PSP

Think. Act. Globally.

Public Sector Pension Investment Board
—2019 Annual Report

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

— Who we are

The Public Sector Pension Investment Board (PSP Investments or PSP) is one of Canada's largest pension investment managers, with $168.0 billion of net assets under management as of March 31, 2019. Our head office is located in Ottawa and our highly-skilled and diverse team of more than 800 professionals works from offices in Montréal, New York, London and Hong Kong.

— What we do

PSP Investments' mandate is to manage the amounts transferred to it by the Government of Canada (the Government) for the funding of retirement 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). 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.

Cover photo, from left: Diane Jobin, Administrative Assistant, Private Equity; Sumita Banerjee, Director, Global Investment Partnerships Portfolio; Alexandre Gagnon-Kugler, Senior Director, Fundamental Equity Strategies, Energy, Transportation & Utilities, Global Equity Research; Éric Beaudoin, Senior IT Architect, Architecture, Practices and Technologies

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

Table of contents

We spot the edge worldwide

PSP has grown to become an agile and sought-after enabler of complex, global investments, and an investor and manager of a $168.0 billion portfolio. The stability of PSP Investments' return over the last years notably reflects the level of diversification embedded in the Policy Portfolio across different asset classes and geographies.

Today, we're a diverse team of international experts. Our global footprint and scope enable us to attract top talent who share our passion for pushing boundaries in pursuit of excellence—and of investment opportunities otherwise unseen.

The world in our sights

As a pension fund investment manager, PSP invests and manages assets to help meet pension obligations decades into the future. The expansion of our global footprint is key to fulfilling our long-term mandate for the benefit of the contributors and beneficiaries of the pension plans for which we invest.

Our “global” strategy is fundamental to our ability to spot the edge in investments worldwide to which we would otherwise not have access. It is also an essential component of the diversification and growth of our portfolio into private asset classes generating long-term returns—in line with our long-term outlook.

By setting up offices in strategic financial markets, we build our network of partners, strengthen local relationships, gain exceptional insight, and position ourselves to move quickly on opportunities. We have learned that combining new talent with existing PSP employees from other locations is a winning formula for instilling our uniquely connected One PSP approach and accelerating each new office’s ability to bring our edge to bear.

5
offices

75+
countries

Ottawa

Montréal

New York

London

Global connections, unique advantage

The diversity of our talent, assets and geographies leads to a continuous flow of opportunities to liaise with existing and potential partners and ultimately, to make profitable, long-term investments.

Today, PSP has talent hubs in New York, London and Hong Kong, with professionals who invest together with their Montréal colleagues in more than 75 sectors and 75 countries. Our people look to invest directly in companies or with like-minded partners in high-performing industries and innovative enterprises that are generally leaders in their sectors. At the heart of our approach are mutually beneficial, long-term relationships with other investors that continue to open up opportunities to generate sizeable international investments in growth sectors such as airports, agriculture, renewables and toll roads.

Our offices, people and portfolio make us **global.**

— Communications
— Materials
— Technology
— Timber
— Agriculture
— Health care
— Industrial
— Consumer discretionary

75
sectors and industries

— Energy
— Consumer staples
— Financials
— Utilities
— Residential/retirement
— Offices
— Retail
— Debt

Financial highlights

— Fiscal year 2019

7.1%

Total fund 1-year net portfolio return

8.8%

5-year net annualized return

10.7%

10-year net annualized return

$48.8 Billion

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

$90.1 Billion

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

$18.8 Billion

in new investments and commitments to Private Markets and Private Debt

— Fiscal year 2019

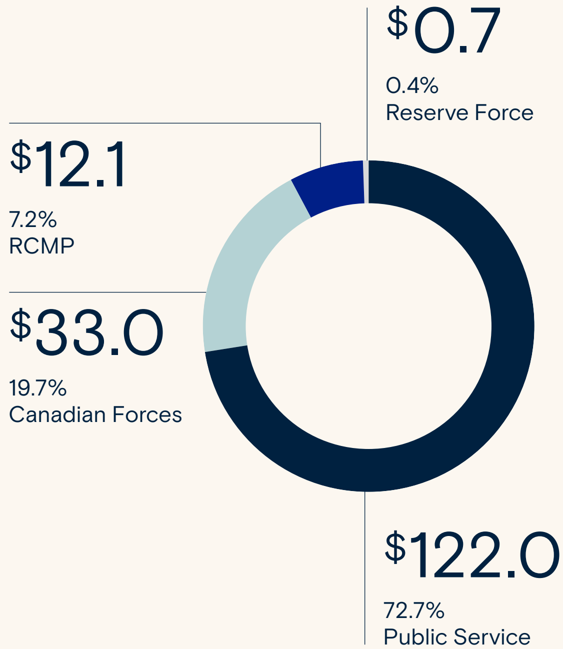
$168.0 Billion Net AUM

$3.7 Billion Net contributions

9.7%

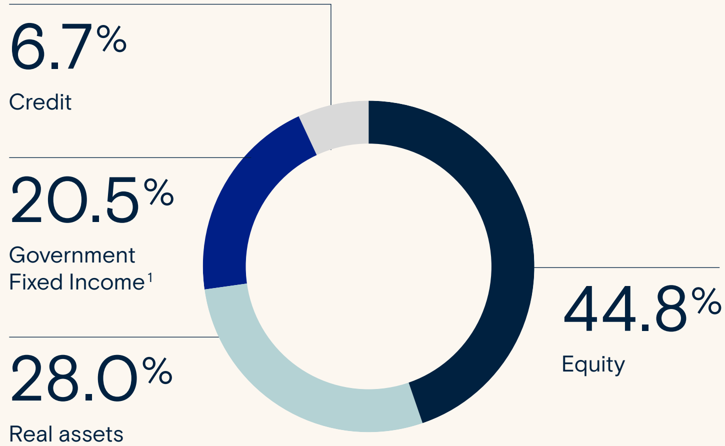
Increase in net AUM

[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.



Net assets per pension plan account

As at March 31, 2019
$ billion



Asset mix

As at March 31, 2019

[1] Includes Cash and Cash Equivalents.

Financial highlights

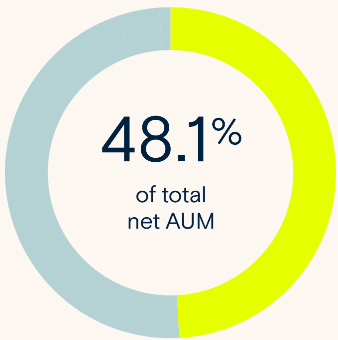
— Fiscal year 2019

Public Markets[1]

$80.8 Billion Net AUM

4.6%
1-year rate of return

8.0%
5-year annualized return

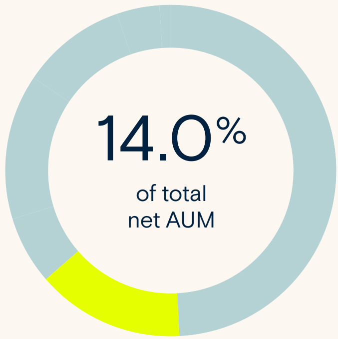


Private Equity

$23.5 Billion Net AUM

16.1%
1-year rate of return

7.9%
5-year annualized return

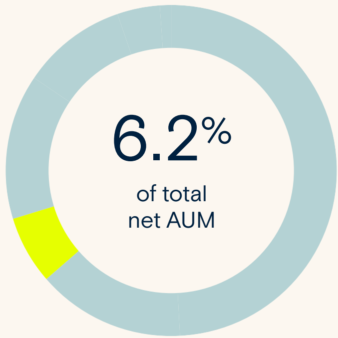


Private Debt

$10.5 Billion Net AUM

9.2%
1-year rate of return

14.2%
Since inception annualized return (3.3 years)



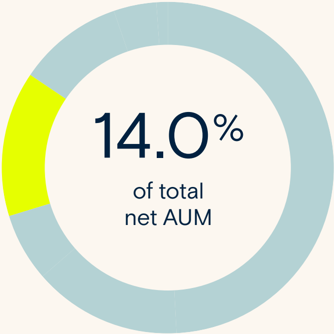
[1] Includes Public Market Equities and Government Fixed Income (excludes Cash and Cash Equivalents).
Net AUM denotes net assets under management.

Real Estate

$23.5 Billion Net AUM

7.6% 1-year rate of return

11.8% 5-year annualized return

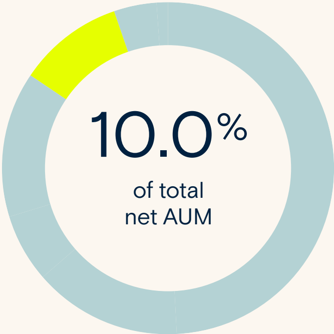


Infrastructure

$16.8 Billion Net AUM

7.1% 1-year rate of return

12.7% 5-year annualized return

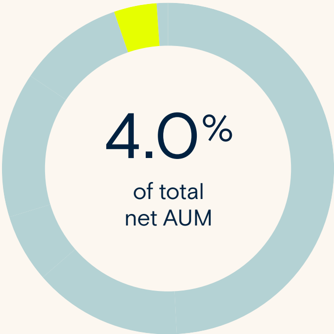


Natural Resources

$6.8 Billion Net AUM

11.1% 1-year rate of return

12.0% 5-year annualized return

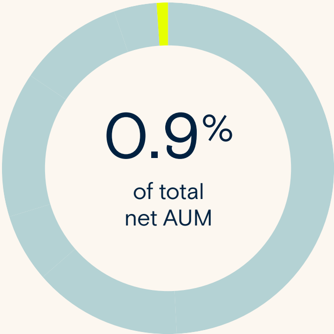


Complementary Portfolio

$1.4 Billion Net AUM

0.04% 1-year rate of return

15.6% Since inception annualized return (2.2 years)



The Complementary Portfolio was introduced in fiscal year 2017 to capture investment opportunities that do not fit within an existing asset class but are deemed beneficial for the total fund.

Net AUM denotes net assets under management.

Leveraging our edge

PSP Investments has grown to $168.0 billion in net assets under management at the end of fiscal year 2019, and is on track to reach over $250.0 billion of assets under management by 2028.

The strategy outlined in our Vision 2021 plan, launched in 2016, has supported our growth. We have dramatically scaled our investment strategies and capabilities and added new asset classes. We have also expanded our global footprint, adding three international offices to support a more global portfolio.

From an operational perspective, we have strengthened our foundation by implementing new capabilities and processes across every group to support the increased volume and complexity of transactions and related reporting. We have also repositioned our brand locally and internationally, and developed new talent strategies to accelerate our ability to attract and develop diverse global teams.

Vision 2021 accomplishments

One PSP

We implemented a total fund approach to our investment strategies, decision-making processes and risk management, while maintaining the entrepreneurial and agile culture that has historically propelled us forward.

Branding

We deployed our new branding—*Spot the edge*—across multiple platforms, positioning PSP as an employer, partner and investor of choice.

Global footprint

We now have talent hubs in New York, London and Hong Kong, in addition to our main business office in Montréal and our headquarters in Ottawa.

Scalability and efficiency

We seized opportunities to invest at scale worldwide and enhanced our operational capabilities to support our agility in executing complex transactions.

Develop our talent

We designed a Talent Value Proposition to attract, develop, reward and retain the right mix of resources worldwide. Our employee experience enables all of our people to learn and grow, embrace diversity and act collaboratively as One PSP, wherever they work in the world.

Looking forward to fiscal year 2020

We have set four priorities for the upcoming fiscal year in support of our continued evolution as a global leader among institutional investors and our progress toward our Vision 2021 goals.

Total fund strategy and management

With asset classes at allocation, it becomes increasingly important to manage our portfolio from a total fund perspective. We will launch several initiatives to enhance our decision-making at a total fund level and evolve our overall portfolio construction.

Asia

While we already had significant investments in Asia, our Hong Kong office will further enhance our exposure in the region, help develop our local network and deepen our understanding of local market forces.

Operational efficiency

After implementing several systems to support PSP's efficiency and growth over the last three years, we will focus on fully integrating and stabilizing these new systems, and improving and streamlining key operational processes.

Development and retention

With the rapid growth of our talent base, we are now focusing on development by strengthening our leadership pipeline and continuing employee engagement initiatives.

Thinking alike, and differently

Recognizing that our diversity and talent hubs in Montréal, London, New York and now Hong Kong are key to our success on the global stage, we have made inclusion and diversity (i&D) a leadership commitment.

We value and leverage our differences—whether in culture, background, experience, abilities, knowledge, language, education, or even our approach to problem solving. We believe that when everybody is included and can share their different points of view and ideas, it leads to better decisions and more creative solutions, and ultimately helps us realize the full potential of our ambitions.

Thriving on diversity

Every story matters

PSP's i&D Council, which is co-chaired by our President and CEO and Chief Human Resources Officer, oversees the efforts of eight affinity groups. Each of these volunteer networks organized at least one major activity for all PSP employees in fiscal year 2019, leveraging technology to include employees from our international offices.

Among the highlights:

Cultural and religious background

A guest speaker spoke about enabling impact through cultural fluency, which starts with being curious and learning about colleagues' stories and views.

Diversity of thought

Two workshops for managers focused on how to optimize diversity of thought within their teams to trigger innovation. Articles were also published internally to highlight the diverse backgrounds of individual employees.

Gender dynamics

Two unique sessions were aimed at empowering women—a London networking event for junior women in finance and a Montréal "Taking Charge of my Career" event that included a panel discussion featuring PSP women board members and senior executives, as well as male allies.

Indigenous people

Employees in Montréal immersed themselves in the world of Indigenous art, and its historical significance, through a private viewing and guided tour. An entire floor of the office is now dedicated to Indigenous art.

LGBTQ+

We went all in on LGBTQ+ Pride Month activities, with employees proudly showing their support by displaying "Ally" rainbow-coloured stickers and turning up *en masse* for panel discussions and talks. We also marked the occasion through our social media channels.

Multigenerational

We kicked off Gen³, a mentorship initiative that brings together three generations of employees: baby boomers, Generation X and millennials. Employees are paired with a Gen³ colleague for a three-month period, meeting on at least three occasions.

People with disabilities

At our first mental health roundtable, a guest speaker discussed the importance of dialogue and understanding on the path to treatment of mental health issues, and one of our employees gave a personal account of the issues he has faced.

Veterans

On Remembrance Day, this group made a donation to the Royal Canadian Legion, distributed poppies and created a video in which PSP's ex-servicemen and women shared their experiences transitioning to civilian life.

