Invested in tomorrow

   

—2020 Annual Report

PSP

Public Sector Pension Investment Board

Committed to the long term

As a pension investment manager, the Public Sector Pension Investment Board (PSP Investments or PSP) thinks long term: we invest and manage assets to help meet the pension plan obligations of the Public Service, the Canadian Armed Forces, the Royal Canadian Mounted Police and the Reserve Force.

Everything we do is focused on ensuring the financial security of contributors and beneficiaries who dedicate their professional lives to public service. Leveraging the talents of our team and the strength of our international networks, we have become a leading institutional investor, recognized as an agile and sought-after enabler of complex global transactions.

We know tomorrow will be different from today, and investment returns will come from different places and in different ways. In our fast-changing world, we look to spot the edge in the opportunities and challenges that lie ahead.

Photographer: Corporal Ken Beliwicz

4 public sector pension plans

— Federal Public Service
— Canadian Forces
— Royal Canadian Mounted Police (“RCMP”)
— Reserve Force

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

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The PSP collective

One of Canada's largest pension investment managers

$169.8 Billion Net AUM[1]

as of March 31, 2020

85+ countries

5 offices

Montréal
New York
London
Hong Kong
Ottawa (head office)

6 asset classes

PMARS[2]
Private Equity
Credit Investments
Real Estate
Infrastructure
Natural Resources

888 employees

100+ sectors and industries

- Communications
- Materials
- Technology
- Timber
- Agriculture
- Health care
- Industrial
- Consumer discretionary
- Energy
- Consumer staples
- Financials
- Utilities
- Residential/retirement
- Offices
- Retail
- Debt

[1] AUM: assets under management
[2] Public Markets and Absolute Return Strategies

Maintaining a long-term outlook

PSP's long-term focus is not only serving us well, it has become more important than ever.

In times of crisis, we're reminded of the important role that the Canadian government, public service employees, Armed Forces, Reserve Force and RCMP play in maintaining order and keeping our country safe. We're grateful for the work they do on behalf of Canadians and consider it a privilege to be tasked with managing and investing the funds that are transferred to us for their pension plans.

PSP's mandate is to manage these amounts in the best interests of contributors and beneficiaries and to invest the assets to maximize returns without undue risk of loss so that the pension plans can meet their financial obligations to members. Achieving our mandate requires a long-term approach to the way we lead and manage our organization and to the way we invest. PSP's long-term focus is not only serving us well, it has become more important than ever.

Rising to the challenge

Over the past years, we as a Board have been working with PSP's senior management team to prepare for an eventual market downturn, which was on our radar after many years of sustained growth. Our process included stress testing the investment portfolio under various scenarios, assessing potential cost containment measures, if needed, and ensuring the business continuity plan was up to date, so the organization could respond quickly and seamlessly if a crisis should occur.

While we could not have anticipated the current situation, PSP was ready when news of the COVID-19 outbreak first emerged in January. As a Board, we received regular reports and held meetings, after our regular February in-person sessions to discuss the implications of what had become a global crisis by mid-March. I was also in virtual daily contact with our CEO Neil Cunningham to ensure that the Board was providing the necessary oversight and support. We passed resolutions that would give senior management greater flexibility to deal with the situation and to preserve liquidity.

The Board also took action to contain costs, suspending an increase in Directors' compensation that was to take effect on April 1, 2020, and supporting management's decisions to temporarily freeze external hiring and annual salary increases.

At times like these, the value of having talented and experienced Directors who understand the Board's oversight role and can provide valuable guidance cannot be overstated. Nor can the benefits of having a seasoned management team that has lived through previous crises and is able to show strong leadership under pressure—which is exactly what we have seen at PSP.

Our responsible approach

The Board oversaw several other initiatives throughout the year to position PSP for long-term success, including the evolution of the organization's total fund approach to managing its investment portfolio.

The Board was increasingly focused on PSP's responsible investment activities, recognizing the extent to which environmental, social and governance (ESG) factors are changing the world and can affect long-term investment returns. With climate change being a growing concern for investors worldwide, we closely tracked the implementation of PSP's climate change approach. In the last year, significant progress was made on assessing the investment portfolio's exposure to climate change risks and opportunities. We were pleased to note that the latest climate change scenario analysis reconfirmed the resilience of PSP's long-term asset allocation approved by the Board.

We were also pleased to see our Chief Investment Office engage more proactively and frequently with key Government of Canada officials and the Treasury Board Secretariat, continuing to fulfill our fiduciary duty, while maintaining the integrity of the arm's-length relationship we have with the federal government.

Toward a brighter tomorrow

I would like to take this opportunity to thank my fellow Board members for their dedication and commitment to steering PSP through the unique challenges of fiscal year 2020 and toward a brighter tomorrow. Special thanks go to three of our Directors whose terms expired but who agreed to stay on until their positions are filled. As part of our ongoing Board renewal process, Miranda Hubbs replaced Micheline Bouchard as Chair of the Human Resources and Compensation Committee and we are grateful to both for their dedication to PSP's long-term success.

On behalf of the full Board, I'd also like to thank Neil Cunningham and his management team for their outstanding leadership. We are confident in, and fully support, the actions they are taking to both safeguard the financial health of the investments PSP manages and to drive superior long-term performance. We also want to recognize PSP employees who did not skip a beat despite all the change and disruption in their work and personal lives. They truly are the engine of PSP's success and rose to the occasion in these difficult times.

Sincerely,

Martin Glynn
Chair of the Board

Invested in tomorrow

I could not be prouder of the way our organization was prepared for and responded to the COVID-19 situation.

Our 2020 fiscal year was an extraordinary one. For the first three quarters, the global economy continued on its path of low unemployment and steady growth. Then, with the sudden arrival of the COVID-19 pandemic in January 2020, the beginning of our fiscal fourth quarter, everything changed. This global pandemic continues today to have a widespread impact on our lives and communities, with the ultimate scale and duration of the outbreak as yet unknown. In the coming months, many individuals and businesses will experience unprecedented levels of stress and only over time will we come to understand the full long-term impact. Our thoughts are with the families who have been affected by this virus and to the frontline workers who have put their lives at risk to help others.

I want to assure you of PSP's strong financial health. Our job is to deliver solid financial results over the long term to ensure the security of the pensions of those who have served our country during their careers with the four organizations that entrust us to invest their pension contributions. Our strategy is based on a long-term view of the investment landscape and involves diversification by geography, by sector and by investment vehicle. We perform stress testing and scenario planning and monitor our level of risk on a constant basis. We evaluate every investment we make on its ability to generate returns for many years, not based on an expectation of appreciation in the next quarter.

We've built our investment portfolio—and indeed our organization—to be resilient and able to weather crises. We have the liquidity, the people and the resources to capitalize on the opportunities that are emerging today and will undoubtedly lie ahead. While we're not immune to the immediate impact of COVID-19, it is PSP's long-term investment performance that matters most in being able to deliver on our mandate.

Year-end results

With PSP's fiscal year ending on March 31, 2020, our one-year return of -0.6% reflects the severe decline in the equity markets in the weeks just preceding the year-end. On a relative basis, this one-year return was nonetheless in excess of the one-year return of our Reference Portfolio of -2.2%. More importantly, our long-term return measured over a 10-year period is 8.5%, outperforming the 10-year return of our Reference Portfolio of 7.2% by 1.3% and is in excess of our long-term target return of 5.7% by 2.8%. The steep drop in market values during our fiscal fourth quarter highlights the inappropriateness of putting too much weight on short-term results. If our year-end had been December 31, we would have posted a return for the year in the high single digit range, but there would have been only a marginal impact on our long-term return.

Preparedness for COVID-19

At PSP, we spend considerable time thinking about long-term risks that could affect the safety of our investments, including operational risks and risks that cannot be easily foreseen yet arrive suddenly. I could not be prouder of the way our organization was prepared for and responded to the COVID-19 situation. This preparedness, combined with leadership throughout the organization and calm and professional execution by our employees, have demonstrated the best of PSP in the face of difficult circumstances.

In addition to diversification, our portfolio strategy provides opportunities to profit in good market cycles and protects the value of the portfolio when they come to an end. For example, the foreign currency exposure in our Policy Portfolio is strategically unhedged. The US dollar tends to appreciate in times of market turmoil and by leaving our exposure to the US dollar unhedged, PSP benefited from its appreciation in the last quarter of the fiscal year. Those gains offset part of the decline in the value of PSP's assets denominated in US dollars. In addition, PSP's exposure to a hedged US dollar during that time would have required us to post collateral on the hedging instruments. This would have reduced our liquidity at a crucial time, a situation we avoided. PSP's long-term hedging policy is designed to take such dynamics into consideration, although on a short-term basis PSP may hedge certain currencies to manage their impact on the Total Fund. We use multiple methods to ensure that our liquidity level will be protected, and even enhanced, during periods of market disruption. These strategies proved to be effective in maintaining the stability and liquidity of the portfolio during the market sell-off that started in mid-February.

On the operational side, our risk management and monitoring system provided early warning of the onset and spread of the virus, prompting us to assemble a COVID-19 Task Force in mid-January. This contributed to PSP being one of the early movers in a series of decisions, including implementation of travel restrictions and later travel bans, activation of our business continuity plan, and ultimately the decision for all PSP employees to work from home. Remote working is an ongoing element of our talent value proposition, which assists employees in managing their work-life balance and dealing with other short-term disruptions. It is a testament to the planning and effectiveness of our Technology and Digital Strategy team that we were able to leverage this capability and shift the entire organization, including all trading and related activities, to working from home in less than 24 hours after we made the decision to do so.

Delivering our edge

I'm also proud of the fact that our sustained commitment to our five-year Vision 2021 strategic plan enabled us to achieve several key objectives a full year ahead of schedule. Among our fiscal year 2020 accomplishments:

- *We advanced our total fund investment approach*—with our asset classes at their target allocations, it has become increasingly important to manage our portfolio from a total fund perspective. In fiscal year 2020, our Chief Investment Office launched several initiatives to enhance our ability to apply a total fund perspective when crafting investment strategies, making business decisions and managing risk, leverage and liquidity.

- *We expanded our presence in Hong Kong*—after the initial opening of our Asian hub and hiring of our first employees during last year's fourth quarter, we continued the roll-out of our Hong Kong presence with additions to our Private Equity and Infrastructure teams there. This roll-out has been delayed from our original plans due initially to local protests and later by the coronavirus, but our long-term ambition and commitment to have an expanded footprint in the region remains unchanged.
- *We further ingrained innovation within the organization*—all asset classes are incubating new investment strategies that leverage long-term market trends and disruptive technologies. We also advanced our digital strategy, aimed at improving efficiency, gaining better insight into our portfolio and enabling robust data-driven investing.
- *We continued to develop our talent and enhance the employee experience at PSP*—as part of our suite of development programs, The PSP Way, we refreshed the curriculum for first-time managers and launched the Leadership Journey program for senior leaders. We continued to prioritize inclusion and diversity (I&D) through our eight affinity groups which promote various internal and external initiatives, including our biennial I&D Forum, a one-week event held in November. The 2019 forum offered 18 sessions and more than 600 employees participated. In addition, we started ongoing employee engagement surveys every six weeks and consistently achieved engagement scores well above industry norms.

Invested in tomorrow

Fiscal year 2021 marks the last year of our Vision 2021 strategic plan and we will work to consolidate the foundation we've built to support our future growth in an increasingly changing investment environment. A key focus for the year will be to develop our next iteration of PSP's strategy. The path forward will expand on our success, notably further enhancing our total fund ambition and capabilities while scaling high-performing asset classes in industry-leading platforms. We will look to drive greater impact from our diversified and dynamic portfolio, while remaining focused and deliberate in all that we do.

To help lead us in this new era, we announced a number of senior-level promotions in fiscal year 2020. Among them, Guthrie Stewart was appointed to the newly created role of Vice Chair, Investment Committee, where as of June 1, he will act as a senior representative of PSP in facilitating a strong linkage between strategic goals, investment ambitions and partner relationships. David Scudellari, who so capably served as PSP's interim Chief Financial Officer (CFO) for four months in fiscal year 2020, was appointed Senior Vice President and Global Head of Credit Investments and Private Equity, effective June 1. Taking on the CFO role was J.F. Bureau, who was appointed Senior Vice President and Chief Financial and Risk Officer. Giulia Cirillo was appointed Senior Vice President, Chief Human Resources and Global Communications Officer.

Heartfelt thanks

I consider it an honour and a privilege to lead PSP and work alongside such an amazing team of people. This past year, our management team worked closer than ever with Martin Glynn and the entire Board of Directors to see PSP through a tumultuous period and we can't thank them enough for their guidance and support. I would also like to express my thanks to all PSP employees, who rose to each new challenge and continued to spot opportunity in the midst of disruption.

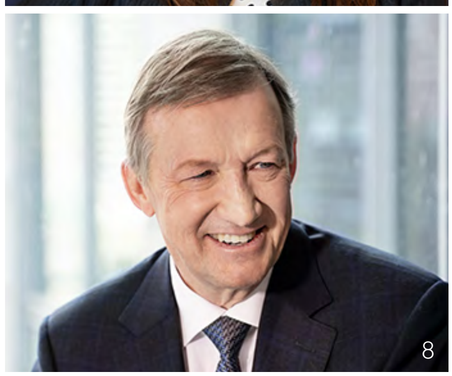
And finally, I would like to extend my deepest gratitude to our contributors and beneficiaries, the public service employees and members of the Armed Forces, Reserve Force and RCMP who are among the frontline heroes actively supporting Canada.

While the course of the COVID-19 pandemic remains uncertain, we are up to the challenge. We are long-term investors who take a long-term view of markets and to managing our business. We will not just weather the current storm, but capitalize on the opportunities that emerge.

Sincerely,

Neil Cunningham
President and
Chief Executive Officer

Executive Committee



Neil Cunningham— 1
President and Chief Executive Officer

Darren Baccus— 2
Senior Vice President and Global Head of Real Estate and Natural Resources

Mélanie Bernier— 3
Senior Vice President and Chief Legal Officer

J.F. Bureau— 4
Senior Vice President and Chief Financial and Risk Officer

Giulia Cirillo— 5
Senior Vice President, Chief Human Resources and Global Communications Officer

Anik Lanthier— 6
Senior Vice President, Public Markets and Absolute Return Strategies

David J. Scudellari— 7
Senior Vice President and Global Head of Credit Investments

Guthrie Stewart— 8
Senior Vice President and Global Head of Private Investments

Eduard van Gelderen— 9
Senior Vice President and Chief Investment Officer

Sharpening our strategic edge

PSP has evolved significantly since the launch of our Vision 2021 strategic plan four years ago, and we have realized our ambition of being a leading institutional investor.

2020 accomplishments

Total fund strategy and management

With asset classes at their target allocations, our Chief Investment Office launched several initiatives to enhance our ability to apply a total fund perspective when crafting investment strategies, making business decisions and managing risk, leverage and liquidity. An important change was the evolution of the total fund approach with a shift to anchoring our performance and programs to our Reference Portfolio, which will be operationalized in fiscal year 2021.

Operational efficiency and Innovation

We continued to deliver on our optimization program and seamlessly transitioned to a new custodian to support our global expansion in a cost-efficient manner. We also advanced our digital strategy, aimed at improving efficiency, gaining better insight into our portfolio and enabling robust data-driven investing.

Following a period of great change, teams are consolidating their base while dedicating more effort toward innovation, leading to the development of adjacent capabilities and markets. All asset classes are identifying new market trends and incubating innovative investment strategies to capture the emerging benefits.

Asia

Our Hong Kong office ramped up operations. Despite experiencing two major crises, local investment teams are successfully deploying our Asia strategy and establishing solid relationships with local partners.

Talent

We continued to develop our talent and enhance the employee experience. This included launching a new curriculum for first-time managers and the Leadership Journey program for senior leaders, and continuing to prioritize inclusion and diversity (I&D) through our eight affinity groups who promote various internal and external initiatives.

Fiscal year 2021 priorities

Fiscal year 2021 marks the last year of our current strategic plan. We are initiating work on our next plan against a backdrop of uncertain times and a low-yield environment. We want to build on our advantages, develop the capabilities to pivot and adapt to a changing environment, and position ourselves to continue delivering against our mandate.

While actively adapting to the ongoing crisis and developing our strategic plan for the future, we also intend to bridge the remaining gaps to Vision 2021. This will include finalizing the deployment of PSP's total fund approach, continuing to strengthen PSP's data foundation and further improving our total fund analytics capabilities to help leaders make more informed and effective business decisions.

Financial highlights

— Fiscal year 2020

(0.6)%
Total fund 1-year net portfolio return

5.8%
5-year net annualized return

8.5%
10-year net annualized return

$32.9 Billion
of cumulative net investment gains above the return objective[1] over 10 years

$81.6 Billion
of cumulative 10-year net performance income (excluding contributions)

$28.7 Billion
in new investments and commitments to Private Markets and Credit Investments

— Fiscal year 2020

$169.8 Billion Net AUM

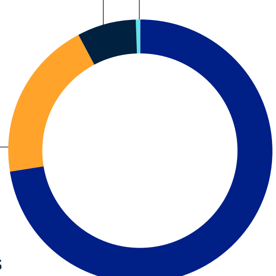
$2.9 Billion Net contributions

1.1% Increase in net AUM

Net assets per pension plan account
As at March 31, 2020
$ billion

$0.7
0.4%
Reserve Force

$12.3
7.3%
RCMP



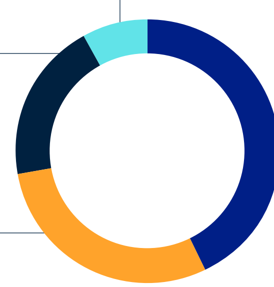
$33.3
19.6%
Canadian Forces

$123.4
72.7%
Public Service

Asset mix
As at March 31, 2020

8.0%
Credit

19.7%
Government Fixed Income[2]



43.0%
Equity

29.3%
Real Assets

[1] The Government of Canada periodically communicates a long-term rate of return objective above inflation for the pension assets managed by PSP Investments. Net AUM denotes net assets under management.

