliance

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

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

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

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

Learn more
Code of Conduct for Directors, Employees and Consultants

Sustainable investment

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

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

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

Cyber security

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

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

Board procedures and effectiveness

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

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

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

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

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

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

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

Fiscal 2023 key activities

The Board established the following three priorities:

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

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

2. **Climate strategy**

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

3. **Asia Pacific**

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

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

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

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

Board succession planning

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

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

Director appointment process

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

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

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

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

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

Diversity

Gender

4	Male
6	Female

Visible Minority

3	Yes
7	No

Age

4	Under 60
4	60 to 65
2	Over 65

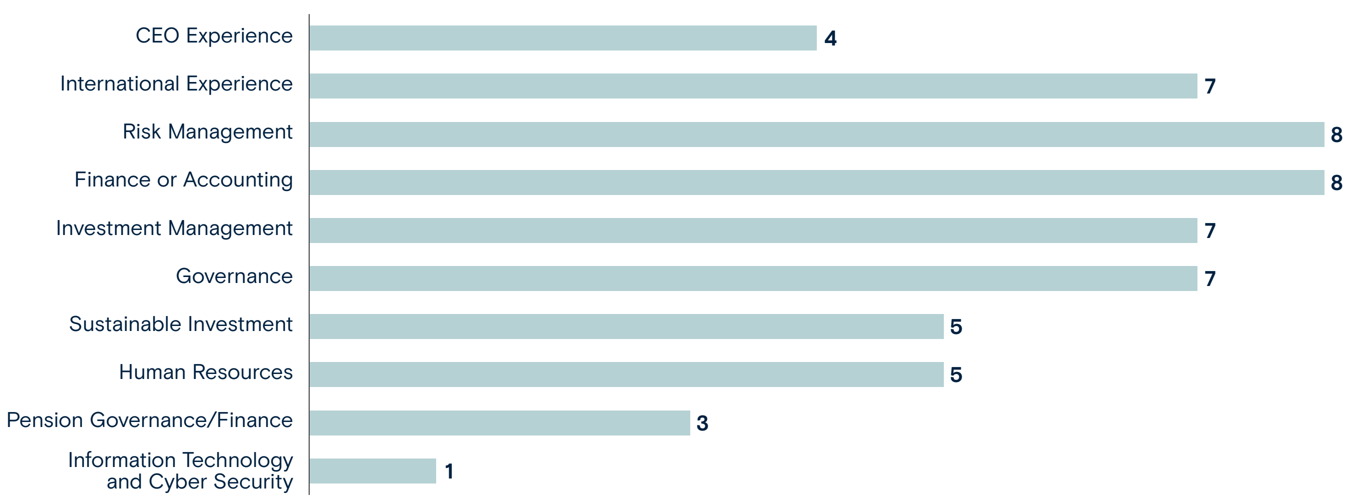
Geography

1	British Columbia
6	Ontario
3	Québec

Tenure

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

Competencies



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

Director education and onboarding

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

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

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

Remuneration

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

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

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

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

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

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

Meeting attendance

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

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

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

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

PSP Investments' Board of Directors met 12 times.

Board committees met a total of 27 times.

Directors' compensation for fiscal 2023

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

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

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

Human Resources and Compensation Committee

Discussion & Analysis

Report of the HRCC

Why compensation matters

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

Compensation principles

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

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

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

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

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

Total compensation

=

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

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

Compensation discussion and analysis

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

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

Compensation framework

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

Promote enterprise-wide collaboration

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

Be competitive to attract and retain the right people

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

Enable individual differentiation

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

Mitigate short-term risk taking

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

Align pay with performance

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

Adapt to changing circumstances

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

Pay level benchmarking process

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

Risk management

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

Key risk mitigating features include:

Significant "at risk" pay

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

Long-term horizon

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

Maximum payouts

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

Robust benchmark investment return targets

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

HRCC discretion to govern pay

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

Total compensation

Annual base salary

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

Total Incentive Plan

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

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

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

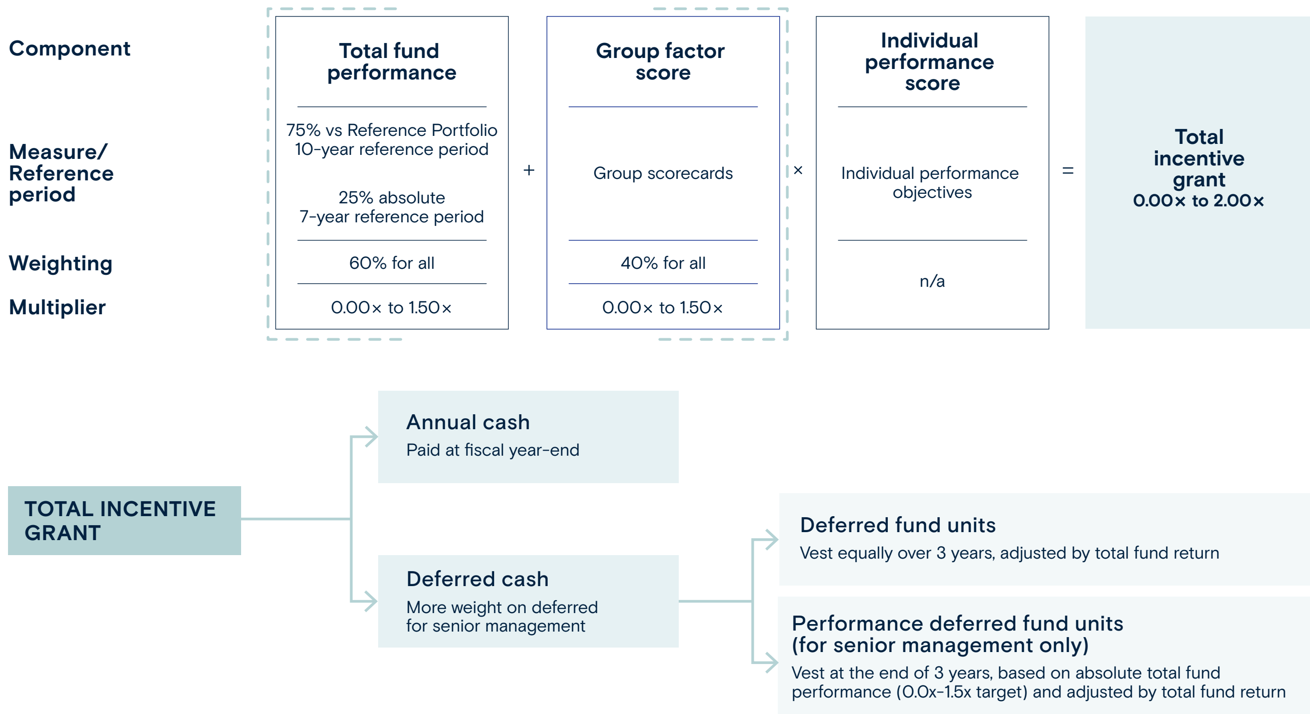
PSP Investments' overall performance scores are determined at the end of each fiscal year. They reflect the achievement of each component and, based on informed judgment, are subject to discretion by the President and CEO, and the HRCC.

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

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

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

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



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

Restricted Fund Units

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

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

Other benefits

Group benefits

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

Retirement savings

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

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

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

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

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

Perquisites

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

Pay mix

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

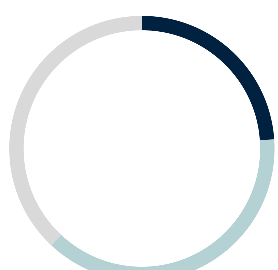
President & CEO

% of target total compensation

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

Other NEOs

Average % of target total compensation



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

1 Annual cash paid out in the current year.

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

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

Our compensation program includes two key investment performance elements:

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

Absolute total fund net performance

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

Relative total fund net performance

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

Compensation decisions made in fiscal 2023

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

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

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

Executive compensation

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

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

Comprehensive fiscal year 2023 total compensation

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

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

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

3 All amounts reported in CAD.

4 All amounts reported in GBP.

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

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

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

Deferred incentive cash grants cumulative value

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

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

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

[2] All amounts reported in CAD.

[3] All amounts reported in GBP.

Retirement benefits

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

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

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

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

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

Defined benefit pension plan (Canada)

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

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

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

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

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

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

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

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

Post-employment policies[1]

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

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

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

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

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

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

5 All amounts reported in CAD.

6 All amounts reported in GBP.

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

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

Directors' biographies

Martin Glynn

CHAIR OF THE BOARD
since May 11, 2018

Director
since January 30, 2014

End of term
June 20, 2024

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

Location
Vancouver, British Columbia, Canada

Top executive experience
- Chief Executive Officer
- International

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

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

Maryse Bertrand

CORPORATE DIRECTOR

Director
since September 7, 2018

End of term
December 16, 2026

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

Location
Montréal, Québec, Canada

Top executive experience
- C-suite or equivalent position

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

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

Gregory Chrispin

CORPORATE DIRECTOR

Director
since March 4, 2022

End of term
March 4, 2026

Committee membership
Human Resources and Compensation and Investment and Risk Committees