Proud members of PSP's LGBTQ+ affinity group
From left:

David Ouellet, François Lachance, Valérie Bergeron, Sarah Cavanagh, Nelvana Pyaneandee, and Marie-Andrée Dupuis. Absent from the photo: Frances Lesar and Catherine Gaudreau.

— 1

Claudio Marzano, an art consultant with the Canada Council Art Bank, captivated more than 100 Montréal employees during a guided tour focused on the art and history of Canada's Indigenous Peoples.

— 2

Our London office invited 60 junior women investment bankers to a panel discussion on the importance of building an effective network in the finance industry.

From left: Lauren Chung, Manager, Private Equity; Audinga Besusparyte, Senior Director, Private Equity; Simon Marc, Managing Director and Head of Private Equity; Alex Monro, Office Manager.

— 3

The "Taking charge of my career" event in Montréal featured rewarding discussions about diversity and the careers of different women from across our offices.

Brewing business opportunities

PSP's diversity generates business opportunities that might otherwise never come our way. This happens across all of our asset classes and was especially true for the Natural Resources team in fiscal year 2019.

The opportunity to invest in Grupo Montesanto Tavares (GMT), the fourth-largest coffee producer in Brazil, was brought to us by one of our employees, Fernando Furtini. A Brazilian who decided to pursue an MBA at McGill University in Montréal after 10 years of working in the financial sector in South America, Fernando subsequently joined PSP and became a director with our Natural Resources team. Drawing on his South American experience and connections, he was able to introduce us to Ricardo Tavares, founding partner of GMT.

In June 2018, PSP bought a significant stake in GMT, which sells high-grade coffee beans to several world-renowned brands. We have since injected additional funds into the company to support its vision of becoming the largest coffee producer in Brazil. GMT's farms are 1,000 times larger than the average coffee farm. They are located in the highlands of southeast Brazil, a region recognized for producing top-quality beans suitable for higher-margin specialty coffees and where the flat land enables mechanical harvesting. What's more, all of the farms are Rainforest Alliance certified and strongly connected to the community.

GMT exemplifies the type of companies we want to invest in: well-managed market leaders with room to grow. It's also representative of how PSP benefits from our rich diversity of backgrounds, perspectives and experience.

From left: Fernando Furtini, Director, Natural Resources; Ricardo Tavares–Founder and Chairman of GMT; Ronaldo Pena–Head of Farming of GMT Farms; Leonardo Tavares–CEO of GMT Farms; Sven Olsson–Partner at IF Consultant (financial advisor of GMT in the transaction); Marc Drouin, Managing Director and Head of Natural Resources; Christian Bonneau, Senior Director, Natural Resources.

Cultivating an inclusive mindset

Inclusion at PSP is about cultivating conditions where every person feels valued and can contribute in their unique, meaningful way to creating better solutions. It's a goal for our workplace and a mindset we take to our investments.

In December 2018, Mahi Pono, a farming venture between PSP and Pomona Farming, purchased 41,000 acres of former sugarcane lands on the island of Maui. A critical step in the approach taken by Mahi Pono (which means "to farm or cultivate morally and properly") was reaching out to community stakeholders so their needs and priorities could be incorporated into a land use plan. This led to a plan that envisions multiple crops, with a focus on local consumption, and up to 100 acres being set aside for local farmers who will be able to grow crops and sell their produce at an on-site farmers' market.

By strengthening and diversifying Maui's agriculture industry, addressing community priorities, and protecting and enhancing the value of PSP's investment over the long term, the deal promises to be a win-win for all involved.

For more information on the environmental, social and governance aspects of our activities in Brazil and Hawaii, read our 2019 Responsible Investment Report.

Members of our Natural Resources team in Maui, from left: Marc Drouin, Managing Director and Head of Natural Resources; William MacCulloch, Manager; Christian Bonneau, Senior Director.

GEN^3 experience

More than 150 people signed up for our Gen^3 mentorship initiative globally, aimed at helping people better understand what it's like to be in the shoes of someone from a different generation. To make the most of these sessions, we gave participants conversation starters based on specific themes. In London, Caroline Dickie and Frances Lesar discovered that women face similar experiences in the workplace, no matter which generation they belong to. They also realized that, because millennials are accustomed to getting instant feedback through social media, we need to think carefully about how the feedback is provided to employees.

From left: Caroline Dickie, Director, International IT Service and Frances Lesar, Senior Analyst, Real Estate Investments, from our London office.

Leading the way

Collaboration is one of six cultural levers that have been translated into specific leadership behaviours to help us live our PSP values and shape our unique culture. The emphasis is on inclusiveness, shared purpose and effective relationships.

While everyone is expected to respect one another and welcome diversity, it's incumbent on our leaders to create a culture where employees can realize their unique potential and bring their whole self to work.

Empowering women has been a key theme at our board and leadership levels. That's why we were especially proud that our Board of Directors achieved gender parity in fiscal year 2019 and we saw an increasing number of women in leadership positions across the organization.

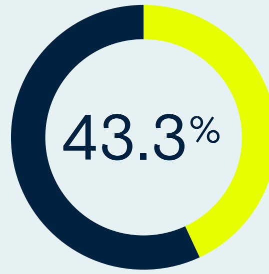
We've put in place an internship program that gives as many as 100 students a year, from diverse backgrounds and experiences, an opportunity to put into practice what they studied in the classroom. They learn from us, and we learn from them. In the summer of 2018, we hired interns in our New York office for the first time, and two of the students will be joining us full-time upon graduation in spring 2019.

PSP recognized as one of **Montréal's Top Employers** (2019)

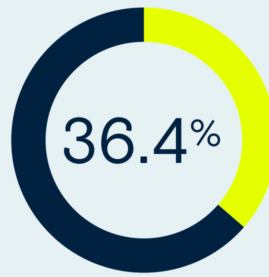
Diversity by the numbers

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

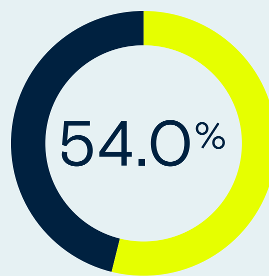
Women in total workforce



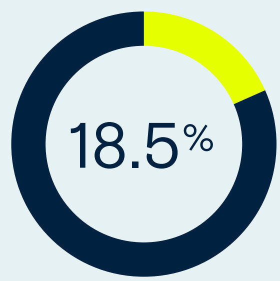
Women in senior roles



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.

A year of progress and renewal

During my first full year as Chair, I'm pleased to report that the Board worked effectively with management—providing disciplined support and oversight—as PSP Investments took significant strides, at both a performance and an operational level, toward the successful completion of its Vision 2021 strategic plan.

Although the fiscal year results were somewhat impacted by uncertainty in the markets following a strong, 10-year bull market, the Board maintains confidence in PSP's strategy for long-term value creation, as confirmed by its strong five- and 10-year returns of 8.8% and 10.7%, respectively.

Board activities

The Board of Directors is involved in determining the organization's strategic direction and is responsible for oversight and risk management, as well as the selection, performance evaluation and compensation of the President and CEO, who reports to the Board of Directors.

Following significant investments related to Vision 2021 and the growth of the portfolio, the Board supported management—under Neil Cunningham's leadership—as it steered the organization toward an enhanced cost-management approach, which will serve PSP well through global economic cycles.

We also supported PSP as it continued to expand its international capabilities. Following the successful opening of the New York and London offices, it built a strong plan for the opening of the Asia hub in Hong Kong. I'm pleased to say that the office opened in the fourth quarter of fiscal year 2019, with an operational ramp-up planned for fiscal year 2020.

Inclusion and Diversity

With the appointment of several new Directors, our Board was fully staffed and our Board renewal and goals around diversity and gender balance were enhanced. We're pleased to welcome Maryse Bertrand, Katherine Lee, and David C. Court to our Board, and we're already feeling energized by their expertise and fresh perspectives. **Learn more about them on pages 78 to 81 of this report.**

Inclusion and Diversity (i&D) is taking its rightful place as a key focus area across the organization, under Neil's guidance as co-chair of PSP's i&D Council. We are fortunate to set the tone with a Board of Directors that has achieved gender balance, to support PSP's continued growth, as it becomes an increasingly diverse—and inclusive—organization. I cannot overstate the importance of a wide variety of backgrounds, viewpoints and expertise necessary to facilitate PSP's geographic and sectoral expansion.

Talent

We supported the organization's continued efforts to attract, develop, reward and retain top-tier talent. The HR team has many innovative initiatives under way, which will no doubt further bolster PSP's reputation as one of the best places to work not just in Canada, but in the world. As such, PSP has been recognized once again as a Montréal Top Employer.

Risk Management

The Board also expanded the role of the Investment Committee to cover a broad range of risks, to become the Investment and Risk Committee, in recognition of our commitment to examine both in a balanced way. Certainly, with PSP's ongoing global expansion and increasing diversification, we must work even more closely with management to continue to ensure exacting oversight and guidance around these two pillars.

Responsible Investment

The Board works closely with the Responsible Investment (RI) group to ensure that PSP's responsible investment approach is aligned with our investment mandate and total fund perspective. Our role as a Board is to ensure that PSP proactively takes into consideration environmental, social and governance (ESG) risks and opportunities in every investment. We are pleased with the progress made on the various initiatives carried through in fiscal year 2019. **Learn more about responsible investment highlights on pages 28 to 30**.

Thank you

On behalf of the Board, I would like to thank the Governor in Council and the External Nominating Committee for their appointment of our new Board members, which brings first-rate insight and guidance to PSP. I would also like to thank all my fellow Directors for their guidance and hard work in what turned out to be a successful year.

I would like to recognize the major contributions of Diane Bean, who retired from the Board after eight years. Diane participated on several standing committees, including the Investment and Risk Committee, the Audit Committee and, finally, the Human Resources Committee, where she served as Chair from 2014 to 2018. She also chaired the special Risk Committee and contributed to the definition of the organization's risk appetite parameters and tolerance to risk.

I would also like to thank the Treasury Board of Canada Secretariat (TBS) for establishing a Funding Policy. The Policy has four objectives: to ensure sufficient assets to fund pension benefits for plan members; to limit the degree of volatility in plan funding; to keep the plans affordable and sustainable for members and the government; and to support intergenerational fairness by recognizing that the plans' costs and risks are shared between current and future generations.

Above all, the Policy provides a sound decision framework to support the funding of the pension plans, and sets the stage for a more precise communication of the Government's risk appetite.

We also welcome the plan to put in place the Asset Liability Committee (ALCO) which we believe will foster communication among TBS, the Office of the Chief Actuary (OCA) and PSP. Over the years, we have interacted regularly with both TBS and the OCA to better understand their objectives and to inform them on our investment approach and results. We strongly believe the ALCO will help to further solidify these relationships.

And finally, I would like to thank PSP's employees for continually adapting to PSP's evolution in this fast-changing landscape of innovation and disruption. Whether the markets are booming or contracting—and whether it's business as usual or ramping up for expansion—the team remains world-class in both its agility and its execution.

PSP is well positioned to successfully meet its Vision 2021 strategic plan and to prepare for the future.

Martin Glynn
Chair of the Board

Think. Act. Globally.

As PSP enters its 20th year of operations, we have very good reason to be proud of our evolution on the world stage!

Thanks to our people, we have successfully completed the third year of our Vision 2021 strategic plan, continuing our quest to be an agile and sought-after enabler of complex global transactions. Our evolving worldwide presence increasingly gives us access to a far greater pool of talent and opportunities; it also means we must work in an increasingly complex environment to excel in our shared purpose: *to contribute to the financial security of the contributors and beneficiaries who have served Canada in their careers*.

2019 results

The success of PSP's Investment approach is measured over the long term. Our 10-year return of 10.7% exceeded the Return Objective communicated by the Government of Canada (5.8%) and the return of our Reference Portfolio (9.2%), which indicates that PSP has been successful in delivering long-term value for its stakeholders. Over a five-year period, PSP's return of 8.8% has exceeded the Policy Portfolio benchmark of 8.1%, which indicates that our active management activities are generating excess returns. This is also true over a 10-year period, where the 10.7% return exceeds the Policy Portfolio benchmark of 9.6%.

Fiscal year 2019 was another strong year for PSP: our return was 7.1% net of all costs and is effectively in line with the Policy Portfolio benchmark of 7.2%. Notwithstanding some market headwinds, every one of our investment asset classes generated positive returns for the fiscal year. Net assets under management reached $168.0 billion as at March 31, 2019.

Fiscal year 2019 was impacted by higher volatility in public markets amid concerns of a global economic slowdown. Our performance demonstrates the benefits of our strategy to diversify the portfolio across a number of public and private asset classes, to produce a strong positive overall return. Likewise, our strategic partners and platforms across all asset classes continued to generate attractive risk-adjusted investment opportunities, as we all worked together to spot the edge on investments to generate robust long-term returns.

Advancing our strategic plan

In fiscal year 2019, we achieved several milestones in each of the five pillars of our Vision 2021 strategic plan that will help us expand our capabilities and achieve our long-term objectives.

— Cultivate One PSP

In July, we appointed Eduard van Gelderen to the position of Senior Vice President and Chief Investment Officer. Eduard has the combination of market knowledge, investment expertise, international experience and leadership skills we require to evolve our total fund approach and our long-term asset allocation and investment strategy. **Read more on Eduard's vision on pages 26 and 27.**

— Improve our brand locally and internationally

We successfully deployed our new inspirational and aspirational brand, *Spot the Edge*, across all our platforms and business units. And once again we were recognized as one of Montréal's Top Employers. PSP is truly an amazing place to work, where every single employee contributes to a respectful and inclusive environment in which they can be true to themselves, make a lasting impact, develop their skills and grow professionally.

— Increase our global footprint

Following the opening of our New York and London offices in fiscal years 2016 and 2017, we opened our new multi-asset-class Asia hub in Hong Kong during our fourth quarter and hired our first employees there. Based on the success we experienced with our European hub, we'll staff Hong Kong with a mix of local experts and PSP expats to foster a common One PSP culture and speed up operational efficiency, while obtaining valuable market insights and building our network at the local level.

— Increase scalability and efficiency

In addition to continuing to roll out new and improved systems and processes throughout the organization to increase the efficiency and scalability of our operations, we plan to expand our Canadian debt issuance program to a global platform.