[2] Includes Cash and Cash Equivalents.

Financial highlights

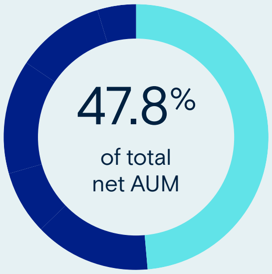
— Fiscal year 2020

PMARS[1]

$81.1 Billion Net AUM

(3.0)%
1-year rate of return

4.3%
5-year annualized return

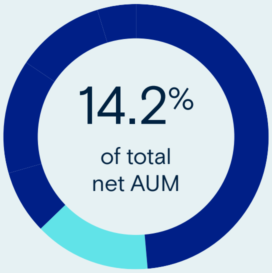


Private Equity

$24.0 Billion Net AUM

5.2%
1-year rate of return

7.2%
5-year annualized return

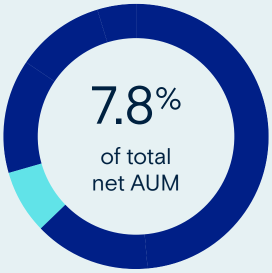


Credit Investments

$13.3 Billion Net AUM

4.3%
1-year rate of return

11.8%
5-year annualized return (4.3 years)



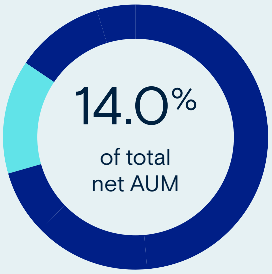
[1] Includes Public Market Equities and Government Fixed Income (excludes Cash and Cash Equivalents).
Net AUM denotes net assets under management.

Real Estate

$23.8 Billion Net AUM

(4.4)%
1-year rate of return

8.3%
5-year annualized return

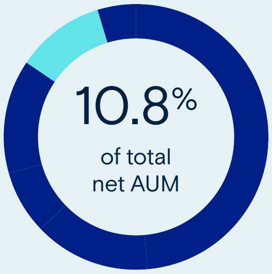


Infrastructure

$18.3 Billion Net AUM

8.7%
1-year rate of return

12.1%
5-year annualized return

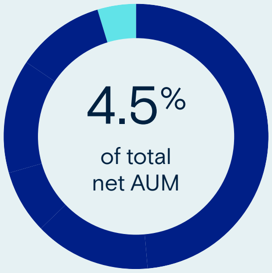


Natural Resources

$7.6 Billion Net AUM

(5.2)%
1-year rate of return

6.6%
5-year annualized return



Net AUM denotes net assets under management.

Spotting the edge in all the right places

With eyes fixed on the horizon, our investment teams seek out unique opportunities to generate the sustainable returns needed to fulfill our long-term mandate. Here are some of the transactions completed in fiscal year 2020.

PMARS

PSP's pension fund managers actively manage Emerging Market (EM) listed equities in-house. Our EM fund was launched by Public Markets in 2015 and is now one of three portfolios managed by our Fundamental Equity Strategies group. A dedicated EM team combines top-down country allocation with bottom-up stock selection, working in close collaboration with sector specialists in our Global Equity Research group. Recording strong results since inception, the portfolio invests across 25 countries with an objective of delivering superior returns.

Infrastructure

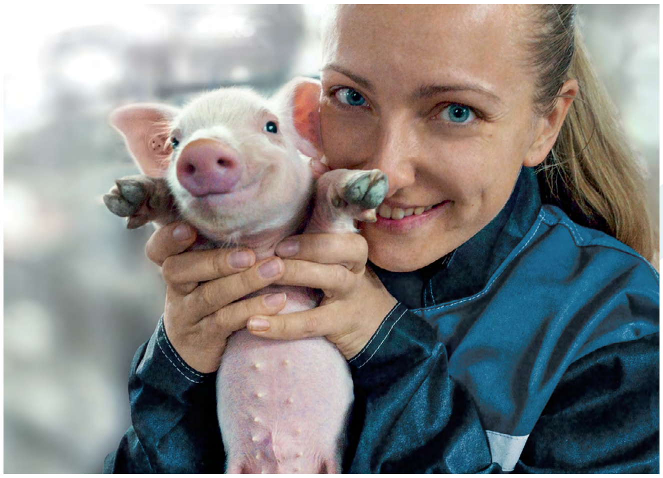
Vantage, a leading global provider of hyperscale data centre campuses that is partly owned by PSP, launched its expansion into Europe through the acquisition of Etix Everywhere. Etix is currently building a 55MW campus in Frankfurt, Germany. Separately, Vantage has secured land and is developing campuses in Berlin, Milan, Warsaw and Zurich to serve the growing demand for data infrastructure in those markets. The expansion of this data centre platform into Europe is part of PSP Infrastructure's continued deployment of capital into data infrastructure across Australia, Asia, Europe, and North America.

Credit Investments

PSP provided debt and equity financing in support of Permira's acquisition of Lytx, a market leader in the video fleet management and fleet solution space. This investment represents the fourth time that PSP has invested in the company. Since August 2017, under the previous ownership, Credit Investments participated in two debt financings and PSP also participated in a preferred equity financing. These transactions highlight the value of following businesses that we know and like, leveraging solid private equity relationships, and having the flexibility to invest across the capital structure.

Real Estate

In a joint venture with Square Mile Capital Management, USAA, Teacher Retirement System of Texas, and alongside Hackman Capital Partners, we invested in Amazon Culver City Campus and Manhattan Beach Studios, and acquired a minority stake in CBS Television City in Los Angeles. In addition, we invested in the MBS Group, which is a collection of companies that provide all the resources necessary for consultation services, development, management, operational oversight and production services for studios and productions worldwide. These investments capitalize on the surging demand for entertainment content.



Private Equity

Alongside management and a group of leading investors, PSP invested in Ceva Santé Animale, a French global veterinary health company specializing in pharmaceutical products and vaccines for livestock, swine, poultry and pets. Ceva recognizes that the health of humans, animals and our planet are interconnected, and is well positioned to tackle the vast issues related to feeding a rapidly growing population. Our investment supports the company's continued strong growth trajectory at a time when the world grapples with a critical threat to global health, well-being and prosperity.

Natural Resources

We made one of our largest-ever Natural Resources investments with a C$760 million deal to privatize Webster Limited. Webster is one of Australia's leading agribusinesses, operating walnut and almond orchards, irrigable land for cotton and other annual crops, cattle and sheep production, and an apiary business. The acquisition is highly complementary to our existing joint ventures with on-the-ground operating partners in Australia.

Complementary Portfolio

PSP invested in a new US$350 million venture capital fund, focused primarily on artificial intelligence (AI), which was launched by Radical Ventures, a Toronto-based venture capital firm. Along with PSP, other investors in the fund include the Canada Pension Plan Investment Board (CPPIB), TD Bank Group and Wittington Investments Limited. This strategic partnership with Radical Ventures allows PSP to capture and manage knowledge from AI and other disruptive technologies for investment and internal management purposes.

Invested in people

Our mandate is to help ensure the financial security of the contributors and beneficiaries who have served Canada in their careers. True to our calling, we also work to build a better tomorrow for all by engaging and empowering our employees and by lifting up communities.

Supporting our Veterans

We pay tribute to Canada's soldiers and veterans through various activities led by our I&D Veterans affinity group. In November 2019, PSP employees volunteered at St. Anne's Hospital, in Québec, which primarily serves Veterans of the Canadian Armed Forces, during a special PSP Gives Back Remembrance Day activity.

"Since joining PSP, I have wanted to create a more tangible connection between our organization and the veteran community. The visit to St. Anne's Hospital on Remembrance Day was the perfect opportunity to bring the Veterans I&D Affinity Group together for a meaningful volunteering experience. The staff was very welcoming and the WWII and Korean War veterans appreciated that some of our contingent had also served in the military. Most were just happy to share a drink and the highlights of lives well-lived. They acknowledged themselves as lucky, not only to have navigated the adversity of war but to have simply survived. We toasted those who made the ultimate sacrifice on behalf of Canada and allied nations. It was an unforgettable experience and a touching way to pay our respects to the fallen on Remembrance Day."

Chad Hauser
Manager, Credit and Private Invesment Risk
Infantry Officer, Captain, 3rd Battalion, Royal 22nd Regiment, 2006-2011

Women in Investments and Finance, Harvard Club, New York City

From left to right:

Front row: Neil Cunningham, Pam Chan (BlackRock), Keren Ehrenfeld (Morgan Stanley), Elissa Palazzo, Valentina Longo (Cerberus) and Marie-Andrée Dupuis.

Back row: Susan Kasser (Neuberger Berman), Kerry Dolan, Charlotte E. Muellers, David Scudellari, Giulia Cirillo and Maria Constantinescu.

Advancing inclusion and diversity

Inclusion and diversity (I&D) is a leadership priority at PSP and our CEO, Neil Cunningham, is a strong advocate and co-chair of our I&D Council, along with Giulia Cirillo, Senior Vice President, Chief Human Resources and Global Communications Officer. In June 2019, he spoke at a sold-out joint Association of Québec Women in Finance/Women in Capital Markets (WCM)/Catalyst event in Montréal about the role of male leaders as advocates for I&D.

PSP was awarded Certification in Gender Parity at the silver level by Women in Governance for adopting measures, practices and programs to promote gender parity. In support of women in finance, we also hosted a Women in Investments and Finance event at the Harvard Club of New York City, and the first Montréal edition of WCM's Job Shadow Day, which offered 75 female students from local high schools a glimpse into the world of finance and capital markets.

Our biennial I&D Forum held in the fall, which became a one-week event in 2019, included 18 sessions attended by more than 600 employees, up from six sessions and 442 employees when we first held it in 2017. Our eight affinity groups made presentations, and several organized talks and activities throughout the year.

Inspiring and empowering our employees

We want to foster a culture that inspires and empowers our people to reach their potential, offering a range of training and development opportunities, and bringing employees together on occasion to learn, share and celebrate individual and collective achievements. In fiscal year 2020, we introduced our first Sharpening our Edge learning day, which took place the day before our year-end townhall meeting. Employees from eight of our business groups delivered presentations, sharing knowledge of our business from their different perspectives. We also launched the Spot the Edge award program, in which employees nominate project teams for outstanding work and then vote for a winner at the annual townhall. The inaugural winner was the Natural Resources team that led the Mahi Pono project in Maui.

We know that the best way to enhance the employee experience is to invite feedback and act on it. We recently introduced the ongoing employee engagement survey sent every six weeks, to gauge the pulse of our employees and obtain their feedback on our employer promise. More than 80% chose to participate in the first two surveys.

From left to right: Alyssa Roland, Nicole Wilson and Anthony Tran earned the chance to represent PSP at the One Young World Summit in London, England, which convenes the brightest young talent from around the globe to create solutions to some of the world's most pressing issues.

Investing with vision

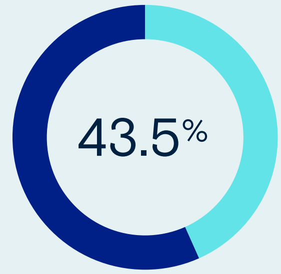
In March 2020, we unveiled plans for redevelopment of the former Downsview Airport site northwest of Toronto, in partnership with the Canada Lands Company. One of the largest urban development projects of its kind in Canada, the proposed mixed-use development will include affordable housing and distinct walkable districts, linked by parks and open spaces. As part of the process, PSP's development team is working closely with local leaders and residents to transform the 520-acre site into a vibrant and sustainable community.

PSP was ranked as a **Montréal Top Employer** for the third year in a row

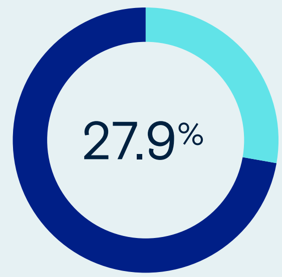
Valuing diversity

(All offices unless otherwise noted, based on local legislation, as at December 31, 2019)

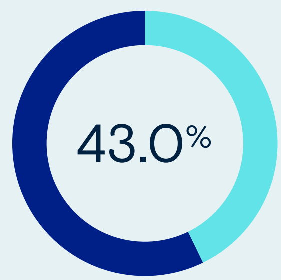
Women in total workforce



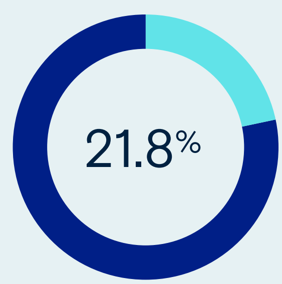
Women in senior roles



Women and visible minorities in intern roles



Members of visible minority groups as a percentage of total workforce (Canada only)



Employees self-disclose. Self-disclosure is important for understanding the diversity of our workforce. We recognize that there may be sensitivity to self-disclosure and we are exploring ways to make employees feel more comfortable about it and more likely to self-disclose.

Investing for a sustainable future

Environmental, social and governance (ESG) issues are some of the most significant drivers of change in the world, with major implications for businesses and long-term investors. Through responsible investment, we factor ESG risks and opportunities into our investment processes to help shape the world of tomorrow.

PSP considers ESG factors throughout the life of an investment—identifying and assessing material risks and opportunities during our initial investment analysis and decision-making, and managing, monitoring and assessing the ESG performance of the investment over time, so as to protect and enhance long-term financial value.

Our approach is highly collaborative, with our dedicated Responsible Investment group working as one with PSP investment teams at every stage of the process. This collective focus helps us uncover new investment opportunities, steer our capital toward more attractive areas and mitigate key risks.

In fiscal year 2020, we focused on four ESG themes:

- Ensuring that public boards of directors have the requisite skills, expertise, independence and diversity to exercise effective leadership and oversight.
- Encouraging improved ESG disclosure and best practices among our portfolio companies, external managers and general partners.
- Refining our tools for managing and monitoring ESG key performance indicators across our total fund portfolio.
- Continuing to deploy our multi-year climate change approach.

When the COVID-19 pandemic took hold, we reached out to some of our portfolio companies to share resources and offer access to experts, to help them deal with the crisis. For the public companies in which we have ownership positions, we adopted exceptional measures for the 2020 proxy voting season to support shareholder interests and board continuity, including supporting the implementation of virtual annual meetings and, in some cases, the re-election of directors.

Climate change

As a long-term investor, we proactively address climate change as part of our investment strategy. We believe that climate change is one of several long-term structural trends that will likely have a material impact on investment risks and returns, across different sectors, geographies and asset classes. Our diversified investment portfolio has exposure to both transition and physical risks, as well as opportunities associated with climate change.

PSP is pursuing a multi-year climate change approach structured around three pillars: (1) the integration of climate change factors into our investment decisions, at the total portfolio, asset class and individual asset levels; (2) monitoring of the portfolio's exposure to climate change (i.e., transition risks, physical risks and opportunities); and (3) engagement with portfolio companies to advocate for better climate change-related financial risk disclosures.

Key activities in fiscal year 2020 included the following:

- Performed scenario analyses to better understand the impacts of climate change on our long-term asset allocation.
- Evaluated the carbon emissions avoided through our direct investments in 150 renewable energy assets. The total annual avoided emissions apportioned to PSP's stake in these assets was 3.6 MtCO2, which is equivalent to taking 750,000 cars off the road per year[1].
- Assessed the resilience of our real estate, infrastructure and natural resource assets that have a higher exposure to physical climate change risks.
- Developed a climate change framework to help PSP investment teams assess key climate change risks and opportunities throughout the investment process.
- Engaged with 226 public companies to encourage climate change risk-aware corporate conduct and good practice disclosure.

PSP supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) with the view to fostering enhanced transparency on climate change-related financial risks and opportunities in capital markets. Please see PSP's 2020 Responsible Investment Report to learn more about our climate change approach and TCFD-aligned climate change reporting.

Learn more in our [2020 Responsible Investment Report](#).

[1] US EPA Greenhouse Gas Equivalencies Calculator ([source](#)).

Management's discussion of fund performance and results

Management's discussion of fund performance and results (the Management report) provides an analysis of the operations and financial position of PSP Investments for the year ended March 31, 2020 and should be read in conjunction with the Consolidated Financial Statements and accompanying notes for the years ended March 31, 2020 and 2019. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). In this report, we use a combination of financial measures, ratios, and non-GAAP measures to assess the performance. The non-GAAP measures used in this report do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures should be considered as supplemental in nature and not as a substitute for the related financial information prepared in accordance with IFRS. This report takes into account material elements, if any, between March 31, 2020 and June 23, 2020, the date of approval of this report by the Board of Directors. Additional information about PSP Investments is available on the website (www.investpsp.com).

Forward-looking statements

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

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

Our mandate

PSP Investments' mandate is to manage the amounts transferred to it by the Government of Canada (the Government) for the funding of benefits earned from April 1, 2000 (Post-2000 Liabilities) by members of the public sector pension plans of the federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police and since March 1, 2007, the Reserve Force (collectively the Plans). In accordance with the *Public Sector Pension Investment Board Act*, PSP Investments' statutory mandate is to:

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

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

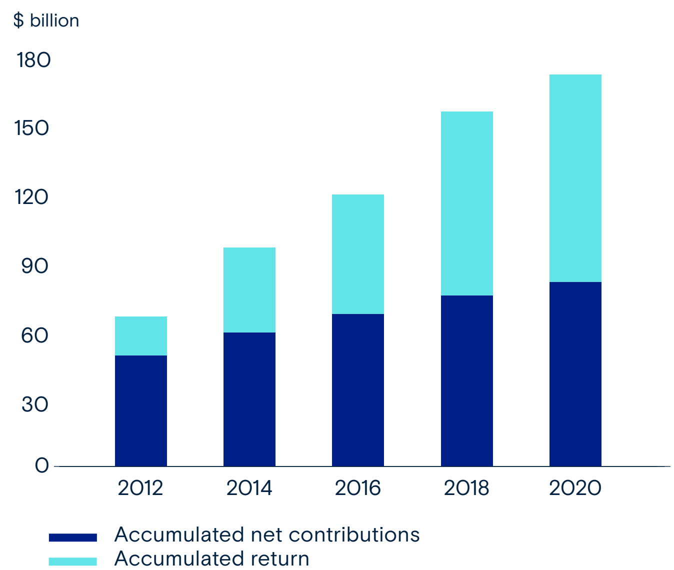
PSP Investments expects to deliver on its mandate by creating value through both its strategic asset allocation (Policy Portfolio) and active management decisions. Strategic asset allocation entails carefully designing asset classes and allocating strategic targets to each of them through the Policy Portfolio. Active management activities are designed to generate additional returns, for example through asset selection, and assist in delivering on our mandate. Those activities are described further under "Investment Framework".

