Financial Statements

— and Notes to the Financial Statements

PSP
Public Sector Pension Investment Board

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Management's Responsibility
for Financial Reporting

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

For fiscal year ended March 31, 2021 and March 31, 2020, we certify that the internal controls over financial reporting and disclosure controls and procedures are adequately designed and are operating effectively. We report any significant deficiencies to the Audit Committee ("Committee") of the Board of Directors of PSP Investments.

PSP Investments maintains records and systems of internal control and supporting procedures designed to provide reasonable assurance that PSP Investments' assets are safeguarded and controlled in accordance with the *Public Sector Pension Investment Board Act* (the "Act"), and that investments of PSP Investments held during the fiscal year were in accordance with the Act and the Statement of Investment Policies, Standards and Procedures.

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

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

Neil Cunningham
President and CEO

May 14, 2021

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

May 14, 2021

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, 2021, were in accordance with the Act and PSP Investments' Statement of Investment Policies, Standards and Procedures[1]".

Martin Glynn
Chair of the Board
May 14, 2021

[1] PSP Investments has complied with the *Public Sector Pension Investment Board Regulations* ("Regulations") in all material respects. However, we note that one investment held indirectly through passive fund investments was inadvertently non-compliant with section 13 (1) of the Regulations. This has since been rectified.

— Public Sector Pension Investment Board

Consolidated Financial Statements

Independent Auditors' Report

To the President of the Treasury Board

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Public Sector Pension Investment Board (PSP Investments), which comprise the consolidated statements of financial position as at March 31, 2021 and 2020, and the consolidated statements of net income (loss), consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of PSP Investments as at March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

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

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

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

Montréal, Canada
May 14, 2021

Deloitte LLP[1]

Montréal, Canada
May 14, 2021

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

Consolidated Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2021**	March 31, 2020
Assets		
Investments (Note 4.1)	**232,547**	207,279
Other assets	**246**	324
Total assets	**232,793**	207,603
Liabilities		
Trade payable and other liabilities	**438**	440
Investment-related liabilities (Note 4.1)	**11,325**	21,673
Borrowings (Notes 4.1, 8.2)	**16,731**	15,808
Total liabilities	**28,494**	37,921
Net assets	**204,299**	169,682
Equity		
Statutory rights held by the Government of Canada with respect to: (Note 9.1)		
Public Service Pension Plan Account	**148,915**	123,409
Canadian Forces Pension Plan Account	**39,838**	33,275
Royal Canadian Mounted Police Pension Plan Account	**14,678**	12,265
Reserve Force Pension Plan Account	**868**	733
Total equity	**204,299**	169,682
Total liabilities and equity	**232,793**	207,603

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

On behalf of the Board of Directors:

Martin Glynn
Chair of the Board

Garnet Garven
Chair of the Audit Committee

Consolidated Statements of Net Income (Loss)

For the years ended March 31

(Canadian $ millions)	**2021**	2020
Investment income	**32,588**	203
Investment-related expenses (Note 11)	**(497)**	(703)
Net investment income (loss)	**32,091**	(500)
Operating expenses (Note 12)	**(510)**	(551)
Net income (loss)	**31,581**	(1,051)

Consolidated Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	**2021**	2020
Fund transfers		
Balance at beginning of period	**80,351**	77,480
Fund transfers received during the period (Note 9.3)	**3,036**	2,871
Balance at end of period	**83,387**	80,351
Retained earnings		
Balance at beginning of period	**89,331**	90,373
Comprehensive income (loss) (includes other comprehensive income of nil for the year ended March 31, 2021 ($9 million for the year ended March 31, 2020))	**31,581**	(1,042)
Balance at end of period	**120,912**	89,331
Total equity	**204,299**	169,682

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)	**2021**	2020
Cash flows from operating activities		
Net income (loss)	**31,581**	(1,051)
Adjustments for non-cash items:		
Depreciation of equipment (Note 12)	**33**	35
Effect of exchange rate changes on cash and cash equivalents	**152**	(83)
Unrealized (gains) losses on borrowings	**(591)**	512
	31,175	(587)
Net changes in operating assets and liabilities		
Increase in investments	**(23,635)**	(12,433)
(Increase) decrease in other assets	**(7)**	2
(Decrease) increase in trade payables and other liabilities	**(4)**	71
(Decrease) increase in investment-related liabilities	**(10,362)**	4,748
Net cash flows used in operating activities	**(2,833)**	(8,199)
Cash flows from financing activities		
Proceeds from borrowings	**22,528**	26,342
Repayment of borrowings	**(20,999)**	(25,164)
Fund transfers received (Note 9.3)	**3,036**	2,871
Net cash flows provided by financing activities	**4,565**	4,049
Cash flows used in investing activities		
Acquisitions of equipment	**(18)**	(21)
Net cash flows used in investing activities	**(18)**	(21)
Net change in cash and cash equivalents	**1,714**	(4,171)
Effect of exchange rate changes on cash and cash equivalents	**(152)**	83
Cash and cash equivalents at the beginning of the period	**2,728**	6,816
Cash and cash equivalents at the end of the period[A]	**4,290**	2,728
Supplementary disclosure of cash flow information		
Interest paid	**(296)**	(395)

[A] As at March 31, 2021 cash and cash equivalents were comprised of $4,254 million (March 31, 2020 – $2,621 million) held for investment purposes and included in Note 4.1, as well as $36 million (March 31, 2020 – $107 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, 2021 and 2020

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, Montréal, Québec, 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 14, 2021.

Plan Accounts

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

2 — Significant Accounting Policies
(continued)

2.2. Investment Entity Status

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

(i) Mandate and business purpose

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

(ii) Performance evaluation

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

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

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

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

2.3. Summary of Significant Accounting Policies

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

2.3.1. Financial Instruments

(i) Classification

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

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

(ii) Recognition

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

(iii) Initial and subsequent measurement

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

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

(iv) Derecognition

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

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

and

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

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

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

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

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

2.3.3. Functional and Presentation Currency

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

2.3.4. Foreign Currency Translation

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

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

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

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

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

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

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

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

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.7. Offsetting of Financial Instruments

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

2.3.8. Equity

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

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

2.3.9. Investment Income

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

2.3.10. Investment-Related Expenses

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

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

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

2.3.11. Fund Transfers

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

2.4. Significant Accounting Judgments, Estimates and Assumptions

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

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

A source of estimate uncertainty includes the outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization had declared to constitute a pandemic in March 2020, has impacted global commercial activity and contributed to significant ongoing volatility and unpredictability in the global financial markets. COVID-19 continues to evolve and the economic environment continues to be subject to sustained volatility, which could continue to impact financial results, as the duration of the pandemic remains uncertain. The Consolidated Financial Statements of PSP Investments reflect the impacts resulting from COVID-19 to the extent known at the reporting date.

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

3 — Current and Future Changes in Accounting Standards

3.1. Current Accounting Standards

PSP Investments has determined that there is no significant impact on its Consolidated Financial Statements arising from new standards, amendments and interpretations that have been issued by the IASB, effective for the year ended March 31, 2021.

3.2. Future Accounting Standards

Interest Rate Benchmark Reform – Phase 2

Effective for annual periods beginning on April 1, 2021, the IASB issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 providing new guidance meant to address the issues that arise from the transition to alternative benchmark rates as a result of the Inter Bank Offered Rate Reform. The amendments address replacing existing interest rate benchmarks with alternative benchmarks in the context of changes in the basis for determining contractual cash flows of financial assets and liabilities, hedge accounting and introduce new disclosure requirements. Management has determined that there is no significant impact of the accounting requirements on the Consolidated Financial Statements. Required note disclosures will be made as applicable.

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, 2021**	March 31, 2020
Public markets		
Canadian equity	**3,936**	3,360
Foreign equity	**40,188**	29,073
Private markets		
Real estate	**32,000**	29,763
Private equity	**30,244**	22,087
Infrastructure	**22,730**	22,428
Natural resources	**12,906**	10,443
Fixed income		
Cash and money market securities	**7,793**	4,840
Government and corporate bonds	**25,976**	31,403
Inflation-linked bonds	**14,218**	16,557
Private debt securities	**18,120**	17,441
Alternative investments	**16,243**	11,077
	224,354	198,472
Investment-related assets		
Amounts receivable from pending trades	**1,689**	760
Interest receivable	**402**	588
Dividends receivable	**157**	159
Securities purchased under reverse repurchase agreements	**3,767**	4,516
Derivative-related assets	**2,178**	2,784
	8,193	8,807
Investments representing financial assets at FVTPL	**232,547**	207,279
Investment-related liabilities		
Amounts payable from pending trades	**(1,524)**	(1,016)
Interest payable	**(71)**	(94)
Securities sold short	**(2,774)**	(3,890)
Collateral payable	**(2,214)**	(3,351)
Securities sold under repurchase agreements	**(3,279)**	(8,787)
Derivative-related liabilities	**(1,463)**	(4,535)
Investment-related liabilities representing financial liabilities at FVTPL	**(11,325)**	(21,673)
Borrowings		
Capital market debt financing	**(16,731)**	(15,808)
Borrowings representing financial liabilities designated at FVTPL	**(16,731)**	(15,808)
Net investments	**204,491**	169,798