— Develop our people

At PSP, attracting, developing, rewarding and retaining our talented employees is always a top priority. During fiscal year 2019, we implemented a new and far-reaching Talent Value Proposition that included the completion of our employee development and performance management framework, the advancement of a unified corporate culture and the definition of a new talent acquisition strategy.

I'm proud that our people once again gave back to the community, donating 4,102 hours of their time to causes they support, as part of PSP Gives Back. They also donated more than $230,000 to United Way (Centraide).

We once again affirmed our commitment to inclusion and diversity (i&D), which we lead through our i&D Council of more than 60 very committed PSP employees and of which I'm proud to continue to act as Co-chair alongside Giulia Cirillo, Senior Vice President and Chief Human Resources Officer. Our i&D strategy incorporates a wide variety of viewpoints and a respectful work environment that creates awareness while encouraging and valuing our differences. On that theme, I'd like to thank Board members Katherine Lee, Miranda Hubbs, Lynn Haight, Maryse Bertrand and Micheline Bouchard for participating in inspiring panel discussions at PSP that focused on supporting women colleagues in their career aspirations. **Learn more on pages 10 to 15.**

Responsible Investment (RI)

We consistently integrate material environmental, social and governance (ESG) risks and opportunities into our investment decisions—in line with best practices—to maximize long-term value for our stakeholders. The RI group and investment teams work in close collaboration to ensure that ESG factors are not only considered at the time of the investment but are also actively managed once we are invested. In fiscal year 2019, we embarked on a multi-year action plan to address climate change risks and opportunities across our investment strategies. As part of that plan, we further refined our assessment of climate change risk exposures at a Total Fund level and engaged with our portfolio companies to encourage climate change risk awareness. **Learn more about it in our 2019 Responsible Investment Report.**

Beyond Vision 2021

As we look ahead, our top priority will continue to be to hone our edge—our quest to spot a unique advantage in everything we do and in our responsiveness to investment opportunities. For the final two years of Vision 2021, we'll leverage our new capabilities as we narrow our attention to those objectives yet to be achieved. **Learn more on pages 8 and 9.**

We'll also continue to leverage our partnership approach, to generate investment opportunities and to mine our networks for knowledge and strategic insights. With the support of our internal business partners, we'll continue to enhance our agility and excellence in execution. Investment activities will remain prudent and focused, bearing in mind the uncertainties of the current investment climate.
Learn more on pages 23 to 25.

Thank you

I'd like to thank our employees for so readily and expertly carrying out their responsibilities, while simultaneously supporting our corporate initiatives—and for constantly spotting the edge and making their voices heard.

At the Executive Committee level, I would like to thank and congratulate Darren Baccus for taking on the position of Senior Vice President and Global Head of Real Estate and Natural Resources after serving as our CLO and interim CIO, and Mélanie Bernier, for being promoted to Darren's former role as our Senior Vice President and Chief Legal Officer.

And finally, I'd like to express my deep gratitude to Martin Glynn and the entire Board of Directors for their invaluable insight and guidance—and for setting an example of the value of diversity and inclusion on the world stage.

Neil Cunningham
President and
Chief Executive Officer

Celebrating our people's successes

Nathalie Bernier, Senior Vice President, Strategic and Business Planning and Chief Financial Officer, was awarded Canada's "CFO of the Year" by FEI Canada, PwC Canada and Robert Half. In May, the Québec chapter of Financial Executives International (FEI) Canada named her "Financial executive of a large corporation" at its 2018 Aces of Finance.

In December, **Simon Marc, Managing Director and Head of Private Equity**, was named one of Europe's 50 most influential people in private equity.

Also, in December, **Bonnie Frank, Vice President, Enterprise Risk and Crisis Management**, was named one of Insurance Business Canada's Leading Risk Managers for 2018.

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

Nathalie Bernier— 4
Senior Vice President, Strategic and Business Planning and Chief Financial Officer

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

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

Alain Deschênes— 7
Senior Vice President and Chief Operations Officer

Anik Lanthier— 8
Senior Vice President, Public Markets and Absolute Return Strategies

David J. Scudellari— 9
Senior Vice President, Head of Principal Debt and Credit Investments

Guthrie Stewart— 10
Senior Vice President and Global Head of Private Investments

Eduard van Gelderen— 11
Senior Vice President and Chief Investment Officer

Acting on great ideas

Great ideas thrive in an environment where everyone is capable of and driven to spot the edge.

We hire top talent from around the world and encourage our people to think big, challenge the status quo and be collaborative with others both inside and outside our organization. Their ideas contribute to and fuel our inspired investment launchpad.

Thriving on new perspectives

Our collaborative approach is at the heart of our ability to create long-term value and is a priority wherever in the world we invest.

Across our global offices, we look for different ways to leverage our individual strengths in pursuit of common objectives. Our approach has enabled us to develop a collective instinct for honing in on opportunities that provide attractive risk-adjusted returns from a total fund perspective, rather than through the lens of any single asset class. We not only invest across the entire capital structure—which in itself is a differentiator for PSP in the marketplace—we draw on expertise from across our asset classes to provide partners with innovative financings that meet their needs, no matter how unique or complex.

Our relationships with external partners are equally collaborative, and tap into our respective networks to take advantage of opportunities from every possible perspective. We've built an internal platform for managing these relationships, which makes it easy for employees to share information that can be helpful to their colleagues for generating new investment opportunities and for ensuring that our partners realize the full benefits of the breadth and depth of PSP's execution capabilities.

"We enter into relationships as One PSP and we invest as One PSP. Our approach makes us more relevant to potential partners and creates opportunities to get involved in unique and bespoke transactions."

Ziv Ehrenfeld, Managing Director,
Private Debt, New York

This collaborative approach is key to forging powerful, long-term relationships with like-minded partners—and to gaining access to attractive investment opportunities around the world. It has enabled us to partner with innovative companies and financial sponsors in high-performing sectors that we target, and to build sizeable positions in platforms such as the global airport, agriculture, renewables and toll road sectors, which have in turn led to additional investment opportunities.

Powerful connections, new horizons

In fiscal year 2019, PSP acquired a stake in United Talent Agency (UTA), which represents some of the biggest names in film, television, and comedy. Through the power of our networks, we learned that UTA was looking for long-term capital partners to support its growth as it diversifies into music, sports and content production.

Simon Marc, Managing Director and Head of Private Equity at PSP's London office, said of the investment: "The entertainment industry is experiencing tremendous evolution. With demand for high-quality content greater than ever, UTA is uniquely positioned to benefit from the transformation in the sector. Our investment in UTA is a great example of PSP's ability to partner with top-tier entrepreneurs and like-minded investors."

Bringing our vision for Downsview to life

Having acquired the 370-acre Downsview Airport property in Toronto in 2018, in one of the largest-ever Canadian real estate transactions, we see its development as an opportunity to push the boundaries of collaboration, technological innovation and sustainable urban design. We look forward to hearing the ideas of local stakeholders and collaborating with them to develop a vibrant new district. Working alongside cutting-edge partners from around the world, we also expect to inject new knowledge and capabilities into our own organization.

Innovation@PSP

In an age of disruption, innovation is every PSP employee's responsibility. We have developed a common language and approach that brings us all under one umbrella. Our approach provides a holistic view of all innovation opportunities, which can range from leveraging disruptive trends in our investment strategies, to optimizing our operating model, to employing emerging technologies.

In keeping with our innovation agenda, our CIO Office is repositioning our Complementary Portfolio as an incubator. While the Complementary Portfolio is traditionally used for investments that do not fit the mandates of existing asset classes or for multi-asset transactions, we also want to use it to invest in emerging technologies and opportunities that have the potential to impact PSP in a significant way. We aim to deepen our understanding of these new developments and bring the learnings back into our organization. The best way to do that is to invest in these organizations.

Interview with our Chief Investment Officer

PSP recently appointed a new Chief Investment Officer, Eduard van Gelderen, to lead our Total Fund Strategy Group. His group oversees multi-asset class investment strategies, total fund allocations and exposures in terms of asset classes, geographies and sectors, as well as operational due diligence. Eduard also leads our responsible investment and government relations functions.

Having joined PSP in July 2018, what do you see as the organization's edge?

If you compare PSP with other investors around the globe, there are many positives working in our favour. Firstly, we're large enough to be taken seriously by our counterparties, but small and agile enough to be able to do interesting deals. Another positive is that we do not shy away from investing in deals that we truly believe in. Deep internal expertise enables us to act quickly—something that's highly valued by partners—and to look at more complex and rewarding transactions.

Why is a total fund perspective important for PSP at this time?

The organization has been highly successful in growing and managing its portfolio over the past 10 years by taking a bottom-up approach that relied on the expertise and creativity of its asset classes. While we already have a total fund strategy, it's becoming more important now for a variety of reasons: among them, most of our asset classes have achieved their target allocation; the cash from pension contributions is still positive, but is becoming marginal compared to the assets under management; and the bull market of the last few years is showing signs of fatigue. It's not that we need wholesale change at this time; rather, we want to optimize what we're already doing and find the right balance between bottom-up and top-down.

What are your priorities?

The number one priority is maintaining our focus on the long term and ensuring that our portfolio is resilient through economic cycles and can deliver on PSP's mandate. There are certain activities, such as analyzing the portfolio's sensitivities and steering the portfolio toward its long-term goals, that can only be approached from a top-down perspective.

However, thinking long term does not mean that we do not manage actively. I'd like to see a more dynamic process for rebalancing the portfolio, which will also allow us to take advantage of opportunities that arise due to market cycles within our long-term investment horizon. Again, it's not about drastically changing risk profiles or stopping strategies; but more about putting in place a stricter framework and introducing a few new activities with the long-term return objective in mind.

I'd also like to see us take a more coordinated approach to our relationships with external managers and partners. With most asset owners growing in size and looking for additional yield, there's more competition to access quality investment opportunities and we want to be the first to hear about them. The CIO Office can play a coordinating role in establishing strategic relationships with select partners that will benefit all asset classes.

Think. Act. Responsibly.

As a global pension investment manager, PSP thinks long term: we invest and manage assets today to help meet pension obligations decades into the future.

This investment horizon shapes how we view risks and opportunities. We strongly believe that environmental, social and governance factors–such as climate change, health and safety and ethical conduct–are material to long-term returns and that we need to integrate them into our investment decision-making processes.

Three years ago, we created a dedicated Responsible Investment group to strengthen our practices across all asset classes and shine a different light on our investments. Today, this group is an integral part of PSP's investment process and decisions, flagging risks related to environmental, social and governance (ESG) factors and identifying opportunities to create value.

Our investment teams and Responsible Investment group work as one to monitor investments in both public and private markets.

In a short period of time, these efforts have propelled PSP onto the world stage of responsible investing. Here are some of the past year's highlights. **To learn more, see our 2019 Responsible Investment Report.**

2019 highlights by theme

Climate Change

We refined our assessment of our portfolio's exposure to the impacts of climate change. This included assessing the potential physical impacts of climate change on approximately 1,200 of our real estate, infrastructure and natural resources assets, as well as the portfolio's exposure to carbon-intensive investments. These analyses helped us identify investments for which further assessments of risk mitigation strategies will be defined. We also continued to monitor our exposure to low-carbon investments. As at March 31, 2019, we had $5 billion of direct investments in more than 130 renewable energy assets with an aggregated net power capacity of 3.5 gigawatts.

Corporate culture and conduct

We engaged with **18 public companies** on **corporate culture and conduct** to ensure that boards of directors set the right tone at the top.

Disclosure

As **meaningful disclosure** is critical to understanding ESG risks and opportunities, we joined the CDP[1] non-disclosure campaign prompting **93 companies to disclose** how they measure and manage their environmental impact.

Diversity

We continued our work with the 30% Club Canada Investor Group and our Canadian peers by engaging with **18 Canadian public companies** on increasing **board gender diversity**.

ESG best practices

We communicated to our external managers the results of our **first benchmarking exercise** of their **ESG practices**.

Health and safety

As part of a PSP-led initiative, **a dozen companies representing more than 85% of the net asset value of our internally managed Infrastructure portfolio, and a dozen companies and partners representing more than 50% of the net asset value of our Natural Resources portfolio** (100% of its net asset value in Australasia), shared **health and safety best practices**, key performance indicators, training tools and reporting practices with a view to improving their respective performance.

Say on Pay

In collaboration with other Canadian pension funds and institutional shareholders, our continued direct dialogue led to **a 6% increase in the number of TSX Composite Index companies** adopting **Say on Pay** as a practice since 2017.

How we work

At PSP, ESG factors are addressed throughout the life of every investment we make. This goes beyond simply identifying and assessing material risks and opportunities; we actively manage and monitor them as well once we decide to proceed with an investment. We use different levers to assess ESG performance over time and to ultimately protect and enhance long-term financial value. Our approach is highly collaborative, with our Responsible Investment group working as one with PSP investment teams at every stage of the investment process.

PSP ESG integration framework

	Investment Opportunity	Investment Decision	Investment Monitoring	Investment Review
Internally managed investments	Identify key ESG factors and determine due diligence scope	In-depth assessment of material ESG risks and opportunities	Monitoring of ESG risk and performance, shareholder engagement and *proxy voting*[2]	Re-assessment of material ESG risks and opportunities
Externally managed investments	Define due diligence scope based on investment strategy	In-depth assessment of ESG integration practices	Engagement on ESG best practices	Re-assessment of ESG practices

[1] Previously the Carbon Disclosure Project.
[2] Applicable to public market investments.

Industry involvement

Forging relationships is essential for driving progress in a mindful way. We promote ESG principles through our involvement in various external programs, including the UN-supported Principles for Responsible Investment (PRI) initiative, the local PRI network, the PRI Advisory Committee on Credit Ratings, Finance Montréal's Responsible Investment Work Group, the 30% Club, the Canadian Coalition for Good Governance, the International Corporate Governance Network, CDP and the Task Force on Climate-related Financial Disclosures.

Environmental assessment

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

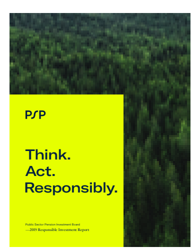
Climate change

Climate change is a critical challenge of our time. At PSP, we believe that it 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. We expect to enhance investment performance by addressing climate change risks and opportunities as part of our investment strategy.

Our Board and senior management have approved a multi-year, fund-wide climate change approach based on: (1) the integration of climate change factors into our investment decisions at total portfolio, asset class and individual asset levels, (2) monitoring of the portfolio's exposure to climate change, and (3) engagement with investee companies for better climate change-related disclosures.