Approaching the last year of our five-year Vision 2021 Strategic Plan, we have seen internal cooperation and insight sharing yielding new opportunities and deal flows. The values defined in our strategic plan, such as collaboration between asset classes have driven our global expansion in recent years and have contributed to the opening of international offices. A key element of the strategic plan has been the total fund investment approach and its application in our investment strategies, business decision-making, as well as risk, leverage and liquidity management.

The real test of PSP Investments' success is that we achieve our mandate over the long term and create value for the sponsor of the Plans, the Government, and manage assets in the best interest of the Plans' contributors and beneficiaries. As we will see throughout the next section, PSP Investments has been successful in realizing its mandate by having a robust investment approach aligned with the long-term Return Objective set out by the Government.

How important are investment returns in the funding of the pension plan obligations?

At the end of fiscal year 2020, fund transfers received from the Government[1] since April 1, 2000, represented approximately 47% of net AUM, with the remaining 53% representing investment returns earned by PSP Investments on those funds. As the Plans mature, the proportion of assets coming from investment returns is expected to continue growing. Having a robust investment approach aligned with our mandate and the long-term return objective of the Government is therefore crucial for funding the Post-2000 Liabilities of the Plans.



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

Investment framework

Return Objective
Communicated on behalf of the President of the Treasury Board by the Treasury Board of Canada Secretariat

→

Reference Portfolio
Articulates risk appetite (defined in terms of pension funding risk)

→

Policy Portfolio
Long-term strategic asset allocation

→

Actual portfolio
Includes active investment strategies within risk limits and total fund activities

The chart above illustrates our investment framework.

Return Objective

The Treasury Board of Canada Secretariat (TBS), which facilitates the Government's relationship with PSP Investments, communicates a long-term real rate of Return Objective to PSP Investments on behalf of the President of the Treasury Board to us each year. This is the means by which the Government communicates its funding objectives for the Post-2000 Liabilities.

In fiscal year 2020, PSP Investments received a real Return Objective of 3.6% for the next 10 years and 4.0% thereafter. Our aim is to establish a long-term investment strategy which has an expected real rate of return that is at least equal to the Return Objective.

Reference Portfolio

Based on the Return Objective, PSP Investments develops a Reference Portfolio, a simple portfolio composed of publicly traded securities that could be passively managed at minimal cost. The Reference Portfolio is designed in such a way that, based on our long-term capital market assumptions, it is expected to deliver the Return Objective over the long-term with minimum investment risk. Accordingly, a Reference Portfolio currently composed of 68% equities and 32% fixed income is expected to deliver the Return Objective over the long term and establishes the pension funding risk deemed acceptable (risk appetite) to achieve our mandate.

Funding Policy

In pursuit of continued enhancements to governance and accountability, the Treasury Board approved a funding policy (Funding Policy) in fiscal year 2019 that provides the decision framework to support the funding of the public sector Plans. As prescribed in the Funding Policy, an Asset Liability Committee (ALCO) was established. Members include departmental officials representing each of the Plans, the Department of Finance, the Office of the Chief Actuary and PSP Investments.

Three ALCO meetings were held during fiscal 2020, establishing the governance of the committee and providing an opportunity to share information among stakeholders. Of significance to PSP Investments, it is envisioned that the ALCO, a forum for the review and discussion of the Plan's funding risk, will eventually recommend the funding risk targets (government risk appetite) and provide additional guidance (e.g., in the form of a Reference Portfolio). Seeing that the investment approach already uses a Reference Portfolio as its starting point, this change is not expected to have a significant impact on our approach to portfolio construction.

Policy Portfolio

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

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

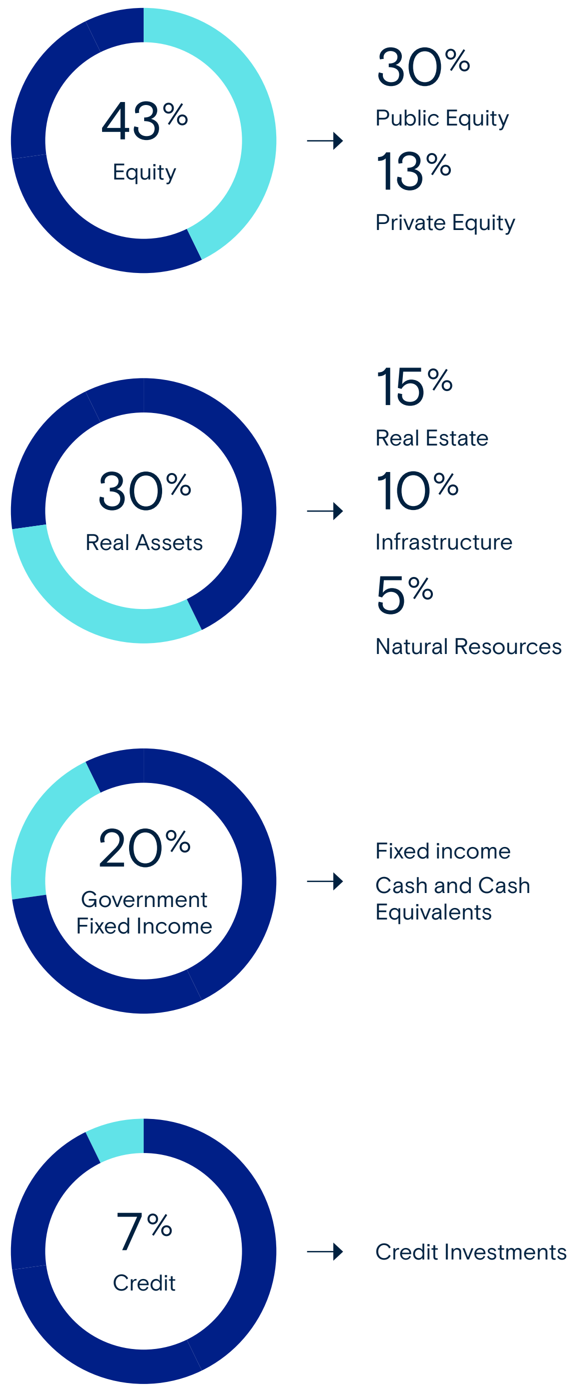
- Their inclusion improves portfolio diversification and reduces pension funding risk.
- Over time, the private nature of these assets is expected to result in higher returns, for example by allowing greater control to generate value. The Plans' liabilities are long-term in nature and liquidity requirements are expected to be minimal until 2030. Since it is unlikely that PSP Investments will need to sell assets quickly, we are well positioned to capture these higher returns.
- The Plans' liabilities are sensitive to inflation. Investing in real assets that tend to offer long-term inflation protection such as real estate, infrastructure and natural resources better matches the liabilities of the Plans and lowers the risk of a deficit in the pension plans.

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

The Policy Portfolio integrates considerations such as diversification, leverage and currency hedging. PSP Investments uses leverage to improve its returns with careful consideration to risk as is further described in the "Liquidity and Capital Management" section.

In terms of currency hedging, the Policy Portfolio is strategically unhedged. We believe that when foreign currency exposures are not systematically hedged, the Policy Portfolio's risk-return profile is improved by significantly reducing hedging cost in the long term and reducing pressure on liquidity, leverage and operations. Furthermore, some foreign currencies, notably the US dollar, tend to appreciate when economic shocks occur and are therefore expected to act as a diversifier in the Policy Portfolio (acting as a natural hedge against declining asset returns).

Target asset allocation[1]
Effective during fiscal year 2020



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

PSP Investments' Board of Directors approves, and annually reviews, the Statement of Investment Policies, Standards and Procedures (SIP&P), which governs the allocation of assets under the Policy Portfolio and describes our investment approach. In addition to the allocation of assets under the Policy Portfolio, the SIP&P addresses matters such as categories of investments and loans; risk management and diversification; liquidity of investments; pledging of assets, permitted borrowings and leverage; securities lending and borrowing; valuation of investments; and proxy voting and responsible investment.

This fiscal year's review concluded that the Policy Portfolio remains robust in terms of pension funding risk relative to the Reference Portfolio while maintaining the portfolio's ability to generate higher returns than the Reference Portfolio over the long term. Therefore, as per Management's recommendation, the Board approved no changes to the Policy Portfolio.

Actual portfolio

The actual portfolio includes active management strategies, which are investment strategies aimed at outperforming a benchmark and total fund activities aimed at improving the total fund risk/return profile.

Active management strategies

Based on proprietary research, we seek to invest in companies and securities whose risk-adjusted returns are expected to outperform the market.

The objective of implementing active management strategies is for PSP Investments to achieve a return exceeding that of the Policy Portfolio while staying within Board approved active risk limits.

Total fund activities

A key priority of PSP Investments' strategic plan is to implement an investment approach that focuses on the total fund rather than only on individual asset classes. The total fund approach, implemented by the CIO, guides our long-term investment strategy and focuses on managing total fund allocations and exposures in terms of asset classes, geographies, sectors and risk factors. The objective of the total fund approach is to complement asset classes' bottom-up perspective with top-down views, and act on them.

As discussed in the Policy Portfolio section, PSP Investments generally does not hedge its exposure to foreign currencies. However, over shorter periods, currencies may diverge significantly from their long-term equilibrium values. For that reason, currency hedging strategies are sometimes used dynamically, at the total fund level, to manage currency exposures.

Complementary Portfolio

In support of total fund activities, we introduced the Complementary Portfolio in fiscal year 2017. It aims to capture investment opportunities deemed beneficial from a total fund perspective but falling outside the policy portfolio's core asset classes and mandates. Another objective of this portfolio is to incubate innovative strategies and to gain knowledge that can be leveraged inside the organization. The ultimate goal of this portfolio is to improve the long-term risk-return profile of the total fund.

Evaluating the performance of our investment approach

Benchmarks

The benchmarks in the table below were used to measure fiscal year 2020 relative performance for each asset class set out in the Statement of Investment Policies, Standards and Procedures (SIP&P) as well as for the overall Policy Portfolio.

ASSET CLASS	BENCHMARK
Equity	
Canadian Equity	S&P/TSX Composite Index
US Large Cap Equity	S&P 500 Index
Europe, Australia, Far East (EAFE) large cap Equity	MSCI EAFE Index
Small Cap Equity	S&P 600 Index
Developed Markets Equity	MSCI World Index
Emerging Markets (EM) Equity	MSCI EM Index
Private Equity	Customized Private Equity Manager Universe[2]
Government Fixed Income	
Cash & Cash Equivalents	FTSE Canada 91 Day TBill Index
Fixed Income	Blend of Bloomberg Barclays US Government ILB Index and FTSE Canada All Government Bond Index
Credit	
Credit Investments	Blend of BofA Merrill High Yield Indices (US & Euro) and S&P Leveraged Loan Indices (US & European)[2]
Real Assets	
Real Estate	Customized benchmark[1,2]
Infrastructure	Customized benchmark[1,2]
Natural Resources	Customized benchmark[1,2]
Complementary Portfolio	Policy Portfolio benchmark

[1] The customized benchmark is determined as the sum of the asset class' Long-Term Capital Market Assumptions and a market adjustment to capture short-term market fluctuations.

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

Our long-term results

Three objectives provide benchmarks against which we can evaluate the success of our long-term investment approach.

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

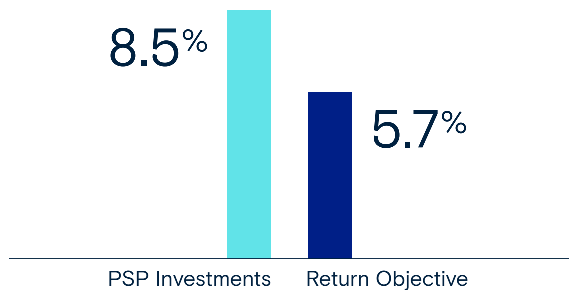
This objective measures PSP Investments' success in achieving the long-term Return Objective. Over the past 10 years, PSP Investments has recorded a net annualized rate of return of 8.5%, compared to 5.7% for the Return Objective.

Considering the size and timing of contributions, this outperformance amounts to $32.9 billion in net investment gains above the Return Objective over this 10-year period.

In the absence of other factors affecting the funding of the Plans, our achievement is expected to support the sustainability of the Plans.

Return compared to Return Objective[1]

10-year net annualized return[2]



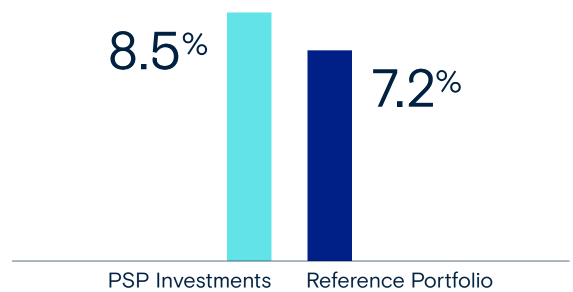
2. Achieve a return, net of expenses, greater than the return of the Reference Portfolio over 10-year periods.

The Reference Portfolio reflects what an investor could achieve with a passive investment approach, taking into consideration its Return Objective. Over the last 10 years, PSP Investments' performance exceeded the performance of the Reference Portfolio by 1.3% per year. This result was achieved without incurring more pension funding risk than the Reference Portfolio.

This additional 1.3% represents the value added by PSP Investments' strategic decision to build a more diversified portfolio – the Policy Portfolio – that includes less liquid asset classes, and to engage selectively in active management activities.

Return compared to Reference Portfolio

10-year net annualized return[2]

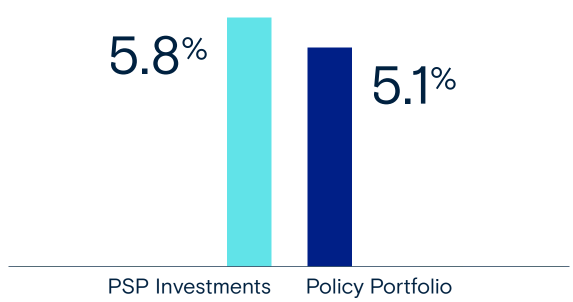


3. Achieve a return, net of expenses, exceeding the Policy Portfolio benchmark return over 5-year periods.

This objective is used to measure the value added by PSP Investments' active management activities. Over the last five years, these activities generated returns that exceeded the benchmark, the Policy Portfolio, by 0.7% per year.

Return compared to Policy Portfolio benchmark

5-year net annualized return[2]



[1] The Government of Canada periodically communicates a long-term rate of return objective above inflation for the pension assets managed by PSP Investments.

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

Analysis of our results

$169.8	$(0.3)	(0.6)%	5.8%	8.5%
Billion Net AUM	Billion Performance loss	1-year rate of return	5-year annualized return	10-year annualized return
$168.0		(1.6)%	5.1%	7.5%
Billion Net AUM (FY2019)		Benchmark return	Benchmark return	Benchmark return

Macroeconomic context

The economic backdrop has vacillated in the past year, from a weakening growth environment, to a budding recovery, and finally to a negative and unparalleled shock to global activity stemming from the COVID-19 pandemic. Risk assets have shown sensitivity to this macroeconomic context, as equities rallied strongly throughout Q4 2019 and the beginning of Q1 2020, before plummeting in the face of an economic sudden stop. Meanwhile, both monetary and fiscal policymakers have increasingly lent their support in order to extend the broader business cycle that began in earnest more than a decade ago.

Over the last several years, major advanced economies had finally transitioned from sputtering growth recoveries and toward having sustained expansions. Excess capacity in labour markets and businesses was gradually absorbed, and inflationary pressures had started to build. By mid-2019 however, a significant deterioration in the global manufacturing and industrial cycle had already taken hold. This was due to the lagged impact of previous actions by policymakers: the tightening of credit conditions in China, as well as aggressive rate hikes by the United States Federal Reserve (Fed). Moreover, the rapid escalation of the Sino-US trade war added a layer of uncertainty that exacerbated the economic slowdown that had started in mid-2018.

Monetary authorities reversed course in the latter half of 2019 when they delivered policy stimulus in the face of deteriorating growth and consistent inflation shortfalls. These measures included three successive rate cuts by the Fed, a reintroduction of quantitative easing in the euro area, loosening credit conditions in China, and several other rate reductions from major developed and emerging markets central banks. Further tailwinds came amidst signs that inventory liquidation by businesses had become overextended, as well as from the temporary trade truce agreed upon between the US and China. Ample monetary accommodation allowed global growth to start rising again, for equities to rally and for bond yields to stabilize.

In early 2020 however, the nascent growth recovery was short-circuited by the COVID-19 pandemic. This was an exogenous shock to the global economy, akin to a natural disaster. Quarantines and extreme containment efforts have severely curtailed both productive capacity and aggregate demand. In response, both fiscal and monetary policymakers have unleashed a barrage of unprecedented emergency stimulus measures as an indemnity against a protracted recession. This is a necessary precondition for a growth recovery but ultimately, a durable economic revival will take place once the current pandemic shows serious signs of abating.

