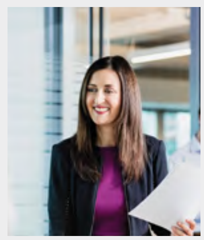
IN VEST ING

PUBLIC SECTOR
PENSION INVESTMENT BOARD
2017 ANNUAL REPORT

PSP INVESTMENTS

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Investing is the very core of our vision, our mandate and our business. It's about seizing opportunities and making the most of them for the funding of the public sector pension plans, in the best interests of contributors and beneficiaries – the men and women who have served Canada throughout their careers.

WE INVEST IN LONG-TERM PARTNERSHIPS

We invest in establishing long-term partnerships with industry leaders that have complementary skills and access to investment opportunities and with which we have aligned interests.

WE INVEST AS ONE PSP

We invest in building a talented, global and diverse team because we firmly believe it will lead to superior performance over the long term.

WE INVEST IN GIVING BACK

We empower our employees to invest time and energy in their communities through our PSP Gives Back program.

WE INVEST IN OUR GLOBAL FOOTPRINT

We invest in the creation of offices in key financial markets to establish critical local connections and to improve local knowledge.

We believe that our all-encompassing approach to investing enriches the lives of pension plan contributors and beneficiaries, our employees, our partners and the communities of which we are a part in Canada and abroad.

WHO WE ARE

The Public Sector Pension Investment Board (PSP Investments) is one of Canada's largest pension investment managers, with $135.6 billion of net assets under management as of March 31, 2017.

We are a Canadian Crown corporation that invests funds for the pension plans of the federal public service, the Canadian Forces, the Royal Canadian Mounted Police and the Reserve Force. Our headquarters are located in Ottawa and our highly-skilled and diverse team of more than 700 professionals works from offices in Montréal, New York and London.

WHAT WE DO

PSP Investments' mandate is to manage the pension funds transferred to it by the Government of Canada in the best interests of contributors and beneficiaries, and to maximize investment returns without undue risk of loss.

To that end, we manage a diversified global portfolio composed of investments in public financial markets, private equity, real estate, infrastructure, natural resources and private debt.

All amounts in Canadian dollars throughout the report unless otherwise specified.

OUR VISION

Our vision is to be a leading global institutional investor that reliably delivers on its risk-return objective by focusing on a total fund perspective and always acting in the best interests of our Canadian sponsor and pension plan contributors and beneficiaries. As we pursue a larger global footprint, we will leverage our talent to deliver agile and efficient execution at scale and to become a sought-after enabler of complex global investments.

IN VEST ING FOR PEACE OF MIND

J. R. Gallant
Lieutenant (Navy)
Executive Officer,
Fleet Diving Unit (Atlantic)

LIEUTENANT GALLANT CAN LOOK TO THE FUTURE WITH CONFIDENCE

We invest with the shared purpose of generating benefits for pension plan contributors and beneficiaries

"When I think about retirement, investing and security are synonymous; they're both about putting the right actions in place now to ensure peace of mind in the future."

As an Executive Officer for the Royal Canadian Navy's Fleet Diving Unit, I take pride in ensuring that the 110 people I work with have everything they need to be safe and successful. As they move up through the ranks and take on more responsibility, my focus will always be on making sure they are well equipped to handle as many different situations as possible.

With my family, it's the same thing: I need to make sure that they are taken care of at all times, whether I'm at home or deployed abroad. I want my children to get off to a great start and to have access to the right kind of education and opportunities.

For me, investing is also about exploiting different opportunities to ensure I won't need to worry about money in the future, and that I can pursue the things I'm passionate about.

Knowing that the professionals at PSP Investments are managing assets set aside by the Government of Canada for my retirement contributes to my peace of mind and will allow me to shift my focus from my fleet to my family with confidence.

My pension will allow me to forget about my paycheques, and focus on pleasure: a volunteer commitment to coaching football, which I plan on pursuing well into retirement.

James Gallant

A STANDOUT YEAR

THIS YEAR'S ANNUAL REPORT THEME REFLECTS OUR ALL-ENCOMPASSING APPROACH TO INVESTING AND OUR CONVICTION THAT IT LEADS TO BETTER RESULTS TO HELP FUND THE PENSION PLANS FOR CONTRIBUTORS AND BENEFICIARIES — THE MEN AND WOMEN WHO HAVE SERVED CANADA THROUGHOUT THEIR CAREERS.

Our mission, after all, is to contribute to the long-term sustainability of the public sector pension plans for the ultimate benefit of the contributors and beneficiaries.

With that in mind, I am pleased to report that 2017 was a standout year with a total net portfolio return of 12.8%. This translates into a five-year net return of 10.6% and a 10-year net return of 6.0%, as well as significant acceleration toward Vision 2021. I could not be prouder of what the management team and every single one of the organization's more than 700 employees accomplished.

BOARD ACTIVITIES

In fiscal year 2017, the Board successfully completed several key projects that were essential in supporting management toward its Vision 2021 goals. The Human Resources and Compensation Committee (HRCC), led by Diane Bean, undertook a special compensation plan review, which included performance benchmarks, threshold levels, and value-added objectives. The Governance Committee, led by Garnet Garven, conducted an extensive review of Board member remuneration and succession planning. Our Investment Committee, led by Timothy E. Hodgson, oversaw the creation of the new total fund portfolios. And our Audit Committee, led by William A. Mackinnon, was instrumental in overseeing the adequacy and effectiveness of the organization's internal controls, as PSP Investments continues to undergo a period of tremendous growth.

Key Board projects included the following:

Compensation plan review

The HRCC provided oversight of an important compensation plan review in fiscal year 2017. The revised plan will pay employees appropriately for individual performance and discourage undue risk taking. It will also provide the Board and management with the tools and flexibility required to make the best reward decisions in an environment that is highly competitive for top-tier talent.

The HRCC also supported PSP Investments' talent and diversity initiatives, both of which are extremely important to the Board. For example, women occupied 30% of senior roles in 2016, exceeding a national labour market availability rate (the share of women in the workforce from which employers can hire) of 27.4%. Members of visible minorities also increased from 15% in 2015, to 16.6% in 2016. Additionally, with the recent opening of the New York and London offices, PSP Investments is further broadening the scope of diversity and expertise throughout the organization.

Board remuneration and succession planning

With the assistance of an external compensation consultant, the Governance Committee conducted an extensive review of director remuneration. The review was designed to ensure PSP Investments continues to have the capacity to attract, retain and motivate high-quality directors with the experience and competencies required to govern a leading global institutional investor. As a result of the committee's hard work, PSP Investments will continue to compensate its directors fairly for their important contribution. The committee has also been working diligently on succession planning for the coming years, including identifying the skills and competencies required for the filling of the vacant eleventh director position in the near term.

Total fund portfolios

In fiscal year 2017, with the oversight of the Investment Committee, PSP Investments created its total fund portfolios. These portfolios support the organization's total fund perspective when developing investment strategies, making business decisions and managing risk, leverage and liquidity. They also provide increased flexibility, and enable a shift toward a more balanced consideration of both total risk and total return.

This means the organization is one important step closer to the "One PSP" vision put forward by André Bourbonnais, our President and CEO: By investing with a total fund perspective — instead of solely via specific asset classes — we can capture investment opportunities that align with our mandate even if they do not fit into a specific asset class.

LOOKING AHEAD

As we ramp up for fiscal year 2018, the Board fully supports André's priorities in the areas of scalability, efficiency and talent.

Scalability refers to targeting larger deals and leveraging partners and investment platforms to scale up private investments and infrastructure. It is essential as PSP Investments is expected to reach $200 billion in assets under management by 2025.

Efficiency refers to having flexible processes, swift and reliable execution, and transparency and predictability. In fiscal year 2018, PSP Investments will continue to make significant strides toward increased operational efficiency. Management will implement initiatives to review the operating models of several departments, optimize processes, and implement new systems.

Furthermore, to sustain our growth, PSP Investments will make talent acquisition and development a key focus. In fiscal year 2018, the organization will develop its talent value proposition and revamp its talent acquisition strategy to attract the right global talent mix. We will also rewrite the rules to foster greater talent acceleration through growth and career development.

The Board looks forward to overseeing and guiding management to deliver on these priorities. As we saw with our successes last year, by ensuring a top-tier governance structure is in place, the Board will continue to provide effective and agile oversight in 2018.

Acknowledgements

In closing, on behalf of the Board, I would like to express my sincere thanks to the external nominating committee, mandated by the Government of Canada to identify and recommend qualified candidates to serve on our Board. As such, their work is essential to facilitating the Board's succession planning. Maintaining a full contingent of high-calibre Board members is especially important for PSP Investments today, in a global environment that is increasingly politically and economically challenging and complex.

My fellow Board members once again provided exceptional support throughout the year. I would like to thank them for their strategic counsel, constructive attitude and unwavering dedication.

I would also like to thank PSP Investments' world-class employees for their hard work and commitment, and senior management, whose expertise and vision are so effectively guiding the organization at this pivotal time in its history.

Michael P. Mueller
Chair of the Board

THE COURAGE OF OUR CONVICTIONS

THIS IS A TRULY EXCITING TIME FOR PSP INVESTMENTS. WE ARE IN A STATE OF ACCELERATED EVOLUTION.

Thanks to a clear vision and well-thought-out plan, our employees are working as one to simultaneously carry out a broad range of strategic initiatives — with contributors and beneficiaries at the heart of everything we do.

As you will see throughout this report, we are doing something a little different this year. We have included a theme — Investing — to reflect our commitment to those contributors and beneficiaries, as well as our employees, partners, and the communities of which we are a part, in Canada and abroad.

In addition, we have included five stories featuring our people, and those whose lives we touch, to convey more about who we are — and our pride in what we do.

A CULTURAL SHIFT

The market has recently become more challenging, and with it, our competition has become increasingly sophisticated. We responded with Vision 2021, our five-year strategic plan. This includes implementing our total fund perspective; increasing collaboration and knowledge sharing; seeking opportunities to invest innovatively and capture value; fostering relationships with partners; and continuously improving efficiency.

The fact that we have made progress on each of these fronts speaks to the strength of our organization, and the courage of our people. The types of employees we look for are those with innovative ideas and an entrepreneurial spirit. We need them to be empowered to share their insights, and take action.

This shift in our culture, which may have seemed like a revolution to some, was actually a natural evolution — the seeds were already there — and it was absolutely necessary if we were to raise the bar.

I am pleased to say, the results of our employees' efforts are proof positive that Vision 2021 is within reach.

2017 RESULTS

For the year ending March 31, 2017, our portfolio return was 12.8% net of all costs. We delivered a net return of 10.6% on a five-year basis, exceeding our policy benchmark; and we exceeded our long-term return objective by delivering a net return of 6.0% on a 10-year basis. We also reached $135.6 billion of net assets under management at fiscal year end, and expect to manage $200 billion by 2025.

Our results reflect a combination of strong global markets and a strong performance in Public Markets, Private Debt, Real Estate, Infrastructure and Natural Resources. The total portfolio generated significant returns and, despite market volatility, proved resilient to the fallout from the UK Brexit referendum, the US presidential election and other global macroeconomic factors (see more on p. 39). On the other hand, despite a formidable turnaround by Guthrie Stewart and his team, Private Equity's performance remains a challenge. Though the asset class grew its portfolio by $3.4 billion, overall results were negatively impacted by certain legacy investments in technology and communications. We believe that a better constructed and more diversified portfolio will yield the expected performance in the short- to medium-term.

ADVANCING OUR STRATEGIC PLAN

As we continued to grow our assets under management and expand into new geographic markets, the entire organization worked together to advance the five strategic axes of our Vision 2021 plan:

Cultivate One PSP: In fiscal year 2017, with the oversight of the Investment Committee, PSP Investments created its total fund portfolios. These portfolios will allow us to pursue opportunities that will benefit overall performance, especially when the opportunity does not fit within one specific asset class. Cultivating One PSP is not limited to investment activities, however. It is also reflected in our commitment to the development of a common corporate culture of collaboration and teamwork, which is highlighted in the story featuring Tatiana Lewin, Director, Legal Affairs, on p. 22.

Improve our brand locally and internationally: Throughout the year, we made significant strides in defining PSP Investments' identity and increasing our visibility with carefully targeted social media, traditional media and public speaking initiatives. In order to find the right partners to support our growth as we move into new markets, it is critical that our name be top of mind with a strong brand. To that end, I invite you to read about the relationship we are developing with AlixPartners on p. 12. It is a great example of the type of partnerships we are looking to create.

Because defining our identity begins with how we operate internally, we also evolved our communications approach with employees to foster increased openness, dialogue and transparency. Employees are now fully aware of the role they each play in our strategy and business plan, and benefit from more direct and frequent interactions with senior management.

Increase our global footprint: In fiscal 2017, the New York office completed its initial hiring plan. We also opened our London office as our European hub, with top-tier teams in Private Equity, Private Debt, Real Estate and Infrastructure. Both offices combine expatriated PSP Investments employees from Montréal with locally sourced talent. As illustrated by the story featuring one of those expats — Patrick Charbonneau, Managing Director, Infrastructure Investments (Europe) — on p. 28, establishing our presence in these markets constitutes a long-term investment that puts us closer to larger, more complex deals. Having local, well-connected teams on the ground will also facilitate critical, local relationships and help us build strong strategic partnerships. In fiscal 2018, we plan to follow this up with an office in Asia.

Increase scalability and efficiency: We revisited the operating model of our public equities team and introduced a new Global Equity Research platform. With the new model, we will expand the internally managed active equity investment function and centralize the public equity research function. This will allow us to optimize knowledge sharing across all our teams, better manage risks across portfolios, and avoid duplication of research — giving us a decisive edge in the market place.

Develop our talent: The Human Resources team has been extremely active in fiscal year 2017 in its mission to help PSP Investments become an employer of choice. Aside from focusing on the creation of our new talent attraction and retention strategy, they also reviewed our compensation plan. In fiscal year 2018, we will implement this new plan to encourage accountability, and better align organizational and individual performance, to reward outstanding results.

Looking ahead: Agility and flexibility

It is true that, as pension fund managers, our obligations are long term by nature. But having a long-term horizon does not mean we need to — or ought to — give up on flexibility. We must remain opportunistic and alert in order to capitalize on market cycles. This sometimes entails selling assets before they have reached full maturity, or investing in assets that do not fall within our traditional groups. Likewise, agility — our ability to respond quickly to seize more complex global transactions — will be ever more crucial going forward, as competition intensifies and the geopolitical landscape continues to shift.

The changes we have implemented in the last two years are empowering our people to embrace the organization's mission, and fulfil our shared purpose of contributing to the financial security of the contributors and beneficiaries who have served Canada in their careers. The story of Lieutenant (Navy) James Gallant on p. 4 of this report embodies that shared purpose.

In fiscal year 2018, we will continue to build on the solid foundations created since PSP Investments' inception. Efficiency and talent development strategies will be our next areas of focus as we aim to become more agile and flexible, and invest in our people by supplying them with the tools they need to grow.

ACKNOWLEDGEMENTS

I would like to thank our employees for their hard work and commitment to our organization, and for always keeping the best interests of pension plan contributors and beneficiaries at heart. Moreover, I'd like to praise them for the time they proudly invest in their communities, including as part of the PSP Gives Back volunteering initiative. I invite you to read the story on p. 18, in which Karine Dion, Senior Director, Business Planning, talks about her team's experience at Montréal's Welcome Hall Mission.

I'd also like to acknowledge the senior management team for expertly crafting and steering our strategic direction. Together, we are transforming PSP Investments from being one of the industry's best-kept secrets, into a top-of-mind enabler of complex global investments.

Finally, I'd like to express my gratitude to the Board of Directors for the confidence they place in us, and for the oversight and guidance they provide. Their role in the implementation of Vision 2021 has been invaluable.

André Bourbonnais
President and
Chief Executive Officer

> AGILITY — OUR ABILITY TO RESPOND QUICKLY TO SEIZE MORE COMPLEX GLOBAL TRANSACTIONS — WILL BE EVER MORE CRUCIAL GOING FORWARD, AS COMPETITION INTENSIFIES AND THE GEOPOLITICAL LANDSCAPE CONTINUES TO SHIFT.

INVESTING IN LONG-TERM PARTNERSHIPS

Jay Alix
Founder, AlixPartners

Guthrie Stewart
Senior Vice President and Global Head of Private Investments, PSP Investments

PSP INVESTMENTS AND ALIXPARTNERS
Building a solid partnership based on a shared vision for long-term growth

"Investing is about more than providing capital; it's an opportunity to build mutually beneficial relationships that can create long-term value. PSP Investments and AlixPartners are building a relationship that will generate wide ranging benefits for years to come."

At AlixPartners, our business is to support companies around the world with advisory services when it really matters. When it really mattered for us, PSP Investments, together with other partners, helped our firm acquire long-term capital and supporters for the future growth of AlixPartners.

Since then, we are developing an enviable relationship. PSP Investments has rapidly become a trusted business partner providing valuable input and judgement on strategy, leadership and finance. Together, we collaborate on new ideas in line with our common vision for long-term growth, we share knowledge on a wide breadth of industries, and we offer help in evaluating investment opportunities.

This burgeoning partnership has allowed AlixPartners to aim its sights on a longer horizon, where our goals are focused on building value through growing our company. If PSP Investments isn't already on the short list for an organization seeking long-term growth capital and a true business partner, it should be.

Jay Alix

Fiscal Year 2017

FINANCIAL HIGHLIGHTS

12.8%

TOTAL NET PORTFOLIO RETURN

$13.7 BILLION*

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

10.6%

FIVE-YEAR NET ANNUALIZED RETURN

$57.5 BILLION

OF CUMULATIVE 10-YEAR NET INVESTMENT INCOME

$17.8 BILLION

IN NEW INVESTMENTS AND COMMITMENTS TO PRIVATE MARKETS AND PRIVATE DEBT IN FISCAL YEAR 2017

6.0%

10-YEAR NET ANNUALIZED RETURN

* Based on market value of assets as at March 31, 2017, taking into account timing and size of contributions.

$135.6 BILLION NET ASSETS

INCREASE IN NET ASSETS

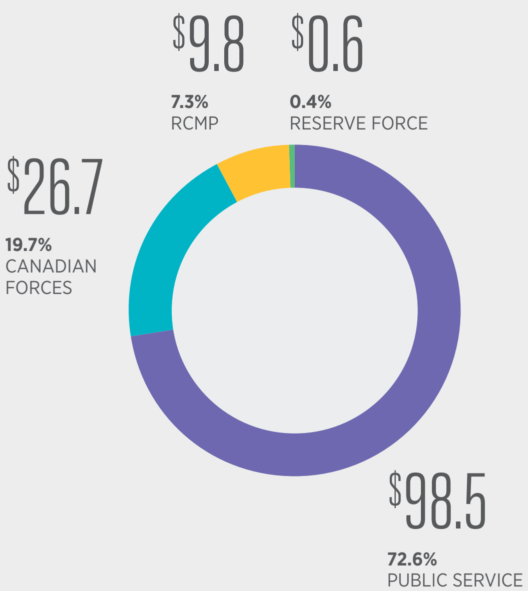
16.1%

NET CONTRIBUTIONS

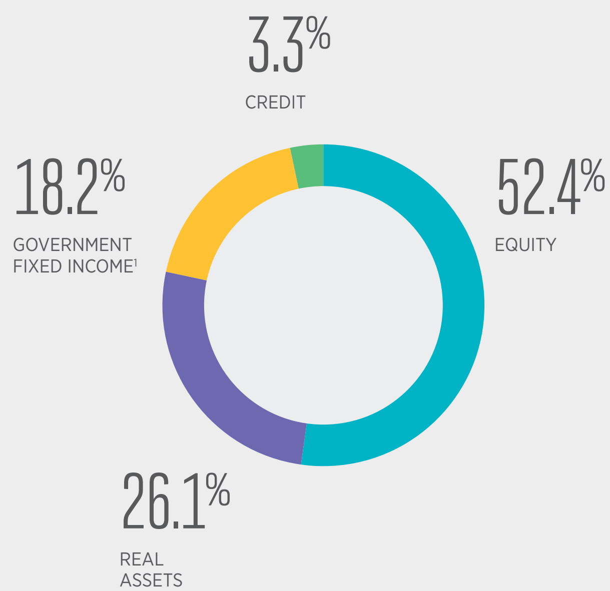
$3.6

BILLION

NET ASSETS PER PENSION PLAN ACCOUNT ($ billions)
As at March 31, 2017



ASSET MIX
As at March 31, 2017



[1] Includes cash and cash equivalents.

Fiscal Year 2017

FINANCIAL HIGHLIGHTS

PUBLIC MARKETS[1]

$77.2 BILLION NET ASSETS

16.0% ONE-YEAR RATE OF RETURN

10.9% FIVE-YEAR ANNUALIZED RETURN

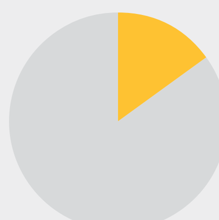
56.9% OF TOTAL NET ASSETS

REAL ESTATE

$20.6 BILLION NET ASSETS

10.8% ONE-YEAR RATE OF RETURN

12.3% FIVE-YEAR ANNUALIZED RETURN



15.2% OF TOTAL NET ASSETS

PRIVATE EQUITY

$15.9 BILLION NET ASSETS

(3.4)% ONE-YEAR RATE OF RETURN

7.8% FIVE-YEAR ANNUALIZED RETURN

11.7% OF TOTAL NET ASSETS

[1] Includes public market equities and government fixed income.
Total net assets exclude cash and cash equivalents.

INFRASTRUCTURE

$11.1 BILLION NET ASSETS

8.2% OF TOTAL NET ASSETS

14.4% ONE-YEAR RATE OF RETURN

11.7% FIVE-YEAR ANNUALIZED RETURN

NATURAL RESOURCES

$3.7 BILLION NET ASSETS

2.7% OF TOTAL NET ASSETS

19.5% ONE-YEAR RATE OF RETURN

14.1% FIVE-YEAR ANNUALIZED RETURN

PRIVATE DEBT

$4.4 BILLION NET ASSETS

3.3% OF TOTAL NET ASSETS

27.5% ONE-YEAR RATE OF RETURN

23.2% SINCE INCEPTION ANNUALIZED RETURN (1.3 years)

Total net assets exclude cash and cash equivalents.

IN VEST ING IN GIVING BACK

Karine Dion
Senior Director, Business Planning
PSP Investments

KARINE AND HER TEAMMATES GIVE BACK

They are among the more than 460 employees who have taken part in PSP Gives Back since the program's launch in 2016

> *"When we added up all the work we did at Welcome Hall Mission that day, and the positivity that came from our experience, it exceeded all of our expectations. It reminded us of the importance of giving back."*

Each year, the PSP Gives Back program offers us the opportunity to do two days of fully-paid volunteer work in our community. It is a concrete example of how our culture of collaboration empowers and enables us to make a difference.

I believe that, as individuals, the most precious thing we can do is invest our time. For some helping out at Welcome Hall Mission that day, it was their first time volunteering. We were there to lend a hand at their food bank that distributes more than 850,000 kg of groceries each year.

For us, the big payoff was knowing that we were working together and making a solid contribution to the community. In this context, the benefits of our collaboration were even more obvious than at work. Every minute we spent there made a difference in someone's life. It motivated us to work with energy and enthusiasm.

In exchange for the hours we invested, we each got so much more out of the experience than we expected. We could see that our efforts were improving the lives of others and it inspired us to contribute even more in the future. This is what I believe fuels PSP Gives Back.

Karine Dion

INVESTING RESPONSIBLY

PSP Investments has adopted a Responsible Investment Policy that embodies our belief that responsible corporate behaviour with respect to environmental, social and governance (ESG) factors has a positive influence on long-term financial performance.

The integration of ESG factors in investment decision making is well established across our asset classes. When analyzing the risks and opportunities inherent to an investment, we work to identify, monitor and mitigate ESG issues that are, or could become, material to our long-term financial performance.

As a long-term investor, we believe in the importance of establishing strong governance oversight for all our investments. We encourage corporate conduct aimed at enhancing long-term financial performance through ongoing dialogue with boards of directors and senior management of the private and public companies in which we invest.

For details: Responsible Investment Policy.

MAKING A DIFFERENCE BY INVESTING RESPONSIBLY

Fiscal year 2017 marks an important milestone for us with the creation of a dedicated Responsible Investment group and the expansion of in-house capabilities in respect to ESG matters. The Responsible Investment group reports to the Chief Investment Officer and ensures that ESG factors are considered more broadly and consistently within PSP Investments and across all asset classes.

To this end, the Responsible Investment group's mandate is articulated with four key pillars:

FOUR KEY PILLARS

- **POLICY DEVELOPMENT AND STRATEGY**
  Develop responsible investment policy and strategic initiatives.
  Monitor ESG themes and measure risks for each asset and sub-asset class, and on a total portfolio basis.
- **ADVISORY ROLE TO BOARD, PRESIDENT AND CEO, AND INVESTMENT GROUPS**
  Provide advice and guidance to the Board, the President and CEO, and investment groups on ESG trends and practices to ensure they form part of the investment decision making process.
- **RESPONSIBLE INVESTMENT OVERSIGHT**
  Pursue active ownership through proxy voting and engagement activities with public issuers.
- **ESG TRAINING**
  Increase internal capabilities so ESG factors are adequately considered during the investment decision making process.

PSP Investments' responsible investment activities are highlighted in our inaugural standalone publication: 2017 Responsible Investment Report.

FISCAL YEAR 2017 INITIATIVES

Public markets

At PSP Investments, we use our ownership positions to promote good corporate governance practices by exercising our proxy voting rights and actively engaging with publicly-listed companies.

Proxy voting

Our Proxy Voting Guidelines address issues of corporate governance, as well as the principles on which we rely in determining our voting decisions. We give due consideration to corporate governance principles when assessing the merits of an issue, and exercise our voting rights with a view to maximizing shareholder value.

For details: Proxy Voting Guidelines.

Engagement activities

With the assistance of a service provider, we actively engage in direct dialogue with public companies to improve their ESG practices. Public companies are selected for engagement based on a process that accounts for such factors as the ability to create shareholder value, prospects for success and the relevancy of issues. The intensity of our engagement with public companies evolves over time. Some engagements entail one or two meetings over a period of months; others are more complex and warrant multiple meetings with board members and senior management over several years.

In addition to our direct engagement efforts with public companies, we participate in collaborative governance initiatives and engagements with other like-minded institutional investors to effectively encourage change with regard to ESG issues.

Private asset classes

For our investments in real estate, private equity, infrastructure, natural resources and private debt, we work to identify ESG risks, including those linked to carbon emissions, climate change, health and safety, human rights and business ethics. ESG risk analysis is fundamental to our due diligence process and addressed in each investment recommendation submitted to the Board of Directors' Investment Committee, the President and CEO, and other approving officers. Throughout the life of an investment, our investment teams adequately monitor ESG factors and, when risks arise, they ensure that mitigation measures are implemented as necessary.

Environmental assessment

As a Crown corporation, PSP Investments is subject to the *Canadian Environmental Assessment Act, 2012*. In analyzing the risks in any investment, we identify, monitor and mitigate environmental risks that are or could become material to long-term financial performance. We take these risks into consideration as part of the due diligence process with respect to potential investments and ongoing monitoring of investments.

In fiscal year 2017, all investments reviewed by PSP Investments were considered unlikely to cause significant adverse environmental effects.

IN VEST ING AS ONE PSP

Tatiana Lewin
Director, Legal Affairs
PSP Investments

TATIANA IS PART OF A GLOBAL TEAM

She plays an integral role in investment deal teams

"Everyone at PSP Investments has a role to play in executing the investment strategy – whether in business or investment roles. For me, investing means putting money to work as part of a smart and well thought out plan with the collaboration of some of the best in the business."

PSP Investments' reputation precedes us; our agility and our ability to enable complex global investments mean that we are always working on innovative solutions with our business partners. This leads to lots of opportunities for us to provide input on exciting projects.

As part of the Legal Affairs team, I support negotiations by getting a solid understanding of the investment's intricacies and by preparing contracts that ensure deals are right for all parties involved. I take pride in working with asset class teams in all of our offices to materialize the global investment plan.

Our culture fosters an atmosphere of collaboration and teamwork. We are all continuously raising the bar on the work we do, and we feel empowered in our roles because they are recognized as essential to PSP Investments' success.

I'm proud to play an active role in PSP Investments' international growth strategy. I can see first-hand the importance of collaboration between offices, and the opportunities available when connecting strategists from the investment teams to our professionals specialized in Human Resources, Communications, Legal Affairs and Taxation, as well as many others, to facilitate hundreds of deals every year.

Tatiana Lewin

Tatiana Lewin

KEY CORPORATE OBJECTIVES

PSP Investments developed an ambitious business plan for fiscal year 2017. It was a one-year articulation of Vision 2021, our five-year corporate strategy to achieve our desired end state.

Our corporate objectives and initiatives are channelled through five strategic axes that guide our actions and measure our success. Each axis is critical to achieve our vision of becoming a leading global institutional investor that reliably delivers on its risk-return objective by driving a total fund perspective and striving to be an agile and sought-after enabler of complex global investments.

In fiscal year 2017, we successfully delivered on our objectives and established a transformational foundation. We built strong organizational momentum, which we will continue to leverage in fiscal year 2018 and beyond.

As we move forward, we will consolidate the progress made to date and continue to focus on priorities to add value to the organization and positively impact operations, while always acting in the best interests of Canadian contributors and beneficiaries.

INTEGRATED EXECUTION PLAN

Our corporate objectives, fiscal year 2017 achievements and fiscal year 2018 priorities are summarized as follows:

STRATEGIC AXIS CULTIVATE ONE PSP

CORPORATE OBJECTIVES (Vision 2021 elements)	FY2017 ACHIEVEMENTS	FY2018 PRIORITIES
Total fund Apply a total fund perspective to investment strategies, decision making processes, risk, leverage and liquidity management.	Delivered benchmark performance within our Policy Portfolio guidelines and added value through active management within total fund risk limits. Implemented a CIO Group to seek greater total fund perspective, guidance and alignment with asset classes. Developed new frameworks to guide total fund decisions regarding elements such as leverage, liquidity and collateral. Implemented a new compensation system to better align performance management and rewards with new total fund views and desired collaboration.	Continue to operationalize total fund frameworks to ensure total fund governance and oversight. Develop more sophisticated total fund reporting and analytics to increase efficiency and enhance total fund decision making. Implement total fund portfolios to enhance scalability, provide additional flexibility in deal selection and improve total fund risk-return profile. Develop corporate views on key ESG themes in order to guide the analysis of potential investments and the review of the current portfolio.
Collaboration Increase collaboration and knowledge sharing across asset classes, other internal groups, and with external partners and stakeholders.	Delivered on a large number of cross-departmental initiatives that advanced our strategic plan. Pursued numerous investment opportunities on which multiple asset classes collaborated.	Continue to improve collaboration to increase the quality of insights shared across the organization.

STRATEGIC AXIS IMPROVE BRAND LOCALLY AND INTERNATIONALLY

CORPORATE OBJECTIVES (Vision 2021 elements)	FY2017 ACHIEVEMENTS	FY2018 PRIORITIES
Communication and branding Improve visibility with a well-defined brand that promotes PSP Investments as an agile and sought-after enabler of complex global transactions.	Enhanced brand awareness nationally and globally. Increased quality and quantity of earned media coverage and amplified social media presence. Deployed public speaking strategy to increase participation at business, industry and academic events and conferences.	Build and refine the PSP Investments brand and our position in the marketplace. Continue to engage with government stakeholders on matters related to the funding of the public sector pension plans. Enhance relations with governments in key investment markets.
Partnerships Position PSP Investments as an employer, partner and investor of choice.	Consolidated presence to enhance capital deployment targets and strengthen operating model.	Strengthen strategic partnerships to attain greater investment scalability and maximize value.

STRATEGIC AXIS INCREASE GLOBAL FOOTPRINT

CORPORATE OBJECTIVES (Vision 2021 elements)	FY2017 ACHIEVEMENTS	FY2018 PRIORITIES
International offices Expand into new geographies to access local knowledge and market insights and enhance execution of global transactions.	Built our New York presence by expanding the team and strengthening our operating model. Established our London office with multi-asset class capabilities.	Expand the New York and London offices by increasing asset class representation and enhancing operational support. Complete regulatory assessment and administrative frameworks to establish our presence in Asia.

STRATEGIC AXIS CREATE SCALABLE AND EFFICIENT INVESTMENT AND OPERATIONAL ACTIVITIES

CORPORATE OBJECTIVES (Vision 2021 elements)	FY2017 ACHIEVEMENTS	FY2018 PRIORITIES
Investment scalability Seek opportunities to invest innovatively at scale.	Executed on our deployment strategies and reached ambitious private investment deployment objectives.	Expand proven deployment strategies and develop new investing partnerships and product offerings. Strengthen our asset management approach to bring greater consistency and value.
Operational efficiency Enhance agility and efficiency to execute complex transactions quickly.	Completed the deployment of our portfolio and order management system to increase efficiency and insights for the Public Markets group.	Continue to review our operating model to streamline operations and increase efficiency.

STRATEGIC AXIS DEVELOP OUR TALENT

CORPORATE OBJECTIVES (Vision 2021 elements)	FY2017 ACHIEVEMENTS	FY2018 PRIORITIES
Attraction Promote PSP Investments as an employer of choice.	Recruited a large number of diverse and talented professionals.	Enhance PSP Investments' attractiveness with a stronger talent value proposition.
Development and retention Foster internal talent acceleration through growth and career development.		Redesign the individual performance management frameworks, processes and tools to make them more dynamic, business driven and better aligned with leading performance management practices. Invest significant effort in talent development to accelerate personal growth and professional development.
Diversity and inclusion Foster a diverse and inclusive workplace.	Fostered understanding of diversity as a business imperative: a strategic component of individual and organizational success. Increased representation of women in middle and senior management.	Continue to build a diverse and inclusive working environment.
Culture Develop and foster a unified corporate culture across our global organization.	Developed a new and unified culture with six levers: agility, collaboration, empowerment, entrepreneurship, insight and talent acceleration.	Continue to build and sustain a strong, participatory organizational culture. Continue to encourage employee community involvement.

IN VEST ING IN OUR GLOBAL FOOTPRINT

Patrick Charbonneau
Managing Director,
Infrastructure Investments (Europe)
PSP Investments

PATRICK LEADS THE EXPANSION OF OUR INFRASTRUCTURE TEAM IN LONDON

A rewarding challenge for him and PSP Investments

> *"Having an office in London is a game changer. Thanks to our local presence, we are gaining a better understanding of the global environment, we are strengthening our current partnerships and we are developing new investment opportunities and partnerships. I am humbled by the trust placed in me to expand our team in the world's largest infrastructure investment market."*

PSP Investments puts talent, experience and empowerment to work. We are given responsibility to lead change within the organization, to influence the strategy and to constantly make decisions that have significant impact on the organization's success. This is how we grow as professionals.

When I first started at PSP Investments as a young professional, I was given real opportunities to contribute to important projects. Being given responsibility showed me that senior management trusted me, which drove me to deliver the best possible results.

Ten years later, moving to London to expand the infrastructure team was exactly the type of professional challenge I wanted to take on. I am humbled by the trust PSP Investments is placing in me, and proud of our results so far.

Our office in London also seeds opportunities for cultural exchange throughout our entire organization. Not only have we been able to recruit top talent in leading professionals who are an amazing fit with PSP Investments' culture, but the rich diversity they bring to the table is invaluable as our organization grows its global footprint.

Patrick Charbonneau

DIVERSITY AND INCLUSION

At PSP Investments, diversity is rooted in a wide spectrum of merit and competencies – a mosaic of talent – that we leverage to create a stimulating work environment. Diversity engenders innovation and creativity. It is a critical factor in enabling each of our employees to reach his or her full potential and for them, as a team, to successfully deliver on our corporate business strategy, Vision 2021.

A diverse workforce, representative of the contributors and beneficiaries of the pension plans whose assets we manage, and of our global business partners, gives us a comparative edge as a leading international institutional investor.

Our talent development programs foster an inclusive workplace. Our programs are designed to attract, develop and retain employees with different qualifications, aptitudes, skills, cognitive styles and competencies. These qualities are based on different socio-cultural perspectives, educational backgrounds, multi-generational work habits and life experiences, whether grounded in gender, race, ethnicity, age, sexual orientation, disability, religion and personality.

A FUNDAMENTAL ELEMENT OF OUR HUMAN RESOURCES STRATEGY

PSP Investments has dedicated resources to manage our diversity and inclusion policies, procedures and programs. Our approach is based on industry best practices. We use quantitative data gathered during ongoing assessments to measure progress and evaluate the efficacy of our initiatives. Diversity is a core value of our Human Resources decision making processes.

In fiscal year 2017, we conducted a customized employee satisfaction survey. We are using its findings to mitigate identified challenges and obstacles in terms of communication, adaptability and change management.

We also continue to institute policies and practices to increase representation for individuals belonging to the designated groups named in the *Employment Equity Act*, namely: women, persons with disabilities, Aboriginal peoples and members of visible minorities. Much of our recent focus has been on improving representation for women, especially at middle and senior management levels.

DIVERSITY AWARENESS AND INCLUSION INITIATIVES

Multicultural orientation

- For a second consecutive year, our Human Resources group administered the Intercultural Development Inventory (IDI) assessment. Findings are being used to ensure our diversity in the workplace plan is comprehensive, measurable and attainable.
- For a second consecutive year, Human Resources offered unconscious bias training to managers. In addition to individual awareness and actions, these sessions emphasize the importance of managerial cooperation and commitment. PSP Investments' management takes responsibility for creating a culture conducive to the success of our diversity in the workplace initiatives.
- As of fiscal 2017 year end, 228 managers received unconscious bias training.

Gender

- Women represented more than 61% of internship participants (55 of a total of 90), compared to 42% in fiscal year 2016.
- Women in senior roles increased from 18.2% in 2015 to 30% in 2016, compared to a national availability rate of 27.4%.
- PSP Investments partnered with the Association des femmes en finance du Québec (AFFQ) for a third consecutive year.
  - PSP Investments offers AFFQ memberships to women in middle and senior management, allowing them to access professional networking and development activities. The membership program is popular; in fiscal year 2017, there were 58 PSP Investments-AFFQ members, up from 35 in fiscal year 2016.

- In fiscal year 2017, PSP Investments also participated in career development programs and events for women with other industry organizations, including:
  - L'effet A 100-day challenge – A for ambition. Two cohorts – eight PSP Investments employees – participated in mentoring and career evaluation activities supervised by Québec business leaders.
  - Legal Leaders for Diversity (LLD). PSP Investments initially sponsored LLD and continues to support the mentorship program of the Montréal chapter of this pan-Canadian organization of general counsel that advocates for an inclusive legal profession.
  - National Women in Business Conference at McGill University. This forum serves as a liaison between industry professionals and female management students interested in pursuing corporate careers, especially in fields with low female representation. It provides a valuable channel for PSP Investments to promote our brand on campus and attract candidates from a targeted group.

Members of visible minorities, persons with disabilities and Aboriginal peoples

- As a percentage of our workforce, members of visible minority groups increased from 15.4% in 2015 to 16.6% on December 31, 2016 (117 of a total of 706 employees). Representation of group members within PSP Investments is consistent with the market availability rate of 14.8%.
- Despite our commitment, we face ongoing challenges in increasing the number of employees with disabilities and of Aboriginal descent.

Moving forward, we will expand our definition of diversity to encompass a wider range of competencies to better reflect the wealth of perspectives that we want to leverage.

A DIVERSE WORKFORCE, REPRESENTATIVE OF THE CONTRIBUTORS AND BENEFICIARIES OF THE PENSION PLANS WHOSE ASSETS WE MANAGE, AND OF OUR GLOBAL BUSINESS PARTNERS, GIVES US A COMPARATIVE EDGE AS A LEADING INTERNATIONAL INSTITUTIONAL INVESTOR.

MANAGEMENT'S DISCUSSION
of Fund Performance and Results

PSP Investments' strategic ambition is to be a leading global investor, working together and focusing on a total fund investment approach that optimizes our ability to identify opportunities, deploy capital and capture value. This total fund approach influences all our decision making.

With the implementation of our strategic plan, Vision 2021, internal cooperation and insights sharing are yielding new opportunities and deal flows. Collaboration between asset classes is being enhanced as we expand our global footprint and establish investment teams in our New York and London offices. To cite but one fiscal year 2017 example, our Infrastructure group worked closely with our CIO, Private Equity and Real Estate groups to acquire a participation in US-based Vantage Data Centers. This was made possible by the introduction of a new Complementary Portfolio, one of the total fund portfolios, that provides additional flexibility to seize investment opportunities that may not have been pursued because they do not fit into a specific asset class. In an environment characterized by expected low returns and ever increasing competition for assets, PSP Investments' improved ability to unlock new investment opportunities gives us a marked advantage.

In fiscal year 2018, we will further define and implement our total fund approach to create additional synergies and capabilities. We will also implement initiatives to manage our exposure to key risks from our total fund perspective and to improve the quality of decision making and fund performance with enhanced analytics.