We support 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. As an asset owner, PSP is committed to gradually enhancing disclosure about how we manage climate change-related financial risks.

PSP Investments' memberships and collaborations



See our 2019 Responsible Investment Report to learn more.

Management's discussion of fund performance and results

Management's discussion of fund performance and results (the Management report) provides analysis of the operations and financial position of PSP Investments for the year ended March 31, 2019 and should be read in conjunction with the Consolidated Financial Statements and accompanying notes for the years ended March 31, 2019 and 2018. 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, 2019 and June 7, 2019, 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 retirement 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). 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.

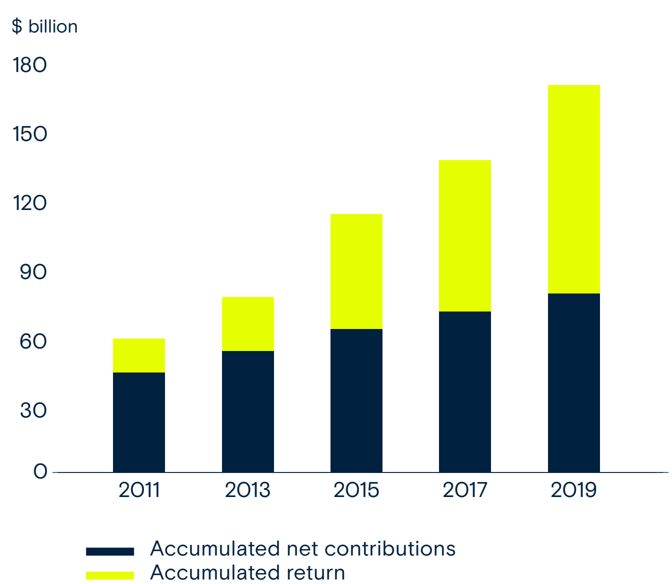
PSP Investments expects to deliver on its mandate by being a leading global investor, working together and focusing on a total fund investment approach that optimizes our ability to identify opportunities, deploy capital and capture value.

With the implementation of our strategic plan, Vision 2021, internal cooperation and insights sharing are yielding new opportunities and deal flows. The values as defined in our strategic plan, such as collaboration between asset classes, drive our global expansion and contributed to the opening of international offices. In an environment characterized by increasing competition for assets, we believe that PSP Investments' improved ability to unlock new investment opportunities gives us a market advantage.

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 2019, fund transfers received from the Government[1] since April 1, 2000, represented approximately 45% of net AUM, with the remaining 55% 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 objectives 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	Reference Portfolio	Policy Portfolio	Actual portfolio
Communicated on behalf of the President of the Treasury Board by the Treasury Board of Canada Secretariat	Articulates risk appetite (defined in terms of pension funding risk)	Long-term Strategic Asset Allocation	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 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 2019, PSP Investments received a real Return Objective for the next 10 years of 3.6% (up from 3.3% last year). The long-term real Return Objective remains unchanged when compared to last year at 4.0%. 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 with minimum investment risk. Accordingly, a Reference Portfolio composed of 63% equities and 37% 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, and formalizes the relationship between TBS, the Office of the Chief Actuary and PSP Investments. Among other things, the Funding Policy prescribes the establishment of an Asset Liability Committee (ALCO). The ALCO will include departmental officials representing each of the Plans, the Department of Finance, as well as the Office of the Chief Actuary and PSP Investments. The first ALCO meetings are expected to take place over the next fiscal year.

Of significance to PSP Investments, the ALCO will recommend the funding risk targets (government risk appetite), including the Reference Portfolio. While this represents a change in governance (the Reference Portfolio being currently determined by PSP Investments' Board of Directors), we do not anticipate a significant impact on PSP's investment approach.

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 exposure to asset classes.

The objective for the Policy Portfolio is to achieve a return greater than the Reference Portfolio 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 Private Debt.

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:

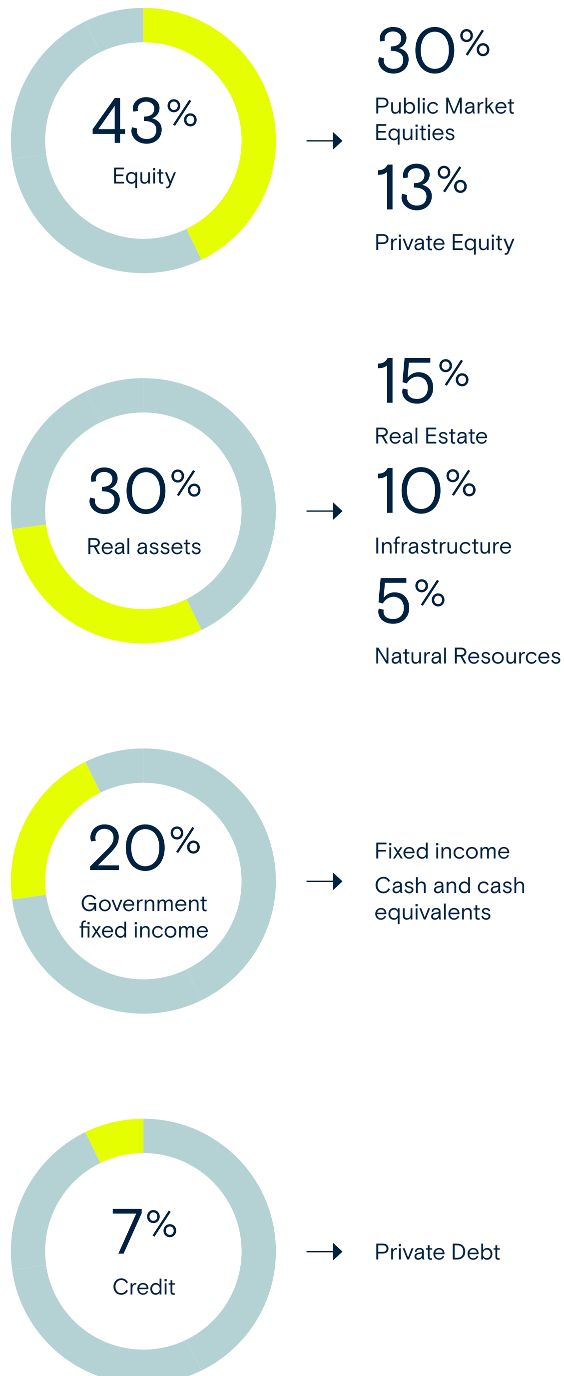
- Their inclusion improves portfolio diversification and reduces the total fund pension funding risk.
- Over time, the lower liquidity of these assets is expected to be compensated with higher returns. The Plans' liabilities are long-term in nature and liquidity requirements are expected to be minimal 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 performance and risk over time. As such, it is reviewed annually or more frequently if required. Each review includes an asset-liability study to ensure the Policy Portfolio accounts for specific characteristics of the Plans' liabilities.

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. Therefore, as per Management's recommendation, the Board approved no changes to the Policy Portfolio.

Target asset allocation[1]
Effective during fiscal year 2019



[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 the Complementary Portfolio) shall have no target weight, but shall not surpass 3% of the Plan Account's value.

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 group, 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.

Hedging policy

As part of the total fund activities, PSP Investments generally maintains foreign exposure unhedged but sometimes uses hedging strategies dynamically, at the total fund level. We believe that by not systematically hedging exposure in foreign currencies, we will improve the Policy Portfolio's risk-return profile by significantly reducing hedging cost in the long term and reducing pressure on liquidity, leverage and operations. Furthermore, the Canadian dollar tends to be procyclical and positively linked to commodity prices and the global equity markets. Therefore, it is expected that foreign currencies will act as a diversifier in the Policy Portfolio (acting as a natural hedge against economic shocks on asset returns). Finally, the impact of currency fluctuation over the long term is not expected to be significant as currencies tend to fluctuate around their equilibrium value, driven by financial flows, interest rates and term of trades.

Keeping foreign currency exposure unhedged could impact short-term performance due to unexpected currency fluctuation and can be either positive or negative for PSP Investments' short-term performance. In years of major strengthening (or weakening) of the Canadian dollar, our performance will be negatively (or positively) impacted and could differ substantially from other funds that have taken a different stance on hedging.

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 new innovative strategies; the ultimate goal of this portfolio being 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 2019 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	Private Equity Manager Universe[2]
Government Fixed Income	
Cash & Cash Equivalents	FTSE Canada 91 days T-bill Index
Fixed Income	Blend of JP Morgan Government Bond Index Global, Barclays World Government Four Country (custom) ILB Index, and FTSE Government Bond Index
Credit	
Private Debt	Blend of BoA 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, Private Debt, 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.

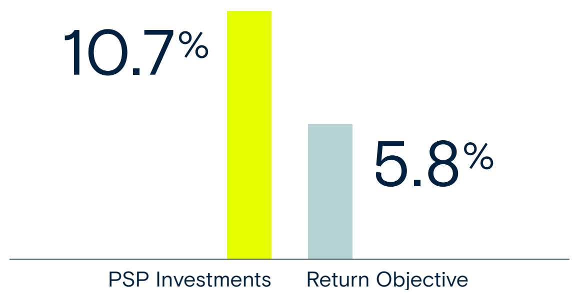
This objective measures PSP Investments' success in achieving the long-term Return Objective. Over the past 10 years, PSP Investments has recorded a net annualized rate of return of 10.7%, compared to 5.8% for the Return Objective.

Considering the size and timing of contributions, this outperformance amounts to $48.8 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]



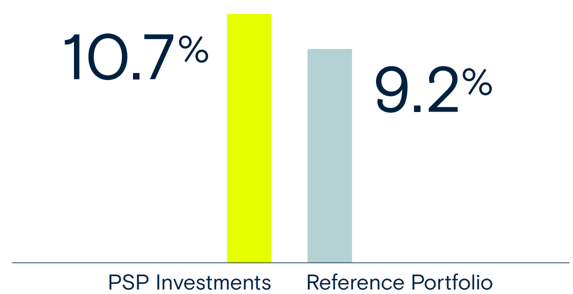
2. Achieve a return, net of expenses, greater than the return of the Reference Portfolio over 10-year periods.

The Reference Portfolio reflects what the Government 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 of 9.2% per year. This result was achieved without incurring more pension funding risk than the Reference Portfolio.

This additional 1.5% 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]

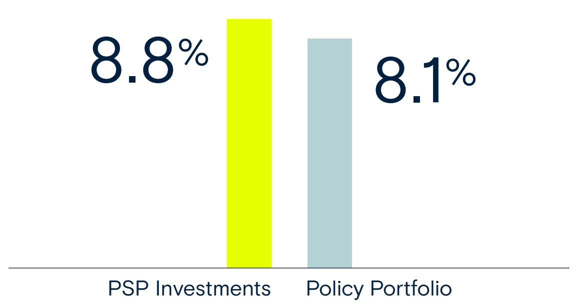


3. Achieve a return, net of expenses, exceeding the Policy Portfolio benchmark return over 5-year periods.

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 primary 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

Macroeconomics context

Economic conditions have generally been supportive of financial markets in recent years. Over the past five years, major advanced economies have been transitioning from a long period of economic recovery, to economic expansion. Excess capacity in labour markets and businesses has gradually been absorbed, and inflationary pressures have started to grow. Financial markets, in turn, benefited from the easy financial conditions and improving growth dynamics that were characteristic of this period.

However, more recently, market participants have been increasingly anticipating a return of late-cycle dynamics, which is typically characterized by greater corporate leverage, higher borrowing costs, rising wage costs and generalized price inflation. Indeed, last year we observed some signals that the global economy is entering this later stage.

The global economy started fiscal year 2019 with strong, synchronized growth in advanced countries. Energy prices and inflation both continued to rise, and the US economy was further boosted by additional fiscal stimulus. In response, major central banks in advanced economies became more hawkish, advancing their plans to unwind their balance sheets and raising policy rates at a faster-than-anticipated pace. This lead to a tightening in global financial conditions.

The initial negative consequences of this financial tightening surfaced mainly in emerging markets with external debt issues. As the year progressed, other weak spots in the global economy also started to emerge. Increased global trade tensions, a slowdown in the Chinese economy and rising borrowing costs contributed to a fall in business confidence and slowing growth dynamics around the world. These factors contributed to a strong market pullback in December.

Since then, central banks have moderated their policy stances, and trade tensions have somewhat eased. This has helped to reassure financial market participants and has resulted in a recovery in risk assets during the last quarter of the fiscal year.

$168.0
Billion
Net AUM

$153.1
Billion
Net AUM (FY2018)

$11.7
Billion
Performance income

7.1%
1-year
rate of return

7.2%
Benchmark return

8.8%
5-year
annualized return

8.1%
Benchmark return

Summary of total fund portfolio evolution

The net assets of PSP Investments increased by nearly $15 billion during fiscal year 2019. The increase is explained by net contributions of $3.7 billion received by PSP Investments and the net return of 7.1% in the current fiscal year. Net AUM related to Private Equity and Natural Resources increased sharply as a result of strong absolute returns and significant capital deployments. A reduction in public equities in favour of fixed income also occurred as a result of the implementation of changes in the Policy Portfolio target allocation.

The net assets of PSP Investments increased by nearly $74.1 billion over the past 5 years on account of substantial investment returns ($54.3 billion) and positive net fund transfers from the government ($19.8 billion). Driven by this solid growth, all asset classes' net AUM has risen over the same period. However, public market equities' allocation has taken a reduced share of PSP's net AUM over the period as a result of the implementation of PSP's strategy to diversify into private markets. This allowed for a greater share of PSP Investments' assets under management to be invested in Private Equity, Real Estate, Infrastructure and Natural Resources and for the deployment of new allocations to Private Debt and the Complementary Portfolio. 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 opening of the Hong Kong office is expected to increase our exposure in this market and will facilitate implementation of investment strategies by developing our local network and strengthening our understanding of local market dynamics.

Total fund performance analysis

PSP Investments recorded a return of 7.1% in fiscal year 2019. Returns were driven in large part by the performance of private asset classes, with Private Equity (16.1%) and Natural Resources (11.1%) recording the highest returns. The conditions discussed in the economic review led to steady equity gains during the first two quarters followed by a global equity sell-off in the third quarter and a recovery in the fourth quarter, leading to a return of 4.3% for public equities for the fiscal year.

PSP's return was effectively in line with its Policy Portfolio benchmark for fiscal year 2019 (7.1% net of all costs against a benchmark of 7.2%) Private Equity, Private Debt, Infrastructure and Natural Resources all added value against their benchmarks, while Public Markets, Real Estate and the Complementary Portfolio recorded results that were inferior to their benchmarks.