Financial markets context

Financial markets performed well for most of the past fiscal year, up until the outbreak of the COVID-19 pandemic. This “left tail” event brought global economic activity to a standstill, causing a severe plummet in equities and credit products, a surge in many government fixed income securities, falling energy and industrial commodity prices, and a strengthening of the US dollar.

Most equity indices were range-bound in the first half of fiscal 2020 as global industrial growth decelerated. Stocks finally broke higher beginning in October, mainly in response to ample monetary stimulus dispensed by major central banks. This increase in prices pushed equity markets to all-time highs (in local currency terms) by late February 2020 as investors increasingly attached higher multiples to underlying earnings. However, the 10-year bull market in stocks swiftly unraveled as the COVID-19 pandemic decimated aggregate demand and productive capacity. Equity indices eventually finished fiscal year 2020 down 15 to 20% over the previous year.

Government fixed income returns performed well in fiscal year 2020 as global growth decelerated, inflationary pressures waned, monetary policy was significantly eased, and as a powerful flight to quality ensued amid the COVID-19 pandemic. By the end of the fiscal year, long-dated government yields for developed markets fell to new secular lows, with many in negative territory.

Within currencies, the US dollar bull market remained intact over the last fiscal year. The currency benefited from both its counter-cyclical behaviour as well as its perceived safe haven status during crisis periods. Its trade weighted index strengthened throughout 2019 up until early September as the global manufacturing recession intensified. This strength dissipated somewhat in the back half of 2019 as global growth recovered. Ultimately, the severe risk aversion triggered by the pandemic in early 2020 propelled the dollar to fresh cyclical highs.

The Canadian dollar traded between $0.75 and $0.77 throughout 2019 and early 2020. This was largely a reflection of stable oil prices and comparable policy rates between the Bank of Canada and the Fed. Following the outbreak of the COVID-19 pandemic, however, the Canadian dollar was heavily weighed down by declining oil prices and a preference for defensive currencies, in particular the US dollar. The Canadian dollar ended the fiscal year at roughly $0.70, its lowest level since early 2016.

In the commodity space, oil mostly traded in a range of $60 to $70 per barrel prior to COVID-19. Production cuts by OPEC+ members, as well as flaring tensions between Iran and Saudi Arabia, helped support crude prices. Counterbalancing this effect was the steady rise in US shale production, which ensured that the global oil market remained well supplied. By the end of the fiscal year however, oil prices had declined sharply to $20 per barrel due to demand destruction stemming from the pandemic, as well as a market share war between Saudi Arabia and Russia. Adjusting for inflation, oil prices today are at their lowest level in 20 years.

Summary of total fund portfolio evolution

The net AUM of PSP Investments increased by nearly $2 billion during fiscal year 2020. During the fiscal year, PSP Investments received net contributions of $2.9 billion and recorded a net return of -0.6%.

Over the past five years, the net AUM of PSP Investments increased by nearly $58 billion on account of substantial investment returns ($40 billion) and positive net fund transfers from the Government ($18 billion). The strategy to diversify into private markets has led to a steady increase in the proportion of AUM composed of private assets as those asset classes came within reach of their target allocations and Credit Investments was added to PSP Investments’ asset mix. The implementation of those changes improved diversification at the total portfolio level, providing for an enhanced risk and return profile.

One of the objectives when constructing our portfolio is to ensure it is adequately diversified from a geographic perspective. The high allocation to North America reflects the size and depth of the market as well as the positive business environment. The allocation to emerging markets balances stronger growth prospects with challenges in implementing investment strategies. The addition of a strategy to invest in emerging market debt and the opening of our Hong Kong office are expected to increase our exposure to emerging markets.

Total fund performance analysis

PSP Investments recorded a return of -0.6% in fiscal year 2020. Public equity assets recorded gains during the first three quarters of the fiscal year but those gains were reversed in March when markets recorded significant losses when the COVID-19 pandemic hit. The Public Market Equities' portfolio recorded a negative return of 11.2% for the fiscal year. On the other hand, the Fixed Income portfolio recorded a positive return of 10.0% when the decrease in yields and increased demand for fixed income securities pushed their prices higher. Despite the crisis, all but two of PSP Investments' private asset classes recorded positive returns for fiscal year 2020.

PSP Investments' return of -0.6% for the fiscal year exceeded its benchmark return of -1.6% as well as the Reference Portfolio at -2.2%. While the majority of the asset classes delivered a return in excess of their benchmarks, this strong relative performance was driven in large part by the significant gains recorded by our Infrastructure, Credit Investments and Complementary Portfolio investments.

Over the last five years, PSP Investments' annualized return of 5.8% was driven mainly by the strong performance of private asset classes, in particular Infrastructure (12.1%) and Credit Investments (11.8%). Over this period PSP Investments exceeded its benchmark by 68 basis points, with all but two of PSP Investments' asset classes exceeding their respective benchmarks.

Over the past 10 years, PSP Investments' annualized return of 8.5% can be attributed to the strong returns recorded by all asset classes. Most private asset classes delivered double-digit returns. The lowest return was, unsurprisingly, recorded by Fixed Income, with a return of 5.9% per year on average during the period. PSP Investments' 8.5% net return compared favourably to the return of the benchmark, which recorded a return of 7.5%. All asset classes exceeded their benchmarks for the 10-year periods except for Private Equity.

Currency exposure

Given the proportion of PSP Investments' assets that are denominated in foreign currencies, currency fluctuations can have a significant short-term impact on investment returns. PSP Investments' decision to leave its exposure to the US dollar unhedged is predicated on the belief that leaving this exposure unhedged contributes to the diversification of PSP Investments' portfolio due to the US dollar's tendency to appreciate in times of crisis. This allowed PSP Investments to benefit from the US dollar's significant appreciation when the COVID-19 pandemic hit in the fourth quarter. The increase in the value of the US dollar offset part of the losses on the value of assets denominated in US dollars during the crisis.

The Japanese yen, the Swiss franc and the euro also outperformed the Canadian dollar due to a flight to safety among investors during the COVID-19 pandemic. The British pound finished broadly flat, as it oscillated according to investor sentiment regarding Brexit. Pro-cyclical currencies such as the Australian dollar and several emerging market currencies, which tend to depreciate in times of crisis, delivered negative returns. However, those losses were small in comparison to the gains recorded on the currencies that appreciated during FY20.

Complementary Portfolio

In fiscal year 2020, the Complementary Portfolio generated a return of 13.6% compared to a benchmark return of -1.6%. Contributors to positive performance included dividends and other distributions from portfolio companies, net foreign exchange gains and realized gains on preferred equity investments.

Since its introduction in January 2017, the Complementary Portfolio has returned 14.9% on an annualized basis compared to the benchmark return of 5.5%.

Fair value determination

The fair values of public market investments are determined using exchange-traded prices which inherently reflect current market activity. In the case of private asset classes, fair values are determined based on valuation methodologies that are widely recognized and consistent with applicable professional valuation standards. To reflect the impact of the market disruption resulting from the COVID-19 pandemic on such asset classes as at March 31, 2020, management used significant judgement. Where appropriate, adjustments based on market trading comparables, expected industry impact and intrinsic financial health of the investments were made to reflect prevailing market conditions and related uncertainty.

Analysis of our results by asset class

The table below presents the annual and five-year annualized performance of the asset classes, set out in the SIP&P as well as the overall Policy Portfolio benchmark (Policy Benchmark), which is constructed using the asset class benchmarks weighted by the actual portfolio asset class weightings. To inform on our relative performance, the return of each asset class is compared to its relevant benchmark return, while PSP Investments' overall return is compared to the Policy Benchmark return. The table also presents the five-year annualized return by asset class and for the total portfolio relative to their respective benchmark.

	FISCAL YEAR 2020						
				1-year rate of return (%)		5-year rate of return (%)	
ASSET CLASS	Net AUM (billions $)	Net AUM (%)	Performance[2] income (millions $)	Portfolio	Benchmark	Portfolio	Benchmark
Equity							
Public Market Equities (Includes absolute-return strategies, funded through leverage)	48.4	28.5	(5,503)	(11.2)	(10.0)	3.4	3.6
Private Equity	24.0	14.2	1,130	5.2	6.9	7.2	11.3
Government Fixed Income							
Fixed Income	32.7	19.3	3,089	10.0	9.9	4.5	4.4
Cash and Cash Equivalents	0.7	0.4	343[3]	1.7	1.9	1.4	1.0
Credit							
Credit Investments	13.3	7.8	488	4.3	(3.7)	11.8[4]	2.8
Real Assets							
Real Estate	23.8	14.0	(1,047)	(4.4)	(4.0)	8.3	6.1
Infrastructure	18.3	10.8	1,424	8.7	(3.2)	12.1	4.6
Natural Resources	7.6	4.5	(381)	(5.2)	(5.8)	6.6	1.9
Complementary Portfolio	1.0	0.6	123	13.6	(1.6)	14.9[5]	5.5
Total portfolio[1]	169.8	100.0[6]	(333)[6]	(0.6)	(1.6)	5.8	5.1

For Public Markets, Credit Investments and Complementary Portfolio, returns are calculated based on a time-weighted rates of return methodology, while for Real Estate, Private Equity, Infrastructure and Natural Resources, the internal rate of return methodology is used to calculate returns.

[1] Total portfolio return is net of all expenses.

[2] This measure may not have a standardized meaning under IFRS and may not be comparable to similar measures disclosed by our peers. Total portfolio return is net of interest expenses of $420 million, certain transaction costs of $55 million and other expenses of $61 million, which when added back results in arriving to Investment income of $203 million as reported in the Consolidated Statement of Comprehensive Income under IFRS.

[3] Includes performance income from foreign currency hedging and rebalancing activities.

[4] Annualized return since inception (4.3 years).

[5] Annualized return since inception (3.2 years).

[6] Figures do not add up due to rounding.

Public Markets and Absolute Return Strategies (PMARS)

$81.1	$(2.4)	(3.0)%	4.3%
Billion Net AUM	Billion Performance loss[1]	1-year rate of return	5-year annualized return
$80.8		(2.3)%	4.4%
Billion Net AUM (FY2019)		Benchmark return	Benchmark return

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

Public Market Equities are managed by both internal and external managers using a combination of traditional active, absolute return, and passive strategies. The Public Market Equities portfolio has an investment philosophy grounded in a risk-adjusted approach, which allows for the identification of the best opportunities in public equity and absolute return strategies.

The diversified Public Market Equities' team leverages external partners to complement the internal public market value proposition. Our internal equity research platform provides ongoing market insights across the organization and across asset classes.

Fixed income is managed internally by an experienced team of investment professionals. This portfolio employs two main strategies: Corporate Credit and Global Sovereign Interest Rates.

[1] Excludes Cash and Cash Equivalents.

Summary of portfolio evolution

PMARS ended the fiscal year with a net AUM of $81.1B, slightly up from $80.8B at the end of fiscal year 2019. The growth of the portfolio was driven by additional internal and external capital deployments in new and existing strategies, offset by negative performance income.

Before the markets fully grasped the potential for global economic fallout as a result of COVID-19, the main public market indices were hovering around their all-time highs. At that time, PMARS was posting both positive absolute and relative performance for the fiscal year. In fewer than five weeks, many of the indices lost approximately 30% of their value, experiencing one of the fastest and most significant stock market declines ever recorded.

Performance analysis

Public Market Equities

(11.2)%	(10.0)%	3.4%	3.6%
1-year rate of return	Benchmark return	5-year annualized return	Benchmark return

During the fourth quarter of fiscal year 2020, the Public Market Equities portfolio was negatively impacted by the global and unprecedented COVID-19 pandemic, which evolved into an economic crisis. Public Market Equities, with an ending AUM of $48.4B ($51.0B in 2019), faced a volatile and challenging environment through the weeks leading up to the end of the fiscal year and underperformed its benchmark by 1.2%. The following active strategies had a significant impact on Public Market Equities' performance:

Internally managed long-only strategies outperformed their respective benchmarks, primarily due to strong large cap stock selection as a result of the contributions of Public Market Equities' research platform. In addition, the increased cash balance and the decisions to underweight both cyclical industrial and energy sectors proved to be beneficial amidst the surge in volatility during Q4.

The overperformance of the externally managed long-only portfolio was largely due to a US Small Cap mandate, representing close to 15% of the portfolio's AUM. Most of the mandate's strong relative performance came from stock selection. Having small exposure to oil and cyclicals was also a tailwind during the last quarter.

The externally managed absolute return portfolio posted negative relative returns as the large gains accumulated from Q1 to Q3 proved to be insufficient to offset the losses caused by the COVID-19 pandemic. This unprecedented crisis disrupted correlations of many assets that ordinarily behave as natural hedges to one another, resulting in three mandates with strategies in Systematic Global Macro, Multi-Strategy, and Distressed Debts to account for most of the loss.

The Global Investment Partnerships Portfolio underperformed its benchmark, with the brunt of the negative impact predominantly tied to investments in pre-IPO strategies. The pre-IPO investments' negative performance was mainly due to concerns over decelerating industry growth rates and company-specific lack of progress on reducing certain costs.

Over five years, the Public Market Equities portfolio has had a return of 3.4%, slightly underperforming its benchmark by 19 basis points. Given that the COVID-19 pandemic inflicted the worst equity markets losses since the global financial crisis, this five-year slight underperformance displays the long-term resilience of the Public Market Equities portfolio.

Fixed Income

10.0%	9.9%	4.5%	4.4%
1-year rate of return	Benchmark return	5-year annualized return	Benchmark return

Fixed Income ended the fiscal year with a net AUM of $32.7B, up from $29.8B at the end of fiscal year 2019. The growth of the portfolio's AUM was mostly driven by positive performance income. Fiscal year 2020 and its fourth quarter were shaped by the emergence of COVID-19 and its impact on the global economy, which essentially plummeted in March 2020. As a result, market liquidity deteriorated, and risk assets and inflation securities underperformed due to the unexpected massive economic and deflationary shocks. In response, governments and central banks took quick, unprecedented action by implementing fiscal packages and monetary stimulation, with central banks lowering global developed sovereign yields to near zero and improving liquidity conditions.

As the internally managed active fixed-income portfolio was positioned for a decrease in yields, the portfolio outperformed its benchmark by six basis points in fiscal year 2020. This proved to be beneficial as the COVID-19 pandemic forced central banks to lower rates across the board.

Over five years, Fixed Income has outperformed its benchmark by 10 basis points, as a result of the portfolio's opportunistic positioning to take advantage of various movements in global sovereign interest rates and credit markets.

Private Equity

$24.0
Billion
Net AUM

$1.1
Billion
Performance income

5.2%
1-year
rate of return

7.2%
5-year
annualized return

$23.5
Billion Net AUM (FY2019)

6.9%
Benchmark return[1]

11.3%
Benchmark return

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

Summary of portfolio evolution

Private Equity ended fiscal year 2020 with a net AUM of $24.0 billion, a slight increase of $0.5 billion from the year prior. The evolution of the portfolio was mainly driven by acquisitions of $6.8 billion and currency gains of $1.3 billion, offset by $6.0 billion in dispositions and financing proceeds and valuation losses of $1.6 billion.

Fiscal year 2020 was marked by continued strong deployment across the US and Europe, including new direct and co-investments totalling $3.4 billion and an equivalent amount deployed through the funds. This was offset with another record year of dispositions resulting from active monetization of significant direct investments such as Antelliq, Advisor Group and Acelity.

[1] As a result of the decision to maintain foreign currency exposure unhedged, the benchmark for Private Equity is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

New co-investments were made primarily in the health care, financials and technology sectors including, among others, the acquisition of significant interests in:

- Convex, a de novo specialty property and casualty insurance company
- Galderma, a leading global provider of skin health products, headquartered in Switzerland
- Lytx, a US-based leading provider of video telematics solutions for commercial and public-sector fleets

Unfunded commitments in connection with fund investments totalled $11.4 billion at the end of fiscal year 2020. During the year, Private Equity signed new fund commitments of $3.6 billion through 28 new funds, with both existing and new partners.

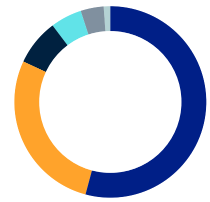
Finally, fiscal year 2020 activity has increased portfolio exposure to consumer discretionary and technology, whereas asset realizations decreased exposure to health care and industrials.

Performance analysis

Private Equity achieved a one-year rate of return of 5.2% in fiscal year 2020, compared to a benchmark return of 6.9%. Performance income of $1.1 billion includes $1.6 billion of net valuation losses partly offset by $1.3 billion of distributed income. Performance income also significantly benefited from currency gains, which increased the one-year rate of return and the benchmark of the asset class by 6.4%.

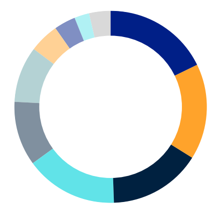
A significant detractor of the fiscal year 2020 performance was the COVID-19 pandemic which led to a significant market decline and resulted in net valuation losses across the portfolio but more importantly to the investments in the industrials, consumer discretionary and materials sectors. Despite these markdowns, the direct and co-investments in the US financial sector recorded significant valuation gains benefiting from continued growth and strong operating performance. In addition, the successful exits completed earlier in the year also positively contributed to the overall performance.

Over five years, Private Equity achieved a rate of return of 7.2%, compared to a benchmark return of 11.3%, primarily due to the underperformance of certain investments in the communications and consumer staples sectors. However, that portion of the portfolio invested over the past five years (which represents the largest portion of AUM), since a change in asset class strategy, has generated a five-year return in excess of the benchmark.