The following section outlines PSP Investments' mandate and investment approach and provides an assessment of the success of our investment strategy. It presents the policies and practices for identifying, evaluating, managing, mitigating, reporting and monitoring risk. It also provides an analysis of our performance.

Continued growth in global markets and the solid performance of many of our portfolios and asset classes when measured against their benchmarks led to strong results in fiscal year 2017. The real test of PSP Investments' success, however, is that our investment approach successfully achieves our return objective over the long term – 10 years or more – and that it creates value for the sponsor of the Plans, the Government of Canada, and their contributors and beneficiaries. As will be discussed in the next few pages, over the last 10 years, PSP Investments has been successful on both counts.

MANDATE, OBJECTIVE AND INVESTMENT APPROACH

PSP INVESTMENTS' MANDATE

PSP Investments is a Crown corporation that was established by the Government of Canada ("Government") on April 1, 2000, to invest the amounts transferred for the funding of benefits earned from that day forward ("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"). PSP Investments statutory mandate is to:

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

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

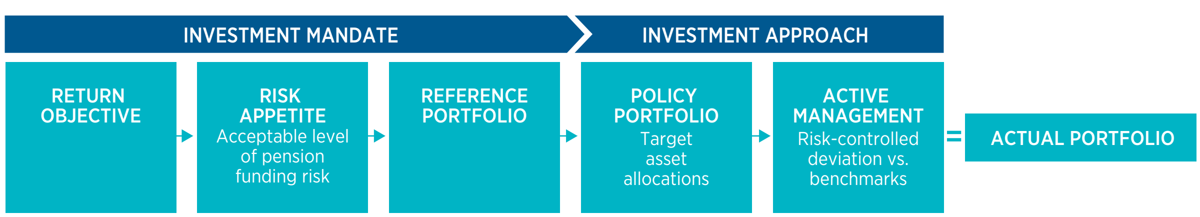
INVESTMENT APPROACH AND RISK TAKING

On an annual basis, the Treasury Board of Canada Secretariat, which oversees the Government of Canada's relationship with PSP Investments, communicates a return objective to PSP Investments. The return objective is currently set at a long-term real rate of return of 4.1%. This return objective is consistent with the Government's funding objectives for the Post-2000 Liabilities. In the absence of other factors affecting the funding of the Plans, contributions and pension benefits would be maintained at current levels if the return objective were to be achieved.

Investments promising to deliver the return objective on a risk-free basis do not exist. Consequently, PSP Investments must take a certain amount of risk to achieve this objective. The Risk Appetite Statement ("RAS"), as approved by the Board of Directors and summarized in the Risk Appetite Overview, articulates PSP Investments' appetite, attitude and tolerance to risk in pursuit of the return objective. A key element of the RAS is the Government's assumed appetite for risk ("risk appetite"), defined as the tolerance for a possible requirement to make supplementary pension contributions to the Plans due to less than favourable investment performance.

The assumed risk appetite is determined by evaluating the pension funding risk (i.e. the risk of a funding deficit in the Plans) that would result from investing in a simple, passively-managed portfolio that is expected to achieve, over the long term, an expected real rate of return of 4.1%. This portfolio, known as the Reference Portfolio, is composed of publicly-traded securities representing broad market indices that are easy to replicate at a minimal cost. Based on our long-term expectations of market conditions, a Reference Portfolio composed of 71% equities and 29% bonds is expected to achieve the return objective over the long term. This portfolio articulates both our return objective and the risk that is deemed acceptable to achieve our mandate.

The return objective, the risk appetite and the Reference Portfolio anchor our investment approach. Our long-term aim is to achieve a return equal to or greater than the return objective and the Reference Portfolio, with a level of risk within the defined risk appetite. Our investment approach, illustrated below, is composed of two pillars.



FIRST PILLAR: POLICY PORTFOLIO

The first pillar is the Policy Portfolio. It articulates PSP Investments' long-term target exposure to asset classes. The Policy Portfolio is built as a more diversified, resilient and robust liability-aware portfolio than the Reference Portfolio. It is designed to leverage the characteristics of the Post-2000 Liabilities and the funding thereof. This is achieved by including investments in asset classes which may introduce alternate sources of risks and returns (e.g. illiquidity).

It differs from the Reference Portfolio by the addition of asset classes other than publicly-traded securities. These additional asset classes currently include Real Estate, Private Equity, Infrastructure, Natural Resources, and Private Debt and Credit Instruments.

For three primary reasons, the inclusion of these additional asset classes is expected to provide for a higher return than the Reference Portfolio without increasing risk:

- Their inclusion improves the portfolio diversification and reduces risk from a total fund perspective.
- Over time, the lower liquidity of assets included in these asset classes is expected to be compensated with higher returns. The Post-2000 Liabilities are long term in nature and their liquidity requirements, for the purpose of pension benefit payments, are expected to be minimal until 2030. As a result, it is unlikely PSP Investments will need to sell PSP Investments assets quickly and, thus, is well positioned to capture these higher returns.
- The liabilities of the Plans are sensitive to inflation. Investing in assets that tend to appreciate with inflation, such as real estate, infrastructure and natural resources, are expected to better match the liabilities of the Plans, thus contributing to decreasing the risk of a deficit in the pension plans.

PSP Investments recognizes that the Policy Portfolio is the predominant factor in determining performance 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 the specific characteristics of the Plans' Post-2000 Liabilities.

Following the fiscal year 2017 review, no changes were made to the Board-approved allocations of the Policy Portfolio.

POLICY PORTFOLIO

Effective during fiscal year 2017

TARGET ASSET ALLOCATION

EQUITY	47%	Public Market Equities	**34%**
		Private Equity	**13%**
REAL ASSETS	30%	Real Estate	**15%**
		Infrastructure	**10%**
		Natural Resources	**5%**
GOVERNMENT FIXED INCOME	16%	Fixed income Cash and cash equivalents	
CREDIT	7%	Private Debt	

SECOND PILLAR: ACTIVE MANAGEMENT

The second pillar of the investment approach is active management. Based on thorough and proprietary research, PSP Investments seeks to invest in companies and securities whose risk-adjusted returns are expected to outperform the market. When implemented within our active risk limits and the assumed risk appetite, PSP Investments believes that active management activities can add materially to Policy Portfolio returns without increasing risk beyond the risk appetite.

FOCUS ON TOTAL FUND APPROACH

A key priority of PSP Investments' five-year strategic plan, Vision 2021, is to implement an investment approach that focuses on the fund as a whole – our total fund – rather than on individual asset classes. This is what we refer to as a total fund perspective or approach and it guides our investment strategy.

The CIO Group, led by the Executive Vice President and Chief Investment Officer, was created in fiscal year 2016 to implement our total fund approach. The CIO Group's focus is to enable PSP Investments to best achieve its mandate by managing total fund allocations and exposures in terms of asset classes, geographies and sectors, while taking into consideration risk and other pertinent factors.

In fiscal year 2017, the CIO Group focused on building the tools and capabilities needed to implement the total fund approach. In particular, the group:

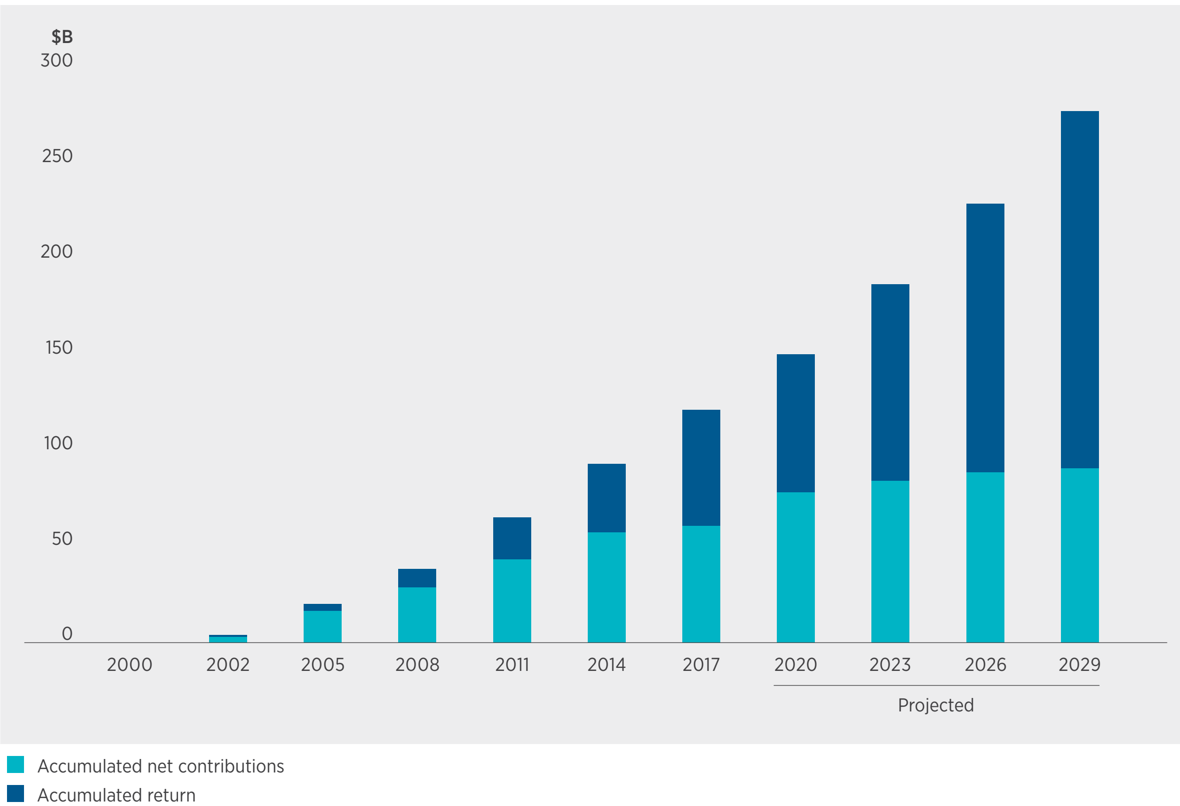
- **Enhanced its capacity to analyze the key factors that influence risk and return,** and revised the portfolio construction framework to incorporate more comprehensive views on broad factors that could impact the portfolio, such as geographic exposure and foreign exchange.
- **Expanded in-house capabilities to develop views on ESG factors,** including the creation of the position of Vice President, Responsible Investment, and how they affect individual investments and total fund risks and return.
- **Introduced portfolios that support our total fund approach** (e.g. the Complementary Portfolio). The total fund portfolios were created to support scalability, provide additional flexibility to PSP Investments' approach and improve the risk-return profile of the total fund. They are designed to enable PSP Investments to capture investment opportunities that fit our mandate but are outside the scope of our current investment framework.
- In fiscal year 2018, the CIO Group's main priority will be to further develop and deploy these initiatives to maximize their contribution to the fulfillment of PSP Investments' mandate and optimize their usefulness to other groups on an enterprise-wide basis. Much emphasis will be placed on the CIO Group's contribution to the One PSP approach through increased communication, collaboration and organizational cohesion.

THE IMPORTANCE OF INVESTMENT RETURNS IN THE FUNDING OF THE PENSION PLAN OBLIGATIONS

The Government transfers to PSP Investments amounts equivalent to the proceeds of the employee and employer contributions to the Plans after subtracting the administrative expenses for the Plans and the amounts paid for benefits earned since April 1, 2000 (March 1, 2007, for the Reserve Force). Transfers are expected to remain positive until approximately 2030, at which time the amounts paid for benefits earned since April 1, 2000, are expected to exceed contributions.

At the end of fiscal year 2017, the sum of all fund transfers received from the Government since April 1, 2000, represented 51% of assets under management, with the remaining 49% representing investment returns earned by PSP Investments on those funds. As illustrated below, the proportion of assets representing investment returns is expected to reach about 80% as the Plans mature. In other words, for every $1 of pension benefits paid, 80 cents will be sourced from investment returns, illustrating their importance in the funding of the Post-2000 Liabilities of the Plans.

HISTORICAL AND PROJECTED NET ASSETS UNDER MANAGEMENT

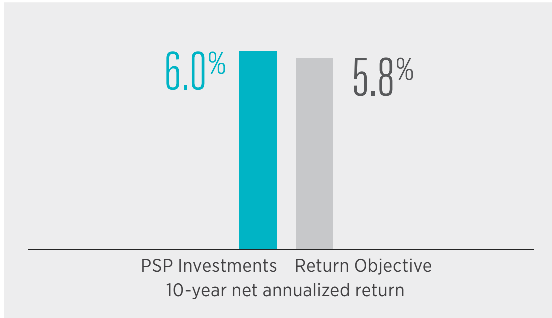


Cumulative amounts are based on historical contributions (net of benefit payments) and PSP Investments' assets up to March 31, 2017, and are projected using the latest actuarial valuations of the Plans afterward.

OUR RESULTS

Three objectives have been established to provide benchmarks against which we can assess the success of our investment approach:

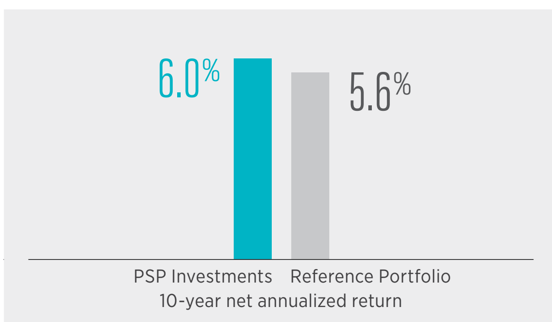
1. Achieve a return, net of expenses, equal to or greater than the return objective over 10-year periods.



This objective measures PSP Investments' success in achieving the long-term return objective. Over the past 10 years, PSP Investments has recorded a net annualized rate of return of 6.0%, compared to 5.8% for the return objective. Taking into account the size and timing of contributions, this outperformance amounts to $13.7 billion in net investment gains above the return objective over this 10-year period.

In the absence of other factors affecting the funding of the Plans, this achievement is expected to support the sustainability of the Plans, contributing to maintain the contributions and pension benefits at their current levels.

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

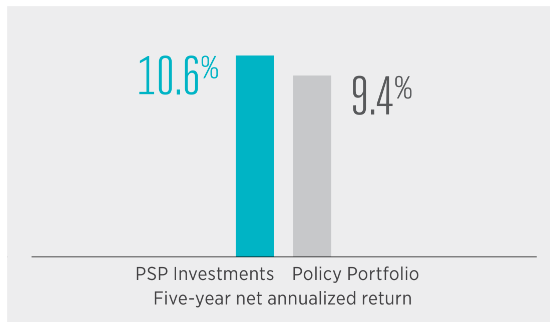


The Reference Portfolio reflects what the Government could achieve with a passive investment approach, taking into consideration its assumed risk appetite.

Over the last 10 years, PSP Investments' performance exceeded the performance of the Reference Portfolio by 0.4% per year. This result was achieved without incurring more pension funding risk than the Reference Portfolio, which is within the risk appetite described on page 33.

This additional 0.4% represents the value added by PSP Investments' strategic decision to build a more diversified portfolio – the Policy Portfolio – that includes less liquid asset classes, and to engage selectively in active management activities.

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



This objective is used to measure the value added by PSP Investments' active management activities. Over the last five years, these activities generated returns that exceeded its primary benchmark, the Policy Portfolio, by 1.2% per year.

The source of the strong value added stemmed from diverse activities. Notable contributors include the solid performance of our real estate, infrastructure and natural resources portfolios against their respective benchmarks.

IN-DEPTH REVIEW OF FISCAL YEAR 2017 RESULTS

12.8%
ONE-YEAR NET RATE OF RETURN

$135.6 BILLION NET ASSETS

$15.2 BILLION COMPREHENSIVE INCOME

$3.6 BILLION NET CONTRIBUTIONS

On a gross basis, the portfolio delivered a 13.2% return in fiscal year 2017, compared to a 1.0% return in the previous fiscal year. The net assets of PSP Investments increased by $18.8 billion during fiscal year 2017, representing a gain of 16.1%. Net assets at the end of fiscal year 2017 were $135.6 billion, compared to $116.8 billion at the end of the previous fiscal year.

PSP Investments generated comprehensive income of $15.2 billion (i.e. net investment income less operating expenses and other comprehensive income) in the current fiscal year compared to $807 million in fiscal year 2016. PSP Investments also received net contributions of $3.6 billion in the current fiscal year compared to $4.0 billion in the previous fiscal year.

Financial markets exhibited considerable volatility during the year, with geopolitics playing an unusually important role. Significant political developments, such as the referendum vote in favour of the UK withdrawing from the European Union ("Brexit") and the result of the US presidential election, marked key turning points for markets.

Despite these challenging market conditions, PSP Investments recorded strong results with a net rate of return of 12.8% for the fiscal year that ended on March 31, 2017, compared to our Policy Portfolio benchmark, which recorded a 11.9% gain during the same period. The difference represents the value added by PSP Investments' active management activities. Most of our asset classes contributed to both our absolute return and excess return over the Policy Portfolio, as described on the next page.

PUBLIC MARKETS[1]

After a roller coaster journey, developed market equities ended fiscal year 2017 with significant gains despite poor global growth. In this context, our investments in public equities recorded strong absolute returns during fiscal year 2017. Gains in public equities were the strongest contributor to our absolute rate of return. Relative to their benchmarks, public equities outperformed by 1.2%, with absolute return mandates being the strongest contributors to the excess return.

Equity valuations, particularly in the US, have now edged into expensive territory as they increasingly price in a rosy outlook for earnings growth. Further gains in the value of equities would require a continued improvement in earnings.

Global bond yields fell in the first half of fiscal year 2017 before rebounding strongly along with equities. Nevertheless, subdued economic growth and low inflation kept global monetary policy extremely accommodative and interest rates at historically low levels. While this environment contributed to modest returns, albeit positive, in fixed income markets, our government fixed income portfolios performed strongly against the benchmark, with an excess return of 0.9%. Our internally managed world government bonds portfolio delivered the highest relative performance.

PRIVATE MARKETS

Within this global economic context, most of our private markets portfolios generated strong returns, both in absolute and relative terms against their benchmarks. The results of our real estate and infrastructure portfolios, in particular, made a significant contribution to PSP Investments' total performance relative to the Policy Portfolio benchmark. Our natural resources and private debt portfolios also recorded strong absolute and relative returns. As our infrastructure, natural resources and private debt portfolios continue to grow and approach their Policy Portfolio allocation targets, we expect to reap increased benefits from their contributions to total fund returns.

Our private equity portfolio was impacted by the less favourable performance of a few assets, both in absolute terms and relative to the benchmark. The significant changes made to the strategy in fiscal year 2016 are being implemented and we expect that they will improve our performance over the next few years.

CURRENCY EXPOSURE

Given the proportion of PSP Investments' assets that are invested abroad, currency fluctuations can have a significant impact on investment returns. This was particularly true in fiscal year 2017. The US dollar continued to strengthen as relatively stronger growth in the US, compared to that of other developed economies, kept the Federal Reserve in monetary tightening mode and forced other central banks to maintain an easing bias. The prospect of fiscal stimulus following the US presidential election further boosted the US dollar as investors revised their growth expectations higher. The British pound fell to a near all-time low in the wake of the British referendum; it declined by roughly 10% against the Canadian dollar over fiscal year 2017.

Despite this volatile environment, our currency management framework, which was implemented at the total fund level, allowed us to manage our exposure. The impact of fluctuation of foreign currencies resulted in a gain of $1,712 million in fiscal year 2017 (including a currency hedging gain of $681 million). A higher exposure to the US dollar, notably in advance of the US presidential election, and a lower exposure to the British pound and the euro amid the referendums in the UK and Italy, proved beneficial to fund returns.

[1] Including absolute return strategies.

PORTFOLIO AND BENCHMARK RETURNS

AS AT MARCH 31, 2017

ASSET CLASS	FISCAL YEAR 2017 Fair Value (millions $)[1]	Fair Value %	Portfolio Returns %	Benchmark Returns %
Equity				
Public market equities[2]	55,227	40.7	21.6	20.4
Private equity	15,868	11.7	(3.4)	9.3
Government fixed income				
Fixed income	21,981	16.2	2.9	2.0
Cash and cash equivalents[4]	2,718	2.0	1.5	0.5
Credit				
Private Debt[3]	4,418	3.3	27.5	12.4
Real Assets				
Real Estate	20,551	15.2	10.8	6.2
Infrastructure	11,149	8.2	14.4	5.2
Natural Resources	3,711	2.7	19.5	5.3
Total[5]	**135,623**	**100.0**	**12.8**	**11.9**

[1] The investments are classified by asset mix category as set out in the Statement of Investment Policies, Standards and Procedures (SIP&P) based on the economic intent of the investment strategies of the underlying assets.

[2] Includes absolute-return strategies, funded through leverage.

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

[4] Includes amounts related to Complementary portfolio.

[5] The total portfolio return is calculated net of expenses.

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

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

Private Market asset classes returns are presented net of currency hedging.

PUBLIC MARKETS

$77.2 BILLION NET ASSETS	56.9% OF TOTAL NET ASSETS	ONE-YEAR RATE OF RETURN	16.0%	FIVE-YEAR ANNUALIZED RETURN	10.9%
		Benchmark return	14.9%	Benchmark return	10.5%

Public Markets is composed of public market equities and government fixed income. Investments are managed by both internal and external managers using a combination of active, absolute and index-replication strategies. Public Markets delivers benchmark performance within policy portfolio guidelines, adds value through active management within risk limits and accounts for close to 60% of assets under management.

Public Markets generated significant returns in fiscal year 2017 despite the market volatility resulting from the political uncertainties prompted by the Brexit referendum in the UK and the US presidential and euro zone elections. Global macro factors positively impacted performance, especially in the second half of the fiscal year as global rates increased, credit spreads tightened, deflationary risks dissipated and global growth rebounded.

- At fiscal 2017 year end, net assets managed in active strategies totalled $38.8 billion, an increase of $4.5 billion from $34.3 billion at fiscal 2016 year end; net assets managed in internal active strategies totalled $24.6 billion, compared to $21.3 billion at fiscal 2016 year end.
- Public Market equities, which include absolute return strategies funded through leverage, benefitted from the net positive performance of world equity indices and accounted for $55.2 billion of net assets at fiscal 2017 year end, compared to $47.5 billion at fiscal 2016 year end.
- The largest contributor to overall performance was the externally managed absolute return portfolio which added more than $600 million in absolute return. Results were positive for more than 85% of mandates, and particularly for those with our Global Macro managers and our Credit manager.
- A significant contribution to overall performance was also made by the internally managed active fixed income portfolio, which was well positioned for the rise in global rates and added $158 million in relative value.
- The internally managed active multistrategy and asset management portfolio generated $77 million of value added from long/short relative value, global macro and mergers and acquisitions strategies.
- The internally managed active Europe, Australasia and Far East (EAFE) portfolio detracted $60 million compared to the benchmark, mainly because of defensive positioning in the last quarter as equity markets rallied.
- Looking forward, Public Markets will benefit from the newly-created internal Global Equity Research platform, which will provide sector and stock specific analyses. The group will also roll out a new Global Fundamental portfolio focused on core equities and will continue with the development of a new global investment partnerships portfolio.

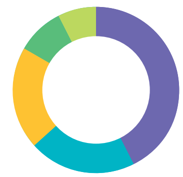
REAL ESTATE

$20.6 BILLION NET ASSETS	15.2% OF TOTAL NET ASSETS	ONE-YEAR RATE OF RETURN	10.8%	FIVE-YEAR ANNUALIZED RETURN	12.3%
		Benchmark return	6.2%	Benchmark return	5.4%

Real Estate favours direct ownership and co-ownership through joint ventures with operating partners that are aligned to create value and generate returns. The group relies on strong in-house capabilities, local business relationships and select specialized funds in order to access specific investment strategies, with a primary focus on urbanization, demographics and technological innovation and adoption.

The strong performance Real Estate recorded in fiscal year 2017 was consistent across many sectors, geographies and asset types. Despite less favourable market conditions which affected our portfolio in Calgary (Canada) and in emerging markets, especially in Brazil, the portfolio strongly benefitted from returns in our office portfolios in Paris, London and in Australia, our residential portfolio in Canada and our seniors' retirement and health care portfolios in Canada, the US and the UK.

- In fiscal year 2017, new acquisitions were completed in multiresidential properties in Canada, and in industrial and retail assets in the US.
- Real Estate disposed of assets where the business plan had been achieved and the asset was considered non-strategic to the portfolio. These included office properties in Australia and the US, multi-residential assets and industrial properties in Canada and the US, and retail assets in western Europe.
- Return on investment was positively impacted by value creation resulting from the execution of business plans to increase occupancy, reposition assets and convert value-add strategies to core strategies across all regions and sectors.
- Real Estate continued to grow PSP Investments' partnership with Segro, our European logistics platform, which at fiscal year end had assets in eight countries in western and eastern Europe.
- Real Estate continued to position Revera Inc., our seniors' retirement and healthcare platform, as a major operator of seniors' communities in Canada, the US and the UK. We support Revera's strategy to increase its reach and exposure to private pay, high-end retirement communities and to diversify its capital sources.
- Real Estate funded large ongoing mixed-use and multi-family developments in the US, a large office development at 22 Bishopsgate in London, and ongoing and new developments in Mexico and Colombia, and in China in partnership with Capital Land.



GEOGRAPHIC DIVERSIFICATION

As at March 31, 2017

US	**42.7%**
Canada	**20.7%**
Western Europe	**20.1%**
Emerging countries	**9.0%**
Australasia	**7.5%**

DIVERSIFICATION BY SECTOR

As at March 31, 2017

Office	**29.2%**
Residential/Retirement	**29.1%**
Industrial	**16.2%**
Retail	**15.0%**
Other	**5.0%**
RE Debt	**3.2%**
Health care	**2.3%**

PRIVATE EQUITY

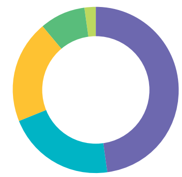
$15.9 BILLION NET ASSETS	11.7% OF TOTAL NET ASSETS	ONE-YEAR RATE OF RETURN (3.4)% — Benchmark return 9.3%	FIVE-YEAR ANNUALIZED RETURN 7.8% — Benchmark return 11.4%

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

Private Equity is focused on creating value, generating long-term returns and providing positive elements of diversification to PSP Investments' total fund portfolio. The group continues to expand our global footprint to identify and respond to deployment opportunities.

Private Equity's portfolio increased by $3.4 billion in fiscal year 2017, following its largest ever annual deployment. Growth was strong across geographies. Notably, it was supported by our new investment team in London, new investing relationships resulting in the acquisition of direct interests in seven industry leaders, and the addition of seven new fund partners, which are contributing additional capacity to source co-investment opportunities. The quality of the group's asset base was enhanced despite an overall negative return driven by markdowns in the value of certain legacy technology and communications investments.

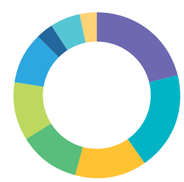
- In fiscal year 2017, Private Equity deployed a total of $4.8 billion, including new direct investments and co-investments totalling $2.6 billion in the US and Europe, and also committed a total of $4.3 billion for deployment through 12 funds, mostly with new partners.
- At fiscal 2017 year end, direct investments and co-investments accounted for 46% of net assets, up from 40% at fiscal 2016 year end.
- New direct investments were made primarily in the consumer and healthcare sectors, including the acquisition of significant interests in:
  - TeamHealth, a leading physician services organization in the US
  - AlixPartners, a global advisory firm
  - Keter Group, the world's largest producer of quality resin consumer products
  - Allflex Group, a leader in animal intelligence and livestock identification technologies
- Private Equity also committed to acquire Cerba HealthCare, a leading European operator of clinical pathology laboratories.
- Private Equity continued to build its presence in London with the hiring of a team of experienced and dedicated investment professionals.



GEOGRAPHIC DIVERSIFICATION

As at March 31, 2017

US	**48.1%**
Emerging markets	**20.5%**
Europe	**20.3%**
Canada	**9.0%**
Asia	**2.1%**



DIVERSIFICATION BY SECTOR

As at March 31, 2017

Financials	**20.5%**
Consumer discretionary	**18.6%**
Communications	**13.5%**
Industrials	**11.7%**
Technology	**10.9%**
Health care	**9.9%**
Consumer staples	**6.2%**
Other	**5.6%**
Energy	**3.1%**

ALLFLEX GROUP: INVESTING IN A GLOBAL LEADER IN AN INNOVATIVE INDUSTRY

In fiscal year 2017, PSP Investments acquired a significant minority interest from BC Partners in Allflex Group, the world leader in animal intelligence and livestock identification and monitoring technologies. The transaction was a collaborative effort involving our Private Equity and Natural Resources asset classes that was led by our London-based investment team.

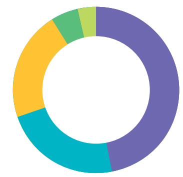
INFRASTRUCTURE

$11.1 BILLION NET ASSETS	8.2% OF TOTAL NET ASSETS	ONE-YEAR RATE OF RETURN 14.4%	FIVE-YEAR ANNUALIZED RETURN 11.7%
		Benchmark return 5.2%	Benchmark return 5.7%

Infrastructure invests globally on a long-term basis, primarily in the transportation, power generation, telecommunications and public utilities sectors. The group is focused on direct investments, including platforms and co-investments.

Infrastructure's strong fiscal year 2017 performance is mainly attributable to investments in Europe and emerging markets, particularly in the transportation, communications and renewable energy sectors. Our AviAlliance airports platform benefited from notable growth in traffic at some airports. Due to strong economic conditions in the UK, our investments in ports recorded increased cargo volumes and revenues. Favourable market conditions positively influenced the performance of our investments in the telecommunications sector. During the year, several construction projects undertaken by our renewable energy platform, Cubico Sustainable Investments Limited, were completed and became operational, which had a positive impact on revenues.

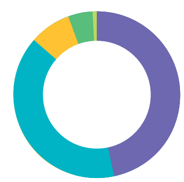
- In fiscal year 2017, our Infrastructure group deployed a total of $2.6 billion, including $1.8 billion of direct investments. The two largest investments were the acquisition of a portfolio of hydroelectric assets (1.4 GW) in New England, which will be integrated into our H2O hydroelectric energy platform, and the acquisition of an additional interest with our partner, OTPP, in our Cubico renewable energy platform.
- We successfully completed the acquisition of 33% of Vantage Data Centers in partnership with TIAA, Digital Bridge LLC and company management. This was a collaborative transaction aligned with our total fund investment approach that also involved participation from the CIO Group, and the Private Equity and Real Estate asset classes.
- Infrastructure also committed to four funds which invest in a wide variety of sectors and niche markets, of which three are new partners.
- Infrastructure established representation at PSP Investments' London office in order to develop new relationships and investment opportunities.



GEOGRAPHIC DIVERSIFICATION

As at March 31, 2017

Europe	**47.1%**
US	**22.9%**
Emerging markets	**21.2%**
Canada	**5.4%**
Australia	**3.4%**



DIVERSIFICATION BY SECTOR

As at March 31, 2017

Industrials	**46.9%**
Utilities	**39.6%**
Communications	**8.0%**
Energy	**4.8%**
Other	**0.7%**

H2O: LEVERAGING OPERATIONAL EXPERTISE TO MAXIMIZE THE BENEFITS OF OWNERSHIP

Infrastructure acquired a portfolio of hydroelectric generating assets for an enterprise value of US$1.2 billion from ENGIE Group. Located in New England, these facilities are an important component of the eastern US energy market and will be integrated into our H2O energy platform. The transaction complements our long-term strategy to invest directly in industry-specific infrastructure platforms.

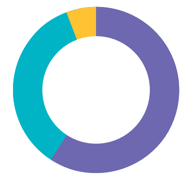
NATURAL RESOURCES

$3.7 BILLION NET ASSETS	2.7% OF TOTAL NET ASSETS	ONE-YEAR RATE OF RETURN	19.5%	FIVE-YEAR ANNUALIZED RETURN	14.1%
		Benchmark return	5.3%	Benchmark return	4.6%

Natural Resources invests primarily in real assets and other opportunities in timber and agriculture. These sectors are well suited to the liability profile of the pension plans for which PSP Investments manages assets. Natural Resources will continue to prioritize sizable, direct, long-term investments and building scale with like-minded partners. The group believes our partnerships with a growing number of best-in-class, local operators provide us with meaningful comparative advantages.

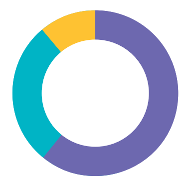
Natural Resources generated record investment income of almost $500 million in fiscal year 2017. This was driven by strong cash flows and valuation gains, primarily in timber and agriculture. Natural Resources also made five new investments in the US and Australia and expanded four existing agricultural platforms.

- Net assets under management grew by $1.2 billion on a year-over-year basis, resulting primarily from net deployments of $729 million and valuation gains.
- Timber and agriculture accounted for most of the increase in net assets.
- Longstanding investments in timber continued to account for most investment income and assets under management.



GEOGRAPHIC DIVERSIFICATION
As at March 31, 2017

Australasia	**59.2%**
North America	**35.2%**
Other	**5.6%**



DIVERSIFICATION BY SECTOR
As at March 31, 2017

Timber	**60.9%**
Agriculture	**28.1%**
Oil and gas	**11.0%**

POMONA FARMING: PSP INVESTMENTS' FIRST DIRECT INVESTMENT IN PERMANENT CROPS

PSP Investments acquired approximately 10,000 acres of Californian almond orchards, including water rights, alongside an aligned partner with a strong track record. PSP Investments aims to leverage the acquisition to launch a larger platform, primarily focused on California almonds and water rights, and to build scale in the US agriculture sector.

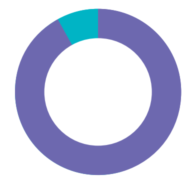
PRIVATE DEBT

$4.4 BILLION NET ASSETS	3.3% OF TOTAL NET ASSETS	ONE-YEAR RATE OF RETURN	27.5%	SINCE INCEPTION RATE OF RETURN (1.3 years)	23.2%
		Benchmark return	12.4%	Benchmark return	6.0%

Private Debt focuses on direct non-investment grade primary and secondary credit investments in North America and Europe. Our group has the ability to commit to large positions and different portions of the debt capital structure in both loan and bond form. We balance credit quality, structure, deployment opportunity, risk-return profile, asset mix and portfolio diversification, among other considerations.

Private Debt's strong fiscal 2017 performance was driven by fee and interest income and positive mark-to-market gains. The team deployed significant amounts of capital in an attractive risk reward profile and benefited from a broad market rally. Performance also benefited by the ramp up nature of the asset class, which in early years enhances the impact of fee income and mark-to-market gains from a return perspective. Notably, Private Debt's actual asset mix, compared to initial targets set during the ramp up phase, contributed to the relative outperformance against the benchmark.

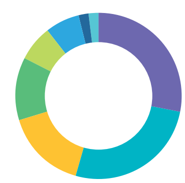
- After our first full year of operation, Private Debt – PSP Investments' newest asset class – has completed its initial hiring plan and has established a significant presence in New York, London and Montréal.
- In fiscal year 2017, Private Debt's allocation target was increased to 7% of PSP Investments' total assets under management.
- During the year, the group committed a total of $4 billion across 30 transactions, including investments in first and second lien term loans, unitranche term loans, secured and unsecured bonds and a credit fund.
- Private Debt collaborated with our CIO Group and facilitated the CIO's commitment to a senior equity investment in a point of sales and marketing data aggregator, which was allocated to the newly created Complementary Portfolio. The CIO Group's senior equity investment was entered into alongside a Private Debt second lien investment.
- Portfolio diversification continues to improve in terms of geography, industry, equity sponsors and asset type. With the continued ramp up of our London operations, we ultimately expect approximately 75% of our portfolio to be exposed to markets in North America with the remaining portion exposed to markets in Europe.



GEOGRAPHIC DIVERSIFICATION

As at March 31, 2017

US	**92.0%**
Europe	**8.0%**



DIVERSIFICATION BY SECTOR

As at March 31, 2017

Consumer discretionary	**28.2%**
Technology	**26.5%**
Health care	**15.8%**
Industrials	**12.1%**
Financials	**6.9%**
Materials	**6.6%**
Communications	**2.2%**
Consumer staples	**1.7%**

PRODUCT SPLIT

As at March 31, 2017

First Lien	**45.3%**
Non First Lien	**54.7%**

PERFORMANCE MEASUREMENT AND EVALUATION

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

The time-weighted rate of return methodology is used to calculate returns for the Public Markets and Private Debt asset classes and for the total portfolio, while the internal rate of return methodology is used to calculate returns for the Real Estate, Private Equity, Infrastructure and Natural Resources asset classes.

For the total portfolio return, performance is calculated net of expenses. The returns for private market asset classes are presented net of currency hedging. The performance for each investment strategy and mandate is compared to an appropriate benchmark.

BENCHMARKS

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

The following benchmarks were used to measure relative performance for each asset class and for the Policy Benchmark return for fiscal year 2017.

ASSET CLASS	BENCHMARK
Equity	
Canadian equity	S&P/TSX Composite Index
US large cap equity	S&P 500 Index
EAFE large cap equity	MSCI EAFE Index
Small cap equity	S&P 600 Index
Emerging markets equity	MSCI EMF Index
Private equity	Private Equity Fund Universe and Private Equity Cost of Capital[1]
Government fixed income	
Cash and cash equivalents	FTSE TMX Canada 91 Day T Bill Index
Fixed income	JP Morgan World Government Bonds, Barclays World Government Four Country ILB Index[1], FTSE TMX Canada Government Bonds, FTSE TMX Canada Corporate Bonds, and FTSE TMX Canada Universe Bond Index
Credit	
Private Debt[2]	Private Debt Indexes[1]
Real assets	
Real Estate	Real Estate Cost of Capital[1]
Infrastructure	Inflation Adjusted Infrastructure Risk Premium and Infrastructure Cost of Capital[1]
Natural Resources	Natural Resources Cost of Capital[1]

[1] Customized benchmark.

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

During fiscal year 2017, as part of the review of our compensation framework, we reviewed the benchmarks of many asset classes in order to improve their alignment with their respective investment strategies and market performance. The revised benchmarks came into effect on April 1, 2017 and will be used to evaluate our performance for fiscal year 2018.

OPERATING EXPENSES & TOTAL COST RATIO

OPERATING EXPENSES

PSP Investments' total operating expenses were $370 million or 29.5 cents per $100 of average net investment assets in fiscal year 2017, compared to $295 million or 25.9 cents per $100 of average net investment assets in fiscal year 2016.

For fiscal year 2017, the growth in operating expenses is mainly attributable to increased headcount and headcount related expenses required to deliver on our strategic plan objectives, as outlined in Vision 2021. In particular, we continued to strengthen our internal management investment capabilities, to upgrade our systems to better support our growing internal investment capabilities and to expand our global footprint with the opening of international offices.

In fiscal year 2017, salaries and employee benefits totalled $210 million, compared to $168 million in fiscal year 2016. PSP Investments had 725 employees at March 31, 2017; an increase of 13% from 642 employees at March 31, 2016.

Headcount rose at our primary business office in Montréal and at our two international offices in New York and London. We officially opened our London office in January 2017. At fiscal 2017 year end, we had 21 employees in London and 20 employees in New York. Approximately 11% of our total salaries and benefits are denominated in foreign currencies. In line with our strategic objective to increase our global footprint, we expect this percentage to rise as we continue to expand into new geographies and the number of specialized investment professionals based in our international offices – as well as in Montréal – continues to grow.

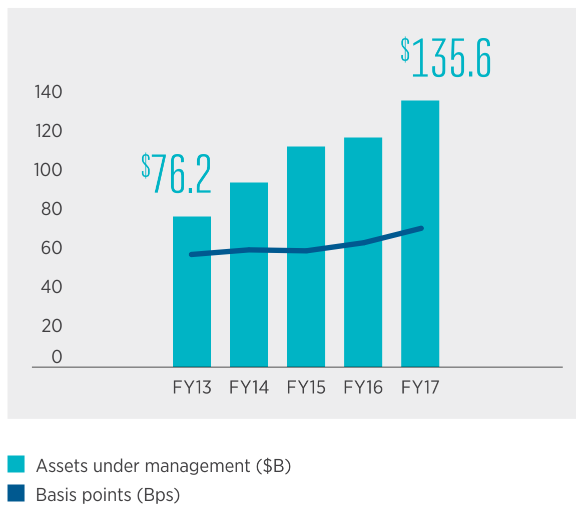
Internal active management reduces costs

PSP Investments adopted its internal active management investment strategy in fiscal year 2004. Internal active management allows us to align our interests more closely with those of our investment partners and to better control our investment and exit strategies. Over the last five years, assets managed internally have increased by approximately $53 billion, from $48 billion in fiscal year 2013 to $101 billion in fiscal year 2017, while operating expenses grew by only $186 million, from $184 million in fiscal year 2013 to $370 million in fiscal year 2017.

PSP Investments conducts a variety of benchmarking exercises to evaluate the cost of our investment implementation style. Survey results confirm that our operating expenses are reasonable and competitive when compared to those of our global peers.