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.1. Public Markets

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

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

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

4.1.2. Private Markets

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

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

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

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

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

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

4.1.3. Fixed Income

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

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Consolidated Statements of Cash Flows and amounted to $4,254 million as at March 31, 2021 (March 31, 2020 – $2,621 million). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

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

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

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

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

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

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.4. Alternative Investments

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

4.1.5. Amounts Receivable and Payable from Pending Trades

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

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

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

4.1.6. Interest and Dividends Receivable

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

4.1.7. Interest Payable

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

4.1.8. Securities Sold Short

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

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

4.1.9. Collateral Payable

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

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

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

4.1.11. Borrowings under the Capital Market Debt Program

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

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.12. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

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

Warrants and Rights

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

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

Determination of Fair Value of Derivative Financial Instruments

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

(Canadian $ millions)	March 31, 2021 Notional Value	March 31, 2021 Fair Value Assets	March 31, 2021 Fair Value Liabilities	March 31, 2020 Notional Value	March 31, 2020 Fair Value Assets	March 31, 2020 Fair Value Liabilities
Equity and commodity derivatives						
Listed						
Futures	**5,060**	**–**	**–**	2,686	–	–
Warrants and rights	**12**	**12**	**–**	1	–	–
Options: Purchased	**4,058**	**23**	**–**	3,791	137	–
Written	**7,426**	**–**	**(12)**	3,608	–	(66)
OTC						
Swaps	**25,938**	**755**	**(265)**	24,573	851	(3,100)
Options: Purchased	**541**	**5**	**–**	775	57	–
Written	**641**	**–**	**(6)**	978	–	(48)
Currency derivatives						
Listed						
Futures	**289**	**–**	**–**	124	–	–
OTC						
Forwards	**20,730**	**145**	**(93)**	27,331	790	(485)
Swaps	**6,369**	**6**	**(119)**	6,270	97	(30)
Options: Purchased	**1,221**	**27**	**–**	3,119	70	–
Written	**1,124**	**–**	**(23)**	3,411	–	(67)
Interest rate derivatives						
Listed						
Futures	**6,771**	**–**	**–**	4,124	–	–
Options: Purchased	**59,227**	**83**	**–**	33,095	56	–
Written	**64,079**	**–**	**(79)**	13,093	–	(44)
OTC						
Swaps	**1,038**	**51**	**(5)**	6,839	148	(206)
Options: Purchased	**46,316**	**1,071**	**–**	41,015	569	–
Written	**45,708**	**–**	**(857)**	45,163	–	(483)
OTC-cleared						
Forwards	**–**	**–**	**–**	28,414	–	–
Swaps	**57,108**	**–**	**–**	107,157	–	–
Credit derivatives						
OTC						
Credit default swaps: Purchased	**207**	**–**	**(4)**	463	9	(6)
Written[A]	**19**	**–**	**–**	21	–	–
OTC-cleared						
Credit default swaps: Purchased	**566**	**–**	**–**	996	–	–
Written[A]	**872**	**–**	**–**	–	–	–
Total		**2,178**	**(1,463)**		2,784	(4,535)

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

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2021			March 31, 2020		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**146,922**	**118**	**(91)**	60,522	193	(110)
OTC derivatives	**149,852**	**2,060**	**(1,372)**	159,958	2,591	(4,425)
OTC-cleared derivatives	**58,546**	**–**	**–**	136,567	–	–
Total		**2,178**	**(1,463)**		2,784	(4,535)

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

(Canadian $ millions)	**March 31, 2021**	March 31, 2020
Less than 3 months	**112,271**	173,100
3 to 12 months	**142,638**	91,142
Over 1 year	**100,411**	92,805

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, 2021 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	2,765	1,116	55	3,936
Foreign equity	38,225	780	1,183	40,188
Private markets				
Real estate	–	–	32,000	32,000
Private equity	–	–	30,244	30,244
Infrastructure	–	–	22,730	22,730
Natural resources	–	–	12,906	12,906
Fixed income				
Cash and money market securities	4,603	3,190	–	7,793
Government and corporate bonds	6,529	19,442	5	25,976
Inflation-linked bonds	14,099	119	–	14,218
Private debt securities	–	–	18,120	18,120
Alternative investments	–	7,537	8,706	16,243
	66,221	32,184	125,949	224,354
Investment-related assets				
Amounts receivable from pending trades	–	1,689	–	1,689
Interest receivable	–	402	–	402
Dividends receivable	–	157	–	157
Securities purchased under reverse repurchase agreements	–	3,767	–	3,767
Derivative-related assets	117	2,061	–	2,178
	117	8,076	–	8,193
Investments representing financial assets at FVTPL	66,338	40,260	125,949	232,547
Investment-related liabilities				
Amounts payable from pending trades	–	(1,524)	–	(1,524)
Interest payable	–	(71)	–	(71)
Securities sold short	(2,774)	–	–	(2,774)
Collateral payable	–	(2,214)	–	(2,214)
Securities sold under repurchase agreements	–	(3,279)	–	(3,279)
Derivative-related liabilities	(91)	(1,372)	–	(1,463)
Investment-related liabilities representing financial liabilities at FVTPL	(2,865)	(8,460)	–	(11,325)
Borrowings				
Capital market debt financing	–	(16,731)	–	(16,731)
Borrowings representing financial liabilities designated at FVTPL	–	(16,731)	–	(16,731)
Net investments	63,473	15,069	125,949	204,491

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

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

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

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2021 (no significant transfers between Level 1 and Level 2 during the year ended March 31, 2020).

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

To reflect the impact, where applicable, of significant market movements or other events occurring up to March 31, 2021, such as those in connection with the market disruption described in Note 2.4, adjustments to Private Markets and fund investments are made as appropriate. Such adjustments are based on a number of factors including public market trading comparables, investment specific characteristics as well as market conditions and uncertainties at that time.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2021:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	**55**	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	**1,183**	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	**29,703**	Discounted cash flow (DCF)	Discount rate[B, C]	5.00% – 20.00% (7.34%)
				Terminal capitalization rate[B, C]	4.00% – 13.25% (5.71%)
			Direct capitalization	Capitalization rate[B, D]	2.40% – 10.13% (4.70%)
				Stabilized occupancy rate[D, E]	38.00% – 100.00% (96.89%)
			Sales comparison approach	Price per square foot[D, E]	$4.07 – $1,365.41 ($274.50)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**2,297**	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	**46,072**	DCF	Discount rate[B]	5.92% – 15% (8.70%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**19,808**	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	**5**	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	**12,646**	DCF	Discount rate[B]	2.70% – 22.23% (9.03%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**5,474**	NAV[A]	N/A	N/A
Alternative investments	Fund investments	**8,706**	NAV[A]	N/A	N/A
Total		**125,949**			

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

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. 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, 2021:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains (Losses)	Unrealized Gains	Transfer out of Level 3	Closing Balance
Public markets	**1,249**	**231**	**(145)**	**–**	**(10)**	**467**	**(554)**	**1,238**
Private markets	**84,721**	**12,375**	**(6,747)**	**–**	**1,876**	**5,839**	**(184)**	**97,880**
Fixed income	**17,448**	**6,368**	**(6,147)**	**(1)**	**140**	**317**	**–**	**18,125**
Alternative investments	**8,463**	**778**	**(1,236)**	**–**	**137**	**564**	**–**	**8,706**
Total	**111,881**	**19,752**	**(14,275)**	**(1)**	**2,143**	**7,187**	**(738)**	**125,949**

As at March 31, 2020, an investment of $554 million in a non-listed fund that held listed securities was classified under Level 3 due to the nature of the contractual restrictions on the redemption of fund units. During the year ended March 31, 2021, the listed securities held by the fund were transferred to PSP Investments and were classified as Level 1 as at March 31, 2021. Additionally, as at March 31, 2020, a private market investment of $184 million was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2021, this investment was transferred to Level 2 as the underlying investee indirectly held by PSP Investments became publicly traded.

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

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

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

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, with all other variables held constant, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2021 (March 31, 2020 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

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

(Canadian $ millions)	**March 31, 2021**	March 31, 2020
Securities lending and borrowing		
Securities lent	**3,590**	662
Collateral held[A]	**3,843**	704
Securities borrowed	**1,913**	1,031
Collateral pledged[B]	**1,986**	1,120
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**3,271**	8,847
Collateral pledged	**3,279**	8,806
Securities purchased under reverse repurchase agreements	**3,766**	4,527
Collateral held[C]	**3,765**	4,523
Derivative contracts		
Collateral pledged	**680**	2,895
Collateral held[D]	**1,319**	385

[A] The minimum fair value of securities collateral denominated in the same currency required is equal to 102%, and in the case of securities denominated in different currencies 105%.

