— Financial Statements

and Notes to the Financial Statements

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Management's Responsibility

for Financial Reporting

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

On a yearly basis, 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.

In this regard, investments of PSP Investments held during the years ended March 31, 2019 and March 31, 2020 were in accordance with the *Public Sector Pension Investment Board Act* (the "Act) and the Statement of Investment Policies, Standards and Procedures (the "SIP&P").

In addition, PSP Investments maintains records and systems of internal control and supporting procedures to provide reasonable assurance that PSP Investments' assets are safeguarded and controlled in accordance with Act.

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

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

Neil Cunningham
President and CEO

June 4, 2020

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

June 4, 2020

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, 2020, were in accordance with the Act and PSP Investments’ Statement of Investment Policies, Standards and Procedures”.

Martin Glynn
Chair of the Board
June 4, 2020

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, 2020 and 2019, and the consolidated statements of comprehensive 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, 2020 and 2019, 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 Interim Auditor General of Canada

Montréal, Canada
4 June 2020

Deloitte LLP[1]

Montréal, Canada
4 June 2020

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

Consolidated Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Assets		
Investments (Note 4.1)	**207,279**	199,022
Other assets	**324**	193
Total assets	**207,603**	199,215
Liabilities		
Trade payable and other liabilities	**440**	319
Investment-related liabilities (Note 4.1)	**21,673**	16,924
Borrowings (Notes 4.1, 8.2)	**15,808**	14,119
Total liabilities	**37,921**	31,362
Net assets	**169,682**	167,853
Equity		
Statutory rights Held by the Government of Canada with respect to: (Note 9.1)		
Public Service Pension Plan Account	**123,409**	121,974
Canadian Forces Pension Plan Account	**33,275**	33,012
Royal Canadian Mounted Police Pension Plan Account	**12,265**	12,130
Reserve Force Pension Plan Account	**733**	737
Total equity	**169,682**	167,853
Total liabilities and equity	**207,603**	199,215

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

William A. Mackinnon
Chair of the Audit Committee

Consolidated Statements of Comprehensive Income (Loss)

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Investment income	**203**	12,195
Investment-related expenses **(Note 11)**	**(703)**	(579)
Net investment income (loss)	**(500)**	11,616
Operating expenses **(Note 12)**	**(551)**	(503)
Net income (loss)	**(1,051)**	11,113
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability	**9**	(3)
Comprehensive income (loss)	**(1,042)**	11,110

Consolidated Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Fund transfers		
Balance at beginning of period	**77,480**	73,731
Fund transfers received during the period (Note 9.3)	**2,871**	3,749
Balance at end of period	**80,351**	77,480
Retained earnings		
Balance at beginning of period	**90,373**	79,263
Comprehensive income (loss)	**(1,042)**	11,110
Balance at end of period	**89,331**	90,373
Total equity	**169,682**	167,853

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)	2020	2019
Cash flows from operating activities		
Net income (loss)	**(1,051)**	11,113
Adjustments for non-cash items:		
Depreciation of equipment (Note 12)	**35**	33
Effect of exchange rate changes on cash and cash equivalents	**(83)**	(33)
Unrealized losses on borrowings	**512**	189
	(587)	11,302
Net changes in operating assets and liabilities		
Increase in investments	**(12,433)**	(17,479)
Decrease in other assets	**2**	4
Increase in trade payables and other liabilities	**71**	44
Increase in investment-related liabilities	**4,748**	3,257
Net cash flows used in operating activities	**(8,199)**	(2,872)
Cash flows from financing activities		
Proceeds from borrowings	**26,342**	33,711
Repayment of borrowings	**(25,164)**	(31,987)
Fund transfers received (Note 9.3)	**2,871**	3,749
Net cash flows provided by financing activities	**4,049**	5,473
Cash flows used in investing activities		
Acquisitions of equipment	**(21)**	(43)
Net cash flows used in investing activities	**(21)**	(43)
Net change in cash and cash equivalents	**(4,171)**	2,558
Effect of exchange rate changes on cash and cash equivalents	**83**	33
Cash and cash equivalents at the beginning of the period	**6,816**	4,225
Cash and cash equivalents at the end of the period[A]	**2,728**	6,816
Supplementary disclosure of cash flow information		
Interest paid	**(395)**	(310)

[A] As at March 31, 2020 cash and cash equivalents were comprised of $2,621 million (March 31, 2019 - $6,796 million) held for investment purposes and included in Note 4.1, as well as $107 million (March 31, 2019 - $20 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, 2020 and 2019

1 — Corporate Information

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

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

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

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

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

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

2 — Significant Accounting Policies

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

2.1. Basis of Presentation

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

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

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

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on June 4, 2020.

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 Comprehensive Income.

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

(iv) Derecognition

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

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

and

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

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

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

Valuation techniques are generally applied to investments in private markets, 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.

Although assumptions reflect management's best estimates, actual results may differ from such estimates due to the uncertainties involved in using them. As further described in Note 18, such uncertainties were significant as at March 31, 2020 due to the substantial disruption of global economic activity as well as financial markets' volatility at the reporting date.

3 — Current and Future Changes in Accounting Standards

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

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

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

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Public markets		
Canadian equity	**3,360**	3,394
Foreign equity	**29,073**	32,424
Private markets		
Real estate	**29,763**	28,142
Private equity	**22,087**	20,234
Infrastructure	**22,428**	20,099
Natural resources	**10,443**	7,513
Fixed income		
Cash and money market securities	**4,840**	11,904
Government and corporate bonds	**31,403**	26,249
Inflation-linked bonds	**16,557**	14,017
Private debt securities	**17,441**	15,644
Alternative investments	**11,077**	10,039
	198,472	189,659
Investment-related assets		
Amounts receivable from pending trades	**760**	1,176
Interest receivable	**588**	498
Dividends receivable	**159**	143
Securities purchased under reverse repurchase agreements	**4,516**	5,970
Derivative-related assets	**2,784**	1,576
	8,807	9,363
Investments representing financial assets at FVTPL	**207,279**	199,022
Investment-related liabilities		
Amounts payable from pending trades	**(1,016)**	(956)
Interest payable	**(94)**	(69)
Securities sold short	**(3,890)**	(6,298)
Collateral payable	**(3,351)**	(3,012)
Securities sold under repurchase agreements	**(8,787)**	(5,627)
Derivative-related liabilities	**(4,535)**	(962)
Investment-related liabilities representing financial liabilities at FVTPL	**(21,673)**	(16,924)
Borrowings		
Capital market debt financing	**(15,808)**	(14,119)
Borrowings representing financial liabilities designated at FVTPL	**(15,808)**	(14,119)
Net investments	**169,798**	167,979

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 $2,621 million as at March 31, 2020 (March 31, 2019 – $6,796 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:

	March 31, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**2,686**	**–**	**–**	3,478	–	–
Warrants and rights	**1**	**–**	**–**	1	1	–
Options: Purchased	**3,791**	**137**	**–**	5,125	171	–
Written	**3,608**	**–**	**(66)**	4,610	–	(79)
OTC						
Swaps	**24,573**	**851**	**(3,100)**	26,159	641	(189)
Options: Purchased	**775**	**57**	**–**	672	23	–
Written	**978**	**–**	**(48)**	541	–	(31)
Currency derivatives						
Listed						
Futures	**124**	**–**	**–**	301	–	–
OTC						
Forwards	**27,331**	**790**	**(485)**	19,873	117	(52)
Swaps	**6,270**	**97**	**(30)**	6,588	18	(36)
Options: Purchased	**3,119**	**70**	**–**	6,439	52	–
Written	**3,411**	**–**	**(67)**	5,893	–	(48)
Interest rate derivatives						
Listed						
Futures	**4,124**	**–**	**–**	11,150	–	–
Options: Purchased	**33,095**	**56**	**–**	47,905	34	–
Written	**13,093**	**–**	**(44)**	43,920	–	(28)
OTC						
Forwards	**–**	**–**	**–**	593	10	(16)
Swaps	**6,839**	**148**	**(206)**	25,558	245	(264)
Options: Purchased	**41,015**	**569**	**–**	54,045	263	–
Written	**45,163**	**–**	**(483)**	51,142	–	(209)
OTC-cleared						
Forwards	**28,414**	**–**	**–**	–	–	–
Swaps	**107,157**	**–**	**–**	55,783	–	–
Credit derivatives						
OTC						
Credit default swaps: Purchased	**463**	**9**	**(6)**	668	–	(10)
Written[A]	**21**	**–**	**–**	90	1	–
OTC-cleared						
Credit default swaps: Purchased	**996**	**–**	**–**	821	–	–
Total		**2,784**	**(4,535)**		1,576	(962)

[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, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**60,522**	**193**	**(110)**	116,490	206	(107)
OTC derivatives	**159,958**	**2,591**	**(4,425)**	198,261	1,370	(855)
OTC-cleared derivatives	**136,567**	**–**	**–**	56,604	–	–
Total		**2,784**	**(4,535)**		1,576	(962)

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

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Less than 3 months	**173,100**	94,331
3 to 12 months	**91,142**	162,586
Over 1 year	**92,805**	114,438

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, 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

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, 2019 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	2,471	862	61	3,394
Foreign equity	28,570	2,178	1,676	32,424
Private markets				
Real estate	–	–	28,142	28,142
Private equity	–	–	20,234	20,234
Infrastructure	–	–	20,099	20,099
Natural resources	–	–	7,513	7,513
Fixed income				
Cash and money market securities	–	11,904	–	11,904
Government and corporate bonds	–	26,211	38	26,249
Inflation-linked bonds	–	14,017	–	14,017
Private debt securities	–	–	15,644	15,644
Alternative investments	–	2,124	7,915	10,039
	31,041	57,296	101,322	189,659
Investment-related assets				
Amounts receivable from pending trades	–	1,176	–	1,176
Interest receivable	–	498	–	498
Dividends receivable	–	143	–	143
Securities purchased under reverse repurchase agreements	–	5,970	–	5,970
Derivative-related assets	130	1,446	–	1,576
	130	9,233	–	9,363
Investments representing financial assets at FVTPL	31,171	66,529	101,322	199,022
Investment-related liabilities				
Amounts payable from pending trades	–	(956)	–	(956)
Interest payable	–	(69)	–	(69)
Securities sold short	(3,919)	(2,379)	–	(6,298)
Collateral payable	–	(3,012)	–	(3,012)
Securities sold under repurchase agreements	–	(5,627)	–	(5,627)
Derivative-related liabilities	(107)	(855)	–	(962)
Investment-related liabilities representing financial liabilities at FVTPL	(4,026)	(12,898)	–	(16,924)
Borrowings				
Capital market debt financing	–	(14,119)	–	(14,119)
Borrowings representing financial liabilities designated at FVTPL	–	(14,119)	–	(14,119)
Net investments	27,145	39,512	101,322	167,979

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2020 (no significant transfers between Level 1 and Level 2 during the year ended March 31, 2019).

4 — Financial Assets and Financial Liabilities
(continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

To reflect the impact of the market disruption described in note 18 as at March 31, 2020, management used significant judgement in the determination of fair value of Level 3 investments, especially those in Private Markets. Where appropriate, adjustments were made based on public market trading comparables, investment specific characteristics as well as market conditions and uncertainties as at March 31, 2020.

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, 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)

4.2.3. 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, 2019:

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	61	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	1,676	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	26,307	Discounted cash flow (DCF)	Discount rate[B, C]	4.10% – 20.00% (7.55%)
				Terminal capitalization rate[B, C]	4.25% – 10.25% (5.92%)
			Direct capitalization	Capitalization rate[B, D]	2.50% – 8.98% (5.57%)
				Stabilized occupancy rate[D, E]	93.00% – 100.00% (98.22%)
			Sales comparison approach	Price per square foot[D, E]	$0.95 – $2,057.93 ($281.99)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	1,835	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	33,792	DCF	Discount rate[B]	6.00% – 12.50% (8.79%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	14,054	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	29	DCF	Discount rate[B]	52.50%
	Asset-backed term notes	9	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	10,797	DCF	Discount rate[B]	5.54% – 18.76% (9.77%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	4,847	NAV[A]	N/A	N/A
Alternative investments	Fund investments	7,915	NAV[A]	N/A	N/A
Total		101,322			

[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, 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.

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, 2019:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)	Transfer out of Level 3	Closing Balance
Public markets	1,894	555	(675)	–	430	(467)	–	1,737
Private markets	66,139	14,873	(9,473)	–	1,898	2,639	(88)	75,988
Fixed income	14,301	5,785	(4,504)	(59)	152	7	–	15,682
Alternative investments	7,080	879	(552)	–	44	464	–	7,915
Total	89,414	22,092	(15,204)	(59)	2,524	2,643	(88)	101,322

As at March 31, 2018, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2019, the investment was transferred to Level 1 as the related securities became publicly traded.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, 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, 2020 (March 31, 2019 – 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, 2020**	March 31, 2019
Securities lending and borrowing		
Securities lent	**662**	7,988
Collateral held[A]	**704**	8,419
Securities borrowed	**1,031**	3,921
Collateral pledged[B]	**1,120**	4,040
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**8,847**	5,665
Collateral pledged	**8,806**	5,650
Securities purchased under reverse repurchase agreements	**4,527**	6,001
Collateral held[C]	**4,523**	5,991
Derivative contracts		
Collateral pledged	**2,895**	915
Collateral held[D]	**385**	556

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to nil as at March 31, 2020 (March 31, 2019 – $2,982 million) and securities amounted to $704 million as at March 31, 2020 (March 31, 2019 – $5,437 million). All cash collateral is reinvested.

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

[C] The collateral received is in the form of securities of which $2,859 million has been used in connection with short selling transactions as at March 31, 2020 (March 31, 2019 – $2,379 million) and $134 million has been used in connection with securities sold under repurchase agreements (March 31, 2019 – $16 million).

[D] As part of collateral held, cash amounted to $45 million as at March 31, 2020 (March 31, 2019 – $8 million) and securities amounted to $340 million as at March 31, 2020 (March 31, 2019 – $548 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, 2020, 111 investment entity subsidiaries were incorporated in North America, 15 in Europe, 15 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2019 – 108 in North America, 17 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 84 investees directly or through its investment entity subsidiaries as at March 31, 2020 (March 31, 2019 – 81 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, 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**

	March 31, 2019		
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 Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding 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
TDF S.A.S.	Europe	22	Associate
Roccapina Fund, L.P.	North America	100	Controlled investee
Big Box Properties	North America	49	Jointly controlled investee

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 18, 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, 2020 (%)	March 31, 2019 (%)
Absolute volatility	**9.2**	7.3

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, 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**

	March 31, 2019					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	11,904[A]	11,904
Government and corporate bonds	1,191	12,115	6,018	4,892	2,033[B]	26,249
Inflation-linked bonds	–	2,289	7,830	3,898	–	14,017
Private debt securities	84	2,549	6,009	2,084	4,918[C]	15,644
Total fixed income	1,275	16,953	19,857	10,874	18,855	67,814

[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 $117,154 million as at March 31, 2020 ($111,806 million as at March 31, 2019) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in 4.1.4, which amounted to $11,077 million as at March 31, 2020 ($10,039 million as at March 31, 2019), 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, 2020		March 31, 2019	
Currency	**Fair Value (Canadian $ millions)**	**% of Total**	**Fair Value (Canadian $ millions)**	**% of Total**
US Dollar	**97,575**	**67.1**	87,178	63.6
Euro	**18,838**	**13.0**	20,423	14.9
Australian Dollar	**6,212**	**4.3**	3,015	2.2
British Pound	**4,788**	**3.3**	7,918	5.8
Japanese Yen	**3,499**	**2.4**	2,779	2.0
Hong Kong Dollar	**2,344**	**1.6**	2,578	1.9
Swiss Franc	**1,733**	**1.2**	919	0.7
Mexican Peso	**1,595**	**1.1**	2,410	1.8
Indian Rupee	**1,340**	**0.9**	1,595	1.2
Brazilian Real	**1,320**	**0.9**	1,602	1.2
Others	**6,060**	**4.2**	6,536	4.7
Total	**145,304**	**100.0**	136,953	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 Rupee, 50 million Danish Krone and 8 million Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2019, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $21,604 million (US$13,656 million, €1,984 million, £103 million, 22 million South African rands, 3 million Brazilian reals, 13,553 million Colombian pesos, 2,653 million Mexican pesos and 16 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, 2020, PSP Investments' maximum exposure to credit risk amounted to $76 billion (March 31, 2019 – $73 billion), of which Private Debt securities amounting to $236 million (March 31, 2019 – $291 million) were rated BBB and $18 billion (March 31, 2019 – $17 billion) were rated BB or below. The maximum credit risk 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:

Credit Rating	**March 31, 2020 (%)**	March 31, 2019 (%)
AAA–AA	**58.6**	48.4
A	**12.5**	23.6
BBB	**1.9**	2.3
BB or below	**26.4**	25.1
No rating[A]	**0.6**	0.6
Total	**100.0**	100.0

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

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, 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**
March 31, 2019						
Reverse repurchase agreements	5,970	–	5,970[A]	3,884	2,085	1
OTC-derivatives	1,376	6	1,370[B]	762	534	74
Total	7,346	6	7,340	4,646	2,619	75

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, 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**
March 31, 2019						
Repurchase agreements	5,627	–	5,627[A]	3,884	1,741	2
OTC-derivatives	861	6	855[B]	756	93	6
Collateral payable	8	–	8[C]	6	–	2
Total	6,496	6	6,490	4,646	1,834	10

[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 such as that described in Note 18.