TOTAL COST RATIO

PSP Investments' total cost ratio increased from 63.0 cents per $100 of average net investment assets in fiscal year 2016 to 70.5 cents per $100 of average net investment assets in fiscal year 2017. The total cost ratio measures operating and asset-management expenses as a percentage of average net investment assets. Asset management expenses include management fees paid to external asset managers and transaction costs. Transaction costs can vary significantly year-over-year, depending on the complexity and size of private market investment activities. The year-over-year increase in the cost ratio is due to the increase in operating expenses mentioned above as well as higher management fees, primarily related to additional commitments for private market fund investments and an increase in transaction costs, primarily related to the growth in private markets investment activities.



ENTERPRISE RISK MANAGEMENT

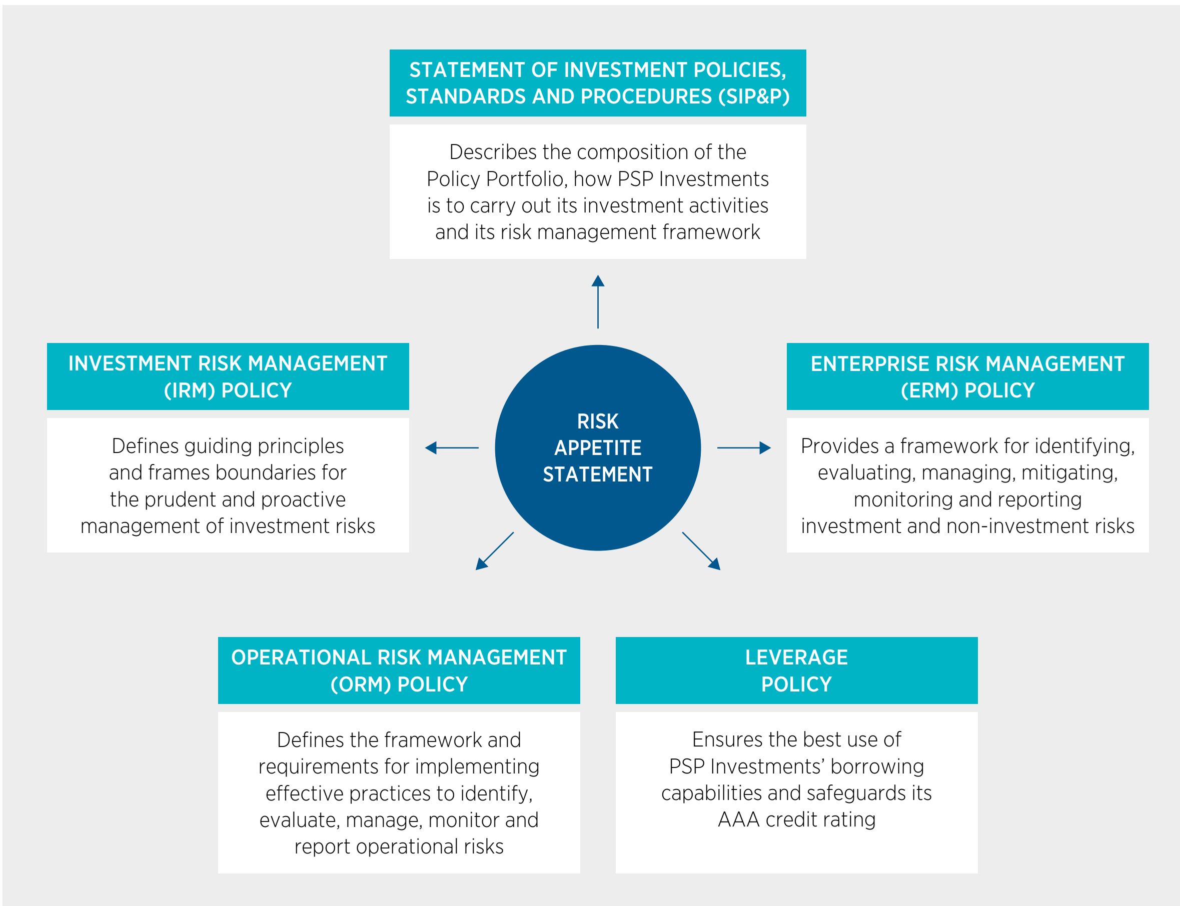
RISK MANAGEMENT

PSP Investments strives to maintain a risk-aware culture in which undue risks are avoided and calculated risks are taken in order to pursue investment objectives. All employees are active participants in risk identification, as well as in risk evaluation, management, mitigation, monitoring and reporting.

To support PSP Investments' efforts to achieve its five-year strategic plan, Vision 2021, a full spectrum of risks is managed on an integrated, enterprise-wide basis, reflecting our focus on the total fund.

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

KEY RISK POLICIES



On behalf of PSP Investments, **J.-F. Bureau**, Senior Vice President and Chief Risk Officer, won the 2016 Institutional Investor Intelligence Award for Public Plan Sponsors (North America) in the Risk Culture category.

The Institutional Investor Intelligence Awards recognize the exceptional work of the most outstanding and innovative public plan sponsors in North America.

"Implementing our Risk Appetite Statement was a great accomplishment. We created a PSP Investments' specific product that is both extremely useful in real life and a powerful tool for educating employees and spreading our risk awareness culture within the organization."

– J.-F. Bureau

RISK APPETITE STATEMENT

The Risk Appetite Statement (RAS), approved by the Board of Directors and summarized in the Risk Appetite Overview, articulates PSP Investments' appetite for, and attitude and tolerance to, risk in pursuit of our mandate.

The RAS also distinguishes the role of the Board in relation to that of management and defines PSP Investments' overall risk governance structure. The RAS sets basic goals, benchmarks, parameters and limits for the risks assumed, and provides thresholds for PSP Investments' ongoing investment activities.

ENTERPRISE RISK MANAGEMENT POLICY

The Enterprise Risk Management (ERM) Policy defines and categorizes the enterprise risks inherent to our activities and facilitates an understanding of them. The following table identifies various categories of risk and the corresponding risk policy frameworks to manage them.

ENTERPRISE RISK MANAGEMENT POLICY		
ENTERPRISE RISK CATEGORY		**APPLICABLE RISK POLICY FRAMEWORK**
Investment risk	– Market risk – Liquidity risk – Credit and counterparty risk – Concentration risk	Investment Risk Management Policy
	– Leverage risk	Leverage Policy
Non-investment risk	– Strategic risk – Governance risk – Stakeholder risk – Legal and regulatory risk – Operational risk – Reputational risk	Enterprise Risk Management Policy Operational Risk Management Policy

RISK MANAGEMENT GOVERNANCE

Sound internal governance with clear roles and responsibilities is the foundation of an effective enterprise risk management framework. To ensure appropriate accountability and clarify responsibilities, both the ERM and ORM policies incorporate a "Three lines of defence risk management framework", as illustrated:

BOARD OF DIRECTORS AND BOARD COMMITTEES			
SENIOR MANAGEMENT COMMITTEES			External audit
Risk and Investment	Senior Management Group	Valuation	
New Business Activity	Portfolio Construction and Management	Operations Coordination	
First line of defence – Business units – Corporate services	**Second line of defence** – Risk Management – Compliance – Others (e.g. Finance and Administration)	**Third line of defence** – Internal Audit	

RISK MANAGEMENT GROUP

Risk Management is headed by the Senior Vice President and Chief Risk Officer who reports directly to the President and CEO. On a quarterly basis, the Investment Committee of the Board of Directors has an individual in-camera meeting with the Chief Risk Officer.

MANDATE	
– Independent oversight of both investment and non-investment risks within the boundaries of PSP Investments' risk appetite.	– Supporting enterprise-wide activities by establishing effective risk management practices, procedures and processes.

The Risk Management group supports PSP Investments' activities and is responsible for the independent oversight of both investment and non-investment risks within the boundaries of PSP Investments' risk appetite, by establishing effective practices and processes.

The use of risk data and information is key to the group's ability to provide the monitoring and reporting capabilities required to support daily risk management activities. Metrics are monitored for both public and private markets and at a total portfolio level on an ongoing basis, and brought to the attention of senior management and the Board of Directors as required. The current structure is aligned to support a total portfolio management total risk view.

- For Public Markets, the group monitors and reports on all aspects of investment risk for publicly-traded securities. Aligned with best industry practices, market risk activities include quantitatively measuring risk at the total portfolio and active management program level, performing portfolio stress tests, sensitivity analyses and monitoring risk metrics relevant to specific portfolios. In addition to aggregated risk figures, a thorough decomposition of various risk factors is performed for Public Markets portfolios for continuous improvement of portfolio analytics and reporting.
- Our Credit and Counterparty team performs formal fundamental credit analysis on all counterparties and brokers, and reviews external credit ratings of all counterparties and brokers/dealers. The team also monitors and reports on liquidity and ensures that investments held meet high standards in terms of liquidity and credit profiles within limits and guidelines established by PSP Investments.
- A Risk Management team dedicated to Private Markets performs fundamental analysis for Private Markets and assigns an internal risk ratings and covenants to these transactions. The team performs regular risk rating reviews of the existing Private Markets investments, monitors the compliance of existing covenants and participates in the valuation process of existing investments. It also monitors and reports on a quarterly basis private market investment risks to PSP Investments' Management.

In addition, the group maintains a timely awareness of changing market conditions and emerging risks to proactively respond to the needs of PSP Investments' Board and senior management.

In accordance with its mandate derived from the ERM Policy and established by the Board of Directors, Risk Management:

- Reports independently on total fund and specific investment risks.
- Advises the President and CEO, the Board of Directors, and investment professionals of key risks in the total fund and individual positions.
- Suggests proactive opportunities to manage risk.

RISK IDENTIFICATION AND ASSESSMENT

In conformity with industry best practices, PSP Investments undertakes an annual risk and control self-assessment exercise. The exercise is a core component of the ERM framework and contributes to its ongoing refinement. The exercise provides a current view of both the internal and external risks inherent to PSP Investments' activities. It also serves to raise risk awareness on an enterprise-wide level by initiating a discussion on risk and clearly defining risk ownership, mitigation effectiveness and accountability.

INTERNAL AUDIT

Internal Audit enhances and protects organizational value by providing risk-based and objective assurance, advice and insight.

The Internal Audit group assists PSP Investments in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, controls and governance processes. The group supports the Audit Committee in effectively discharging its responsibilities. It provides recommendations to management and the Audit Committee in order to support decision making at the operational and strategic levels. The duties of Internal Audit also comprise auditing all of PSP Investments' activities by focusing on high-risk areas and promoting sound governance, risk management and control processes.

Over the normal course of business in fiscal year 2017, Internal Audit continued to perform a variety of risk-based, recurring and non-recurring internal audit mandates with the support of external consultants. At the request of management and the Audit Committee, advisory activities undertaken in fiscal year 2017 led to recommendations to help PSP Investments continuously strengthen its controls and improve the efficiency of its processes.

COMPLIANCE

Compliance acts to ensure that all employees, business practices and behaviours are fully aligned with internal policies, procedures and regulatory requirements. It also monitors PSP Investments' investment activities.

ETHICS

PSP Investments' standards of integrity and ethics are outlined in our Code of Conduct, which is available on our website. A whistleblowing and non-retaliation provision protects those who report fraudulent or inappropriate activities; violators are subject to appropriate disciplinary measures. The Compliance Officer reports on a quarterly basis to the Governance Committee of the Board.

EMPLOYEE CODE GUIDELINES	
Personal and professional conduct	Fraud and corruption
Conflicts of interest	Protection of assets and information
Gifts and other benefits	Personal trading

INVESTMENT COMPLIANCE, OVERSIGHT AND ADVISORY

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

FRAUD PREVENTION

Integrity is one of PSP Investments' core values and we have a zero tolerance policy with respect to corruption and fraud, including insider trading, collusion, falsification of records or information, asset misappropriation, abuse of position and bribery.

GOVERNANCE

MESSAGE FROM THE CHAIR OF THE GOVERNANCE COMMITTEE

At PSP Investments, we are committed to high standards of corporate governance. Effective governance is essential to ensure that appropriate objectives are pursued and achieved.

For PSP Investments, governance begins with our legislative mandate. We are the exclusive provider of investment management services to the Government of Canada for the amounts transferred to PSP Investments for the pension plans of the Public Service of Canada, the Canadian Forces, the Royal Canadian Mounted Police and the Reserve Force. PSP Investments is a professional investment manager that makes independent investment decisions. We operate at arm's length from the Government but have reporting obligations to the Government and to contributors and beneficiaries.

The Governance Committee of the Board of Directors regularly reviews PSP Investments' corporate governance framework to ensure that it meets robust standards of corporate governance while serving the interests of all stakeholders. Several governance-related initiatives were led by the Governance Committee in fiscal year 2017, in preparation for the expected changes on the Board in the coming years. This included a thoughtful succession planning process.

The following section provides an overview of the roles and composition of the Board of Directors and its committees, and describes the key governance policies and practices that guide PSP Investments' activities and behaviour.

Garnet Garven

ACCOUNTABILITY

PSP Investments is a Crown corporation with a unique governance and accountability regime that is set out in the *Public Sector Pension Investment Board Act*. The Act provides that PSP Investments operates at arm's length from the Government of Canada and imposes on it reporting obligations to the Government, and to contributors and beneficiaries of the pension plans.

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

The President and CEO, and the Board Chair are required to meet once a year with advisory committees appointed to oversee the Plans. PSP Investments is also required to hold an annual public meeting. The most recent annual meeting was held in Ottawa on November 24, 2016. In the execution of its statutory mandate, PSP Investments also communicates on an ongoing basis with the Chief Actuary of the Office of the Superintendent of Financial Institutions, the Treasury Board of Canada Secretariat and other Government officials.

Pursuant to the *Financial Administration Act* (FAA), the Auditor General of Canada and Deloitte LLP were appointed to serve as joint external auditors of PSP Investments for fiscal year 2017. The Office of the Auditor General of Canada is funded directly by Parliament and its costs and expenses are paid from an annual appropriation. This funding mechanism ensures its independence from the organizations it audits. For Deloitte LLP, PSP Investments has a formal process to evaluate the impacts of non-audit services on auditor independence. In fiscal year 2017, fees paid to Deloitte LLP totalled approximately $2.1 million, of which $1.5 million was for audit and audit-related services and $0.6 million for non-audit services. PSP Investments has implemented procedures when hiring current and former employees of the external auditors to ensure that auditor independence is maintained.

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

ROLE OF THE BOARD

According to the Act, PSP Investments' operations and activities are overseen by a Board of Directors composed of 11 members, including the Board Chair. Directors are appointed by the Governor in Council on the recommendation of the President of the Treasury Board to hold office during good behaviour for a term not exceeding four years. Pursuant to the Act, candidates for directorships are selected from a list of qualified Canadian residents proposed by an external nominating committee ("External Nominating Committee"), as established by the President of the Treasury Board.

The External Nominating Committee operates separately from the Board of Directors, the President of the Treasury Board and the Treasury Board Secretariat. Members of the Senate, the House of Commons and provincial legislatures, employees of PSP Investments and the Government, and any individual entitled to benefits from the Plans are disqualified from serving as directors. On the recommendation of the President of the Treasury Board, and after consultation with members of the Board of Directors, and with the Minister of National Defence and the Minister of Public Safety and Emergency Preparedness, the Governor in Council appoints the Board Chair. On the expiry of the term of an incumbent director, the incumbent may be reappointed; in any event, he or she continues in office until a successor is appointed.

The Board has delegated to the President and Chief Executive Officer the authority to manage and direct the day-to-day affairs of PSP Investments. In fulfilling its responsibilities, the Board defines its role to include three fundamental elements: decision making, oversight and insight.

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

STATEMENT OF INVESTMENT POLICIES, STANDARDS AND PROCEDURES (SIP&P)

In accordance with paragraph 7(2)(a) of the *Public Sector Pension Investment Board Act*, the Board of Directors must approve the Statement of Investment Policies, Standards and Procedures (SIP&P), which describes our investment approach, and review it at least annually. 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.

A key Board responsibility is to approve a strategic plan. PSP Investments is scaling in an increasingly competitive marketplace. In fiscal year 2016, senior management – with Board support – undertook a comprehensive organizational review to define PSP Investments' investment and operational philosophies. The review culminated in a five-year strategic plan, Vision 2021, that was approved by the Board in fiscal year 2016. The Board acts as a strategic partner to senior management by overseeing the implementation of corporate initiatives developed to achieve Vision 2021.

Other key Board responsibilities include:

› Appointment and termination of the President and CEO.
› Approval of the Statement of Investment Policies, Standards and Procedures (SIP&P) for each pension plan account.
› Approval of strategies for achieving investment objectives and benchmarks against which to measure performance.
› Approval of appropriate policies for the proper conduct and management of PSP Investments.
› Approval of a Risk Appetite Statement as well as risk management policies on enterprise, investment and operational risk.
› Approval of human resources and compensation policies, and establishment of appropriate performance evaluation processes for Board members, the President and CEO, and other senior management members.
› Approval of quarterly and annual financial statements for each Pension Plan Account and for PSP Investments as a whole.

For details: Board of Directors, Terms of Reference.

BOARD COMMITTEES

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

BOARD COMMITTEE	MANDATE OVERVIEW	KEY ACTIVITIES IN FISCAL YEAR 2017
Investment Committee	Oversees PSP Investments' investment management function.	– Reviewed and approved 21 investments. – Oversaw the creation of new total fund portfolios.
Audit Committee	Reviews financial statements and the adequacy and effectiveness of internal control systems.	– Assisted in the successful transition of auditing partners at Deloitte LLP and at the Office of the Auditor General, as well as the onboarding of a new Vice President, Internal Audit and Vice President, Finance and Administration. – Approved two Canadian domestic debt term issuances.
Governance Committee	Monitors governance matters and develops related policies. Oversees the application of the Director Code of Conduct and of the Employee Code of Conduct.	– Reviewed director succession planning. – Implemented a new onboarding program for directors. – Conducted an extensive review of Board remuneration.
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.	– With the assistance of the Investment Committee, undertook a special review of performance benchmarks, threshold levels of performance and value-added objectives.

For details: Board committees, Terms of Reference.

BOARD COMPOSITION

Michael P. Mueller Director since December 18, 2006 Chair of the Board
Cheryl Barker Director since December 18, 2006 Human Resources and Compensation Committee, Investment Committee
Diane Bean Director since June 18, 2010 Human Resources and Compensation Committee (Chair), Investment Committee
Micheline Bouchard Director since September 29, 2011 Governance Committee, Human Resources and Compensation Committee, Investment Committee
Léon Courville Director since March 5, 2007 Governance Committee, Human Resources and Compensation Committee, Investment Committee
Garnet Garven Director since September 29, 2011 Audit Committee, Governance Committee (Chair), Investment Committee
Martin J. Glynn Director since January 30, 2014 Governance Committee, Human Resources and Compensation Committee, Investment Committee
Lynn Haight Director since January 14, 2010 Audit Committee, Governance Committee, Investment Committee
Timothy E. Hodgson Director since December 17, 2013 Audit Committee, Investment Committee (Chair)
William A. MacKinnon Director since January 14, 2010 Audit Committee (Chair), Investment Committee

INDEPENDENCE, COMMITMENT, EXPERIENCE AND COMPETENCIES

All directors of PSP Investments are considered independent directors by PSP Investments.[1]

The Board of Directors plays an active role in guiding PSP Investments. A substantial time commitment is expected of directors, particularly of the Board Chair and of chairs of Board committees. Commitments include time to prepare for, travel to and attend meetings of the Board.

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

In order to properly fulfill their role, all Audit Committee members are literate in accounting or finance, and possess the requisite experience and knowledge to read and understand the financial statements of PSP Investments and of the Pension Plan accounts. All Human Resources and Compensation Committee members are knowledgeable about issues relating to human resources, talent management and executive compensation. They gained this understanding through professional experience as former chief executive or senior officers with oversight of human resources functions.

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

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

DIRECTORS' EXPERIENCE AND COMPETENCIES

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

CONDUCT OF BOARD AND BOARD COMMITTEE MEETINGS

Board members have in-depth knowledge of PSP Investments and are able to exercise management oversight and to provide strategic insight, when appropriate. There is active discussion at the Board and Board committee levels between directors and management. Upon request, Board members have access to PSP Investments' records and employees.

All regular Board and committee meetings include in-camera sessions which no members of management attend. The Board has individual in-camera meetings with the President and CEO.

The Audit Committee has individual in-camera meetings with each of the internal and external auditors, and with the Chief Financial Officer. The Investment Committee has individual in-camera meetings with the Chief Risk Officer.

Once a year, a strategic session for members of the Board and senior management is organized to hold in-depth discussions on investments and risk-related topics.

To fulfill the duties set out in the Act and in their respective Terms of Reference, the Board and its committees may consult with external advisors. During fiscal year 2017, the Board, as well as the Governance Committee and the Human Resources and Compensation Committee, sought the services of external consultants. The Board and its committees may consider the recommendations of independent advisors on a case-by-case basis but are solely responsible for any decisions taken.

ASSESSMENT OF BOARD PERFORMANCE

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 and CEO, and certain senior management members, participate in the evaluation process. The Chair of the Governance Committee presents evaluation results to the Board of Directors. The ensuing discussions focus on achievements and expectations, and on concerns and opportunities for improvement, following which any measures deemed necessary are implemented.

DIRECTORS' CODE OF CONDUCT

The Director Code was developed to provide a practical framework to help directors better understand PSP Investments' principles and values. In addition to ensuring compliance with minimum statutory requirements, the Code reflects the expectation that directors have the highest levels of integrity and ethical standards. The Director Code outlines a workable process for identifying, minimizing and resolving potential conflicts of interest. It is derived from the Act and the *Conflict of Interest Act*, and details the statutory and fiduciary duties of directors in relation to conflicts of interest. The Director Code also ensures that directors have a thorough understanding and appreciation of PSP Investments' principles and values. In sum, it assists directors in determining appropriate business practices and behaviour.

Among other stipulations, the Director Code:

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

For details: Governance Committee, Director Code.

DIRECTOR EDUCATION AND ONBOARDING

To enhance directors' financial knowledge and skills, PSP Investments created a director education program. Through this program, directors are allocated an education and training budget to be used primarily to take individual courses, attend conferences and procure reading material to strengthen their understanding of investment management. Directors are required to report on their individual development plans on an annual basis. On occasion, the director education program provides for educational forums to be held during Board meetings to which speakers are invited to make presentations that contribute to the individual and collective expertise of Board members. During fiscal year 2017, presentations were made on such topics as thematic investments, global emerging markets strategies and the outlook of global financial markets.

Newly-appointed directors are expected to complete an in-house onboarding program that provides information about PSP Investments' culture and operations. The program is designed so directors can contribute effectively as Board members. In preparation for the expected arrival of a new director, the Governance Committee reviewed and revised the onboarding program in fiscal year 2017 in order to facilitate the integration of new directors.

The Governance Committee oversees the director education and the onboarding programs.

Directors' remuneration

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

The Board reviews directors' remuneration once every two years and considers any warranted changes based on a report and recommendations provided to it by the Governance Committee.

During fiscal year 2017, directors were remunerated, as follows:

DIRECTORS' REMUNERATION FOR FISCAL YEAR 2017	
Annual retainer for the Board Chair	$160,000
Annual retainer for each director other than the Board Chair	$35,000
Annual retainer for each Board Committee Chair	$15,000
Attendance fee for each Board meeting	$1,500[1, 2]
Attendance fee for each committee meeting	$1,500[1, 2]
Travel fees for a director attending a Board meeting in person, if his or her primary residence is outside Québec or Ontario, or when a Board of Directors or Board committee meeting is held in a location outside Québec and a director is required to travel more than three hours from his or her primary residence to attend it.	$1,500

1 For a meeting that lasts less than one hour – $500.

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

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

In fiscal year 2017, the Board of Directors met 11 times and its committees held 29 meetings. Total 2017 remuneration for Directors was $912,000.

The following tables provide further details:

ATTENDANCE AT MEETINGS OF THE BOARD OF DIRECTORS AND BOARD COMMITTEES

	Board of Directors		Investment Committee		Audit Committee		Governance Committee		Human Resources and Compensation Committee	
	Regular	Special	Regular	Special	Regular	Special	Regular	Special	Regular	Special
Number of meetings Fiscal Year 2017[1]	9	2	5	5	6		4		5	4
Cheryl Barker	9/9	2/2	4/5	5/5					4/5	4/4
Diane Bean	8/9	2/2	4/5	5/5					4/5	4/4
Micheline Bouchard	9/9	2/2	5/5	5/5			4/4		5/5	4/4
Léon Courville	9/9	2/2	5/5	4/5			4/4		5/5	4/4
Garnet Garven	9/9	2/2	5/5	5/5	6/6		4/4			
Martin J. Glynn	9/9	2/2	5/5	4/5			3/4		4/5	4/4
Lynn Haight	9/9	2/2	5/5	5/5	6/6		4/4			
Timothy E. Hodgson[2]	9/9	2/2	5/5	5/5	6/6					4/4
William A. MacKinnon	9/9	2/2	5/5	5/5	6/6					
Michael P. Mueller[3]	9/9	2/2	5/5	5/5	6/6		4/4		5/5	4/4

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

2 As part of the review of the benchmarks, thresholds and value-added objectives for performance measurement and incentive compensation purposes, Mr. Hodgson, as Chair of the Investment Committee, attended certain meetings of the Human Resources and Compensation Committee.

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

DIRECTORS' REMUNERATION IN FISCAL YEAR 2017[1]

	Annual Retainer	Chair of a Committee/ Annual Retainer	Boards/ Committees[2] Meeting Fees	Travel Fees	Total
Cheryl Barker	$35,000	–	$38,000	$9,000	$82,000
Diane Bean	$35,000	$15,000	$33,500		$83,500
Micheline Bouchard	$35,000	–	$44,000		$79,000
Léon Courville	$35,000	–	$43,500		$78,500
Garnet Garven	$35,000	$15,000	$39,500	$10,500	$100,000
Martin J. Glynn	$35,000	–	$39,000	$9,000	$83,000
Lynn Haight	$35,000	–	$39,500		$74,500
Timothy E. Hodgson[3]	$35,000	$15,000	$38,000		$88,000
William A. MacKinnon	$35,000	$15,000	$33,500		$83,500
Michael P. Mueller	$160,000	–	–		$160,000

1 In fiscal year 2017, in addition to their total remuneration, directors received an allowance of $500 to cover computer and office supply related expenses because meeting materials are only delivered electronically.

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

3 As part of the review of the benchmarks, thresholds and value-added objectives for performance measurement and incentive compensation purposes, Mr. Hodgson, as Chair of the Investment Committee, attended certain meetings of the Human Resources and Compensation Committee. Mr. Hodgson received remuneration for these meetings.

In fiscal year 2017, with the assistance of an external compensation consultant, the Board conducted an extensive review of director remuneration. The review was designed to satisfy the objectives of the Act and to structure a remuneration package that would serve to attract, retain and motivate high-quality directors with the experience and competencies required to govern a leading global institutional investor.

The Board approved the following remuneration changes to take effect in fiscal year 2018:

- Increase of $25,000 in director retainer to a total annual amount of $60,000.
- Increase of $40,000 in Board Chair compensation to a total annual amount of $200,000.
- Modification of the meeting fee for meetings of less than one hour from $500 to $1,500.
- Extension of the $1,500 travel allowance fee for directors travelling from a secondary residence to attend Board or Board committee meetings.

REPORT OF THE HUMAN RESOURCES
and Compensation Committee

I have had the pleasure to chair the Human Resources and Compensation Committee (HRCC) for three consecutive years. The members of the HRCC assist the Board of Directors with human resources strategy, policies and procedures targeting compensation, pensions, talent management, succession planning and workforce diversity and inclusion.

In fiscal year 2017, our efforts focused on continuing to align human resources strategy and policies with the transformational changes recommended in Vision 2021, PSP Investments' five-year strategic plan.

GROWTH AND TRANSITION

To successfully fulfil its mandate, PSP Investments will continue to strive to attract, develop and retain top talent from the investment and finance industries. We expect the organization's rapid growth – and ambitious hiring trend – to continue over the short to medium term. At March 31, 2017, PSP Investments had 725 employees, an increase of 13% from 642 employees at March 31, 2016.

Our employee value proposition, with compensation as a cornerstone, must be compelling if we are to successfully compete for highly-skilled professionals with the right capabilities. It must also reflect industry practices and seek alignment with our obligations to stakeholders.

The HRCC is apprised of industry standards and employment trends among our Canadian peers and uses this information to ensure our employment offer is attractive and balanced. As PSP Investments expands its global footprint, the committee supports organizational efforts to implement a compensation and benefits structure for international employees, including a global mobility policy for expatriate assignments that is consistent with our compensation philosophy.

COMPENSATION

Over the past two years, with the arrival of our new President and CEO, the Board and management set out to redesign the compensation program with the overriding goals of creating one that is less formulaic, less volatile and less levered, as well as being better aligned with the long-term interests of our stakeholders: the Government of Canada and Plan contributors and beneficiaries. The Board and management also wanted to ensure that rewards could be differentiated by performance, and that performance goes beyond investment results to meaningfully include corporate, group and individual objectives, as well. Shifting investment performance measurement from primarily relative medium-term asset class results to a mix of relative and absolute long-term total fund results is key to aligning individual success with the success of the entire enterprise, and to encouraging collaboration across it. For the purpose of retention and alignment, a significant portion of compensation at the most senior levels is to be deferred subject to total fund performance and for a portion to performance conditions.

The HRCC believes that the incentive compensation framework implemented at the beginning of fiscal year 2017 achieves these goals. The revised design will pay appropriately for work well done, recognize outstanding performance, discourage undue risk taking and give the Board and management the tools and flexibility they need to make effective reward decisions.

To support our commitment for outperformance, during fiscal year 2017, PSP Investments undertook a comprehensive review of investment performance benchmarks and set target performance at competitive levels in relation to our peers. The new benchmarks and value-added objectives will be implemented at the beginning of fiscal year 2018.

WORKFORCE DIVERSITY AND INCLUSION

PSP Investments is committed to employment equity and HRCC members commend President and CEO, André Bourbonnais, for taking steps to foster increased workplace diversity and inclusion. Most notable is the continuing rise in the percentage of women occupying managerial positions. Three of nine senior vice presidents are women: two were named in fiscal year 2016 and one was named in fiscal year 2017. The HRCC also supported a review of employment systems to identify and address representation gaps in hiring and employee development practices.

TALENT MANAGEMENT AND SUCCESSION PLANNING

The HRCC concurs with management's focus on succession planning, talent attraction, learning and development and career growth. The Student Program, which provides entry-level summer positions and four-month internships to university students, continues to be successful. It strategically positions PSP Investments as an employer of choice on campus.

The HRCC will continue to discharge its mandate and offer sound judgment on human resources matters to management. I wish to thank my fellow committee members for their contributions in fiscal year 2017. I also wish to express my gratitude to PSP Investments' human resources professionals for their work and dedication. It has been a busy year of accomplishment for all of us. Congratulations to everyone for a job well done.

Dianne Bean

Diane Bean
Chair, Human Resources and Compensation Committee

HRCC GOVERNANCE PROCESS

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

The HRCC is composed of directors who are knowledgeable about these issues. In fiscal year 2017, committee members were:

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

The Board of Directors ensures that PSP Investments' executive compensation and incentives are consistent with PSP Investments' Compensation Policy. In fiscal year 2016 and in fiscal year 2017, the services of an independent compensation consulting firm were retained to assist the HRCC in its review of executive compensation and the incentive compensation framework. The compensation consulting firm reports solely to the HRCC.

NEW COMPENSATION PROGRAM

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

PSP Investments completed a comprehensive review of its short-term and long-term incentive plans in fiscal year 2016. In terms of incentives, the review was designed to achieve three primary objectives:

- To make incentives less formulaic and more subject to informed discretion.
- To solidify alignment with long-term stakeholders' interests.
- To ensure alignment with our five-year corporate strategy, Vision 2021.

The new incentive plan, which includes annual and deferred payout components, is described on the next page. The plan's first annual payouts were determined at fiscal 2017 year end.

PSP Investments' compensation framework is driven by a pay for performance approach that focuses on both absolute and relative performance assessments and:

- Rewards long-term performance.
- Discourages short-term decision making and undue risk taking.
- Ensures that total fund investment performance is a component of incentives at all organizational levels in order to encourage and reinforce the benefits of enterprise-wide collaboration and to align efforts to achieve PSP Investments' mandate.
- Establishes incentives as a significant component of target total compensation for senior management.

To implement the pay for performance approach, the Board established a Compensation Policy that aims to maintain total compensation at a fair and competitive level. Compensation is aligned with PSP Investments' strategic plan and integrated with business performance measurement. The Compensation Policy provides balanced performance-based compensation to reward responsible risk taking. Total compensation includes base salary, annual cash and deferred cash, benefits, pension and other forms of compensation.

COMPENSATION DISCUSSION AND ANALYSIS

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

- André Bourbonnais – President and CEO
- Neil Cunningham – Senior Vice President, Global Head of Real Estate Investments
- Daniel Garant – Executive Vice President and Chief Investment Officer
- Anik Lanthier – Senior Vice President, Public Markets and Absolute Return Strategies
- David J. Scudellari – Senior Vice President, Head of Principal Debt and Credit Investments
- Guthrie Stewart – Senior Vice President, Global Head of Private Investments

PRINCIPLES OF OUR COMPENSATION FRAMEWORK

In a highly competitive market for qualified personnel, PSP Investments' compensation framework is designed to attract and retain talented employees, reward performance and reinforce the business strategies and priorities outlined in Vision 2021. Specifically, the framework is designed to:

Promote enterprise-wide collaboration	All employees participate in the same incentive plan, although performance measure weights are aligned with the ability to impact results and may vary based on level and group. This ensures that total fund investment performance is a component of incentive compensation at all levels and that it encourages and reinforces the benefits of collaboration while aligning efforts to achieve the organization's mandate.
Be sufficiently competitive to attract and retain the right people	The compensation and incentives structure is aligned with relevant markets for talent, based on level and group. Total direct compensation is to be paid at the competitive market median for successfully achieving target performance levels, and above the competitive market median for exceptional performance. The design tends to offer salaries at median with incentive targets at or above median.
Enable individual differentiation	The new compensation and incentives framework places more emphasis on individual and group performance and allows for an evaluation of behaviours aligned with PSP Investments' vision and values, in addition to performance outcomes. Discretion can be applied at every level of evaluation.
Adapt to changing circumstances	The new compensation and incentives framework allows the HRCC, Board, and President and CEO to ensure pay for performance outcomes are adapted to PSP Investments' changing environment and unique conditions.
Align pay with performance	The new compensation and incentives framework provides enhanced alignment with the stakeholders' key measure of success, including the long-term rate of return objective (currently set at CPI+4.1%). The new compensation and incentives framework balances relative and absolute total fund performance. For senior management, a significant portion of total compensation is deferred and "at risk", or subject to performance conditions.
Discourage short-term risk taking	Investment performance is measured over five- and seven-year retrospective periods. A deferred component extends the period for incentives "at risk" for an additional three years after the grant date.

The realignment of PSP Investments' compensation framework with Vision 2021 is expected to span several years. In fiscal year 2017, investment performance benchmarks and value added objectives were reviewed to ensure they are consistent with our corporate strategy. The adjusted benchmarks were used to ensure compensation levels are aligned and competitive with market.

PAY LEVEL BENCHMARKING PROCESS

Given the diversity in skills, capabilities and competencies PSP Investments requires to fulfil its mandate, executive and non-executive compensation levels, programs and practices are periodically evaluated by comparing them with those of peer organizations operating in similar markets. We strive to be competitive with organizations with which we compete for talent, although comparisons may vary by employee group and country of residence. For target levels of investment performance, we position total direct compensation near the median of our peers. We have the option to pay above this level for exceptional performance or below it for less than optimal performance. Depending on the employee group, our peers include Canadian pension funds, banks, insurance companies and investment managers, as well as other relevant employers in Montréal and elsewhere in Canada. For certain positions based outside Canada, such as in the US and the UK, we compare compensation to investment management organizations in local markets.

RISK MANAGEMENT

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

Key risk mitigating features in our compensation program include:

- **Significant pay "at risk"** – A large portion of pay for senior management and other senior employees comes in the form of compensation and incentives. All deferred compensation is adjusted upward or downward based on total fund return over the vesting period.
- **Long-term horizon** – Investment performance is measured over retrospective five- and seven-year periods and aligned with PSP Investments' long-term total fund return objectives. Once granted, the deferred portion continues to vest over a subsequent three-year period; this effectively aligns pay with performance over an eight to ten year period.
- **Maximum payouts** – Each performance measure in the total incentive formula is subject to an absolute maximum of 1.5x target. The total incentive multiplier is subject to an absolute maximum of 2.0x target.
- **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-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. It also has the ultimate discretion to adjust pay levels to ensure they are aligned with PSP Investments' performance and are reasonable from an overall cost perspective.

COMPENSATION FRAMEWORK

Salary

Purpose:

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

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

Total incentive

Purpose:

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

The new incentive program produces one annual incentive award that is split into an annual cash payment and a deferred cash award.

The annual incentive is based on performance relating to three components: group objectives, total fund investment performance and asset class investment performance. (Asset class investment performance does not apply to business partners, only to investment employees.) The three performance components are weighted according to level and position. Individual performance is used as a modifier and individual performance factors are determined upon review of individual objectives relative to predetermined goals. For more senior employees, significantly more emphasis is put on total fund investment performance.

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

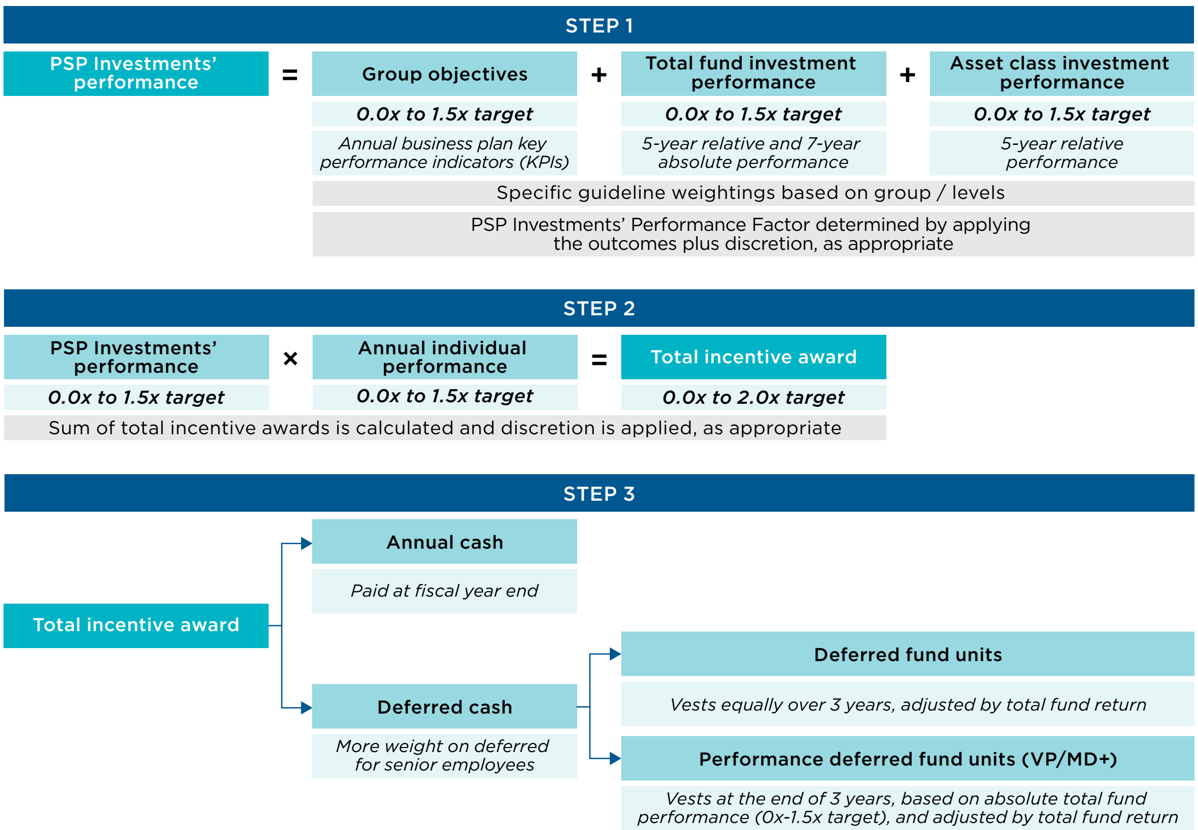
All employees participate in the same incentive structure and each employee has a target total incentive opportunity based on his or her group and level. All employees can earn up to a maximum of two times the target total incentive opportunity before the total fund rate of return and additional performance conditioning are applied to the deferred cash.

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

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

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

TOTAL INCENTIVE PLAN FRAMEWORK[1]:



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

Note: During the transition to the new incentive program, additional payments may be made to honour historical grants, such as those authorized prior to fiscal year 2017, and other entitlements.

Restricted Fund Units

Purpose:

› To retain key employees.

Restricted Fund Units (RFUs) may be awarded in special circumstances warranted by extraordinary performance or market-related considerations, such as the demand for talent.

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

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

Other benefits

Purpose:

› To provide competitive group benefits and retirement savings programs.