[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 $1,021 million has been used in connection with short selling transactions as at March 31, 2021 (March 31, 2020 – $2,859 million) and $154 million has been used in connection with securities sold under repurchase agreements (March 31, 2020 – $134 million).

[D] As part of collateral held, cash amounted to $305 million as at March 31, 2021 (March 31, 2020 – $45 million) and securities amounted to $1,014 million as at March 31, 2021 (March 31, 2020 – $340 million). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

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

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

(i) Control and significant influence

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

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

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

(ii) Joint control

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

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

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2021, 120 investment entity subsidiaries were incorporated in North America, 18 in Europe, 13 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2020 – 111 in North America, 15 in Europe, 15 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 91 investees directly or through its investment entity subsidiaries as at March 31, 2021 (March 31, 2020 – 84 investees).

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

	March 31, 2021		
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments (%)**	**Relationship to PSP Investments**
AviAlliance GmbH	**Europe**	**100**	**Controlled investee**
Kaingaroa Timberlands Limited	**Oceania**	**56**	**Jointly controlled investee**
Revera Inc.	**North America**	**100**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50**	**Jointly controlled investee**
Forth Ports Limited	**Europe**	**51**	**Jointly controlled investee**
Roadis Transportation Holding, S.L.U.	**Global**	**100**	**Controlled investee**
American Wholesale Insurance Holding Company, LLC	**North America**	**23**	**Associate**
TDF S.A.S.	**Europe**	**22**	**Associate**
Constantin Investment Limited	**Europe**	**38**	**Associate**
Pomona Farming, LLC	**North America**	**99**	**Controlled investee**

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

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

6.2. Structured Entities

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

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

7 — Investment Risk Management

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

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

7.1. Market Risk

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

7.1.1. Measurement of Market Risk

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

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

The absolute volatility is statistically valid under normal market conditions. Although it includes losses from severe market events such as those described in Note 2.4, it does not solely measure such events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

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

	March 31, 2021 (%)	March 31, 2020 (%)
Absolute volatility	**11.3**	9.2

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, 2021					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	7,793[A]	7,793
Government and corporate bonds	694	12,145	6,462	5,817	858[B]	25,976
Inflation-linked bonds	527	5,578	4,983	3,130	–	14,218
Private debt securities	207	4,800	5,783	1,604	5,726[C]	18,120
Total fixed income	**1,428**	**22,523**	**17,228**	**10,551**	**14,377**	**66,107**

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

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

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

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

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounting to $142,004 million as at March 31, 2021 ($117,154 million as at March 31, 2020) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in Note 4.1.4, which amounted to $16,243 million as at March 31, 2021 ($11,077 million as at March 31, 2020), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the absolute volatility calculation described in Note 7.1.1.

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

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

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

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

	March 31, 2021	
Currency	**Fair Value** (Canadian $ millions)	**% of Total**
US Dollar	**106,612**	**63.0**
Euro	**23,623**	**14.0**
Australian Dollar	**8,412**	**5.0**
British Pound	**6,108**	**3.6**
Japanese Yen	**4,048**	**2.4**
Hong Kong Dollar	**2,624**	**1.6**
Mexican Peso	**2,107**	**1.2**
Swiss Franc	**1,655**	**1.0**
Indian Rupee	**1,631**	**1.0**
Brazilian Real	**1,614**	**1.0**
Chinese Yuan	**1,580**	**0.9**
South Korean won	**1,541**	**0.9**
Others	**7,680**	**4.4**
Total	**169,235**	**100.0**

As at March 31, 2021, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $26,911 million (US$17,724 million, € 2,566 million, £ 379 million, 22 million South African rands, 2,010 million Mexican pesos, 3,019 million Indian rupees and 50 million Danish kroner), which were not included in the foreign currency exposure table above.

	March 31, 2020	
Currency	**Fair Value** (Canadian $ millions)	**% of Total**
US Dollar	97,575	67.1
Euro	18,838	13.0
Australian Dollar	6,212	4.3
British Pound	4,788	3.3
Japanese Yen	3,499	2.4
Hong Kong Dollar	2,344	1.6
Swiss Franc	1,733	1.2
Mexican Peso	1,595	1.1
Indian Rupee	1,340	0.9
Brazilian Real	1,320	0.9
Others	6,060	4.2
Total	145,304	100.0

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

7 — Investment Risk Management (continued)

7.2. Credit Risk

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

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

As at March 31, 2021, PSP Investments' maximum exposure to credit risk amounted to $72 billion (March 31, 2020 – $76 billion). This amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

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

	March 31, 2021						
(Canadian $ millions)	**Government and corporate bonds**[A]	**Inflation-linked bonds**[A]	**Money market securities**[A]	**Reverse repurchase agreements**	**OTC derivatives**[B]	**Private debt securities**[A]	**Total**[A]
AAA-AA	**17,474**	**14,124**	**5,898**	**1,696**	**49**	**–**	**39,241**
A	**7,803**	**119**	**1,216**	**2,024**	**2,011**	**–**	**13,173**
BBB	**266**	**–**	**–**	**47**	**–**	**317**	**630**
BB or below	**462**	**–**	**–**	**–**	**–**	**17,894**	**18,356**
No rating[C]	**116**	**–**	**26**	**–**	**–**	**140**	**282**
Total	**26,121**	**14,243**	**7,140**	**3,767**	**2,060**	**18,351**	**71,682**

	March 31, 2020						
(Canadian $ millions)	Government and corporate bonds[A]	Inflation-linked bonds[A]	Money market securities[A]	Reverse repurchase agreements	OTC derivatives[B]	Private debt securities[A]	Total[A]
AAA-AA	22,138	16,238	2,077	1,083	273	–	41,809
A	7,462	138	777	3,391	2,318	–	14,086
BBB	861	216	–	42	–	236	1,355
BB or below	1,058	–	–	–	–	17,249	18,307
No rating[C]	73	–	–	–	–	318	391
Total	31,592	16,592	2,854	4,516	2,591	17,803	75,948

[A] Includes interest receivable.

[B] As disclosed in Note 4.1.12.

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

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

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

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

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

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

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

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

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

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

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

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

Financial Assets

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Consolidated Statements of Financial Position	Less: Related Amounts Not Set Off in the Consolidated Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2021						
Reverse repurchase agreements	**3,767**	**–**	**3,767[A]**	**1,495**	**2,270**	**2**
OTC-derivatives	**2,257**	**197**	**2,060[B]**	**1,450**	**593**	**17**
Total	**6,024**	**197**	**5,827**	**2,945**	**2,863**	**19**
March 31, 2020						
Reverse repurchase agreements	4,516	–	4,516[A]	3,573	941	2
OTC-derivatives	2,634	43	2,591[B]	2,274	306	11
Total	7,150	43	7,107	5,847	1,247	13

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, 2021						
Repurchase agreements	**3,279**	**–**	**3,279[A]**	**1,495**	**1,782**	**2**
OTC-derivatives	**1,569**	**197**	**1,372[B]**	**1,230**	**123**	**19**
Collateral payable	**305**	**–**	**305[C]**	**220**	**–**	**85**
Total	**5,153**	**197**	**4,956**	**2,945**	**1,905**	**106**
March 31, 2020						
Repurchase agreements	8,787	–	8,787[A]	3,573	5,210	4
OTC-derivatives	4,468	43	4,425[B]	2,252	2,098	75
Collateral payable	45	–	45[C]	22	–	23
Total	13,300	43	13,257	5,847	7,308	102

[A] As described in Note 4.1.10.

[B] As described in Note 4.1.12.

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

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

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

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

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2021 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(1,524)	–	–	(1,524)
Interest payable	(63)	(8)	–	(71)
Securities sold short	(2,774)	–	–	(2,774)
Collateral payable	(799)	–	(1,415)	(2,214)
Securities sold under repurchase agreements	(2,695)	(584)	–	(3,279)
Capital market debt financing	(3,665)	(3,331)	(9,735)	(16,731)
Trade payable and other liabilities	(146)	(110)	(182)	(438)
Total	**(11,666)**	**(4,033)**	**(11,332)**	**(27,031)**

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	868	749	561	2,178
Derivative-related liabilities[A]	(569)	(565)	(329)	(1,463)
Total	**299**	**184**	**232**	**715**

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

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

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

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

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

8 — Borrowings

8.1. Credit Facilities

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

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

These Credit Facilities were not drawn upon as at March 31, 2021 and 2020.

8.2. Capital Market Debt Financing

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

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

PSP Investments’ capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2021 and 2020.