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, 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.

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, 2019 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	(956)	–	–	(956)
Interest payable	(67)	(2)	–	(69)
Securities sold short	(6,298)	–	–	(6,298)
Collateral payable	(3,012)	–	–	(3,012)
Securities sold under repurchase agreements	(5,627)	–	–	(5,627)
Capital market debt financing	(4,735)	(2,127)	(7,257)	(14,119)
Trade payable and other liabilities	(72)	(122)	(125)	(319)
Total	(20,767)	(2,251)	(7,382)	(30,400)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	660	554	362	1,576
Derivative-related liabilities[A]	(235)	(350)	(377)	(962)
Total	425	204	(15)	614

[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, 2020 and 2019.

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, 2020 and 2019.

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:

(Canadian $ millions)	March 31, 2020 Capital Amounts Payable at Maturity	March 31, 2020 Fair Value	March 31, 2019 Capital Amounts Payable at Maturity	March 31, 2019 Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 0.97% and 1.87% and maturing within 27 and 364 days of issuance (March 31, 2019 – between 1.79% and 2.20%, maturing within 56 and 365 days)	**325**	**324**	652	648
Short-term US Dollar promissory notes, bearing interest between 0.03% and 2.02% and maturing within 7 and 366 days of issuance (March 31, 2019 – between 2.45% and 2.84%, maturing within 21 and 365 days)	**5,946**	**5,933**	6,247	6,214
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**1,000**	**1,013**	947	965
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**1,408**	**1,512**	942	997
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**1,182**	**1,191**	1,250	1,238
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**1,482**	**1,525**	1,000	1,003
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**1,669**	**1,697**	1,750	1,742
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**1,250**	**1,346**	1,250	1,312
Medium-term notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**1,250**	**1,267**	–	–
Total	**15,512**	**15,808**	14,038	14,119

Unrealized losses in connection with borrowings amounted to $512 million for the year ended March 31, 2020 (unrealized losses of $189 million for the year ended March 31, 2019).

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

(Canadian $ millions)	2020	2019
Short-term promissory notes	**149**	150
Medium-term notes	**187**	143
Total	**336**	293

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, 2020.

(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Non-cash changes: Foreign exchange losses	Non-cash changes: 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.

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, 2019.

(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Non-cash changes: Foreign exchange losses	Non-cash changes: Fair value[A] losses	Closing balance
Capital market debt financing	12,193	33,711	(31,987)	24	178	14,119
Borrowings	12,193	33,711	(31,987)	24	178	14,119

[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)	**2020**	2019
Public Service Pension Fund	**2,198**	2,838
Canadian Forces Pension Fund	**462**	679
Royal Canadian Mounted Police Pension Fund	**211**	232
Reserve Force Pension Fund	**–**	–
Total	**2,871**	3,749

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 Markets – 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, 2020**	March 31, 2019
Public Markets[A]	**48,368**	51,035
Real Estate	**23,817**	23,538
Private Equity	**24,038**	23,539
Infrastructure	**18,302**	16,818
Natural Resources	**7,645**	6,759
Credit Investments	**13,295**	10,475
Fixed Income[A]	**32,714**	29,786
Complementary Portfolio	**945**	1,426
Other[B]	**674**	4,603
Total	**169,798**	167,979

[A] During the year ended March 31, 2020 government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present such net investments on a comparable basis, corresponding comparative balances of $29,786 million were reclassified accordingly.

[B] 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:

	2020			2019		
(Canadian $ millions)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)
Public Markets[C]	**(5,542)**	**(312)**	**(5,854)**	2,099	(313)	1,786
Real Estate	**(834)**	**(300)**	**(1,134)**	1,887	(256)	1,631
Private Equity	**1,139**	**(117)**	**1,022**	3,220	(99)	3,121
Infrastructure	**1,533**	**(214)**	**1,319**	1,212	(176)	1,036
Natural Resources	**(328)**	**(91)**	**(419)**	606	(67)	539
Credit Investments	**488**	**(71)**	**417**	837	(60)	777
Fixed Income[C]	**3,061**	**(132)**	**2,929**	1,348	(84)	1,264
Complementary Portfolio	**123**	**(7)**	**116**	(1)	(13)	(14)
Other[D]	**563**	**(10)**	**553**	987	(14)	973
Total	**203**	**(1,254)**	**(1,051)**	12,195	(1,082)	11,113

[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] During the year ended March 31, 2020, government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present net income from operations for such investments on a comparable basis, corresponding comparative figures for Investment Income, Expenses and Net Income of $1,348 million, $84 million and $1,264 million respectively, for the year ended March 31, 2019, were reclassified accordingly.

[D] 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)	2020	2019
Interest expense	**420**	336
Transaction costs	**171**	128
External investment management fees[A]	**51**	28
Other (net)	**61**	87
Total	**703**	579

[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 $86 million for the year ended March 31, 2020 ($236 million for the year ended March 31, 2019). 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 $414 million for the year ended March 31, 2020 ($330 million for the year ended March 31, 2019). 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)	2020	2019
Salaries and employee benefits	**319**	291
Professional and consulting fees	**88**	77
Premises and equipment	**25**	31
Market data and business applications	**41**	37
Depreciation of equipment	**35**	33
Custodial fees	**6**	5
Other operating expenses	**37**	29
Total	**551**	503

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 and other comprehensive income, 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:

(%)	**2020**	2019
Public Service Pension Plan Account	**72.7**	72.6
Canadian Forces Pension Plan Account	**19.7**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.3
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 funds transfers outlined in Note 9.3.

(ii) Government-Related Entities

PSP Investments may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1. Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on net assets and comprehensive income 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 Comprehensive Income (Loss) and was as follows:

(Canadian $ millions)	**2020**	2019
Short-term compensation and other benefits	**14**	15
Long-term compensation and other benefits	**10**	9
Total	**24**	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, 2020 and 2019, 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 $2,802 million as at March 31, 2020 (March 31, 2019 – $2,602 million) plus applicable interest and other related costs. The arrangements mature between April 2020 and November 2029 as of March 31, 2020 (March 31, 2019 - between July 2019 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $89 million as at March 31, 2020 (March 31, 2019 - $54 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, 2020**	March 31, 2019
Real estate	**3,528**	2,442
Private equity	**13,024**	10,296
Infrastructure	**2,951**	2,674
Natural resources	**266**	418
Private debt securities	**3,801**	4,141
Alternative investments	**1,691**	2,074
Total	**25,261**	22,045

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2020 (March 31, 2019-2035).

18 — Uncertainties Related to COVID-19

The outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. The Consolidated Financial Statements of PSP Investments prepared as of, and for the year ended March 31, 2020, reflect the impacts resulting from COVID-19 to the extent known at the reporting date.

The ongoing worldwide spread of COVID-19 and its effect on international business operations, supply chains, travel, commodity prices, consumer confidence and business forecasts are expected to continue to have significant impacts on domestic and international equity markets and fixed income yields for the near term.

Management continues to monitor developments in equity and fixed income markets generally and specifically in connection with PSP Investments' portfolio. The full potential impact of the COVID-19 outbreak on the fair value of PSP Investments' portfolio is unknown as it will depend on future developments that are uncertain. Such uncertainties include the duration and depth of the outbreak. Management expects that the fair value of PSP Investments' portfolio will continue to be affected for the near term.

— Public Service Pension Plan Account

Financial Statements

Independent Auditors' Report

To the President of the Treasury Board

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Sector Pension Investment Board – Public Service Pension Plan Account (the Public Service Pension Plan Account), which comprise the statements of financial position as at March 31, 2020 and 2019, and the statements of comprehensive 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 Public Service Pension Plan Account as at March 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

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

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

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

Montréal, Canada
4 June 2020

Deloitte LLP[1]

Montréal, Canada
4 June 2020

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

Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Assets		
Investments (Note 4.1)	**150,752**	144,624
Other assets	**237**	140
Total assets	**150,989**	144,764
Liabilities		
Trade payable and other liabilities	**321**	232
Investment-related liabilities (Note 4.1)	**15,762**	12,298
Borrowings (Notes 4.1, 8.2)	**11,497**	10,260
Total liabilities	**27,580**	22,790
Net assets	**123,409**	121,974
Equity (Note 9)	**123,409**	121,974
Total liabilities and equity	**150,989**	144,764

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

On behalf of the Board of Directors:

Martin Glynn
Chair of the Board

William A. Mackinnon
Chair of the Audit Committee

Statements of Comprehensive Income (Loss)

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Investment income	**142**	8,858
Investment-related expenses (Note 11)	**(512)**	(420)
Net investment income (loss)	**(370)**	8,438
Operating expenses (Note 12)	**(400)**	(365)
Net income (loss)	**(770)**	8,073
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability	**7**	(3)
Comprehensive income (loss)	**(763)**	8,070

Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Fund transfers		
Balance at beginning of period	**56,336**	53,498
Fund transfers received during the period (Note 9.2)	**2,198**	2,838
Balance at end of period	**58,534**	56,336
Retained earnings		
Balance at beginning of period	**65,638**	57,568
Comprehensive income (loss)	**(763)**	8,070
Balance at end of period	**64,875**	65,638
Total equity	**123,409**	121,974

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Cash flows from operating activities		
Net income (loss)	**(770)**	8,073
Adjustments for non-cash items:		
Depreciation of equipment (Note 12)	**25**	24
Effect of exchange rate changes on cash and cash equivalents	**(60)**	(24)
Unrealized losses on borrowings	**372**	137
	(433)	8,210
Net changes in operating assets and liabilities		
Increase in investments	**(9,162)**	(12,866)
Decrease in other assets	**1**	2
Increase in trade payables and other liabilities	**52**	32
Increase in investment-related liabilities	**3,463**	2,380
Net cash flows used in operating activities	**(6,079)**	(2,242)
Cash flows from financing activities		
Proceeds from borrowings	**19,202**	24,490
Repayment of borrowings	**(18,336)**	(23,225)
Repayments of amounts due from:		
Canadian Forces Pension Plan Account	**–**	104
Royal Canadian Mounted Police Pension Plan Account	**–**	38
Reserve Force Pension Plan Account	**–**	2
Advances to:		
Canadian Forces Pension Plan Account	**–**	(81)
Royal Canadian Mounted Police Pension Plan Account	**–**	(30)
Reserve Force Pension Plan Account	**–**	(2)
Fund transfers received (Note 9.2)	**2,198**	2,838
Net cash flows provided by financing activities	**3,064**	4,134
Cash flows used in investing activities		
Acquisitions of equipment	**(14)**	(30)
Net cash flows used in investing activities	**(14)**	(30)
Net change in cash and cash equivalents	**(3,029)**	1,862
Effect of exchange rate changes on cash and cash equivalents	**60**	24
Cash and cash equivalents at the beginning of the period	**4,952**	3,066
Cash and cash equivalents at the end of the period[A]	**1,983**	4,952
Supplementary disclosure of cash flow information		
Interest paid	**(288)**	(225)

[A] As at March 31, 2020 cash and cash equivalents were comprised of $1,905 million (March 31, 2019 - $4,938 million) held for investment purposes and included in Note 4.1, as well as $78 million (March 31, 2019 - $14 million) held for administrative purposes and included in Other assets. .

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

Notes to the Financial Statements

For the years ended March 31, 2020 and 2019

1 — Corporate Information

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

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

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

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

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

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

2 — Significant Accounting Policies

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

2.1. Basis of Presentation

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

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

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

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on June 4, 2020.

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 Comprehensive Income.

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

(iv) Derecognition

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

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

and

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

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

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

Valuation techniques are generally applied to investments in private markets, 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.

Although assumptions reflect management's best estimates, actual results may differ from such estimates due to the uncertainties involved in using them. As further described in Note 18, such uncertainties were significant as at March 31, 2020 due to the substantial disruption of global economic activity as well as financial markets' volatility at the reporting date.

3 — Current and Future Changes in Accounting Standards

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

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

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

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Public markets		
Canadian equity	**2,444**	2,466
Foreign equity	**21,145**	23,562
Private markets		
Real estate	**21,646**	20,450
Private equity	**16,064**	14,704
Infrastructure	**16,312**	14,605
Natural resources	**7,595**	5,460
Fixed income		
Cash and money market securities	**3,520**	8,650
Government and corporate bonds	**22,839**	19,075
Inflation-linked bonds	**12,042**	10,185
Private debt securities	**12,684**	11,368
Alternative investments	**8,056**	7,295
	144,347	137,820
Investment-related assets		
Amounts receivable from pending trades	**553**	855
Interest receivable	**427**	362
Dividends receivable	**116**	104
Securities purchased under reverse repurchase agreements	**3,284**	4,338
Derivative-related assets	**2,025**	1,145
	6,405	6,804
Investments representing financial assets at FVTPL	**150,752**	144,624
Investment-related liabilities		
Amounts payable from pending trades	**(739)**	(695)
Interest payable	**(69)**	(50)
Securities sold short	**(2,829)**	(4,577)
Collateral payable	**(2,437)**	(2,188)
Securities sold under repurchase agreements	**(6,390)**	(4,089)
Derivative-related liabilities	**(3,298)**	(699)
Investment-related liabilities representing financial liabilities at FVTPL	**(15,762)**	(12,298)
Borrowings		
Capital market debt financing	**(11,497)**	(10,260)
Borrowings representing financial liabilities designated at FVTPL	**(11,497)**	(10,260)
Net investments	**123,493**	122,066

4 — Financial Assets and Financial Liabilities
(continued)

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

4.1.1. Public Markets

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

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

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

4.1.2. Private Markets

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

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

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

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

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

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

4.1.3. Fixed Income

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

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Statements of Cash Flows and amounted to $1,905 million as at March 31, 2020 (March 31, 2019 – $4,938 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, 2020** Notional Value	**Fair Value** Assets	Liabilities	March 31, 2019 Notional Value	Fair Value Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**1,953**	**–**	**–**	2,528	–	–
Warrants and rights	**1**	**–**	**–**	1	1	–
Options: Purchased	**2,757**	**99**	**–**	3,724	124	–
Written	**2,624**	**–**	**(48)**	3,350	–	(57)
OTC						
Swaps	**17,872**	**620**	**(2,254)**	19,009	465	(137)
Options: Purchased	**564**	**41**	**–**	488	17	–
Written	**711**	**–**	**(35)**	393	–	(23)
Currency derivatives						
Listed						
Futures	**90**	**–**	**–**	219	–	–
OTC						
Forwards	**19,878**	**575**	**(353)**	14,441	85	(38)
Swaps	**4,560**	**70**	**(22)**	4,787	13	(26)
Options: Purchased	**2,269**	**51**	**–**	4,679	38	–
Written	**2,481**	**–**	**(49)**	4,282	–	(35)
Interest rate derivatives						
Listed						
Futures	**3,000**	**–**	**–**	8,102	–	–
Options: Purchased	**24,069**	**41**	**–**	34,811	25	–
Written	**9,523**	**–**	**(32)**	31,916	–	(20)
OTC						
Forwards	**–**	**–**	**–**	431	7	(12)
Swaps	**4,974**	**108**	**(150)**	18,573	178	(192)
Options: Purchased	**29,830**	**414**	**–**	39,273	191	–
Written	**32,845**	**–**	**(351)**	37,162	–	(152)
OTC-cleared						
Forwards	**20,666**	**–**	**–**	–	–	–
Swaps	**77,933**	**–**	**–**	40,536	–	–
Credit derivatives						
OTC						
Credit default swaps: Purchased	**336**	**6**	**(4)**	486	–	(7)
Written[A]	**16**	**–**	**–**	66	1	–
OTC-cleared						
Credit default swaps: Purchased	**725**	**–**	**–**	596	–	–
Total		**2,025**	**(3,298)**		1,145	(699)

[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, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**44,017**	**140**	**(80)**	84,651	150	(77)
OTC derivatives	**116,336**	**1,885**	**(3,218)**	144,070	995	(622)
OTC-cleared derivatives	**99,324**	**–**	**–**	41,132	–	–
Total		**2,025**	**(3,298)**		1,145	(699)

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

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Less than 3 months	**125,895**	68,548
3 to 12 months	**66,286**	118,146
Over 1 year	**67,496**	83,159

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, 2020 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	1,896	515	33	2,444
Foreign equity	19,180	1,090	875	21,145
Private markets				
Real estate	–	–	21,646	21,646
Private equity	–	–	16,064	16,064
Infrastructure	–	–	16,312	16,312
Natural resources	–	–	7,595	7,595
Fixed income				
Cash and money market securities	936	2,584	–	3,520
Government and corporate bonds	8,375	14,459	5	22,839
Inflation-linked bonds	11,758	284	–	12,042
Private debt securities	–	–	12,684	12,684
Alternative investments	–	1,901	6,155	8,056
	42,145	20,833	81,369	144,347
Investment-related assets				
Amounts receivable from pending trades	–	553	–	553
Interest receivable	–	427	–	427
Dividends receivable	–	116	–	116
Securities purchased under reverse repurchase agreements	–	3,284	–	3,284
Derivative-related assets	134	1,891	–	2,025
	134	6,271	–	6,405
Investments representing financial assets at FVTPL	42,279	27,104	81,369	150,752
Investment-related liabilities				
Amounts payable from pending trades	–	(739)	–	(739)
Interest payable	–	(69)	–	(69)
Securities sold short	(2,674)	(155)	–	(2,829)
Collateral payable	–	(2,437)	–	(2,437)
Securities sold under repurchase agreements	–	(6,390)	–	(6,390)
Derivative-related liabilities	(77)	(3,221)	–	(3,298)
Investment-related liabilities representing financial liabilities at FVTPL	(2,751)	(13,011)	–	(15,762)
Borrowings				
Capital market debt financing	–	(11,497)	–	(11,497)
Borrowings representing financial liabilities designated at FVTPL	–	(11,497)	–	(11,497)
Net investments	39,528	2,596	81,369	123,493

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, 2019 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	1,795	626	45	2,466
Foreign equity	20,761	1,584	1,217	23,562
Private markets				
Real estate	–	–	20,450	20,450
Private equity	–	–	14,704	14,704
Infrastructure	–	–	14,605	14,605
Natural resources	–	–	5,460	5,460
Fixed income				
Cash and money market securities	–	8,650	–	8,650
Government and corporate bonds	–	19,047	28	19,075
Inflation-linked bonds	–	10,185	–	10,185
Private debt securities	–	–	11,368	11,368
Alternative investments	–	1,543	5,752	7,295
	22,556	41,635	73,629	137,820
Investment-related assets				
Amounts receivable from pending trades	–	855	–	855
Interest receivable	–	362	–	362
Dividends receivable	–	104	–	104
Securities purchased under reverse repurchase agreements	–	4,338	–	4,338
Derivative-related assets	94	1,051	–	1,145
	94	6,710	–	6,804
Investments representing financial assets at FVTPL	22,650	48,345	73,629	144,624
Investment-related liabilities				
Amounts payable from pending trades	–	(695)	–	(695)
Interest payable	–	(50)	–	(50)
Securities sold short	(2,848)	(1,729)	–	(4,577)
Collateral payable	–	(2,188)	–	(2,188)
Securities sold under repurchase agreements	–	(4,089)	–	(4,089)
Derivative-related liabilities	(77)	(622)	–	(699)
Investment-related liabilities representing financial liabilities at FVTPL	(2,925)	(9,373)	–	(12,298)
Borrowings				
Capital market debt financing	–	(10,260)	–	(10,260)
Borrowings representing financial liabilities designated at FVTPL	–	(10,260)	–	(10,260)
Net investments	19,725	28,712	73,629	122,066

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2020 (no significant transfers between Level 1 and Level 2 during the year ended March 31, 2019).