Geographic diversification
As at March 31, 2020 (%)

54.3	US
27.8	Europe
7.7	Emerging markets
5.4	Canada
3.7	Asia
1.1	Other



Diversification by sector
As at March 31, 2020 (%)

17.9	Consumer Discretionary
16.0	Financials
15.8	Health care
15.4	Technology
11.0	Communications
9.4	Industrials
5.0	Materials
3.4	Consumer staples
2.6	Energy
3.5	Other

Credit Investments

$13.3
Billion
Net AUM

$10.5
Billion Net AUM (FY2019)

$0.5
Billion
Performance income

4.3%
1-year
rate of return

(3.7)%
Benchmark return[1]

11.8%
since inception
annualized return
(4.3 years)

2.8%
Benchmark return

Credit Investments (formerly known as Private Debt) focuses on direct non-investment-grade primary and secondary credit investments in North America and Europe, in both private and public markets as well as on rescue financing and distressed debt opportunities.

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

[1] As a result of the decision to maintain foreign currency exposure unhedged, the benchmark for Credit Investments is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

Summary of portfolio evolution

Credit Investments ended fiscal year 2020 with a net AUM of $13.3 billion, up from $10.5 billion at the end of fiscal year 2019. Net change in AUM of $2.8 billion was mainly driven by acquisitions of $7.2 billion and currency gains of $0.7 billion, offset by $3.9 billion in dispositions driven by the higher churn of our maturing portfolio and opportunistic selling prior to the COVID-19 pandemic and net valuation losses of $1.4 billion.

Credit Investments' portfolio is well diversified across asset types, geographies, industries and equity sponsors. The portfolio is now near target and within concentration limits.

Performance analysis

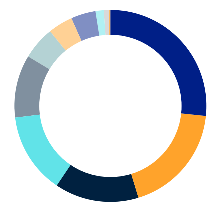
Credit Investments achieved a one-year rate of return of 4.3% compared to a benchmark return of -3.7%. A detractor from absolute performance was the COVID-19 pandemic which led to a significant market decline and resulted in net valuation losses for the portfolio. Credit Investments' outperformance versus the benchmark is largely attributed to its credit selection and limited to no exposure to industries such as energy, airlines and hospitality.

Performance income of $488 million largely consists of interest and fee income, offset by net valuation losses. Credit Investments also benefited from foreign exchange gains due to significant underlying US dollar exposure, increasing the one-year rate of return and the benchmark of the asset class by 6.4%.

Since inception in late 2015, Credit Investments achieved a rate of return of 11.8%, compared to a benchmark return of 2.8%. In its earlier years of existence as a new asset class, Credit Investments benefited from a broad market rally as well as from the ramp-up nature of the asset class, which enhanced the impact of significant fee income and valuation gains from a return perspective. Further, benefiting from strong credit selection, Credit Investments has been able to deliver interest income that exceeds that of the benchmark since inception.

Geographic diversification
As at March 31, 2020 (%)

74.6	North America
25.4	Europe



Diversification by sector
As at March 31, 2020 (%)

26.7	Technology
18.8	Industrials
14.0	Consumer discretionary
13.6	Health care
10.7	Financials
5.6	Materials
4.1	Communications
4.1	Consumer staples
1.3	Real Estate
1.0	Energy
0.1	Utilities

Product split
As at March 31, 2020 (%)

54.3	First Lien
45.7	Non First Lien

Real Estate

$23.8 Billion Net AUM	$(1.0) Billion Performance loss	(4.4)% 1-year rate of return	8.3% 5-year annualized return
$23.5 Billion Net AUM (FY2019)		(4.0)% Benchmark return[1]	6.1% Benchmark return

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

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

Summary of portfolio evolution

Real Estate ended fiscal year 2020 with net assets under management of $23.8 billion, a slight increase of $0.3 billion from the year prior. The evolution of the Real Estate portfolio was driven by $6.0 billion in acquisitions and currency gains of $0.8 billion offset by $2.3 billion in valuation losses and $4.2 billion in dispositions and financing proceeds.

Real Estate kept its focus on portfolio optimization by deploying into high conviction sectors. Among others, this resulted in key acquisitions within the multi-family and industrial sectors. With the low-yield environment making it more challenging to acquire core assets, the strategy behind the majority of current year acquisitions were value-add and opportunistic. The acquisitions in the core assets were concentrated in major international cities and high-growth markets.

In addition, there were strategic disposals of core assets in the office sectors in Canada, Europe and the US, which had attained their objectives. As part of its portfolio optimization, the Real Estate group also disposed of non-strategic assets in the US and Africa.

[1] As a result of the decision to maintain foreign currency exposure unhedged, the benchmark for Real Estate is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

Fiscal year 2020 acquisitions included:

- A large multi-family portfolio in seven US cities with Berkshire Group
- A large industrial portfolio in Mexico with Advance Real Estate
- An increase of our ownership in two multi-family properties in the Boston Seaport district with Berkshire Group
- An expansion of our North American manufactured homes partnership to the UK with Cove Communities
- Multiple acquisitions of logistic properties throughout Europe with Segro
- An office portfolio in Silicon Valley with DivcoWest

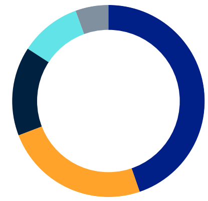
The largest single acquisition was a multi-family portfolio of more than 6,000 units with Starlight Investments, all located in Ontario with a concentration in the Greater Toronto Area. This transaction aligns with Real Estate's conviction on the multi-family sector and focus on primary markets.

Performance analysis

Real Estate achieved a one-year rate of return of -4.4% in fiscal year 2020, compared to a benchmark of -4.0%. Total performance loss reached $1.0 billion, driven mainly by valuation losses of $2.3 billion primarily attributable to the senior housing portfolio, the global retail portfolio particularly the malls in the US and the Alberta office portfolio, which were significantly impacted by the COVID-19 pandemic. On the other hand, our global industrial portfolio, which benefited from strong fundamentals, had a positive impact on our return. Other significant positive contributors to absolute performance included the Canadian multi-family portfolio and the Australian office portfolio.

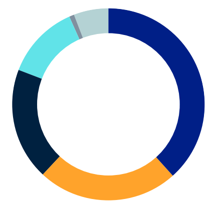
Real Estate also benefited from foreign exchange gains due to significant US dollar exposure, increasing the one-year rate of return and the benchmark of the asset class by 3.4%.

Over five years, Real Estate achieved a rate of return of 8.3%, compared to a benchmark return of 6.1%, primarily due to the strong performance of the Canadian multi-family portfolio, the global industrial portfolio, the Australian office portfolio and the European office portfolio.



Geographic diversification
As at March 31, 2020 (%)

45.0	US
24.3	Canada
15.0	Western Europe
10.5	Emerging markets
5.2	Australasia



Diversification by sector
As at March 31, 2020 (%)

38.4	Residential/Retirement
23.8	Office
18.7	Industrial
12.7	Retail
0.8	RE Debt
5.6	Other

Infrastructure

$18.3
Billion
Net AUM

$16.8
Billion Net AUM (FY2019)

$1.4
Billion
Performance income

8.7%
1-year
rate of return

(3.2)%
Benchmark return[1]

12.1%
5-year
annualized return

4.6%
Benchmark return

Infrastructure invests globally on a long-term basis, primarily in the transportation, renewable power, communications and utilities sectors. The Infrastructure asset class provides positive elements of diversification, relative stability and illiquidity premiums that enhance the overall risk-return profile of the PSP Investments total fund.

The group is focused on direct investments, including through industry platforms and co-investments. Platforms, one of the cornerstones of the group's strategy, provide several compelling advantages such as allowing us to leverage sector-specific knowledge and expertise, targeting and managing greenfield investments and expanding our reach in terms of access to key relationships and partners.

[1] As a result of the decision to maintain foreign currency exposure unhedged, the benchmark for Infrastructure is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

Summary of portfolio evolution

At the end of fiscal year 2020, net assets under management totalled $18.3 billion, up from $16.8 billion the year prior. The growth of the portfolio was mainly driven by acquisitions of $3.1 billion and currency gains of $0.7 billion. This was partially offset by dispositions and financings of $2.3 billion.

Infrastructure deployment was mostly across North America and Australia and included new direct and co-investments totalling $2.3 billion.

Key investments included:

- The take-private of AltaGas Canada, a large Canadian company with natural gas distribution utilities and renewable power generation assets, alongside Alberta Teachers' Retirement Fund Board
- The acquisition of an interest in AirTrunk, the largest independent operator of hyperscale data centres in Asia Pacific with assets across Sydney, Melbourne Singapore and Hong Kong

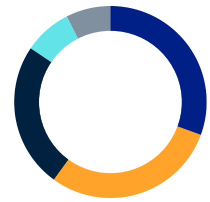
Finally, the fiscal year 2020 activity has slightly changed the portfolio's geographic diversification by increasing exposure to Canada, Asia and Oceania while decreasing exposure to Europe.

Performance analysis

Infrastructure achieved a one-year rate of return of 8.7% in fiscal year 2020, compared to a benchmark return of -3.2%. Total performance income reached $1.4 billion, driven by distributed income of $0.7 billion and foreign exchange gains of $0.7 billion, which increased the one-year rate of return and the benchmark of the asset class by 4.3%.

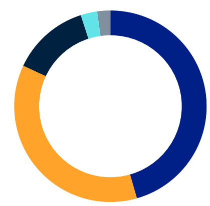
Despite volatile performance related to the COVID-19 pandemic, the direct investments in the utilities sectors, more specifically in the renewables sub-sector, in North America, recorded significant valuation gains benefiting from a stable regulatory and contractual environment, which were partly offset by provisions taken in the Transportation sector.

Over five years, Infrastructure achieved a solid rate of return of 12.1%, compared to a benchmark return of 4.6% primarily due to the strong performance of investments in the transportation and utilities sectors.



Geographic diversification
As at March 31, 2020 (%)

30.8	Europe
29.4	Emerging markets
24.5	US
8.0	Canada
7.3	Asia and Oceania



Diversification by sector
As at March 31, 2020 (%)

45.6	Industrials
36.4	Utilities
13.1	Communications
2.7	Technology
2.2	Energy

Natural Resources

$7.6
Billion
Net AUM

$6.8
Billion Net AUM (FY2019)

$(0.4)
Billion
Performance loss

(5.2)%
1-year
rate of return

(5.8)%
Benchmark return[1]

6.6%
5-year
annualized return

1.9%
Benchmark return

Natural Resources focuses on partnering with best-in-class, local operators to invest in agriculture and timber assets in investment-friendly jurisdictions around the world. A high component of land, water or biological assets typically underpins our investments and adds to downside protection.

The group also seeks to invest in opportunities well poised to benefit from secular trends driving continued demand growth and increasingly constrained supply.

[1] As a result of the decision to maintain foreign currency exposure unhedged, the benchmark for Natural Resources is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

Summary of portfolio evolution

Natural Resources closed fiscal year 2020 with a net AUM of $7.6 billion, up from $6.8 billion at fiscal 2019 year-end. The growth of the portfolio was mainly driven by $3.2 billion of net investment activity, of which agriculture investments accounted for $2.8 billion.

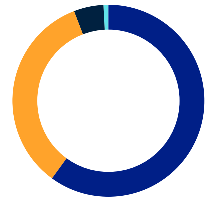
Fiscal year 2020 was marked with continued strong deployment in both Australasia ($1.9 billion) and North America ($1.3 billion). Notable developments throughout the year include:

- Completed board-supported take-private of leading, publicly listed Australian grower of cotton and walnuts
- Entered into a buy-and-lease transaction on ~ 11,500 hectares of mature almond orchards and a portfolio of High Reliability water entitlements located in Victoria, Australia. The simultaneous acquisition and consolidation of assets effectively unlocked material intrinsic value
- Established a new joint venture headquartered in Leamington, Ontario focused on the production and distribution of North American greenhouse-grown fresh produce
- Increased exposure to Canadian timberlands in a high-quality asset with a trusted and proven management team

Performance analysis

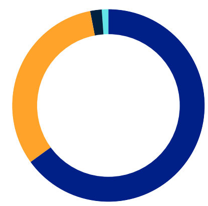
Natural Resources' one-year rate of return was -5.2% for fiscal year 2020, compared to a benchmark return of -5.8%. The Portfolio's net loss was $381 million, mainly driven by net valuation losses of $548 million partially offset by distributed income of $184 million. A significant detractor from absolute performance was the COVID-19 pandemic and its impact on the fair value of certain assets. The crisis especially impacted the portfolio's non-core oil and gas assets due to a decrease in demand in an already overly supplied market. COVID-19 did not have a significant impact on the agriculture or timberland investments, which largely remained resilient.

Over five years, Natural Resources achieved a rate of return of 6.6%, compared to a benchmark return of 1.9%, primarily due to strong performance from our timberland assets and accretive asset valuations from our agriculture investments.



Geographic diversification
As at March 31, 2020 (%)

60.0	Australasia
34.2	North America
5.0	Latin America
0.8	Other



Diversification by sector
As at March 31, 2020 (%)

65.0	Agriculture
32.1	Timber
1.8	Oil and gas
1.1	Other

Operating expenses and total cost ratio

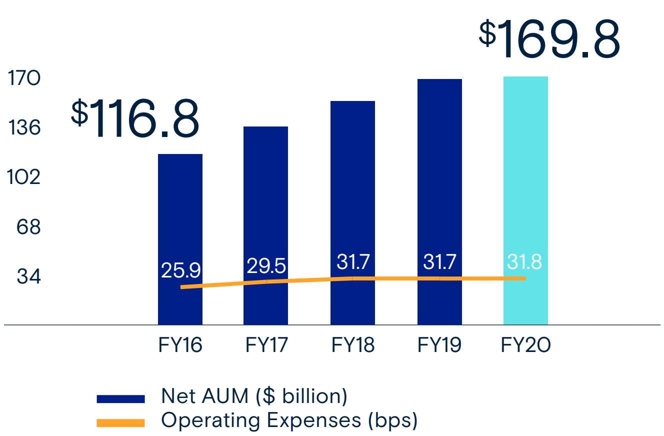
Operating expenses

Over the past five years, PSP Investments has been building the organization and ramping up capabilities to achieve Vision 2021. To this end, the teams, strategies and portfolio have undergone significant transformations. Even with these activities, in the last few years, PSP Investments has seen signs of scalability in terms of a slower rate of increase in operating expenses year-over-year (9.6% in fiscal year 2020 versus 12% in fiscal year 2019, and 22% in fiscal year 2018). The ratio of business partners to investment professionals is decreasing (1.60 in fiscal year 2020, compared to 1.85 five years ago). The enhanced cost-management approach has helped keep the operating expenses ratio at 31.8 bps, almost at the same level as in fiscal year 2019 (31.7 bps). That is, in fiscal year 2020 PSP Investments' total operating expenses amounted to $551 million, compared to $503 million in fiscal year 2019.

Absent the COVID-19 pandemic's impact on AUM, total operating expenses expressed in basis points would have been lower than fiscal year 2019. In absolute dollars however, total operating expenses have increased in fiscal year 2020 due to higher headcount as well as investments in technologies and strategic plan initiatives to complete Vision 2021. Furthermore, following the COVID-19 pandemic, management deployed measures aimed at containing operating expenses for the coming year, such as temporarily freezing external hiring and annual salary increases.

In fiscal year 2020, salaries and employee benefits totalled $319 million, compared to $291 million in fiscal year 2019. PSP Investments had 888 employees as at March 31, 2020; an increase of 5% from 844 employees as at March 31, 2019.

Headcount rose at our primary business office in Montréal, as well as in New York, London and Hong Kong. At the end of fiscal year 2020, in our international offices, we had 59 employees in London, 42 employees in New York and seven employees in Hong Kong. Approximately 27% of our total salaries and benefits are denominated in foreign currencies, compared to 23% in fiscal year 2019.



Total cost ratio

In the last 10 years, total costs grew slightly more than the average AUM, adding 5.4 bps compared to 67.0 bps in fiscal year 2011. This was expected as PSP Investments has considerably changed in size and in asset mix, with a shift toward more internal, active management and private markets. PSP Investments also invested in new tools and systems to support these changes and the growth of the AUM and asset classes.

Over the past five years, total costs increased from 63.0 bps in fiscal year 2016 to 72.4 bps in fiscal year 2020. As part of PSP Investments' Vision 2021, we have been reshaping our approach to investing and seeing encouraging results. We continue to pursue internal active management, which started as early as fiscal year 2004. Accordingly, we increased the allocation of the portfolio toward more private market asset classes, reaching 29.5% at the launch of Vision 2021 in fiscal year 2015 and finally, 51.3% at the end of fiscal year 2021. Private markets offer increased potential for higher long-term returns and value-add. To tap into global opportunities, we opened international offices and built a local presence in London, New York and Hong Kong. Associated costs for adopting Vision 2021 are reflected in the increases in operating expenses, transaction volumes as well as management fees. To this end, Vision 2021's ongoing initiatives have already started to yield benefits – indicating that associated costs will pay off.

PSP Investments' total cost ratio increased from 67.3 bps in fiscal year 2019 to 72.4 bps in fiscal year 2020. Absent the COVID-19 pandemic's impact on AUM, the total cost ratio would have been more favourable. The total cost ratio measures operating and asset-management expenses as a percentage of average net AUM. Asset management expenses include management fees paid to external asset managers and transaction costs. Transaction costs can vary significantly year-over-year, depending on the complexity and size of private market investment activities. The year-over-year increase in the cost ratio is due to management fees and transaction costs in private markets.

Enterprise risk management

To achieve our mandate and deliver on our commitment to stakeholders, PSP Investments must take calculated risks and manage them appropriately. We follow a disciplined, integrated approach to risk management, and we strive to maintain a strong risk culture, in which all employees share responsibility for risk identification, evaluation, management, monitoring and reporting.

Risk management framework

Our enterprise-wide risk management framework supports prudent risk-taking while striking the appropriate balance between risk and reward to achieve our strategic objectives. Each of the subsequent sections describes the elements of the framework.

Risk governance

Effective risk management starts with effective risk governance. At the top of the governance structure, the Board of Directors provides oversight. The Board reviews and approves the Risk Appetite Statement (RAS), the SIP&P and the Policy Portfolio. It also ensures that management has put in place an effective enterprise risk management approach and framework. The Board is regularly apprised of material risks and how management is responding to them.