Location
Boucherville, Québec, Canada

Top executive experience
- Chief Executive Officer

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

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

David C. Court

CORPORATE DIRECTOR

Director
since October 30, 2018

End of term
December 16, 2026

Committee membership
Audit, Governance and Investment and Risk Committees

Location
Toronto, Ontario, Canada

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

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

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

M. Marianne Harris

CORPORATE DIRECTOR

Director
since December 18, 2020

End of term
December 18, 2024

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

Location
Toronto, Ontario, Canada

Top executive experience

- C-suite or equivalent position
- International

Top related competencies

- Capital markets
- Credit
- Finance
- Governance
- Human resources

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

Miranda C. Hubbs

CORPORATE DIRECTOR

Director
since August 15, 2017

End of term
March 4, 2026

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

Location
Toronto, Ontario, Canada

Top executive experience

- C-suite or equivalent position
- International

Top related competencies

- Capital markets
- Natural resources
- Sustainable investment
- Finance
- Governance

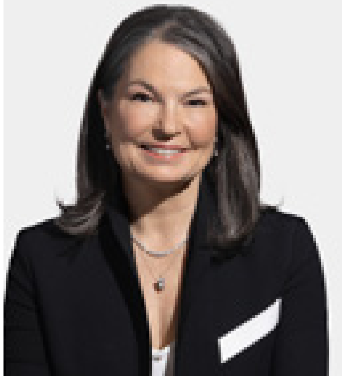
Miranda C. Hubbs is currently a director of Nutrien Ltd. and Imperial Oil. She is also Vice-Chair of the Canadian Red Cross and a director of the Canadian Investment Regulatory Organization (CIRO), the national self-regulatory organization that oversees all investment dealers, mutual fund dealers and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

Susan Kudzman

CORPORATE DIRECTOR

Director
since December 18, 2020

End of term
December 18, 2024



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

Location
Montréal, Québec, Canada

Top executive experience

- C-suite or equivalent position

Top related competencies

- Finance
- Governance
- Human resources
- Pension governance/finance
- Risk management

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

Katherine Lee

CORPORATE DIRECTOR

Director
since June 25, 2018

End of term
December 16, 2026

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

Location
Toronto, Ontario, Canada

Top executive experience

- Chief Executive Officer
- International

Top related competencies

- Credit
- Accounting
- Finance
- Governance
- Risk management

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

Helen Mallovy Hicks

CORPORATE DIRECTOR

Director
since March 4, 2022

End of term March 4, 2026

Committee membership
Audit and Investment and Risk Committees

Location
Toronto, Ontario, Canada

Top executive experience

- International

Top related competencies

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

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

Maurice Tulloch

CORPORATE DIRECTOR

Director
since March 4, 2022

End of term
March 4, 2026

Committee membership
Audit and Investment and Risk Committees

Location
Toronto, Ontario, Canada

Top executive experience

- Chief Executive Officer
- International

Top related competencies

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

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

Consolidated 10-year financial review

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

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

[2] Includes Cash & Cash Equivalents.

Financial Statements

and Notes to the Financial Statements

Table of contents

Management’s Responsibility

for Financial Reporting

The consolidated financial statements of the Public Sector Pension Investment Board (“PSP Investments”) as well as the financial statements of the Public Service, the Canadian Forces, the Royal Canadian Mounted Police, and the Reserve 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:

(Canadian $ millions)	**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	**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:

(Canadian $ millions)	March 31, 2023 Capital Amounts Payable at Maturity	March 31, 2023 Fair Value	March 31, 2022 Capital Amounts Payable at Maturity	March 31, 2022 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

(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	**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

(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	**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:

(Canadian $ millions)	2023			2022		
	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

				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	**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

				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	**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 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:

	March 31, 2023			March 31, 2022		
		Fair Value			Fair Value	
(Canadian $ thousands)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	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

				Less: Related Amounts Not Set Off in the Statements of Financial Position		
(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	Recognized Financial Liabilities	Collateral Held and Not Recognized	Net
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

				Less: Related Amounts Not Set Off in the Statements of Financial Position		
(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	Recognized Financial Assets	Collateral Pledged and Not Derecognized	Net
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:

	2023			2022		
(Canadian $ thousands)	**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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