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

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

	March 31, 2021		March 31, 2020	
(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 0.12% and 0.51% and maturing within 90 and 364 days of issuance (March 31, 2020 – between 0.97% and 1.87%, maturing within 27 and 364 days)	**353**	**352**	325	324
Short-term US Dollar promissory notes, bearing interest between 0.09% and 0.47% and maturing within 31 and 365 days of issuance (March 31, 2020 – between 0.03% and 2.02%, maturing within 7 and 366 days)	**5,390**	**5,389**	5,946	5,933
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**–**	**–**	1,000	1,013
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**1,460**	**1,571**	1,408	1,512
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**1,250**	**1,255**	1,182	1,191
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**1,500**	**1,558**	1,482	1,525
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**1,568**	**1,595**	1,669	1,697
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**1,250**	**1,348**	1,250	1,346
Medium-term notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**1,250**	**1,250**	1,250	1,267
Medium-term notes Series 13, bearing interest of 0.90% per annum and maturing on June 15, 2026	**1,500**	**1,463**	–	–
Medium-term notes Series 14, bearing interest of 1.50% per annum and maturing on March 15, 2028	**965**	**950**	–	–
Total	**16,486**	**16,731**	15,512	15,808

Unrealized gains in connection with borrowings amounted to $591 million for the year ended March 31, 2021 (unrealized losses of $512 million for the year ended March 31, 2020).

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

(Canadian $ millions)	**2021**	2020
Short-term promissory notes	**29**	149
Medium-term notes	**211**	187
Total	**240**	336

8 — Borrowings (continued)

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2021.

				Non-cash changes		
(Canadian $ millions)	**Opening balance**	**Proceeds from borrowings**	**Repayment of borrowings**	**Foreign exchange gains**	**Fair value[A] gains**	**Closing balance**
Capital market debt financing	**15,808**	**22,528**	**(20,999)**	**(549)**	**(57)**	**16,731**
Borrowings	**15,808**	**22,528**	**(20,999)**	**(549)**	**(57)**	**16,731**

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

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

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

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

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

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

9.2. Shares Issued

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

9.3. Fund Transfers

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

(Canadian $ millions)	**2021**	2020
Public Service Pension Fund	**2,518**	2,198
Canadian Forces Pension Fund	**378**	462
Royal Canadian Mounted Police Pension Fund	**140**	211
Reserve Force Pension Fund	**–**	–
Total	**3,036**	2,871

10 — Segment Information

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

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

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

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

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

(Canadian $ millions)	**March 31, 2021**	March 31, 2020
Public Equity	**60,201**	48,368
Real Estate	**26,817**	23,817
Private Equity	**31,748**	24,038
Infrastructure	**18,389**	18,302
Natural Resources	**9,712**	7,645
Credit Investments	**14,474**	13,295
Fixed Income	**37,263**	32,714
Complementary Portfolio	**185**	945
Other[A]	**5,702**	674
Total	**204,491**	169,798

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

10 — Segment Information (continued)

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

	2021			2020		
(Canadian $ millions)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)
Public Equity	**21,599**	**(274)**	**21,325**	(5,542)	(312)	(5,854)
Real Estate	**1,163**	**(195)**	**968**	(834)	(300)	(1,134)
Private Equity	**7,224**	**(100)**	**7,124**	1,139	(117)	1,022
Infrastructure	**900**	**(167)**	**733**	1,533	(214)	1,319
Natural Resources	**951**	**(112)**	**839**	(328)	(91)	(419)
Credit Investments	**1,393**	**(73)**	**1,320**	488	(71)	417
Fixed Income	**(994)**	**(70)**	**(1,064)**	3,061	(132)	2,929
Complementary Portfolio	**40**	**(3)**	**37**	123	(7)	116
Other[C]	**312**	**(13)**	**299**	563	(10)	553
Total	**32,588**	**(1,007)**	**31,581**	203	(1,254)	(1,051)

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

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

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

11 — Investment-Related Expenses

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

(Canadian $ millions)	2021	2020
Interest expense	**259**	420
Transaction costs	**135**	171
External investment management fees[A]	**55**	51
Other (net)	**48**	61
Total	**497**	703

[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 $376 million for the year ended March 31, 2021 ($86 million for the year ended March 31, 2020). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.5% of the total invested and/or committed amount, totaled $467 million for the year ended March 31, 2021 ($414 million for the year ended March 31, 2020). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

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

(Canadian $ millions)	2021	2020
Salaries and employee benefits	**322**	319
Professional and consulting fees	**81**	88
Premises and equipment	**17**	25
Market data and business applications	**51**	41
Depreciation of property and equipment	**33**	35
Custodial fees	**4**	6
Other operating expenses	**2**	37
Total	**510**	551

13 — Allocation of Comprehensive Income

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

13.1. Investment Income

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

13.2. Expenses

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

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

(%)	**2021**	2020
Public Service Pension Plan Account	**72.8**	72.7
Canadian Forces Pension Plan Account	**19.6**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.2
Reserve Force Pension Plan Account	**0.4**	0.4
Total	**100.0**	100.0

14 — Related Party Transactions

14.1. Certain Investees

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

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

14.2. The Government of Canada and Government-Related Entities

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

(i) The Government of Canada

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

(ii) Government-Related Entities

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

14.3. Compensation of Key Management Personnel

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

(Canadian $ millions)	**2021**	2020
Short-term compensation and other benefits	**10**	14
Long-term compensation and other benefits	**9**	10
Total	**19**	24

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

15 — Capital Management

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

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

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

16 — Guarantees and Indemnities

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

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

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

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

- As at March 31, 2021 and 2020, 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 $2,239 million as at March 31, 2021 (March 31, 2020 – $2,802 million) plus applicable interest and other related costs. The arrangements mature between May 2021 and November 2029 as of March 31, 2021 (March 31, 2020 – between April 2020 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $93 million as at March 31, 2021 (March 31, 2020 – $89 million) in relation to investment transactions.

17 — Commitments

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

(Canadian $ millions)	**March 31, 2021**	March 31, 2020
Foreign equity	**2**	–
Real estate	**4,418**	3,528
Private equity	**12,865**	13,024
Infrastructure	**2,438**	2,951
Natural resources	**224**	266
Private debt securities	**5,330**	3,801
Alternative investments	**1,957**	1,691
Total	**27,234**	25,261

Funding in connection with the above commitments can be called upon at various dates extending until 2040 as at March 31, 2021 (March 31, 2020 – 2035).

— Reserve Force Pension Plan Account
Financial Statements

Independent Auditors' Report

To the Minister of National Defence

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Sector Pension Investment Board – Reserve Force Pension Plan Account (the Reserve Force Pension Plan Account), which comprise the statements of financial position as at March 31, 2021 and 2020, and the statements of net income (loss), statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Reserve Force Pension Plan Account as at March 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

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

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

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

Montréal, Canada
May 14, 2021

Deloitte LLP[1]

Montréal, Canada
May 14, 2021

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

Statements of Financial Position

As at

(Canadian $ thousands)	**March 31, 2021**	March 31, 2020
Assets		
Investments (Note 4.1)	**988,307**	895,508
Other assets	**1,041**	1,400
Total assets	**989,348**	896,908
Liabilities		
Trade payable and other liabilities	**1,859**	1,904
Investment-related liabilities (Note 4.1)	**48,130**	93,633
Borrowings (Notes 4.1, 8.2)	**71,107**	68,295
Total liabilities	**121,096**	163,832
Net assets	**868,252**	733,076
Equity (Note 9)	**868,252**	733,076
Total liabilities and equity	**989,348**	896,908

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

On behalf of the Board of Directors:

Martin Glynn
Chair of the Board

Garnet Garven
Chair of the Audit Committee

Statements of Net Income (Loss)

For the years ended March 31

(Canadian $ thousands)	**2021**	2020
Investment income	**139,511**	1,226
Investment-related expenses (Note 11)	**(2,142)**	(3,022)
Net investment income (loss)	**137,369**	(1,796)
Operating expenses (Note 12)	**(2,193)**	(2,420)
Net income (loss)	**135,176**	(4,216)

Statements of Changes in Equity

For the years ended March 31

(Canadian $ thousands)	**2021**	2020
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	**403,445**	407,573
Comprehensive income (loss) (includes other comprehensive income of nil for the year ended March 31, 2021 ($88 thousand for the year ended March 31, 2020))	**135,176**	(4,128)
Balance at end of period	**538,621**	403,445
Total equity	**868,252**	733,076

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ thousands)	**2021**	2020
Cash flows from operating activities		
Net income (loss)	**135,176**	(4,216)
Adjustments for non-cash items:		
Depreciation of property and equipment (Note 12)	**143**	154
Effect of exchange rate changes on cash and cash equivalents	**658**	(380)
Unrealized (gains) losses on borrowings	**(2,558)**	2,203
	133,419	(2,239)
Net changes in operating assets and liabilities		
Increase in investments	**(86,041)**	(39,864)
(Increase) decrease in other assets	**(28)**	10
(Decrease) increase in trade payables and other liabilities	**(42)**	282
(Decrease) increase in investment-related liabilities	**(45,565)**	19,291
Net cash flows provided by (used in) operating activities	**1,743**	(22,520)
Cash flows from financing activities		
Proceeds from borrowings	**97,108**	113,058
Repayment of borrowings	**(91,676)**	(108,973)
Net cash flows provided by financing activities	**5,432**	4,085
Cash flows used in investing activities		
Acquisitions of equipment	**(81)**	(85)
Net cash flows used in investing activities	**(81)**	(85)
Net change in cash and cash equivalents	**7,094**	(18,520)
Effect of exchange rate changes on cash and cash equivalents	**(658)**	380
Cash and cash equivalents at the beginning of the period	**11,796**	29,936
Cash and cash equivalents at the end of the period[A]	**18,232**	11,796
Supplementary disclosure of cash flow information		
Interest paid	**(1,283)**	(1,707)

[A] As at March 31, 2021 cash and cash equivalents were comprised of $18,079 thousand (March 31, 2020 – $11,331 thousand) held for investment purposes and included in Note 4.1, as well as $153 thousand (March 31, 2020 – $465 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, 2021 and 2020

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, Montréal, Québec, 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 14, 2021.