Over the last five years, PSP's return of 8.8% was driven mainly by the strong performance of private asset classes, in particular Private Debt (14.2%), Infrastructure (12.7%), Natural Resources (12.0%) and Real Estate (11.8%). Private Equity (7.9%) was below its Policy Benchmark of 12.2%. Over the last three years, the portfolio and team have been substantially rebuilt, contributing to improved performance under the new strategy and above benchmark for the full portfolio this year. During the five-year period, public equities returned 9.3%. PSP's return of 8.8% has exceeded its Policy Portfolio Benchmark of 8.1%, with private asset classes accounting for the bulk of the value added over the Policy Portfolio Benchmark. Public equities recorded a slight overperformance against their benchmark.

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. This was again the case in fiscal year 2019. The peaking of global growth momentum coupled with several hikes from the US Federal Reserve led to a strong rebound in the US dollar. At the same time, the slowdown in economic activity in China acted as a drag on large, open economies in Asia and Europe, leading to notable declines in the euro, the British pound and the yen. Although the US dollar appreciated against the Canadian dollar during the fiscal year, all other major currencies depreciated against the Canadian dollar. Gains from the appreciation of the US dollar outweighed losses from exposure to other major currencies, resulting in a net gain of $1.7 billion from foreign exchange fluctuations during fiscal year 2019.

Analysis of our results by asset class

The table below presents the annual and 5-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 5-year annualized return by asset class and for the total portfolio relative to their respective benchmark.

	FISCAL YEAR 2019						
				1-year rate of return (%)		5-year rate of return (%)	
ASSET CLASS	Net AUM (millions $)	Net AUM (%)	Performance[2] income (millions $)	Portfolio	Benchmark	Portfolio	Benchmark
Equity							
Public Market Equities (Includes absolute-return strategies, funded through leverage)	51,035	30.4	2,226	4.3	4.5	9.3	9.0
Private Equity	23,539	14.0	3,220	16.1	12.3	7.9	12.2
Government Fixed Income							
Fixed Income	29,786	17.8	1,335	4.8	5.3	4.8	4.8
Cash and Cash Equivalents	4,603	2.7	692[3]	1.9	1.5	1.4	0.8
Credit							
Private Debt	10,475	6.2	837	9.2	5.7	14.2[4]	4.8
Real Assets							
Real Estate	23,538	14.0	1,714	7.6	11.8	11.8	8.1
Infrastructure	16,818	10.0	1,120	7.1	4.6	12.7	6.7
Natural Resources	6,759	4.0	574	11.1	9.2	12.0	5.3
Complementary Portfolio	1,426	0.9	(1)	0.04	7.2	15.6[5]	8.9
Total portfolio[1]	167,979	100.0	11,717	7.1	7.2	8.8	8.1

For Public Markets, Private Debt 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 $336 million, certain transaction costs of $55 million and other expenses of $87 million, which when added back results in arriving to Investment income of $12,195 million as reported in the Consolidated Statement of Comprehensive Income under IFRS.

3 Includes performance income from foreign currency hedging activities.

4 Annualized return since inception (3.3 years).

5 Annualized return since inception (2.2 years).

Public Markets

Public Markets is composed of two groups: Public Markets and Absolute Return Strategies (PMARS)[1], and Fixed Income.

PMARS' investments are managed by both internal and external managers using a combination of traditional active, absolute return, and passive strategies. PMARS 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 PMARS 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 comprises two main strategies: Corporate Credit and Global Sovereign Interest Rates.

$80.8
Billion
Net AUM

$76.7
Billion
Net AUM (FY2018)

$3.6
Billion
Performance income[1]

4.6%
1-year
rate of return

4.9%
Benchmark return

8.0%
5-year
annualized return

7.9%
Benchmark return

1 Excludes Cash and Cash Equivalents.

Summary of portfolio evolution

Public Markets ended fiscal year 2019 with a net AUM of $80.8 billion, up from $76.7 billion at the end of fiscal year 2018. The growth of the portfolio was driven by a combination of performance income and additional internal and external capital deployments in new and existing active strategies.

Performance analysis

Public Markets and Absolute Return Strategies (PMARS)[1]

4.3%	4.5%	9.3%	9.0%
1-year rate of return	Benchmark return	5-year annualized return	Benchmark return

PMARS, with an ending AUM of $51.0 billion ($51.8 billion in 2018), faced a volatile and challenging environment for active investment management this fiscal year, and slightly underperformed its benchmark by 16 basis points. The following active strategies had a significant impact on PMARS' performance:

The Global Investment Partnerships Portfolio (GIPP) performed well in these difficult conditions, adding more than $110 million in value, with one of its sub-strategies in particular (dedicated to pre-IPO deals) posting solid results. Several companies went public during the fiscal year; one investment alone added close to $86 million in value. The pre-IPO strategy will gradually be scaled over the next fiscal years.

Internally managed long-only strategies outperformed their respective benchmarks, in large part due to stock selection, partially attributable to the contributions of the internal equity research platform. Both portfolios outperformed the median in the fund universe of similar mandates. In addition, one of PMARS' core fundamental positions saw strong value-add performance during the year. This was due to an excellent operational year for the company, coupled with its outperformance of European stock market indices, as its positive secular growth prospects compare favourably to the challenging economic outlook in Europe.

The externally managed absolute return portfolio posted positive absolute returns, but the returns were insufficient to offset the rising costs of funding as some central banks started to raise rates. Net of funding costs, the portfolio slightly detracted value. This portfolio's performance does compare favourably on a risk-adjusted basis against broad hedge fund indices.

The underperformance of the externally managed long-only portfolio was mainly attributable to two mandates, representing close to 30% of the portfolio. In both cases, stock selection proved to be weak.

Internally managed absolute return strategies underperformed and were particularly impacted by the US-China trade war and by the global growth concerns in the last few months of 2018. In an effort to optimize risk-taking decisions, global macro strategies were centralized within the PMARS group and adjustments were made to the organizational structure of this strategy.

Over five years, PMARS has had a solid return of 9.3%, outperforming its benchmark by 25 basis points, owing to a diversified portfolio of strategies with a capacity to sustain volatility, while constantly adapting to a changing environment by deploying new investment strategies and optimizing existing strategies.

Fixed Income

4.8%	5.3%	4.8%	4.8%
1-year rate of return	Benchmark return	5-year annualized return	Benchmark return

Fixed Income, with an ending AUM of $29.8 billion ($24.9 billion in 2018), also faced a challenging year. Global yields started the year by continuing their upward trend as global central banks were removing stimulus and the global economy continued to grow at a healthy pace.

In the third quarter of the fiscal year, the impact of tariffs, trade wars, the cumulative effects of central bank tightening, and the rise of geopolitical risk started to impact global growth. This resulted in a very volatile period for risk assets, and consequently impacted developed market sovereign yields as investors sought capital safety. As a result, all developed market sovereign yields tightened significantly and nominal bonds outperformed inflation bonds.

The internally managed active fixed-income portfolio underperformed its benchmark by 45 basis points as the active fixed income strategy was positioned for a rise in yields, specifically in Europe, and for an outperformance of inflation bonds versus nominal bonds in developed markets.

Over five years, Fixed Income slightly underperformed its benchmark by 4bps, as a result of the portfolio's opportunistic positioning to take advantage of various movements in global sovereign interest rates and credit markets.

[1] Excludes Cash and Cash Equivalents.

Private Equity

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.

$23.5 Billion
Net AUM

$19.4 Billion
Net AUM (FY2018)

$3.2 Billion
Performance income

16.1%
1-year rate of return

12.3%
Benchmark return[1]

7.9%
5-year annualized return

12.2%
Benchmark return

Summary of portfolio evolution

Private Equity ended fiscal year 2019 with a net AUM of $23.5 billion, up from $19.4 billion at the end of fiscal year 2018. The growth of the portfolio was mainly driven by acquisitions of $6.3 billion and valuation and currency gains of $2.0 billion. This was largely offset by dispositions and financing of $4.2 billion following asset realizations resulting from active monetization of significant direct investments, as well as funds secondary sales.

Fiscal year 2019 was marked by another year of high deployments mostly across the US and Europe, including new direct and co-investments totalling $3.0 billion, completed mostly with new co-investment partners. This was largely offset with a record year of dispositions, especially in the direct portfolio where our investments in Orange Life Insurance and SKY Leasing were exited, as well as Antelliq, which closed after fiscal year-end.

[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 industrial, health care, communications and financial sectors including, among others, the acquisition of significant interests in:

- Alliant Insurance Services, a large US independent insurance broker
- Azelis, a Belgian global distributor of specialty chemicals and food ingredients
- Wittur Group, one of the world's leading independent elevator components manufacturers, headquartered in Germany.

Unfunded commitments in connection with fund investments totalled $10.4 billion at the end of fiscal year 2019. During the year, Private Equity signed new fund commitments of $3.5 billion through 16 new funds, mostly with existing partners.

Finally, the fiscal year 2019 activity has changed portfolio diversification by increasing exposure to the US market and the health care sector, driven by valuation gains and deployments, whereas asset realizations decreased exposure to emerging markets and the financial sector.

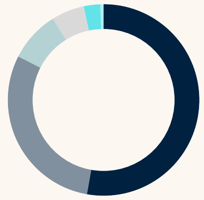
Performance analysis

Private Equity achieved strong results with a one-year rate of return of 16.1% in fiscal year 2019, compared to a benchmark return of 12.3%. Performance income reached $3.2 billion, mainly driven by valuation gains of $1.7 billion and distributed income of $1.2 billion. This is a continuation of the improved performance that began with a new investment strategy implemented during fiscal year 2016.

Valuation gains were primarily attributable to direct and co-investments, particularly in the US health care sector. In addition, our investments in the US financial sector continued to benefit from continued growth and strong operating performance.

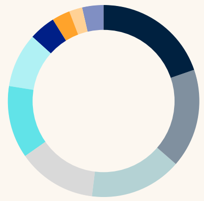
Performance income also benefited from foreign exchange gains of $0.3 billion, which increased the one-year rate of return and the benchmark of the asset class by 1.7%.

Over five years, Private Equity achieved a rate of return of 7.9%, compared to a benchmark return of 12.2%, primarily due to the past underperformance of certain investments in the communications and technology sectors.



Geographic diversification
As at March 31, 2019 (%)

53.0	US
29.5	Europe
8.8	Emerging markets
5.5	Canada
2.7	Asia
0.5	Other



Diversification by sector
As at March 31, 2019 (%)

19.9	Health care
16.7	Consumer discretionary
15.6	Financials
13.2	Industrials
12.1	Technology
9.2	Communications
4.6	Materials
3.1	Energy
2.0	Consumer staples
3.6	Other

Private Debt

Private Debt focuses on direct non-investment-grade primary and secondary credit investments in North America and Europe, in both private and public markets.

From our 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. In fiscal year 2019, Private Debt added a rescue financing and distressed debt capability.

$10.5
Billion
Net AUM

$8.9
Billion
Net AUM (FY2018)

$837
Million
Performance income

9.2%
1-year
rate of return

5.7%
Benchmark return[1]

14.2%
Since inception
annualized return
(3.3 years)

4.8%
Benchmark return

[1] As a result of the decision to maintain foreign currency exposure unhedged, the benchmark for Private Debt 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

Private Debt ended fiscal year 2019 with a net AUM of $10.5 billion, up from $8.9 billion at the end of fiscal year 2018. Net capital deployment of $1.6 billion included investments in revolving credit facilities, first and second lien term loans, secured and unsecured bonds and preferred equity. This net increase reflects $5.2 billion in acquisitions, partially offset by $3.6 billion in dispositions driven by the higher churn of our maturing portfolio.

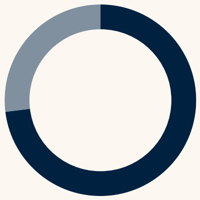
Private Debt's portfolio is well diversified across geographies, industries, equity sponsors and asset types; is heavily weighted toward floating rate exposure; and reflects the contribution of the fully ramped up Private Debt team in London.

Private Debt also collaborated with other PSP asset classes and facilitated commitments to several preferred equity investments, which were allocated to the Complementary Portfolio.

Performance analysis

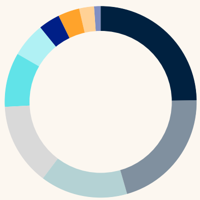
Private Debt had a strong fiscal year 2019 performance with a one-year rate of return of 9.2% compared to a benchmark return of 5.7%, with the outperformance mainly driven by credit selection and fee income. Performance income of $837 million largely consists of interest and fee income. Private Debt also benefited from foreign exchange gains of $156 million, primarily due to significant underlying USD exposure, increasing the one-year rate of return and the benchmark of the asset class by 1.7%.

Since inception in late 2015, Private Debt achieved a rate of return of 14.2%, compared to a benchmark return of 4.8%. Over this period of time, Private Debt benefited from a broad market rally as well as from the ramp up nature of the asset class, which in early years enhanced the impact of significant fee income and valuation gains from a return perspective.



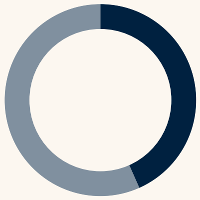
Geographic diversification
As at March 31, 2019 (%)

73.3	North America
26.7	Europe



Diversification by sector
As at March 31, 2019 (%)

24.9	Technology
20.9	Health care
14.6	Industrials
14.0	Consumer discretionary
9.0	Financials
5.8	Materials
3.8	Communications
3.5	Consumer staples
2.6	Energy
0.9	Real estate



Product split
As at March 31, 2019 (%)

43.6	First Lien
56.4	Non First Lien

Real Estate

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.

$23.5
Billion
Net AUM

$23.2
Billion
Net AUM (FY2018)

$1.7
Billion
Performance income

7.6%
1-year
rate of return

11.8%
Benchmark return[1]

11.8%
5-year
annualized return

8.1%
Benchmark return

Summary of portfolio evolution

Real Estate ended fiscal year 2019 with net assets under management of $23.5 billion, a slight increase of $0.3 billion from the year prior. The evolution of the Real Estate portfolio was driven by $4.1 billion in acquisitions and $1.2 billion in valuation gains, offset by $5.0 billion in dispositions and financing proceeds.