4 — Financial Assets and Financial Liabilities
(continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

To reflect the impact of the market disruption described in note 18 as at March 31, 2020, management used significant judgement in the determination of fair value of Level 3 investments, especially those in Private Markets. Where appropriate, adjustments were made based on public market trading comparables, investment specific characteristics as well as market conditions and uncertainties as at March 31, 2020.

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, 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	**33**	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	**875**	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	**20,428**	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	**1,218**	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	**28,377**	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	**11,594**	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	**9,011**	DCF	Discount rate[B]	6.63% – 22.64% (11.86%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**3,673**	NAV[A]	N/A	N/A
Alternative investments	Fund investments	**6,155**	NAV[A]	N/A	N/A
Total		**81,369**			

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2019:

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	1,217	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	19,117	Discounted cash flow (DCF)	Discount rate[B, C]	4.10% – 20.00% (7.55%)
				Terminal capitalization rate[B, C]	4.25% – 10.25% (5.92%)
			Direct capitalization	Capitalization rate[B, D]	2.50% – 8.98% (5.57%)
				Stabilized occupancy rate[D, E]	93.00% – 100.00% (98.22%)
			Sales comparison approach	Price per square foot[D, E]	$0.95 – $2,057.93 ($281.99)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	1,333	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	24,556	DCF	Discount rate[B]	6.00% – 12.50% (8.79%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	10,213	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	21	DCF	Discount rate[B]	52.50%
	Asset-backed term notes	7	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	7,846	DCF	Discount rate[B]	5.54% – 18.76% (9.77%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	3,522	NAV[A]	N/A	N/A
Alternative investments	Fund investments	5,752	NAV[A]	N/A	N/A
Total		73,629			

[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, 2020:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer in (out) of Level 3	Closing Balance
Public markets	**1,262**	**83**	**(644)**	**–**	**381**	**(174)**	**–**	**908**
Private markets	**55,219**	**14,119**	**(7,759)**	**–**	**2,735**	**(2,769)**	**72**	**61,617**
Fixed income	**11,396**	**5,690**	**(3,750)**	**(1)**	**83**	**(729)**	**–**	**12,689**
Alternative investments	**5,752**	**1,230**	**(897)**	**–**	**125**	**112**	**(167)**	**6,155**
Total	**73,629**	**21,122**	**(13,050)**	**(1)**	**3,324**	**(3,560)**	**(95)**	**81,369**

[A] Includes Plan Account allocation adjustments.

As at March 31, 2019, an alternative investment of $167 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 $72 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.

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, 2019:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer out of Level 3	Closing Balance
Public markets	1,374	403	(490)	–	312	(337)	–	1,262
Private markets	48,000	10,804	(6,882)	–	1,379	1,982	(64)	55,219
Fixed income	10,379	4,205	(3,272)	(43)	110	17	–	11,396
Alternative investments	5,138	639	(401)	–	32	344	–	5,752
Total	64,891	16,051	(11,045)	(43)	1,833	2,006	(64)	73,629

[A] Includes Plan Account allocation adjustments.

As at March 31, 2018, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2019, the investment was transferred to Level 1 as the related securities became publicly traded.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, 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, 2020 (March 31, 2019 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

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

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Securities lending and borrowing		
Securities lent	**481**	5,805
Collateral held[A]	**512**	6,118
Securities borrowed	**750**	2,849
Collateral pledged[B]	**814**	2,936
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**6,435**	4,116
Collateral pledged	**6,404**	4,106
Securities purchased under reverse repurchase agreements	**3,293**	4,361
Collateral held[C]	**3,289**	4,354
Derivative contracts		
Collateral pledged	**2,106**	665
Collateral held[D]	**280**	404

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to nil for the Plan Account as at March 31, 2020 (March 31, 2019 – $2,167 million) and securities amounted to $512 million as at March 31, 2020 (March 31, 2019 – $3,951 million). All cash collateral is reinvested.

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

[C] The collateral received is in the form of securities of which $2,079 million has been used in connection with short selling transactions as at March 31, 2020 (March 31, 2019 – $1,729 million) and $97 million has been used in connection with securities sold under repurchase agreements (March 31, 2019 – $12 million).

[D] As part of collateral held, cash amounted to $33 million as at March 31, 2020 (March 31, 2019 – $6 million) and securities amounted to $247 million as at March 31, 2020 (March 31, 2019 – $398 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, 2020, 111 investment entity subsidiaries were incorporated in North America, 15 in Europe, 15 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2019 – 108 in North America, 17 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 84 investees directly or through its investment entity subsidiaries as at March 31, 2020 (March 31, 2019 – 81 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, 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**

	March 31, 2019		
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 Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding 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
TDF S.A.S.	Europe	22	Associate
Roccapina Fund, L.P.	North America	100	Controlled investee
Big Box Properties	North America	49	Jointly controlled investee

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 18, 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, 2020 (%)	March 31, 2019 (%)
Absolute volatility	**9.2**	7.3

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, 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	**–**	**–**	**–**	**–**	**3,520[A]**	**3,520**
Government and corporate bonds	**674**	**12,997**	**4,143**	**4,026**	**999[B]**	**22,839**
Inflation-linked bonds	**–**	**4,341**	**4,615**	**3,086**	**–**	**12,042**
Private debt securities	**224**	**3,156**	**4,532**	**1,083**	**3,689[C]**	**12,684**
Total fixed income	**898**	**20,494**	**13,290**	**8,195**	**8,208**	**51,085**

	March 31, 2019					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	8,650[A]	8,650
Government and corporate bonds	866	8,804	4,373	3,555	1,477[B]	19,075
Inflation-linked bonds	–	1,663	5,689	2,833	–	10,185
Private debt securities	61	1,853	4,366	1,514	3,574[C]	11,368
Total fixed income	927	12,320	14,428	7,902	13,701	49,278

[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 $85,206 million as at March 31, 2020 ($81,247 million as at March 31, 2019) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in 4.1.4, which amounted to $8,056 million as at March 31, 2020 ($7,295 million as at March 31, 2019), 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, 2020		March 31, 2019	
Currency	**Fair Value (Canadian $ millions)**	**% of Total**	**Fair Value** (Canadian $ millions)	**% of Total**
US Dollar	**70,965**	**67.1**	63,350	63.6
Euro	**13,701**	**13.0**	14,841	14.9
Australian Dollar	**4,518**	**4.3**	2,191	2.2
British Pound	**3,482**	**3.3**	5,754	5.8
Japanese Yen	**2,545**	**2.4**	2,020	2.0
Hong Kong Dollar	**1,705**	**1.6**	1,873	1.9
Swiss Franc	**1,260**	**1.2**	668	0.7
Mexican Peso	**1,160**	**1.1**	1,751	1.8
Indian Rupee	**975**	**0.9**	1,159	1.2
Brazilian Real	**960**	**0.9**	1,164	1.2
Others	**4,407**	**4.2**	4,749	4.7
Total	**105,678**	**100.0**	99,520	100.0

As at March 31, 2020, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $18,111 million for the Plan Account (US$10,554 million, €1,451 million, £198 million, 16 million South African rands, 1,621 million Mexican pesos, 19,200 million Indian Rupee, 36 million Danish Krone and 6 million Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2019, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $15,699 million for the Plan Account (US$9,923 million, €1,442 million, £75 million, 16 million South African rands, 2 million Brazilian reals, 9,849 million Colombian pesos, 1,927 million Mexican pesos and 12 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, 2020, the Plan Account's maximum exposure to credit risk amounted to $55 billion (March 31, 2019 - $54 billion), of which Private Debt securities amounting to $172 million (March 31, 2019 - $212 million) were rated BBB and $13 billion (March 31, 2019 - $12 billion) were rated BB or below. The maximum credit risk 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:

Credit Rating	**March 31, 2020 (%)**	March 31, 2019 (%)
AAA-AA	**58.6**	48.4
A	**12.5**	23.6
BBB	**1.9**	2.3
BB or below	**26.4**	25.1
No rating[A]	**0.6**	0.6
Total	**100.0**	100.0

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

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 $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Recognized Financial Liabilities	Collateral Held and Not Recognized	Net
March 31, 2020						
Reverse repurchase agreements	**3,284**	**–**	**3,284**[A]	**2,599**	**683**	**2**
OTC-derivatives	**1,916**	**31**	**1,885**[B]	**1,654**	**224**	**7**
Total	**5,200**	**31**	**5,169**	**4,253**	**907**	**9**
March 31, 2019						
Reverse repurchase agreements	4,338	–	4,338[A]	2,823	1,514	1
OTC-derivatives	999	4	995[B]	553	388	54
Total	5,337	4	5,333	3,376	1,902	55

Financial Liabilities

				Less: Related Amounts Not Set Off in the Statements of Financial Position		
(Canadian $ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Recognized Financial Assets	Collateral Pledged and Not Derecognized	Net
March 31, 2020						
Repurchase agreements	**6,390**	**–**	**6,390**[A]	**2,599**	**3,788**	**3**
OTC-derivatives	**3,249**	**31**	**3,218**[B]	**1,638**	**1,525**	**55**
Collateral payable	**33**	**–**	**33**[C]	**16**	**1**	**16**
Total	**9,672**	**31**	**9,641**	**4,253**	**5,314**	**74**
March 31, 2019						
Repurchase agreements	4,089	–	4,089[A]	2,823	1,265	1
OTC-derivatives	626	4	622[B]	549	68	5
Collateral payable	5	–	5[C]	4	–	1
Total	4,720	4	4,716	3,376	1,333	7

[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 such as that described in Note 18.

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, 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	(739)	–	–	(739)
Interest payable	(24)	(45)	–	(69)
Securities sold short	(2,829)	–	–	(2,829)
Collateral payable	(36)	–	(2,401)	(2,437)
Securities sold under repurchase agreements	(5,643)	(747)	–	(6,390)
Capital market debt financing	(2,630)	(2,658)	(6,209)	(11,497)
Trade payable and other liabilities	(93)	(94)	(134)	(321)
Total	(11,994)	(3,544)	(8,744)	(24,282)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	1,398	366	261	2,025
Derivative-related liabilities[A]	(1,987)	(1,057)	(254)	(3,298)
Total	(589)	(691)	7	(1,273)

[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, 2019 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	(695)	–	–	(695)
Interest payable	(48)	(2)	–	(50)
Securities sold short	(4,577)	–	–	(4,577)
Collateral payable	(2,188)	–	–	(2,188)
Securities sold under repurchase agreements	(4,089)	–	–	(4,089)
Capital market debt financing	(3,441)	(1,545)	(5,274)	(10,260)
Trade payable and other liabilities	(52)	(89)	(91)	(232)
Total	(15,090)	(1,636)	(5,365)	(22,091)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	479	403	263	1,145
Derivative-related liabilities[A]	(171)	(254)	(274)	(699)
Total	308	149	(11)	446

[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, 2020 and 2019.

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, 2020 and 2019.

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, 2020		March 31, 2019	
(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 0.97% and 1.87% and maturing within 27 and 364 days of issuance (March 31, 2019 – between 1.79% and 2.20%, maturing within 56 and 365 days)	**236**	**236**	474	471
Short-term US Dollar promissory notes, bearing interest between 0.03% and 2.02% and maturing within 7 and 366 days of issuance (March 31, 2019 – between 2.45% and 2.84%, maturing within 21 and 365 days)	**4,326**	**4,315**	4,540	4,515
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**727**	**737**	688	702
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**1,024**	**1,099**	685	724
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**859**	**866**	908	900
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**1,078**	**1,109**	727	729
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**1,214**	**1,234**	1,272	1,265
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**909**	**979**	908	954
Medium-term notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**909**	**922**	–	–
Total	**11,282**	**11,497**	10,202	10,260

Unrealized losses in connection with borrowings amounted to $372 million for the year ended March 31, 2020 (unrealized losses of $137 million for the year ended March 31, 2019).

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

(Canadian $ millions)	2020	2019
Short-term promissory notes	**108**	109
Medium-term notes	**137**	104
Total	**245**	213

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, 2020.

(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Non-cash changes: Foreign exchange losses	Non-cash changes: Fair value[A] losses	Closing balance
Capital market debt financing	**10,260**	**19,202**	**(18,336)**	**260**	**111**	**11,497**
Borrowings	**10,260**	**19,202**	**(18,336)**	**260**	**111**	**11,497**

[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, 2019.

(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Non-cash changes: Foreign exchange losses	Non-cash changes: Fair value[A] losses	Closing balance
Capital market debt financing	8,849	24,490	(23,225)	17	129	10,260
Borrowings	8,849	24,490	(23,225)	17	129	10,260

[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 received fund transfers from the Government of Canada of $2,198 million for the year ended March 31, 2020 ($2,838 million for the year ended March 31, 2019) for the Fund, recorded in the Plan Account.

10 — Segment Information

In order to fulfil its mandate, PSP Investments manages a diversified global portfolio composed of investments in various asset classes and has implemented an investment approach that focuses 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 Markets – 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, 2020**	March 31, 2019
Public Markets[A]	**35,178**	37,085
Real Estate	**17,322**	17,105
Private Equity	**17,483**	17,105
Infrastructure	**13,311**	12,221
Natural Resources	**5,560**	4,912
Credit Investments	**9,669**	7,612
Fixed Income[A]	**23,792**	21,645
Complementary Portfolio	**687**	1,036
Other[B]	**491**	3,345
Total	**123,493**	122,066

[A] During the year ended March 31, 2020 government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present such net investments on a comparable basis, corresponding comparative balances of $21,645 million were reclassified accordingly.

[B] 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:

(Canadian $ millions)	2020			2019		
	Investment Income (Loss)[A]	**Expenses[B]**	**Net Income (Loss)**	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)
Public Markets[C]	**(3,894)**	**(225)**	**(4,119)**	1,525	(227)	1,298
Real Estate	**(586)**	**(219)**	**(805)**	1,371	(186)	1,185
Private Equity	**800**	**(85)**	**715**	2,339	(72)	2,267
Infrastructure	**1,077**	**(156)**	**921**	880	(127)	753
Natural Resources	**(230)**	**(67)**	**(297)**	440	(49)	391
Credit Investments	**343**	**(52)**	**291**	608	(44)	564
Fixed Income[C]	**2,150**	**(96)**	**2,054**	979	(61)	918
Complementary Portfolio	**87**	**(5)**	**82**	(1)	(9)	(10)
Other[D]	**395**	**(7)**	**388**	717	(10)	707
Total	**142**	**(912)**	**(770)**	8,858	(785)	8,073

[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] During the year ended March 31, 2020, government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present net income from operations for such investments on a comparable basis, corresponding comparative figures for Investment Income, Expenses and Net Income of $979 million, $61 million and $918 million respectively, for the year ended March 31, 2019, were reclassified accordingly.