2 — Significant Accounting Policies
(continued)

2.2. Investment Entity Status

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

(i) Mandate and business purpose

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

(ii) Performance evaluation

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

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

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

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

2.3. Summary of Significant Accounting Policies

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

2.3.1. Financial Instruments

(i) Classification

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

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

(ii) Recognition

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

(iii) Initial and subsequent measurement

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

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

(iv) Derecognition

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

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

and

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

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

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

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

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

2.3.3. Functional and Presentation Currency

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

2.3.4. Foreign Currency Translation

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

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

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

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

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

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

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

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

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.7. Offsetting of Financial Instruments

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

2.3.8. Equity

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

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

2.3.9. Investment Income

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

2.3.10. Investment-Related Expenses

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

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

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

2.3.11. Fund Transfers

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

2.4. Significant Accounting Judgments, Estimates and Assumptions

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

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

A source of estimate uncertainty includes the outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization had declared to constitute a pandemic in March 2020, has impacted global commercial activity and contributed to significant ongoing volatility and unpredictability in the global financial markets. COVID-19 continues to evolve and the economic environment continues to be subject to sustained volatility, which could continue to impact financial results, as the duration of the pandemic remains uncertain. These Financial Statements reflect the impacts resulting from COVID-19 to the extent known at the reporting date.

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

3 — Current and Future Changes in Accounting Standards

3.1. Current Accounting Standards

PSP Investments has determined that there is no significant impact on its Financial Statements arising from new standards, amendments and interpretations that have been issued by the IASB, effective for the year ended March 31, 2021.

3.2. Future Accounting Standards

Interest Rate Benchmark Reform – Phase 2

Effective for annual periods beginning on April 1, 2021, the IASB issued amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 providing new guidance meant to address the issues that arise from the transition to alternative benchmark rates as a result of the Inter Bank Offered Rate Reform. The amendments address replacing existing interest rate benchmarks with alternative benchmarks in the context of changes in the basis for determining contractual cash flows of financial assets and liabilities, hedge accounting and introduce new disclosure requirements. Management has determined that there is no significant impact of the accounting requirements on the Financial Statements. Required note disclosures will be made as applicable.

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, 2021**	March 31, 2020
Public markets		
Canadian equity	**16,726**	14,515
Foreign equity	**170,795**	125,608
Private markets		
Real estate	**135,998**	128,583
Private equity	**128,533**	95,424
Infrastructure	**96,601**	96,897
Natural resources	**54,851**	45,117
Fixed income		
Cash and money market securities	**33,122**	20,912
Government and corporate bonds	**110,394**	135,670
Inflation-linked bonds	**60,424**	71,530
Private debt securities	**77,008**	75,349
Alternative investments	**69,032**	47,854
	953,484	857,459
Investment-related assets		
Amounts receivable from pending trades	**7,179**	3,284
Interest receivable	**1,708**	2,539
Dividends receivable	**669**	688
Securities purchased under reverse repurchase agreements	**16,011**	19,510
Derivative-related assets	**9,256**	12,028
	34,823	38,049
Investments representing financial assets at FVTPL	**988,307**	895,508
Investment-related liabilities		
Amounts payable from pending trades	**(6,475)**	(4,389)
Interest payable	**(303)**	(407)
Securities sold short	**(11,790)**	(16,807)
Collateral payable	**(9,407)**	(14,478)
Securities sold under repurchase agreements	**(13,938)**	(37,960)
Derivative-related liabilities	**(6,217)**	(19,592)
Investment-related liabilities representing financial liabilities at FVTPL	**(48,130)**	(93,633)
Borrowings		
Capital market debt financing	**(71,107)**	(68,295)
Borrowings representing financial liabilities designated at FVTPL	**(71,107)**	(68,295)
Net investments	**869,070**	733,580

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.1. Public Markets

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

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

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

4.1.2. Private Markets

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

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

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

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

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

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

4.1.3. Fixed Income

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

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Statements of Cash Flows and amounted to $18,079 thousand as at March 31, 2021 (March 31, 2020 – $11,331 thousand). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

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

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

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

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

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

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.4. Alternative Investments

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

4.1.5. Amounts Receivable and Payable from Pending Trades

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

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

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

4.1.6. Interest and Dividends Receivable

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

4.1.7. Interest Payable

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

4.1.8. Securities Sold Short

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

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

4.1.9. Collateral Payable

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

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

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

4.1.11. Borrowings under the Capital Market Debt Program

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

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.12. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

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

Warrants and Rights

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

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

Determination of Fair Value of Derivative Financial Instruments

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

	March 31, 2021			March 31, 2020		
		Fair Value			Fair Value	
(Canadian $ thousands)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**21,503**	**–**	**–**	11,603	–	–
Warrants and rights	**52**	**53**	**–**	6	1	–
Options: Purchased	**17,246**	**100**	**–**	16,379	592	–
Written	**31,559**	**–**	**(50)**	15,586	–	(283)
OTC						
Swaps	**110,235**	**3,208**	**(1,127)**	106,164	3,680	(13,391)
Options: Purchased	**2,300**	**21**	**–**	3,348	245	–
Written	**2,725**	**–**	**(27)**	4,224	–	(207)
Currency derivatives						
Listed						
Futures	**1,228**	**–**	**–**	537	–	–
OTC						
Forwards	**88,101**	**616**	**(395)**	118,078	3,413	(2,094)
Swaps	**27,067**	**25**	**(504)**	27,090	417	(130)
Options: Purchased	**5,190**	**115**	**–**	13,477	301	–
Written	**4,777**	**–**	**(99)**	14,738	–	(291)
Interest rate derivatives						
Listed						
Futures	**28,775**	**–**	**–**	17,818	–	–
Options: Purchased	**251,709**	**348**	**–**	142,978	241	–
Written	**272,335**	**–**	**(337)**	56,568	–	(192)
OTC						
Swaps	**4,410**	**219**	**(21)**	29,545	641	(891)
Options: Purchased	**196,836**	**4,550**	**–**	177,199	2,458	–
Written	**194,255**	**–**	**(3,639)**	195,109	–	(2,087)
OTC-cleared						
Forwards	**–**	**–**	**–**	122,759	–	–
Swaps	**242,708**	**–**	**–**	462,949	–	–
Credit derivatives						
OTC						
Credit default swaps: Purchased	**881**	**–**	**(18)**	1,999	37	(26)
Written[A]	**80**	**1**	**–**	92	2	–
OTC-cleared						
Credit default swaps: Purchased	**2,404**	**–**	**–**	4,305	–	–
Written[A]	**3,705**	**–**	**–**	–	–	–
Total		**9,256**	**(6,217)**		12,028	(19,592)

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

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

	March 31, 2021			March 31, 2020		
		Fair Value			Fair Value	
(Canadian $ thousands)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**624,407**	**501**	**(387)**	261,475	834	(475)
OTC derivatives	**636,857**	**8,755**	**(5,830)**	691,063	11,194	(19,117)
OTC-cleared derivatives	**248,817**	**–**	**–**	590,013	–	–
Total		**9,256**	**(6,217)**		12,028	(19,592)

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

(Canadian $ thousands)	**March 31, 2021**	March 31, 2020
Less than 3 months	**477,140**	747,845
3 to 12 months	**606,203**	393,759
Over 1 year	**426,738**	400,947

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, 2021 classified within the fair value hierarchy:

(Canadian $ thousands)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	11,750	4,743	233	16,726
Foreign equity	162,450	3,317	5,028	170,795
Private markets				
Real estate	–	–	135,998	135,998
Private equity	–	–	128,533	128,533
Infrastructure	–	–	96,601	96,601
Natural resources	–	–	54,851	54,851
Fixed income				
Cash and money market securities	19,564	13,558	–	33,122
Government and corporate bonds	27,747	82,625	22	110,394
Inflation-linked bonds	59,916	508	–	60,424
Private debt securities	–	–	77,008	77,008
Alternative investments	–	32,033	36,999	69,032
	281,427	136,784	535,273	953,484
Investment-related assets				
Amounts receivable from pending trades	–	7,179	–	7,179
Interest receivable	–	1,708	–	1,708
Dividends receivable	–	669	–	669
Securities purchased under reverse repurchase agreements	–	16,011	–	16,011
Derivative-related assets	497	8,759	–	9,256
	497	34,326	–	34,823
Investments representing financial assets at FVTPL	281,924	171,110	535,273	988,307
Investment-related liabilities				
Amounts payable from pending trades	–	(6,475)	–	(6,475)
Interest payable	–	(303)	–	(303)
Securities sold short	(11,790)	–	–	(11,790)
Collateral payable	–	(9,407)	–	(9,407)
Securities sold under repurchase agreements	–	(13,938)	–	(13,938)
Derivative-related liabilities	(386)	(5,831)	–	(6,217)
Investment-related liabilities representing financial liabilities at FVTPL	(12,176)	(35,954)	–	(48,130)
Borrowings				
Capital market debt financing	–	(71,107)	–	(71,107)
Borrowings representing financial liabilities designated at FVTPL	–	(71,107)	–	(71,107)
Net investments	269,748	64,049	535,273	869,070