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

The risk management framework is anchored in the three-lines-of-defence approach to managing risk, as shown below:

Governance Model

BOARD OF DIRECTORS AND BOARD COMMITTEES

EXECUTIVE AND SENIOR MANAGEMENT COMMITTEES			
Executive	Total Fund	Valuation	Risk and Investment

Three Lines of Defence Model

First line of defence	Second line of defence	Third line of defence
All employees and teams	Teams that independently oversee and assess risk management activities performed by the First line of defence	Internal Audit

External audit

Risk Appetite Statement

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

Risk management and related policies

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

ENTERPRISE RISK CATEGORY			
Investment risk		Non-investment risk	
• Market risk • Liquidity risk • Credit and counterparty risk • Concentration risk • Leverage risk • ESG risk	• Statement of Investment Policies, Standards and Procedures • Investment Risk Management Policy • Leverage Policy • Responsible Investment Policy	• Financial crime and fraud • Reporting and taxation • Strategic or business • Legal, contractual or regulatory • Digital asset	• Non-digital asset • Operational • People • Non-investment Risk Management Policy

Risk identification and assessment

We conduct an annual, enterprise-wide risk and control self-assessment exercise to identify and evaluate key risks, and to assess the adequacy and effectiveness of mitigation activities. The exercise is a core component of the risk management framework and contributes to its ongoing refinement.

The Board participates in it, and provides a top-down complementary review, through an annual risk-identification survey.

Risks inherent to PSP Investments are identified through this exercise, while external risks are regularly monitored and the most relevant ones are integrated as appropriate. This results in a comprehensive identification of our most significant risks that takes into account the internal and external risk environments. By highlighting the organization's top risks, the exercise ultimately supports the corporate business planning process and ensures that risks are factored into PSP Investments' overall strategy.

Shared risk culture

We believe that risk management is the responsibility of every employee. Leaders promote a risk-aware culture by communicating this responsibility effectively. All employees are designated risk assessors or owners. They receive training to ensure they understand their individual and departmental roles and responsibilities. They are empowered with clear limits and guidelines to manage and report risks, and to escalate issues if necessary.

Risk Management is headed by the Senior Vice President and Chief Financial & Risk Officer who reports to the President and CEO. The Investment and Risk Committee of the Board of Directors meets quarterly with the Chief Financial & Risk Officer in in-camera meetings.

Liquidity and Capital Management

Liquidity management

Objectives

PSP Investments manages its liquid short-term investments to ensure it meets its financial obligations as they become due, while reducing the risk of liquidating investments unexpectedly and potentially at unfavourable prices.

Governance and management

PSP Investments adopts a total fund approach by actively managing liquidity through a centralized platform, namely, the Corporate Liquidity Fund ("CLF"). The CLF is managed to provide efficient funding to asset classes and maintain sufficient levels of liquidity in times of market stress such as in the case of the COVID-19 market disruption. The primary objectives of the CLF are safety of capital, liquidity and collateral eligibility. The CLF is comprised primarily of highly rated government or government-related fixed income securities to meet its collateral requirements. In addition to fund transfers referred to in the "Capital Management" section below, PSP Investments receives recurring cash flows from its private investments, adding to its sources of liquidity.

Risks and stress testing

The CLF is subject to risk limits. Such limits include a number of metrics that take into consideration credit rating, portfolio duration, maturity, collateral eligibility, nature of the investment as well as concentration. In addition to such limits, sensitivity analyses, stress testing and scenarios analyses are performed in order to ensure that sufficient liquidity is in place for operational needs such as debt repayment and collateral calls in times of market stress such as in the case of the COVID-19 market disruption.

For further details on liquidity risk please refer to note 7.3 of the Consolidated Financial Statements.

Capital management

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

Funds transfers

As described in our mandate, PSP Investments receives fund transfers from the Government and invests these in the best interests of the beneficiaries and contributors under their respective Acts. The funds received are invested with a view 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 their respective Acts and the ability of the Plans to meet their financial obligations. The funds are invested in accordance with the Investment Risk Management policies established as an element within the enterprise risk management framework.

Leverage

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

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

COVID-19 pandemic

PSP Investments' liquidity and leverage frameworks have proven to be effective in the context of the market disruption resulting from the COVID-19 pandemic. During that time, sufficient and stable levels of liquidity were maintained, minimizing funding costs.

Governance

PSP Investments is committed to upholding the high standards of corporate governance and ethical conduct expected of a Crown corporation of the Government of Canada. We believe that good governance strengthens our decision-making, processes and controls, and is essential for fulfilling our statutory mandate.

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

The Board is committed to safeguarding the financial health of the assets it manages. To this end, the Board supported management in preparing for a potential market downturn and performing early stress testing of the portfolio using multiple scenarios. These preparations enabled PSP Investments to respond quickly to the COVID-19 outbreak. The rapid activation of its crisis management plan was key to ensuring both the safety of our employees and the continuity of operations. In light of the current market downturn, driven primarily by the COVID-19 pandemic, the Board continues to collaborate with senior management in monitoring the portfolio and responding to changing market dynamics.

Board succession planning was another key focus area of the Governance Committee and the full Board in fiscal year 2020 as the terms of some directors expired or will be expiring in the coming year. Directors play an active role in guiding the organization and we need to support the external nominating committee and Government in ensuring we have a full contingent of individuals qualified to govern a leading global institutional investor such as ours. The Board continues to function at full capacity with 11 Directors. In fiscal year 2020, the Governance Committee and Board also continued their work on managing Board renewal. As part of the Chair succession planning process, Ms. Miranda C. Hubbs was appointed Chair of the Human Resources and Compensation Committee, replacing Ms. Micheline Bouchard, who had chaired this Committee since 2018.

The Governance Committee is also responsible for ensuring that the Board and its Committees are functioning effectively. To this end, revised Terms of Reference were adopted in fiscal year 2020.

In this section, we discuss key governance activities undertaken in fiscal year 2020 and provide an overview of our governance framework and practices.

Governance framework

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

Board responsibilities

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

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

The Board's specific responsibilities include:

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

Board committees

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

- **Investment and Risk Committee**—oversees PSP Investments' investment and risk management functions.
- **Audit Committee**—reviews financial statements and the adequacy and effectiveness of internal control systems, and oversees the internal audit function.
- **Governance Committee**—monitors governance matters, develops related policies, and oversees the application of the Code of Conduct.
- **Human Resources and Compensation Committee**—ensures policies and procedures are in place to manage the human resources function efficiently and effectively, and to offer all employees fair and competitive compensation aligned with performance and risk targets.

Learn more

About our Board of Directors
Board Committees

Accountability and reporting

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

Our President and CEO and the Chair of the Board are required to meet once a year with advisory committees appointed to oversee the pension plans. We are also required to hold an annual public meeting. The most recent meeting was held in Ottawa on November 19, 2019.

Pursuant to the *Financial Administration Act* (FAA), PSP Investments must undergo a yearly external audit. The Auditor General of Canada and Deloitte LLP serve as our joint external auditors and are responsible for conducting special examinations at least once every 10 years. The last special examination was performed in fiscal year 2011 and the next special examination is expected to be completed by March 31, 2021. More information on the last special examination report is available in the Reports section of our website.

Ethics and compliance

PSP Investments' success, and our ability to fulfill our underlying social mission of contributing to the long-term sustainability of the public sector pension plans, depends on preserving the corporation's exemplary reputation.

In most situations, our personal values and integrity guide us to the correct decisions and actions. We have developed a Code of Conduct for Directors, Employees and Consultants that provides a practical framework to help individuals better understand PSP Investments' principles, values and expected business practices and behaviours.

The Code of Conduct includes principles related to behaving respectfully and appropriately, obeying the letter and spirit of the law, protecting PSP Investments' assets and information, and managing conflicts of interest. Rules have also been established for the reporting of any real, potential or perceived conflicts of interest by Directors and employees. In addition, the reporting of any suspected wrongdoings is encouraged. Incidents can be reported without fear of retaliation to an employee's immediate supervisor, PSP Investments' Compliance Officer, or through an anonymous whistleblower reporting tool. Each year, individuals subject to the Code of Conduct must confirm in writing their commitment to complying with the Code.

Learn more
Code of Conduct for Directors, Employees and Consultants

Board procedures and effectiveness

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

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

There is frequent discussion at the Board and Board committee levels between Directors and management. Board members and senior management hold an annual strategy session for in-depth discussions on investments and risk-related topics. This year's strategic session focused primarily on preparing for the next phase of PSP Investments' future as the organization is entering the final year of its five-year strategic plan. Topics discussed included a review of PSP Investments' beliefs, total fund initiatives and active management strategies.

All regular Board and Board committee meetings include *in camera* sessions without members of management present. The Board has individual *in camera* meetings with the President and CEO. The Audit Committee has private meetings with each of the internal and external auditors, and with the Chief Financial Officer, while the Investment and Risk Committee meets privately with the Chief Risk Officer and the Chief Investment Officer.

The Board and Board committees may consult with external advisors. During fiscal year 2020 the Human Resources and Compensation Committee and the Governance Committee each sought the services of an external consultant.

The Governance Committee oversees the formal process for evaluating the performance of the Board Chair, the chairs of Board committees, individual Directors and the Board as a whole. Following a process review by an external consultant, certain changes were made in fiscal year 2020 to improve the overall functioning of the Board and the performance of individual Directors. All Directors, as well as the President and CEO, and select senior management members, participate in the evaluation process. The Chair of the Governance Committee presents evaluation results to the Board. The ensuing discussions focus on achievements, expectations, concerns and opportunities for improvement. Any measures deemed necessary are subsequently implemented.

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

Fiscal year 2020 key activities

Investment and Risk Committee	• Reviewed and approved 16 investments. • Approved changes to the Risk Appetite Statement. • Recommended for Board approval a new custodian for PSP Investments' assets. • Reviewed the fund strategy of the Private Equity asset class. • Reviewed market downturn scenarios and related stress-testing in preparation for a market downturn.
Audit Committee	• Reviewed PSP Investments' cybersecurity and cloud strategies. • Examined cost containment measures as part of the annual budget process and projected future costs. • Approved the launch of the next special examination. • Reviewed PSP Investments' valuation procedure for private assets (this occurred post fiscal year-end).
Governance Committee	• Reviewed Board and Committee responsibilities and recommended new Terms of Reference for the Board, its committees, and the Board and committee chairs. • Proposed enhancements to the Board evaluation process. • Recommended for Board approval committee composition changes, including a new Chair for the Human Resources and Compensation Committee as part of the succession planning process. • Recommended for Board approval amendments to PSP Investments' Responsible Investment Policy and approved new Proxy Voting Principles. • Conducted a review of Director remuneration.
Human Resources and Compensation Committee	• Conducted a full review of succession planning for the CEO and Officers. • Recommended for Board approval a new benchmark, threshold level of performance and value-added objectives based on a total fund approach. • Adopted a new Human Resources Policy confirming PSP Investments' commitment to attracting, developing, rewarding and retaining our talent.

PSP Investments' Board of Directors met **10 times** in fiscal year 2020. Board committees met for a total of **25 times.**

Director appointment process

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

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

The appointment process is designed to ensure that the Board has a full contingent of high-calibre Directors with proven financial ability and relevant work experience. The Governance Committee regularly reviews and updates desirable and actual competencies, experiences and attributes to ensure that decisions are made with a view to having a diverse Board that can provide the oversight and guidance needed for PSP Investments to fulfill its mandate. Our Board currently has gender balance with women representing five out of the 11 Directors. In addition, two Directors have self-identified as belonging to a visible minority.

Director orientation and education

Newly appointed Directors participate in a structured orientation program that introduces them to PSP Investments' culture and operations, so they can contribute effectively as Board members.

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

On occasion, internal and outside speakers are invited to make presentations that contribute to the individual and collective expertise of Board members.

Board members

PSP Investments' Board is composed of 11 independent, professional Directors who bring a wealth of experience and expertise to their role. The biographies of PSP Investments' Directors can be found on pages **67–70**.

Remuneration

The Board's approach to Director remuneration reflects the provisions of the Act which require it to set its remuneration at a level comparable to the remuneration received by persons having similar responsibilities and engaged in similar activities. The Board reviews remuneration and considers changes based on recommendations prepared by the Governance Committee. In light of the current economic climate, the Board of Directors decided against implementing remuneration changes for the next fiscal year. A summary of Director remuneration is provided below:

Directors were compensated as follows:

	$
Annual retainer for the Board Chair	200,000
Annual retainer for each Director other than the Board Chair	60,000
Annual retainer for each Board Committee Chair	15,000
Attendance fee for each Board meeting	1,500[1]
Attendance fee for each committee meeting	1,500[1]
Travel fees for attending a Board meeting in person, if his or her primary or secondary residence is outside Québec or Ontario	1,500

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

Total fiscal year 2020 remuneration for Directors was $1,259,000. Directors are not entitled to additional remuneration in the form of retirement benefits or short-term or long-term incentives. The following tables provide details:

Meeting attendance

	Board of Directors		Investment and Risk Committee		Audit Committee		Governance Committee		Human Resources and Compensation Committee	
	Regular	Special	Regular	Special	Regular	Special	Regular	Special	Regular	Special
Number of meetings Fiscal Year 2020[1]	7	3	5	4	5		4		5	2
Maryse Bertrand	7/7	3/3	4/5	3/4			3/4		4/5	2/2
Micheline Bouchard	7/7	3/3	5/5	3/4			4/4		5/5	2/2
David C. Court	7/7	3/3	3/5	2/4	4/5					
Léon Courville	7/7	3/3	5/5	3/4			4/4		5/5	2/2
Garnet Garven	7/7	3/3	5/5	4/4	5/5		4/4			
Martin Glynn[2]	7/7	3/3	5/5	4/4						
Lynn Haight	7/7	3/3	5/5	4/4	5/5		4/4			
Timothy E. Hodgson	7/7	3/3	5/5	4/4					5/5	2/2
Miranda C. Hubbs	7/7	3/3	5/5	4/4					5/5	2/2
Katherine Lee	7/7	3/3	5/5	4/4	5/5					
William A. MacKinnon	7/7	3/3	5/5	4/4	5/5					

[1] Certain Committee meetings were held concurrently with Board of Directors meetings. All directors are members of the Investment and Risk Committee.
[2] Mr. Glynn is an ex-officio member of the Audit Committee, Governance Committee and Human Resources and Compensation Committee.

Directors' compensation for fiscal year 2020

	Annual Retainer $	Chair of a Committee/ Annual Retainer $	Boards/ Committees Meeting Fees[1] $	Travel Fees $	Total $
Maryse Bertrand	60,000		37,500		97,500
Micheline Bouchard	60,000	9,090	42,000		111,090
David C. Court	60,000		28,500	1,500	90,000
Léon Courville	60,000		42,000		102,000
Garnet Garven	60,000	15,000	42,000	7,500	124,500
Martin Glynn	200,000		N/A	9,000	209,000
Lynn Haight	60,000		42,000		102,000
Timothy E. Hodgson	60,000	15,000	37,500		112,500
Miranda C. Hubbs[2]	60,000	5,910	37,500		103,410
Katherine Lee	60,000		36,000		96,000
William A. MacKinnon	60,000	15,000	36,000		111,000

[1] A single meeting fee is awarded for Board and Committee meetings held concurrently.
[2] Ms. Miranda C. Hubbs became the Chair of the Human Resources and Compensation Committee on November 9, 2019 in replacement of Ms. Micheline Bouchard.

Report of the Human Resources

— and Compensation Committee

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

HRCC Governance Process

The Human Resources and Compensation Committee (HRCC) is composed of directors who are knowledgeable about human resources-related issues. At the end of fiscal year 2020, committee members were:

- Miranda C. Hubbs (Chair)
- Maryse Bertrand
- Micheline Bouchard
- Léon Courville
- Timothy E. Hodgson

The HRCC's Terms of Reference, available on PSP Investments' corporate website in the "Board of Directors" section, describe the HRCC's duties and responsibilities, the key areas of which are listed below:

- Appointment of the Chief Executive Officer ("CEO") and other officers
- Performance assessment and compensation of the CEO and other officers
- Compensation of non-officer employees
- Compensation framework
- Succession planning
- Employee benefits and human resources policies
- Pension plans and supplemental employee retirement plans
- Disclosure

The Board of Directors ensures that PSP Investments' executive compensation and incentives are consistent with PSP Investments' Compensation Policy. In order to verify alignment, the services of Hugessen Consulting ("Hugessen"), an independent compensation consulting firm, were retained in fiscal year 2020 to assist the HRCC in its review of executive compensation. Hugessen reports solely to the HRCC.

Salary freeze and charitable contributions

In response to the significant personal and economic impacts related to the COVID-19 global pandemic, PSP took immediate action during the month of February to temporarily freeze all salaries and suspend external hiring. In addition, in recognition of the global need created by the pandemic and in order to give back to our local communities, PSP launched a special COVID-19 relief funds-matching program for employees making charitable contributions to United Way, Red Cross, HealthPartners and Community Foundations Canada. More than 400 employees participated and raised in excess of $700,000 for these charities, including over $250,000 contributed by the executive team. Our CEO has contributed 50% of his 2020 base salary to the above programs and other COVID-19 related charities. PSP prides itself on the value of giving back to our communities and supporting the well-being of all Canadians including its beneficiaries, contributors and employees.

Compensation framework

To successfully fulfill its mandate, PSP Investments must strive to attract, develop, reward and retain top talent from the investment and finance industries. The employee value proposition, with compensation as a cornerstone, must be compelling to successfully compete for highly skilled professionals with the right capabilities. It must also reflect industry best practices and be aligned with stakeholders' best interests.