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

11 — Investment-Related Expenses

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

(Canadian $ millions)	2020	2019
Interest expense	**307**	244
Transaction costs	**124**	93
External investment management fees[A]	**37**	20
Other (net)	**44**	63
Total	**512**	420

[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 $63 million for the year ended March 31, 2020 ($172 million for the year ended March 31, 2019). 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 $301 million for the year ended March 31, 2020 ($240 million for the year ended March 31, 2019). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

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

(Canadian $ millions)	2020	2019
Salaries and employee benefits	**231**	211
Professional and consulting fees	**64**	56
Premises and equipment	**18**	23
Market data and business applications	**30**	27
Depreciation of equipment	**25**	24
Custodial fees	**5**	4
Other operating expenses	**27**	20
Total	**400**	365

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 and other comprehensive income, 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:

(%)	**2020**	2019
Public Service Pension Plan Account	**72.7**	72.6
Canadian Forces Pension Plan Account	**19.7**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.3
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 funds transfers outlined in Note 9.2.

(ii) Government-Related Entities

PSP Investments may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1. Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on net assets and comprehensive income 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 Comprehensive Income (Loss) and was as follows:

(Canadian $ millions)	**2020**	2019
Short-term compensation and other benefits	**11**	11
Long-term compensation and other benefits	**7**	6
Total	**18**	17

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, 2020 and 2019, 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 $2,802 million as at March 31, 2020 (March 31, 2019 – $2,602 million), of which $2,038 million has been allocated to the Plan Account (March 31, 2019 – $1,891 million) plus applicable interest and other related costs. The arrangements mature between April 2020 and November 2029 as of March 31, 2020 (March 31, 2019 – between July 2019 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $89 million as at March 31, 2020 (March 31, 2019 – $54 million), of which $65 million has been allocated to the Plan Account (March 31, 2019 – $39 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 portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Real estate	**2,566**	1,774
Private equity	**9,472**	7,482
Infrastructure	**2,146**	1,943
Natural resources	**193**	304
Private debt securities	**2,765**	3,009
Alternative investments	**1,230**	1,507
Total	**18,372**	16,019

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2020 (March 31, 2019–2035).

18 — Uncertainties Related to COVID-19

The outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. The Financial Statements of PSP Investments prepared as of, and for the year ended March 31, 2020, reflect the impacts resulting from COVID-19 to the extent known at the reporting date.

The ongoing worldwide spread of COVID-19 and its effect on international business operations, supply chains, travel, commodity prices, consumer confidence and business forecasts are expected to continue to have significant impacts on domestic and international equity markets and fixed income yields for the near term.

Management continues to monitor developments in equity and fixed income markets generally and specifically in connection with PSP Investments' portfolio. The full potential impact of the COVID-19 outbreak on the fair value of PSP Investments' portfolio is unknown as it will depend on future developments that are uncertain. Such uncertainties include the duration and depth of the outbreak. Management expects that the fair value of PSP Investments' portfolio will continue to be affected for the near term.

— Canadian Forces Pension Plan Account

Financial Statements

Independent Auditors' Report

To the Minister of National Defence

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Sector Pension Investment Board – Canadian Forces Pension Plan Account (the Canadian Forces Pension Plan Account), which comprise the statements of financial position as at March 31, 2020 and 2019, and the statements of comprehensive 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 Canadian Forces Pension Plan Account as at March 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

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

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

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

Montréal, Canada
4 June 2020

Deloitte LLP[1]

Montréal, Canada
4 June 2020

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

Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Assets		
Investments (Note 4.1)	**40,648**	39,141
Other assets	**64**	38
Total assets	**40,712**	39,179
Liabilities		
Trade payable and other liabilities	**87**	62
Investment-related liabilities (Note 4.1)	**4,250**	3,328
Borrowings (Notes 4.1, 8.2)	**3,100**	2,777
Total liabilities	**7,437**	6,167
Net assets	**33,275**	33,012
Equity (Note 9)	**33,275**	33,012
Total liabilities and equity	**40,712**	39,179

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

On behalf of the Board of Directors:

Martin Glynn
Chair of the Board

William A. Mackinnon
Chair of the Audit Committee

Statements of Comprehensive Income (Loss)

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Investment income	**44**	2,402
Investment-related expenses (Note 11)	**(137)**	(114)
Net investment income (loss)	**(93)**	2,288
Operating expenses (Note 12)	**(108)**	(99)
Net income (loss)	**(201)**	2,189
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability	**2**	(1)
Comprehensive income (loss)	**(199)**	2,188

Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Fund transfers		
Balance at beginning of period	**15,182**	14,503
Fund transfers received during the period (Note 9.2)	**462**	679
Balance at end of period	**15,644**	15,182
Retained earnings		
Balance at beginning of period	**17,830**	15,642
Comprehensive income (loss)	**(199)**	2,188
Balance at end of period	**17,631**	17,830
Total equity	**33,275**	33,012

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Cash flows from operating activities		
Net income (loss)	**(201)**	2,189
Adjustments for non-cash items:		
Depreciation of equipment (Note 12)	**7**	7
Effect of exchange rate changes on cash and cash equivalents	**(17)**	(6)
Unrealized losses on borrowings	**100**	37
	(111)	2,227
Net changes in operating assets and liabilities		
Increase in investments	**(2,329)**	(3,348)
Decrease in other assets	**–**	1
Increase in trade payables and other liabilities	**14**	7
Increase in investment-related liabilities	**922**	633
Net cash flows used in operating activities	**(1,504)**	(480)
Cash flows from financing activities		
Proceeds from borrowings	**5,112**	6,634
Repayment of borrowings	**(4,889)**	(6,301)
Repayment to the Public Service Pension Plan Account	**–**	(104)
Advances from the Public Service Pension Plan Account	**–**	81
Fund transfers received (Note 9.2)	**462**	679
Net cash flows provided by financing activities	**685**	989
Cash flows used in investing activities		
Acquisitions of equipment	**(4)**	(9)
Net cash flows used in investing activities	**(4)**	(9)
Net change in cash and cash equivalents	**(823)**	500
Effect of exchange rate changes on cash and cash equivalents	**17**	7
Cash and cash equivalents at the beginning of the period	**1,341**	834
Cash and cash equivalents at the end of the period[A]	**535**	1,341
Supplementary disclosure of cash flow information		
Interest paid	**(77)**	(61)

[A] As at March 31, 2020 cash and cash equivalents were comprised of $514 million (March 31, 2019 - $1,337 million) held for investment purposes and included in Note 4.1, as well as $21 million (March 31, 2019 - $4 million) held for administrative purposes and included in Other assets.

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

Notes to the Financial Statements

For the years ended March 31, 2020 and 2019

1— Corporate Information

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

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

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

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

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

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

2— Significant Accounting Policies

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

2.1. Basis of Presentation

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

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

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

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on June 4, 2020.

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 Comprehensive Income.

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

(iv) Derecognition

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

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

and

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

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

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

Valuation techniques are generally applied to investments in private markets, 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.

Although assumptions reflect management's best estimates, actual results may differ from such estimates due to the uncertainties involved in using them. As further described in Note 18, such uncertainties were significant as at March 31, 2020 due to the substantial disruption of global economic activity as well as financial markets' volatility at the reporting date.

3 — Current and Future Changes in Accounting Standards

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

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

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

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Public markets		
Canadian equity	**659**	668
Foreign equity	**5,702**	6,377
Private markets		
Real estate	**5,837**	5,535
Private equity	**4,331**	3,979
Infrastructure	**4,398**	3,953
Natural resources	**2,048**	1,477
Fixed income		
Cash and money market securities	**949**	2,340
Government and corporate bonds	**6,158**	5,162
Inflation-linked bonds	**3,247**	2,757
Private debt securities	**3,420**	3,077
Alternative investments	**2,172**	1,975
	38,921	37,300
Investment-related assets		
Amounts receivable from pending trades	**149**	231
Interest receivable	**115**	98
Dividends receivable	**31**	28
Securities purchased under reverse repurchase agreements	**886**	1,174
Derivative-related assets	**546**	310
	1,727	1,841
Investments representing financial assets at FVTPL	**40,648**	39,141
Investment-related liabilities		
Amounts payable from pending trades	**(199)**	(188)
Interest payable	**(18)**	(14)
Securities sold short	**(763)**	(1,238)
Collateral payable	**(657)**	(592)
Securities sold under repurchase agreements	**(1,724)**	(1,107)
Derivative-related liabilities	**(889)**	(189)
Investment-related liabilities representing financial liabilities at FVTPL	**(4,250)**	(3,328)
Borrowings		
Capital market debt financing	**(3,100)**	(2,777)
Borrowings representing financial liabilities designated at FVTPL	**(3,100)**	(2,777)
Net investments	**33,298**	33,036

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 $514 million as at March 31, 2020 (March 31, 2019 – $1,337 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:

	March 31, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**527**	**–**	**–**	684	–	–
Warrants and rights	**–**	**–**	**–**	–	–	–
Options: Purchased	**743**	**27**	**–**	1,008	34	–
Written	**707**	**–**	**(13)**	907	–	(16)
OTC						
Swaps	**4,819**	**166**	**(608)**	5,145	126	(37)
Options: Purchased	**152**	**11**	**–**	132	4	–
Written	**192**	**–**	**(9)**	106	–	(6)
Currency derivatives						
Listed						
Futures	**24**	**–**	**–**	59	–	–
OTC						
Forwards	**5,360**	**155**	**(95)**	3,909	23	(10)
Swaps	**1,230**	**19**	**(6)**	1,296	4	(7)
Options: Purchased	**612**	**14**	**–**	1,266	10	–
Written	**669**	**–**	**(13)**	1,159	–	(10)
Interest rate derivatives						
Listed						
Futures	**809**	**–**	**–**	2,193	–	–
Options: Purchased	**6,491**	**11**	**–**	9,422	7	–
Written	**2,568**	**–**	**(9)**	8,637	–	(5)
OTC						
Forwards	**–**	**–**	**–**	117	2	(3)
Swaps	**1,341**	**29**	**(40)**	5,027	48	(52)
Options: Purchased	**8,043**	**112**	**–**	10,629	52	–
Written	**8,855**	**–**	**(95)**	10,059	–	(41)
OTC-cleared						
Forwards	**5,572**	**–**	**–**	–	–	–
Swaps	**21,015**	**–**	**–**	10,971	–	–
Credit derivatives						
OTC						
Credit default swaps: Purchased	**91**	**2**	**(1)**	131	–	(2)
Written[A]	**4**	**–**	**–**	17	–	–
OTC-cleared						
Credit default swaps: Purchased	**195**	**–**	**–**	162	–	–
Total		**546**	**(889)**		310	(189)

[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, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**11,869**	**38**	**(22)**	22,910	41	(21)
OTC derivatives	**31,368**	**508**	**(867)**	38,993	269	(168)
OTC-cleared derivatives	**26,782**	**–**	**–**	11,133	–	–
Total		**546**	**(889)**		310	(189)

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

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Less than 3 months	**33,946**	18,552
3 to 12 months	**17,873**	31,977
Over 1 year	**18,200**	22,507

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, 2020 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	511	139	9	659
Foreign equity	5,172	294	236	5,702
Private markets				
Real estate	–	–	5,837	5,837
Private equity	–	–	4,331	4,331
Infrastructure	–	–	4,398	4,398
Natural resources	–	–	2,048	2,048
Fixed income				
Cash and money market securities	252	697	–	949
Government and corporate bonds	2,258	3,899	1	6,158
Inflation-linked bonds	3,170	77	–	3,247
Private debt securities	–	–	3,420	3,420
Alternative investments	–	512	1,660	2,172
	11,363	5,618	21,940	38,921
Investment-related assets				
Amounts receivable from pending trades	–	149	–	149
Interest receivable	–	115	–	115
Dividends receivable	–	31	–	31
Securities purchased under reverse repurchase agreements	–	886	–	886
Derivative-related assets	36	510	–	546
	36	1,691	–	1,727
Investments representing financial assets at FVTPL	11,399	7,309	21,940	40,648
Investment-related liabilities				
Amounts payable from pending trades	–	(199)	–	(199)
Interest payable	–	(18)	–	(18)
Securities sold short	(721)	(42)	–	(763)
Collateral payable	–	(657)	–	(657)
Securities sold under repurchase agreements	–	(1,724)	–	(1,724)
Derivative-related liabilities	(21)	(868)	–	(889)
Investment-related liabilities representing financial liabilities at FVTPL	(742)	(3,508)	–	(4,250)
Borrowings				
Capital market debt financing	–	(3,100)	–	(3,100)
Borrowings representing financial liabilities designated at FVTPL	–	(3,100)	–	(3,100)
Net investments	10,657	701	21,940	33,298

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, 2019 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	486	170	12	668
Foreign equity	5,618	429	330	6,377
Private markets				
Real estate	–	–	5,535	5,535
Private equity	–	–	3,979	3,979
Infrastructure	–	–	3,953	3,953
Natural resources	–	–	1,477	1,477
Fixed income				
Cash and money market securities	–	2,340	–	2,340
Government and corporate bonds	–	5,155	7	5,162
Inflation-linked bonds	–	2,757	–	2,757
Private debt securities	–	–	3,077	3,077
Alternative investments	–	418	1,557	1,975
	6,104	11,269	19,927	37,300
Investment-related assets				
Amounts receivable from pending trades	–	231	–	231
Interest receivable	–	98	–	98
Dividends receivable	–	28	–	28
Securities purchased under reverse repurchase agreements	–	1,174	–	1,174
Derivative-related assets	26	284	–	310
	26	1,815	–	1,841
Investments representing financial assets at FVTPL	6,130	13,084	19,927	39,141
Investment-related liabilities				
Amounts payable from pending trades	–	(188)	–	(188)
Interest payable	–	(14)	–	(14)
Securities sold short	(770)	(468)	–	(1,238)
Collateral payable	–	(592)	–	(592)
Securities sold under repurchase agreements	–	(1,107)	–	(1,107)
Derivative-related liabilities	(21)	(168)	–	(189)
Investment-related liabilities representing financial liabilities at FVTPL	(791)	(2,537)	–	(3,328)
Borrowings				
Capital market debt financing	–	(2,777)	–	(2,777)
Borrowings representing financial liabilities designated at FVTPL	–	(2,777)	–	(2,777)
Net investments	5,339	7,770	19,927	33,036

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2020 (no significant transfers between Level 1 and Level 2 during the year ended March 31, 2019).

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

To reflect the impact of the market disruption described in note 18 as at March 31, 2020, management used significant judgement in the determination of fair value of Level 3 investments, especially those in Private Markets. Where appropriate, adjustments were made based on public market trading comparables, investment specific characteristics as well as market conditions and uncertainties as at March 31, 2020.

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, 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	**9**	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	**236**	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	**5,509**	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	**328**	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	**7,651**	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	**3,126**	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	**1**	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	**2,430**	DCF	Discount rate[B]	6.63% – 22.64% (11.86%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**990**	NAV[A]	N/A	N/A
Alternative investments	Fund investments	**1,660**	NAV[A]	N/A	N/A
Total		**21,940**			

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2019:

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	12	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	330	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	5,174	Discounted cash flow (DCF)	Discount rate[B, C]	4.10% – 20.00% (7.55%)
				Terminal capitalization rate[B, C]	4.25% – 10.25% (5.92%)
			Direct capitalization	Capitalization rate[B, D]	2.50% – 8.98% (5.57%)
				Stabilized occupancy rate[D, E]	93.00% – 100.00% (98.22%)
			Sales comparison approach	Price per square foot[D, E]	$0.95 – $2,057.93 ($281.99)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	361	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	6,646	DCF	Discount rate[B]	6.00% – 12.50% (8.79%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	2,763	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	6	DCF	Discount rate[B]	52.50%
	Asset-backed term notes	1	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	2,124	DCF	Discount rate[B]	5.54% – 18.76% (9.77%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	953	NAV[A]	N/A	N/A
Alternative investments	Fund investments	1,557	NAV[A]	N/A	N/A
Total		19,927			

[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, 2020:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer in (out) of Level 3	Closing Balance
Public markets	**342**	**23**	**(174)**	**–**	**102**	**(48)**	**–**	**245**
Private markets	**14,944**	**3,725**	**(2,052)**	**–**	**724**	**(746)**	**19**	**16,614**
Fixed income	**3,084**	**1,511**	**(984)**	**–**	**21**	**(211)**	**–**	**3,421**
Alternative investments	**1,557**	**305**	**(239)**	**–**	**33**	**49**	**(45)**	**1,660**
Total	**19,927**	**5,564**	**(3,449)**	**–**	**880**	**(956)**	**(26)**	**21,940**

[A] Includes Plan Account allocation adjustments.

As at March 31, 2019, an alternative investment of $45 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 $19 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.

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, 2019:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer out of Level 3	Closing Balance
Public markets	374	109	(133)	–	85	(93)	–	342
Private markets	13,041	2,927	(1,864)	–	373	484	(17)	14,944
Fixed income	2,819	1,137	(886)	(12)	30	(4)	–	3,084
Alternative investments	1,396	173	(108)	–	9	87	–	1,557
Total	17,630	4,346	(2,991)	(12)	497	474	(17)	19,927

[A] Includes Plan Account allocation adjustments.