Group benefits:

› All employees have the same benefits, including health and dental care, long-term disability, critical illness, life insurance, accidental death and dismemberment, and access to an employee-assistance program.

Retirement savings:

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

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

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

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

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

Perquisites:

› Executives are provided with a perquisites allowance, including a health-and-lifestyle assessment.

PAY MIX

Based on the compensation framework, the target pay mix for the President and CEO and senior vice presidents in asset classes is weighted significantly toward variable compensation, as outlined in the table below.

The President & CEO's target incentive is 325% of base salary, split 40% into annual cash (paid out in the current year), and 60% into deferred awards. Within the deferred portion, 50% is allocated to performance-based deferred fund units that cliff-vest and payout after 3 years (while earning total fund return). The other 50% is allocated to time-vested deferred fund units that vest one-third per year over 3 years (while earning total fund return).

For senior vice presidents in asset classes, the target incentive is 300% of base salary, split 50% into annual cash (paid out in the current year), and 50% into deferred awards. Within the deferred portion, 40% is allocated to performance-based deferred fund units that cliff-vest and payout after 3 years (while earning total fund return). The other 60% is allocated to time-vested deferred fund units that vest one-third per year over 3 years (while earning total fund return).

	Base salary	Short-term incentive	Long-term incentive
President and CEO	23%	31%	46%
Senior Vice Presidents in Asset Classes	24%	38%	38%

FISCAL 2017 RESULTS: PERFORMANCE OUTCOMES AND COMPENSATION DECISIONS

A key determinant of our compensation program is the relative performance of our total fund and major asset classes against their respective benchmark.

Another critical element of our incentive program is our absolute performance against the return objective, measured over a rolling seven-year period. Since fiscal year 2011, PSP Investments has generated a net return on investment of 9.93%, which is higher than the long-term return objective.

Long-term value creation is often a function of the ability to consistently deliver investment returns above a defined benchmark. For fiscal year 2017, our five-year relative investment performance for the purpose of compensation is summarized in relation to each sector's respective target, as follows:

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

[1] From inception date of June 27, 2011.
[2] Newly created asset class in fiscal year 2016. From inception date of December 11, 2015.

COMPENSATION DECISIONS MADE IN FISCAL YEAR 2017

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 ratings.

For fiscal year 2017, Mr. Bourbonnais' personal objectives – in addition to superior investment performance – were aligned with PSP Investments' strategy, mission and values, including:

- One PSP
- Branding
- Global footprint
- Scalability and efficiency
- Develop our talent
- Strive for excellence
- Delegate responsibility and embrace empowerment
- Act with integrity
- Act as one team
- Be results driven

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

COMPENSATION DISCLOSURE

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

The new compensation framework for Canadian based NEOs was implemented in fiscal year 2017 and it focuses on awards granted for the current year including: base salary, annual cash and deferred awards. The following tables illustrate NEOs selected and ranked by grant value in fiscal year 2017. The total compensation payout value received in fiscal year 2017 is also illustrated as reported in previous years and includes cash received from former plans, new plans and any transitional arrangements. Due to some organizational changes following the arrival of our CEO, Mr. André Bourbonnais in 2015, some of the new executive team members in Canada and in New York have specific arrangements for guarantee periods and are eligible to cash and/or deferred payments, while former executive team members are in transition from payments under the former incentive plan. In addition, with the opening of new offices in New York and London, the Board has approved the compensation framework for these employees in fiscal year 2017 and will be in effect in fiscal year 2018.

TOTAL DIRECT COMPENSATION (new plan grant value)

	Base salary	Annual cash	Deferred cash *(grant)*	Total direct compensation (grant)[1]
André Bourbonnais	500,000	1,228,500	1,842,750	3,571,250
Guthrie Stewart	350,000	1,016,756	1,016,756	2,383,512
Neil Cunningham	350,000	919,830	919,830	2,189,660
Anik Lanthier	300,000	807,509	807,508	1,915,017
Daniel Garant	400,000	788,375	788,375	1,976,750
All amounts reported are in USD				
David J. Scudellari	350,000	n/a	n/a	350,000

1 Total Direct Compensation granted includes both annual cash and deferred cash earned for fiscal year 2017 under the new incentive framework implemented April 1, 2016 for Canadian-based NEOs. In fiscal year 2017, Mr. Scudellari's incentive compensation was paid in accordance with his contractual arrangements and is shown under the Total Direct Compensation (payout value) table below.

TOTAL DIRECT COMPENSATION (payout value)

	Base salary	Annual cash	LTIP *(payout of previous grants)*	Special RFUs *(payout of previous grants)*	Special cash	Total direct compensation (payout)
André Bourbonnais[1]	500,000	1,228,500	0	789,450	707,050	3,225,000
Guthrie Stewart[2]	350,000	1,016,756	0	0	383,244	1,750,000
Neil Cunningham	350,000	919,830	1,261,015	0	0	2,530,845
Anik Lanthier[3]	300,000	807,509	408,191	102,199	132,101	1,750,000
Daniel Garant	400,000	788,375	927,544	113,554	0	2,229,473
All amounts reported are in USD						
David J. Scudellari[4]	350,000	n/a	n/a	93,982	1,656,500	2,100,482

1 Mr. Bourbonnais was appointed President and CEO as of March 30, 2015. Pursuant to his employment agreement, Mr. Bourbonnais was given a guarantee that his total direct compensation for each of fiscal years 2016, 2017 and 2018, in respect of base salary and total incentive plan payments, would be no less than $2.5 million per year. Additional compensation awarded to Mr. Bourbonnais to meet the compensation guarantee is included under Special Cash.

2 Mr. Stewart was appointed Senior Vice President, Global Head of Private Investments as of September 8, 2015. Pursuant to his employment agreement, Mr. Stewart was given a guarantee that his total direct compensation for 2017, in respect of base salary and total incentive plan payments, would be no less than $1.5 million per year. In 2017, Mr. Stewart was awarded an additional discretionary cash bonus to recognize his contribution to PSP. Special Cash includes the additional compensation provided to Mr. Stewart to meet his compensation guarantee, and the discretionary cash bonus. Mr. Stewart elected to defer his fiscal year 2016 RFU grant payment until March 31, 2018.

3 Ms. Lanthier was appointed to the role of Senior Vice President, Public Markets and Absolute Return Strategies as of July 1, 2015. In 2017, Ms. Lanthier was awarded an additional discretionary cash bonus to recognize her contribution to PSP, included as part of Special Cash. Ms. Lanthier elected to defer the payout of her fiscal year 2017 RFU grant until March 31, 2019.

4 Mr. Scudellari was appointed Senior Vice President, Head of Principal Debt and Credit Investments as of November 2, 2015. Pursuant to his employment agreement, Mr. Scudellari was given a guarantee that his cash payment for 2016 and 2017 would be no less than US$1.7 million. Mr. Scudellari was also provided with a lump sum payment due to his transition from a consulting contract. Special Cash reflects the additional cash compensation awarded to meet the compensation guarantee and the lump sum transition payment awarded to Mr. Scudellari.

COMPREHENSIVE FISCAL YEAR 2017 TOTAL COMPENSATION

	Fiscal year	Base salary (A)	STIP / Annual cash payout (B)	Deferred cash / LTIP grant (C)	Sub-total compensation (grant value) (A+B+C)	Restricted fund unit/ Special cash grants (D)	Pension and SERP plans (E)	Total compensation (grant value) (A+B+C+D+E)	Other compensation[1] (F)	LTIP + RFU payout (G)	Total compensation (payout value) (A+B+F+G)
André Bourbonnais[2] President and Chief Executive Officer	2017	500,000	1,228,500	1,842,750	**3,571,250**	898,703	25,962	**4,495,915**	746,793	789,450	**3,264,743**
	2016	500,000	691,933	500,000	**1,691,933**	0	24,519	**1,716,452**	2,069,350	0	**3,261,283**
	2015	3,846	0	0	**3,846**	0	0	**3,846**	3,057,481	0	**3,061,327**
Guthrie Stewart[3] Senior Vice President, Global Head of Private Investments	2017	350,000	1,016,756	1,016,756	**2,383,512**	250,000	18,130	**2,651,642**	413,172	0	**1,779,928**
	2016	173,750	255,187	165,750	**594,687**	325,000	8,688	**928,375**	335,568	0	**764,505**
	2015										
Neil Cunningham Senior Vice President, Global Head of Real Estate Investments	2017	350,000	919,830	919,830	**2,189,660**	0	145,500	**2,335,160**	31,918	1,261,015	**2,562,763**
	2016	320,000	679,376	288,000	**1,287,376**	0	54,500	**1,341,876**	27,468	1,296,000	**2,322,844**
	2015	320,000	849,584	288,000	**1,457,584**	0	48,900	**1,506,484**	26,145	1,309,370	**2,505,099**
Anik Lanthier[4] Senior Vice President, Public Markets and Absolute Return Strategies	2017	300,000	807,509	807,508	**1,915,017**	382,101	26,500	**2,323,618**	160,344	510,390	**1,778,243**
	2016	285,082	286,391	246,037	**817,510**	370,000	198,800	**1,386,310**	127,480	507,643	**1,206,596**
	2015										
Daniel Garant Executive Vice President and Chief Investment Officer	2017	400,000	788,375	788,375	**1,976,750**	0	61,900	**2,038,650**	32,276	1,041,098	**2,261,750**
	2016	380,615	487,919	344,408	**1,212,942**	300,000	197,600	**1,710,542**	23,720	964,960	**1,857,214**
	2015	330,000	667,921	297,000	**1,294,921**	0	42,200	**1,337,121**	24,627	1,223,529	**2,246,077**
All amounts reported are in USD											
David J. Scudellari[5] Senior Vice President, Head of Principal Debt and Credit Investments	2017	350,000	n/a	n/a	**350,000**	250,000	22,274	**622,274**	1,678,029	93,982	**2,122,011**
	2016	144,399	n/a	n/a	**144,399**	0	808	**145,207**	1,637,425	0	**1,781,824**
	2015										

1 Other compensation includes the perquisites allowance, the annual flexible dollar allocation, the annual health-and-lifestyle assessment and the employer-paid premiums for life, accidental death and dismemberment, disability, health and dental care coverage, as well as other amounts as per contractual arrangements, where applicable.

2 Mr. Bourbonnais was appointed President and CEO as of March 30, 2015. Pursuant to his employment agreement, Mr. Bourbonnais was given a guarantee that his total direct compensation for each of fiscal years 2016, 2017 and 2018, in respect of base salary and total incentive plan payments, would be no less than $2.5 million per year. Other Compensation includes the additional compensation awarded to Mr. Bourbonnais to meet the compensation guarantee.

3 Mr. Stewart was appointed Senior Vice President, Global Head of Private Investments as of September 8, 2015. Pursuant to his employment agreement, Mr. Stewart was given a guarantee that his total direct compensation for 2017, in respect of base salary and total incentive plan payments, would be no less than $1.5 million per year. In 2017, Mr. Stewart was awarded an additional discretionary cash bonus to recognize his contribution to PSP. Other Compensation includes the additional compensation provided to Mr. Stewart to meet his compensation guarantee, and the discretionary cash bonus. Mr. Stewart elected to defer his fiscal year 2016 RFU grant until March 31, 2018.

4 Ms. Lanthier was appointed to the role of Senior Vice President, Public Markets and Absolute Return Strategies as of July 1, 2015. In 2017, Ms. Lanthier was awarded an additional discretionary cash bonus to recognize her contribution to PSP, included as part of Other Compensation. Ms. Lanthier elected to defer the payout of her fiscal year 2017 RFU grant until March 31, 2019.

5 Mr. Scudellari was appointed Senior Vice President, Head of Principal Debt and Credit Investments as of November 2, 2015. Pursuant to his employment agreement, Mr. Scudellari was given a guarantee that his cash payment for 2016 and 2017 would be no less than US$1.7 million. Mr. Scudellari was also provided with a lump sum payment due to his transition from a consulting contract. Other compensation reflects the additional cash compensation awarded to meet the compensation guarantee and the lump sum transition payment awarded to Mr. Scudellari.

LONG-TERM INCENTIVE GRANTED

The following table shows the estimated future payouts to PSP Investments' NEOs.

	Award type	Fiscal year 2017 grant	Vesting period	Estimated future payouts		
				FY2018	FY2019	FY2020
André Bourbonnais	Deferred Cash[1] RFU[2]	1,842,750 898,703	3 years 3 years	307,125 299,568	307,125 299,568	1,228,500 299,568
Guthrie Stewart	Deferred Cash RFU	1,016,756 250,000	3 years 3 years	203,351 83,333	203,351 83,333	610,054 83,333
Neil Cunningham	Deferred Cash RFU	919,830 0	3 years 3 years	183,966 0	183,966 0	551,898 0
Anik Lanthier	Deferred Cash RFU	807,508 382,101	3 years 3 years	161,502 0	161,502 430,928	484,505 0
Daniel Garant	Deferred Cash RFU	788,375 0	3 years 3 years	157,675 0	157,675 0	473,025 0
All amounts reported are in USD						
David J. Scudellari	Deferred Cash RFU	n/a 250,000	3 years 3 years	n/a 93,982	n/a 93,982	n/a 0

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

[2] RFU: Accumulated values reflect PSP Investments' total fund rate of return for fiscal year 2017, where applicable, but no returns for future years.

LONG-TERM INCENTIVE CUMULATIVE VALUE

At March 31, 2017, the total cumulative value of all long-term incentive awards granted but not yet vested or paid to PSP Investments' NEOs is shown in the following table.

	Plan	Awards paying out at the end of fiscal year[1]			Total
		2017	2018	2019	
André Bourbonnais	New – Deferred Cash[1] Historical – LTIP[2] RFU[3] **TOTAL**	307,125 0 166,667 **473,792**	307,125 750,000 166,667 **1,223,792**	1,228,500 0 166,667 **1,395,167**	1,842,750 750,000 500,000 **3,092,750**
Guthrie Stewart	New – Deferred Cash Historical – LTIP RFU **TOTAL**	203,351 0 0 **203,351**	203,351 310,781 369,051 **883,183**	610,054 0 0 **610,054**	1,016,756 310,781 369,051 **1,696,588**
Neil Cunningham	New – Deferred Cash Historical – LTIP RFU **TOTAL**	183,966 864,000 0 **1,047,966**	183,966 720,000 0 **903,966**	551,898 0 0 **551,898**	919,830 1,584,000 0 **2,503,830**
Anik Lanthier	New – Deferred Cash Historical – LTIP RFU **TOTAL**	161,502 240,941 102,199 **504,641**	161,502 305,240 281,946 **748,688**	484,505 0 0 **484,505**	807,508 546,181 384,145 **1,737,834**
Daniel Garant	New – Deferred Cash Historical – LTIP RFU **TOTAL**	157,675 0 0 **157,675**	157,675 207,188 0 **364,863**	473,025 0 0 **473,025**	788,375 207,188 0 **995,563**
All amounts reported are in USD					
David J. Scudellari	New – Deferred Cash Historical – LTIP RFU **TOTAL**	n/a n/a 93,982 **93,982**	n/a n/a 93,982 **93,982**	n/a n/a 0 **0**	n/a n/a 187,964 **187,964**

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

[2] Historical LTIP: Accumulated values are estimated using total fund and asset class performance in accordance with the LTIP transition measures adopted in conjunction wiith the approval of the new incentive plan. No total fund return has been included.

[3] RFU: Accumulated values reflect PSP Investments' total fund rate of return for fiscal years 2016 and 2017, where applicable, but no returns for future years.

RETIREMENT BENEFITS

CANADIAN DEFINED CONTRIBUTION PENSION PLAN AND SAFE HARBOR 401(K) PLAN

	Plan type	Accumulated value at beginning of year	Compensatory increase[1]	Non-compensatory increase[2]	Accumulated value at year end
André Bourbonnais	Defined Contribution	49,007	25,962	33,410	108,379
Guthrie Stewart	Defined Contribution	17,534	18,130	21,034	56,698
All amounts reported are in USD					
David J. Scudellari	Safe Harbor 401(k)	1,891	22,274	31,973	56,138

[1] Includes employer contributions, which for Canadian NEOs, apply to both the DC Pension Plan and the DC Supplemental Employee Retirement Plan.

[2] Includes employee contributions and regular investment earnings on employer and employee contributions, which for Canadian NEOs, apply both to the DC Pension Plan and the DC Supplemental Employee Retirement Plan for Canadian NEOs.

CANADIAN DEFINED BENEFIT PENSION PLAN

	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[2,3]	At age 65[2,3]				
Neil Cunningham	9.4	61,700	105,900	894,600	145,500	100,300	1,140,400
Anik Lanthier	10.9	58,400	172,900	780,500	26,500	129,600	936,600
Daniel Garant	8.6	62,600	166,000	924,900	61,900	126,800	1,113,600

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

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

[3] For the purpose of calculating the annual benefits payable at age 65, the final average earnings are calculated as at March 31, 2017.

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

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

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

[7] Accrued obligation using a discount rate of 4.1%. The obligations are calculated as at March 31, 2017 using the assumptions and methods that were used for the accounting disclosures as at December 31, 2016.

POST-EMPLOYMENT POLICIES

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

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

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

	Years of service[1]	Severance	Resignation
André Bourbonnais	2.0	2,500,000	0
Guthrie Stewart	1.6	990,368	0
Neil Cunningham	12.8	1,312,500	0
Anik Lanthier	10.9	1,125,000	0
Daniel Garant	8.6	1,650,000	0
All amounts reported are in USD			
David J. Scudellari	1.4	1,902,662	0

[1] Assumes a notional termination as at March 31, 2017.

DIRECTORS' BIOGRAPHIES

Michael P. Mueller

Chair of the Board

Board member since
December 18, 2006

Committee Membership
Investment Committee

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

Cheryl Barker

Board member since
December 18, 2006

Committee Membership
Human Resources and Compensation Committee, Investment Committee

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

Diane Bean

Board member since
June 18, 2010

Committee Membership
Human Resources and Compensation Committee (Chair), Investment Committee

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

Micheline Bouchard

Board member since September 29, 2011

Committee Membership
Governance Committee, Human Resources and Compensation Committee, Investment Committee

Micheline Bouchard is a member of the Board of Directors of the Canada Foundation for Innovation. She has extensive experience as a director with public and private companies and volunteer boards. Past Board memberships include TELUS Corporation, Banque Nationale de Paris, Ford Motor Company of Canada, London Insurance Group Inc. and Home Capital Group Inc./Home Trust Company. Ms. Bouchard was Global Corporate Vice President of Motorola, Inc. in the US after having served as President and CEO of Motorola, Inc. (Canada). She holds a BSc (Engineering Physics) and an MASc (Electrical Engineering) from the École Polytechnique, the engineering school affiliated with the Université de Montréal. She has been awarded five honourary doctorates from Canadian universities and been named one of the top 100 women of influence in Canada. Ms. Bouchard is a Member of the Order of Canada and of the Ordre national du Québec, and a Certified Member of the Institute of Corporate Directors.

Léon Courville

Board member since March 5, 2007

Committee Membership
Governance Committee, Human Resources and Compensation Committee, Investment Committee

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

DIRECTORS' BIOGRAPHIES

Garnet Garven

Board member since September 29, 2011

Committee Membership
Audit Committee,
Governance Committee (Chair),
Investment Committee

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

Martin J. Glynn

Board member since January 30, 2014

Committee Membership
Governance Committee,
Human Resources and Compensation Committee,
Investment Committee

Martin J. Glynn is a Board member of two public companies: Sun Life Financial Inc. and Husky Energy Inc. He also serves as Chair of UBC Investment Management Trust Inc., and as a Board member of SOI Group Limited, a subsidiary of the University of St. Andrews associated with the Scottish Oceans Institute. Mr. Glynn is also a member of the advisory board of Balfour Pacific Real Estate Fund IV and Second City Real Estate II. Until his retirement in 2006, Mr. Glynn held progressively senior positions with HSBC, including President and CEO of HSBC Bank Canada from 1999 to 2003, and President and CEO of HSBC Bank USA from 2003 to 2006. He remains active in professional and community circles. From 2009 to 2010, he was the Jarislowsky Fellow in Business Management at the Haskayne School of Business, University of Calgary. Mr. Glynn holds a BA Honours (Economics) from Carleton University and an MBA (Finance and International Business) from the University of British Columbia.

Lynn Haight

Board member since
January 14, 2010

Committee Membership
Audit Committee, Governance Committee, Investment Committee

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

Timothy E. Hodgson

Board member since
December 17, 2013

Committee Membership
Audit Committee,
Investment Committee (Chair)

Timothy E. Hodgson is Managing Partner of Alignvest Management Corporation. He was Special Advisor to Bank of Canada Governor Mark Carney from 2010 to 2012. Mr. Hodgson spent much of his early career with Goldman Sachs Group, Inc. and served as CEO at Goldman Sachs Canada, Inc. from 2005 to 2010. He sits on the Boards of KGS-Alpha Capital Markets, LP, the Global Risk Institute in Financial Services, the Ivey Business School at Western University, Next Canada and MEG Energy Corp. He is a past Board member of Goldman Sachs Canada, Inc. Mr. Hodgson holds an MBA from the Ivey Business School, and a BCom from the University of Manitoba. He is a Chartered Professional Accountant (CPA, CA) and a member of the Institute of Corporate Directors.

William A. Mackinnon

Board member since
January 14, 2010

Committee Membership
Audit Committee (Chair),
Investment Committee

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

SENIOR MANAGEMENT AND OFFICERS

Investing is the very core of our vision, our mandate and our business. It's about seizing opportunities and making the most of them for the funding of the public sector pension plans, in the best interests of contributors and beneficiaries – the men and women who have served Canada throughout their careers.

André Bourbonnais | 1
President and Chief Executive Officer

Darren Baccus | 2
Senior Vice President and Chief Legal Officer

Nathalie Bernier | 3
Senior Vice President,
Strategic and Business Planning
and Chief Financial Officer

Alison Breen | 4
Vice President, Corporate Secretary
and Chief Regulatory Officer

J.-F. Bureau | 5
Senior Vice President and Chief Risk Officer

Giulia Cirillo | 6
Senior Vice President
and Chief Human Resources Officer

Neil Cunningham | 7
Senior Vice President,
Global Head of Real Estate
and Natural Resources

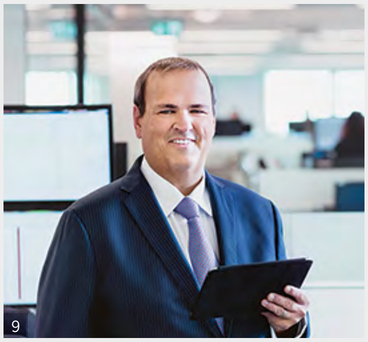
Alain Deschênes | 8
Senior Vice President
and Chief Operations Officer

Daniel Garant | 9
Executive Vice President
and Chief Investment Officer

Anik Lanthier | 10
Senior Vice President, Public Markets
and Absolute Return Strategies

David J. Scudellari | 11
Senior Vice President, Head of Principal Debt
and Credit Investments

Guthrie Stewart | 12
Senior Vice President
and Global Head of Private Investments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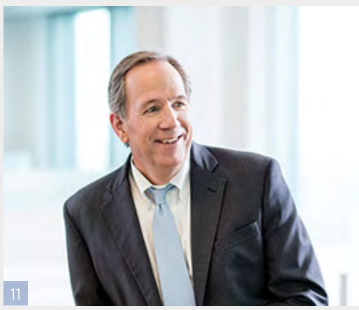
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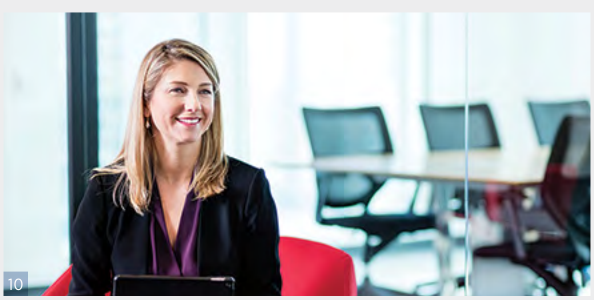
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Consolidated 10-Year Financial Review

($ millions)	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
CHANGE IN NET ASSETS[1]										
Net investment income (loss)	**$ 15,553**	$ 1,098	$13,966	$12,793	$ 7,194	$ 1,888	$ 7,043	$ 7,605	$ (9,493)	$ (197)
Operating expenses	**370**	295	243	216	184	148	114	92	86	77
Other comprehensive income (loss)	**(4)**	4	(15)	17	–	–	–	–	–	–
Comprehensive income (loss)	**$ 15,179**	$ 807	$13,708	$12,594	$ 7,010	$ 1,740	$ 6,929	$ 7,513	$ (9,579)	$ (274)
Fund transfers	**$ 3,622**	$ 3,987	$ 4,554	$ 4,997	$ 4,635	$ 4,733	$ 4,814	$ 4,980	$ 4,431	$ 4,237
Increase/(decrease) in net assets	**$ 18,801**	$ 4,794	$18,262	$17,591	$11,645	$ 6,473	$11,743	$12,493	$ (5,148)	$ 3,963
NET INVESTMENT ASSETS										
Equity										
Public Market Equities[2]	**55,227**	47,511	56,276	49,466	40,165	32,950	32,834	23,659	11,411	21,590
Private Equity	**15,868**	12,520	10,103	8,425	6,924	6,444	5,582	5,426	4,191	3,972
Government Fixed Income[3]	**24,699**	24,603	22,646	18,383	15,433	14,144	11,956	10,001	11,096	8,039
Credit	**4,418**	640	–	–	–	–	–	–	–	–
Real Assets										
Real Estate[4]	**20,551**	20,356	14,377	10,650	9,427	7,055	5,312	5,118	4,653	4,029
Infrastructure	**11,149**	8,701	7,080	6,011	3,854	3,607	2,356	2,073	2,446	1,343
Natural Resources	**3,711**	2,470	1,536	795	382	325	–	–	–	–
Net investments	**$135,623**	**$116,801**	**$112,018**	**$93,730**	**$76,185**	**$64,525**	**$58,040**	**$46,277**	**$33,797**	**$38,973**
PERFORMANCE (%)										
Annual rate of return (net of expenses)	**12.8**	**0.7**	**14.2**	**15.9**	**10.3**	**2.6**	**14.1**	**21.1**	**(23.1)**	**(0.7)**
Benchmark	**11.9**	0.3	13.1	13.9	8.6	1.6	12.7	19.8	(17.6)	1.2

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

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

3 Includes Cash and cash equivalents.

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

FINANCIAL STATEMENTS

and Notes to the Financial Statements

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MANAGEMENT'S RESPONSIBILITY
for Financial Reporting

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

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

In this regard, investments of PSP Investments held during the years ended March 31, 2017 and March 31,2016 were in accordance with the *Public Sector Pension Investment Board Act* (the "Act") and the Statement of Investment Policies, Standards and Procedures (the "SIP&P").

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

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

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

André Bourbonnais
President and
Chief Executive Officer
May 12th, 2017

Nathalie Bernier
Senior Vice President, Strategic and Business Planning
and Chief Financial Officer
May 12th, 2017

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, 2017, were in accordance with the Act and PSP Investments' Statement of Investment Policies, Standards and Procedures".

Michael P. Mueller
Chair of the Board
May 12, 2017

Public Sector Pension Investment Board

CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditors' Report

To the President of the Treasury Board

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Public Sector Pension Investment Board (PSP Investments), which comprise the consolidated statements of financial position as at March 31, 2017 and March 31, 2016, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PSP Investments as at March 31, 2017 and March 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Other Legal and Regulatory Requirements

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

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

Margaret P.C. Haire

Margaret Haire, CPA, CA
Principal
for the Auditor General of Canada

May 12, 2017
Ottawa, Canada

Deloitte LLP[1]

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

May 12, 2017
Montréal, Canada

Consolidated Statements of Financial Position

As at

(Canadian $ millions)	March 31, 2017	March 31, 2016
Assets		
Investments (Note 4.1)	**$ 158,803**	$ 131,513
Other assets	**170**	147
Total assets	**$ 158,973**	$ 131,660
Liabilities		
Trade payable and other liabilities	**$ 231**	$ 187
Investment-related liabilities (Note 4.1)	**12,373**	5,861
Borrowings (Notes 4.1, 8.2)	**10,807**	8,851
Total liabilities	**$ 23,411**	$ 14,899
Net assets	**$ 135,562**	$ 116,761
Equity		
Statutory rights held by the Government of Canada with respect to: (Note 9.1)		
Public Service Pension Plan Account	**$ 98,447**	$ 84,723
Canadian Forces Pension Plan Account	**26,653**	22,999
Royal Canadian Mounted Police Pension Plan Account	**9,835**	8,483
Reserve Force Pension Plan Account	**627**	556
Total equity	**$ 135,562**	$ 116,761
Total liabilities and equity	**$ 158,973**	$ 131,660

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

On behalf of the Board of Directors:

Michael P. Mueller
Chair of the Board

William A. MacKinnon
Chair of the Audit Committee

Consolidated Statements of Comprehensive Income

For the years ended March 31

(Canadian $ millions)	2017	2016
Investment income	**$ 15,913**	$ 1,369
Investment-related expenses (Note 10)	**(360)**	(271)
Net investment income	**$ 15,553**	$ 1,098
Operating expenses (Note 11)	**(370)**	(295)
Net income	**$ 15,183**	$ 803
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability	**(4)**	4
Comprehensive income	**$ 15,179**	$ 807

Consolidated Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	2017	2016
Fund transfers		
Balance at beginning of period	**$ 66,188**	$ 62,201
Fund transfers received during the period (Note 9.3)	**3,622**	3,987
Balance at end of period	**$ 69,810**	$ 66,188
Retained earnings		
Balance at beginning of period	**$ 50,573**	$ 49,766
Comprehensive income	**15,179**	807
Balance at end of period	**$ 65,752**	$ 50,573
Total equity	**$ 135,562**	$ 116,761

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)	2017	2016
Cash flows from operating activities		
Net income	$ 15,183	$ 803
Adjustments for non-cash items:		
Depreciation of equipment (Note 11)	30	26
Effect of exchange rate changes on cash and cash equivalents	(48)	9
Unrealized losses (gains) on borrowings	416	(545)
	$ 15,581	$ 293
Net changes in operating assets and liabilities		
Increase in investments	$ (24,864)	$ (6,499)
Decrease (increase) in other assets	9	(6)
Increase (decrease) in trade payable and other liabilities	40	(4)
Increase in investment-related liabilities	6,512	799
Net cash flows used in operating activities	$ (2,722)	$ (5,417)
Cash flow from financing activities		
Proceeds from borrowings	$ 26,760	$ 23,966
Repayment of borrowings	(25,220)	(21,983)
Fund transfers received	3,622	3,987
Net cash flows provided by financing activities	$ 5,162	$ 5,970
Cash flow from investing activities		
Acquisitions of equipment	$ (46)	$ (27)
Net cash flows used in investing activities	$ (46)	$ (27)
Net change in cash and cash equivalents	$ 2,394	$ 526
Effect of exchange rate changes on cash and cash equivalents	48	(9)
Cash and cash equivalents at the beginning of the period	1,388	871
Cash and cash equivalents at the end of the period[A]	$ 3,830	$ 1,388
Supplementary disclosure of cash flow information		
Interest paid	$ (139)	$ (121)

[A] As at March 31, 2017, cash and cash equivalents were comprised of $3,805 million (March 31, 2016 – $1,379 million) held for investment purposes and included in Note 4.1, as well as $25 million (March 31, 2016 – $9 million) held for administrative purposes and included in Other assets.

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

Notes to the Consolidated Financial Statements

For the years ended March 31, 2017 and 2016

1 CORPORATE INFORMATION

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1. BASIS OF PRESENTATION

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

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

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

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 12, 2017.

Plan Accounts

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

2 SIGNIFICANT ACCOUNTING POLICIES
(continued)

2.2. INVESTMENT ENTITY STATUS

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

(i) Mandate and business purpose

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

(ii) Performance evaluation

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

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

As described in Note 13, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

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

2.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.3.1. Financial Instruments

(i) Classification

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

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

(ii) Recognition

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

(iii) Initial and subsequent measurement

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

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

(iv) Derecognition

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

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

and

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2. Determination of Fair Value

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

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

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

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

2.3.3. Functional and Presentation Currency

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

2.3.4. Foreign Currency Translation

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

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

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

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or pledged as collateral, or recognize securities borrowed or received as collateral. Cash collateral received is recognized as described in Note 4.1.8.

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. In the case where PSP Investments is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.7. Offsetting of Financial Instruments

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

2.3.8. Equity

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

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

2.3.9. Investment Income

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

2.3.10. Investment-Related Expenses

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

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

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets and other fixed income securities as outlined in Note 10.

2.3.11. Fund Transfers

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

2.4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

3 CURRENT AND FUTURE CHANGES IN ACCOUNTING STANDARDS

3.1. ACCOUNTING STANDARDS ADOPTED IN THE CURRENT YEAR

IFRS 11 Joint Arrangements

IFRS 11 was amended, effective for annual periods beginning on or after January 1, 2016, to add new guidance on the accounting for acquisitions of interests in a joint operation that constitutes a business. Acquirers of such interests shall apply all of the principles in business combinations accounting in IFRS 3 *Business Combinations*, and other IFRS, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRS in relation to business combinations. On April 1, 2016, PSP Investments adopted this amendment with no impact on the presentation of the Consolidated Financial Statements.

3.2. ACCOUNTING STANDARDS ADOPTED BEFORE THE EFFECTIVE DATE

IFRS 9 Financial Instruments

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

PSP Investments initially adopted IFRS 9 (2014) in the Consolidated Financial Statements for the year ended March 31, 2016. Significant accounting policies in connection with IFRS 9 are described under Note 2.3.1.

3.3. FUTURE ACCOUNTING STANDARDS

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

IAS 7 Statement of Cash Flows

IAS 7 was amended, effective for annual periods beginning on or after January 1, 2017, to add new guidance on disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. PSP Investments will apply the amendments starting from April 1, 2017 and will make the required note disclosures in its Consolidated Financial Statements.

IAS 28 Investment in Associates and Joint Ventures

IAS 28 was amended, effective for annual periods beginning on or after January 1, 2018, to add a clarification that serves to elaborate and clarify that the election to measure investees at fair value is available on an investment by investment basis and is not an election that must be applied consistently to the measurement of all associates and joint ventures. Management has determined that the amendment will not have an impact on PSP Investments' Consolidated Financial Statements.

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, 2017	March 31, 2016
Public markets		
Canadian equity	**$ 6,358**	$ 6,369
Foreign equity	**29,503**	26,019
Private markets		
Real estate	**24,338**	22,478
Private equity	**13,617**	11,249
Infrastructure	**13,203**	9,502
Natural resources	**4,269**	3,033
Fixed income		
Cash and money market securities	**12,369**	5,917
Government and corporate bonds	**21,794**	19,943
Inflation-linked bonds	**7,724**	7,405
Private debt securities[A]	**9,152**	5,302
Other fixed income securities[A]	**3,317**	2,637
Alternative investments	**8,015**	6,627
	$ 153,659	$ 126,481
Investment-related assets		
Amounts receivable from pending trades	**$ 1,145**	$ 441
Interest receivable	**318**	223
Dividends receivable	**133**	104
Securities purchased under reverse repurchase agreements	**2,653**	1,071
Derivative-related assets	**895**	3,193
	$ 5,144	$ 5,032
Investments representing financial assets at FVTPL	**$ 158,803**	$ 131,513
Investment-related liabilities		
Amounts payable from pending trades	**$ (1,076)**	$ (576)
Interest payable	**(39)**	(27)
Securities sold short and securities loaned	**(9,313)**	(2,661)
Securities sold under repurchase agreements	**(1,107)**	(1,438)
Derivative-related liabilities	**(838)**	(1,159)
Investment-related liabilities representing financial liabilities at FVTPL	**$ (12,373)**	$ (5,861)
Borrowings		
Capital market debt financing	**$ (10,807)**	$ (8,851)
Borrowings representing financial liabilities designated at FVTPL	**$ (10,807)**	$ (8,851)
Net investments	**$ 135,623**	$ 116,801

[A] During the year ended March 31, 2017, private debt securities were reclassified out of other fixed income securities and into a standalone caption in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted to decrease other fixed income securities by $5,302 million and increase private debt securities by the same amount. Notes 4.2.1 and 4.2.3 were adjusted similarly.

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 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.2. Private Markets

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

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financing. As at March 31, 2017, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSP Investments was $6,957 million (March 31, 2016 – $6,286 million).

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

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing. As at March 31, 2017, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSP Investments was $3,946 million (March 31, 2016 – $1,594 million).

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

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

4.1.3. Fixed Income

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

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. 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 $3,805 million as at March 31, 2017 (March 31, 2016 – $1,379 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. 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.

Other fixed income securities consist of asset-backed securities and floating rate notes.

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

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009.

The fair values of certain corporate bonds, private debt securities and ABTNs 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 approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.10, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

4.1.8. Securities Sold Short and Securities Loaned

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.