Real Estate's focus was on optimizing the portfolio. Net deployments were close to break-even as the group disposed of many core assets with completed business plans in the UK and European office and US multifamily sectors, as well as non-strategic assets in Brazil and the US. The group also recapitalized the student housing portfolio in London with Greystar by selling an interest to Allianz in support of Real Estate's acquisition strategy in that sector. With the low-yield

[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.

environment making it more challenging to acquire core assets, the strategy behind a number of acquisitions in North America and emerging markets was value-add or opportunistic. These acquisitions included:

- Life Science office real estate investments in the US with Longfellow
- Waller Creek Center, a development project in Austin, Texas
- Sun Life Plaza, an office complex located in Calgary with Aspen
- A multifamily portfolio in the San Francisco Bay Area with Veritas
- Raffles City, a mixed-use development in Shanghai, with Capitaland
- Industrial properties in Mexico with the PSP-owned platform Advance
- Multifamily properties in Canada with Starlight

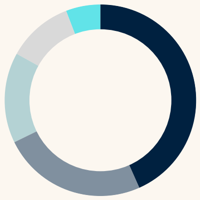
The largest single acquisition was the Downsview airport land in Toronto, which is a long-term re-development project that aligns with Real Estate's build-to-core strategy in primary and growth markets. It is expected that this site will provide unique development opportunities in future years.

Finally, an agreement to develop Cherry Park, a major Private Rented Sector (PRS) residential scheme in Stratford, UK, was entered into with Unibail-Rodamco-Westfield, and is scheduled to begin in fiscal year 2020.

Performance analysis

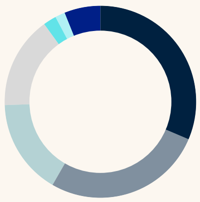
Real Estate achieved a one-year rate of return of 7.6% in fiscal year 2019, compared to a benchmark of 11.8% for the same period. Total performance income reached $1.7 billion, driven by valuation gains of $1.2 billion that were primarily attributable to the global industrial portfolio, which benefited from strong fundamentals. Other significant contributors included the Canadian multifamily portfolio, the Student Housing portfolio in London, the US residential portfolio, the mixed-used development in Washington, D.C. and the Australian office portfolio. PSP Investments' global retirement and health care platform had a challenging year as did some of the retail investments in the US, Europe and Mexico as well as some global opportunistic funds. Overall, the valuation gains included in the return for this fiscal year were not sufficient to compensate for the annual capitalization rates movements and long-term value creation embedded in the benchmark.

Over five years, Real Estate achieved a rate of return of 11.8%, compared to a benchmark return of 8.1%. The positive variance is primarily due to the Canadian multifamily portfolio, our global industrial portfolio, the London student housing portfolio, the Australian Office portfolio, and our global retirement and health care platform.



Geographic diversification
As at March 31, 2019 (%)

43.6	US
24.4	Canada
15.2	Western Europe
11.1	Emerging countries
5.7	Australasia



Diversification by sector
As at March 31, 2019 (%)

31.5	Residential/retirement
27.0	Office
16.0	Industrial
15.6	Retail
2.3	Health care
1.7	RE debt
5.9	Other

Infrastructure

Infrastructure invests globally on a long-term basis, primarily in the transportation, power generation, telecommunications and public utilities sectors. The Infrastructure asset class provides positive elements of inflation hedging, diversification, relative stability and illiquidity premiums that enhance the overall risk-return profile of the PSP 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 a number of compelling advantages such as allowing us to leverage sector-specific knowledge/expertise, targeting and managing greenfield investments and expanding our reach in terms of access to key relationships/partners.

$16.8
Billion
Net AUM

$15.0
Billion
Net AUM (FY2018)

$1.1
Billion
Performance income

7.1%
1-year
rate of return

4.6%
Benchmark return[1]

12.7%
5-year
annualized return

6.7%
Benchmark return

[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 2019, net assets under management totalled $16.8 billion, up from $15.0 billion the year prior. The growth of the portfolio was driven mainly by acquisitions of $2.8 billion and valuation gains of $0.8 billion. This was partially offset by dispositions and financing of $1.6 billion and currency losses of $0.2 billion.

Infrastructure deployment was mostly across Europe and the US, and included new direct and co-investments totalling $1.7 billion. In addition to the return of capital from funds, Infrastructure disposed of investments which were not considered strategic totalling $0.6 billion.

Key investments included:

- The acquisition by Roadis, PSP's road platform, of a controlling interest in two roads located in Portugal
- The acquisition of a majority interest in Forth Ports, the third-largest port operator by volume in the UK, which owns and operates eight commercial ports

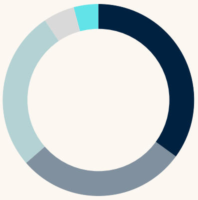
Finally, the fiscal year 2019 activity has slightly changed the portfolio geographic diversification by increasing exposure to the US market while decreasing exposure to Europe and Asia and Oceania.

Performance analysis

Infrastructure achieved a one-year rate of return of 7.1% in fiscal year 2019, compared to a benchmark return of 4.6%. Total performance income reached $1.1 billion, driven mainly by valuation gains of $0.8 billion primarily attributable to investments in the transportation and utilities sectors in Europe and North America, which benefited from strong organic growth and favourable market conditions.

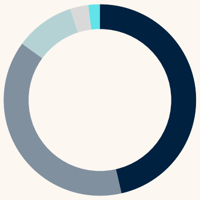
Performance income also included a foreign exchange loss of $0.2 billion that decreased the one-year rate of return and the benchmark of the asset class by 1.7%.

Over five years, Infrastructure achieved a solid rate of return of 12.7%, compared to a benchmark return of 6.7% primarily due to the strong performance of investments in the transportation, communications and energy sectors.



Geographic diversification
As at March 31, 2019 (%)

35.2	Europe
28.5	Emerging markets
27.0	US
5.3	Canada
4.0	Asia and Oceania



Diversification by sector
As at March 31, 2019 (%)

46.5	Industrials
38.6	Utilities
10.0	Communications
3.1	Energy
1.8	Technology

Natural Resources

Natural Resources primarily focuses on investments in real assets in agriculture and timber (mainly land, water and biological assets), which are well suited to the liability profile of the pension plans for which PSP invests. The group also invests in related opportunities, primarily in the first layer of the supply chain post the farm gate (such as logistics, distribution and processing assets) and will continue to prioritize direct, long-term investments alongside like-minded, best-in-class local operating partners.

$6.8
Billion
Net AUM

$4.8
Billion
Net AUM (FY2018)

$574
Million
Performance income

11.1%
1-year
rate of return

9.2%
Benchmark return[1]

12.0%
5-year
annualized return

5.3%
Benchmark return

Summary of portfolio evolution

Natural Resources closed fiscal 2019 with a net AUM of $6.8 billion, up from $4.8 billion at fiscal 2018 year-end. The growth of the portfolio was mainly driven by $2.1 billion of net investment activity, predominantly in agriculture.

[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.

Fiscal year 2019 was marked by continued strong deployment in both Australia ($1.1 billion) and the US ($605 million) and a successful concerted effort to expand the group's footprint in selected regions in Latin America ($466 million).

Significant investments in new agriculture joint ventures, alongside mostly new partners, include acquisitions in:

- Latin America: ~5,000 hectares of permanent crop operations (mainly coffee, blueberries and avocados) in Brazil and Chile;
- North America: ~16,000 hectares of irrigated agriculture land in Maui for re-development into a diversified farming operation; and
- Australia: ~44,000 hectares of cereal farms in New South Wales, supported by an in-house logistics and trading business and 840 hectares of avocado orchards in Queensland, with an integrated marketing and distribution business.

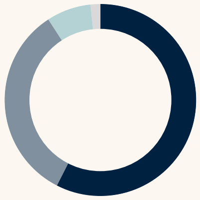
A notable development on the timber front included the strategic alliance of TimberWest and Island Timberlands, leading to the establishment of Mosaic Forest Management, which enables the shared use of facilities, enhanced forest stewardship and alignment of best practices.

Performance analysis

Natural Resources achieved strong results with a one-year rate of return of 11.1% in fiscal year 2019, compared to a benchmark return of 9.2%. Performance income reached $574 million, mainly driven by net valuation gains of $209 million and distributed income of $199 million. Foreign exchange gains of $166 million increased the one-year rate of return and the benchmark of the asset class by 3.3%.

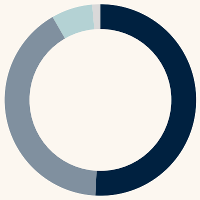
Valuation gains and distributed income were primarily attributable to our longstanding timber investments, whereas our investments in agriculture are more nascent and most of their free cash flow is being reinvested in expansion rather than generating distributions.

Over five years, Natural Resources achieved a rate of return of 12.0%, compared to a benchmark return of 5.3%, primarily due to strong performance from our timberland assets and early positive returns from our agriculture investments.



Geographic diversification
As at March 31, 2019 (%)

57.6	Australasia
33.3	North America
7.6	Latin America
1.5	Other



Diversification by sector
As at March 31, 2019 (%)

50.9	Agriculture
40.9	Timber
7.0	Oil and gas
1.2	Other

Complementary Portfolio

The Complementary Portfolio focuses on investments that are not within the mandate of an existing asset class but are deemed beneficial for the total fund. It provides PSP Investments with greater flexibility to capture investment opportunities that would not otherwise be pursued. While the focus so far has been on cross-asset transactions, more time will be devoted on incubator strategies, starting in fiscal year 2020. These strategies, which revolve around innovation and emerging themes, are expected to benefit PSP's medium- to long-term return through knowledge acquisition, sharing and transfer.

$1.4
Billion
Net AUM

$2.2
Billion
Net AUM (FY2018)

$(0.6)
Million
Performance income

0.04%
1-year
rate of return

7.2%
Benchmark return

15.6%
Since inception
annualized return
(2.2 years)

8.9%
Benchmark return

Summary of portfolio evolution

The Complementary Portfolio ended fiscal year 2019 with a net AUM of $1.4 billion, down from $2.2 billion at the end of fiscal year 2018. The decrease of $0.8 billion was mainly driven by dispositions and transfers to other asset classes of $1.0 billion and valuation losses of $0.3 billion. This was partially offset by acquisitions of $0.4 billion and currency gains of $0.1 billion.

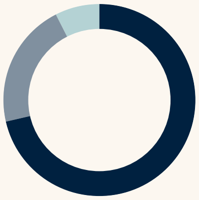
Performance analysis

In fiscal year 2019, the Complementary Portfolio generated a return of 0.04% compared to a benchmark return of 7.2%. These results were mainly driven by our publicly traded investment in the financial sector. This loss was partially compensated by small capital gains, income distributions and foreign exchange gains. Due to USD exposure, foreign exchange gains of $0.1 billion increased the one-year rate of return of the asset class by 2.0%.

Since its introduction in January 2017, the Complementary Portfolio exceeded its benchmark by more than 6.0%, with a return of 15.6% compared to 8.9% for the benchmark. While our publicly traded investment in the financial sector negatively impacted the fiscal year 2019 return, it was the key contributor of the excess return since introduction, followed by the foreign exchange gains.

Geographic diversification
As at March 31, 2019 (%)

100.0	US



Diversification by sector
As at March 31, 2019 (%)

71.5	Financials
21.1	Consumer discretionary
7.4	Materials

Operating expenses and total cost ratio

Operating expenses

PSP Investments' total operating expenses were $503 million or 31.7 bps (bps or basis point is a unit of measure to express the percentage of expenses in millions with AUM in billions. One basis point is 1/100th of 1%) in fiscal year 2019, compared to $450 million or 31.7 bps in fiscal year 2018.

For fiscal year 2019, the increase in operating expenses is mainly attributable to increased headcount as well as investments in technologies and strategic plan initiatives to deliver Vision 2021.

In fiscal year 2019, salaries and employee benefits totalled $291 million, compared to $262 million in fiscal year 2018. PSP Investments had 844 employees at March 31, 2019; an increase of 5% from 807 employees at March 31, 2018.

Headcount rose at our primary business office in Montréal, and in New York and London. At the end of fiscal year 2019, in our international offices, we had 53 employees in London, 34 employees in New York and one employee in Hong Kong. Approximately 23% of our total salaries and benefits are denominated in foreign currencies, compared to 18% in fiscal year 2018.

Occupancy costs for fiscal year 2019 totalled $28 million, compared to $23 million in fiscal year 2018.

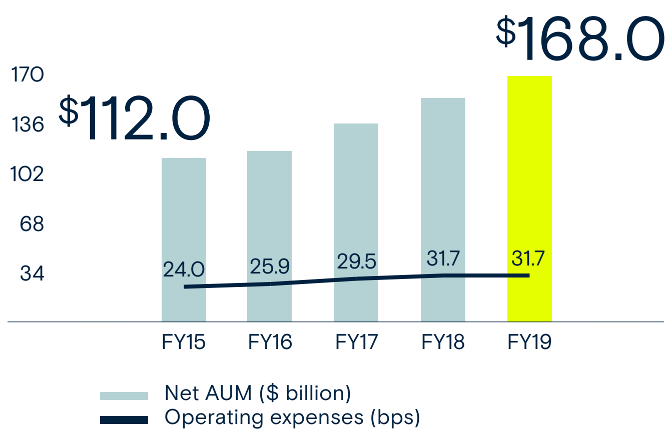
Over the past five years, PSP Investments has been building the organization and ramping up capabilities to achieve Vision 2021. The teams, strategies and portfolio have undergone significant transformations. During this time, operating expenses increased from 24.0 bps in fiscal year 2015 to 31.7 bps in fiscal year 2019. However, in the last three years, PSP Investments has seen signs of scalability in terms of a slower rate of increase in operating expenses year-over-year (12% in fiscal year 2019 versus 22% in fiscal year 2018 and 25% in fiscal year 2017). The ratio of Business Partners to Investment professionals is decreasing; 1.52 in fiscal year 2019 compared to 1.88 in fiscal year 2015. The enhanced cost-management approach that was implemented in fiscal year 2019 has helped keep the operating expenses ratio at 31.7 bps, the same level as in fiscal year 2018.

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

Total cost ratio

PSP Investments' total cost ratio decreased from 69.8 bps in fiscal year 2018 to 67.3 bps in fiscal year 2019. 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 decrease in the cost ratio is due to a less significant increase in management fees and transaction costs than our growth in assets under management.