As at March 31, 2018, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2019, the investment was transferred to Level 1 as the related securities became publicly traded.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, 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, 2020 (March 31, 2019 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

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

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Securities lending and borrowing		
Securities lent	**130**	1,571
Collateral held[A]	**138**	1,655
Securities borrowed	**202**	772
Collateral pledged[B]	**220**	794
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**1,735**	1,114
Collateral pledged	**1,727**	1,111
Securities purchased under reverse repurchase agreements	**888**	1,180
Collateral held[C]	**887**	1,178
Derivative contracts		
Collateral pledged	**568**	180
Collateral held[D]	**75**	109

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to nil for the Plan Account as at March 31, 2020 (March 31, 2019 – $586 million) and securities amounted to $138 million as at March 31, 2020 (March 31, 2019 – $1,069 million). All cash collateral is reinvested.

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

[C] The collateral received is in the form of securities of which $561 million has been used in connection with short selling transactions as at March 31, 2020 (March 31, 2019 – $468 million) and $26 million has been used in connection with securities sold under repurchase agreements (March 31, 2019 – $3 million).

[D] As part of collateral held, cash amounted to $9 million as at March 31, 2020 (March 31, 2019 – $1 million) and securities amounted to $66 million as at March 31, 2020 (March 31, 2019 – $108 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, 2020, 111 investment entity subsidiaries were incorporated in North America, 15 in Europe, 15 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2019 – 108 in North America, 17 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 84 investees directly or through its investment entity subsidiaries as at March 31, 2020 (March 31, 2019 – 81 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, 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**

	March 31, 2019		
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 Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding 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
TDF S.A.S.	Europe	22	Associate
Roccapina Fund, L.P.	North America	100	Controlled investee
Big Box Properties	North America	49	Jointly controlled investee

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 18, 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, 2020 (%)	March 31, 2019 (%)
Absolute volatility	**9.2**	7.3

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, 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	**–**	**–**	**–**	**–**	**949**[A]	**949**
Government and corporate bonds	**182**	**3,504**	**1,117**	**1,086**	**269**[B]	**6,158**
Inflation-linked bonds	**–**	**1,170**	**1,245**	**832**	**–**	**3,247**
Private debt securities	**60**	**851**	**1,222**	**292**	**995**[C]	**3,420**
Total fixed income	**242**	**5,525**	**3,584**	**2,210**	**2,213**	**13,774**

	March 31, 2019					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	2,340[A]	2,340
Government and corporate bonds	234	2,383	1,184	961	400[B]	5,162
Inflation-linked bonds	–	450	1,540	767	–	2,757
Private debt securities	17	501	1,182	410	967[C]	3,077
Total fixed income	251	3,334	3,906	2,138	3,707	13,336

[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 $22,975 million as at March 31, 2020 ($21,989 million as at March 31, 2019) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in 4.1.4, which amounted to $2,172 million as at March 31, 2020 ($1,975 million as at March 31, 2019), 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, 2020		March 31, 2019	
Currency	**Fair Value (Canadian $ millions)**	**% of Total**	**Fair Value (Canadian $ millions)**	**% of Total**
US Dollar	**19,135**	**67.1**	17,145	63.6
Euro	**3,694**	**13.0**	4,017	14.9
Australian Dollar	**1,218**	**4.3**	593	2.2
British Pound	**939**	**3.3**	1,557	5.8
Japanese Yen	**686**	**2.4**	546	2.0
Hong Kong Dollar	**460**	**1.6**	508	1.9
Swiss Franc	**340**	**1.2**	181	0.7
Mexican Peso	**313**	**1.1**	474	1.8
Indian Rupee	**263**	**0.9**	314	1.2
Brazilian Real	**259**	**0.9**	315	1.2
Others	**1,188**	**4.2**	1,285	4.7
Total	**28,495**	**100.0**	26,935	100.0

As at March 31, 2020, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $4,883 million for the Plan Account (US$2,846 million, € 391 million, £ 53 million, 4 million South African rands, 437 million Mexican pesos, 5,177 million Indian Rupee, 10 million Danish Krone and 2 million Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2019, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $4,249 million for the Plan Account (US$2,686 million, € 390 million, £ 21 million, 4 million South African rands, 1 million Brazilian reals, 2,665 million Colombian pesos, 522 million Mexican pesos and 3 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, 2020, the Plan Account's maximum exposure to credit risk amounted to $15 billion (March 31, 2019 – $14 billion), of which Private Debt securities amounting to $46 million (March 31, 2019 – $57 million) were rated BBB and $3 billion (March 31, 2019 – $3 billion) were rated BB or below. The maximum credit risk 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:

Credit Rating	**March 31, 2020 (%)**	March 31, 2019 (%)
AAA-AA	**58.6**	48.4
A	**12.5**	23.6
BBB	**1.9**	2.3
BB or below	**26.4**	25.1
No rating[A]	**0.6**	0.6
Total	**100.0**	100.0

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

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

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2020						
Reverse repurchase agreements	**886**	**–**	**886**[A]	**701**	**185**	**–**
OTC-derivatives	**516**	**8**	**508**[B]	**446**	**60**	**2**
Total	**1,402**	**8**	**1,394**	**1,147**	**245**	**2**
March 31, 2019						
Reverse repurchase agreements	1,174	–	1,174[A]	764	410	–
OTC-derivatives	270	1	269[B]	150	105	14
Total	1,444	1	1,443	914	515	14

Financial Liabilities

(Canadian $ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2020						
Repurchase agreements	**1,724**	**–**	**1,724**[A]	**701**	**1,022**	**1**
OTC-derivatives	**875**	**8**	**867**[B]	**442**	**410**	**15**
Collateral payable	**9**	**–**	**9**[C]	**4**	**1**	**4**
Total	**2,608**	**8**	**2,600**	**1,147**	**1,433**	**20**
March 31, 2019						
Repurchase agreements	1,107	–	1,107[A]	764	343	–
OTC-derivatives	169	1	168[B]	149	18	1
Collateral payable	1	–	1[C]	1	–	–
Total	1,277	1	1,276	914	361	1

[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 such as that described in Note 18.

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, 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	**(199)**	**–**	**–**	**(199)**
Interest payable	**(6)**	**(12)**	**–**	**(18)**
Securities sold short	**(763)**	**–**	**–**	**(763)**
Collateral payable	**(10)**	**–**	**(647)**	**(657)**
Securities sold under repurchase agreements	**(1,522)**	**(202)**	**–**	**(1,724)**
Capital market debt financing	**(709)**	**(717)**	**(1,674)**	**(3,100)**
Trade payable and other liabilities	**(26)**	**(25)**	**(36)**	**(87)**
Total	**(3,235)**	**(956)**	**(2,357)**	**(6,548)**

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	**377**	**99**	**70**	**546**
Derivative-related liabilities[A]	**(535)**	**(285)**	**(69)**	**(889)**
Total	**(158)**	**(186)**	**1**	**(343)**

[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, 2019 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	(188)	–	–	(188)
Interest payable	(14)	–	–	(14)
Securities sold short	(1,238)	–	–	(1,238)
Collateral payable	(592)	–	–	(592)
Securities sold under repurchase agreements	(1,107)	–	–	(1,107)
Capital market debt financing	(931)	(418)	(1,428)	(2,777)
Trade payable and other liabilities	(14)	(23)	(25)	(62)
Total	(4,084)	(441)	(1,453)	(5,978)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	130	109	71	310
Derivative-related liabilities[A]	(46)	(69)	(74)	(189)
Total	84	40	(3)	121

[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, 2020 and 2019.

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, 2020 and 2019.

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, 2020		March 31, 2019	
(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 0.97% and 1.87% and maturing within 27 and 364 days of issuance (March 31, 2019 – between 1.79% and 2.20%, maturing within 56 and 365 days)	**64**	**64**	128	127
Short-term US Dollar promissory notes, bearing interest between 0.03% and 2.02% and maturing within 7 and 366 days of issuance (March 31, 2019 – between 2.45% and 2.84%, maturing within 21 and 365 days)	**1,166**	**1,163**	1,229	1,222
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**196**	**199**	186	189
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**276**	**296**	185	197
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**232**	**233**	246	243
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**291**	**299**	197	198
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**327**	**333**	344	343
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**245**	**264**	246	258
Medium-term notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**245**	**249**	–	–
Total	**3,042**	**3,100**	2,761	2,777

Unrealized losses in connection with borrowings amounted to $100 million for the year ended March 31, 2020 (unrealized losses of $ 37 million for the year ended March 31, 2019).

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

(Canadian $ millions)	2020	2019
Short-term promissory notes	**29**	30
Medium-term notes	**36**	28
Total	**65**	58

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, 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	**2,777**	**5,112**	**(4,889)**	**70**	**30**	**3,100**
Borrowings	**2,777**	**5,112**	**(4,889)**	**70**	**30**	**3,100**

[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, 2019.

				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	2,404	6,634	(6,301)	5	35	2,777
Borrowings	2,404	6,634	(6,301)	5	35	2,777

[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 received fund transfers from the Government of Canada of $462 million for the year ended March 31, 2020 ($679 million for the year ended March 31, 2019) for the Fund, recorded in the Plan Account.

10 — Segment Information

In order to fulfil its mandate, PSP Investments manages a diversified global portfolio composed of investments in various asset classes and has implemented an investment approach that focuses 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 Markets – 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, 2020**	March 31, 2019
Public Markets[A]	**9,485**	10,037
Real Estate	**4,671**	4,629
Private Equity	**4,714**	4,630
Infrastructure	**3,589**	3,308
Natural Resources	**1,499**	1,329
Credit Investments	**2,607**	2,060
Fixed Income[A]	**6,416**	5,858
Complementary Portfolio	**185**	280
Other[B]	**132**	905
Total	**33,298**	33,036

[A] During the year ended March 31, 2020 government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present such net investments on a comparable basis, corresponding comparative balances of $5,858 million were reclassified accordingly.

[B] 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:

	2020			2019		
(Canadian $ millions)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)
Public Markets[C]	**(1,216)**	**(60)**	**(1,276)**	412	(61)	351
Real Estate	**(182)**	**(59)**	**(241)**	372	(50)	322
Private Equity	**250**	**(23)**	**227**	634	(19)	615
Infrastructure	**336**	**(42)**	**294**	239	(35)	204
Natural Resources	**(72)**	**(18)**	**(90)**	119	(13)	106
Credit Investments	**107**	**(14)**	**93**	165	(12)	153
Fixed Income[C]	**671**	**(26)**	**645**	266	(17)	249
Complementary Portfolio	**27**	**(1)**	**26**	1	(3)	(2)
Other[D]	**123**	**(2)**	**121**	194	(3)	191
Total	**44**	**(245)**	**(201)**	2,402	(213)	2,189

[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] During the year ended March 31, 2020, government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present net income from operations for such investments on a comparable basis, corresponding comparative figures for Investment Income, Expenses and Net Income of $266 million, $17 million and $249 million respectively, for the year ended March 31, 2019, were reclassified accordingly.

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

11 — Investment-Related Expenses

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

(Canadian $ millions)	2020	2019
Interest expense	**82**	66
Transaction costs	**33**	25
External investment management fees[A]	**10**	6
Other (net)	**12**	17
Total	**137**	114

[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 $17 million for the year ended March 31, 2020 ($46 million for the year ended March 31, 2019). 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 $81 million for the year ended March 31, 2020 ($65 million for the year ended March 31, 2019). Such fees are embedded in the fair value of the investments.

12 — Operating Expenses

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

(Canadian $ millions)	2020	2019
Salaries and employee benefits	**63**	57
Professional and consulting fees	**17**	15
Premises and equipment	**5**	6
Market data and business applications	**8**	7
Depreciation of equipment	**7**	7
Custodial fees	**1**	1
Other operating expenses	**7**	6
Total	**108**	99

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 and other comprehensive income, 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:

(%)	**2020**	2019
Public Service Pension Plan Account	**72.7**	72.6
Canadian Forces Pension Plan Account	**19.7**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.3
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 funds transfers outlined in Note 9.2.

(ii) Government-Related Entities

PSP Investments may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1. Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on net assets and comprehensive income 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 Comprehensive Income (Loss) and was as follows:

(Canadian $ thousands)	**2020**	2019
Short-term compensation and other benefits	**2,864**	2,926
Long-term compensation and other benefits	**1,923**	1,844
Total	**4,787**	4,770

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, 2020 and 2019, 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 $2,802 million as at March 31, 2020 (March 31, 2019 – $2,602 million), of which $549 million has been allocated to the Plan Account (March 31, 2019 – $512 million) plus applicable interest and other related costs. The arrangements mature between April 2020 and November 2029 as of March 31, 2020 (March 31, 2019 – between July 2019 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $89 million as at March 31, 2020 (March 31, 2019 – $54 million), of which $17 million has been allocated to the Plan Account (March 31, 2019 – $11 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 portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Real estate	**692**	480
Private equity	**2,554**	2,025
Infrastructure	**579**	526
Natural resources	**52**	82
Private debt securities	**745**	815
Alternative investments	**332**	408
Total	**4,954**	4,336

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2020 (March 31, 2019–2035).

18 — Uncertainties Related to COVID-19

The outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. The Financial Statements of PSP Investments prepared as of, and for the year ended March 31, 2020, reflect the impacts resulting from COVID-19 to the extent known at the reporting date.

The ongoing worldwide spread of COVID-19 and its effect on international business operations, supply chains, travel, commodity prices, consumer confidence and business forecasts are expected to continue to have significant impacts on domestic and international equity markets and fixed income yields for the near term.

Management continues to monitor developments in equity and fixed income markets generally and specifically in connection with PSP Investments' portfolio. The full potential impact of the COVID-19 outbreak on the fair value of PSP Investments' portfolio is unknown as it will depend on future developments that are uncertain. Such uncertainties include the duration and depth of the outbreak. Management expects that the fair value of PSP Investments' portfolio will continue to be affected for the near term.

— Royal Canadian Mounted Police Pension Plan Account

Financial Statements

Independent Auditors' Report

To the Minister of Public Safety and Emergency Preparedness

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Public Sector Pension Investment Board – Royal Canadian Mounted Police Pension Plan Account (the Royal Canadian Mounted Police Pension Plan Account), which comprise the statements of financial position as at March 31, 2020 and 2019, and the statements of comprehensive 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 Royal Canadian Mounted Police Pension Plan Account as at March 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Royal Canadian Mounted Police Pension Plan Account's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Royal Canadian Mounted Police Pension Plan Account to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Compliance with Specified Authorities

Opinion

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

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

Responsibilities of Management for Compliance with Specified Authorities

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

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

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

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

Montréal, Canada
4 June 2020

Deloitte LLP[1]

Montréal, Canada
4 June 2020

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

Statements of Financial Position

As at

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Assets		
Investments (Note 4.1)	**14,984**	14,383
Other assets	**22**	14
Total assets	**15,006**	14,397
Liabilities		
Trade payable and other liabilities	**31**	23
Investment-related liabilities (Note 4.1)	**1,567**	1,224
Borrowings (Notes 4.1, 8.2)	**1,143**	1,020
Total liabilities	**2,741**	2,267
Net assets	**12,265**	12,130
Equity (Note 9)	**12,265**	12,130
Total liabilities and equity	**15,006**	14,397

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

On behalf of the Board of Directors:

Martin Glynn
Chair of the Board

William A. Mackinnon
Chair of the Audit Committee

Statements of Comprehensive Income (Loss)

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Investment income	**15**	881
Investment-related expenses (Note 11)	**(52)**	(42)
Net investment income (loss)	**(37)**	839
Operating expenses (Note 12)	**(40)**	(36)
Net income (loss)	**(77)**	803
Other comprehensive income		
Remeasurement of the net defined benefit liability	**1**	–
Comprehensive income (loss)	**(76)**	803

Statements of Changes in Equity

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Fund transfers		
Balance at beginning of period	**5,632**	5,400
Fund transfers received during the period (Note 9.2)	**211**	232
Balance at end of period	**5,843**	5,632
Retained earnings		
Balance at beginning of period	**6,498**	5,695
Comprehensive income (loss)	**(76)**	803
Balance at end of period	**6,422**	6,498
Total equity	**12,265**	12,130

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ millions)	**2020**	2019
Cash flows from operating activities		
Net income (loss)	**(77)**	803
Adjustments for non-cash items:		
Depreciation of equipment (Note 12)	**3**	2
Effect of exchange rate changes on cash and cash equivalents	**(6)**	(3)
Unrealized losses on borrowings	**37**	14
	(43)	816
Net changes in operating assets and liabilities		
Increase in investments	**(903)**	(1,208)
Decrease in other assets	**–**	1
Increase in trade payables and other liabilities	**6**	4
Increase in investment-related liabilities	**344**	231
Net cash flows used in operating activities	**(596)**	(156)
Cash flows from financing activities		
Proceeds from borrowings	**1,915**	2,437
Repayment of borrowings	**(1,830)**	(2,317)
Repayment to the Public Service Pension Plan Account	**–**	(38)
Advances from the Public Service Pension Plan Account	**–**	30
Fund transfers received (Note 9.2)	**211**	232
Net cash flows provided by financing activities	**296**	344
Cash flows used in investing activities		
Acquisitions of equipment	**(1)**	(4)
Net cash flows used in investing activities	**(1)**	(4)
Net change in cash and cash equivalents	**(301)**	184
Effect of exchange rate changes on cash and cash equivalents	**6**	2
Cash and cash equivalents at the beginning of the period	**492**	306
Cash and cash equivalents at the end of the period[A]	**197**	492
Supplementary disclosure of cash flow information		
Interest paid	**(29)**	(22)

[A] As at March 31, 2020 cash and cash equivalents were comprised of $189 million (March 31, 2019 - $490 million) held for investment purposes and included in Note 4.1, as well as $8 million (March 31, 2019 - $2 million) held for administrative purposes and included in Other assets.