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

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

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

4.1.10. Borrowings under the Capital Market Debt Program

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

Options are 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, or commodity, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

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

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

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)

4.1.11. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2017			March 31, 2016		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**$ 1,404**	**$ –**	**$ –**	$ 670	$ –	$ –
Warrants and rights	**3**	**8**	**–**	3	4	–
Options: Purchased	**3,871**	**31**	**–**	1,506	20	–
Written	**3,243**	**–**	**(27)**	1,397	–	(23)
OTC						
Total return swaps	**28,932**	**253**	**(108)**	20,880	947	(33)
Variance swaps	**4**	**4**	**(5)**	–	–	–
Options: Purchased	**1,908**	**49**	**–**	5,822	66	–
Written	**1,856**	**–**	**(44)**	5,876	–	(54)
Currency derivatives						
Listed						
Futures	**137**	**–**	**–**	175	–	–
OTC						
Forwards	**28,152**	**99**	**(304)**	43,501	1,694	(234)
Swaps	**4,590**	**17**	**(43)**	3,251	19	(316)
Options: Purchased	**9,600**	**89**	**–**	8,783	102	–
Written	**9,754**	**–**	**(69)**	10,744	–	(87)
Interest rate derivatives						
Listed						
Futures	**7,939**	**–**	**–**	7,473	–	–
Options: Purchased	**34,398**	**6**	**–**	2,371	1	–
Written	**37,959**	**–**	**(3)**	20,470	–	(2)
OTC						
Bond forwards	**–**	**–**	**–**	326	1	–
Interest rate swaps	**12,425**	**157**	**(95)**	11,231	162	(198)
Inflation swaps	**–**	**–**	**–**	543	4	(6)
Swaptions	**28,125**	**143**	**(92)**	29,111	152	(151)
Options: Purchased	**22,838**	**35**	**–**	8,462	10	–
Written	**31,639**	**–**	**(30)**	12,629	–	(12)
OTC-cleared						
Interest rate swaps	**39,099**	**–**	**–**	7,949	–	–
Inflation swaps	**62**	**–**	**–**	–	–	–
Credit derivatives[A]						
OTC						
Credit default swaps: Purchased	**1,086**	**–**	**(18)**	1,794	8	(23)
Sold	**297**	**4**	**–**	514	3	(20)
OTC-cleared						
Credit default swaps: Purchased	**831**	**–**	**–**	628	–	–
Sold	**1,187**	**–**	**–**	1,441	–	–
Total		**$ 895**	**$ (838)**		$ 3,193	$ (1,159)

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2017			March 31, 2016		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**$ 88,954**	**$ 45**	**$ (30)**	$ 34,065	$ 25	$ (25)
OTC derivatives	**181,206**	**850**	**(808)**	163,467	3,168	(1,134)
OTC-cleared derivatives	**41,179**	**–**	**–**	10,018	–	–
Total		**$ 895**	**$ (838)**		$ 3,193	$ (1,159)

The term to maturity based on notional value for the derivatives was as follows as at March 31:

(Canadian $ millions)	**2017**	2016
Less than 3 months	**$ 110,636**	$ 95,940
3 to 12 months	**103,410**	56,217
Over 1 year	**97,293**	55,393

4.2. FAIR VALUE HIERARCHY

4.2.1. Classification

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
  (i) Quoted prices for similar assets or liabilities in active markets.
  (ii) Quoted prices for identical or similar assets 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, 2017 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 5,475	$ 883	$ –	$ 6,358
Foreign equity	25,728	3,480	295	29,503
Private markets				
Real estate	–	–	24,338	24,338
Private equity	–	–	13,617	13,617
Infrastructure	–	–	13,203	13,203
Natural resources	–	–	4,269	4,269
Fixed income				
Cash and money market securities	–	12,369	–	12,369
Government and corporate bonds	–	21,537	257	21,794
Inflation-linked bonds	–	7,724	–	7,724
Private debt securities	–	–	9,152	9,152
Other fixed income securities	–	3,300	17	3,317
Alternative investments	–	1,524	6,491	8,015
	$ 31,203	$ 50,817	$ 71,639	$ 153,659
Investment-related assets				
Amounts receivable from pending trades	$ –	$ 1,145	$ –	$ 1,145
Interest receivable	–	318	–	318
Dividends receivable	–	133	–	133
Securities purchased under reverse repurchase agreements	–	2,653	–	2,653
Derivative-related assets	45	850	–	895
	$ 45	$ 5,099	$ –	$ 5,144
Investments representing financial assets at FVTPL	$ 31,248	$ 55,916	$ 71,639	$ 158,803
Investment-related liabilities				
Amounts payable from pending trades	$ –	$ (1,076)	$ –	$ (1,076)
Interest payable	–	(39)	–	(39)
Securities sold short and securities loaned	(2,867)	(6,446)	–	(9,313)
Securities sold under repurchase agreements	–	(1,107)	–	(1,107)
Derivative-related liabilities	(30)	(808)	–	(838)
Investment-related liabilities representing financial liabilities at FVTPL	$ (2,897)	$ (9,476)	$ –	$ (12,373)
Borrowings				
Capital market debt financing	$ –	$ (10,807)	$ –	$ (10,807)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (10,807)	$ –	$ (10,807)
Net investments	$ 28,351	$ 35,633	$ 71,639	$ 135,623

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2016 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 5,644	$ 725	$ –	$ 6,369
Foreign equity	21,485	4,534	–	26,019
Private markets				
Real estate	–	–	22,478	22,478
Private equity	–	–	11,249	11,249
Infrastructure	–	–	9,502	9,502
Natural resources	–	–	3,033	3,033
Fixed income				
Cash and money market securities	–	5,917	–	5,917
Government and corporate bonds	–	19,660	283	19,943
Inflation-linked bonds	–	7,405	–	7,405
Private debt securities	–	–	5,302	5,302
Other fixed income securities	–	1,935	702	2,637
Alternative investments	–	1,229	5,398	6,627
	$ 27,129	$ 41,405	$ 57,947	$ 126,481
Investment-related assets				
Amounts receivable from pending trades	$ –	$ 441	$ –	$ 441
Interest receivable	–	223	–	223
Dividends receivable	–	104	–	104
Securities purchased under reverse repurchase agreements	–	1,071	–	1,071
Derivative-related assets	25	3,168	–	3,193
	$ 25	$ 5,007	$ –	$ 5,032
Investments representing financial assets at FVTPL	$ 27,154	$ 46,412	$ 57,947	$ 131,513
Investment-related liabilities				
Amounts payable from pending trades	$ –	$ (576)	$ –	$ (576)
Interest payable	–	(27)	–	(27)
Securities sold short	(2,207)	(454)	–	(2,661)
Securities sold under repurchase agreements	–	(1,438)	–	(1,438)
Derivative-related liabilities	(25)	(1,134)	–	(1,159)
Investment-related liabilities representing financial liabilities at FVTPL	$ (2,232)	$ (3,629)	$ –	$ (5,861)
Borrowings				
Capital market debt financing	$ –	$ (8,851)	$ –	$ (8,851)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (8,851)	$ –	$ (8,851)
Net investments	$ 24,922	$ 33,932	$ 57,947	$ 116,801

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2017:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Foreign equity	Direct investments	**$ 295**	Net asset value method (NAV)[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	**$22,916**	Discounted cash flow (DCF)	Discount rate[B, C]	4.50% – 25.00% (8.06%)
				Terminal capitalization rate[B, C]	4.25% – 10.25% (6.04%)
			Direct capitalization	Capitalization rate[B, D]	2.75% – 8.00% (5.69%)
				Stabilized occupancy rate[D, E]	94.00% – 100.00% (97.77%)
			Sales comparison approach	Price per square foot[D, E]	$2.82 – $1,115.10 ($153.82)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 1,422**	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	**$21,639**	DCF	Discount rate[B]	5.91% – 12.70% (9.36%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 9,450**	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	**$ 257**	DCF	Discount rate[B]	3.90% – 14.10% (7.50%)
Private debt securities	Direct and co-investments	**$ 4,861**	DCF	Discount rate[B]	4.49% – 12.25% (9.07%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**$ 4,291**	NAV[A]	N/A	N/A
Other fixed income	Asset-backed term notes	**$ 17**	Third-party pricing[A]	N/A	N/A
Alternative investments	Fund investments	**$ 6,491**	NAV[A]	N/A	N/A
Total		**$71,639**			

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

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.3. Level 3 Significant Inputs (continued)

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

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

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

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2017:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains	Closing Balance
Public markets	$ –	$ 261	$ –	$ –	$ –	$ 34	$ 295
Private markets	46,262	9,866	(2,738)	–	667	1,370	55,427
Fixed income	6,287	5,233	(1,950)	(679)	386	149	9,426
Alternative investments	5,398	918	(480)	–	53	602	6,491
Total	$ 57,947	$ 16,278	$ (5,168)	$ (679)	$ 1,106	$ 2,155	$ 71,639

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2016:

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

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2017 (March 31, 2016 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. Management ensures the appropriateness of the work performed by third-party appraisers as described under Note 4.2.2. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 COLLATERAL PLEDGED AND RECEIVED

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

(Canadian $ millions)	**March 31, 2017**	March 31, 2016
Securities lending and borrowing		
Securities lent	**$ 13,241**	$ 9,163
Collateral held[A]	**14,103**	9,782
Securities borrowed	**2,882**	2,290
Collateral pledged[B]	**3,021**	2,405
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**1,110**	1,443
Collateral pledged	**1,109**	1,438
Securities purchased under reverse repurchase agreements	**2,661**	1,071
Collateral held[C]	**2,655**	1,071
Derivative contracts		
Collateral pledged	**309**	287
Collateral held[D]	**228**	2,181

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to $5,080 million as at March 31, 2017 (March 31, 2016 – $2,083 million) and securities amounted to $9,023 million as at March 31, 2017 (March 31, 2016 – $7,699 million). All cash collateral is reinvested.

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

[C] The collateral received is in the form of securities of which $1,355 million has been used in connection with short selling transactions as at March 31, 2017 (March 31, 2016 – $453 million) and $207 million has been used in connection with securities sold under repurchase agreements (March 31, 2016 – nil).

[D] As part of collateral held, cash amounted to $10 million as at March 31, 2017 (March 31, 2016 – nil) and securities amounted to $218 million as at March 31, 2017 (March 31, 2016 – $2,181 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.

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, 2017, 103 investment entity subsidiaries were incorporated in North America, 23 in Europe, 10 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2016 – 102 in North America, 19 in Europe, 10 in Oceania, 4 in Central and South America and 1 in Africa).

In addition, PSP Investments controlled 77 investees directly or through its investment entity subsidiaries as at March 31, 2017 (March 31, 2016 – 73 investees).

6 INTERESTS IN OTHER ENTITIES (continued)

6.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

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

			March 31, 2017
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments**	**Relationship to PSP Investments**
Revera Inc.	**North America**	**100%**	**Controlled investee**
Kaingaroa Timberlands Ltd.	**Oceania**	**56%**	**Jointly controlled investee**
AviAlliance GmbH	**Europe**	**100%**	**Controlled investee**
Roadis Transportation B.V.[A]	**Global**	**100%**	**Controlled investee**
FirstLight Power Resources Holding Inc.	**North America**	**100%**	**Controlled investee**
Roccapina Fund, L.P.	**North America**	**100%**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50%**	**Jointly controlled investee**
Telesat Holdings Inc.	**North America**	**35%**	**Associate**
TDF S.A.S.	**Europe**	**22%**	**Associate**
Big Box Properties	**North America**	**49%**	**Jointly controlled investee**

[A] Formerly Isolux Infrastructure Netherlands B.V.

			March 31, 2016
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	North America	100%	Controlled investee
AviAlliance GmbH	Europe	100%	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56%	Jointly controlled investee
Telesat Holdings Inc.	North America	34%	Associate
Isolux Infrastructure Netherlands B.V.	Central and South America	19%	Jointly controlled investee
Roccapina Fund, L.P.	North America	100%	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50%	Jointly controlled investee
Big Box Properties	North America	49%	Jointly controlled investee
Acelity Inc.	North America	21%	Associate
TDF S.A.S.	Europe	22%	Associate

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 15 and commitments under Note 16.

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 Investment Risk Management Policy (IRM Policy) supports the management of risk inherent to the investment decision making process. The IRM Policy outlines a framework that is designed to ensure that investment activities respect PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite. The IRM Policy also supplements the 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

Effective April 1, 2016, the absolute annualized volatility of the total portfolio was implemented as the primary measure of market risk. The absolute volatility is a statistical measure of the size of changes in investment returns of a given investment or portfolio of investments. It is used to illustrate the potential loss of value in an investment or portfolio of investments as a result of fluctuations in market prices. Prior to April 1, 2016, PSP Investments used the Value at Risk (VaR) as the primary measure of market risk.

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

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

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

	March 31, 2017	March 31, 2016
Absolute volatility	**7.6%**	8.5%[A]

[A] Since the absolute volatility was used effective April 1, 2016, the market risk measure as at March 31, 2016 was changed in the above table for comparability purposes. Prior to April 1, 2016, PSP Investments used the VaR as the primary measure of market risk. The total portfolio VaR as at March 31, 2016 was 23.6%.

Stress Testing

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.2. Interest Rate Risk

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

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

March 31, 2017

(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	$ –	$ –	$ –	$ –	$ 12,369[A]	$ 12,369
Government and corporate bonds	2,443	9,430	6,093	3,828	–	21,794
Inflation-linked bonds	4	1,813	2,866	3,041	–	7,724
Private debt securities	79	894	3,553	–	4,626[B]	9,152
Other fixed income securities	17	21	–	–	3,279[C]	3,317
Total fixed income	**$ 2,543**	**$ 12,158**	**$ 12,512**	**$ 6,869**	**$ 20,274**	**$ 54,356**

March 31, 2016

(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	$ –	$ –	$ –	$ –	$ 5,917[A]	$ 5,917
Government and corporate bonds	1,106	9,721	4,988	4,128	–	19,943
Inflation-linked bonds	24	1,650	2,465	3,266	–	7,405
Private debt securities	5	1,213	308	–	3,776[B]	5,302
Other fixed income securities	727	201	1	–	1,708[C]	2,637
Total fixed income	$ 1,862	$ 12,785	$ 7,762	$ 7,394	$ 11,401	$ 41,204

[A] Due to their nature, these investments are not significantly exposed to interest rate risk.

[B] 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.

[C] Certain corporate bonds, asset-backed securities and floating rate notes are not significantly exposed to interest rate risk as their prescribed rates are variable.

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

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through 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:

Currency	March 31, 2017		March 31, 2016	
(Canadian $ millions)	**Fair Value**	**% of Total**	Fair Value	% of Total
US Dollar	**$ 63,698**	**70.5%**	$ 30,325	60.3%
Euro	**5,677**	**6.3**	3,581	7.1
Japanese Yen	**3,301**	**3.6**	1,701	3.4
British Pound	**2,781**	**3.1**	2,056	4.1
South Korean Won	**2,394**	**2.6**	2,146	4.3
Brazilian Real	**2,040**	**2.3**	1,555	3.1
Indian Rupee	**1,234**	**1.4**	996	2.0
Hong Kong Dollar	**1,194**	**1.3**	1,798	3.6
Australian Dollar	**1,167**	**1.3**	623	1.2
Taiwanese New Dollar	**996**	**1.1**	909	1.8
Swiss Franc	**930**	**1.0**	993	2.0
Mexican Peso	**791**	**0.9**	648	1.3
Others	**4,196**	**4.6**	2,927	5.8
Total	**$ 90,399**	**100.0%**	$ 50,258	100.0%

As at March 31, 2017, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $20,185 million (US$12,532 million, €2,088 million, £190 million, 22 million South African rands, 58 million Brazilian reals, 13,553 million Colombian pesos, 232 million Mexican pesos and 126 million Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2016, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $19,799 million (US$13,901 million, €919 million, £204 million, 182 million South African rands, 83 million Brazilian reals, 19,415 million Colombian pesos and 391 million Mexican pesos) which were not included in the foreign currency exposure table above.

7 INVESTMENT RISK MANAGEMENT
(continued)

7.2. CREDIT RISK

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities 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, 2017, PSP Investments' maximum exposure to credit risk amounted to $55 billion (March 31, 2016 – $44 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 15 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:

Credit Rating	2017	2016
AAA-AA	**54.2%**	50.7%
A	**20.0**	27.9
BBB	**4.5**	9.1
BB or below	**19.9**	10.5
No rating[A]	**1.4**	1.8
Total	**100.0%**	100.0%

[A] Includes securities for public issuers and counterparties, that are either not rated by credit rating agencies or rated by a single credit rating agency. ABTNs are rated by a single agency and are classified according to their rating within the table.

7 INVESTMENT RISK MANAGEMENT (continued)

7.2. CREDIT RISK (continued)

7.2.1. Counterparty Risk

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

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

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

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

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

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

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.2. CREDIT RISK (continued)

7.2.2. Offsetting

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

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

Financial Assets

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set-Off	Net Amount of Financial Assets Presented in the Consolidated 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, 2017						
Reverse repurchase agreements	**$ 2,653**	**$ –**	**$ 2,653[A]**	**$ 207**	**$ 2,446**	**$ –**
OTC-derivatives	**856**	**6**	**850[B]**	**609**	**174**	**67**
Total	**$ 3,509**	**$ 6**	**$ 3,503**	**$ 816**	**$ 2,620**	**$ 67**
March 31, 2016						
Reverse repurchase agreements	$ 1,071	$ –	$ 1,071[A]	$ –	$ 1,071	$ –
OTC-derivatives	3,177	9	3,168[B]	953	2,101	114
Total	$ 4,248	$ 9	$ 4,239	$ 953	$ 3,172	$ 114

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, 2017						
Repurchase agreements	**$ 1,107**	**$ –**	**$ 1,107[A]**	**$ 207**	**$ 900**	**$ –**
OTC-derivatives	**814**	**6**	**808[B]**	**609**	**184**	**15**
Total	**$ 1,921**	**$ 6**	**$ 1,915**	**$ 816**	**$ 1,084**	**$ 15**
March 31, 2016						
Repurchase agreements	$ 1,438	$ –	$ 1,438[A]	$ –	$ 1,438	$ –
OTC-derivatives	1,143	9	1,134[B]	953	178	3
Total	$ 2,581	$ 9	$ 2,572	$ 953	$ 1,616	$ 3

[A] As described in Note 4.1.

[B] As described in Note 4.1.11.

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 4.1.11.

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, 2017 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	$ (1,076)	$ –	$ –	$ (1,076)
Interest payable	(37)	(2)	–	(39)
Securities sold short and securities loaned	(9,313)	–	–	(9,313)
Securities sold under repurchase agreements	(1,107)	–	–	(1,107)
Capital market debt financing	(5,771)	(1,240)	(3,796)	(10,807)
Trade payable and other liabilities	(154)	(2)	(75)	(231)
Total	$ (17,458)	$ (1,244)	$ (3,871)	$ (22,573)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 236	$ 337	$ 322	$ 895
Derivative-related liabilities[A]	(392)	(180)	(266)	(838)
Total	$ (156)	$ 157	$ 56	$ 57

[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)

Financial Liabilities (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, 2016 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	$ (576)	$ –	$ –	$ (576)
Interest payable	(25)	(2)	–	(27)
Securities sold short	(2,661)	–	–	(2,661)
Securities sold under repurchase agreements	(1,438)	–	–	(1,438)
Capital market debt financing	(5,211)	(2,016)	(1,624)	(8,851)
Trade payable and other liabilities	(123)	(2)	(62)	(187)
Total	$ (10,034)	$ (2,020)	$ (1,686)	$ (13,740)

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

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

8 BORROWINGS

8.1. CREDIT FACILITIES

During the year ended March 31, 2017, PSP Investments entered into 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 the end of the reporting period.

8.2. CAPITAL MARKET DEBT FINANCING

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

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

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2017 and March 31, 2016.

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, 2017		March 31, 2016	
(Canadian $ millions)	**Capital Amounts Payable at Maturity**	**Fair Value**	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.57% and 0.78% and maturing within 26 and 273 days of issuance (March 31, 2016 – 56 and 185 days)	**$ 1,348**	**$ 1,346**	$ 1,217	$ 1,215
Short-term US Dollar promissory notes, bearing interest between 0.68% and 1.16% and maturing within 30 and 266 days of issuance (March 31, 2016 – 63 and 196 days)	**5,671**	**5,665**	4,905	4,901
Medium-term notes Series 4, bearing interest of 2.26% per annum and matured on February 16, 2017	**–**	**–**	900	911
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**500**	**528**	500	537
Medium-term notes Series 6, bearing variable interest of 3-month CDOR and matured on April 4, 2016	**–**	**–**	200	200
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**985**	**1,060**	1,000	1,087
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**1,250**	**1,236**	–	–
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**970**	**972**	–	–
Total	**$ 10,724**	**$ 10,807**	$ 8,722	$ 8,851

Unrealized losses in connection with borrowings amounted to $416 million for the year ended March 31, 2017 (unrealized gains of $545 million for the year ended March 31, 2016).

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

(Canadian $ millions)	**2017**	2016
Short-term promissory notes	**$ 50**	$ 21
Medium-term notes	**84**	84
Total	**$ 134**	$ 105

9 EQUITY

9.1. STATUTORY RIGHTS HELD BY THE GOVERNMENT OF CANADA

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income (loss) to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 12.

9.2. SHARES ISSUED

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

9.3. FUND TRANSFERS

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

(Canadian $ millions)		**2017**		2016
Public Service Pension Fund	**$**	**2,712**	$	2,792
Canadian Forces Pension Fund		**659**		849
Royal Canadian Mounted Police Pension Fund		**251**		346
Reserve Force Pension Fund		**–**		–
Total	**$**	**3,622**	$	3,987

10 INVESTMENT-RELATED EXPENSES

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

(Canadian $ millions)		**2017**		2016
Interest expense	**$**	**151**	$	116
Transaction costs		**134**		102
External investment management fees[A]		**32**		36
Other (net)		**43**		17
Total	**$**	**360**	$	271

[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 $152 million for the year ended March 31, 2017 ($61 million for the year ended March 31, 2016). 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 2.0% of the total invested and/or committed amount, totaled $296 million for the year ended March 31, 2017 ($239 million for the year ended March 31, 2016). Such fees are embedded in the fair value of the investments.

11 OPERATING EXPENSES

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

(Canadian $ millions)		**2017**		2016
Salaries and employee benefits	**$**	**210**	$	168
Professional and consulting fees		**61**		45
Premises and equipment		**21**		16
Market data and business applications		**27**		22
Depreciation of equipment		**30**		26
Custodial fees		**4**		4
Other operating expenses		**17**		14
Total	**$**	**370**	$	295

12 ALLOCATION OF COMPREHENSIVE INCOME (LOSS)

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

12.1. INVESTMENT INCOME

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

12.2. EXPENSES

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

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

	2017	2016
Public Service Pension Plan Account	**72.5%**	72.6%
Canadian Forces Pension Plan Account	**19.7**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.3**	7.2
Reserve Force Pension Plan Account	**0.5**	0.5
Total	**100.0%**	100.0%

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

13 RELATED PARTY TRANSACTIONS

13.1. CERTAIN INVESTEES

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 15 and 16, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income (loss) as those with unrelated parties.

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

13.2. THE GOVERNMENT OF CANADA AND GOVERNMENT-RELATED ENTITIES

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

(i) The Government of Canada

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

(ii) Government-Related Entities

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

13.3. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

(Canadian $ millions)	**2017**	2016
Short-term compensation and other benefits	**$ 16**	$ 16
Long-term compensation and other benefits	**8**	4
Total	**$ 24**	$ 20

As disclosed in Note 15, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

14 CAPITAL MANAGEMENT

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

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

15 GUARANTEES AND INDEMNITIES

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

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

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

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, 2017, 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 $2,077 million as at March 31, 2017 (March 31, 2016 – $1,891 million) plus applicable interest and other related costs. The arrangements mature between May 2017 and September 2028.
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $35 million as at March 31, 2017 (March 31, 2016 – $29 million) in relation to investment transactions.

16 COMMITMENTS

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The commitments were as follows as at March 31:

(Canadian $ millions)	2017	2016
Real estate	$ 2,826	$ 2,411
Private equity	9,062	7,088
Infrastructure	3,750	3,991
Natural resources	755	848
Private debt securities	3,110	4,514
Alternative investments	1,242	1,900
Total	**$ 20,745**	$ 20,752

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2017 (March 31, 2016 – 2032).

Public Service Pension Plan Account
FINANCIAL STATEMENTS

Independent Auditors' Report

To the President of the Treasury Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Sector Pension Investment Board — Public Service Pension Plan Account (the Public Service Pension Plan Account), which comprise the statements of financial position as at March 31, 2017 and March 31, 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Public Service Pension Plan Account as at March 31, 2017 and March 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Other Legal and Regulatory Requirements

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

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

Margaret P.A. Haire

Margaret Haire, CPA, CA
Principal
for the Auditor General of Canada

May 12, 2017
Ottawa, Canada

Deloitte LLP[1]

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

May 12, 2017
Montréal, Canada

Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2017**	March 31, 2016
Assets		
Investments (Note 4.1)	**$ 115,296**	$ 95,400
Other assets	**118**	108
Due from the Canadian Forces Pension Plan Account	**21**	17
Due from the Royal Canadian Mounted Police Pension Plan Account	**8**	6
Due from the Reserve Force Pension Plan Account	**1**	–
Total assets	**$ 115,444**	$ 95,531
Liabilities		
Trade payable and other liabilities	**$ 168**	$ 136
Investment-related liabilities (Note 4.1)	**8,983**	4,251
Borrowings (Notes 4.1, 8.2)	**7,846**	6,421
Total liabilities	**$ 16,997**	$ 10,808
Net assets	**$ 98,447**	$ 84,723
Equity (Note 9)	**$ 98,447**	$ 84,723
Total liabilities and equity	**$ 115,444**	$ 95,531

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

On behalf of the Board of Directors:

Michael P. Mueller
Chair of the Board

William A. MacKinnon
Chair of the Audit Committee

Statements of Comprehensive Income

For the years ended March 31

(Canadian $ millions)	2017	2016
Investment income	**$ 11,544**	$ 991
Investment-related expenses (Note 10)	**(261)**	(196)
Net investment income	**$ 11,283**	$ 795
Operating expenses (Note 11)	**(268)**	(215)
Net income	**$ 11,015**	$ 580
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability	**(3)**	3
Comprehensive income	**$ 11,012**	$ 583

Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	2017	2016
Fund transfers		
Balance at beginning of period	**$ 47,972**	$ 45,180
Fund transfers received during the period (Note 9.2)	**2,712**	2,792
Balance at end of period	**$ 50,684**	$ 47,972
Retained earnings		
Balance at beginning of period	**$ 36,751**	$ 36,168
Comprehensive income	**11,012**	583
Balance at end of period	**$ 47,763**	$ 36,751
Total equity	**$ 98,447**	$ 84,723

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	2017	2016
Cash flows from operating activities		
Net income	**$ 11,015**	$ 580
Adjustments for non-cash items:		
Depreciation of equipment (Note 11)	**22**	19
Effect of exchange rate changes on cash and cash equivalents	**(35)**	6
Unrealized losses (gains) on borrowings	**302**	(396)
	$ 11,304	$ 209
Net changes in operating assets and liabilities		
Increase in investments	**$ (18,136)**	$ (4,596)
Decrease (increase) in other assets	**7**	(5)
Increase (decrease) in trade payable and other liabilities	**29**	(4)
Increase in investment-related liabilities	**4,732**	573
Net cash flows used in operating activities	**$ (2,064)**	$ (3,823)
Cash flow from financing activities		
Repayments of amounts due from:		
Canadian Forces Pension Plan Account	**$ 83**	$ 76
Royal Canadian Mounted Police Pension Plan Account	**30**	28
Reserve Force Pension Plan Account	**2**	2
Advances to:		
Canadian Forces Pension Plan Account	**(87)**	(77)
Royal Canadian Mounted Police Pension Plan Account	**(32)**	(28)
Reserve Force Pension Plan Account	**(2)**	(2)
Proceeds from borrowings	**19,528**	17,310
Repayment of borrowings	**(18,405)**	(15,877)
Fund transfers received	**2,712**	2,792
Net cash flows provided by financing activities	**$ 3,829**	$ 4,224
Cash flow from investing activities		
Acquisitions of equipment	**$ (33)**	$ (20)
Net cash flows used in investing activities	**$ (33)**	$ (20)
Net change in cash and cash equivalents	**$ 1,732**	$ 381
Effect of exchange rate changes on cash and cash equivalents	**35**	(6)
Cash and cash equivalents at the beginning of the period	**1,007**	632
Cash and cash equivalents at the end of the period[A]	**$ 2,774**	$ 1,007
Supplementary disclosure of cash flow information		
Interest paid	**$ (100)**	$ (89)

[A] As at March 31, 2017, cash and cash equivalents were comprised of $2,761 million (March 31, 2016 – $1,001 million) held for investment purposes and included in Note 4.1, as well as $13 million (March 31, 2016 – $6 million) held for administrative purposes and included in Other assets.

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

Notes to the Financial Statements

For the years ended March 31, 2017 and 2016

1 CORPORATE INFORMATION

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1. BASIS OF PRESENTATION

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

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

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

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 12, 2017.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2. INVESTMENT ENTITY STATUS

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

(i) Mandate and business purpose

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

(ii) Performance evaluation

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

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

As described in Note 13, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

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

2.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.3.1. Financial Instruments

(i) Classification

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

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

(ii) Recognition

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

(iii) Initial and subsequent measurement

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

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

(iv) Derecognition

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

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

and

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2. Determination of Fair Value

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

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

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

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

2.3.3. Functional and Presentation Currency

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

2.3.4. Foreign Currency Translation

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

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

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

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or pledged as collateral, or recognize securities borrowed or received as collateral. Cash collateral received is recognized as described in Note 4.1.8.

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. In the case where PSP Investments is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income.

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

2 SIGNIFICANT ACCOUNTING POLICIES
(continued)

2.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.7. Offsetting of Financial Instruments

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

2.3.8. Equity

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

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

2.3.9. Investment Income

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

2.3.10. Investment-Related Expenses

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

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

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets and other fixed income securities as outlined in Note 10.

2.3.11. Fund Transfers

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

2.4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

3 CURRENT AND FUTURE CHANGES IN ACCOUNTING STANDARDS

3.1. ACCOUNTING STANDARDS ADOPTED IN THE CURRENT YEAR

IFRS 11 Joint Arrangements

IFRS 11 was amended, effective for annual periods beginning on or after January 1, 2016, to add new guidance on the accounting for acquisitions of interests in a joint operation that constitutes a business. Acquirers of such interests shall apply all of the principles in business combinations accounting in IFRS 3 *Business Combinations*, and other IFRS, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRS in relation to business combinations. On April 1, 2016, PSP Investments adopted this amendment with no impact on the presentation of the Financial Statements.

3.2. ACCOUNTING STANDARDS ADOPTED BEFORE THE EFFECTIVE DATE

IFRS 9 Financial Instruments

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

PSP Investments initially adopted IFRS 9 (2014) in its Consolidated Financial Statements for the year ended March 31, 2016. Significant accounting policies in connection with IFRS 9 are described under Note 2.3.1.

3.3. FUTURE ACCOUNTING STANDARDS

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

IAS 7 Statement of Cash Flows

IAS 7 was amended, effective for annual periods beginning on or after January 1, 2017, to add new guidance on disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. PSP Investments will apply the amendments starting from April 1, 2017 and will make the required note disclosures in the Financial Statements.

IAS 28 Investment in Associates and Joint Ventures

IAS 28 was amended, effective for annual periods beginning on or after January 1, 2018, to add a clarification that serves to elaborate and clarify that the election to measure investees at fair value is available on an investment by investment basis and is not an election that must be applied consistently to the measurement of all associates and joint ventures. Management has determined that the amendment will not have an impact on the Financial Statements.

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, 2017**	March 31, 2016
Public markets		
Canadian equity	**$ 4,616**	$ 4,620
Foreign equity	**21,420**	18,874
Private markets		
Real estate	**17,670**	16,306
Private equity	**9,886**	8,160
Infrastructure	**9,586**	6,893
Natural resources	**3,100**	2,200
Fixed income		
Cash and money market securities	**8,980**	4,293
Government and corporate bonds	**15,823**	14,466
Inflation-linked bonds	**5,608**	5,372
Private debt securities[A]	**6,645**	3,846
Other fixed income securities[A]	**2,408**	1,913
Alternative investments	**5,819**	4,807
	$ 111,561	$ 91,750
Investment-related assets		
Amounts receivable from pending trades	**$ 832**	$ 320
Interest receivable	**231**	162
Dividends receivable	**96**	75
Securities purchased under reverse repurchase agreements	**1,926**	777
Derivative-related assets	**650**	2,316
	$ 3,735	$ 3,650
Investments representing financial assets at FVTPL	**$ 115,296**	$ 95,400
Investment-related liabilities		
Amounts payable from pending trades	**$ (781)**	$ (418)
Interest payable	**(28)**	(19)
Securities sold short and securities loaned	**(6,761)**	(1,930)
Securities sold under repurchase agreements	**(804)**	(1,043)
Derivative-related liabilities	**(609)**	(841)
Investment-related liabilities representing financial liabilities at FVTPL	**$ (8,983)**	$ (4,251)
Borrowings		
Capital market debt financing	**$ (7,846)**	$ (6,421)
Borrowings representing financial liabilities designated at FVTPL	**$ (7,846)**	$ (6,421)
Net investments	**$ 98,467**	$ 84,728

[A] During the year ended March 31, 2017, private debt securities were reclassified out of other fixed income securities and into a standalone caption in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted to decrease other fixed income securities by $3,846 million and increase private debt securities by the same amount. Notes 4.2.1 and 4.2.3 were adjusted similarly.

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 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.2. Private Markets

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

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financing. As at March 31, 2017, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSP Investments was $5,051 million for the Plan Account (March 31, 2016 – $4,560 million).

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

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing. As at March 31, 2017, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSP Investments was $2,865 million for the Plan Account (March 31, 2016 – $1,156 million).

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

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

4.1.3. Fixed Income

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

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. 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 $2,761 million as at March 31, 2017 (March 31, 2016 – $1,001 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. 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.

Other fixed income securities consist of asset-backed securities and floating rate notes.

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

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009.

The fair values of certain corporate bonds, private debt securities and ABTNs 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 approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.10, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

4.1.8. Securities Sold Short and Securities Loaned

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.

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

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

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

4.1.10. Borrowings under the Capital Market Debt Program

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

Options are 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, or commodity, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

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

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

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)

4.1.11. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2017			March 31, 2016		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**$ 1,019**	**$ –**	**$ –**	$ 486	$ –	$ –
Warrants and rights	**2**	**6**	**–**	2	3	–
Options: Purchased	**2,810**	**23**	**–**	1,092	14	–
Written	**2,355**	**–**	**(20)**	1,013	–	(17)
OTC						
Total return swaps	**21,006**	**184**	**(78)**	15,146	687	(24)
Variance swaps	**3**	**3**	**(4)**	–	–	–
Options: Purchased	**1,385**	**35**	**–**	4,223	48	–
Written	**1,348**	**–**	**(32)**	4,263	–	(39)
Currency derivatives						
Listed						
Futures	**99**	**–**	**–**	127	–	–
OTC						
Forwards	**20,439**	**72**	**(220)**	31,556	1,229	(170)
Swaps	**3,333**	**12**	**(32)**	2,359	14	(229)
Options: Purchased	**6,970**	**65**	**–**	6,371	75	–
Written	**7,082**	**–**	**(50)**	7,794	–	(63)
Interest rate derivatives						
Listed						
Futures	**5,764**	**–**	**–**	5,421	–	–
Options: Purchased	**24,974**	**4**	**–**	1,721	1	–
Written	**27,559**	**–**	**(2)**	14,849	–	(2)
OTC						
Bond forwards	**–**	**–**	**–**	236	1	–
Interest rate swaps	**9,021**	**114**	**(69)**	8,146	117	(144)
Inflation swaps	**–**	**–**	**–**	394	3	(4)
Swaptions	**20,420**	**104**	**(67)**	21,117	110	(110)
Options: Purchased	**16,581**	**25**	**–**	6,139	7	–
Written	**22,971**	**–**	**(22)**	9,161	–	(9)
OTC-cleared						
Interest rate swaps	**28,388**	**–**	**–**	5,766	–	–
Inflation swaps	**45**	**–**	**–**	–	–	–
Credit derivatives[A]						
OTC						
Credit default swaps: Purchased	**788**	**–**	**(13)**	1,301	5	(16)
Sold	**216**	**3**	**–**	373	2	(14)
OTC-cleared						
Credit default swaps: Purchased	**603**	**–**	**–**	455	–	–
Sold	**862**	**–**	**–**	1,046	–	–
Total		**$ 650**	**$ (609)**		$ 2,316	$ (841)

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2017			March 31, 2016		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**$ 64,582**	**$ 33**	**$ (22)**	$ 24,711	$ 18	$ (19)
OTC derivatives	**131,563**	**617**	**(587)**	118,579	2,298	(822)
OTC-cleared derivatives	**29,898**	**–**	**–**	7,267	–	–
Total		**$ 650**	**$ (609)**		$ 2,316	$ (841)

The term to maturity based on notional value for the derivatives was as follows as at March 31:

(Canadian $ millions)	**2017**	2016
Less than 3 months	**$ 80,326**	$ 69,595
3 to 12 months	**75,079**	40,780
Over 1 year	**70,638**	40,182

4.2. FAIR VALUE HIERARCHY

4.2.1. Classification

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
  (i) Quoted prices for similar assets or liabilities in active markets.
  (ii) Quoted prices for identical or similar assets 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, 2017 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 3,975	$ 641	$ –	$ 4,616
Foreign equity	18,679	2,526	215	21,420
Private markets				
Real estate	–	–	17,670	17,670
Private equity	–	–	9,886	9,886
Infrastructure	–	–	9,586	9,586
Natural resources	–	–	3,100	3,100
Fixed income				
Cash and money market securities	–	8,980	–	8,980
Government and corporate bonds	–	15,636	187	15,823
Inflation-linked bonds	–	5,608	–	5,608
Private debt securities	–	–	6,645	6,645
Other fixed income securities	–	2,396	12	2,408
Alternative investments	–	1,107	4,712	5,819
	$ 22,654	$ 36,894	$ 52,013	$ 111,561
Investment-related assets				
Amounts receivable from pending trades	$ –	$ 832	$ –	$ 832
Interest receivable	–	231	–	231
Dividends receivable	–	96	–	96
Securities purchased under reverse repurchase agreements	–	1,926	–	1,926
Derivative-related assets	33	617	–	650
	$ 33	$ 3,702	$ –	$ 3,735
Investments representing financial assets at FVTPL	$ 22,687	$ 40,596	$ 52,013	$ 115,296
Investment-related liabilities				
Amounts payable from pending trades	$ –	$ (781)	$ –	$ (781)
Interest payable	–	(28)	–	(28)
Securities sold short and securities loaned	(2,082)	(4,679)	–	(6,761)
Securities sold under repurchase agreements	–	(804)	–	(804)
Derivative-related liabilities	(22)	(587)	–	(609)
Investment-related liabilities representing financial liabilities at FVTPL	$ (2,104)	$ (6,879)	$ –	$ (8,983)
Borrowings				
Capital market debt financing	$ –	$ (7,846)	$ –	$ (7,846)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (7,846)	$ –	$ (7,846)
Net investments	$ 20,583	$ 25,871	$ 52,013	$ 98,467

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2016 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 4,094	$ 526	$ –	$ 4,620
Foreign equity	15,586	3,288	–	18,874
Private markets				
Real estate	–	–	16,306	16,306
Private equity	–	–	8,160	8,160
Infrastructure	–	–	6,893	6,893
Natural resources	–	–	2,200	2,200
Fixed income				
Cash and money market securities	–	4,293	–	4,293
Government and corporate bonds	–	14,261	205	14,466
Inflation-linked bonds	–	5,372	–	5,372
Private debt securities	–	–	3,846	3,846
Other fixed income securities	–	1,404	509	1,913
Alternative investments	–	891	3,916	4,807
	$ 19,680	$ 30,035	$ 42,035	$ 91,750
Investment-related assets				
Amounts receivable from pending trades	$ –	$ 320	$ –	$ 320
Interest receivable	–	162	–	162
Dividends receivable	–	75	–	75
Securities purchased under reverse repurchase agreements	–	777	–	777
Derivative-related assets	18	2,298	–	2,316
	$ 18	$ 3,632	$ –	$ 3,650
Investments representing financial assets at FVTPL	$ 19,698	$ 33,667	$ 42,035	$ 95,400
Investment-related liabilities				
Amounts payable from pending trades	$ –	$ (418)	$ –	$ (418)
Interest payable	–	(19)	–	(19)
Securities sold short	(1,600)	(330)	–	(1,930)
Securities sold under repurchase agreements	–	(1,043)	–	(1,043)
Derivative-related liabilities	(19)	(822)	–	(841)
Investment-related liabilities representing financial liabilities at FVTPL	$ (1,619)	$ (2,632)	$ –	$ (4,251)
Borrowings				
Capital market debt financing	$ –	$ (6,421)	$ –	$ (6,421)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (6,421)	$ –	$ (6,421)
Net investments	$ 18,079	$ 24,614	$ 42,035	$ 84,728

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2017:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Foreign equity	Direct investments	$ 215	Net asset value method (NAV)[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	$16,638	Discounted cash flow (DCF)	Discount rate[B, C]	4.50% – 25.00% (8.06%)
				Terminal capitalization rate[B, C]	4.25% – 10.25% (6.04%)
			Direct capitalization	Capitalization rate[B, D]	2.75% – 8.00% (5.69%)
				Stabilized occupancy rate[D, E]	94.00% – 100.00% (97.77%)
			Sales comparison approach	Price per square foot[D, E]	$2.82 – $1,115.10 ($153.82)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 1,032	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	$15,711	DCF	Discount rate[B]	5.91% – 12.70% (9.36%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 6,861	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	$ 187	DCF	Discount rate[B]	3.90% – 14.10% (7.50%)
Private debt securities	Direct and co-investments	$ 3,529	DCF	Discount rate[B]	4.49% – 12.25% (9.07%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 3,116	NAV[A]	N/A	N/A
Other fixed income	Asset-backed term notes	$ 12	Third-party pricing[A]	N/A	N/A
Alternative investments	Fund investments	$ 4,712	NAV[A]	N/A	N/A
Total		$52,013			

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

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.3. Level 3 Significant Inputs (continued)

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

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Private markets					
Real estate	Direct and co-investments	$15,258	DCF	Discount rate[B, C]	5.25% – 25.00% (8.27%)
				Terminal capitalization rate[B, C]	4.25% – 14.00% (6.29%)
			Direct capitalization	Capitalization rate[B, D]	3.25% – 7.50% (5.91%)
				Stabilized occupancy rate[D, E]	93.00% – 100.00% (96.84%)
			Sales comparison approach	Price per square foot[D, E]	$25.00 – $665.89 ($170.43)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 1,048	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	$11,664	DCF	Discount rate[B]	5.20% – 12.50% (9.70%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 5,589	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	$ 205	DCF	Discount rate[B]	3.70% – 13.50% (6.30%)
Private debt securities	Direct and co-investments	$ 1,315	DCF	Discount rate[B]	8.00% – 13.50% (11.09%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 2,531	NAV[A]	N/A	N/A
Other fixed income	Asset-backed term notes	$ 509	Third-party pricing[A]	N/A	N/A
Alternative investments	Fund investments	$ 3,916	NAV[A]	N/A	N/A
Total		$42,035			

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

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2017:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains[A]	Closing Balance
Public markets	$ –	$ 190	$ –	$ –	$ –	$ 25	$ 215
Private markets	33,559	7,155	(1,986)	–	484	1,030	40,242
Fixed income	4,560	3,795	(1,414)	(493)	281	115	6,844
Alternative investments	3,916	664	(348)	–	39	441	4,712
Total	**$ 42,035**	**$ 11,804**	**$ (3,748)**	**$ (493)**	**$ 804**	**$ 1,611**	**$ 52,013**

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2016:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Closing Balance
Private markets	$ 26,925	$ 6,933	$ (2,739)	$ –	$ 685	$ 1,755	$ 33,559
Fixed income	4,043	1,506	(375)	(504)	305	(415)	4,560
Alternative investments	2,980	1,192	(319)	–	47	16	3,916
Derivative-related assets/liabilities (net)	(6)	–	–	(2)	2	6	–
Total	$ 33,942	$ 9,631	$ (3,433)	$ (506)	$ 1,039	$ 1,362	$ 42,035

[A] Includes Plan Account allocation adjustments.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2017 (March 31, 2016 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. Management ensures the appropriateness of the work performed by third-party appraisers as described under Note 4.2.2. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 COLLATERAL PLEDGED AND RECEIVED

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

(Canadian $ millions)	**March 31, 2017**	March 31, 2016
Securities lending and borrowing		
Securities lent	**$ 9,613**	$ 6,647
Collateral held[A]	**10,239**	7,096
Securities borrowed	**2,093**	1,661
Collateral pledged[B]	**2,193**	1,745
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**806**	1,047
Collateral pledged	**805**	1,043
Securities purchased under reverse repurchase agreements	**1,932**	777
Collateral held[C]	**1,928**	777
Derivative contracts		
Collateral pledged	**224**	208
Collateral held[D]	**165**	1,582

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to $3,688 million for the Plan Account as at March 31, 2017 (March 31, 2016 – $1,511 million) and securities amounted to $6,551 million as at March 31, 2017 (March 31, 2016 – $5,585 million). All cash collateral is reinvested.