Over the past five years, total costs increased from 58.8 bps in fiscal year 2015, peaked in fiscal year 2017 at 70.5 bps, and are currently at 67.3 bps in fiscal year 2019. As part of PSP Investments' Vision 2021, we have been reshaping our approach to investing. We continue to pursue internal active management, which started as early as fiscal year 2004, and we increased the allocation of the portfolio toward more private market asset classes. PSP investments believes that Private Markets offer great 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 and New York; and this year, we opened our Hong Kong office to gain better access to Asia Pacific regions. Associated costs for adopting Vision 2021 are reflected in the increases in operating expenses, transaction volumes as well as management fees.



Enterprise risk management

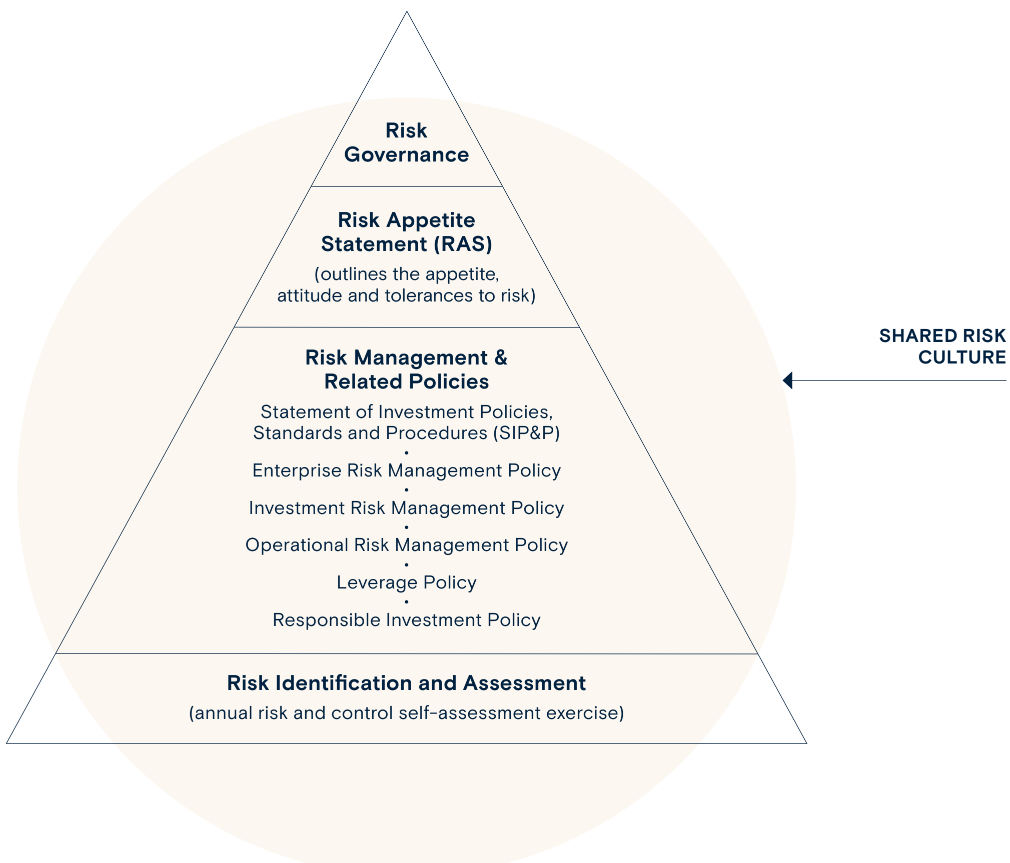
To achieve our mandate and deliver on our commitment to stakeholders, PSP Investments must take calculated risks and manage them appropriately. We follow a disciplined, integrated approach to risk management, and we strive to maintain a strong risk culture, in which all employees share responsibility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

We made a number of organizational changes and enhancements to our risk management practices in fiscal year 2019.

Among key initiatives, we refined our total fund investment risk management approaches. To support our total fund approach, we continued to build systems for generating high-quality, multi-dimensional total fund risk views. A key area of focus was on enhancing our total fund perspective, overseeing the risk framework across asset classes and highlighting interdependencies and potential impacts on PSP Investments' total portfolio and its ongoing evolution.

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), investment objectives, 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		
Risk and Investment	Senior Management Group	Valuation
New Business Activity	Portfolio Construction and Management	Operations Coordination

Three Lines of Defence Model

First line of defence Management and all employees	**Second line of defence** Governance, Risk, and Control functions	**Third 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, benchmarks, 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	• Strategic risk • Governance risk • Stakeholder risk • Legal and regulatory risk • Operational risk • Reputational risk	• Operational 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 Risk Officer who reports to the President and CEO. The Investment and Risk Committee of the Board of Directors meets quarterly with the Chief Risk Officer in in-camera meetings.

Capital management and liquidity

Capital management

The capital structure of PSP Investments consists of fund transfers and capital market debt financing.

Funds transferred

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.

Capital debt program

A robust governance framework and conservative approach to borrowing allows PSP Investments to leverage the strength of our balance sheet and AAA credit rating. PSP Investments uses capital market debt financing to enhance total portfolio returns, support asset classes in the implementation of their investment strategies and generate liquidity. The borrowings consist of short-term financing via Canadian promissory note and US commercial paper programs with a combined limit of $12 billion, as well as a Canadian senior unsecured medium-term note program. Total recourse debt outstanding is limited to 10% of PSP Investments' AUM. The programs are managed by Treasury to mitigate refinancing risk, with a balanced approach between short-term and medium-term financing.

Liquidity

Management utilizes appropriate measures and controls to monitor liquidity and meet its financial obligations as they come due. Furthermore, Management ensures that sufficient sources of liquidity are maintained for deployment in case of market disruption.

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

Current and future changes in accounting standards

Current Accounting Standards

IAS 28 Investment in Associates and Joint Ventures

IAS 28 was amended, effective for annual periods beginning on or after January 1, 2018, to add a clarification that serves to elaborate and clarify that the election to measure investees at fair value is available on an investment by investment basis and is not an election that must be applied consistently to the measurement of all associates and joint ventures. PSP Investments has applied the amendments as of April 1, 2018 and there was no impact on its Consolidated Financial Statements.

IFRS 9 Financial Instruments

In 2014, the IASB completed its project to replace IAS 39 *Financial Instruments: Recognition and Measurement* with IFRS 9. The Standard includes requirements for recognition, derecognition, classification and measurement of financial assets and liabilities, as well as impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early application permitted. PSP Investments early adopted IFRS 9 (2014) in the Consolidated Financial Statements for the year ended March 31, 2016. Significant accounting policies as they relate to recognition, derecognition, classification and measurement of financial assets and liabilities in connection with IFRS 9 are described under Note 2.3.1. There is no impact from the requirements relating to impairment and hedge accounting.

Future Accounting Standards

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

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.

One of the Governance Committee's primary responsibilities is succession planning for Board members. 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. We are pleased to have successfully onboarded our three newest directors, Maryse Bertrand, Katherine Lee and David C. Court.

For the first time in PSP Investments' history, we now have gender balance on the Board. The Board is also functioning at full capacity with no vacant positions.

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 2019. This included expanding the responsibilities of the Investment Committee (now called the Investment and Risk Committee) to include risk management.

In this section, we discuss key governance activities undertaken in fiscal year 2019 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

PSP Investments' operations and activities are overseen by a Board of Directors composed of 11 independent directors who perform 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 the management and overseeing risks of PSP Investments;
- **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 codes of conduct for directors and employees;
- Approving human resources and compensation policies, and 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 and develops related policies, and oversees application of the codes of conduct for employees and directors.
- **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 21, 2018.

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. More information 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. However, we have also developed a Code of Conduct for PSP Investments' Officers, Employees and Consultants and a separate Code of Conduct for Directors. The codes provide a practical framework to help individuals better understand PSP Investments' principles, values and expected business practices and behaviours.

Code of Conduct for Officers, Employees and Consultants

The Code of Conduct for PSP Investments' Officers, Employees and Consultants includes guidelines related to acting with integrity and honesty, compliance with applicable laws, conflicts of interests, fraud and corruption, confidential information, personal trading, gifts and more. Each year, employees must confirm in writing their commitment to complying with the Code. They are encouraged to report any suspected wrongdoings, without fear of retaliation, to their immediate supervisor, the PSP Investments Compliance Officer, or through an anonymous whistleblower reporting tool.

Code of Conduct for Directors

The Code of Conduct for Directors integrates various legislative requirements relating to professional ethics and conduct. In particular, it is intended to assist directors in identifying, minimizing and resolving real or potential conflicts of interest, so they can effectively exercise their duties on behalf of PSP Investments while maintaining their independence and integrity. Each year, directors must confirm in writing their commitment to complying with this Code.

Learn more

Code of Conduct for Officers, Employees and Consultants
Code of Conduct for Directors

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 lessons learned from the opening of international offices and objectives for future international expansion.

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 2019, the Human Resources and Compensation Committee sought the services of an external consultant.

The Governance Committee oversees the formal process for evaluating the performance of the Board Chair, the chairs of Board committees, individual directors and the Board as a whole. All directors, as well as the President and CEO, and certain 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 and expectations, and on concerns and opportunities for improvement. Any measures deemed necessary are subsequently implemented.

Fiscal year 2019 key activities

Investment and Risk Committee	• Reviewed and approved 10 investments. • Approved changes to the Risk Appetite Statement. • Reviewed the governance for cross asset class transactions.
Audit Committee	• Reviewed internal control procedures in preparation for the potential future launch of a global debt program. • Increased focus on cost containment measures as part of the annual budget process. • Approved a recent term debt issuance.
Governance Committee	• Reviewed Board and Committee responsibilities and recommended to the Board new Terms of Reference for the Board, its committees and the Board and committee chairs. • Supported management in enhancing PSP Investments' responsible investment strategy and disclosure practices. • Approved a new Code of Conduct to come into effect in fiscal year 2020. • Onboarded three new directors.
Human Resources and Compensation Committee	• Conducted a full review of succession planning for the CEO and Officers. • Supported the assessment and continuous improvement and operationalization of PSP Investments' compensation framework and incentive plans, including the implementation of a compensation framework for PSP's Hong Kong presence. • Supported the implementation of a new Canadian group insurance plan for all employees.

PSP Investments' Board of Directors met **9 times** in fiscal year 2019. Board committees met for a total of **29 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 and experiences to ensure that decisions are made with a view to having a Board that can provide the oversight and guidance needed for PSP Investments to fulfill its mandate.

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 areas. Directors report annually on their individual development plans.

On occasion, 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 **78**-**81**.

Remuneration

The Board's approach to director remuneration reflects the requirements of the *Act*. The Board reviews remuneration once every two years and considers changes based on recommendations prepared by the Governance Committee. No changes to director remuneration were approved in fiscal year 2019.

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 a director 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 2019 remuneration for directors was $1,217,565. 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 2019[1]	8	1	5	6	6		5	1	5	1
Diane Bean[2]	4/5	0/1	2/2	4/5	3/3					
Maryse Bertrand[3]	5/5		3/3	4/4					3/3	
Micheline Bouchard	8/8	1/1	5/5	6/6			5/5	1/1	5/5	1/1
David C. Court[4]	3/3		2/3	1/1						
Léon Courville	8/8	1/1	5/5	6/6	3/3		5/5	1/1	5/5	1/1
Garnet Garven	8/8	1/1	5/5	6/6	6/6		5/5	1/1		
Martin Glynn[5]	8/8	1/1	5/5	6/6						
Lynn Haight	8/8	1/1	5/5	6/6	6/6		5/5	1/1		
Timothy E. Hodgson	8/8	1/1	5/5	6/6					5/5	1/1
Miranda C. Hubbs[6]	8/8	1/1	5/5	6/6	2/2				4/4	
Katherine Lee[7]	5/6		3/4	4/4	3/4					
William A. MacKinnon	7/8	1/1	4/5	6/6	5/6					

1 Certain Committee meetings were held concurrently with Board of Directors meetings. All directors are members of the Investment and Risk Committee.

2 Ms. Bean's term as director ended on October 30, 2018.

3 Ms. Bertrand was appointed to the Board of Directors on September 7, 2018.

4 Mr. Court was appointed to the Board of Directors on October 30, 2018.

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

6 Ms. Hubbs became a member of the Human Resources and Compensation Committee on August 1, 2018 and ceased to be a member of the Audit Committee on the same date.

7 Ms. Lee was appointed to the Board of Directors on June 25, 2018.

Directors' compensation for fiscal year 2019

	Annual Retainer $	Chair of a Committee/ Annual Retainer $	Boards/ Committees Meeting Fees[1] $	Travel Fees $	Total $
Diane Bean	34,891		19,500		54,391
Maryse Bertrand	33,913		22,500		56,413
Micheline Bouchard	60,000	15,000	46,500		121,500
David C. Court	25,272		12,000	1,500	38,772
Léon Courville	60,000		46,500		106,500
Garnet Garven	60,000	15,000	46,500	10,500	132,000
Martin Glynn	200,000			10,500	210,500
Lynn Haight	60,000		46,500		106,500
Timothy E. Hodgson	60,000	15,000	39,000		114,000
Miranda C. Hubbs	60,000		39,000		99,000
Katherine Lee	45,989		22,500		68,489
William A. MacKinnon	60,000	15,000	34,500		109,500

1 A single meeting fee is awarded for Board and Committee meetings held concurrently.

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 2019, committee members were:

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

The HRCC's Terms of Reference, available on PSP's 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 2019 to assist the HRCC in its review of executive compensation. Hugessen reports solely to the HRCC.

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.

In 2017, following a comprehensive review, PSP Investments launched a new compensation framework, including a new Total Incentive Plan, which focused 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 2019 is the third year in which annual awards were determined under this plan.

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, Head of Principal Debt and Credit Investments
- Guthrie Stewart – Senior Vice President, Global Head of Private Investments
- Anik Lanthier – Senior Vice President, Public Markets and Absolute Return Strategies
- Darren Baccus – Senior Vice President, Global Head of Real Estate and Natural Resources

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 2019's investment performance benchmarks and value-added objectives are consistent with those for fiscal year 2018 and a thorough review is planned in fiscal year 2020 given the arrival of Eduard van Gelderen, PSP Investments' new Chief Investment Officer, in July 2018. The benchmarks and value-added objectives currently ensure that compensation levels are aligned and competitive with market; any planned review will incorporate 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 position total direct compensation near the median of our peers. We have the option to pay above this level for exceptional performance or below it for less than optimal performance.

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 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 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.