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

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

(Canadian $ thousands)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	11,263	3,057	195	14,515
Foreign equity	113,936	6,472	5,200	125,608
Private markets				
Real estate	–	–	128,583	128,583
Private equity	1	–	95,423	95,424
Infrastructure	–	–	96,897	96,897
Natural resources	–	–	45,117	45,117
Fixed income				
Cash and money market securities	5,563	15,349	–	20,912
Government and corporate bonds	49,748	85,893	29	135,670
Inflation-linked bonds	69,843	1,687	–	71,530
Private debt securities	–	–	75,349	75,349
Alternative investments	–	11,291	36,563	47,854
	250,354	123,749	483,356	857,459
Investment-related assets				
Amounts receivable from pending trades	–	3,284	–	3,284
Interest receivable	–	2,539	–	2,539
Dividends receivable	–	688	–	688
Securities purchased under reverse repurchase agreements	–	19,510	–	19,510
Derivative-related assets	795	11,233	–	12,028
	795	37,254	–	38,049
Investments representing financial assets at FVTPL	251,149	161,003	483,356	895,508
Investment-related liabilities				
Amounts payable from pending trades	–	(4,389)	–	(4,389)
Interest payable	–	(407)	–	(407)
Securities sold short	(15,886)	(921)	–	(16,807)
Collateral payable	–	(14,478)	–	(14,478)
Securities sold under repurchase agreements	–	(37,960)	–	(37,960)
Derivative-related liabilities	(459)	(19,133)	–	(19,592)
Investment-related liabilities representing financial liabilities at FVTPL	(16,345)	(77,288)	–	(93,633)
Borrowings				
Capital market debt financing	–	(68,295)	–	(68,295)
Borrowings representing financial liabilities designated at FVTPL	–	(68,295)	–	(68,295)
Net investments	234,804	15,420	483,356	733,580

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2021 (no significant transfers between Level 1 and Level 2 during the year ended March 31, 2020).

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

To reflect the impact, where applicable, of significant market movements or other events occurring up to March 31, 2021, such as those in connection with the market disruption described in Note 2.4, adjustments to Private Markets and fund investments are made as appropriate. Such adjustments are based on a number of factors including public market trading comparables, investment specific characteristics as well as market conditions and uncertainties at that time.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2021:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ thousands)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	**233**	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	**5,028**	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	**126,235**	Discounted cash flow (DCF)	Discount rate[B, C]	5.00% – 20.00% (7.34%)
				Terminal capitalization rate[B, C]	4.00% – 13.25% (5.71%)
			Direct capitalization	Capitalization rate[B, D]	2.40% – 10.13% (4.70%)
				Stabilized occupancy rate[D, E]	38.00% – 100.00% (96.89%)
			Sales comparison approach	Price per square foot[D, E]	$4.07 – $1,365.41 ($274.50)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**9,763**	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	**195,801**	DCF	Discount rate[B]	5.92% – 15% (8.70%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**84,184**	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	**22**	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	**53,742**	DCF	Discount rate[B]	2.70% – 22.23% (9.03%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**23,266**	NAV[A]	N/A	N/A
Alternative investments	Fund investments	**36,999**	NAV[A]	N/A	N/A
Total		**535,273**			

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

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

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

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian $ thousands)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets					
Canadian equity	Direct investments	195	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	5,200	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	121,350	Discounted cash flow (DCF)	Discount rate[B, C]	2.90% – 20.00% (7.46%)
				Terminal capitalization rate[B, C]	3.95% – 10.25% (5.82%)
			Direct capitalization	Capitalization rate[B, D]	2.35% – 9.78% (4.88%)
				Stabilized occupancy rate[D, E]	67.50% – 100.00% (98.43%)
			Sales comparison approach	Price per square foot[D, E]	$0.94 – $1,895.16 ($290.17)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	7,233	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	168,563	DCF	Discount rate[B]	6.30% – 15% (8.20%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	68,874	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	29	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	53,529	DCF	Discount rate[B]	6.63% – 22.64% (11.86%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	21,820	NAV[A]	N/A	N/A
Alternative investments	Fund investments	36,563	NAV[A]	N/A	N/A
Total		483,356			

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

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2021:

(Canadian $ thousands)	Opening Balance	Purchases	Sales	Settlements	Realized Gains (Losses)	Unrealized Gains [A]	Transfer out of Level 3	Closing Balance
Public markets	**5,395**	**989**	**(625)**	**–**	**(40)**	**1,937**	**(2,395)**	**5,261**
Private markets	**366,020**	**53,187**	**(29,001)**	**–**	**8,056**	**18,517**	**(796)**	**415,983**
Fixed income	**75,378**	**27,490**	**(26,537)**	**(5)**	**597**	**107**	**–**	**77,030**
Alternative investments	**36,563**	**3,335**	**(5,311)**	**–**	**585**	**1,827**	**–**	**36,999**
Total	**483,356**	**85,001**	**(61,474)**	**(5)**	**9,198**	**22,388**	**(3,191)**	**535,273**

[A] Includes Plan Account allocation adjustments.

As at March 31, 2020, an investment of $2,395 thousand in a non-listed fund that held listed securities was classified under Level 3 due to the nature of the contractual restrictions on the redemption of fund units. During the year ended March 31, 2021, the listed securities held by the fund were transferred to PSP Investments and were classified as Level 1 as at March 31, 2021. Additionally, as at March 31, 2020, a private market investment of $796 thousand was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2021, this investment was transferred to Level 2 as the underlying investee indirectly held by PSP Investments became publicly traded.

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

(Canadian $ thousands)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer in (out) of Level 3	Closing Balance
Public markets	7,629	501	(3,842)	–	2,270	(1,163)	–	5,395
Private markets	333,767	82,205	(45,378)	–	16,018	(21,025)	433	366,020
Fixed income	68,881	33,377	(21,719)	(5)	467	(5,623)	–	75,378
Alternative investments	34,766	6,685	(5,292)	–	739	674	(1,009)	36,563
Total	445,043	122,768	(76,231)	(5)	19,494	(27,137)	(576)	483,356

[A] Includes Plan Account allocation adjustments.

As at March 31, 2019, an alternative investment of $1,009 thousand in a non-listed fund that held listed securities was classified as Level 3 due to the nature of the contractual restrictions on the redemption of fund units. During the year ended March 31, 2020, the investment was transferred to Level 2 as the contractual restrictions were lifted. Additionally, as at March 31, 2019, a public market investment of $433 thousand was classified as Level 1 and was transferred to Level 3 during the year ended March 31, 2020, as the investment became privately held.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, with all other variables held constant, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2021 (March 31, 2020 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

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

(Canadian $ thousands)	**March 31, 2021**	March 31, 2020
Securities lending and borrowing		
Securities lent	**15,258**	2,859
Collateral held[A]	**16,333**	3,041
Securities borrowed	**8,130**	4,455
Collateral pledged[B]	**8,442**	4,837
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**13,902**	38,223
Collateral pledged	**13,935**	38,043
Securities purchased under reverse repurchase agreements	**16,003**	19,559
Collateral held[C]	**15,999**	19,540
Derivative contracts		
Collateral pledged	**2,891**	12,508
Collateral held[D]	**5,606**	1,663

[A] The minimum fair value of securities collateral denominated in the same currency required is equal to 102%, and in the case of securities denominated in different currencies 105%.

[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 $4,338 thousand has been used in connection with short selling transactions as at March 31, 2021 (March 31, 2020 – $12,351 thousand) and $653 thousand has been used in connection with securities sold under repurchase agreements (March 31, 2020 – $579 thousand).

[D] As part of collateral held, cash amounted to $1,295 thousand as at March 31, 2021 (March 31, 2020 – $193 thousand) and securities amounted to $4,311 thousand as at March 31, 2021 (March 31, 2020 – $1,470 thousand). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

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

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

(i) Control and significant influence

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

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

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

(ii) Joint control

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

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

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2021, 120 investment entity subsidiaries were incorporated in North America, 18 in Europe, 13 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2020 – 111 in North America, 15 in Europe, 15 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 91 investees directly or through its investment entity subsidiaries as at March 31, 2021 (March 31, 2020 – 84 investees).