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

[C] The collateral received is in the form of securities of which $984 million has been used in connection with short selling transactions as at March 31, 2017 (March 31, 2016 – $329 million) and $150 million has been used in connection with securities sold under repurchase agreements (March 31, 2016 – nil).

[D] As part of collateral held, cash amounted to $7 million as at March 31, 2017 (March 31, 2016 – nil) and securities amounted to $158 million as at March 31, 2017 (March 31, 2016 – $1,582 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.

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, 2017, 103 investment entity subsidiaries were incorporated in North America, 23 in Europe, 10 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2016 – 102 in North America, 19 in Europe, 10 in Oceania, 4 in Central and South America and 1 in Africa).

In addition, PSP Investments controlled 77 investees directly or through its investment entity subsidiaries as at March 31, 2017 (March 31, 2016 – 73 investees).

6 INTERESTS IN OTHER ENTITIES (continued)

6.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

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

			March 31, 2017
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments**	**Relationship to PSP Investments**
Revera Inc.	**North America**	**100%**	**Controlled investee**
Kaingaroa Timberlands Ltd.	**Oceania**	**56%**	**Jointly controlled investee**
AviAlliance GmbH	**Europe**	**100%**	**Controlled investee**
Roadis Transportation B.V.[A]	**Global**	**100%**	**Controlled investee**
FirstLight Power Resources Holding Inc.	**North America**	**100%**	**Controlled investee**
Roccapina Fund, L.P.	**North America**	**100%**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50%**	**Jointly controlled investee**
Telesat Holdings Inc.	**North America**	**35%**	**Associate**
TDF S.A.S.	**Europe**	**22%**	**Associate**
Big Box Properties	**North America**	**49%**	**Jointly controlled investee**

[A] Formerly Isolux Infrastructure Netherlands B.V.

			March 31, 2016
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	North America	100%	Controlled investee
AviAlliance GmbH	Europe	100%	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56%	Jointly controlled investee
Telesat Holdings Inc.	North America	34%	Associate
Isolux Infrastructure Netherlands B.V.	Central and South America	19%	Jointly controlled investee
Roccapina Fund, L.P.	North America	100%	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50%	Jointly controlled investee
Big Box Properties	North America	49%	Jointly controlled investee
Acelity Inc.	North America	21%	Associate
TDF S.A.S.	Europe	22%	Associate

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 15 and commitments under Note 16.

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 Investment Risk Management Policy (IRM Policy) supports the management of risk inherent to the investment decision making process. The IRM Policy outlines a framework that is designed to ensure that investment activities respect PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite. The IRM Policy also supplements the 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

Effective April 1, 2016, the absolute annualized volatility of the total portfolio was implemented as the primary measure of market risk. The absolute volatility is a statistical measure of the size of changes in investment returns of a given investment or portfolio of investments. It is used to illustrate the potential loss of value in an investment or portfolio of investments as a result of fluctuations in market prices. Prior to April 1, 2016, PSP Investments used the Value at Risk (VaR) as the primary measure of market risk.

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

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

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

	March 31, 2017	March 31, 2016
Absolute volatility	**7.6%**	8.5%[A]

[A] Since the absolute volatility was used effective April 1, 2016, the market risk measure as at March 31, 2016 was changed in the above table for comparability purposes. Prior to April 1, 2016, PSP Investments used the VaR as the primary measure of market risk. The total portfolio VaR as at March 31, 2016 was 23.6%.

Stress Testing

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.2. Interest Rate Risk

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

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

March 31, 2017

(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	$ –	$ –	$ –	$ –	$ 8,980[A]	$ 8,980
Government and corporate bonds	1,774	6,846	4,424	2,779	–	15,823
Inflation-linked bonds	3	1,316	2,081	2,208	–	5,608
Private debt securities	57	650	2,579	–	3,359[B]	6,645
Other fixed income securities	13	15	–	–	2,380[C]	2,408
Total fixed income	**$ 1,847**	**$ 8,827**	**$ 9,084**	**$ 4,987**	**$ 14,719**	**$ 39,464**

March 31, 2016

(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	$ –	$ –	$ –	$ –	$ 4,293[A]	$ 4,293
Government and corporate bonds	802	7,053	3,617	2,994	–	14,466
Inflation-linked bonds	18	1,197	1,788	2,369	–	5,372
Private debt securities	3	880	224	–	2,739[B]	3,846
Other fixed income securities	528	145	1	–	1,239[C]	1,913
Total fixed income	$ 1,351	$ 9,275	$ 5,630	$ 5,363	$ 8,271	$ 29,890

[A] Due to their nature, these investments are not significantly exposed to interest rate risk.

[B] 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.

[C] Certain corporate bonds, asset-backed securities and floating rate notes are not significantly exposed to interest rate risk as their prescribed rates are variable.

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

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through 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:

Currency	**March 31, 2017**		March 31, 2016	
(Canadian $ millions)	**Fair Value**	**% of Total**	Fair Value	% of Total
US Dollar	**$ 46,247**	**70.5%**	$ 21,998	60.3%
Euro	**4,122**	**6.3**	2,598	7.1
Japanese Yen	**2,397**	**3.6**	1,234	3.4
British Pound	**2,019**	**3.1**	1,491	4.1
South Korean Won	**1,738**	**2.6**	1,557	4.3
Brazilian Real	**1,481**	**2.3**	1,128	3.1
Indian Rupee	**896**	**1.4**	723	2.0
Hong Kong Dollar	**867**	**1.3**	1,304	3.6
Australian Dollar	**847**	**1.3**	452	1.2
Taiwanese New Dollar	**723**	**1.1**	659	1.8
Swiss Franc	**675**	**1.0**	720	2.0
Mexican Peso	**574**	**0.9**	470	1.3
Others	**3,046**	**4.6**	2,123	5.8
Total	**$ 65,632**	**100.0%**	$ 36,457	100.0%

As at March 31, 2017, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $14,655 million for the Plan Account (US$9,099 million, €1,516 million, £138 million, 16 million South African rands, 42 million Brazilian reals, 9,840 million Colombian pesos, 168 million Mexican pesos and 91 million Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2016, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $14,362 million for the Plan Account (US$10,084 million, €667 million, £148 million, 132 million South African rands, 60 million Brazilian reals, 14,084 million Colombian pesos and 284 million Mexican pesos) which were not included in the foreign currency exposure table above.

7 INVESTMENT RISK MANAGEMENT
(continued)

7.2. CREDIT RISK

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities 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, 2017, the Plan Account's maximum exposure to credit risk amounted to $40 billion (March 31, 2016 – $32 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 15 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:

Credit Rating	2017	2016
AAA-AA	54.2%	50.7%
A	20.0	27.9
BBB	4.5	9.1
BB or below	19.9	10.5
No rating[A]	1.4	1.8
Total	**100.0%**	100.0%

[A] Includes securities for public issuers and counterparties, that are either not rated by credit rating agencies or rated by a single credit rating agency. ABTNs are rated by a single agency and are classified according to their rating within the table.

7 INVESTMENT RISK MANAGEMENT (continued)

7.2. CREDIT RISK (continued)

7.2.1. Counterparty Risk

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

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

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

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

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

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

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.2. CREDIT RISK (continued)

7.2.2. Offsetting

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

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

Financial Assets

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set-Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Less: Related Amounts Not Set-Off in the Statements of Financial Position — Recognized Financial Liabilities	Less: Related Amounts Not Set-Off in the Statements of Financial Position — Collateral Held and Not Recognized	Net
March 31, 2017						
Reverse repurchase agreements	**$ 1,926**	**$ –**	**$ 1,926[A]**	**$ 150**	**$ 1,776**	**$ –**
OTC-derivatives	**622**	**5**	**617[B]**	**442**	**126**	**49**
Total	**$ 2,548**	**$ 5**	**$ 2,543**	**$ 592**	**$ 1,902**	**$ 49**
March 31, 2016						
Reverse repurchase agreements	$ 777	$ –	$ 777[A]	$ –	$ 777	$ –
OTC-derivatives	2,305	7	2,298[B]	691	1,524	83
Total	$ 3,082	$ 7	$ 3,075	$ 691	$ 2,301	$ 83

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 — Recognized Financial Assets	Less: Related Amounts Not Set-Off in the Statements of Financial Position — Collateral Pledged and Not Derecognized	Net
March 31, 2017						
Repurchase agreements	**$ 804**	**$ –**	**$ 804[A]**	**$ 150**	**$ 654**	**$ –**
OTC-derivatives	**592**	**5**	**587[B]**	**442**	**134**	**11**
Total	**$ 1,396**	**$ 5**	**$ 1,391**	**$ 592**	**$ 788**	**$ 11**
March 31, 2016						
Repurchase agreements	$ 1,043	$ –	$ 1,043[A]	$ –	$ 1,043	$ –
OTC-derivatives	829	7	822[B]	691	129	2
Total	$ 1,872	$ 7	$ 1,865	$ 691	$ 1,172	$ 2

[A] As described in Note 4.1.

[B] As described in Note 4.1.11.

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 4.1.11.

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, 2017 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	$ (781)	$ –	$ –	$ (781)
Interest payable	(26)	(2)	–	(28)
Securities sold short and securities loaned	(6,761)	–	–	(6,761)
Securities sold under repurchase agreements	(804)	–	–	(804)
Capital market debt financing	(4,190)	(900)	(2,756)	(7,846)
Trade payable and other liabilities	(112)	(2)	(54)	(168)
Total	$ (12,674)	$ (904)	$ (2,810)	$ (16,388)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 171	$ 245	$ 234	$ 650
Derivative-related liabilities[A]	(285)	(131)	(193)	(609)
Total	$ (114)	$ 114	$ 41	$ 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)

Financial Liabilities (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, 2016 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	$ (418)	$ –	$ –	$ (418)
Interest payable	(17)	(2)	–	(19)
Securities sold short	(1,930)	–	–	(1,930)
Securities sold under repurchase agreements	(1,043)	–	–	(1,043)
Capital market debt financing	(3,780)	(1,463)	(1,178)	(6,421)
Trade payable and other liabilities	(89)	(2)	(45)	(136)
Total	$ (7,277)	$ (1,467)	$ (1,223)	$ (9,967)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 1,350	$ 572	$ 394	$ 2,316
Derivative-related liabilities[A]	(228)	(146)	(467)	(841)
Total	$ 1,122	$ 426	$ (73)	$ 1,475

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

8 BORROWINGS

8.1. CREDIT FACILITIES

During the year ended March 31, 2017, PSP Investments entered into 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 the end of the reporting period.

8.2. CAPITAL MARKET DEBT FINANCING

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

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

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2017 and March 31, 2016.

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, 2017		March 31, 2016	
(Canadian $ millions)	**Capital Amounts Payable at Maturity**	**Fair Value**	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.57% and 0.78% and maturing within 26 and 273 days of issuance (March 31, 2016 – 56 and 185 days)	**$ 979**	**$ 977**	$ 883	$ 881
Short-term US Dollar promissory notes, bearing interest between 0.68% and 1.16% and maturing within 30 and 266 days of issuance (March 31, 2016 – 63 and 196 days)	**4,118**	**4,113**	3,558	3,556
Medium-term notes Series 4, bearing interest of 2.26% per annum and matured on February 16, 2017	**–**	**–**	653	661
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**363**	**383**	363	389
Medium-term notes Series 6, bearing variable interest of 3-month CDOR and matured on April 4, 2016	**–**	**–**	145	145
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**715**	**770**	725	789
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**907**	**897**	–	–
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**704**	**706**	–	–
Total	**$ 7,786**	**$ 7,846**	$ 6,327	$ 6,421

Unrealized losses in connection with borrowings amounted to $302 million for the year ended March 31, 2017 (unrealized gains of $396 million for the year ended March 31, 2016).

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

(Canadian $ millions)	**2017**	2016
Short-term promissory notes	**$ 36**	$ 15
Medium-term notes	**61**	62
Total	**$ 97**	$ 77

9 EQUITY

9.1. STATUTORY RIGHTS HELD BY THE GOVERNMENT OF CANADA

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income (loss) to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 12.

9.2. FUND TRANSFERS

PSP Investments received fund transfers from the Government of Canada of $2,712 million for the year ended March 31, 2017 ($2,792 million for the year ended March 31, 2016) for the Fund, recorded in the Plan Account.

10 INVESTMENT-RELATED EXPENSES

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

(Canadian $ millions)	2017	2016
Interest expense	**$ 109**	$ 84
Transaction costs	**97**	74
External investment management fees[A]	**24**	26
Other (net)	**31**	12
Total	**$ 261**	$ 196

[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 $110 million for the year ended March 31, 2017 ($44 million for the year ended March 31, 2016). 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 2.0% of the total invested and/or committed amount, totaled $215 million for the year ended March 31, 2017 ($174 million for the year ended March 31, 2016). Such fees are embedded in the fair value of the investments.

11 OPERATING EXPENSES

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

(Canadian $ millions)	2017	2016
Salaries and employee benefits	**$ 152**	$ 122
Professional and consulting fees	**45**	33
Premises and equipment	**15**	12
Market data and business applications	**19**	16
Depreciation of equipment	**22**	19
Custodial fees	**3**	3
Other operating expenses	**12**	10
Total	**$ 268**	$ 215

12 ALLOCATION OF COMPREHENSIVE INCOME (LOSS)

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

12.1. INVESTMENT INCOME

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

12.2. EXPENSES

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

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

	2017	2016
Public Service Pension Plan Account	**72.5%**	72.6%
Canadian Forces Pension Plan Account	**19.7**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.3**	7.2
Reserve Force Pension Plan Account	**0.5**	0.5
Total	**100.0%**	100.0%

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

13 RELATED PARTY TRANSACTIONS

13.1. CERTAIN INVESTEES

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 15 and 16, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income (loss) as those with unrelated parties.

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

13.2. THE GOVERNMENT OF CANADA AND GOVERNMENT-RELATED ENTITIES

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

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the funds transfers outlined in Note 9.2.

(ii) Government-Related Entities

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

13.3. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

(Canadian $ millions)	**2017**	2016
Short-term compensation and other benefits	**$ 12**	$ 12
Long-term compensation and other benefits	**5**	3
Total	**$ 17**	$ 15

As disclosed in Note 15, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

14 CAPITAL MANAGEMENT

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

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

15 GUARANTEES AND INDEMNITIES

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

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

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

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, 2017, 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 $2,077 million as at March 31, 2017 (March 31, 2016 – $1,891 million), of which $1,508 million has been allocated to the Plan Account (March 31, 2016 – $1,372 million) plus applicable interest and other related costs. The arrangements mature between May 2017 and September 2028.
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $35 million as at March 31, 2017 (March 31, 2016 – $29 million), of which $25 million has been allocated to the Plan Account (March 31, 2016 – $21 million) in relation to investment transactions.

16 COMMITMENTS

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at March 31:

(Canadian $ millions)	2017	2016
Real estate	$ 2,052	$ 1,749
Private equity	6,580	5,142
Infrastructure	2,723	2,895
Natural resources	548	615
Private debt securities	2,258	3,274
Alternative investments	901	1,378
Total	**$ 15,062**	$ 15,053

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2017 (March 31, 2016 – 2032).

Canadian Forces Pension Plan Account FINANCIAL STATEMENTS

Independent Auditors' Report

To the Minister of National Defence

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Sector Pension Investment Board — Canadian Forces Pension Plan Account (the Canadian Forces Pension Plan Account), which comprise the statements of financial position as at March 31, 2017 and March 31, 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Canadian Forces Pension Plan Account as at March 31, 2017 and March 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Other Legal and Regulatory Requirements

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

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

Margaret P.A. Haire

Margaret Haire, CPA, CA
Principal
for the Auditor General of Canada

May 12, 2017
Ottawa, Canada

Deloitte LLP[1]

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

May 12, 2017
Montréal, Canada

Statements of Financial Position

As at

(Canadian $ millions)	March 31, 2017	March 31, 2016
Assets		
Investments (Note 4.1)	$ 31,250	$ 25,925
Other assets	32	28
Total assets	$ 31,282	$ 25,953
Liabilities		
Trade payable and other liabilities	$ 46	$ 37
Investment-related liabilities (Note 4.1)	2,435	1,155
Borrowings (Notes 4.1, 8.2)	2,127	1,745
Due to the Public Service Pension Plan Account	21	17
Total liabilities	$ 4,629	$ 2,954
Net assets	$ 26,653	$ 22,999
Equity (Note 9)	$ 26,653	$ 22,999
Total liabilities and equity	$ 31,282	$ 25,953

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

On behalf of the Board of Directors:

Michael P. Mueller
Chair of the Board

William A. MacKinnon
Chair of the Audit Committee

Statements of Comprehensive Income

For the years ended March 31

(Canadian $ millions)	2017	2016
Investment income	$ 3,140	$ 270
Investment-related expenses (Note 10)	(71)	(54)
Net investment income	$ 3,069	$ 216
Operating expenses (Note 11)	(73)	(58)
Net income	$ 2,996	$ 158
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability	(1)	1
Comprehensive income	$ 2,995	$ 159

Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	2017	2016
Fund transfers		
Balance at beginning of period	$ 13,017	$ 12,168
Fund transfers received during the period (Note 9.2)	659	849
Balance at end of period	$ 13,676	$ 13,017
Retained earnings		
Balance at beginning of period	$ 9,982	$ 9,823
Comprehensive income	2,995	159
Balance at end of period	$ 12,977	$ 9,982
Total equity	$ 26,653	$ 22,999

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	2017	2016
Cash flows from operating activities		
Net income	$ 2,996	$ 158
Adjustments for non-cash items:		
Depreciation of equipment (Note 11)	6	5
Effect of exchange rate changes on cash and cash equivalents	(9)	2
Unrealized losses (gains) on borrowings	82	(107)
	$ 3,075	$ 58
Net changes in operating assets and liabilities		
Increase in investments	$ (4,848)	$ (1,354)
Decrease in other assets	2	–
Increase in trade payable and other liabilities	8	–
Decrease (increase) in investment-related liabilities	(1,280)	160
Net cash flows used in operating activities	$ (3,043)	$ (1,136)
Cash flow from financing activities		
Proceeds from borrowings	$ 5,211	$ 4,771
Repayment of borrowings	(4,911)	(4,376)
Repayment to the Public Service Pension Plan Account	(83)	(76)
Advances from the Public Service Pension Plan Account	87	77
Fund transfers received	659	849
Net cash flows provided by financing activities	$ 963	$ 1,245
Cash flow from investing activities		
Acquisitions of equipment	$ (9)	$ (6)
Net cash flows used in investing activities	$ (9)	$ (6)
Net change in cash and cash equivalents	$ 471	$ 103
Effect of exchange rate changes on cash and cash equivalents	9	(2)
Cash and cash equivalents at the beginning of the period	273	172
Cash and cash equivalents at the end of the period[A]	$ 753	$ 273
Supplementary disclosure of cash flow information		
Interest paid	$ (28)	$ (23)

[A] As at March 31, 2017, cash and cash equivalents were comprised of $749 million (March 31, 2016 – $272 million) held for investment purposes and included in Note 4.1, as well as $4 million (March 31, 2016 – $1 million) held for administrative purposes and included in Other assets.

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

Notes to the Financial Statements

For the years ended March 31, 2017 and 2016

1 CORPORATE INFORMATION

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1. BASIS OF PRESENTATION

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

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

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

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 12, 2017.

2 SIGNIFICANT ACCOUNTING POLICIES
(continued)

2.2. INVESTMENT ENTITY STATUS

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

(i) Mandate and business purpose

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

(ii) Performance evaluation

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

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

As described in Note 13, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

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

2.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.3.1. Financial Instruments

(i) Classification

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

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

(ii) Recognition

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

(iii) Initial and subsequent measurement

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

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

(iv) Derecognition

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

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

and

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2. Determination of Fair Value

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

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

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

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

2.3.3. Functional and Presentation Currency

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

2.3.4. Foreign Currency Translation

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

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

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

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or pledged as collateral, or recognize securities borrowed or received as collateral. Cash collateral received is recognized as described in Note 4.1.8.

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. In the case where PSP Investments is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income.

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

2 SIGNIFICANT ACCOUNTING POLICIES
(continued)

2.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.7. Offsetting of Financial Instruments

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

2.3.8. Equity

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

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

2.3.9. Investment Income

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

2.3.10. Investment-Related Expenses

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

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

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets and other fixed income securities as outlined in Note 10.

2.3.11. Fund Transfers

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

2.4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

3 CURRENT AND FUTURE CHANGES IN ACCOUNTING STANDARDS

3.1. ACCOUNTING STANDARDS ADOPTED IN THE CURRENT YEAR

IFRS 11 Joint Arrangements

IFRS 11 was amended, effective for annual periods beginning on or after January 1, 2016, to add new guidance on the accounting for acquisitions of interests in a joint operation that constitutes a business. Acquirers of such interests shall apply all of the principles in business combinations accounting in IFRS 3 *Business Combinations*, and other IFRS, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRS in relation to business combinations. On April 1, 2016, PSP Investments adopted this amendment with no impact on the presentation of the Financial Statements.

3.2. ACCOUNTING STANDARDS ADOPTED BEFORE THE EFFECTIVE DATE

IFRS 9 Financial Instruments

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

PSP Investments initially adopted IFRS 9 (2014) in its Consolidated Financial Statements for the year ended March 31, 2016. Significant accounting policies in connection with IFRS 9 are described under Note 2.3.1.

3.3. FUTURE ACCOUNTING STANDARDS

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

IAS 7 Statement of Cash Flows

IAS 7 was amended, effective for annual periods beginning on or after January 1, 2017, to add new guidance on disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. PSP Investments will apply the amendments starting from April 1, 2017 and will make the required note disclosures in the Financial Statements.

IAS 28 Investment in Associates and Joint Ventures

IAS 28 was amended, effective for annual periods beginning on or after January 1, 2018, to add a clarification that serves to elaborate and clarify that the election to measure investees at fair value is available on an investment by investment basis and is not an election that must be applied consistently to the measurement of all associates and joint ventures. Management has determined that the amendment will not have an impact on the Financial Statements.

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, 2017	March 31, 2016
Public markets		
Canadian equity	$ 1,252	$ 1,256
Foreign equity	5,806	5,129
Private markets		
Real estate	4,789	4,431
Private equity	2,680	2,217
Infrastructure	2,598	1,873
Natural resources	840	598
Fixed income		
Cash and money market securities	2,434	1,166
Government and corporate bonds	4,289	3,932
Inflation-linked bonds	1,520	1,459
Private debt securities[A]	1,801	1,045
Other fixed income securities[A]	653	520
Alternative investments	1,577	1,306
	$ 30,239	$ 24,932
Investment-related assets		
Amounts receivable from pending trades	$ 225	$ 87
Interest receivable	62	44
Dividends receivable	26	21
Securities purchased under reverse repurchase agreements	522	211
Derivative-related assets	176	630
	$ 1,011	$ 993
Investments representing financial assets at FVTPL	$ 31,250	$ 25,925
Investment-related liabilities		
Amounts payable from pending trades	$ (212)	$ (113)
Interest payable	(8)	(6)
Securities sold short and securities loaned	(1,833)	(525)
Securities sold under repurchase agreements	(218)	(283)
Derivative-related liabilities	(164)	(228)
Investment-related liabilities representing financial liabilities at FVTPL	$ (2,435)	$ (1,155)
Borrowings		
Capital market debt financing	$ (2,127)	$ (1,745)
Borrowings representing financial liabilities designated at FVTPL	$ (2,127)	$ (1,745)
Net investments	$ 26,688	$ 23,025

[A] During the year ended March 31, 2017, private debt securities were reclassified out of other fixed income securities and into a standalone caption in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted to decrease other fixed income securities by $1,045 million and increase private debt securities by the same amount. Notes 4.2.1 and 4.2.3 were adjusted similarly.

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 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.2. Private Markets

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

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financing. As at March 31, 2017, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSP Investments was $1,369 million for the Plan Account (March 31, 2016 – $1,239 million).

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

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing. As at March 31, 2017, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSP Investments was $777 million for the Plan Account (March 31, 2016 – $314 million).

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

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

4.1.3. Fixed Income

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

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. 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 $749 million as at March 31, 2017 (March 31, 2016 – $272 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. 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.

Other fixed income securities consist of asset-backed securities and floating rate notes.

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

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009.

The fair values of certain corporate bonds, private debt securities and ABTNs 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 approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.10, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

4.1.8. Securities Sold Short and Securities Loaned

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.

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

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

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

4.1.10. Borrowings under the Capital Market Debt Program

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

Options are 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, or commodity, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

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

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

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)

4.1.11. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2017			March 31, 2016		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**$ 276**	**$ –**	**$ –**	$ 132	$ –	$ –
Warrants and rights	**1**	**1**	**–**	1	1	–
Options: Purchased	**762**	**6**	**–**	297	4	–
Written	**638**	**–**	**(5)**	275	–	(4)
OTC						
Total return swaps	**5,693**	**50**	**(21)**	4,116	186	(7)
Variance swaps	**1**	**1**	**(1)**	–	–	–
Options: Purchased	**376**	**10**	**–**	1,148	13	–
Written	**365**	**–**	**(9)**	1,158	–	(11)
Currency derivatives						
Listed						
Futures	**27**	**–**	**–**	35	–	–
OTC						
Forwards	**5,540**	**20**	**(60)**	8,575	334	(46)
Swaps	**903**	**3**	**(8)**	641	4	(62)
Options: Purchased	**1,889**	**18**	**–**	1,731	20	–
Written	**1,919**	**–**	**(13)**	2,118	–	(17)
Interest rate derivatives						
Listed						
Futures	**1,562**	**–**	**–**	1,473	–	–
Options: Purchased	**6,769**	**1**	**–**	467	–	–
Written	**7,470**	**–**	**(1)**	4,035	–	–
OTC						
Bond forwards	**–**	**–**	**–**	64	–	–
Interest rate swaps	**2,445**	**30**	**(19)**	2,214	32	(39)
Inflation swaps	**–**	**–**	**–**	107	1	(2)
Swaptions	**5,534**	**28**	**(18)**	5,739	30	(29)
Options: Purchased	**4,494**	**7**	**–**	1,668	2	–
Written	**6,226**	**–**	**(6)**	2,490	–	(2)
OTC-cleared						
Interest rate swaps	**7,694**	**–**	**–**	1,567	–	–
Inflation swaps	**12**	**–**	**–**	–	–	–
Credit derivatives[A]						
OTC						
Credit default swaps: Purchased	**214**	**–**	**(3)**	354	2	(5)
Sold	**58**	**1**	**–**	101	1	(4)
OTC-cleared						
Credit default swaps: Purchased	**164**	**–**	**–**	124	–	–
Sold	**234**	**–**	**–**	284	–	–
Total		**$ 176**	**$ (164)**		$ 630	$ (228)

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2017			March 31, 2016		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**$ 17,505**	**$ 8**	**$ (6)**	$ 6,715	$ 5	$ (4)
OTC derivatives	**35,657**	**168**	**(158)**	32,224	625	(224)
OTC-cleared derivatives	**8,104**	**–**	**–**	1,975	–	–
Total		**$ 176**	**$ (164)**		$ 630	$ (228)

The term to maturity based on notional value for the derivatives was as follows as at March 31:

(Canadian $ millions)	**2017**	2016
Less than 3 months	**$ 21,771**	$ 18,912
3 to 12 months	**20,349**	11,082
Over 1 year	**19,146**	10,920

4.2. FAIR VALUE HIERARCHY

4.2.1. Classification

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
  (i) Quoted prices for similar assets or liabilities in active markets.
  (ii) Quoted prices for identical or similar assets 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, 2017 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 1,078	$ 174	$ –	$ 1,252
Foreign equity	5,062	686	58	5,806
Private markets				
Real estate	–	–	4,789	4,789
Private equity	–	–	2,680	2,680
Infrastructure	–	–	2,598	2,598
Natural resources	–	–	840	840
Fixed income				
Cash and money market securities	–	2,434	–	2,434
Government and corporate bonds	–	4,238	51	4,289
Inflation-linked bonds	–	1,520	–	1,520
Private debt securities	–	–	1,801	1,801
Other fixed income securities	–	650	3	653
Alternative investments	–	300	1,277	1,577
	$ 6,140	$ 10,002	$ 14,097	$ 30,239
Investment-related assets				
Amounts receivable from pending trades	$ –	$ 225	$ –	$ 225
Interest receivable	–	62	–	62
Dividends receivable	–	26	–	26
Securities purchased under reverse repurchase agreements	–	522	–	522
Derivative-related assets	8	168	–	176
	$ 8	$ 1,003	$ –	$ 1,011
Investments representing financial assets at FVTPL	$ 6,148	$ 11,005	$ 14,097	$ 31,250
Investment-related liabilities				
Amounts payable from pending trades	$ –	$ (212)	$ –	$ (212)
Interest payable	–	(8)	–	(8)
Securities sold short and securities loaned	(564)	(1,269)	–	(1,833)
Securities sold under repurchase agreements	–	(218)	–	(218)
Derivative-related liabilities	(6)	(158)	–	(164)
Investment-related liabilities representing financial liabilities at FVTPL	$ (570)	$ (1,865)	$ –	$ (2,435)
Borrowings				
Capital market debt financing	$ –	$ (2,127)	$ –	$ (2,127)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (2,127)	$ –	$ (2,127)
Net investments	$ 5,578	$ 7,013	$ 14,097	$ 26,688

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2016 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 1,113	$ 143	$ –	$ 1,256
Foreign equity	4,235	894	–	5,129
Private markets				
Real estate	–	–	4,431	4,431
Private equity	–	–	2,217	2,217
Infrastructure	–	–	1,873	1,873
Natural resources	–	–	598	598
Fixed income				
Cash and money market securities	–	1,166	–	1,166
Government and corporate bonds	–	3,876	56	3,932
Inflation-linked bonds	–	1,459	–	1,459
Private debt securities	–	–	1,045	1,045
Other fixed income securities	–	381	139	520
Alternative investments	–	242	1,064	1,306
	$ 5,348	$ 8,161	$ 11,423	$ 24,932
Investment-related assets				
Amounts receivable from pending trades	$ –	$ 87	$ –	$ 87
Interest receivable	–	44	–	44
Dividends receivable	–	21	–	21
Securities purchased under reverse repurchase agreements	–	211	–	211
Derivative-related assets	5	625	–	630
	$ 5	$ 988	$ –	$ 993
Investments representing financial assets at FVTPL	$ 5,353	$ 9,149	$ 11,423	$ 25,925
Investment-related liabilities				
Amounts payable from pending trades	$ –	$ (113)	$ –	$ (113)
Interest payable	–	(6)	–	(6)
Securities sold short	(436)	(89)	–	(525)
Securities sold under repurchase agreements	–	(283)	–	(283)
Derivative-related liabilities	(4)	(224)	–	(228)
Investment-related liabilities representing financial liabilities at FVTPL	$ (440)	$ (715)	$ –	$ (1,155)
Borrowings				
Capital market debt financing	$ –	$ (1,745)	$ –	$ (1,745)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (1,745)	$ –	$ (1,745)
Net investments	$ 4,913	$ 6,689	$ 11,423	$ 23,025

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2017:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Foreign equity	Direct investments	$ 58	Net asset value method (NAV)[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	$ 4,509	Discounted cash flow (DCF)	Discount rate[B, C]	4.50% – 25.00% (8.06%)
				Terminal capitalization rate[B, C]	4.25% – 10.25% (6.04%)
			Direct capitalization	Capitalization rate[B, D]	2.75% – 8.00% (5.69%)
				Stabilized occupancy rate[D, E]	94.00% – 100.00% (97.77%)
			Sales comparison approach	Price per square foot[D, E]	$2.82 – $1,115.10 ($153.82)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 280	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	$ 4,258	DCF	Discount rate[B]	5.91% – 12.70% (9.36%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 1,860	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	$ 51	DCF	Discount rate[B]	3.90% – 14.10% (7.50%)
Private debt securities	Direct and co-investments	$ 957	DCF	Discount rate[B]	4.49% – 12.25% (9.07%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 844	NAV[A]	N/A	N/A
Other fixed income	Asset-backed term notes	$ 3	Third-party pricing[A]	N/A	N/A
Alternative investments	Fund investments	$ 1,277	NAV[A]	N/A	N/A
Total		**$14,097**			

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

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.3. Level 3 Significant Inputs (continued)

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

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Private markets					
Real estate	Direct and co-investments	$ 4,147	DCF	Discount rate[B, C]	5.25% – 25.00% (8.27%)
				Terminal capitalization rate[B, C]	4.25% – 14.00% (6.29%)
			Direct capitalization	Capitalization rate[B, D]	3.25% – 7.50% (5.91%)
				Stabilized occupancy rate[D, E]	93.00% – 100.00% (96.84%)
			Sales comparison approach	Price per square foot[D, E]	$25.00 – $665.89 ($170.43)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 284	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	$ 3,169	DCF	Discount rate[B]	5.20% – 12.50% (9.70%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 1,519	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	$ 56	DCF	Discount rate[B]	3.70% – 13.50% (6.30%)
Private debt securities	Direct and co-investments	$ 357	DCF	Discount rate[B]	8.00% – 13.50% (11.09%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 688	NAV[A]	N/A	N/A
Other fixed income	Asset-backed term notes	$ 139	Third-party pricing[A]	N/A	N/A
Alternative investments	Fund investments	$ 1,064	NAV[A]	N/A	N/A
Total		$11,423			

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

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2017:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains[A]	Closing Balance
Public markets	$ –	$ 51	$ –	$ –	$ –	$ 7	$ 58
Private markets	9,119	1,949	(541)	–	132	248	10,907
Fixed income	1,240	1,034	(385)	(134)	75	25	1,855
Alternative investments	1,064	182	(95)	–	10	116	1,277
Total	**$ 11,423**	**$ 3,216**	**$ (1,021)**	**$ (134)**	**$ 217**	**$ 396**	**$ 14,097**

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2016:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Closing Balance
Private markets	$ 7,287	$ 1,886	$ (746)	$ –	$ 186	$ 506	$ 9,119
Fixed income	1,094	410	(101)	(138)	83	(108)	1,240
Alternative investments	805	325	(86)	–	13	7	1,064
Derivative-related assets/liabilities (net)	(1)	–	–	–	–	1	–
Total	$ 9,185	$ 2,621	$ (933)	$ (138)	$ 282	$ 406	$ 11,423

[A] Includes Plan Account allocation adjustments.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2017 (March 31, 2016 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. Management ensures the appropriateness of the work performed by third-party appraisers as described under Note 4.2.2. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 COLLATERAL PLEDGED AND RECEIVED

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

(Canadian $ millions)	**March 31, 2017**	March 31, 2016
Securities lending and borrowing		
Securities lent	**$ 2,606**	$ 1,806
Collateral held[A]	**2,775**	1,928
Securities borrowed	**567**	451
Collateral pledged[B]	**595**	474
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**218**	284
Collateral pledged	**218**	283
Securities purchased under reverse repurchase agreements	**524**	211
Collateral held[C]	**522**	211
Derivative contracts		
Collateral pledged	**61**	57
Collateral held[D]	**45**	430

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to $1,000 million for the Plan Account as at March 31, 2017 (March 31, 2016 – $411 million) and securities amounted to $1,775 million as at March 31, 2017 (March 31, 2016 – $1,517 million). All cash collateral is reinvested.

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

[C] The collateral received is in the form of securities of which $267 million has been used in connection with short selling transactions as at March 31, 2017 (March 31, 2016 – $89 million) and $41 million has been used in connection with securities sold under repurchase agreements (March 31, 2016 – nil).

[D] As part of collateral held, cash amounted to $2 million as at March 31, 2017 (March 31, 2016 – nil) and securities amounted to $43 milion as at March 31, 2017 (March 31, 2016 – $430 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.

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, 2017, 103 investment entity subsidiaries were incorporated in North America, 23 in Europe, 10 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2016 – 102 in North America, 19 in Europe, 10 in Oceania, 4 in Central and South America and 1 in Africa).

In addition, PSP Investments controlled 77 investees directly or through its investment entity subsidiaries as at March 31, 2017 (March 31, 2016 – 73 investees).

6 INTERESTS IN OTHER ENTITIES (continued)

6.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

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

			March 31, 2017
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments**	**Relationship to PSP Investments**
Revera Inc.	**North America**	**100%**	**Controlled investee**
Kaingaroa Timberlands Ltd.	**Oceania**	**56%**	**Jointly controlled investee**
AviAlliance GmbH	**Europe**	**100%**	**Controlled investee**
Roadis Transportation B.V.[A]	**Global**	**100%**	**Controlled investee**
FirstLight Power Resources Holding Inc.	**North America**	**100%**	**Controlled investee**
Roccapina Fund, L.P.	**North America**	**100%**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50%**	**Jointly controlled investee**
Telesat Holdings Inc.	**North America**	**35%**	**Associate**
TDF S.A.S.	**Europe**	**22%**	**Associate**
Big Box Properties	**North America**	**49%**	**Jointly controlled investee**

[A] Formerly Isolux Infrastructure Netherlands B.V.

			March 31, 2016
Entity's Name	Principal Place of Business	Ownership Interest Held by PSP Investments	Relationship to PSP Investments
Revera Inc.	North America	100%	Controlled investee
AviAlliance GmbH	Europe	100%	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56%	Jointly controlled investee
Telesat Holdings Inc.	North America	34%	Associate
Isolux Infrastructure Netherlands B.V.	Central and South America	19%	Jointly controlled investee
Roccapina Fund, L.P.	North America	100%	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50%	Jointly controlled investee
Big Box Properties	North America	49%	Jointly controlled investee
Acelity Inc.	North America	21%	Associate
TDF S.A.S.	Europe	22%	Associate

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 15 and commitments under Note 16.

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 Investment Risk Management Policy (IRM Policy) supports the management of risk inherent to the investment decision making process. The IRM Policy outlines a framework that is designed to ensure that investment activities respect PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite. The IRM Policy also supplements the 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

Effective April 1, 2016, the absolute annualized volatility of the total portfolio was implemented as the primary measure of market risk. The absolute volatility is a statistical measure of the size of changes in investment returns of a given investment or portfolio of investments. It is used to illustrate the potential loss of value in an investment or portfolio of investments as a result of fluctuations in market prices. Prior to April 1, 2016, PSP Investments used the Value at Risk (VaR) as the primary measure of market risk.

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

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

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

	March 31, 2017	March 31, 2016
Absolute volatility	**7.6%**	8.5%[A]

[A] Since the absolute volatility was used effective April 1, 2016, the market risk measure as at March 31, 2016 was changed in the above table for comparability purposes. Prior to April 1, 2016, PSP Investments used the VaR as the primary measure of market risk. The total portfolio VaR as at March 31, 2016 was 23.6%.

Stress Testing

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.2. Interest Rate Risk

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

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

March 31, 2017

(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	$ –	$ –	$ –	$ –	$ 2,434[A]	$ 2,434
Government and corporate bonds	481	1,856	1,199	753	–	4,289
Inflation-linked bonds	1	357	564	598	–	1,520
Private debt securities	16	176	699	–	910[B]	1,801
Other fixed income securities	3	4	–	–	646[C]	653
Total fixed income	**$ 501**	**$ 2,393**	**$ 2,462**	**$ 1,351**	**$ 3,990**	**$ 10,697**

March 31, 2016

(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	$ –	$ –	$ –	$ –	$ 1,166[A]	$ 1,166
Government and corporate bonds	218	1,916	984	814	–	3,932
Inflation-linked bonds	4	325	486	644	–	1,459
Private debt securities	1	239	61	–	744[B]	1,045
Other fixed income securities	143	40	–	–	337[C]	520
Total fixed income	$ 366	$ 2,520	$ 1,531	$ 1,458	$ 2,247	$ 8,122

[A] Due to their nature, these investments are not significantly exposed to interest rate risk.

[B] 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.

[C] Certain corporate bonds, asset-backed securities and floating rate notes are not significantly exposed to interest rate risk as their prescribed rates are variable.

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

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through 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:

Currency	March 31, 2017		March 31, 2016	
(Canadian $ millions)	**Fair Value**	**% of Total**	Fair Value	% of Total
US Dollar	**$ 12,534**	**70.5%**	$ 5,978	60.3%
Euro	**1,117**	**6.3**	706	7.1
Japanese Yen	**649**	**3.6**	335	3.4
British Pound	**547**	**3.1**	405	4.1
South Korean Won	**471**	**2.6**	423	4.3
Brazilian Real	**401**	**2.3**	307	3.1
Indian Rupee	**243**	**1.4**	196	2.0
Hong Kong Dollar	**235**	**1.3**	354	3.6
Australian Dollar	**230**	**1.3**	123	1.2
Taiwanese New Dollar	**196**	**1.1**	179	1.8
Swiss Franc	**183**	**1.0**	196	2.0
Mexican Peso	**156**	**0.9**	128	1.3
Others	**827**	**4.6**	577	5.8
Total	**$ 17,789**	**100.0%**	$ 9,907	100.0%

As at March 31, 2017, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $3,972 million for the Plan Account (US$2,466 million, €411 million, £37 million, 4 million South African rands, 12 million Brazilian reals, 2,667 million Colombian pesos, 46 million Mexican pesos and 25 million Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2016, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $3,903 million for the Plan Account (US$2,740 million, €181 million, £40 million, 36 million South African rands, 17 million Brazilian reals, 3,827 million Colombian pesos and 77 million Mexican pesos) which were not included in the foreign currency exposure table above.