PSP Investments' Total Incentive Plan focuses on the following three (3) primary objectives:

- Make incentives less formulaic and more subject to informed discretion
- Solidify alignment with stakeholders' long-term interests
- Ensure alignment with our five-year corporate strategy, Vision 2021

The Total Incentive Plan, which includes annual and deferred compensation elements, is further described in this section. Fiscal year 2020 is the fourth year of the compensation framework in which compensation has been determined.

Moreover, to implement a pay-for-performance approach, the Board established a Compensation Policy that is designed to maintain total compensation at a fair and competitive level, while also ensuring that compensation plans are aligned with PSP Investments' strategic plan and integrated with business performance measurement. PSP Investments' Compensation Policy provides balanced performance-based compensation and is effectively designed to reward prudent risk taking. Total compensation is primarily comprised of base salary, a total incentive (split between annual and deferred cash), benefits and pension.

Compensation discussion and analysis

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

- Neil Cunningham – President and CEO
- David J. Scudellari – Senior Vice President and Global Head of Credit Investments
- Guthrie Stewart – Senior Vice President and Global Head of Private Investments
- Eduard van Gelderen – Senior Vice President and Chief Investment Officer
- Darren Baccus – Senior Vice President and Global Head of Real Estate and Natural Resources
- Anik Lanthier – Senior Vice President, Public Markets and Absolute Return Strategies

Principles of our compensation framework

PSP Investments' compensation framework is designed to attract and retain key employees, reward performance and reinforce business strategies and priorities. Specifically, the framework is designed to:

Promote enterprise-wide collaboration	• All permanent employees participate in the total incentive plan • Total fund investment performance is a component of incentive compensation at all levels • Performance measure weights are aligned with the ability to impact results and vary based on level and group
Be sufficiently competitive to attract and retain the right people	• Compensation and incentive structures are aligned with relevant markets for talent, based on level, group and location • Total direct compensation (i.e., base salaries and target incentive) is competitive, with the flexibility to pay above or below based on the principles of pay for performance
Enable individual differentiation	• Emphasize individual and group performance to ensure behaviors are aligned with PSP Investments' vision and values • Allow for discretion at every level of evaluation
Adapt to changing circumstances	• Enable the HRCC, Board of Directors and President and CEO to ensure pay for performance outcomes are adapted to PSP Investments' changing environment and unique conditions
Align pay with performance	• Establish alignment with the stakeholders' key measures of success, including the long-term rate of return objective • Include both relative and absolute total fund performance as part of the incentive framework • For senior management, ensure a significant portion of total compensation is deferred and "at risk", or subject to performance conditions
Discourage short-term risk taking	• Investment performance is measured over five- and seven-year retrospective periods • Deferred component (PDFU) extends the period for incentives "at risk" for three years after the grant date

The alignment of PSP Investments' compensation framework with Vision 2021 is expected to span several years. Fiscal year 2020's investment performance benchmarks and value-added objectives are consistent with those for fiscal year 2019. As planned, a thorough review of performance parameters was completed by Eduard van Gelderen, PSP Investments' Chief Investment Officer in fiscal year 2020 and updates recommended and approved by the Board will be reflected in fiscal year 2021. The benchmarks and value-added objectives currently ensure that compensation levels are aligned and competitive with the market; any planned review will maintain these objectives.

Pay level benchmarking process

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

Risk management

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

Key risk mitigating features in the compensation program include:

- **Significant pay "at risk"** – A large portion of pay for executives and other senior positions comes in the form of incentives. All deferred compensation is adjusted upward or downward based on total fund return over the vesting period.
- **Long-term horizon** – Investment performance is measured over 5, 7 and 10-year periods and aligned with PSP Investments' long-term total fund return objectives. Once granted, the deferred portion of incentive compensation continues to vest over a subsequent 3-year period; this effectively aligns pay with performance over an 8 to 10-year period.
- **Maximum payouts** – Each performance measure in the total incentive formula as well as the final total incentive multiplier are subject to an absolute maximum.
- **Robust benchmark investment return targets** – Benchmarks and value-added objectives, which are used to calculate performance within the total incentive plan, reflect an appropriate balance of risk and return and are aligned with the Board of Directors-approved investment strategy and risk limits.
- **HRCC discretion to govern pay** – The HRCC uses its discretion to adjudicate annual and longer-term performance compared to pre-defined targets and expectations, as necessary. It also has the ultimate discretion to adjust pay levels to ensure they are aligned with PSP Investments' performance and are reasonable from an overall cost perspective.

Compensation framework

Salary

Purpose:

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

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

Total incentive

Purpose:

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

The Total Incentive Plan generates an incentive award each year that is split into an annual cash payment and a deferred cash award.

The total incentive is based on performance relating to various components: group objectives, total fund investment performance and, where applicable, asset class investment performance. The applicable performance components are weighted according to level and position. Individual performance is used as a modifier and individual performance scores are determined upon a review of individual objectives relative to predetermined goals. For more senior positions, a greater emphasis is placed on total fund investment performance.

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

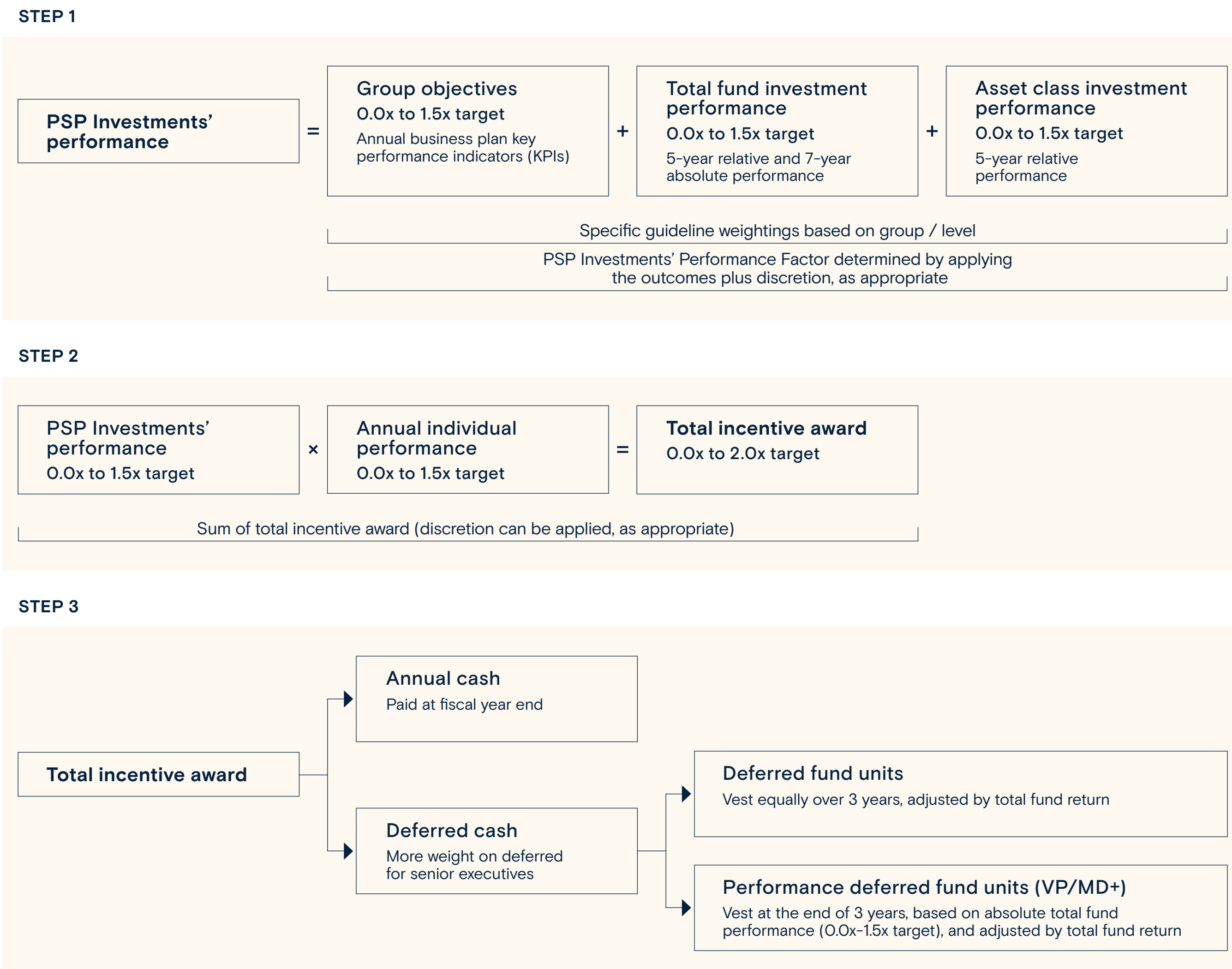
All employees participate in the same incentive plan and each employee has a target incentive opportunity based on his or her group and level. All employees can earn up to a maximum of two times their target incentive opportunity.

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

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

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

Total incentive plan framework[1]



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

Restricted Fund Units

Purpose:

- To attract, retain and reward key employees, on a selective basis.

Restricted Fund Units (RFUs) may be awarded in special circumstances warranted by superior performance or market-related considerations, such as on hire awards to offset the loss of outstanding equity/awards and the demand or need to attract talent.

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

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

Other benefits

Purpose:

- To provide competitive group benefits and retirement savings programs.

Group benefits:

Based on their respective locations, employees have access to comprehensive benefits, including health and dental care, disability, critical illness, life insurance and accidental death and dismemberment. They also have access to virtual health care services and an employee-assistance program.

Retirement savings:

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

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

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

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

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

Perquisites:

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

Pay mix

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

The President and CEO's target incentive is 400% of base salary, split 40% into annual cash paid out in the current year ("short-term incentive") and 60% into deferred awards ("long-term incentive"). Within the deferred portion, 50% is allocated to performance-based deferred fund units that cliff vest and pay out after three years subject to 10-year absolute performance (while varying with total fund return). The other 50% is allocated to time-vested deferred fund units that vest one-third per year over three years (while varying with total fund return).

For senior vice presidents in asset classes, the target incentive is 350% of base salary, split 50% into annual cash paid out in the current year ("short-term incentive") and 50% into deferred awards ("long-term incentive"). Within the deferred portion, 40% is allocated to performance-based deferred fund units that cliff vest subject to 10-year absolute performance and pay out after three years (while varying with total fund return). The other 60% is allocated to time-vested deferred fund units that vest one-third per year over three years (while varying with total fund return).

	% of target total compensation		
	Base salary	Short-term incentive	Long-term incentive
President and CEO	20	32	48
Senior Vice Presidents in Asset Classes	22	39	39

Fiscal 2020 results: performance outcomes and compensation decisions (ending March 31, 2020)

Our compensation program includes two key investment performance elements:

1. The absolute total fund performance measured against the return objective over a rolling 7-year period
2. The relative performance of the total fund and major asset classes measured against their respective benchmarks over a rolling 5-year period

Absolute total fund performance

Since fiscal year 2014, PSP Investments has generated a net return on investment of 8.4% per annum, which is higher than the long-term return objective.

Relative total fund and asset class performance

Long-term value creation is often a function of the ability to consistently deliver investment returns above a defined benchmark. For fiscal year 2020, our 5-year relative investment performance for the purpose of compensation is summarized in relation to each sector's respective target, as follows:

INVESTMENT SECTOR	5-YEAR RELATIVE INVESTMENT PERFORMANCE[1]
Total Fund	Above target, but below maximum
Active Fixed Income	Above threshold, but below target
Credit Investments[2]	Exceeded maximum
Infrastructure	Exceeded maximum
Natural Resources	Exceeded maximum
Private Equity	Below threshold
Public Markets and Absolute Return Strategies	Above threshold, but below target
Real Estate	Exceeded maximum

[1] Threshold refers to the performance required to achieve the performance multiplier above 0.0x. Target refers to the excess performance required to achieve the target performance multiplier of 1.0x. Maximum refers to the excess performance required to achieve the maximum performance multiplier of 1.5x.

[2] Asset class created in fiscal year 2016. From inception date of December 11, 2015.

Compensation decisions made in fiscal year 2020

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

For fiscal year 2020, the President and CEO's personal objectives—in addition to superior investment performance—were aligned with PSP Investments' strategy, mission and values, including:

- One PSP
- Branding
- Global footprint
- Scalability and efficiency
- Develop our talent

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

Compensation disclosure

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

The following tables illustrate NEOs selected and ranked by grant value in fiscal year 2020 whereby deferred cash awards continue to be subject to varying with total fund return for up to three more years. The total compensation payout value received in fiscal year 2020 including the values payable from prior year's deferred awards, is also illustrated and includes cash received from former plans, new plans and any transitional arrangements.

Total direct compensation (grant value)

	Base salary[1]	Annual cash	Deferred cash (grant)	Restricted fund unit (grant)	Total direct compensation (grant)[2]
Neil Cunningham[3]	503,846	1,205,200	1,807,800	0	3,516,846
David J. Scudellari[4]	453,462	1,249,855	1,249,855	0	2,953,172
Guthrie Stewart[3]	352,692	933,223	933,223	0	2,219,138
Eduard van Gelderen[3,5]	403,077	743,173	743,173	300,000	2,189,423
Darren Baccus[3]	327,500	794,352	794,352	0	1,916,204
Anik Lanthier[3,6]	352,692	680,167	680,167	0	1,713,026

1 Represents base salary earned during fiscal year 2020 which included 26.2 pay periods versus the standard 26 pay periods.
2 Total direct compensation granted includes annual cash, deferred cash and RFU earned for fiscal year 2020.
3 All amounts reported in CAD.
4 All amounts reported in USD.
5 Mr. van Gelderen was hired on July 30, 2018. Mr. van Gelderen was awarded an RFU grant for fiscal year 2020.
6 For fiscal year 2020, Ms. Lanthier ranked sixth NEO with regards to grant value and fourth NEO with regards to payout value.

Total direct compensation (payout value)

	Base salary[1]	Annual cash	Deferred cash / LTIP (payout of previous grants)	Restricted fund unit (payout of previous grant)	Total direct compensation (payout)
Neil Cunningham[2]	503,846	1,205,200	1,395,161	0	3,104,207
David J. Scudellari[3]	453,462	1,249,855	491,483	0	2,194,800
Guthrie Stewart[2]	352,692	933,223	1,348,380	0	2,634,295
Eduard van Gelderen[2,4]	403,077	743,173	80,671	170,447	1,397,368
Darren Baccus[2]	327,500	794,352	230,679	0	1,352,531
Anik Lanthier[2,5]	352,692	680,167	1,123,014	0	2,155,873

1 Represents base salary earned during fiscal year 2020 which included 26.2 pay periods versus the standard 26 pay periods.
2 All amounts reported in CAD.
3 All amounts reported in USD.
4 Mr. van Gelderen was hired on July 30, 2018. Mr. van Gelderen was awarded an RFU grant of 200,000 for fiscal year 2019 as part of his employment agreement.
5 For fiscal year 2020, Ms. Lanthier ranked sixth NEO with regards to grant value and fourth NEO with regards to payout value.

Comprehensive fiscal year 2020 total compensation

	Fiscal year	Base salary[1] (A)	STIP / Annual cash payout (B)	Deferred cash / LTIP grant (C)	Sub-total compensation (grant value) (A+B+C)	Restricted fund unit / Special cash grants (D)	Pension and SERP Plans (E)	**Total compensation (grant value) (A+B+C+D+E)**	Other compensation[2] (F)	Deferred cash + LTIP + RFU payout (G)	**Total compensation (payout value) (A+B+F+G)**
Neil Cunningham[3] President and Chief Executive Officer	2020	503,846	1,205,200	1,807,800	3,516,846	0	123,000	**3,639,846**	45,409	1,395,161	**3,149,616**
	2019	500,000	1,211,520	1,817,280	3,528,800	0	364,400	**3,893,200**	44,871	1,416,959	**3,173,350**
	2018	371,923	1,068,636	1,164,801	2,605,360	0	85,000	**2,690,360**	32,147	1,331,872	**2,804,578**
David J. Scudellari[4] Senior Vice President and Global Head of Credit Investments	2020	453,462	1,249,855	1,249,855	2,953,172	0	18,769	**2,971,941**	30,895	491,483	**2,225,695**
	2019	450,000	1,294,453	1,294,453	3,038,906	0	19,885	**3,058,791**	26,484	345,897	**2,116,834**
	2018	350,000	1,098,672	1,098,672	2,547,344	675,000	18,077	**3,240,421**	698,487	103,163	**2,250,322**
Guthrie Stewart[3] Senior Vice President and Global Head of Private Investments	2020	352,692	933,223	933,223	2,219,138	0	24,500	**2,243,638**	34,333	1,348,380	**2,668,628**
	2019	350,000	950,355	950,355	2,250,710	0	23,155	**2,273,865**	32,366	868,381	**2,201,102**
	2018	350,000	1,000,213	1,000,213	2,350,426	0	17,500	**2,367,926**	31,576	628,318	**2,010,107**
Eduard van Gelderen[3,5] Senior Vice President and Chief Investment Officer	2020	403,077	743,173	743,173	1,889,423	300,000	20,000	**2,209,423**	34,689	251,118	**1,432,057**
	2019	269,231	405,650	405,650	1,080,531	260,000	13,463	**1,353,994**	82,953	71,415	**829,249**
	2018	0	0	0	0	0	0	**0**	0	0	**0**
Darren Baccus[3,6] Senior Vice President and Global Head of Real Estate and Natural Resources	2020	327,500	794,352	794,352	1,916,204	0	23,491	**1,939,695**	35,296	230,679	**1,387,827**
	2019	325,000	477,852	477,852	1,280,704	114,488	22,750	**1,417,942**	148,706	82,660	**1,034,218**
	2018	325,000	301,617	301,617	928,234	500,000	22,750	**1,450,984**	531,911	16,841	**1,175,369**
Anik Lanthier[3] Senior Vice President, Public Markets and Absolute Return Strategies	2020	352,692	680,167	680,167	1,713,026	0	33,500	**1,746,526**	33,363	1,123,014	**2,189,236**
	2019	350,000	876,549	876,549	2,103,098	0	114,300	**2,217,398**	30,948	1,127,276	**2,384,773**
	2018	335,000	925,396	925,395	2,185,791	0	142,100	**2,327,891**	28,295	632,412	**1,921,103**

1 For fiscal year 2020, represents base salary earned which included 26.2 pay periods versus the standard 26 pay periods.