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

	March 31, 2021		
Entity's Name	**Principal Place of Business**	**Ownership Interest Held by PSP Investments (%)**	**Relationship to PSP Investments**
AviAlliance GmbH	**Europe**	**100**	**Controlled investee**
Kaingaroa Timberlands Limited	**Oceania**	**56**	**Jointly controlled investee**
Revera Inc.	**North America**	**100**	**Controlled investee**
SEGRO European Logistics Partnership S.a.r.l.	**Europe**	**50**	**Jointly controlled investee**
Forth Ports Limited	**Europe**	**51**	**Jointly controlled investee**
Roadis Transportation Holding, S.L.U.	**Global**	**100**	**Controlled investee**
American Wholesale Insurance Holding Company, LLC	**North America**	**23**	**Associate**
TDF S.A.S.	**Europe**	**22**	**Associate**
Constantin Investment Limited	**Europe**	**38**	**Associate**
Pomona Farming, LLC	**North America**	**99**	**Controlled investee**

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

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

6.2. Structured Entities

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

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

7 — Investment Risk Management

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

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

7.1. Market Risk

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

7.1.1. Measurement of Market Risk

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

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

The absolute volatility is statistically valid under normal market conditions. Although it includes losses from severe market events such as those described in Note 2.4, it does not solely measure such events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

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

	March 31, 2021 (%)	March 31, 2020 (%)
Absolute volatility	**11.3**	9.2

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, 2021					
(Canadian $ thousands)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	33,122[A]	33,122
Government and corporate bonds	2,949	51,611	27,465	24,723	3,646[B]	110,394
Inflation-linked bonds	2,240	23,706	21,176	13,302	–	60,424
Private debt securities	881	20,401	24,576	6,816	24,334[C]	77,008
Total fixed income	**6,070**	**95,718**	**73,217**	**44,841**	**61,102**	**280,948**

	March 31, 2020					
(Canadian $ thousands)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	20,912[A]	20,912
Government and corporate bonds	4,002	77,213	24,609	23,915	5,931[B]	135,670
Inflation-linked bonds	3	25,785	27,411	18,331	–	71,530
Private debt securities	1,329	18,747	26,922	6,436	21,915[C]	75,349
Total fixed income	5,334	121,745	78,942	48,682	48,758	303,461

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

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

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

All equity investments within Canadian equity, foreign equity, real estate, private equity, infrastructure and natural resources amounting to $603,504 thousand as at March 31, 2021 ($506,144 thousand as at March 31, 2020) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in Note 4.1.4, which amounted to $69,032 thousand as at March 31, 2021 ($47,854 thousand as at March 31, 2020), also have no specified terms to maturity. Certain of these investments, as well as reverse repurchase agreements and derivative contracts described in Notes 4.1.10 and 4.1.12, respectively, are subject to interest rate risk exposures. These exposures are reflected in the absolute volatility calculation described in Note 7.1.1.

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

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

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

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

	March 31, 2021	
Currency	**Fair Value (Canadian $ thousands)**	**% of Total**
US Dollar	**453,093**	**63.0**
Euro	**100,396**	**14.0**
Australian Dollar	**35,748**	**5.0**
British Pound	**25,959**	**3.6**
Japanese Yen	**17,204**	**2.4**
Hong Kong Dollar	**11,151**	**1.6**
Mexican Peso	**8,955**	**1.2**
Swiss Franc	**7,035**	**1.0**
Indian Rupee	**6,931**	**1.0**
Brazilian Real	**6,858**	**1.0**
Chinese Yuan	**6,716**	**0.9**
South Korean won	**6,547**	**0.9**
Others	**32,641**	**4.4**
Total	**719,234**	**100.0**

As at March 31, 2021, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $114,369 thousand for the Plan Account (US $75,324 thousand, € 10,905 thousand, £ 1,612 thousand, 94 thousand South African rands, 8,541 thousand Mexican pesos, 12,828 thousand Indian rupees and 211 thousand Danish kroner), which were not included in the foreign currency exposure table above.

	March 31, 2020	
Currency	**Fair Value (Canadian $ thousands)**	**% of Total**
US Dollar	421,560	67.1
Euro	81,386	13.0
Australian Dollar	26,837	4.3
British Pound	20,686	3.3
Japanese Yen	15,117	2.4
Hong Kong Dollar	10,126	1.6
Swiss Franc	7,486	1.2
Mexican Peso	6,889	1.1
Indian Rupee	5,789	0.9
Brazilian Real	5,702	0.9
Others	26,180	4.2
Total	627,758	100.0

As at March 31, 2020, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $107,588 thousand for the Plan Account (US $62,693 thousand, € 8,622 thousand, £ 1,176 thousand, 95 thousand South African rands, 9,629 thousand Mexican pesos, 114,056 thousand Indian rupees, 215 thousand Danish kroner and 35 thousand Australian dollars), which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

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

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

As at March 31, 2021, the Plan Account's maximum exposure to credit risk amounted to $305 million (March 31, 2020 - $329 million). This amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 16 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

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

	March 31, 2021						
(Canadian $ thousands)	**Government and corporate bonds[A]**	**Inflation-linked bonds[A]**	**Money market securities[A]**	**Reverse repurchase agreements**	**OTC derivatives[B]**	**Private debt securities[A]**	**Total[A]**
AAA-AA	**74,265**	**60,025**	**25,067**	**7,208**	**209**	**–**	**166,774**
A	**33,161**	**505**	**5,169**	**8,603**	**8,546**	**–**	**55,984**
BBB	**1,132**	**–**	**–**	**200**	**–**	**1,349**	**2,681**
BB or below	**1,964**	**–**	**–**	**–**	**–**	**76,046**	**78,010**
No rating[C]	**492**	**–**	**109**	**–**	**–**	**594**	**1,195**
Total	**111,014**	**60,530**	**30,345**	**16,011**	**8,755**	**77,989**	**304,644**

	March 31, 2020						
(Canadian $ thousands)	Government and corporate bonds[A]	Inflation-linked bonds[A]	Money market securities[A]	Reverse repurchase agreements	OTC derivatives[B]	Private debt securities[A]	Total[A]
AAA-AA	96,645	70,152	8,972	4,679	1,181	–	181,629
A	32,236	595	3,359	14,647	10,013	–	60,850
BBB	3,719	935	–	184	–	1,019	5,857
BB or below	4,569	–	–	–	–	74,520	79,089
No rating[C]	317	–	–	–	–	1,375	1,692
Total	137,486	71,682	12,331	19,510	11,194	76,914	329,117

[A] Includes interest receivable.

[B] As disclosed in Note 4.1.12.

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

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

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

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

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

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

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

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

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

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

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

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

Financial Assets

				Less: Related Amounts Not Set Off in the Statements of Financial Position		
(Canadian $ thousands)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Recognized Financial Liabilities	Collateral Held and Not Recognized	Net
March 31, 2021						
Reverse repurchase agreements	**16,011**	**–**	**16,011**[A]	**6,353**	**9,651**	**7**
OTC-derivatives	**9,593**	**838**	**8,755**[B]	**6,163**	**2,519**	**73**
Total	**25,604**	**838**	**24,766**	**12,516**	**12,170**	**80**
March 31, 2020						
Reverse repurchase agreements	19,510	–	19,510[A]	15,437	4,062	11
OTC-derivatives	11,381	187	11,194[B]	9,822	1,328	44
Total	30,891	187	30,704	25,259	5,390	55

Financial Liabilities

				Less: Related Amounts Not Set Off in the Statements of Financial Position		
(Canadian $ thousands)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Recognized Financial Assets	Collateral Pledged and Not Derecognized	Net
March 31, 2021						
Repurchase agreements	**13,938**	**–**	**13,938**[A]	**6,353**	**7,576**	**9**
OTC-derivatives	**6,668**	**838**	**5,830**[B]	**5,229**	**519**	**82**
Collateral payable	**1,295**	**–**	**1,295**[C]	**934**	**–**	**361**
Total	**21,901**	**838**	**21,063**	**12,516**	**8,095**	**452**
March 31, 2020						
Repurchase agreements	37,960	–	37,960[A]	15,437	22,506	17
OTC-derivatives	19,304	187	19,117[B]	9,726	8,878	513
Collateral payable	193	–	193[C]	96	–	97
Total	57,457	187	57,270	25,259	31,384	627

[A] As described in Note 4.1.10.

[B] As described in Note 4.1.12.