7 INVESTMENT RISK MANAGEMENT (continued)

7.2. CREDIT RISK

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities 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, 2017, the Plan Account's maximum exposure to credit risk amounted to $11 billion (March 31, 2016 – $9 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 15 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:

Credit Rating	**2017**	2016
AAA-AA	**54.2%**	50.7%
A	**20.0**	27.9
BBB	**4.5**	9.1
BB or below	**19.9**	10.5
No rating[A]	**1.4**	1.8
Total	**100.0%**	100.0%

[A] Includes securities for public issuers and counterparties, that are either not rated by credit rating agencies or rated by a single credit rating agency. ABTNs are rated by a single agency and are classified according to their rating within the table.

7 INVESTMENT RISK MANAGEMENT
(continued)

7.2. CREDIT RISK (continued)

7.2.1. Counterparty Risk

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

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

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

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

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

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

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.2. CREDIT RISK (continued)

7.2.2. Offsetting

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

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, 2017						
Reverse repurchase agreements	**$ 522**	**$ –**	**$ 522[A]**	**$ 41**	**$ 481**	**$ –**
OTC-derivatives	**169**	**1**	**168[B]**	**120**	**34**	**14**
Total	**$ 691**	**$ 1**	**$ 690**	**$ 161**	**$ 515**	**$ 14**
March 31, 2016						
Reverse repurchase agreements	$ 211	$ –	$ 211[A]	$ –	$ 211	$ –
OTC-derivatives	626	1	625[B]	188	415	22
Total	$ 837	$ 1	$ 836	$ 188	$ 626	$ 22

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, 2017						
Repurchase agreements	**$ 218**	**$ –**	**$ 218[A]**	**$ 41**	**$ 177**	**$ –**
OTC-derivatives	**159**	**1**	**158[B]**	**120**	**35**	**3**
Total	**$ 377**	**$ 1**	**$ 376**	**$ 161**	**$ 212**	**$ 3**
March 31, 2016						
Repurchase agreements	$ 283	$ –	$ 283[A]	$ –	$ 283	$ –
OTC-derivatives	225	1	224[B]	188	35	1
Total	$ 508	$ 1	$ 507	$ 188	$ 318	$ 1

[A] As described in Note 4.1.

[B] As described in Note 4.1.11.

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 4.1.11.

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, 2017 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	$ (212)	$ –	$ –	$ (212)
Interest payable	(8)	–	–	(8)
Securities sold short and securities loaned	(1,833)	–	–	(1,833)
Securities sold under repurchase agreements	(218)	–	–	(218)
Capital market debt financing	(1,136)	(244)	(747)	(2,127)
Trade payable and other liabilities	(30)	–	(16)	(46)
Total	$ (3,437)	$ (244)	$ (763)	$ (4,444)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 46	$ 66	$ 64	$ 176
Derivative-related liabilities[A]	(77)	(35)	(52)	(164)
Total	$ (31)	$ 31	$ 12	$ 12

[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)

Financial Liabilities (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, 2016 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	$ (113)	$ –	$ –	$ (113)
Interest payable	(6)	–	–	(6)
Securities sold short	(525)	–	–	(525)
Securities sold under repurchase agreements	(283)	–	–	(283)
Capital market debt financing	(1,027)	(398)	(320)	(1,745)
Trade payable and other liabilities	(24)	–	(13)	(37)
Total	$ (1,978)	$ (398)	$ (333)	$ (2,709)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 367	$ 156	$ 107	$ 630
Derivative-related liabilities[A]	(62)	(39)	(127)	(228)
Total	$ 305	$ 117	$ (20)	$ 402

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

8 BORROWINGS

8.1. CREDIT FACILITIES

During the year ended March 31, 2017, PSP Investments entered into 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 the end of the reporting period.

8.2. CAPITAL MARKET DEBT FINANCING

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

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

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2017 and March 31, 2016.

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, 2017		March 31, 2016	
(Canadian $ millions)	**Capital Amounts Payable at Maturity**	**Fair Value**	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.57% and 0.78% and maturing within 26 and 273 days of issuance (March 31, 2016 – 56 and 185 days)	**$ 265**	**$ 265**	$ 240	$ 240
Short-term US Dollar promissory notes, bearing interest between 0.68% and 1.16% and maturing within 30 and 266 days of issuance (March 31, 2016 – 63 and 196 days)	**1,116**	**1,115**	967	966
Medium-term notes Series 4, bearing interest of 2.26% per annum and matured on February 16, 2017	**–**	**–**	177	180
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**99**	**104**	99	106
Medium-term notes Series 6, bearing variable interest of 3-month CDOR and matured on April 4, 2016	**–**	**–**	39	39
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**194**	**209**	197	214
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**245**	**243**	–	–
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**191**	**191**	–	–
Total	**$ 2,110**	**$ 2,127**	$ 1,719	$ 1,745

Unrealized losses in connection with borrowings amounted to $82 million for the year ended March 31, 2017 (unrealized gains of $107 million for the year ended March 31, 2016).

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

(Canadian $ millions)	**2017**	2016
Short-term promissory notes	**$ 10**	$ 4
Medium-term notes	**16**	16
Total	**$ 26**	$ 20

9 EQUITY

9.1. STATUTORY RIGHTS HELD BY THE GOVERNMENT OF CANADA

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income (loss) to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 12.

9.2. FUND TRANSFERS

PSP Investments received fund transfers from the Government of Canada of $659 million for the year ended March 31, 2017 ($849 million for the year ended March 31, 2016) for the Fund, recorded in the Plan Account.

10 INVESTMENT-RELATED EXPENSES

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

(Canadian $ millions)		2017		2016
Interest expense	$	30	$	23
Transaction costs		26		20
External investment management fees[A]		6		7
Other (net)		9		4
Total	$	**71**	$	54

[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 $30 million for the year ended March 31, 2017 ($12 million for the year ended March 31, 2016). 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 2.0% of the total invested and/or committed amount, totaled $58 million for the year ended March 31, 2017 ($47 million for the year ended March 31, 2016). Such fees are embedded in the fair value of the investments.

11 OPERATING EXPENSES

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

(Canadian $ thousands)		2017		2016
Salaries and employee benefits	$	41,301	$	32,935
Professional and consulting fees		12,103		8,913
Premises and equipment		4,115		3,138
Market data and business applications		5,240		4,408
Depreciation of equipment		6,009		5,096
Custodial fees		766		855
Other operating expenses		3,302		2,642
Total	$	**72,836**	$	57,987

12 ALLOCATION OF COMPREHENSIVE INCOME (LOSS)

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

12.1. INVESTMENT INCOME

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

12.2. EXPENSES

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

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

	2017	2016
Public Service Pension Plan Account	**72.5%**	72.6%
Canadian Forces Pension Plan Account	**19.7**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.3**	7.2
Reserve Force Pension Plan Account	**0.5**	0.5
Total	**100.0%**	100.0%

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

13 RELATED PARTY TRANSACTIONS

13.1. CERTAIN INVESTEES

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 15 and 16, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income (loss) as those with unrelated parties.

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

13.2. THE GOVERNMENT OF CANADA AND GOVERNMENT-RELATED ENTITIES

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

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the funds transfers outlined in Note 9.2.

(ii) Government-Related Entities

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

13.3. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

(Canadian $ thousands)	**2017**	2016
Short-term compensation and other benefits	**$ 3,162**	$ 3,170
Long-term compensation and other benefits	**1,552**	720
Total	**$ 4,714**	$ 3,890

As disclosed in Note 15, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

14 CAPITAL MANAGEMENT

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

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

15 GUARANTEES AND INDEMNITIES

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

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

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

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, 2017, 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 $2,077 million as at March 31, 2017 (March 31, 2016 – $1,891 million), of which $408 million has been allocated to the Plan Account (March 31, 2016 – $373 million) plus applicable interest and other related costs. The arrangements mature between May 2017 and September 2028.
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $35 million as at March 31, 2017 (March 31, 2016 – $29 million), of which $7 million has been allocated to the Plan Account (March 31, 2016 – $6 million) in relation to investment transactions.

16 COMMITMENTS

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at March 31:

(Canadian $ millions)	2017	2016
Real estate	$ 556	$ 475
Private equity	1,783	1,397
Infrastructure	738	787
Natural resources	149	167
Private debt securities	612	890
Alternative investments	244	375
Total	**$ 4,082**	$ 4,091

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2017 (March 31, 2016 – 2032).

Royal Canadian Mounted Police Pension Plan Account

FINANCIAL STATEMENTS

Independent Auditors' Report

To the Minister of Public Safety and Emergency Preparedness

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Sector Pension Investment Board — Royal Canadian Mounted Police Pension Plan Account (the Royal Canadian Mounted Police Pension Plan Account), which comprise the statements of financial position as at March 31, 2017 and March 31, 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Royal Canadian Mounted Police Pension Plan Account as at March 31, 2017 and March 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Other Legal and Regulatory Requirements

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

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

Margaret P.C. Haire

Margaret Haire, CPA, CA
Principal
for the Auditor General of Canada

May 12, 2017
Ottawa, Canada

Deloitte LLP[1]

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

May 12, 2017
Montréal, Canada

Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2017**	March 31, 2016
Assets		
Investments (Note 4.1)	**$ 11,522**	$ 9,561
Other assets	**19**	11
Total assets	**$ 11,541**	$ 9,572
Liabilities		
Trade payable and other liabilities	**$ 16**	$ 13
Investment-related liabilities (Note 4.1)	**898**	427
Borrowings (Notes 4.1, 8.2)	**784**	643
Due to the Public Service Pension Plan Account	**8**	6
Total liabilities	**$ 1,706**	$ 1,089
Net assets	**$ 9,835**	$ 8,483
Equity (Note 9)	**$ 9,835**	$ 8,483
Total liabilities and equity	**$ 11,541**	$ 9,572

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

On behalf of the Board of Directors:

Michael P. Mueller
Chair of the Board

William A. MacKinnon
Chair of the Audit Committee

Statements of Comprehensive Income

For the years ended March 31

(Canadian $ millions)	2017	2016
Investment income	**$ 1,154**	$ 102
Investment-related expenses (Note 10)	**(26)**	(20)
Net investment income	**$ 1,128**	$ 82
Operating expenses (Note 11)	**(27)**	(21)
Net income	**$ 1,101**	$ 61
Other comprehensive income		
Remeasurement of the net defined benefit liability	**–**	–
Comprehensive income	**$ 1,101**	$ 61

Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	2017	2016
Fund transfers		
Balance at beginning of period	**$ 4,869**	$ 4,523
Fund transfers received during the period (Note 9.2)	**251**	346
Balance at end of period	**$ 5,120**	$ 4,869
Retained earnings		
Balance at beginning of period	**$ 3,614**	$ 3,553
Comprehensive income	**1,101**	61
Balance at end of period	**$ 4,715**	$ 3,614
Total equity	**$ 9,835**	$ 8,483

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)		2017		2016
Cash flows from operating activities				
Net income	**$**	**1,101**	$	61
Adjustments for non-cash items:				
Depreciation of equipment (Note 11)		**2**		2
Effect of exchange rate changes on cash and cash equivalents		**(4)**		1
Unrealized losses (gains) on borrowings		**30**		(39)
	$	**1,129**	$	25
Net changes in operating assets and liabilities				
Increase in investments	**$**	**(1,784)**	$	(539)
Increase in other assets		**–**		(1)
Increase in trade payable and other liabilities		**3**		–
Increase in investment-related liabilities		**471**		63
Net cash flows used in operating activities	**$**	**(181)**	$	(452)
Cash flow from financing activities				
Proceeds from borrowings	**$**	**1,919**	$	1,785
Repayment of borrowings		**(1,808)**		(1,638)
Repayment to the Public Service Pension Plan Account		**(30)**		(28)
Advances from the Public Service Pension Plan Account		**32**		28
Fund transfers received		**251**		346
Net cash flows provided by financing activities	**$**	**364**	$	493
Cash flow from investing activities				
Acquisitions of equipment	**$**	**(3)**	$	(2)
Net cash flows used in investing activities	**$**	**(3)**	$	(2)
Net change in cash and cash equivalents	**$**	**180**	$	39
Effect of exchange rate changes on cash and cash equivalents		**4**		(1)
Cash and cash equivalents at the beginning of the period		**101**		63
Cash and cash equivalents at the end of the period[A]	**$**	**285**	$	101
Supplementary disclosure of cash flow information				
Interest paid	**$**	**(10)**	$	(8)

[A] As at March 31, 2017, cash and cash equivalents were comprised of $277 million (March 31, 2016 – $100 million) held for investment purposes and included in Note 4.1, as well as $8 million (March 31, 2016 – $1 million) held for administrative purposes and included in Other assets.

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

Notes to the Financial Statements

For the years ended March 31, 2017 and 2016

1 CORPORATE INFORMATION

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1. BASIS OF PRESENTATION

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

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

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

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 12, 2017.

2 SIGNIFICANT ACCOUNTING POLICIES
(continued)

2.2. INVESTMENT ENTITY STATUS

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

(i) Mandate and business purpose

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

(ii) Performance evaluation

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

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

As described in Note 13, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

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

2.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.3.1. Financial Instruments

(i) Classification

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

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

(ii) Recognition

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

(iii) Initial and subsequent measurement

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

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

(iv) Derecognition

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

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

and

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2. Determination of Fair Value

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

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

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

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

2.3.3. Functional and Presentation Currency

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

2.3.4. Foreign Currency Translation

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

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

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

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or pledged as collateral, or recognize securities borrowed or received as collateral. Cash collateral received is recognized as described in Note 4.1.8.

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. In the case where PSP Investments is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.7. Offsetting of Financial Instruments

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

2.3.8. Equity

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

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

2.3.9. Investment Income

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

2.3.10. Investment-Related Expenses

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

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

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets and other fixed income securities as outlined in Note 10.

2.3.11. Fund Transfers

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

2.4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

3 CURRENT AND FUTURE CHANGES IN ACCOUNTING STANDARDS

3.1. ACCOUNTING STANDARDS ADOPTED IN THE CURRENT YEAR

IFRS 11 Joint Arrangements

IFRS 11 was amended, effective for annual periods beginning on or after January 1, 2016, to add new guidance on the accounting for acquisitions of interests in a joint operation that constitutes a business. Acquirers of such interests shall apply all of the principles in business combinations accounting in IFRS 3 *Business Combinations*, and other IFRS, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRS in relation to business combinations. On April 1, 2016, PSP Investments adopted this amendment with no impact on the presentation of the Financial Statements.

3.2. ACCOUNTING STANDARDS ADOPTED BEFORE THE EFFECTIVE DATE

IFRS 9 Financial Instruments

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

PSP Investments initially adopted IFRS 9 (2014) in its Consolidated Financial Statements for the year ended March 31, 2016. Significant accounting policies in connection with IFRS 9 are described under Note 2.3.1.

3.3. FUTURE ACCOUNTING STANDARDS

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

IAS 7 Statement of Cash Flows

IAS 7 was amended, effective for annual periods beginning on or after January 1, 2017, to add new guidance on disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. PSP Investments will apply the amendments starting from April 1, 2017 and will make the required note disclosures in the Financial Statements.

IAS 28 Investment in Associates and Joint Ventures

IAS 28 was amended, effective for annual periods beginning on or after January 1, 2018, to add a clarification that serves to elaborate and clarify that the election to measure investees at fair value is available on an investment by investment basis and is not an election that must be applied consistently to the measurement of all associates and joint ventures. Management has determined that the amendment will not have an impact on the Financial Statements.

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, 2017**	March 31, 2016
Public markets		
Canadian equity	**$ 461**	$ 463
Foreign equity	**2,140**	1,892
Private markets		
Real estate	**1,766**	1,634
Private equity	**988**	818
Infrastructure	**958**	691
Natural resources	**309**	221
Fixed income		
Cash and money market securities	**898**	430
Government and corporate bonds	**1,581**	1,450
Inflation-linked bonds	**560**	538
Private debt securities[A]	**664**	385
Other fixed income securities[A]	**241**	192
Alternative investments	**582**	482
	$ 11,148	$ 9,196
Investment-related assets		
Amounts receivable from pending trades	**$ 83**	$ 32
Interest receivable	**23**	16
Dividends receivable	**10**	7
Securities purchased under reverse repurchase agreements	**193**	78
Derivative-related assets	**65**	232
	$ 374	$ 365
Investments representing financial assets at FVTPL	**$ 11,522**	$ 9,561
Investment-related liabilities		
Amounts payable from pending trades	**$ (78)**	$ (42)
Interest payable	**(3)**	(2)
Securities sold short and securities loaned	**(676)**	(194)
Securities sold under repurchase agreements	**(80)**	(105)
Derivative-related liabilities	**(61)**	(84)
Investment-related liabilities representing financial liabilities at FVTPL	**$ (898)**	$ (427)
Borrowings		
Capital market debt financing	**$ (784)**	$ (643)
Borrowings representing financial liabilities designated at FVTPL	**$ (784)**	$ (643)
Net investments	**$ 9,840**	$ 8,491

[A] During the year ended March 31, 2017, private debt securities were reclassified out of other fixed income securities and into a standalone caption in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted to decrease other fixed income securities by $385 million and increase private debt securities by the same amount. Notes 4.2.1 and 4.2.3 were adjusted similarly.

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 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.2. Private Markets

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

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financing. As at March 31, 2017, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSP Investments was $505 million for the Plan Account (March 31, 2016 – $457 million).

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

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing. As at March 31, 2017, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSP Investments was $286 million for the Plan Account (March 31, 2016 – $116 million).

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

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

4.1.3. Fixed Income

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

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. 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 $277 million as at March 31, 2017 (March 31, 2016 – $100 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. 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.

Other fixed income securities consist of asset-backed securities and floating rate notes.

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

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009.

The fair values of certain corporate bonds, private debt securities and ABTNs 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 approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.10, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

4.1.8. Securities Sold Short and Securities Loaned

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.

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

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

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

4.1.10. Borrowings under the Capital Market Debt Program

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

Options are 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, or commodity, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

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

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

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)

4.1.11. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2017			March 31, 2016		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**$ 102**	**$ –**	**$ –**	$ 49	$ –	$ –
Warrants and rights	**–**	**1**	**–**	–	–	–
Options: Purchased	**281**	**2**	**–**	110	2	–
Written	**235**	**–**	**(2)**	102	–	(2)
OTC						
Total return swaps	**2,099**	**18**	**(8)**	1,518	69	(2)
Options: Purchased	**138**	**4**	**–**	423	5	–
Written	**134**	**–**	**(3)**	427	–	(4)
Currency derivatives						
Listed						
Futures	**10**	**–**	**–**	12	–	–
OTC						
Forwards	**2,043**	**7**	**(22)**	3,163	123	(17)
Swaps	**333**	**1**	**(3)**	236	1	(23)
Options: Purchased	**697**	**6**	**–**	639	7	–
Written	**708**	**–**	**(5)**	781	–	(6)
Interest rate derivatives						
Listed						
Futures	**576**	**–**	**–**	544	–	–
Options: Purchased	**2,496**	**1**	**–**	172	–	–
Written	**2,754**	**–**	**–**	1,488	–	–
OTC						
Bond forwards	**–**	**–**	**–**	24	–	–
Interest rate swaps	**901**	**12**	**(7)**	817	12	(14)
Inflation swaps	**–**	**–**	**–**	39	–	–
Swaptions	**2,041**	**10**	**(7)**	2,116	11	(11)
Options: Purchased	**1,657**	**3**	**–**	615	1	–
Written	**2,296**	**–**	**(2)**	918	–	(1)
OTC-cleared						
Interest rate swaps	**2,836**	**–**	**–**	578	–	–
Inflation swaps	**5**	**–**	**–**	–	–	–
Credit derivatives[A]						
OTC						
Credit default swaps: Purchased	**79**	**–**	**(2)**	131	1	(2)
Sold	**22**	**–**	**–**	38	–	(2)
OTC-cleared						
Credit default swaps: Purchased	**60**	**–**	**–**	46	–	–
Sold	**86**	**–**	**–**	104	–	–
Total		**$ 65**	**$ (61)**		$ 232	$ (84)

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2017			March 31, 2016		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**$ 6,454**	**$ 4**	**$ (2)**	$ 2,477	$ 2	$ (2)
OTC derivatives	**13,148**	**61**	**(59)**	11,885	230	(82)
OTC-cleared derivatives	**2,987**	**–**	**–**	728	–	–
Total		**$ 65**	**$ (61)**		$ 232	$ (84)

The term to maturity based on notional value for the derivatives was as follows as at March 31:

(Canadian $ millions)	**2017**	2016
Less than 3 months	**$ 8,027**	$ 6,976
3 to 12 months	**7,503**	4,087
Over 1 year	**7,059**	4,027

4.2. FAIR VALUE HIERARCHY

4.2.1. Classification

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
  (i) Quoted prices for similar assets or liabilities in active markets.
  (ii) Quoted prices for identical or similar assets 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, 2017 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 397	$ 64	$ –	$ 461
Foreign equity	1,867	252	21	2,140
Private markets				
Real estate	–	–	1,766	1,766
Private equity	–	–	988	988
Infrastructure	–	–	958	958
Natural resources	–	–	309	309
Fixed income				
Cash and money market securities	–	898	–	898
Government and corporate bonds	–	1,563	18	1,581
Inflation-linked bonds	–	560	–	560
Private debt securities	–	–	664	664
Other fixed income securities	–	239	2	241
Alternative investments	–	110	472	582
	$ 2,264	$ 3,686	$ 5,198	$ 11,148
Investment-related assets				
Amounts receivable from pending trades	$ –	$ 83	$ –	$ 83
Interest receivable	–	23	–	23
Dividends receivable	–	10	–	10
Securities purchased under reverse repurchase agreements	–	193	–	193
Derivative-related assets	4	61	–	65
	$ 4	$ 370	$ –	$ 374
Investments representing financial assets at FVTPL	$ 2,268	$ 4,056	$ 5,198	$ 11,522
Investment-related liabilities				
Amounts payable from pending trades	$ –	$ (78)	$ –	$ (78)
Interest payable	–	(3)	–	(3)
Securities sold short and securities loaned	(208)	(468)	–	(676)
Securities sold under repurchase agreements	–	(80)	–	(80)
Derivative-related liabilities	(2)	(59)	–	(61)
Investment-related liabilities representing financial liabilities at FVTPL	$ (210)	$ (688)	$ –	$ (898)
Borrowings				
Capital market debt financing	$ –	$ (784)	$ –	$ (784)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (784)	$ –	$ (784)
Net investments	$ 2,058	$ 2,584	$ 5,198	$ 9,840

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2016 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 410	$ 53	$ –	$ 463
Foreign equity	1,562	330	–	1,892
Private markets				
Real estate	–	–	1,634	1,634
Private equity	–	–	818	818
Infrastructure	–	–	691	691
Natural resources	–	–	221	221
Fixed income				
Cash and money market securities	–	430	–	430
Government and corporate bonds	–	1,429	21	1,450
Inflation-linked bonds	–	538	–	538
Private debt securities	–	–	385	385
Other fixed income securities	–	141	51	192
Alternative investments	–	90	392	482
	$ 1,972	$ 3,011	$ 4,213	$ 9,196
Investment-related assets				
Amounts receivable from pending trades	$ –	$ 32	$ –	$ 32
Interest receivable	–	16	–	16
Dividends receivable	–	7	–	7
Securities purchased under reverse repurchase agreements	–	78	–	78
Derivative-related assets	2	230	–	232
	$ 2	$ 363	$ –	$ 365
Investments representing financial assets at FVTPL	$ 1,974	$ 3,374	$ 4,213	$ 9,561
Investment-related liabilities				
Amounts payable from pending trades	$ –	$ (42)	$ –	$ (42)
Interest payable	–	(2)	–	(2)
Securities sold short	(161)	(33)	–	(194)
Securities sold under repurchase agreements	–	(105)	–	(105)
Derivative-related liabilities	(2)	(82)	–	(84)
Investment-related liabilities representing financial liabilities at FVTPL	$ (163)	$ (264)	$ –	$ (427)
Borrowings				
Capital market debt financing	$ –	$ (643)	$ –	$ (643)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (643)	$ –	$ (643)
Net investments	$ 1,811	$ 2,467	$ 4,213	$ 8,491

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2017:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Foreign equity	Direct investments	$ 21	Net asset value method (NAV)[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	$ 1,663	Discounted cash flow (DCF)	Discount rate[B, C]	4.50% – 25.00% (8.06%)
				Terminal capitalization rate[B, C]	4.25% – 10.25% (6.04%)
			Direct capitalization	Capitalization rate[B, D]	2.75% – 8.00% (5.69%)
				Stabilized occupancy rate[D, E]	94.00% – 100.00% (97.77%)
			Sales comparison approach	Price per square foot[D, E]	$2.82 – $1,115.10 ($153.82)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 103	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	$ 1,570	DCF	Discount rate[B]	5.91% – 12.70% (9.36%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 685	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	$ 18	DCF	Discount rate[B]	3.90% – 14.10% (7.50%)
Private debt securities	Direct and co-investments	$ 353	DCF	Discount rate[B]	4.49% – 12.25% (9.07%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 311	NAV[A]	N/A	N/A
Other fixed income	Asset-backed term notes	$ 2	Third-party pricing[A]	N/A	N/A
Alternative investments	Fund investments	$ 472	NAV[A]	N/A	N/A
Total		$ 5,198			

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

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.3. Level 3 Significant Inputs (continued)

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

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Private markets					
Real estate	Direct and co-investments	$ 1,529	DCF	Discount rate[B, C]	5.25% – 25.00% (8.27%)
				Terminal capitalization rate[B, C]	4.25% – 14.00% (6.29%)
			Direct capitalization	Capitalization rate[B, D]	3.25% – 7.50% (5.91%)
				Stabilized occupancy rate[D, E]	93.00% – 100.00% (96.84%)
			Sales comparison approach	Price per square foot[D, E]	$25.00 – $665.89 ($170.43)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 105	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	$ 1,169	DCF	Discount rate[B]	5.20% – 12.50% (9.70%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 561	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	$ 21	DCF	Discount rate[B]	3.70% – 13.50% (6.30%)
Private debt securities	Direct and co-investments	$ 132	DCF	Discount rate[B]	8.00% – 13.50% (11.09%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 253	NAV[A]	N/A	N/A
Other fixed income	Asset-backed term notes	$ 51	Third-party pricing[A]	N/A	N/A
Alternative investments	Fund investments	$ 392	NAV[A]	N/A	N/A
Total		$ 4,213			

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

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2017:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains[A]	Closing Balance
Public markets	$ –	$ 19	$ –	$ –	$ –	$ 2	$ 21
Private markets	3,364	716	(199)	–	48	92	4,021
Fixed income	457	380	(141)	(49)	28	9	684
Alternative investments	392	67	(35)	–	4	44	472
Total	**$ 4,213**	**$ 1,182**	**$ (375)**	**$ (49)**	**$ 80**	**$ 147**	**$ 5,198**

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2016:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Closing Balance
Private markets	$ 2,675	$ 686	$ (271)	$ –	$ 68	$ 206	$ 3,364
Fixed income	402	149	(37)	(50)	30	(37)	457
Alternative investments	296	118	(32)	–	5	5	392
Total	$ 3,373	$ 953	$ (340)	$ (50)	$ 103	$ 174	$ 4,213

[A] Includes Plan Account allocation adjustments.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2017 (March 31, 2016 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. Management ensures the appropriateness of the work performed by third-party appraisers as described under Note 4.2.2. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 COLLATERAL PLEDGED AND RECEIVED

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

(Canadian $ millions)	March 31, 2017	March 31, 2016
Securities lending and borrowing		
Securities lent	$ 961	$ 666
Collateral held[A]	1,023	711
Securities borrowed	209	167
Collateral pledged[B]	219	175
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	81	105
Collateral pledged	80	105
Securities purchased under reverse repurchase agreements	193	78
Collateral held[C]	193	78
Derivative contracts		
Collateral pledged	23	21
Collateral held[D]	17	159

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to $368 million for the Plan Account as at March 31, 2017 (March 31, 2016 – $151 million) and securities amounted to $655 million as at March 31, 2017 (March 31, 2016 – $560 million). All cash collateral is reinvested.

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

[C] The collateral received is in the form of securities of which $98 million has been used in connection with short selling transactions as at March 31, 2017 (March 31, 2016 – $33 million) and $15 million has been used in connection with securities sold under repurchase agreements (March 31, 2016 – nil).

[D] As part of collateral held, cash amounted to $1 million as at March 31, 2017 (March 31, 2016 – nil) and securities amounted to $16 million as at March 31, 2017 (March 31, 2016 – $159 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.

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, 2017, 103 investment entity subsidiaries were incorporated in North America, 23 in Europe, 10 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2016 – 102 in North America, 19 in Europe, 10 in Oceania, 4 in Central and South America and 1 in Africa).

In addition, PSP Investments controlled 77 investees directly or through its investment entity subsidiaries as at March 31, 2017 (March 31, 2016 – 73 investees).

6 INTERESTS IN OTHER ENTITIES (continued)

6.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

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

March 31, 2017

Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments**	**Relationship to PSP Investments**
Revera Inc.	**North America**	**100%**	**Controlled investee**
Kaingaroa Timberlands Ltd.	**Oceania**	**56%**	**Jointly controlled investee**
AviAlliance GmbH	**Europe**	**100%**	**Controlled investee**
Roadis Transportation B.V.[A]	**Global**	**100%**	**Controlled investee**
FirstLight Power Resources Holding Inc.	**North America**	**100%**	**Controlled investee**
Roccapina Fund, L.P.	**North America**	**100%**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50%**	**Jointly controlled investee**
Telesat Holdings Inc.	**North America**	**35%**	**Associate**
TDF S.A.S.	**Europe**	**22%**	**Associate**
Big Box Properties	**North America**	**49%**	**Jointly controlled investee**

[A] Formerly Isolux Infrastructure Netherlands B.V.

March 31, 2016

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

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 15 and commitments under Note 16.

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 Investment Risk Management Policy (IRM Policy) supports the management of risk inherent to the investment decision making process. The IRM Policy outlines a framework that is designed to ensure that investment activities respect PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite. The IRM Policy also supplements the 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

Effective April 1, 2016, the absolute annualized volatility of the total portfolio was implemented as the primary measure of market risk. The absolute volatility is a statistical measure of the size of changes in investment returns of a given investment or portfolio of investments. It is used to illustrate the potential loss of value in an investment or portfolio of investments as a result of fluctuations in market prices. Prior to April 1, 2016, PSP Investments used the Value at Risk (VaR) as the primary measure of market risk.

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

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

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

	March 31, 2017	March 31, 2016
Absolute volatility	**7.6%**	8.5%[A]

[A] Since the absolute volatility was used effective April 1, 2016, the market risk measure as at March 31, 2016 was changed in the above table for comparability purposes. Prior to April 1, 2016, PSP Investments used the VaR as the primary measure of market risk. The total portfolio VaR as at March 31, 2016 was 23.6%.

Stress Testing

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.2. Interest Rate Risk

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

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

March 31, 2017

(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	$ –	$ –	$ –	$ –	$ 898[A]	$ 898
Government and corporate bonds	177	684	442	278	–	1,581
Inflation-linked bonds	–	131	208	221	–	560
Private debt securities	6	64	258	–	336[B]	664
Other fixed income securities	1	2	–	–	238[C]	241
Total fixed income	**$ 184**	**$ 881**	**$ 908**	**$ 499**	**$ 1,472**	**$ 3,944**

March 31, 2016

(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	$ –	$ –	$ –	$ –	$ 430[A]	$ 430
Government and corporate bonds	81	706	363	300	–	1,450
Inflation-linked bonds	2	120	179	237	–	538
Private debt securities	–	88	22	–	275[B]	385
Other fixed income securities	53	15	–	–	124[C]	192
Total fixed income	$ 136	$ 929	$ 564	$ 537	$ 829	$ 2,995

[A] Due to their nature, these investments are not significantly exposed to interest rate risk.

[B] 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.

[C] Certain corporate bonds, asset-backed securities and floating rate notes are not significantly exposed to interest rate risk as their prescribed rates are variable.

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

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through 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:

Currency	**March 31, 2017**		March 31, 2016	
(Canadian $ millions)	**Fair Value**	**% of Total**	Fair Value	% of Total
US Dollar	**$ 4,622**	**70.5%**	$ 2,204	60.3%
Euro	**412**	**6.3**	260	7.1
Japanese Yen	**240**	**3.6**	124	3.4
British Pound	**202**	**3.1**	150	4.1
South Korean Won	**174**	**2.6**	156	4.3
Brazilian Real	**148**	**2.3**	113	3.1
Indian Rupee	**89**	**1.4**	72	2.0
Hong Kong Dollar	**86**	**1.3**	131	3.6
Australian Dollar	**85**	**1.3**	45	1.2
Taiwanese New Dollar	**72**	**1.1**	67	1.8
Swiss Franc	**68**	**1.0**	72	2.0
Mexican Peso	**57**	**0.9**	47	1.3
Others	**304**	**4.6**	213	5.8
Total	**$ 6,559**	**100.0%**	$ 3,654	100.0%

As at March 31, 2017, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $1,465 million for the Plan Account (US$909 million, €151 million, £14 million, 2 million South African rands, 4 million Brazilian reals, 983 million Colombian pesos, 17 million Mexican pesos and 9 million Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2016, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $1,440 million for the Plan Account (US$1,011 million, €67 million, £15 million, 13 million South African rands, 6 million Brazilian reals, 1,411 million Colombian pesos and 28 million Mexican pesos) which were not included in the foreign currency exposure table above.

7 INVESTMENT RISK MANAGEMENT (continued)

7.2. CREDIT RISK

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities 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, 2017, the Plan Account's maximum exposure to credit risk amounted to $4 billion (March 31, 2016 – $3 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 15 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:

Credit Rating	2017	2016
AAA-AA	**54.2%**	50.7%
A	**20.0**	27.9
BBB	**4.5**	9.1
BB or below	**19.9**	10.5
No rating[A]	**1.4**	1.8
Total	**100.0%**	100.0%

[A] Includes securities for public issuers and counterparties, that are either not rated by credit rating agencies or rated by a single credit rating agency. ABTNs are rated by a single agency and are classified according to their rating within the table.

7 INVESTMENT RISK MANAGEMENT
(continued)

7.2. CREDIT RISK (continued)

7.2.1. Counterparty Risk

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

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

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

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

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

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

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.2. CREDIT RISK (continued)

7.2.2. Offsetting

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

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

Financial Assets

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set-Off	Net Amount of Financial Assets Presented in the 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, 2017						
Reverse repurchase agreements	**$ 193**	**$ –**	**$ 193[A]**	**$ 15**	**$ 178**	**$ –**
OTC-derivatives	**61**	**–**	**61[B]**	**44**	**13**	**4**
Total	**$ 254**	**$ –**	**$ 254**	**$ 59**	**$ 191**	**$ 4**
March 31, 2016						
Reverse repurchase agreements	$ 78	$ –	$ 78[A]	$ –	$ 78	$ –
OTC-derivatives	231	1	230[B]	69	153	8
Total	$ 309	$ 1	$ 308	$ 69	$ 231	$ 8

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, 2017						
Repurchase agreements	**$ 80**	**$ –**	**$ 80[A]**	**$ 15**	**$ 65**	**$ –**
OTC-derivatives	**59**	**–**	**59[B]**	**44**	**14**	**1**
Total	**$ 139**	**$ –**	**$ 139**	**$ 59**	**$ 79**	**$ 1**
March 31, 2016						
Repurchase agreements	$ 105	$ –	$ 105[A]	$ –	$ 105	$ –
OTC-derivatives	83	1	82[B]	69	13	–
Total	$ 188	$ 1	$ 187	$ 69	$ 118	$ –

[A] As described in Note 4.1.

[B] As described in Note 4.1.11.

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 4.1.11.

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, 2017 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	$ (78)	$ –	$ –	$ (78)
Interest payable	(3)	–	–	(3)
Securities sold short and securities loaned	(676)	–	–	(676)
Securities sold under repurchase agreements	(80)	–	–	(80)
Capital market debt financing	(419)	(90)	(275)	(784)
Trade payable and other liabilities	(11)	–	(5)	(16)
Total	$ (1,267)	$ (90)	$ (280)	$ (1,637)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 18	$ 24	$ 23	$ 65
Derivative-related liabilities[A]	(28)	(13)	(20)	(61)
Total	$ (10)	$ 11	$ 3	$ 4

[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)

Financial Liabilities (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, 2016 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	$ (42)	$ –	$ –	$ (42)
Interest payable	(2)	–	–	(2)
Securities sold short	(194)	–	–	(194)
Securities sold under repurchase agreements	(105)	–	–	(105)
Capital market debt financing	(379)	(146)	(118)	(643)
Trade payable and other liabilities	(9)	–	(4)	(13)
Total	$ (731)	$ (146)	$ (122)	$ (999)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 136	$ 57	$ 39	$ 232
Derivative-related liabilities[A]	(23)	(15)	(46)	(84)
Total	$ 113	$ 42	$ (7)	$ 148

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

8 BORROWINGS

8.1. CREDIT FACILITIES

During the year ended March 31, 2017, PSP Investments entered into 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 the end of the reporting period.

8.2. CAPITAL MARKET DEBT FINANCING

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

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

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2017 and March 31, 2016.

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, 2017		March 31, 2016	
(Canadian $ millions)	**Capital Amounts Payable at Maturity**	**Fair Value**	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.57% and 0.78% and maturing within 26 and 273 days of issuance (March 31, 2016 – 56 and 185 days)	**$ 98**	**$ 98**	$ 88	$ 88
Short-term US Dollar promissory notes, bearing interest between 0.68% and 1.16% and maturing within 30 and 266 days of issuance (March 31, 2016 – 63 and 196 days)	**411**	**411**	357	356
Medium-term notes Series 4, bearing interest of 2.26% per annum and matured on February 16, 2017	**–**	**–**	65	66
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**36**	**38**	36	39
Medium-term notes Series 6, bearing variable interest of 3-month CDOR and matured on April 4, 2016	**–**	**–**	15	15
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**71**	**76**	73	79
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**91**	**90**	–	–
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**71**	**71**	–	–
Total	**$ 778**	**$ 784**	$ 634	$ 643

Unrealized losses in connection with borrowings amounted to $30 million for the year ended March 31, 2017 (unrealized gains of $39 million for the year ended March 31, 2016).

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

(Canadian $ thousands)	**2017**	2016
Short-term promissory notes	**$ 3,657**	$ 1,532
Medium-term notes	**6,055**	6,087
Total	**$ 9,712**	$ 7,619

9 EQUITY

9.1. STATUTORY RIGHTS HELD BY THE GOVERNMENT OF CANADA

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income (loss) to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 12.

9.2. FUND TRANSFERS

PSP Investments received fund transfers from the Government of Canada of $251 million for the year ended March 31, 2017 ($346 million for the year ended March 31, 2016) for the Fund, recorded in the Plan Account.

10 INVESTMENT-RELATED EXPENSES

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

(Canadian $ millions)		2017		2016
Interest expense	**$**	**11**	$	8
Transaction costs		**10**		8
External investment management fees[A]		**2**		3
Other (net)		**3**		1
Total	**$**	**26**	$	20

[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 $11 million for the year ended March 31, 2017 ($5 million for the year ended March 31, 2016). 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 2.0% of the total invested and/or committed amount, totaled $22 million for the year ended March 31, 2017 ($17 million for the year ended March 31, 2016). Such fees are embedded in the fair value of the investments.

11 OPERATING EXPENSES

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

(Canadian $ thousands)		2017		2016
Salaries and employee benefits	**$**	**15,234**	$	12,101
Professional and consulting fees		**4,464**		3,275
Premises and equipment		**1,518**		1,153
Market data and business applications		**1,933**		1,620
Depreciation of equipment		**2,216**		1,872
Custodial fees		**282**		314
Other operating expenses		**1,218**		971
Total	**$**	**26,865**	$	21,306

12 ALLOCATION OF COMPREHENSIVE INCOME (LOSS)

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

12.1. INVESTMENT INCOME

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

12.2. EXPENSES

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

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

	2017	2016
Public Service Pension Plan Account	**72.5%**	72.6%
Canadian Forces Pension Plan Account	**19.7**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.3**	7.2
Reserve Force Pension Plan Account	**0.5**	0.5
Total	**100.0%**	100.0%

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

13 RELATED PARTY TRANSACTIONS

13.1. CERTAIN INVESTEES

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 15 and 16, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income (loss) as those with unrelated parties.

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

13.2. THE GOVERNMENT OF CANADA AND GOVERNMENT-RELATED ENTITIES

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

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the funds transfers outlined in Note 9.2.