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

3 All amounts reported in CAD.

4 All amounts reported in USD.

5 Mr. van Gelderen was hired on July 30, 2018. Mr. van Gelderen received a special cash grant of 60,000 for fiscal year 2019, which is included as part of "Other compensation".

6 Mr. Baccus was hired on December 1, 2016. Pursuant to his employment agreement, Mr. Baccus was entitled to a guaranteed annual cash compensation of no less than 700,000 for fiscal year 2018, and a discretionary cash bonus for fiscal year 2018 and 2019, which are included as part of "Other compensation". Mr. Baccus was appointed Senior Vice President and Global Head of Real Estate and Natural Resources on November 1, 2018. Compensation components such as annual cash and deferred cash reflect his tenure as former Senior Vice President and Chief Legal Officer up to October 31, 2018.

Long-term incentives granted

The following table shows the estimated future payouts of long-term incentive awards granted to PSP Investments' NEOs for fiscal year 2020 (ended March 31, 2020).

	Award type	Fiscal year 2020 grant	Vesting period	Estimated future payouts		
				FY2021	FY2022	FY2023
Neil Cunningham[2]	Deferred cash[1]	1,807,800	3 years	301,300	301,300	1,205,200
	RFU	0	3 years	0	0	0
David J. Scudellari[3]	Deferred cash[1]	1,249,855	3 years	249,971	249,971	749,913
	RFU	0	3 years	0	0	0
Guthrie Stewart[2]	Deferred cash[1]	933,223	3 years	186,645	186,645	559,933
	RFU	0	3 years	0	0	0
Eduard van Gelderen[2]	Deferred cash[1]	743,173	3 years	148,635	148,635	445,903
	RFU	300,000	3 years	100,000	100,000	0
Darren Baccus[2]	Deferred cash[1]	794,352	3 years	158,870	158,870	476,612
	RFU	0	3 years	0	0	0
Anik Lanthier[2]	Deferred cash[1]	680,167	3 years	136,033	136,033	408,101
	RFU	0	3 years	0	0	0

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

[2] All amounts reported in CAD.

[3] All amounts reported in USD.

Long-term incentives cumulative value

The total cumulative value of all long-term incentive awards granted but not yet vested or paid to PSP Investments' NEOs (as at March 31, 2020) is shown in the following table.

	Plan	Awards paying out at the end of fiscal year			Total
		2021	2022	2023	
Neil Cunningham[2]	Deferred cash[1]	1,322,294	1,512,820	1,205,200	4,040,314
	RFU	0	0	0	0
	TOTAL	**1,322,294**	**1,512,820**	**1,205,200**	**4,040,314**
David J. Scudellari[3]	Deferred cash[1]	1,168,065	1,026,643	749,913	2,944,621
	RFU	0	0	0	0
	TOTAL	**1,168,065**	**1,026,643**	**749,913**	**2,944,621**
Guthrie Stewart[2]	Deferred cash[1]	976,843	756,858	559,934	2,293,635
	RFU	0	0	0	0
	TOTAL	**976,843**	**756,858**	**559,934**	**2,293,635**
Eduard van Gelderen[2]	Deferred cash[1]	229,765	392,025	445,904	1,067,694
	RFU	166,667	100,000	0	266,667
	TOTAL	**396,432**	**492,025**	**445,904**	**1,334,361**
Darren Baccus[2]	Deferred cash[1]	435,411	445,582	476,611	1,357,604
	RFU	0	0	0	0
	TOTAL	**435,411**	**445,582**	**476,611**	**1,357,604**
Anik Lanthier[2]	Deferred cash[1]	768,489	711,009	555,237	2,034,735
	RFU	0	0	0	0
	TOTAL	**768,489**	**711,009**	**555,237**	**2,034,735**

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

[2] All amounts reported in CAD.

[3] All amounts reported in USD.

Retirement benefits

Defined contribution pension plan (Canada) and Safe Harbor 401(k) plan (United States)

	Plan type	Accumulated value at beginning of year	Compensatory increase[1]	Non-compensatory increase[2]	Accumulated value at year end
All amounts reported are in USD					
David J. Scudellari	Safe Harbor 401(k)	158,049	18,769	18,133	194,951
All amounts reported are in CAD					
Guthrie Stewart	Defined Contribution	148,927	24,500	20,476	193,903
Eduard van Gelderen	Defined Contribution	28,301	20,000	15,898	64,199
Darren Baccus	Defined Contribution	114,517	23,491	12,559	150,567

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

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

Defined benefit pension plan (Canada)

	Number of years of credited service[1]	Annual benefit		Accrued obligation at beginning of year[2,4]	Compensatory increase[5]	Non-compensatory increase[6]	Accrued obligation at year end[2,7]
		At year end[2]	At age 65[2,3]				
Neil Cunningham	12.4	110,200	144,300	1,625,500	123,000	541,900	2,290,400
Anik Lanthier	13.9	94,800	220,800	1,392,400	33,500	469,900	1,895,800

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

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

3 For the purpose of calculating the annual benefits payable at age 65, the final average earnings are calculated as at March 31, 2020.

4 Accrued obligation using a discount rate of 4.00%. The obligations are calculated as at March 31, 2019, using the assumptions and methods that were used for the accounting disclosures as at December 31, 2018.

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

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

7 Accrued obligation using a discount rate of 3.19%. The obligations are calculated as at March 31, 2020, using the assumptions and methods that were used for the accounting disclosures as at December 31, 2019.

Post-employment policies

Pursuant to his employment agreement, in the event of dismissal other than for "cause", the President and CEO's severance pay is set at 24 months of base salary at the time of departure plus the annual cash portion of his target incentive, in addition to 60,000 dollars which is equivalent to 24 months of perquisites. Severance pay also includes continuous coverage under the group insurance plan for up to 24 months, with the exception of disability coverage, accidental death and dismemberment, as well as other optional coverage.

For senior vice presidents, severance pay is set at 12 months of base salary at the time of departure plus the annual cash portion of the target incentive. One month of base salary plus the annual cash portion of the target incentive is added for each completed year of service, up to a total maximum of 18 months. Severance pay also includes continuous group insurance coverage, such as health care, dental and life insurance for up to 18 months.

In the event of a voluntary departure, no severance amounts are payable to the President and CEO or to senior vice presidents.

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

	Years of service[1]	Severance	Resignation
Neil Cunningham[2]	15.8	2,660,000	0
David J. Scudellari[3]	4.4	1,650,000	0
Guthrie Stewart[2]	4.6	1,283,333	0
Eduard van Gelderen[2]	1.7	975,000	0
Darren Baccus[2]	3.3	1,117,188	0
Anik Lanthier[2]	13.9	1,443,750	0

[1] Assumes a notional termination as at March 31, 2020.
[2] All amounts reported in CAD.
[3] All amounts reported in USD.

Directors' biographies

Martin Glynn

Chair of the Board

Board member since
January 30, 2014

Committee Membership:
Investment and Risk Committee

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

Maryse Bertrand

Board member since
September 7, 2018

Committee Membership:
Governance Committee
Human Resources and Compensation Committee
Investment and Risk Committee

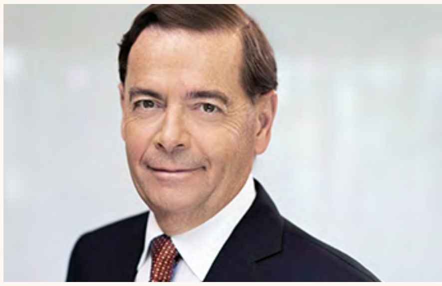
Maryse Bertrand is a Board member at the National Bank of Canada, Gildan Activewear Inc. and Metro Inc. and the Vice-Chair of the Board of McGill University. She is a former director of the Caisse de dépôt et placement du Québec. She was Strategic advisor and special counsel to Borden Ladner Gervais S.E.N.C., s.r.l., and a Vice-president, Real Estate Services, Legal Services and General-counsel at CBC/Radio-Canada. Prior to 2009, she was a partner of Davies Ward Phillips and Vineberg S.E.N.C., s.r.l., where she specialized in M&A and Corporate Finance and where she served on the National Management Committee of the firm. She was named as Advocatus emeritus (Ad. E.) in 2007 by the Québec Bar in recognition of her exceptional contribution to the legal profession. Ms. Bertrand has a law degree (with high distinction) from McGill University and a Master in Risk Management from New York University, Stern School of Business.

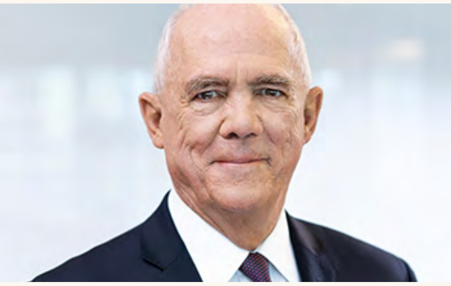
Micheline Bouchard

Board member since
September 29, 2011

Committee Membership:
Governance Committee
Human Resources and Compensation Committee
Investment and Risk Committee

Micheline Bouchard is a member of the Board of Directors of the Canada Foundation for Innovation. She has extensive experience as a director with public and private companies and volunteer boards. Past board memberships include TELUS Corporation, Banque Nationale de Paris, Ford Motor Company of Canada, London Insurance Group Inc. and Harry Winston. Ms. Bouchard was Global Corporate Vice President of Motorola, Inc. in the US after having served as President and CEO of Motorola, Inc. (Canada). She holds a BSc (Engineering Physics) and an MASc (Electrical Engineering) from École Polytechnique, a school affiliated with the Université de Montréal. She has been awarded five honourary doctorates from Canadian universities and been named one of the top 100 of Canada's Most Powerful Women (2015) and received the Grand Prix d'excellence of the Order of Engineers of Québec, the highest distinction of the profession. Ms. Bouchard is a Member of the Order of Canada and of the Ordre national du Québec, and a Certified Member of the Institute of Corporate Directors.





David C. Court

Board member since
October 30, 2018

Committee Membership:
Audit Committee
Investment and Risk Committee

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

Léon Courville

Board member since
March 5, 2007

Committee Membership:
Governance Committee
Human Resources and Compensation Committee
Investment and Risk Committee

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

Garnet Garven

Board member since
September 29, 2011

Committee Membership
Governance Committee – Chair
Audit Committee
Investment and Risk Committee

Garnet Garven is Dean Emeritus of the Paul J. Hill School of Business and the Kenneth Levene Graduate School of Business at the University of Regina. He is a Management Board member of the Pension Budget Reserve Fund at the Organization for Economic Cooperation and Development (OECD) in Paris and Chair of the Investment Committee of Western Surety Company. He was a Senior Fellow at Canada's Public Policy Forum and has served as Deputy Minister to the Premier of Saskatchewan and Cabinet Secretary. He holds a B.Admin. from the University of Regina, an MBA (Finance) from the University of Saskatchewan and an Honorary CPA. Mr. Garven was a Research Fellow in Corporate Governance at the Ivey Business School, Western University. He was a founding Director of Greystone Managed Investments, former Chair and CEO of the Saskatchewan Workers' Compensation Board and recently served on Canada's Accounting Standards Board.

Lynn Haight

Board member since
January 14, 2010

Committee Membership
Audit Committee
Governance Committee
Investment and Risk Committee

Lynn Haight is the Chair of the Independent Audit and Oversight Committee of the United Nations High Commission for Refugees in Geneva, and a member of the Board of Green Shield Canada and of the independent Advisory Board of UNESCO. She recently concluded her term as Chair of the Consortium Board of the Consultative Group of International Agricultural Research Centers in Washington. Ms. Haight sits on the Board of the Somerville College Foundation at the University of Oxford. She was previously COO and CFO of the Foresters International Insurance Organization, Vice President, US Fixed Annuities, and Chief Accountant of Manulife Financial Corp and Chair of the World Agroforestry Centre in Nairobi and of the Sectoral Advisory Group for business services to the Canadian Minister of International Trade. Ms. Haight holds an MA Honours from the University of Oxford. She is a Fellow of the Chartered Professional Accountants of Canada and of the Institute of Chartered Accountants in England and Wales. She is also a Certified Corporate Director.

Timothy E. Hodgson

Board member since
December 17, 2013

Committee Membership
Investment and Risk Committee – Chair
Human Resources and Compensation Committee

Timothy E. Hodgson is Chair of the board of Hydro One and of Sagicor Financial Company Ltd. He is a former Managing Partner of Alignvest Management Corporation and he was Special Advisor to Bank of Canada Governor Mark Carney from 2010 to 2012. Mr. Hodgson spent much of his early career with Goldman Sachs Group, Inc. and served as CEO at Goldman Sachs Canada, Inc. from 2005 to 2010. He has previously served on the boards of directors of MEG Energy Corporation, the Global Risk Institute, KGS-Alpha Capital Markets, Bridgepoint Health, The Richard Ivey School of Business and NEXT Canada. Mr. Hodgson holds an MBA from Ivey Business School, and a BCom from the University of Manitoba. Mr. Hodgson obtained his CPA, CA designation in 1986 and has been named a Fellow of the Chartered Professional Accountants of Canada. He is also a member of the Institute of Corporate Directors.

Miranda C. Hubbs

Board member since
August 15, 2017

Committee Membership
Human Resources and Compensation Committee – Chair
Investment and Risk Committee

Miranda C. Hubbs is currently a Director of Nutrien Ltd., Imperial Oil and Canadian Red Cross. She has previously served on the boards of directors of Agrium Inc. and Spectra Energy Corp. She is a founding member and National Co-Chair of the Canadian Red Cross Tiffany Circle-Women Leading Through Philanthropy. Ms. Hubbs holds a BSc from Western University and an MBA from Schulich School of Business at York University. She is a CFA charter holder and a National Association of Corporate Directors Governance Fellow. Prior to her retirement in 2011, Ms. Hubbs was Executive Vice President and Managing Director of McLean Budden Limited, one of Canada's largest institutional asset managers. She also worked as an energy research analyst and investment banker with Gordon Capital Corporation, a large Canadian brokerage firm.

Katherine Lee

Board member since
June 25, 2018

Committee Membership
Audit Committee
Investment and Risk Committee

Katherine Lee is currently a Corporate Director of BCE Inc. and Colliers International Group. She was the President and CEO of GE Capital Canada (a leading global provider of financial and fleet management solutions to mid-market companies operating in a broad range of economic sectors). Prior to this role, Ms. Lee served as CEO of GE Capital Real Estate in Canada from 2002 to 2010, building it to a full debt and equity operating company. Ms. Lee joined GE in 1994, where she held a number of positions, including Director, Mergers & Acquisitions for GE Capital's Pension Fund Advisory Services based in San Francisco, and Managing Director of GE Capital Real Estate Korea based in Seoul and Tokyo. Ms. Lee earned a Bachelor of Commerce degree from the University of Toronto. She is a Chartered Professional Accountant and Chartered Accountant. She is active in the community, championing women's networks and Asia-Pacific forums.

William A. MacKinnon

Board member since
January 14, 2010

Committee Membership
Audit Committee – Chair
Investment and Risk Committee

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

Consolidated 10-year financial review

($ million)	**2020**	2019	2018	2017	2016	2015	2014	2013	2012	2011
CHANGE IN NET ASSETS[1]										
Net investment income (loss)	**(500)**	11,616	13,975	15,553	1,098	13,966	12,793	7,194	1,888	7,043
Operating expenses	**551**	503	450	370	295	243	216	184	148	114
Other comprehensive income (loss)	**9**	**(3)**	(14)	(4)	4	(15)	17	–	–	–
Comprehensive income (loss)	**(1,042)**	11,110	13,511	15,179	807	13,708	12,594	7,010	1,740	6,929
Fund transfers	**2,871**	3,749	3,921	3,622	3,987	4,554	4,997	4,635	4,733	4,814
Increase (decrease) in net assets	**1,829**	14,859	17,432	18,801	4,794	18,262	17,591	11,645	6,473	11,743
NET ASSETS UNDER MANAGEMENT										
Equity										
Public Market Equities[2]	**48,368**	51,035	51,813	55,227	47,511	56,276	49,466	40,165	32,950	32,834
Private Equity	**24,038**	23,539	19,382	15,868	12,520	10,103	8,425	6,924	6,444	5,582
Government Fixed Income[3]	**33,388**	34,389	27,783	24,043	24,603	22,646	18,383	15,433	14,144	11,956
Credit	**13,295**	10,475	8,857	4,418	640	–	–	–	–	–
Real Assets										
Real Estate[4]	**23,817**	23,538	23,245	20,551	20,356	14,377	10,650	9,427	7,055	5,312
Infrastructure	**18,302**	16,818	14,972	11,149	8,701	7,080	6,011	3,854	3,607	2,356
Natural Resources	**7,645**	6,759	4,833	3,711	2,470	1,536	795	382	325	–
Complementary Portfolio	**945**	1,426	2,201	656	–	–	–	–	–	–
Net AUM	**169,798**	**167,979**	**153,086**	**135,623**	**116,801**	**112,018**	**93,730**	**76,185**	**64,525**	**58,040**
PERFORMANCE (%)										
Annual rate of return (net of expenses)	**(0.6)**	**7.1**	**9.8**	**12.8**	**0.7**	**14.2**	**15.9**	**10.3**	**2.6**	**14.1**
Benchmark	(1.6)	7.2	8.7	11.9	0.3	13.1	13.9	8.6	1.6	12.7

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

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

3 Includes Cash & Cash Equivalents.

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

investpsp.com

Business offices

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

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

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

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

Head office

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

info@investpsp.ca