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

Notes to the Financial Statements

For the years ended March 31, 2020 and 2019

1 — Corporate Information

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

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

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

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

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

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

2 — Significant Accounting Policies

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

2.1. Basis of Presentation

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

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

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

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on June 4, 2020.

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 Comprehensive Income.

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

(iv) Derecognition

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

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

and

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

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

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

Valuation techniques are generally applied to investments in private markets, 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.

Although assumptions reflect management's best estimates, actual results may differ from such estimates due to the uncertainties involved in using them. As further described in Note 18, such uncertainties were significant as at March 31, 2020 due to the substantial disruption of global economic activity as well as financial markets' volatility at the reporting date.

3 — Current and Future Changes in Accounting Standards

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

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

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

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Public markets		
Canadian equity	**243**	245
Foreign equity	**2,101**	2,343
Private markets		
Real estate	**2,151**	2,034
Private equity	**1,597**	1,462
Infrastructure	**1,621**	1,453
Natural resources	**755**	543
Fixed income		
Cash and money market securities	**350**	861
Government and corporate bonds	**2,270**	1,897
Inflation-linked bonds	**1,197**	1,013
Private debt securities	**1,261**	1,130
Alternative investments	**801**	725
	14,347	13,706
Investment-related assets		
Amounts receivable from pending trades	**55**	85
Interest receivable	**42**	36
Dividends receivable	**12**	10
Securities purchased under reverse repurchase agreements	**327**	432
Derivative-related assets	**201**	114
	637	677
Investments representing financial assets at FVTPL	**14,984**	14,383
Investment-related liabilities		
Amounts payable from pending trades	**(73)**	(69)
Interest payable	**(7)**	(5)
Securities sold short	**(281)**	(456)
Collateral payable	**(242)**	(218)
Securities sold under repurchase agreements	**(636)**	(406)
Derivative-related liabilities	**(328)**	(70)
Investment-related liabilities representing financial liabilities at FVTPL	**(1,567)**	(1,224)
Borrowings		
Capital market debt financing	**(1,143)**	(1,020)
Borrowings representing financial liabilities designated at FVTPL	**(1,143)**	(1,020)
Net investments	**12,274**	12,139

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 $189 million as at March 31, 2020 (March 31, 2019 – $490 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:

	March 31, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**194**	**–**	**–**	251	–	–
Warrants and rights	**–**	**–**	**–**	–	–	–
Options: Purchased	**274**	**10**	**–**	370	12	–
Written	**261**	**–**	**(5)**	333	–	(6)
OTC						
Swaps	**1,776**	**61**	**(225)**	1,890	47	(14)
Options: Purchased	**56**	**4**	**–**	49	2	–
Written	**71**	**–**	**(3)**	39	–	(2)
Currency derivatives						
Listed						
Futures	**9**	**–**	**–**	22	–	–
OTC						
Forwards	**1,976**	**57**	**(35)**	1,436	8	(4)
Swaps	**453**	**7**	**(2)**	476	1	(3)
Options: Purchased	**225**	**5**	**–**	465	4	–
Written	**247**	**–**	**(5)**	426	–	(3)
Interest rate derivatives						
Listed						
Futures	**298**	**–**	**–**	806	–	–
Options: Purchased	**2,393**	**4**	**–**	3,462	2	–
Written	**946**	**–**	**(3)**	3,174	–	(2)
OTC						
Forwards	**–**	**–**	**–**	43	1	(1)
Swaps	**494**	**11**	**(15)**	1,846	18	(19)
Options: Purchased	**2,965**	**41**	**–**	3,906	19	–
Written	**3,264**	**–**	**(35)**	3,696	–	(15)
OTC-cleared						
Forwards	**2,054**	**–**	**–**	–	–	–
Swaps	**7,746**	**–**	**–**	4,031	–	–
Credit derivatives						
OTC						
Credit default swaps: Purchased	**33**	**1**	**–**	48	–	(1)
Written[A]	**2**	**–**	**–**	7	–	–
OTC-cleared						
Credit default swaps: Purchased	**72**	**–**	**–**	59	–	–
Total		**201**	**(328)**		114	(70)

[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, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ millions)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**4,375**	**14**	**(8)**	8,418	14	(8)
OTC derivatives	**11,562**	**187**	**(320)**	14,327	100	(62)
OTC-cleared derivatives	**9,872**	**–**	**–**	4,090	–	–
Total		**201**	**(328)**		114	(70)

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

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Less than 3 months	**12,513**	6,817
3 to 12 months	**6,588**	11,749
Over 1 year	**6,708**	8,269

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, 2020 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	189	51	3	243
Foreign equity	1,906	108	87	2,101
Private markets				
Real estate	–	–	2,151	2,151
Private equity	–	–	1,597	1,597
Infrastructure	–	–	1,621	1,621
Natural resources	–	–	755	755
Fixed income				
Cash and money market securities	93	257	–	350
Government and corporate bonds	832	1,438	–	2,270
Inflation-linked bonds	1,169	28	–	1,197
Private debt securities	–	–	1,261	1,261
Alternative investments	–	189	612	801
	4,189	2,071	8,087	14,347
Investment-related assets				
Amounts receivable from pending trades	–	55	–	55
Interest receivable	–	42	–	42
Dividends receivable	–	12	–	12
Securities purchased under reverse repurchase agreements	–	327	–	327
Derivative-related assets	13	188	–	201
	13	624	–	637
Investments representing financial assets at FVTPL	4,202	2,695	8,087	14,984
Investment-related liabilities				
Amounts payable from pending trades	–	(73)	–	(73)
Interest payable	–	(7)	–	(7)
Securities sold short	(266)	(15)	–	(281)
Collateral payable	–	(242)	–	(242)
Securities sold under repurchase agreements	–	(636)	–	(636)
Derivative-related liabilities	(8)	(320)	–	(328)
Investment-related liabilities representing financial liabilities at FVTPL	(274)	(1,293)	–	(1,567)
Borrowings				
Capital market debt financing	–	(1,143)	–	(1,143)
Borrowings representing financial liabilities designated at FVTPL	–	(1,143)	–	(1,143)
Net investments	3,928	259	8,087	12,274

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, 2019 classified within the fair value hierarchy:

(Canadian $ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	179	62	4	245
Foreign equity	2,065	156	122	2,343
Private markets				
Real estate	–	–	2,034	2,034
Private equity	–	–	1,462	1,462
Infrastructure	–	–	1,453	1,453
Natural resources	–	–	543	543
Fixed income				
Cash and money market securities	–	861	–	861
Government and corporate bonds	–	1,894	3	1,897
Inflation-linked bonds	–	1,013	–	1,013
Private debt securities	–	–	1,130	1,130
Alternative investments	–	154	571	725
	2,244	4,140	7,322	13,706
Investment-related assets				
Amounts receivable from pending trades	–	85	–	85
Interest receivable	–	36	–	36
Dividends receivable	–	10	–	10
Securities purchased under reverse repurchase agreements	–	432	–	432
Derivative-related assets	9	105	–	114
	9	668	–	677
Investments representing financial assets at FVTPL	2,253	4,808	7,322	14,383
Investment-related liabilities				
Amounts payable from pending trades	–	(69)	–	(69)
Interest payable	–	(5)	–	(5)
Securities sold short	(284)	(172)	–	(456)
Collateral payable	–	(218)	–	(218)
Securities sold under repurchase agreements	–	(406)	–	(406)
Derivative-related liabilities	(8)	(62)	–	(70)
Investment-related liabilities representing financial liabilities at FVTPL	(292)	(932)	–	(1,224)
Borrowings				
Capital market debt financing	–	(1,020)	–	(1,020)
Borrowings representing financial liabilities designated at FVTPL	–	(1,020)	–	(1,020)
Net investments	1,961	2,856	7,322	12,139

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2020 (no significant transfers between Level 1 and Level 2 during the year ended March 31, 2019).

4 — Financial Assets and Financial Liabilities
(continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

To reflect the impact of the market disruption described in note 18 as at March 31, 2020, management used significant judgement in the determination of fair value of Level 3 investments, especially those in Private Markets. Where appropriate, adjustments were made based on public market trading comparables, investment specific characteristics as well as market conditions and uncertainties as at March 31, 2020.

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, 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	**3**	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	**87**	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	**2,030**	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	**121**	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	**2,821**	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	**1,152**	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Asset-backed term notes	**–**	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	**896**	DCF	Discount rate[B]	6.63% – 22.64% (11.86%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	**365**	NAV[A]	N/A	N/A
Alternative investments	Fund investments	**612**	NAV[A]	N/A	N/A
Total		**8,087**			

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2019:

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	4	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	122	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	1,901	Discounted cash flow (DCF)	Discount rate[B, C]	4.10% – 20.00% (7.55%)
				Terminal capitalization rate[B, C]	4.25% – 10.25% (5.92%)
			Direct capitalization	Capitalization rate[B, D]	2.50% – 8.98% (5.57%)
				Stabilized occupancy rate[D, E]	93.00% – 100.00% (98.22%)
			Sales comparison approach	Price per square foot[D, E]	$0.95 – $2,057.93 ($281.99)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	133	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	2,442	DCF	Discount rate[B]	6.00% – 12.50% (8.79%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	1,016	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	2	DCF	Discount rate[B]	52.50%
	Asset-backed term notes	1	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	780	DCF	Discount rate[B]	5.54% – 18.76% (9.77%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	350	NAV[A]	N/A	N/A
Alternative investments	Fund investments	571	NAV[A]	N/A	N/A
Total		7,322			

[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, 2020:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer in (out) of Level 3	Closing Balance
Public markets	**126**	**7**	**(64)**	**–**	**38**	**(17)**	**–**	**90**
Private markets	**5,492**	**1,410**	**(775)**	**–**	**273**	**(283)**	**7**	**6,124**
Fixed income	**1,133**	**568**	**(375)**	**–**	**8**	**(73)**	**–**	**1,261**
Alternative investments	**571**	**126**	**(89)**	**–**	**12**	**9**	**(17)**	**612**
Total	**7,322**	**2,111**	**(1,303)**	**–**	**331**	**(364)**	**(10)**	**8,087**

[A] Includes Plan Account allocation adjustments.

As at March 31, 2019, an alternative investment of $17 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 $7 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.

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, 2019:

(Canadian $ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer out of Level 3	Closing Balance
Public markets	138	40	(49)	–	31	(34)	–	126
Private markets	4,800	1,075	(685)	–	137	170	(5)	5,492
Fixed income	1,038	418	(326)	(4)	11	(4)	–	1,133
Alternative investments	514	63	(40)	–	3	31	–	571
Total	6,490	1,596	(1,100)	(4)	182	163	(5)	7,322

[A] Includes Plan Account allocation adjustments.

As at March 31, 2018, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2019, the investment was transferred to Level 1 as the related securities became publicly traded.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, 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, 2020 (March 31, 2019 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

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

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Securities lending and borrowing		
Securities lent	**48**	577
Collateral held[A]	**51**	609
Securities borrowed	**75**	283
Collateral pledged[B]	**81**	292
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**640**	410
Collateral pledged	**637**	408
Securities purchased under reverse repurchase agreements	**327**	434
Collateral held[C]	**327**	433
Derivative contracts		
Collateral pledged	**209**	66
Collateral held[D]	**28**	41

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to nil for the Plan Account as at March 31, 2020 (March 31, 2019 – $216 million) and securities amounted to $51 million as at March 31, 2020 (March 31, 2019 – $393 million). All cash collateral is reinvested.

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

[C] The collateral received is in the form of securities of which $207 million has been used in connection with short selling transactions as at March 31, 2020 (March 31, 2019 – $172 million) and $10 million has been used in connection with securities sold under repurchase agreements (March 31, 2019 – $1 million).

[D] As part of collateral held, cash amounted to $3 million as at March 31, 2020 (March 31, 2019 – $1 million) and securities amounted to $25 million as at March 31, 2020 (March 31, 2019 – $40 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, 2020, 111 investment entity subsidiaries were incorporated in North America, 15 in Europe, 15 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2019 – 108 in North America, 17 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 84 investees directly or through its investment entity subsidiaries as at March 31, 2020 (March 31, 2019 – 81 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, 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**

	March 31, 2019		
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 Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding 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
TDF S.A.S.	Europe	22	Associate
Roccapina Fund, L.P.	North America	100	Controlled investee
Big Box Properties	North America	49	Jointly controlled investee

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 18, 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, 2020 (%)	March 31, 2019 (%)
Absolute volatility	**9.2**	7.3

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, 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	–	–	–	–	350[A]	350
Government and corporate bonds	67	1,292	412	400	99[B]	2,270
Inflation-linked bonds	–	431	459	307	–	1,197
Private debt securities	22	314	450	108	367[C]	1,261
Total fixed income	**89**	**2,037**	**1,321**	**815**	**816**	**5,078**

	March 31, 2019					
(Canadian $ millions)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	861[A]	861
Government and corporate bonds	86	875	435	354	147[B]	1,897
Inflation-linked bonds	–	165	566	282	–	1,013
Private debt securities	6	184	434	151	355[C]	1,130
Total fixed income	92	1,224	1,435	787	1,363	4,901

[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 $8,468 million as at March 31, 2020 ($8,079 million as at March 31, 2019) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in 4.1.4, which amounted to $801 million as at March 31, 2020 ($725 million as at March 31, 2019), 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, 2020		March 31, 2019	
Currency	**Fair Value (Canadian $ millions)**	**% of Total**	**Fair Value (Canadian $ millions)**	**% of Total**
US Dollar	**7,054**	**67.1**	6,300	63.6
Euro	**1,362**	**13.0**	1,475	14.9
Australian Dollar	**449**	**4.3**	218	2.2
British Pound	**346**	**3.3**	572	5.8
Japanese Yen	**253**	**2.4**	201	2.0
Hong Kong Dollar	**169**	**1.6**	186	1.9
Swiss Franc	**125**	**1.2**	66	0.7
Mexican Peso	**115**	**1.1**	174	1.8
Indian Rupee	**97**	**0.9**	115	1.2
Brazilian Real	**95**	**0.9**	116	1.2
Others	**438**	**4.2**	473	4.7
Total	**10,503**	**100.0**	9,896	100.0

As at March 31, 2020, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $1,801 million for the Plan Account (US$1,049 million, € 144 million, £ 20 million, 2 million South African rands, 161 million Mexican pesos, 1,908 million Indian Rupee, 4 million Danish Krone and 1 million Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2019, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $1,561 million for the Plan Account (US$987 million, € 143 million, £ 7 million, 2 million South African rands, 979 million Colombian pesos, 192 million Mexican pesos and 1 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, 2020, the Plan Account's maximum exposure to credit risk amounted to $5 billion (March 31, 2019 – $5 billion), of which Private Debt securities amounting to $17 million (March 31, 2019 – $21 million) were rated BBB and $1 billion (March 31, 2019 – $1 billion) were rated BB or below. The maximum credit risk 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:

Credit Rating	**March 31, 2020 (%)**	March 31, 2019 (%)
AAA–AA	**58.6**	48.4
A	**12.5**	23.6
BBB	**1.9**	2.3
BB or below	**26.4**	25.1
No rating[A]	**0.6**	0.6
Total	**100.0**	100.0

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

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

(Canadian $ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2020						
Reverse repurchase agreements	**327**	**–**	**327**[A]	**258**	**69**	**–**
OTC-derivatives	**190**	**3**	**187**[B]	**164**	**22**	**1**
Total	**517**	**3**	**514**	**422**	**91**	**1**
March 31, 2019						
Reverse repurchase agreements	432	–	432[A]	281	151	–
OTC-derivatives	100	–	100[B]	56	39	5
Total	532	–	532	337	190	5

Financial Liabilities

(Canadian $ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2020						
Repurchase agreements	**636**	**–**	**636**[A]	**258**	**378**	**–**
OTC-derivatives	**323**	**3**	**320**[B]	**162**	**153**	**5**
Collateral payable	**3**	**–**	**3**[C]	**2**	**(1)**	**2**
Total	**962**	**3**	**959**	**422**	**530**	**7**
March 31, 2019						
Repurchase agreements	406	–	406[A]	281	125	–
OTC-derivatives	62	–	62[B]	55	6	1
Collateral payable	1	–	1[C]	1	–	–
Total	469	–	469	337	131	1

[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 such as that described in Note 18.

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, 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	**(73)**	**–**	**–**	**(73)**
Interest payable	**(2)**	**(5)**	**–**	**(7)**
Securities sold short	**(281)**	**–**	**–**	**(281)**
Collateral payable	**(3)**	**–**	**(239)**	**(242)**
Securities sold under repurchase agreements	**(562)**	**(74)**	**–**	**(636)**
Capital market debt financing	**(261)**	**(265)**	**(617)**	**(1,143)**
Trade payable and other liabilities	**(9)**	**(9)**	**(13)**	**(31)**
Total	**(1,191)**	**(353)**	**(869)**	**(2,413)**

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	**139**	**36**	**26**	**201**
Derivative-related liabilities[A]	**(198)**	**(105)**	**(25)**	**(328)**
Total	**(59)**	**(69)**	**1**	**(127)**

[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, 2019 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	(69)	–	–	(69)
Interest payable	(5)	–	–	(5)
Securities sold short	(456)	–	–	(456)
Collateral payable	(218)	–	–	(218)
Securities sold under repurchase agreements	(406)	–	–	(406)
Capital market debt financing	(342)	(154)	(524)	(1,020)
Trade payable and other liabilities	(5)	(9)	(9)	(23)
Total	(1,501)	(163)	(533)	(2,197)

(Canadian $ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	48	40	26	114
Derivative-related liabilities[A]	(17)	(25)	(28)	(70)
Total	31	15	(2)	44

[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, 2020 and 2019.