(ii) Government-Related Entities

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

13.3. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

(Canadian $ thousands)	**2017**	2016
Short-term compensation and other benefits	**$ 1,167**	$ 1,164
Long-term compensation and other benefits	**572**	264
Total	**$ 1,739**	$ 1,428

As disclosed in Note 15, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

14 CAPITAL MANAGEMENT

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

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

15 GUARANTEES AND INDEMNITIES

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

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

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

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, 2017, 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 $2,077 million as at March 31, 2017 (March 31, 2016 – $1,891 million), of which $151 million has been allocated to the Plan Account (March 31, 2016 – $137 million) plus applicable interest and other related costs. The arrangements mature between May 2017 and September 2028.
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $35 million as at March 31, 2017 (March 31, 2016 – $29 million), of which $3 million has been allocated to the Plan Account (March 31, 2016 – $2 million) in relation to investment transactions.

16 COMMITMENTS

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at March 31:

(Canadian $ millions)	**2017**	2016
Real estate	**$ 205**	$ 176
Private equity	**657**	515
Infrastructure	**272**	290
Natural resources	**55**	62
Private debt securities	**226**	328
Alternative investments	**90**	138
Total	**$ 1,505**	$ 1,509

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2017 (March 31, 2016 – 2032).

Reserve Force Pension Plan Account
FINANCIAL STATEMENTS

Independent Auditors' Report

To the Minister of National Defence

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Sector Pension Investment Board – Reserve Force Pension Plan Account (the Reserve Force Pension Plan Account), which comprise the statements of financial position as at March 31, 2017 and March 31, 2016, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Reserve Force Pension Plan Account as at March 31, 2017 and March 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Other Legal and Regulatory Requirements

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

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

Margaret P.C. Haire

Margaret Haire, CPA, CA
Principal
for the Auditor General of Canada

May 12, 2017
Ottawa, Canada

Deloitte LLP[1]

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

May 12, 2017
Montréal, Canada

Statements of Financial Position

As at

(Canadian $ thousands)	**March 31, 2017**	March 31, 2016
Assets		
Investments (Note 4.1)	**$ 735,238**	$ 626,867
Other assets	**684**	609
Total assets	**$ 735,922**	$ 627,476
Liabilities		
Trade payable and other liabilities	**$ 1,038**	$ 830
Investment-related liabilities (Note 4.1)	**57,285**	27,931
Borrowings (Notes 4.1, 8.2)	**50,035**	42,189
Due to the Public Service Pension Plan Account	**511**	430
Total liabilities	**$ 108,869**	$ 71,380
Net assets	**$ 627,053**	$ 556,096
Equity (Note 9)	**$ 627,053**	$ 556,096
Total liabilities and equity	**$ 735,922**	$ 627,476

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

On behalf of the Board of Directors:

Michael P. Mueller
Chair of the Board

William A. MacKinnon
Chair of the Audit Committee

Statements of Comprehensive Income

For the years ended March 31

(Canadian $ thousands)	2017	2016
Investment income	**$ 74,432**	$ 6,492
Investment-related expenses (Note 10)	**(1,683)**	(1,315)
Net investment income	**$ 72,749**	$ 5,177
Operating expenses (Note 11)	**(1,773)**	(1,446)
Net income	**$ 70,976**	$ 3,731
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability	**(19)**	21
Comprehensive income	**$ 70,957**	$ 3,752

Statements of Changes in Equity

For the years ended March 31

(Canadian $ thousands)	2017	2016
Fund transfers		
Balance at beginning of period	**$ 329,631**	$ 329,631
Fund transfers received during the period (Note 9.2)	**–**	–
Balance at end of period	**$ 329,631**	$ 329,631
Retained earnings		
Balance at beginning of period	**$ 226,465**	$ 222,713
Comprehensive income	**70,957**	3,752
Balance at end of period	**$ 297,422**	$ 226,465
Total equity	**$ 627,053**	$ 556,096

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ thousands)	2017	2016
Cash flows from operating activities		
Net income	$ 70,976	$ 3,731
Adjustments for non-cash items:		
Depreciation of equipment (Note 11)	146	127
Effect of exchange rate changes on cash and cash equivalents	(231)	37
Unrealized losses (gains) on borrowings	1,966	(2,645)
	$ 72,857	$ 1,250
Net changes in operating assets and liabilities		
Increase in investments	$ (97,327)	$ (9,931)
Decrease (increase) in other assets	40	(27)
Increase (decrease) in trade payable and other liabilities	189	(17)
Increase in investment-related liabilities	29,354	2,938
Net cash flows provided by (used in) operating activities	$ 5,113	$ (5,787)
Cash flow from financing activities		
Proceeds from borrowings	$ 102,174	$ 99,550
Repayment of borrowings	(96,294)	(91,313)
Repayment to the Public Service Pension Plan Account	(2,023)	(1,874)
Advances from the Public Service Pension Plan Account	2,104	1,910
Net cash flows provided by financing activities	$ 5,961	$ 8,273
Cash flow from investing activities		
Acquisitions of equipment	$ (218)	$ (133)
Net cash flows used in investing activities	$ (218)	$ (133)
Net change in cash and cash equivalents	$ 10,856	$ 2,353
Effect of exchange rate changes on cash and cash equivalents	231	(37)
Cash and cash equivalents at the beginning of the period	6,615	4,299
Cash and cash equivalents at the end of the period[A]	$ 17,702	$ 6,615
Supplementary disclosure of cash flow information		
Interest paid	$ (652)	$ (593)

[A] As at March 31, 2017, cash and cash equivalents were comprised of $17,616 thousand (March 31, 2016 – $6,572 thousand) held for investment purposes and included in Note 4.1, as well as $86 thousand (March 31, 2016 – $43 thousand) held for administrative purposes and included in Other assets.

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

Notes to the Financial Statements

For the years ended March 31, 2017 and 2016

1 CORPORATE INFORMATION

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

The fund for which amounts are currently transferred to PSP Investments by the Government of Canada (the "Fund") relates to pension obligations under the Plan for service on or after March 1, 2007 ("Post-2007 Service"). The account managed by PSP Investments for the Fund is herein referred to as the "Plan Account". PSP Investments maintains records of the net contributions for the Fund, as well as the allocation of its investments and the results of its operations for the Fund in the Plan Account. PSP Investments also manages a plan account for the funds of the other Plans, and these and the Plan Account are collectively referred to herein as the "Plan Accounts".

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

Pursuant to the CFSA and the CFSA Regulations, the Government of Canada, which administers the Plan and the Fund, may at any time call upon the net assets of PSP Investments allocated to the Fund's Plan Account for amounts required for the purpose of paying benefits under the Plan in respect of Post-2007 Service.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1. BASIS OF PRESENTATION

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

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

These Financial Statements present the Plan Account's financial position and results of operations of PSP Investments and its subsidiaries that solely provide it with services that relate to its investment activities, as allocated to the Plan Account. They reflect the economic activity of PSP Investments as it pertains to the investment of the net contributions transferred to it for the Fund in respect of Post-2007 Service. Accordingly, they do not reflect all of the assets or the details of the pension contributions, payments and liabilities under the Plan.

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 12, 2017.

2 SIGNIFICANT ACCOUNTING POLICIES
(continued)

2.2. INVESTMENT ENTITY STATUS

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

(i) Mandate and business purpose

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

(ii) Performance evaluation

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

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

As described in Note 13, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

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

2.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.3.1. Financial Instruments

(i) Classification

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

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

(ii) Recognition

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

(iii) Initial and subsequent measurement

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

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

(iv) Derecognition

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

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

and

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.2. Determination of Fair Value

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

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

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

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

2.3.3. Functional and Presentation Currency

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

2.3.4. Foreign Currency Translation

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

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

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

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

PSP Investments participates in securities lending and borrowing programs whereby it lends and borrows securities in order to enhance portfolio returns. Lending and borrowing transactions including related collateral under such programs do not transfer the risks or rewards of ownership of the securities to the counterparty. Consequently, PSP Investments does not derecognize securities lent or pledged as collateral, or recognize securities borrowed or received as collateral. Cash collateral received is recognized as described in Note 4.1.8.

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. In the case where PSP Investments is the counterparty purchasing securities under such agreements, no income (loss) related to such securities is recognized and obligations to resell the securities are accounted for as investment-related receivables. The difference between the fair value of the securities purchased and resale price is recorded in investment income.

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3.7. Offsetting of Financial Instruments

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

2.3.8. Equity

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

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

2.3.9. Investment Income

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

2.3.10. Investment-Related Expenses

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

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

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets and other fixed income securities as outlined in Note 10.

2.3.11. Fund Transfers

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

2.4. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

3 CURRENT AND FUTURE CHANGES IN ACCOUNTING STANDARDS

3.1. ACCOUNTING STANDARDS ADOPTED IN THE CURRENT YEAR

IFRS 11 Joint Arrangements

IFRS 11 was amended, effective for annual periods beginning on or after January 1, 2016, to add new guidance on the accounting for acquisitions of interests in a joint operation that constitutes a business. Acquirers of such interests shall apply all of the principles in business combinations accounting in IFRS 3 *Business Combinations*, and other IFRS, that do not conflict with the guidance in IFRS 11 and disclose the information that is required in those IFRS in relation to business combinations. On April 1, 2016, PSP Investments adopted this amendment with no impact on the presentation of the Financial Statements.

3.2. ACCOUNTING STANDARDS ADOPTED BEFORE THE EFFECTIVE DATE

IFRS 9 Financial Instruments

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

PSP Investments initially adopted IFRS 9 (2014) in its Consolidated Financial Statements for the year ended March 31, 2016. Significant accounting policies in connection with IFRS 9 are described under Note 2.3.1.

3.3. FUTURE ACCOUNTING STANDARDS

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

IAS 7 Statement of Cash Flows

IAS 7 was amended, effective for annual periods beginning on or after January 1, 2017, to add new guidance on disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. PSP Investments will apply the amendments starting from April 1, 2017 and will make the required note disclosures in the Financial Statements.

IAS 28 Investment in Associates and Joint Ventures

IAS 28 was amended, effective for annual periods beginning on or after January 1, 2018, to add a clarification that serves to elaborate and clarify that the election to measure investees at fair value is available on an investment by investment basis and is not an election that must be applied consistently to the measurement of all associates and joint ventures. Management has determined that the amendment will not have an impact on the Financial Statements.

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, 2017**	March 31, 2016
Public markets		
Canadian equity	**$ 29,437**	$ 30,357
Foreign equity	**136,594**	124,023
Private markets		
Real estate	**112,682**	107,144
Private equity	**63,047**	53,619
Infrastructure	**61,130**	45,294
Natural resources	**19,766**	14,457
Fixed income		
Cash and money market securities	**57,264**	28,205
Government and corporate bonds	**100,903**	95,059
Inflation-linked bonds	**35,760**	35,296
Private debt securities[A]	**42,370**	25,273
Other fixed income securities[A]	**15,358**	12,570
Alternative investments	**37,107**	31,587
	$ 711,418	$ 602,884
Investment-related assets		
Amounts receivable from pending trades	**$ 5,306**	$ 2,101
Interest receivable	**1,473**	1,067
Dividends receivable	**614**	494
Securities purchased under reverse repurchase agreements	**12,284**	5,103
Derivative-related assets	**4,143**	15,218
	$ 23,820	$ 23,983
Investments representing financial assets at FVTPL	**$ 735,238**	$ 626,867
Investment-related liabilities		
Amounts payable from pending trades	**$ (4,981)**	$ (2,747)
Interest payable	**(178)**	(126)
Securities sold short and securities loaned	**(43,117)**	(12,682)
Securities sold under repurchase agreements	**(5,127)**	(6,852)
Derivative-related liabilities	**(3,882)**	(5,524)
Investment-related liabilities representing financial liabilities at FVTPL	**$ (57,285)**	$ (27,931)
Borrowings		
Capital market debt financing	**$ (50,035)**	$ (42,189)
Borrowings representing financial liabilities designated at FVTPL	**$ (50,035)**	$ (42,189)
Net investments	**$ 627,918**	$ 556,747

[A] During the year ended March 31, 2017, private debt securities were reclassified out of other fixed income securities and into a standalone caption in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted to decrease other fixed income securities by $25,273 thousand and increase private debt securities by the same amount. Notes 4.2.1 and 4.2.3 were adjusted similarly.

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 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.2. Private Markets

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

Real estate investments are comprised of direct equity positions in various private entities, fund investments, as well as properties in the real estate sector. Real estate investments focus on partnerships, companies and properties operating mainly in the retirement and residential, office, retail, and industrial sectors, as well as private funds invested in real estate assets. Real estate investments are presented net of all third-party financing. As at March 31, 2017, leverage in the form of third-party financing undertaken by investment entity subsidiaries and direct real estate investments controlled by PSP Investments was $32,211 thousand for the Plan Account (March 31, 2016 – $29,962 thousand).

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

Infrastructure investments are comprised of direct equity positions, fund investments and co-investments in various private entities. Infrastructure investments focus on entities engaged in the management, ownership or operation of assets in energy, transportation and other regulated businesses. Infrastructure investments are presented net of all third-party financing. As at March 31, 2017, leverage in the form of third-party financing undertaken by direct infrastructure investments controlled by PSP Investments was $18,271 thousand for the Plan Account (March 31, 2016 – $7,596 thousand).

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

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

4.1.3. Fixed Income

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

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. 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 $17,616 thousand as at March 31, 2017 (March 31, 2016 – $6,572 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. 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.

Other fixed income securities consist of asset-backed securities and floating rate notes.

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

Asset-backed securities consist mainly of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009.

The fair values of certain corporate bonds, private debt securities and ABTNs 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 approximates fair value.

4.1.7. Interest Payable

With respect to the borrowings described in Note 4.1.10, interest is accrued at the amount expected to be paid at the end of the reporting period, which approximates fair value.

4.1.8. Securities Sold Short and Securities Loaned

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.

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

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

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

4.1.10. Borrowings under the Capital Market Debt Program

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

Options are 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, or commodity, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

Warrants and Rights

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

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

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)

4.1.11. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2017			March 31, 2016		
		Fair Value			Fair Value	
(Canadian $ thousands)	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	$ 6,500	$ –	$ –	$ 3,193	$ –	$ –
Warrants and rights	15	36	–	13	18	–
Options: Purchased	17,921	145	–	7,179	94	–
Written	15,017	–	(127)	6,659	–	(108)
OTC						
Total return swaps	133,951	1,172	(500)	99,528	4,512	(159)
Variance swaps	18	19	(23)	–	–	–
Options: Purchased	8,833	226	–	27,749	314	–
Written	8,595	–	(207)	28,009	–	(257)
Currency derivatives						
Listed						
Futures	635	–	–	835	–	–
OTC						
Forwards	130,338	459	(1,405)	207,353	8,074	(1,114)
Swaps	21,254	76	(202)	15,496	89	(1,508)
Options: Purchased	44,448	413	–	41,865	492	–
Written	45,158	–	(320)	51,214	–	(415)
Interest rate derivatives						
Listed						
Futures	36,755	–	–	35,621	–	–
Options: Purchased	159,257	27	–	11,304	3	–
Written	175,745	–	(13)	97,572	–	(11)
OTC						
Bond forwards	–	–	–	1,556	5	–
Interest rate swaps	57,526	728	(440)	53,533	773	(942)
Inflation swaps	–	–	–	2,586	17	(27)
Swaptions	130,215	662	(425)	138,760	725	(720)
Options: Purchased	105,736	162	–	40,333	46	–
Written	146,482	–	(138)	60,198	–	(57)
OTC-cleared						
Interest rate swaps	181,025	–	–	37,889	–	–
Inflation swaps	289	–	–	–	–	–
Credit derivatives[A]						
OTC						
Credit default swaps: Purchased	5,029	–	(82)	8,551	42	(111)
Sold	1,374	18	–	2,451	14	(95)
OTC-cleared						
Credit default swaps: Purchased	3,846	–	–	2,992	–	–
Sold	5,494	–	–	6,870	–	–
Total		$ 4,143	$ (3,882)		$ 15,218	$ (5,524)

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

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

4.1.11. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2017			March 31, 2016		
		Fair Value			Fair Value	
(Canadian $ thousands)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**$ 411,845**	**$ 208**	**$ (140)**	$ 162,376	$ 115	$ (119)
OTC derivatives	**838,957**	**3,935**	**(3,742)**	779,182	15,103	(5,405)
OTC-cleared derivatives	**190,654**	**–**	**–**	47,751	–	–
Total		**$ 4,143**	**$ (3,882)**		$ 15,218	$ (5,524)

The term to maturity based on notional value for the derivatives was as follows as at March 31:

(Canadian $ thousands)	**2017**	2016
Less than 3 months	**$ 512,228**	$ 457,308
3 to 12 months	**478,776**	267,966
Over 1 year	**450,452**	264,035

4.2. FAIR VALUE HIERARCHY

4.2.1. Classification

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
  (i) Quoted prices for similar assets or liabilities in active markets.
  (ii) Quoted prices for identical or similar assets 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, 2017 classified within the fair value hierarchy:

(Canadian $ thousands)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 25,348	$ 4,089	$ –	$ 29,437
Foreign equity	119,117	16,110	1,367	136,594
Private markets				
Real estate	–	–	112,682	112,682
Private equity	–	–	63,047	63,047
Infrastructure	–	–	61,130	61,130
Natural resources	–	–	19,766	19,766
Fixed income				
Cash and money market securities	–	57,264	–	57,264
Government and corporate bonds	–	99,713	1,190	100,903
Inflation-linked bonds	–	35,760	–	35,760
Private debt securities	–	–	42,370	42,370
Other fixed income securities	–	15,280	78	15,358
Alternative investments	–	7,058	30,049	37,107
	$ 144,465	$ 235,274	$ 331,679	$ 711,418
Investment-related assets				
Amounts receivable from pending trades	$ –	$ 5,306	$ –	$ 5,306
Interest receivable	–	1,473	–	1,473
Dividends receivable	–	614	–	614
Securities purchased under reverse repurchase agreements	–	12,284	–	12,284
Derivative-related assets	208	3,935	–	4,143
	$ 208	$ 23,612	$ –	$ 23,820
Investments representing financial assets at FVTPL	$ 144,673	$ 258,886	$ 331,679	$ 735,238
Investment-related liabilities				
Amounts payable from pending trades	$ –	$ (4,981)	$ –	$ (4,981)
Interest payable	–	(178)	–	(178)
Securities sold short and securities loaned	(13,275)	(29,842)	–	(43,117)
Securities sold under repurchase agreements	–	(5,127)	–	(5,127)
Derivative-related liabilities	(140)	(3,742)	–	(3,882)
Investment-related liabilities representing financial liabilities at FVTPL	$ (13,415)	$ (43,870)	$ –	$ (57,285)
Borrowings				
Capital market debt financing	$ –	$ (50,035)	$ –	$ (50,035)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (50,035)	$ –	$ (50,035)
Net investments	$ 131,258	$ 164,981	$ 331,679	$ 627,918

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2016 classified within the fair value hierarchy:

(Canadian $ thousands)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	$ 26,904	$ 3,453	$ –	$ 30,357
Foreign equity	102,414	21,609	–	124,023
Private markets				
Real estate	–	–	107,144	107,144
Private equity	–	–	53,619	53,619
Infrastructure	–	–	45,294	45,294
Natural resources	–	–	14,457	14,457
Fixed income				
Cash and money market securities	–	28,205	–	28,205
Government and corporate bonds	–	93,713	1,346	95,059
Inflation-linked bonds	–	35,296	–	35,296
Private debt securities	–	–	25,273	25,273
Other fixed income securities	–	9,223	3,347	12,570
Alternative investments	–	5,856	25,731	31,587
	$ 129,318	$ 197,355	$ 276,211	$ 602,884
Investment-related assets				
Amounts receivable from pending trades	$ –	$ 2,101	$ –	$ 2,101
Interest receivable	–	1,067	–	1,067
Dividends receivable	–	494	–	494
Securities purchased under reverse repurchase agreements	–	5,103	–	5,103
Derivative-related assets	115	15,103	–	15,218
	$ 115	$ 23,868	$ –	$ 23,983
Investments representing financial assets at FVTPL	$ 129,433	$ 221,223	$ 276,211	$ 626,867
Investment-related liabilities				
Amounts payable from pending trades	$ –	$ (2,747)	$ –	$ (2,747)
Interest payable	–	(126)	–	(126)
Securities sold short	(10,521)	(2,161)	–	(12,682)
Securities sold under repurchase agreements	–	(6,852)	–	(6,852)
Derivative-related liabilities	(119)	(5,405)	–	(5,524)
Investment-related liabilities representing financial liabilities at FVTPL	$ (10,640)	$ (17,291)	$ –	$ (27,931)
Borrowings				
Capital market debt financing	$ –	$ (42,189)	$ –	$ (42,189)
Borrowings representing financial liabilities designated at FVTPL	$ –	$ (42,189)	$ –	$ (42,189)
Net investments	$ 118,793	$ 161,743	$ 276,211	$ 556,747

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2017:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ thousands)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Foreign equity	Direct investments	$ 1,367	Net asset value method (NAV)[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	$ 106,099	Discounted cash flow (DCF)	Discount rate[B, C]	4.50% – 25.00% (8.06%)
				Terminal capitalization rate[B, C]	4.25% – 10.25% (6.04%)
			Direct capitalization	Capitalization rate[B, D]	2.75% – 8.00% (5.69%)
				Stabilized occupancy rate[D, E]	94.00% – 100.00% (97.77%)
			Sales comparison approach	Price per square foot[D, E]	$2.82 – $1,115.10 ($153.82)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 6,583	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	$ 100,187	DCF	Discount rate[B]	5.91% – 12.70% (9.36%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 43,756	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	$ 1,190	DCF	Discount rate[B]	3.90% – 14.10% (7.50%)
Private debt securities	Direct and co-investments	$ 22,503	DCF	Discount rate[B]	4.49% – 12.25% (9.07%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 19,867	NAV[A]	N/A	N/A
Other fixed income	Asset-backed term notes	$ 78	Third-party pricing[A]	N/A	N/A
Alternative investments	Fund investments	$ 30,049	NAV[A]	N/A	N/A
Total		$ 331,679			

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

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.3. Level 3 Significant Inputs (continued)

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

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ thousands)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Private markets					
Real estate	Direct and co-investments	$ 100,259	DCF	Discount rate[B, C]	5.25% – 25.00% (8.27%)
				Terminal capitalization rate[B, C]	4.25% – 14.00% (6.29%)
			Direct capitalization	Capitalization rate[B, D]	3.25% – 7.50% (5.91%)
				Stabilized occupancy rate[D, E]	93.00% – 100.00% (96.84%)
			Sales comparison approach	Price per square foot[D, E]	$25.00 – $665.89 ($170.43)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 6,885	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	$ 76,642	DCF	Discount rate[B]	5.20% – 12.50% (9.70%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 36,728	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	$ 1,346	DCF	Discount rate[B]	3.70% – 13.50% (6.30%)
Private debt securities	Direct and co-investments	$ 8,642	DCF	Discount rate[B]	8.00% – 13.50% (11.09%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	$ 16,631	NAV[A]	N/A	N/A
Other fixed income	Asset-backed term notes	$ 3,347	Third-party pricing[A]	N/A	N/A
Alternative investments	Fund investments	$ 25,731	NAV[A]	N/A	N/A
Total		$ 276,211			

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

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

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

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

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

4 FINANCIAL ASSETS AND FINANCIAL LIABILITIES (continued)

4.2. FAIR VALUE HIERARCHY (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2017:

(Canadian $ thousands)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Closing Balance
Public markets	$ –	$ 1,224	$ –	$ –	$ –	$ 143	$ 1,367
Private markets	220,514	46,188	(12,822)	–	3,117	(372)	256,625
Fixed income	29,966	24,499	(9,130)	(3,163)	1,805	(339)	43,638
Alternative investments	25,731	4,293	(2,247)	–	246	2,026	30,049
Total	**$ 276,211**	**$ 76,204**	**$ (24,199)**	**$ (3,163)**	**$ 5,168**	**$ 1,458**	**$ 331,679**

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2016:

(Canadian $ thousands)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Closing Balance
Private markets	$ 183,000	$ 46,164	$ (18,290)	$ –	$ 4,592	$ 5,048	$ 220,514
Fixed income	27,478	10,027	(2,498)	(3,402)	2,039	(3,678)	29,966
Alternative investments	20,254	7,941	(2,128)	–	317	(653)	25,731
Derivative-related assets/liabilities (net)	(33)	–	–	(12)	12	33	–
Total	$ 230,699	$ 64,132	$ (22,916)	$ (3,414)	$ 6,960	$ 750	$ 276,211

[A] Includes Plan Account allocation adjustments.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2017 (March 31, 2016 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes private debt investments in the real estate sector and certain fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. With respect to private debt investments in the real estate sector, the fair value is obtained from third-party appraisers. Management ensures the appropriateness of the work performed by third-party appraisers as described under Note 4.2.2. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 COLLATERAL PLEDGED AND RECEIVED

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

(Canadian $ thousands)	**March 31, 2017**	March 31, 2016
Securities lending and borrowing		
Securities lent	**$ 61,305**	$ 43,678
Collateral held[A]	**65,297**	46,628
Securities borrowed	**13,342**	10,915
Collateral pledged[B]	**13,987**	11,466
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**5,139**	6,877
Collateral pledged	**5,134**	6,851
Securities purchased under reverse repurchase agreements	**12,320**	5,103
Collateral held[C]	**12,291**	5,103
Derivative contracts		
Collateral pledged	**1,429**	1,370
Collateral held[D]	**1,056**	10,395

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to $23,522 thousand for the Plan Account as at March 31, 2017 (March 31, 2016 – $9,930 thousand) and securities amounted to $41,775 thousand as at March 31, 2017 (March 31, 2016 – $36,698 thousand). All cash collateral is reinvested.

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

[C] The collateral received is in the form of securities of which $6,273 thousand has been used in connection with short selling transactions as at March 31, 2017 (March 31, 2016 – $2,161 thousand) and $960 thousand has been used in connection with securities sold under repurchase agreements (March 31, 2016 – nil).

[D] As part of collateral held, cash amounted to $47 thousand as at March 31, 2017 (March 31, 2016 – nil) and securities amounted to $1,009 thousand as at March 31, 2017 (March 31, 2016 – $10,395 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.

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, 2017, 103 investment entity subsidiaries were incorporated in North America, 23 in Europe, 10 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2016 – 102 in North America, 19 in Europe, 10 in Oceania, 4 in Central and South America and 1 in Africa).

In addition, PSP Investments controlled 77 investees directly or through its investment entity subsidiaries as at March 31, 2017 (March 31, 2016 – 73 investees).

6 INTERESTS IN OTHER ENTITIES (continued)

6.1. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES (continued)

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

March 31, 2017

Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments**	**Relationship to PSP Investments**
Revera Inc.	**North America**	**100%**	**Controlled investee**
Kaingaroa Timberlands Ltd.	**Oceania**	**56%**	**Jointly controlled investee**
AviAlliance GmbH	**Europe**	**100%**	**Controlled investee**
Roadis Transportation B.V.[A]	**Global**	**100%**	**Controlled investee**
FirstLight Power Resources Holding Inc.	**North America**	**100%**	**Controlled investee**
Roccapina Fund, L.P.	**North America**	**100%**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50%**	**Jointly controlled investee**
Telesat Holdings Inc.	**North America**	**35%**	**Associate**
TDF S.A.S.	**Europe**	**22%**	**Associate**
Big Box Properties	**North America**	**49%**	**Jointly controlled investee**

[A] Formerly Isolux Infrastructure Netherlands B.V.

March 31, 2016

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

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 15 and commitments under Note 16.

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 Investment Risk Management Policy (IRM Policy) supports the management of risk inherent to the investment decision making process. The IRM Policy outlines a framework that is designed to ensure that investment activities respect PSP Investments' risk philosophy and align with the tolerance and limits of its risk appetite. The IRM Policy also supplements the 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

Effective April 1, 2016, the absolute annualized volatility of the total portfolio was implemented as the primary measure of market risk. The absolute volatility is a statistical measure of the size of changes in investment returns of a given investment or portfolio of investments. It is used to illustrate the potential loss of value in an investment or portfolio of investments as a result of fluctuations in market prices. Prior to April 1, 2016, PSP Investments used the Value at Risk (VaR) as the primary measure of market risk.

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

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

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

	March 31, 2017	March 31, 2016
Absolute volatility	**7.6%**	8.5%[A]

[A] Since the absolute volatility was used effective April 1, 2016, the market risk measure as at March 31, 2016 was changed in the above table for comparability purposes. Prior to April 1, 2016, PSP Investments used the VaR as the primary measure of market risk. The total portfolio VaR as at March 31, 2016 was 23.6%.

Stress Testing

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.2. Interest Rate Risk

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

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

March 31, 2017

(Canadian $ thousands)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	$ –	$ –	$ –	$ –	$ 57,264[A]	$ 57,264
Government and corporate bonds	11,312	43,657	28,212	17,722	–	100,903
Inflation-linked bonds	21	8,392	13,270	14,077	–	35,760
Private debt securities	368	4,138	16,448	–	21,416[B]	42,370
Other fixed income securities	78	100	–	–	15,180[C]	15,358
Total fixed income	**$ 11,779**	**$ 56,287**	**$ 57,930**	**$ 31,799**	**$ 93,860**	**$ 251,655**

March 31, 2016

(Canadian $ thousands)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	$ –	$ –	$ –	$ –	$ 28,205[A]	$ 28,205
Government and corporate bonds	5,271	46,338	23,773	19,677	–	95,059
Inflation-linked bonds	115	7,864	11,752	15,565	–	35,296
Private debt securities	23	5,784	1,470	–	17,996[B]	25,273
Other fixed income securities	3,463	956	5	–	8,146[C]	12,570
Total fixed income	$ 8,872	$ 60,942	$ 37,000	$ 35,242	$ 54,347	$ 196,403

[A] Due to their nature, these investments are not significantly exposed to interest rate risk.

[B] 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.

[C] Certain corporate bonds, asset-backed securities and floating rate notes are not significantly exposed to interest rate risk as their prescribed rates are variable.

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

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.1. MARKET RISK (continued)

7.1.3. Foreign Currency Risk

PSP Investments is exposed to currency risk through 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:

Currency	March 31, 2017		March 31, 2016	
(Canadian $ thousands)	Fair Value	% of Total	Fair Value	% of Total
US Dollar	$ 294,912	70.5%	$ 144,548	60.3%
Euro	26,283	6.3	17,072	7.1
Japanese Yen	15,285	3.6	8,107	3.4
British Pound	12,875	3.1	9,799	4.1
South Korean Won	11,082	2.6	10,228	4.3
Brazilian Real	9,444	2.3	7,412	3.1
Indian Rupee	5,713	1.4	4,749	2.0
Hong Kong Dollar	5,528	1.3	8,571	3.6
Australian Dollar	5,404	1.3	2,968	1.2
Taiwanese New Dollar	4,613	1.1	4,332	1.8
Swiss Franc	4,307	1.0	4,733	2.0
Mexican Peso	3,662	0.9	3,088	1.3
Others	19,425	4.6	13,955	5.8
Total	**$ 418,533**	**100.0%**	$ 239,562	100.0%

As at March 31, 2017, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $93,453 thousand for the Plan Account (US$58,020 thousand, €9,667 thousand, £879 thousand, 102 thousand South African rands, 268 thousand Brazilian reals, 62,746 thousand Colombian pesos, 1,074 thousand Mexican pesos and 582 thousand Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2016, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $94,373 thousand for the Plan Account (US$66,260 thousand, €4,383 thousand, £973 thousand, 865 thousand South African rands, 395 thousand Brazilian reals, 92,544 thousand Colombian pesos and 1,862 thousand Mexican pesos) which were not included in the foreign currency exposure table above.

7 INVESTMENT RISK MANAGEMENT
(continued)

7.2. CREDIT RISK

PSP Investments is exposed to credit risk, which is the risk of non-performance of a debtor on whom PSP Investments relies to fulfill contractual or financial obligations. That is, the risk that the issuer of a debt security or that the counterparty to a derivative contract, to a securities lending and borrowing transaction or to securities 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, 2017, the Plan Account's maximum exposure to credit risk amounted to $256 million (March 31, 2016 – $212 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 15 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:

Credit Rating	**2017**	2016
AAA-AA	**54.2%**	50.7%
A	**20.0**	27.9
BBB	**4.5**	9.1
BB or below	**19.9**	10.5
No rating[A]	**1.4**	1.8
Total	**100.0%**	100.0%

[A] Includes securities for public issuers and counterparties, that are either not rated by credit rating agencies or rated by a single credit rating agency. ABTNs are rated by a single agency and are classified according to their rating within the table.

7 INVESTMENT RISK MANAGEMENT (continued)

7.2. CREDIT RISK (continued)

7.2.1. Counterparty Risk

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

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

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

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

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

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

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

7 INVESTMENT RISK MANAGEMENT (continued)

7.2. CREDIT RISK (continued)

7.2.2. Offsetting

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

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

Financial Assets

(Canadian $ thousands)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set-Off	Net Amount of Financial Assets Presented in the 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, 2017						
Reverse repurchase agreements	**$ 12,284**	**$ –**	**$ 12,284[A]**	**$ 957**	**$ 11,327**	**$ –**
OTC-derivatives	**3,964**	**29**	**3,935[B]**	**2,821**	**807**	**307**
Total	**$ 16,248**	**$ 29**	**$ 16,219**	**$ 3,778**	**$ 12,134**	**$ 307**
March 31, 2016						
Reverse repurchase agreements	$ 5,103	$ –	$ 5,103[A]	$ –	$ 5,103	$ –
OTC-derivatives	15,148	45	15,103[B]	4,543	10,016	544
Total	$ 20,251	$ 45	$ 20,206	$ 4,543	$ 15,119	$ 544

Financial Liabilities

(Canadian $ thousands)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set-Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts Not Set-Off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2017						
Repurchase agreements	**$ 5,127**	**$ –**	**$ 5,127[A]**	**$ 957**	**$ 4,170**	**$ –**
OTC-derivatives	**3,771**	**29**	**3,742[B]**	**2,821**	**853**	**68**
Total	**$ 8,898**	**$ 29**	**$ 8,869**	**$ 3,778**	**$ 5,023**	**$ 68**
March 31, 2016						
Repurchase agreements	$ 6,852	$ –	$ 6,852[A]	$ –	$ 6,851	$ 1
OTC-derivatives	5,450	45	5,405[B]	4,543	849	13
Total	$ 12,302	$ 45	$ 12,257	$ 4,543	$ 7,700	$ 14

[A] As described in Note 4.1.

[B] As described in Note 4.1.11.

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 4.1.11.

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, 2017 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	$ (4,981)	$ –	$ –	$ (4,981)
Interest payable	(169)	(9)	–	(178)
Securities sold short and securities loaned	(43,117)	–	–	(43,117)
Securities sold under repurchase agreements	(5,127)	–	–	(5,127)
Capital market debt financing	(26,721)	(5,740)	(17,574)	(50,035)
Trade payable and other liabilities	(690)	(11)	(337)	(1,038)
Total	$ (80,805)	$ (5,760)	$ (17,911)	$ (104,476)

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 1,091	$ 1,561	$ 1,491	$ 4,143
Derivative-related liabilities[A]	(1,816)	(832)	(1,234)	(3,882)
Total	$ (725)	$ 729	$ 257	$ 261

[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)

Financial Liabilities (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, 2016 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	$ (2,747)	$ –	$ –	$ (2,747)
Interest payable	(115)	(11)	–	(126)
Securities sold short	(12,682)	–	–	(12,682)
Securities sold under repurchase agreements	(6,852)	–	–	(6,852)
Capital market debt financing	(24,837)	(9,611)	(7,741)	(42,189)
Trade payable and other liabilities	(544)	(10)	(276)	(830)
Total	$ (47,777)	$ (9,632)	$ (8,017)	$ (65,426)

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	$ 8,873	$ 3,759	$ 2,586	$ 15,218
Derivative-related liabilities[A]	(1,495)	(962)	(3,067)	(5,524)
Total	$ 7,378	$ 2,797	$ (481)	$ 9,694

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

8 BORROWINGS

8.1. CREDIT FACILITIES

During the year ended March 31, 2017, PSP Investments entered into 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 the end of the reporting period.

8.2. CAPITAL MARKET DEBT FINANCING

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

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

PSP Investments' capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2017 and March 31, 2016.

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, 2017		March 31, 2016	
(Canadian $ thousands)	**Capital Amounts Payable at Maturity**	**Fair Value**	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.57% and 0.78% and maturing within 26 and 273 days of issuance (March 31, 2016 – 56 and 185 days)	**$ 6,241**	**$ 6,232**	$ 5,801	$ 5,792
Short-term US Dollar promissory notes, bearing interest between 0.68% and 1.16% and maturing within 30 and 266 days of issuance (March 31, 2016 – 63 and 196 days)	**26,258**	**26,229**	23,381	23,360
Medium-term notes Series 4, bearing interest of 2.26% per annum and matured on February 16, 2017	**–**	**–**	4,290	4,343
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**2,315**	**2,443**	2,383	2,559
Medium-term notes Series 6, bearing variable interest of 3-month CDOR and matured on April 4, 2016	**–**	**–**	953	953
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**4,560**	**4,908**	4,767	5,182
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**5,787**	**5,725**	–	–
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**4,491**	**4,498**	–	–
Total	**$ 49,652**	**$ 50,035**	$ 41,575	$ 42,189

Unrealized losses in connection with borrowings amounted to $1,966 thousand for the year ended March 31, 2017 (unrealized gains of $2,645 thousand for the year ended March 31, 2016).

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

(Canadian $ thousands)	**2017**	2016
Short-term promissory notes	**$ 235**	$ 102
Medium-term notes	**390**	407
Total	**$ 625**	$ 509

9 EQUITY

9.1. STATUTORY RIGHTS HELD BY THE GOVERNMENT OF CANADA

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income (loss) to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 12.

9.2. FUND TRANSFERS

PSP Investments did not receive any fund transfers from the Government of Canada for the year ended March 31, 2017 (no transfers for the year ended March 31, 2016) for the Fund.

10 INVESTMENT-RELATED EXPENSES

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

(Canadian $ thousands)		2017		2016
Interest expense	**$**	**704**	$	559
Transaction costs		**624**		499
External investment management fees[A]		**152**		173
Other (net)		**203**		84
Total	**$**	**1,683**	$	1,315

[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 $703 thousand for the year ended March 31, 2017 ($289 thousand for the year ended March 31, 2016). 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 2.0% of the total invested and/or committed amount, totaled $1,371 thousand for the year ended March 31, 2017 ($1,140 thousand for the year ended March 31, 2016). Such fees are embedded in the fair value of the investments.

11 OPERATING EXPENSES

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

(Canadian $ thousands)		2017		2016
Salaries and employee benefits	**$**	**1,005**	$	821
Professional and consulting fees		**295**		222
Premises and equipment		**100**		78
Market data and business applications		**128**		110
Depreciation of equipment		**146**		127
Custodial fees		**19**		22
Other operating expenses		**80**		66
Total	**$**	**1,773**	$	1,446

12 ALLOCATION OF COMPREHENSIVE INCOME (LOSS)

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

12.1. INVESTMENT INCOME

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

12.2. EXPENSES

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

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

	2017	2016
Public Service Pension Plan Account	**72.5%**	72.6%
Canadian Forces Pension Plan Account	**19.7**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.3**	7.2
Reserve Force Pension Plan Account	**0.5**	0.5
Total	**100.0%**	100.0%

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

13 RELATED PARTY TRANSACTIONS

13.1. CERTAIN INVESTEES

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 15 and 16, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income (loss) as those with unrelated parties.

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

13.2. THE GOVERNMENT OF CANADA AND GOVERNMENT-RELATED ENTITIES

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

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the funds transfers outlined in Note 9.2.

(ii) Government-Related Entities

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

13.3. COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

(Canadian $ thousands)	**2017**	2016
Short-term compensation and other benefits	**$ 76**	$ 80
Long-term compensation and other benefits	**38**	18
Total	**$ 114**	$ 98

As disclosed in Note 15, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

14 CAPITAL MANAGEMENT

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

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

15 GUARANTEES AND INDEMNITIES

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

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

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

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, 2017, 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 $2,077 million as at March 31, 2017 (March 31, 2016 – $1,891 million), of which $9,618 thousand has been allocated to the Plan Account (March 31, 2016 – $9,016 thousand) plus applicable interest and other related costs. The arrangements mature between May 2017 and September 2028.
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $35 million as at March 31, 2017 (March 31, 2016 – $29 million), of which $163 thousand has been allocated to the Plan Account (March 31, 2016 – $137 thousand) in relation to investment transactions.

16 COMMITMENTS

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. The portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at March 31:

(Canadian $ thousands)	**2017**	2016
Real estate	**$ 13,083**	$ 11,492
Private equity	**41,958**	33,789
Infrastructure	**17,363**	19,021
Natural resources	**3,497**	4,042
Private debt securities	**14,399**	21,515
Alternative investments	**5,748**	9,057
Total	**$ 96,048**	$ 98,916

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2017 (March 31, 2016 – 2032).

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