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

7— Investment Risk Management (continued)

7.3. Liquidity Risk

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

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

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

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2021 and excluding the impact of guarantees and indemnities disclosed in Note 16:

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(6,475)	–	–	(6,475)
Interest payable	(270)	(33)	–	(303)
Securities sold short	(11,790)	–	–	(11,790)
Collateral payable	(3,392)	–	(6,015)	(9,407)
Securities sold under repurchase agreements	(11,456)	(2,482)	–	(13,938)
Capital market debt financing	(15,578)	(14,155)	(41,374)	(71,107)
Trade payable and other liabilities	(619)	(467)	(773)	(1,859)
Total	(49,580)	(17,137)	(48,162)	(114,879)

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	3,687	3,185	2,384	9,256
Derivative-related liabilities[A]	(2,415)	(2,402)	(1,400)	(6,217)
Total	1,272	783	984	3,039

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

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

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities[A]				
Amounts payable from pending trades	(4,389)	–	–	(4,389)
Interest payable	(142)	(265)	–	(407)
Securities sold short	(16,807)	–	–	(16,807)
Collateral payable	(218)	–	(14,260)	(14,478)
Securities sold under repurchase agreements	(33,521)	(4,439)	–	(37,960)
Capital market debt financing	(15,624)	(15,788)	(36,883)	(68,295)
Trade payable and other liabilities	(550)	(493)	(861)	(1,904)
Total	(71,251)	(20,985)	(52,004)	(144,240)

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	8,303	2,173	1,552	12,028
Derivative-related liabilities[A]	(11,802)	(6,279)	(1,511)	(19,592)
Total	(3,499)	(4,106)	41	(7,564)

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

8 — Borrowings

8.1. Credit Facilities

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

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

These Credit Facilities were not drawn upon as at March 31, 2021 and 2020.

8.2. Capital Market Debt Financing

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

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

PSP Investments’ capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2021 and 2020.

8 — Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

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

	March 31, 2021		March 31, 2020	
(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 0.12% and 0.51% and maturing within 90 and 364 days of issuance (March 31, 2020 – between 0.97% and 1.87%, maturing within 27 and 364 days)	**1,498**	**1,497**	1,404	1,402
Short-term US Dollar promissory notes, bearing interest between 0.09% and 0.47% and maturing within 31 and 365 days of issuance (March 31, 2020 – between 0.03% and 2.02%, maturing within 7 and 366 days)	**22,911**	**22,901**	25,690	25,632
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**–**	**–**	4,320	4,378
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**6,205**	**6,677**	6,083	6,531
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**5,312**	**5,335**	5,105	5,143
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**6,375**	**6,620**	6,403	6,589
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**6,664**	**6,781**	7,211	7,330
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**5,312**	**5,729**	5,400	5,815
Medium-term notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**5,312**	**5,312**	5,400	5,475
Medium-term notes Series 13, bearing interest of 0.90% per annum and maturing on June 15, 2026	**6,375**	**6,219**	–	–
Medium-term notes Series 14, bearing interest of 1.50% per annum and maturing on March 15, 2028	**4,101**	**4,036**	–	–
Total	**70,065**	**71,107**	67,016	68,295

Unrealized gains in connection with borrowings amounted to $2,558 thousand for the year ended March 31, 2021 (unrealized losses of $2,203 thousand for the year ended March 31, 2020).

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

(Canadian $ thousands)	**2021**	2020
Short-term promissory notes	**124**	640
Medium-term notes	**909**	807
Total	**1,033**	1,447

8 — Borrowings (continued)

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2021.

				Non-cash changes		
(Canadian $ thousands)	**Opening balance**	**Proceeds from borrowings**	**Repayment of borrowings**	**Foreign exchange gains**	**Fair value[A] gains**	**Closing balance**
Capital market debt financing	**68,295**	**97,108**	**(91,676)**	**(2,358)**	**(262)**	**71,107**
Borrowings	**68,295**	**97,108**	**(91,676)**	**(2,358)**	**(262)**	**71,107**

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

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

				Non-cash changes		
(Canadian $ thousands)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Foreign exchange losses	Fair value[A] losses	Closing balance
Capital market debt financing	62,013	113,058	(108,973)	1,548	649	68,295
Borrowings	62,013	113,058	(108,973)	1,548	649	68,295

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

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

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

9.2. Fund Transfers

PSP Investments did not receive any fund transfers from the Government of Canada for the year ended March 31, 2021 (no transfers for the year ended March 31, 2020) for the Fund.

10 — Segment Information

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

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

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

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

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

(Canadian $ thousands)	**March 31, 2021**	March 31, 2020
Public Equity	**255,844**	208,964
Real Estate	**113,969**	102,896
Private Equity	**134,924**	103,852
Infrastructure	**78,153**	79,070
Natural Resources	**41,277**	33,030
Credit Investments	**61,515**	57,437
Fixed Income	**158,367**	141,334
Complementary Portfolio	**788**	4,083
Other[A]	**24,233**	2,914
Total	**869,070**	733,580

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

10 — Segment Information (continued)

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

	2021			2020		
(Canadian $ thousands)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)
Public Equity	**92,472**	**(1,178)**	**91,294**	(33,518)	(1,349)	(34,867)
Real Estate	**4,977**	**(840)**	**4,137**	(5,043)	(1,301)	(6,344)
Private Equity	**30,925**	**(430)**	**30,495**	6,886	(511)	6,375
Infrastructure	**3,852**	**(718)**	**3,134**	9,270	(928)	8,342
Natural Resources	**4,069**	**(482)**	**3,587**	(1,982)	(396)	(2,378)
Credit Investments	**5,963**	**(314)**	**5,649**	2,952	(312)	2,640
Fixed Income	**(4,255)**	**(303)**	**(4,558)**	18,512	(574)	17,938
Complementary Portfolio	**172**	**(14)**	**158**	747	(30)	717
Other[C]	**1,336**	**(56)**	**1,280**	3,402	(41)	3,361
Total	**139,511**	**(4,335)**	**135,176**	1,226	(5,442)	(4,216)

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

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

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

11 — Investment-Related Expenses

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

(Canadian $ thousands)	2021	2020
Interest expense	**1,117**	1,804
Transaction costs	**582**	736
External investment management fees[A]	**237**	221
Other (net)	**206**	261
Total	**2,142**	3,022

[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 $1,598 thousand for the year ended March 31, 2021 ($372 thousand for the year ended March 31, 2020). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.5% of the total invested and/or committed amount, totaled $1,985 thousand for the year ended March 31, 2021 ($1,790 thousand for the year ended March 31, 2020). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

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

(Canadian $ thousands)	2021	2020
Salaries and employee benefits	**1,393**	1,401
Professional and consulting fees	**351**	385
Premises and equipment	**72**	110
Market data and business applications	**219**	181
Depreciation of property and equipment	**143**	154
Custodial fees	**16**	28
Other operating expenses	**(1)**	161
Total	**2,193**	2,420

13 — Allocation of Comprehensive Income

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

13.1. Investment Income

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

13.2. Expenses

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

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

(%)	**2021**	2020
Public Service Pension Plan Account	**72.8**	72.7
Canadian Forces Pension Plan Account	**19.6**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.2
Reserve Force Pension Plan Account	**0.4**	0.4
Total	**100.0**	100.0

14 — Related Party Transactions

14.1. Certain Investees

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

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

14.2. The Government of Canada and Government-Related Entities

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

(i) The Government of Canada

The only transactions undertaken between PSP Investments and the Government of Canada consist of the fund transfers outlined in Note 9.2.

(ii) Government-Related Entities

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

14.3. Compensation of Key Management Personnel

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

(Canadian $ thousands)	**2021**	2020
Short-term compensation and other benefits	**45**	64
Long-term compensation and other benefits	**38**	43
Total	**83**	107

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

15 — Capital Management

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

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

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

16 — Guarantees and Indemnities

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

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

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

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

- As at March 31, 2021 and 2020, 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 $2,239 million as at March 31, 2021 (March 31, 2020 – $2,802 million), of which $9,516 thousand has been allocated to the Plan Account (March 31, 2020 – $12,105 thousand) plus applicable interest and other related costs. The arrangements mature between May 2021 and November 2029 as of March 31, 2021 (March 31, 2020 – between April 2020 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $93 million as at March 31, 2021 (March 31, 2020 – $89 million), of which $395 thousand has been allocated to the Plan Account (March 31, 2020 – $384 thousand) in relation to investment transactions.

17 — Commitments

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

(Canadian $ thousands)	**March 31, 2021**	March 31, 2020
Foreign equity	**7**	–
Real estate	**18,777**	15,243
Private equity	**54,679**	56,270
Infrastructure	**10,360**	12,748
Natural resources	**951**	1,149
Private debt securities	**22,653**	16,423
Alternative investments	**8,315**	7,304
Total	**115,742**	109,137

Funding in connection with the above commitments can be called upon at various dates extending until 2040 as at March 31, 2021 (March 31, 2020 – 2035).

Business offices

MONTRÉAL
(main business office)
1250 René-Lévesque Boulevard West,
Suite 1400
Montréal, Québec
Canada H3B 5E9
Phone: +1.514.937.2772

NEW YORK
450 Lexington Avenue, Suite 3750
New York, New York
USA 10017
Phone: +1.212.317.8879

LONDON
10 Bressenden Place, 8th floor
London, United Kingdom
SW1E 5DH
Phone: +44 20 37 39 51 00

HONG KONG
Suites 01-05, 22nd floor
Prosperity Tower
39 Queen's Road Central
Central, Hong Kong
Phone: +852 91616063

Head office

OTTAWA
1 Rideau Street, 7th floor
Ottawa, Ontario
Canada K1N 8S7
Phone: +1.613.782.3095

info@investpsp.ca

— investpsp.com