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, 2020 and 2019.

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, 2020		March 31, 2019	
(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 0.97% and 1.87% and maturing within 27 and 364 days of issuance (March 31, 2019 – between 1.79% and 2.20%, maturing within 56 and 365 days)	**23**	**23**	47	47
Short-term US Dollar promissory notes, bearing interest between 0.03% and 2.02% and maturing within 7 and 366 days of issuance (March 31, 2019 – between 2.45% and 2.84%, maturing within 21 and 365 days)	**431**	**430**	451	449
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**72**	**73**	69	70
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**102**	**109**	68	72
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**85**	**86**	91	90
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**107**	**110**	72	72
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**121**	**123**	126	126
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**90**	**97**	90	94
Medium-term notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**90**	**92**	–	–
Total	**1,121**	**1,143**	1,014	1,020

Unrealized losses in connection with borrowings amounted to $37 million for the year ended March 31, 2020 (unrealized losses of $ 14 million for the year ended March 31, 2019).

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

(Canadian $ millions)	**2020**	2019
Short-term promissory notes	**11**	11
Medium-term notes	**13**	10
Total	**24**	21

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, 2020.

(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Non-cash changes		Closing balance
				Foreign exchange losses	Fair value[A] losses	
Capital market debt financing	**1,020**	**1,915**	**(1,830)**	**27**	**11**	**1,143**
Borrowings	**1,020**	**1,915**	**(1,830)**	**27**	**11**	**1,143**

[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, 2019.

(Canadian $ millions)	Opening balance	Proceeds from borrowings	Repayment of borrowings	Non-cash changes		Closing balance
				Foreign exchange losses	Fair value[A] losses	
Capital market debt financing	885	2,437	(2,317)	2	13	1,020
Borrowings	885	2,437	(2,317)	2	13	1,020

[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 received fund transfers from the Government of Canada of $211 million for the year ended March 31, 2020 ($232 million for the year ended March 31, 2019) for the Fund, recorded in the Plan Account.

10 — Segment Information

In order to fulfil its mandate, PSP Investments manages a diversified global portfolio composed of investments in various asset classes and has implemented an investment approach that focuses 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 Markets – 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, 2020**	March 31, 2019
Public Markets[A]	**3,496**	3,689
Real Estate	**1,722**	1,701
Private Equity	**1,738**	1,701
Infrastructure	**1,323**	1,215
Natural Resources	**553**	488
Credit Investments	**961**	757
Fixed Income[A]	**2,364**	2,152
Complementary Portfolio	**68**	103
Other[B]	**49**	333
Total	**12,274**	12,139

[A] During the year ended March 31, 2020 government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present such net investments on a comparable basis, corresponding comparative balances of $2,152 million were reclassified accordingly.

[B] 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:

	2020			2019		
(Canadian $ millions)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)
Public Markets[C]	**(401)**	**(22)**	**(423)**	152	(23)	129
Real Estate	**(60)**	**(22)**	**(82)**	136	(18)	118
Private Equity	**82**	**(8)**	**74**	233	(7)	226
Infrastructure	**111**	**(16)**	**95**	87	(13)	74
Natural Resources	**(23)**	**(7)**	**(30)**	44	(5)	39
Credit Investments	**35**	**(5)**	**30**	61	(4)	57
Fixed Income[C]	**221**	**(10)**	**211**	97	(6)	91
Complementary Portfolio	**9**	**(1)**	**8**	–	(1)	(1)
Other[D]	**41**	**(1)**	**40**	71	(1)	70
Total	**15**	**(92)**	**(77)**	881	(78)	803

[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] During the year ended March 31, 2020, government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present net income from operations for such investments on a comparable basis, corresponding comparative figures for Investment Income, Expenses and Net Income of $97 million, $6 million and $91 million respectively, for the year ended March 31, 2019, were reclassified accordingly.

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

11 — Investment-Related Expenses

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

(Canadian $ millions)	2020	2019
Interest expense	**32**	25
Transaction costs	**12**	9
External investment management fees[A]	**4**	2
Other (net)	**4**	6
Total	**52**	42

[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 $6 million for the year ended March 31, 2020 ($17 million for the year ended March 31, 2019). 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 $30 million for the year ended March 31, 2020 ($24 million for the year ended March 31, 2019). 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)	2020	2019
Salaries and employee benefits	**23,055**	21,151
Professional and consulting fees	**6,333**	5,568
Premises and equipment	**1,802**	2,268
Market data and business applications	**2,984**	2,677
Depreciation of equipment	**2,532**	2,362
Custodial fees	**461**	387
Other operating expenses	**2,645**	2,058
Total	**39,812**	36,471

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 and other comprehensive income, 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:

(%)	**2020**	2019
Public Service Pension Plan Account	**72.7**	72.6
Canadian Forces Pension Plan Account	**19.7**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.3
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 funds transfers outlined in Note 9.2.

(ii) Government-Related Entities

PSP Investments may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1. Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on net assets and comprehensive income 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 Comprehensive Income (Loss) and was as follows:

(Canadian $ thousands)	**2020**	2019
Short-term compensation and other benefits	**1,052**	1,075
Long-term compensation and other benefits	**707**	678
Total	**1,759**	1,753

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, 2020 and 2019, 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 $2,802 million as at March 31, 2020 (March 31, 2019 – $2,602 million), of which $203 million has been allocated to the Plan Account (March 31, 2019 – $188 million) plus applicable interest and other related costs. The arrangements mature between April 2020 and November 2029 as of March 31, 2020 (March 31, 2019 – between July 2019 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $89 million as at March 31, 2020 (March 31, 2019 – $54 million), of which $6 million has been allocated to the Plan Account (March 31, 2019 – $4 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 portion of PSP Investments' commitments that would be assumed by the Plan Account was as follows as at:

(Canadian $ millions)	**March 31, 2020**	March 31, 2019
Real estate	**255**	177
Private equity	**942**	744
Infrastructure	**213**	193
Natural resources	**19**	30
Private debt securities	**275**	299
Alternative investments	**122**	150
Total	**1,826**	1,593

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2020 (March 31, 2019–2035).

18 — Uncertainties Related to COVID-19

The outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. The Financial Statements of PSP Investments prepared as of, and for the year ended March 31, 2020, reflect the impacts resulting from COVID-19 to the extent known at the reporting date.

The ongoing worldwide spread of COVID-19 and its effect on international business operations, supply chains, travel, commodity prices, consumer confidence and business forecasts are expected to continue to have significant impacts on domestic and international equity markets and fixed income yields for the near term.

Management continues to monitor developments in equity and fixed income markets generally and specifically in connection with PSP Investments' portfolio. The full potential impact of the COVID-19 outbreak on the fair value of PSP Investments' portfolio is unknown as it will depend on future developments that are uncertain. Such uncertainties include the duration and depth of the outbreak. Management expects that the fair value of PSP Investments' portfolio will continue to be affected for the near term.

— 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, 2020 and 2019, and the statements of comprehensive 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, 2020 and 2019, 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 Interim Auditor General of Canada

Montréal, Canada
4 June 2020

Deloitte LLP[1]

Montréal, Canada
4 June 2020

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

Statements of Financial Position

As at

(Canadian $ thousands)	**March 31, 2020**	March 31, 2019
Assets		
Investments (Note 4.1)	**895,508**	874,172
Other assets	**1,400**	850
Total assets	**896,908**	875,022
Liabilities		
Trade payable and other liabilities	**1,904**	1,470
Investment-related liabilities (Note 4.1)	**93,633**	74,335
Borrowings (Notes 4.1, 8.2)	**68,295**	62,013
Total liabilities	**163,832**	137,818
Net assets	**733,076**	737,204
Equity (Note 9)	**733,076**	737,204
Total liabilities and equity	**896,908**	875,022

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

On behalf of the Board of Directors:

Martin Glynn
Chair of the Board

William A. Mackinnon
Chair of the Audit Committee

Statements of Comprehensive Income (Loss)

For the years ended March 31

(Canadian $ thousands)	**2020**	2019
Investment income	**1,226**	53,873
Investment-related expenses **(Note 11)**	**(3,022)**	(2,577)
Net investment income (loss)	**(1,796)**	51,296
Operating expenses **(Note 12)**	**(2,420)**	(2,262)
Net income (loss)	**(4,216)**	49,034
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability	**88**	(16)
Comprehensive income (loss)	**(4,128)**	49,018

Statements of Changes in Equity

For the years ended March 31

(Canadian $ thousands)	**2020**	2019
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	**407,573**	358,555
Comprehensive income (loss)	**(4,128)**	49,018
Balance at end of period	**403,445**	407,573
Total equity	**733,076**	737,204

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

Statements of Cash Flows

For the years ended March 31

(Canadian $ thousands)	**2020**	2019
Cash flows from operating activities		
Net income (loss)	**(4,216)**	49,034
Adjustments for non-cash items:		
Depreciation of equipment (Note 12)	**154**	147
Effect of exchange rate changes on cash and cash equivalents	**(380)**	(142)
Unrealized losses on borrowings	**2,203**	835
	(2,239)	49,874
Net changes in operating assets and liabilities		
Increase in investments	**(39,864)**	(57,613)
Decrease in other assets	**10**	38
Increase in trade payables and other liabilities	**282**	166
Increase in investment-related liabilities	**19,291**	12,806
Net cash flows (used in) provided by operating activities	**(22,520)**	5,271
Cash flows from financing activities		
Proceeds from borrowings	**113,058**	150,216
Repayment of borrowings	**(108,973)**	(143,985)
Repayment to the Public Service Pension Plan Account	**–**	(2,380)
Advances from the Public Service Pension Plan Account	**–**	1,831
Net cash flows provided by financing activities	**4,085**	5,682
Cash flows used in investing activities		
Acquisitions of equipment	**(85)**	(186)
Net cash flows used in investing activities	**(85)**	(186)
Net change in cash and cash equivalents	**(18,520)**	10,767
Effect of exchange rate changes on cash and cash equivalents	**380**	142
Cash and cash equivalents at the beginning of the period	**29,936**	19,027
Cash and cash equivalents at the end of the period[A]	**11,796**	29,936
Supplementary disclosure of cash flow information		
Interest paid	**(1,707)**	(1,387)

[A] As at March 31, 2020 cash and cash equivalents were comprised of $11,331 thousand (March 31, 2019 - $29,851 thousand) held for investment purposes and included in Note 4.1, as well as $465 thousand (March 31, 2019 - $85 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, 2020 and 2019

1— Corporate Information

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

The fund for which amounts are currently transferred to PSP Investments by the Government of Canada (the "Fund") relates to pension obligations under the Plan for service on or after March 1, 2007 ("Post-2007 Service"). The account managed by PSP Investments for the Fund is herein referred to as the "Plan Account". PSP Investments maintains records of the net contributions for the Fund, as well as the allocation of its investments and the results of its operations for the Fund in the Plan Account. PSP Investments also manages a plan account for the funds of the other Plans, and these and the Plan Account are collectively referred to herein as the "Plan Accounts".

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

Pursuant to the CFSA and the CFSA Regulations, the Government of Canada, which administers the Plan and the Fund, may at any time call upon the net assets of PSP Investments allocated to the Fund's Plan Account for amounts required for the purpose of paying benefits under the Plan in respect of Post-2007 Service.

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

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

2— Significant Accounting Policies

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

2.1. Basis of Presentation

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

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

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

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on June 4, 2020.

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 Comprehensive Income.

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

(iv) Derecognition

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

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

and

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

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

2 — Significant Accounting Policies
(continued)

2.3. Summary of Significant Accounting Policies
(continued)

2.3.2. Determination of Fair Value

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

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

Valuation techniques are generally applied to investments in private markets, 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.

Although assumptions reflect management's best estimates, actual results may differ from such estimates due to the uncertainties involved in using them. As further described in Note 18, such uncertainties were significant as at March 31, 2020 due to the substantial disruption of global economic activity as well as financial markets' volatility at the reporting date.

3 — Current and Future Changes in Accounting Standards

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

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

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

(Canadian $ thousands)	**March 31, 2020**	March 31, 2019
Public markets		
Canadian equity	**14,515**	14,908
Foreign equity	**125,608**	142,418
Private markets		
Real estate	**128,583**	123,609
Private equity	**95,424**	88,875
Infrastructure	**96,897**	88,282
Natural resources	**45,117**	33,001
Fixed income		
Cash and money market securities	**20,912**	52,285
Government and corporate bonds	**135,670**	115,295
Inflation-linked bonds	**71,530**	61,565
Private debt securities	**75,349**	68,712
Alternative investments	**47,854**	44,097
	857,459	833,047
Investment-related assets		
Amounts receivable from pending trades	**3,284**	5,167
Interest receivable	**2,539**	2,189
Dividends receivable	**688**	628
Securities purchased under reverse repurchase agreements	**19,510**	26,220
Derivative-related assets	**12,028**	6,921
	38,049	41,125
Investments representing financial assets at FVTPL	**895,508**	874,172
Investment-related liabilities		
Amounts payable from pending trades	**(4,389)**	(4,200)
Interest payable	**(407)**	(304)
Securities sold short	**(16,807)**	(27,661)
Collateral payable	**(14,478)**	(13,228)
Securities sold under repurchase agreements	**(37,960)**	(24,716)
Derivative-related liabilities	**(19,592)**	(4,226)
Investment-related liabilities representing financial liabilities at FVTPL	**(93,633)**	(74,335)
Borrowings		
Capital market debt financing	**(68,295)**	(62,013)
Borrowings representing financial liabilities designated at FVTPL	**(68,295)**	(62,013)
Net investments	**733,580**	737,824

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 $11,331 thousand as at March 31, 2020 (March 31, 2019 – $29,851 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, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ thousands)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	**11,603**	**–**	**–**	15,279	–	–
Warrants and rights	**6**	**1**	**–**	6	6	–
Options: Purchased	**16,379**	**592**	**–**	22,510	750	–
Written	**15,586**	**–**	**(283)**	20,249	–	(347)
OTC						
Swaps	**106,164**	**3,680**	**(13,391)**	114,901	2,809	(832)
Options: Purchased	**3,348**	**245**	**–**	2,951	100	–
Written	**4,224**	**–**	**(207)**	2,377	–	(134)
Currency derivatives						
Listed						
Futures	**537**	**–**	**–**	1,323	–	–
OTC						
Forwards	**118,078**	**3,413**	**(2,094)**	87,289	513	(227)
Swaps	**27,090**	**417**	**(130)**	28,938	79	(159)
Options: Purchased	**13,477**	**301**	**–**	28,283	230	–
Written	**14,738**	**–**	**(291)**	25,882	–	(212)
Interest rate derivatives						
Listed						
Futures	**17,818**	**–**	**–**	48,970	–	–
Options: Purchased	**142,978**	**241**	**–**	210,417	150	–
Written	**56,568**	**–**	**(192)**	192,914	–	(121)
OTC						
Forwards	**–**	**–**	**–**	2,604	45	(72)
Swaps	**29,545**	**641**	**(891)**	112,261	1,077	(1,160)
Options: Purchased	**177,199**	**2,458**	**–**	237,383	1,157	–
Written	**195,109**	**–**	**(2,087)**	224,627	–	(916)
OTC-cleared						
Forwards	**122,759**	**–**	**–**	–	–	–
Swaps	**462,949**	**–**	**–**	245,018	–	–
Credit derivatives						
OTC						
Credit default swaps: Purchased	**1,999**	**37**	**(26)**	2,934	1	(46)
Written[A]	**92**	**2**	**–**	396	4	–
OTC-cleared						
Credit default swaps: Purchased	**4,305**	**–**	**–**	3,607	–	–
Total		**12,028**	**(19,592)**		6,921	(4,226)

[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, 2020			March 31, 2019		
		Fair Value			Fair Value	
(Canadian $ thousands)	**Notional Value**	**Assets**	**Liabilities**	Notional Value	Assets	Liabilities
Listed derivatives	**261,475**	**834**	**(475)**	511,668	906	(468)
OTC derivatives	**691,063**	**11,194**	**(19,117)**	870,826	6,015	(3,758)
OTC-cleared derivatives	**590,013**	**–**	**–**	248,625	–	–
Total		**12,028**	**(19,592)**		6,921	(4,226)

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

(Canadian $ thousands)	**March 31, 2020**	March 31, 2019
Less than 3 months	**747,845**	414,333
3 to 12 months	**393,759**	714,136
Over 1 year	**400,947**	502,650

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, 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

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, 2019 classified within the fair value hierarchy:

(Canadian $ thousands)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	10,858	3,785	265	14,908
Foreign equity	125,488	9,566	7,364	142,418
Private markets				
Real estate	–	–	123,609	123,609
Private equity	–	–	88,875	88,875
Infrastructure	–	–	88,282	88,282
Natural resources	–	–	33,001	33,001
Fixed income				
Cash and money market securities	–	52,285	–	52,285
Government and corporate bonds	–	115,126	169	115,295
Inflation-linked bonds	–	61,565	–	61,565
Private debt securities	–	–	68,712	68,712
Alternative investments	–	9,331	34,766	44,097
	136,346	251,658	445,043	833,047
Investment-related assets				
Amounts receivable from pending trades	–	5,167	–	5,167
Interest receivable	–	2,189	–	2,189
Dividends receivable	–	628	–	628
Securities purchased under reverse repurchase agreements	–	26,220	–	26,220
Derivative-related assets	570	6,351	–	6,921
	570	40,555	–	41,125
Investments representing financial assets at FVTPL	136,916	292,213	445,043	874,172
Investment-related liabilities				
Amounts payable from pending trades	–	(4,200)	–	(4,200)
Interest payable	–	(304)	–	(304)
Securities sold short	(17,212)	(10,449)	–	(27,661)
Collateral payable	–	(13,228)	–	(13,228)
Securities sold under repurchase agreements	–	(24,716)	–	(24,716)
Derivative-related liabilities	(468)	(3,758)	–	(4,226)
Investment-related liabilities representing financial liabilities at FVTPL	(17,680)	(56,655)	–	(74,335)
Borrowings				
Capital market debt financing	–	(62,013)	–	(62,013)
Borrowings representing financial liabilities designated at FVTPL	–	(62,013)	–	(62,013)
Net investments	119,236	173,545	445,043	737,824

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2020 (no significant transfers between Level 1 and Level 2 during the year ended March 31, 2019.)

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

To reflect the impact of the market disruption described in note 18 as at March 31, 2020, management used significant judgement in the determination of fair value of Level 3 investments, especially those in Private Markets. Where appropriate, adjustments were made based on public market trading comparables, investment specific characteristics as well as market conditions and uncertainties as at March 31, 2020.

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, 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, 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, 2019:

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	265	Net asset value method (NAV)[A]	N/A	N/A
Foreign equity	Direct investments	7,364	NAV[A]	N/A	N/A
Private markets					
Real estate	Direct and co-investments	115,549	Discounted cash flow (DCF)	Discount rate[B, C]	4.10% – 20.00% (7.55%)
				Terminal capitalization rate[B, C]	4.25% – 10.25% (5.92%)
			Direct capitalization	Capitalization rate[B, D]	2.50% – 8.98% (5.57%)
				Stabilized occupancy rate[D, E]	93.00% – 100.00% (98.22%)
			Sales comparison approach	Price per square foot[D, E]	$0.95 – $2,057.93 ($281.99)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	8,060	NAV[A]	N/A	N/A
Other private markets	Direct and co-investments	148,427	DCF	Discount rate[B]	6.00% – 12.50% (8.79%)
			Market comparables	N/A	N/A
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	61,731	NAV[A]	N/A	N/A
Fixed income					
Corporate bonds	Convertible bonds	129	DCF	Discount rate[B]	52.50%
	Asset-backed term notes	40	Third-party pricing[A]	N/A	N/A
Private debt securities	Direct and co-investments	47,425	DCF	Discount rate[B]	5.54% – 18.76% (9.77%)
			NAV[A]	N/A	N/A
			Transaction price	N/A	N/A
	Fund investments	21,287	NAV[A]	N/A	N/A
Alternative investments	Fund investments	34,766	NAV[A]	N/A	N/A
Total		445,043			

[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, 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.

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, 2019:

(Canadian $ thousands)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains (Losses)[A]	Transfer in (out) of Level 3	Closing Balance
Public markets	8,527	2,457	(2,997)	–	1,896	(2,256)	2	7,629
Private markets	297,758	66,185	(42,046)	–	8,444	3,820	(394)	333,767
Fixed income	64,383	25,841	(20,082)	(264)	681	(1,678)	–	68,881
Alternative investments	31,874	3,913	(2,484)	–	200	1,263	–	34,766
Total	402,542	98,396	(67,609)	(264)	11,221	1,149	(392)	445,043

[A] Includes Plan Account allocation adjustments.

As at March 31, 2018, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2019, the investment was transferred to Level 1 as the related securities became publicly traded.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, 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, 2020 (March 31, 2019 – 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, 2020**	March 31, 2019
Securities lending and borrowing		
Securities lent	**2,859**	35,088
Collateral held[A]	**3,041**	36,980
Securities borrowed	**4,455**	17,222
Collateral pledged[B]	**4,837**	17,746
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	**38,223**	24,881
Collateral pledged	**38,043**	24,818
Securities purchased under reverse repurchase agreements	**19,559**	26,360
Collateral held[C]	**19,540**	26,314
Derivative contracts		
Collateral pledged	**12,508**	4,018
Collateral held[D]	**1,663**	2,442

[A] The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to nil for the Plan Account as at March 31, 2020 (March 31, 2019 – $13,099 thousand) and securities amounted to $3,040 thousand as at March 31, 2020 (March 31, 2019 – $23,881 thousand). All cash collateral is reinvested.

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

[C] The collateral received is in the form of securities of which $12,351 thousand has been used in connection with short selling transactions as at March 31, 2020 (March 31, 2019 – $10,449 thousand) and $579 thousand has been used in connection with securities sold under repurchase agreements (March 31, 2019 – $69 thousand).

[D] As part of collateral held, cash amounted to $193 thousand as at March 31, 2020 (March 31, 2019 – $33 thousand) and securities amounted to $1,470 thousand as at March 31, 2020 (March 31, 2019 – $2,409 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, 2020, 111 investment entity subsidiaries were incorporated in North America, 15 in Europe, 15 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2019 – 108 in North America, 17 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 84 investees directly or through its investment entity subsidiaries as at March 31, 2020 (March 31, 2019 – 81 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, 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**

	March 31, 2019		
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 Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding 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
TDF S.A.S.	Europe	22	Associate
Roccapina Fund, L.P.	North America	100	Controlled investee
Big Box Properties	North America	49	Jointly controlled investee

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 18, 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, 2020 (%)	March 31, 2019 (%)
Absolute volatility	**9.2**	7.3

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, 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**

	March 31, 2019					
(Canadian $ thousands)	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	Total
Cash and money market securities	–	–	–	–	52,285[A]	52,285
Government and corporate bonds	5,233	53,213	26,433	21,487	8,929[B]	115,295
Inflation-linked bonds	–	10,051	34,391	17,123	–	61,565
Private debt securities	371	11,196	26,391	9,151	21,603[C]	68,712
Total fixed income	5,604	74,460	87,215	47,761	82,817	297,857

[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 $506,144 thousand as at March 31, 2020 ($491,093 thousand as at March 31, 2019) do not have specified terms to maturity nor are they significantly exposed to interest rate risk.

Alternative investments described in 4.1.4, which amounted to $47,854 thousand as at March 31, 2020 ($44,097 thousand as at March 31, 2019), 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, 2020		March 31, 2019	
Currency	**Fair Value (Canadian $ thousands)**	**% of Total**	**Fair Value (Canadian $ thousands)**	**% of Total**
US Dollar	**421,560**	**67.1**	382,917	63.6
Euro	**81,386**	**13.0**	89,705	14.9
Australian Dollar	**26,837**	**4.3**	13,243	2.2
British Pound	**20,686**	**3.3**	34,777	5.8
Japanese Yen	**15,117**	**2.4**	12,208	2.0
Hong Kong Dollar	**10,126**	**1.6**	11,323	1.9
Swiss Franc	**7,486**	**1.2**	4,035	0.7
Mexican Peso	**6,889**	**1.1**	10,587	1.8
Indian Rupee	**5,789**	**0.9**	7,005	1.2
Brazilian Real	**5,702**	**0.9**	7,036	1.2
Others	**26,180**	**4.2**	28,709	4.7
Total	**627,758**	**100.0**	601,545	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 Rupee, 215 thousand Danish Krone and 35 thousand Australian dollars) which were not included in the foreign currency exposure table above.

As at March 31, 2019, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of $94,893 thousand for the Plan Account (US$59,981 thousand, €8,713 thousand, £450 thousand, 97 thousand South African rands, 13 thousand Brazilian reals, 59,527 thousand Colombian pesos, 11,652 thousand Mexican pesos and 69 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, 2020, the Plan Account's maximum exposure to credit risk amounted to $329 million (March 31, 2019 – $322 million), of which Private Debt securities amounting to $1 million (March 31, 2019 – $1 million) were rated BBB and $77 million (March 31, 2019 – $73 million) were rated BB or below. The maximum credit risk 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:

Credit Rating	**March 31, 2020 (%)**	March 31, 2019 (%)
AAA-AA	**58.6**	48.4
A	**12.5**	23.6
BBB	**1.9**	2.3
BB or below	**26.4**	25.1
No rating[A]	**0.6**	0.6
Total	**100.0**	100.0

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

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

(Canadian $ thousands)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 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**
March 31, 2019						
Reverse repurchase agreements	26,220	–	26,220[A]	17,060	9,156	4
OTC-derivatives	6,042	27	6,015[B]	3,346	2,345	324
Total	32,262	27	32,235	20,406	11,501	328

Financial Liabilities

(Canadian $ thousands)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 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**
March 31, 2019						
Repurchase agreements	24,716	–	24,716[A]	17,060	7,648	8
OTC-derivatives	3,785	27	3,758[B]	3,320	408	30
Collateral payable	33	–	33[C]	26	–	7
Total	28,534	27	28,507	20,406	8,056	45

[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 such as that described in Note 18.

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, 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.

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, 2019 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	(4,200)	–	–	(4,200)
Interest payable	(296)	(8)	–	(304)
Securities sold short	(27,661)	–	–	(27,661)
Collateral payable	(13,228)	–	–	(13,228)
Securities sold under repurchase agreements	(24,716)	–	–	(24,716)
Capital market debt financing	(20,797)	(9,340)	(31,876)	(62,013)
Trade payable and other liabilities	(339)	(559)	(572)	(1,470)
Total	(91,237)	(9,907)	(32,448)	(133,592)

(Canadian $ thousands)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	2,901	2,434	1,586	6,921
Derivative-related liabilities[A]	(1,031)	(1,540)	(1,655)	(4,226)
Total	1,870	894	(69)	2,695

[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, 2020 and 2019.

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, 2020 and 2019.

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, 2020		March 31, 2019	
(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 0.97% and 1.87% and maturing within 27 and 364 days of issuance (March 31, 2019 – between 1.79% and 2.20%, maturing within 56 and 365 days)	**1,404**	**1,402**	2,863	2,844
Short-term US Dollar promissory notes, bearing interest between 0.03% and 2.02% and maturing within 7 and 366 days of issuance (March 31, 2019 – between 2.45% and 2.84%, maturing within 21 and 365 days)	**25,690**	**25,632**	27,441	27,293
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	**4,320**	**4,378**	4,160	4,241
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	**6,083**	**6,531**	4,138	4,378
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	**5,105**	**5,143**	5,490	5,435
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	**6,403**	**6,589**	4,392	4,405
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	**7,211**	**7,330**	7,687	7,653
Medium-term notes Series 11, bearing interest of 3.00% per annum and maturing on November 5, 2025	**5,400**	**5,815**	5,490	5,764
Medium-term notes Series 12, bearing interest of 2.05% per annum and maturing on January 15, 2030	**5,400**	**5,475**	–	–
Total	**67,016**	**68,295**	61,661	62,013

Unrealized losses in connection with borrowings amounted to $2,203 thousand for the year ended March 31, 2020 (unrealized losses of $835 thousand for the year ended March 31, 2019).

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

(Canadian $ thousands)	2020	2019
Short-term promissory notes	**640**	668
Medium-term notes	**807**	637
Total	**1,447**	1,305

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, 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.

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, 2019.

				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	54,893	150,216	(143,985)	100	789	62,013
Borrowings	54,893	150,216	(143,985)	100	789	62,013

[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, 2020 (no transfers for the year ended March 31, 2019) 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 Markets – 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, 2020**	March 31, 2019
Public Markets[A]	**208,964**	224,165
Real Estate	**102,896**	103,388
Private Equity	**103,852**	103,392
Infrastructure	**79,070**	73,870
Natural Resources	**33,030**	29,688
Credit Investments	**57,437**	46,010
Fixed Income[A]	**141,334**	130,830
Complementary Portfolio	**4,083**	6,263
Other[B]	**2,914**	20,218
Total	**733,580**	737,824

[A] During the year ended March 31, 2020, government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present such net investments on a comparable basis, corresponding comparative balances of $130,830 thousand were reclassified accordingly.

[B] 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:

	2020			2019		
(Canadian $ thousands)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)	Investment Income (Loss)[A]	Expenses[B]	Net Income (Loss)
Public Markets[C]	**(33,518)**	**(1,349)**	**(34,867)**	8,941	(1,379)	7,562
Real Estate	**(5,043)**	**(1,301)**	**(6,344)**	8,407	(1,152)	7,255
Private Equity	**6,886**	**(511)**	**6,375**	14,346	(446)	13,900
Infrastructure	**9,270**	**(928)**	**8,342**	5,400	(792)	4,608
Natural Resources	**(1,982)**	**(396)**	**(2,378)**	2,700	(302)	2,398
Credit Investments	**2,952**	**(312)**	**2,640**	3,729	(270)	3,459
Fixed Income[C]	**18,512**	**(574)**	**17,938**	5,957	(376)	5,581
Complementary Portfolio	**747**	**(30)**	**717**	(4)	(59)	(63)
Other[D]	**3,402**	**(41)**	**3,361**	4,397	(63)	4,334
Total	**1,226**	**(5,442)**	**(4,216)**	53,873	(4,839)	49,034

[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] During the year ended March 31, 2020, government and corporate fixed income securities were transferred from Public Markets and are now presented separately under the investment segment Fixed Income. In order to present net income from operations for such investments on a comparable basis, corresponding comparative figures for Investment Income, Expenses and Net Income of $5,957 thousand, $376 thousand and $5,581 thousand respectively, for the year ended March 31, 2019, were reclassified accordingly.

[D] 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)	2020	2019
Interest expense	**1,804**	1,497
Transaction costs	**736**	569
External investment management fees[A]	**221**	125
Other (net)	**261**	386
Total	**3,022**	2,577

[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 $372 thousand for the year ended March 31, 2020 ($1,038 thousand for the year ended March 31, 2019). 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 $1,790 thousand for the year ended March 31, 2020 ($1,451 thousand for the year ended March 31, 2019). 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)	2020	2019
Salaries and employee benefits	**1,401**	1,312
Professional and consulting fees	**385**	345
Premises and equipment	**110**	141
Market data and business applications	**181**	166
Depreciation of equipment	**154**	147
Custodial fees	**28**	24
Other operating expenses	**161**	127
Total	**2,420**	2,262

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 and other comprehensive income, 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:

(%)	2020	2019
Public Service Pension Plan Account	**72.7**	72.6
Canadian Forces Pension Plan Account	**19.7**	19.7
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.3
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 funds transfers outlined in Note 9.2.

(ii) Government-Related Entities

PSP Investments may enter into investment transactions with government-related entities in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1. Such investment transactions are carried out on terms that are equivalent to those that may prevail in transactions with unrelated parties and are subject to the same internal processes. In this respect, transactions with such related parties have the same impact on net assets and comprehensive income 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 Comprehensive Income (Loss) and was as follows:

(Canadian $ thousands)	2020	2019
Short-term compensation and other benefits	**64**	66
Long-term compensation and other benefits	**43**	41
Total	**107**	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, 2020 and 2019, 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 $2,802 million as at March 31, 2020 (March 31, 2019 – $2,602 million), of which $12,105 thousand has been allocated to the Plan Account (March 31, 2019 – $11,429 thousand) plus applicable interest and other related costs. The arrangements mature between April 2020 and November 2029 as of March 31, 2020 (March 31, 2019 – between July 2019 and November 2029).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling $89 million as at March 31, 2020 (March 31, 2019 – $54 million), of which $384 thousand has been allocated to the Plan Account (March 31, 2019 – $239 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, 2020**	March 31, 2019
Real estate	**15,243**	10,725
Private equity	**56,270**	45,225
Infrastructure	**12,748**	11,744
Natural resources	**1,149**	1,837
Private debt securities	**16,423**	18,190
Alternative investments	**7,304**	9,110
Total	**109,137**	96,831

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2020 (March 31, 2019–2035).

18 — Uncertainties Related to COVID-19

The outbreak of a novel and highly contagious form of coronavirus ("COVID-19"), which the World Health Organization has declared to constitute a pandemic, has resulted in numerous deaths, adversely impacting global commercial activity and contributing to significant ongoing volatility and declines in the global financial markets. The Financial Statements of PSP Investments prepared as of, and for the year ended March 31, 2020, reflect the impacts resulting from COVID-19 to the extent known at the reporting date.

The ongoing worldwide spread of COVID-19 and its effect on international business operations, supply chains, travel, commodity prices, consumer confidence and business forecasts are expected to continue to have significant impacts on domestic and international equity markets and fixed income yields for the near term.

Management continues to monitor developments in equity and fixed income markets generally and specifically in connection with PSP Investments' portfolio. The full potential impact of the COVID-19 outbreak on the fair value of PSP Investments' portfolio is unknown as it will depend on future developments that are uncertain. Such uncertainties include the duration and depth of the outbreak. Management expects that the fair value of PSP Investments' portfolio will continue to be affected for the near term.