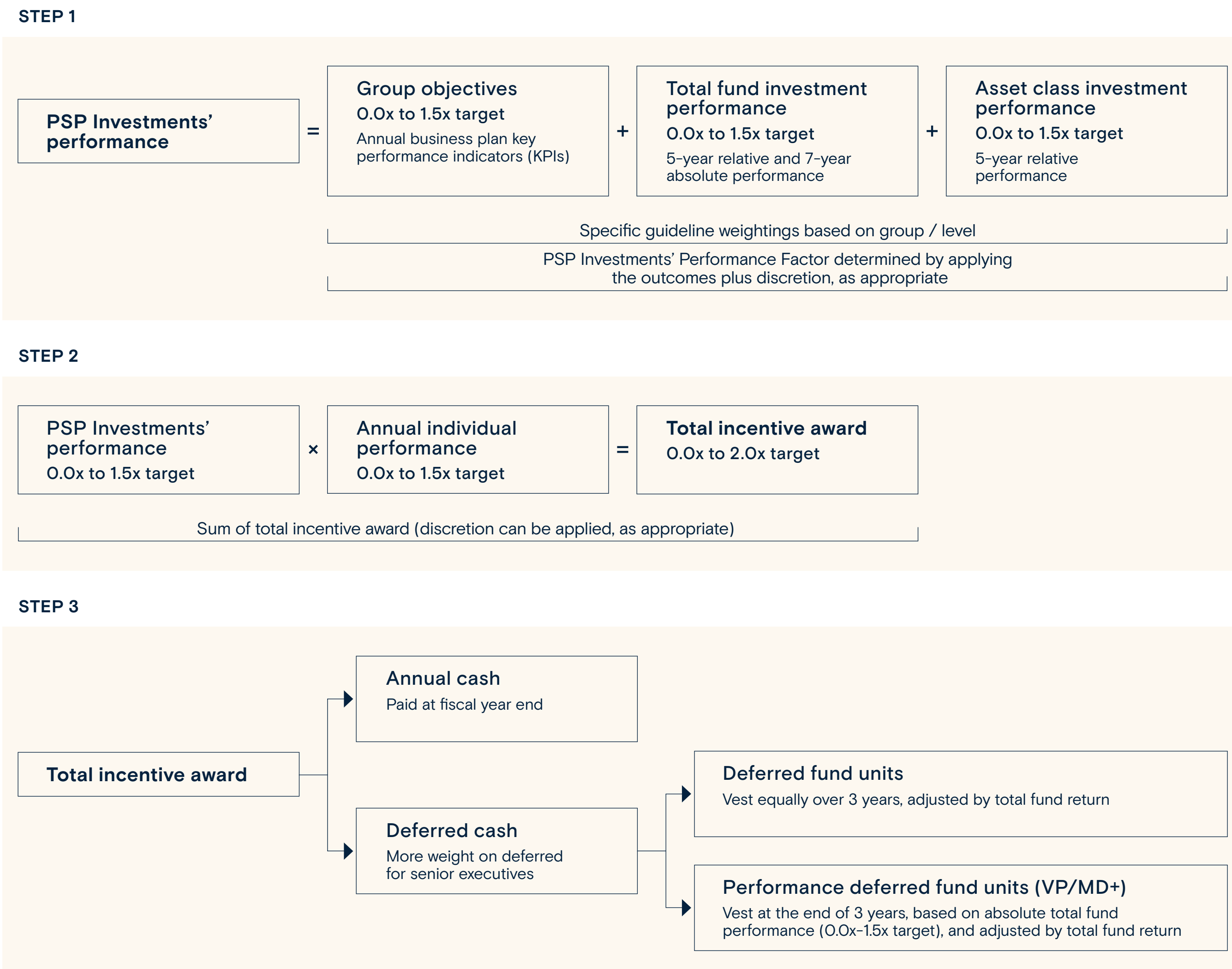
All employees participate in the same incentive plan and each employee has a target incentive opportunity based on his or her group and level. All employees can earn up to a maximum of two (2) times their target incentive opportunity.

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]



Note: As a result of the implementation of the new incentive program in fiscal year 2017, additional incentive payments may be made to honour historical grants, such as those authorized prior to fiscal year 2017, and other entitlements.

[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 off-set 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, long-term disability, critical illness, life insurance, accidental death and dismemberment, and access to an employee-assistance program.

Retirement savings:

Defined Benefit (DB) Pension Plan – Closed to new entrants as of January 1, 2014. 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:

Executives are provided with a perquisites allowance and are 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 (while earning total fund return). The other 50% is allocated to time-vested deferred fund units that vest one-third per year over three years (while earning 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 and pay out after three years (while earning total fund return). The other 60% is allocated to time-vested deferred fund units that vest one-third per year over three years (while earning 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 2019 results: performance outcomes and compensation decisions

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 2013, PSP Investments has generated a net return on investment of 10.0%, 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 2019, 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[2]
Total Fund	Above threshold but below maximum target
Active Fixed Income	Above threshold but below maximum target
Infrastructure	Exceeded target
Natural Resources	Exceeded target
Private Equity	Below threshold
Private Debt[1]	Exceeded target
Public Markets and Absolute Return Strategies	Above threshold but below maximum target
Real Estate	Exceeded target

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

[2] Threshold refers to the excess performance required to achieve the performance multiplier above 0.0x.
Target refers to the excess performance required to achieve the maximum performance multiplier of 1.5x.

Compensation decisions made in fiscal year 2019

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 2019, 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
- Strive for excellence
- Delegate responsibility and embrace empowerment
- Act with integrity
- Act as one team
- Be results driven

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

Compensation disclosure

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

The following tables illustrate NEOs selected and ranked by grant value in fiscal year 2019. The total compensation payout value received in fiscal year 2019 is also illustrated and includes cash received from former plans, new plans and any transitional arrangements.

Total direct compensation (grant value)

	Base salary	Annual cash	Deferred cash (grant)	Total direct compensation (grant)[1]
Neil Cunningham[2]	500,000	1,211,520	1,817,280	3,528,800
David J. Scudellari[3]	450,000	1,294,453	1,294,453	3,038,906
Guthrie Stewart[2]	350,000	950,355	950,355	2,250,710
Anik Lanthier[2]	350,000	876,549	876,549	2,103,098
Darren Baccus[2,4]	325,000	477,852	477,852	1,280,704

1 Total direct compensation granted includes both annual cash and deferred cash earned for fiscal year 2019. The incentive framework was effective April 1, 2016 for Canadian-based NEOs and effective April 1, 2017 for NEOs outside of Canada.

2 All amounts reported in CAD.

3 All amounts reported in USD.

4 Mr. Baccus was appointed Senior Vice President and Global Head of Real Estate and Natural Resources on November 1, 2018. He previously held the position of Senior Vice President and Chief Legal Officer.

Total direct compensation (payout value)

	Base salary	Annual cash	Deferred cash / LTIP (payout of previous grants)	Special RFUs (payout of previous grants)	Special cash	Total direct compensation (payout)
Neil Cunningham[1]	500,000	1,211,520	1,416,959	0	0	3,128,479
David J. Scudellari[2]	450,000	1,294,453	235,386	110,511	0	2,090,350
Guthrie Stewart[1]	350,000	950,355	868,381	0	0	2,168,736
Anik Lanthier[1,3]	350,000	876,549	795,742	331,534	0	2,353,825
Darren Baccus[1,4]	325,000	477,852	82,660	0	114,488	1,000,000

1 All amounts reported in CAD.

2 All amounts reported in USD.

3 Ms. Lanthier elected to defer her FY2017 RFU grant payment until March 31, 2019.

4 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. Mr. Baccus was awarded a discretionary cash bonus pursuant to his employment agreement included under “Special cash”.

Comprehensive fiscal year 2019 total compensation

	Fiscal year	Base salary (A)	STIP / Annual cash payout (B)	Deferred cash / LTIP grant (C)	Sub-total compensation (grant value) (A+B+C)	Restricted fund unit / Special cash grants (D)	Pension and SERP Plans (E)	**Total compensation (grant value)** (A+B+C+D+E)	Other compensation[1] (F)	Deferred cash + LTIP + RFU payout (G)	**Total compensation (payout value)** (A+B+F+G)
Neil Cunningham[2] President and Chief Executive Officer	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**
	2017	350,000	919,830	919,830	2,189,660	0	145,500	**2,335,160**	31,918	1,261,015	**2,562,763**
David J. Scudellari[3] Senior Vice President, Head of Principal Debt and Credit Investments	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**
	2017	350,000	n/a	n/a	350,000	250,000	22,274	**622,274**	1,678,029	93,982	**2,122,011**
Guthrie Stewart[2] Senior Vice President and Global Head of Private Investments	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**
	2017	350,000	1,016,756	1,016,756	2,383,512	250,000	18,130	**2,651,642**	413,172	0	**1,779,928**
Anik Lanthier[2, 4] Senior Vice President, Public Markets and Absolute Return Strategies	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**
	2017	300,000	807,509	807,508	1,915,017	382,101	26,500	**2,323,618**	160,344	510,390	**1,778,243**
Darren Baccus[2, 5] Senior Vice President and Global Head of Real Estate and Natural Resources	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**
	2017	108,750	76,710	76,710	262,170	296,595	7,438	**566,203**	308,965	0	**494,425**

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

2 All amounts reported in CAD.

3 All amounts reported in USD.

4 Ms. Lanthier elected to defer her FY2017 RFU grant payment until March 31, 2019.

5 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 FY2017 and FY2018, and a discretionary cash bonus for FY2017, FY2018 and FY2019, 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 to PSP Investments' NEOs.

	Award type	Fiscal year 2019 grant	Vesting period	Estimated future payouts		
				FY2020	FY2021	FY2022
Neil Cunningham[2]	Deferred cash[1]	1,817,280	3 years	302,880	302,880	1,211,520
	RFU	0	3 years	0	0	0
David J. Scudellari[3]	Deferred cash[1]	1,294,453	3 years	258,891	258,891	776,671
	RFU	0	3 years	0	0	0
Guthrie Stewart[2]	Deferred cash[1]	950,355	3 years	190,071	190,071	570,213
	RFU	0	3 years	0	0	0
Anik Lanthier[2]	Deferred cash[1]	876,549	3 years	175,310	175,310	525,930
	RFU	0	3 years	0	0	0
Darren Baccus[2]	Deferred cash[1]	477,852	3 years	95,570	95,570	286,711
	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, 2019) is shown in the following table.

	Plan	Awards paying out at the end of fiscal year			Total
		2020	2021	2022	
Neil Cunningham[2]	Deferred cash[1]	1,078,122	1,020,994	1,211,520	3,310,636
	RFU	0	0	0	0
	TOTAL	**1,078,122**	**1,020,994**	**1,211,520**	**3,310,636**
David J. Scudellari[3]	Deferred cash[1]	478,625	918,094	776,672	2,173,391
	RFU	0	0	0	0
	TOTAL	**478,625**	**918,094**	**776,672**	**2,173,391**
Guthrie Stewart[2]	Deferred cash[1]	1,000,167	790,199	570,213	2,360,579
	RFU	0	0	0	0
	TOTAL	**1,000,167**	**790,199**	**570,213**	**2,360,579**
Anik Lanthier[2]	Deferred cash[1]	844,893	730,547	525,930	2,101,370
	RFU	0	0	0	0
	TOTAL	**844,893**	**730,547**	**525,930**	**2,101,370**
Darren Baccus[2]	Deferred cash[1]	201,920	276,541	286,711	765,172
	RFU	0	0	0	0
	TOTAL	**201,920**	**276,541**	**286,711**	**765,172**

[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)	103,792	19,885	34,372	158,049
All amounts reported are in CAD					
Guthrie Stewart	Defined Contribution	94,903	23,155	30,869	148,927
Darren Baccus	Defined Contribution	61,749	22,750	30,018	114,517

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)

		Annual benefit					
	Number of years of credited service[1]	At year end[2]	At age 65[2,3]	Accrued obligation at beginning of year[2,4]	Compensatory increase[5]	Non-compensatory increase[6]	Accrued obligation at year end[2,7]
Neil Cunningham	11.4	89,300	126,500	1,413,900	364,400	(152,800)	1,625,500
Anik Lanthier	12.9	83,700	209,400	1,384,200	114,300	(106,100)	1,392,400

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, 2019.

4 Accrued obligation using a discount rate of 3.5%. The obligations are calculated as at March 31, 2018 using the assumptions and methods that were used for the accounting disclosures as at December 31, 2017.

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

6 Includes employee contributions and benefit payments (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 4.0%. 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.

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 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]	14.8	2,660,000	0
David J. Scudellari[3]	3.4	1,546,875	0
Guthrie Stewart[2]	3.6	1,203,125	0
Anik Lanthier[2]	12.9	1,443,750	0
Darren Baccus[2]	2.3	1,042,708	0

1 Assumes a notional termination as at March 31, 2019.
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[1]
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. 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 from McGill University and a Master in Risk Management from New York University, Stern School of Business.

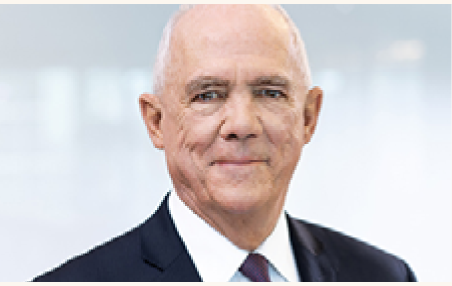
Micheline Bouchard

Board member since
September 29, 2011

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

Micheline Bouchard is a member of the Board of Directors of the Canada Foundation for Innovation and WinTerra Global Technologies. 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 the École Polytechnique, the engineering school affiliated with the Université de Montréal. She has been awarded five honourary doctorates from Canadian universities and been named one of the top 100 of Canada’s Most Powerful Women (2015). 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.

[1] Appointed as a member of the Governance Committee effective April 1, 2019.


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

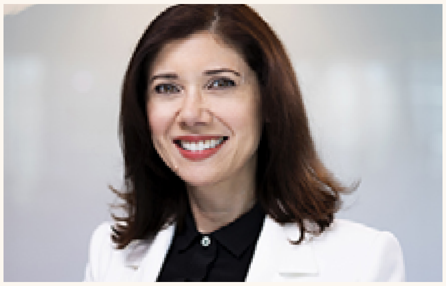
Léon Courville has devoted his entire career to the sciences of management and finance, serving as a professor and researcher at universities in Canada and the US before being appointed President of the National Bank of Canada. He enjoys an active "retirement" as a corporate director, an Associate Professor 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
Audit Committee
Governance Committee – Chair
Investment and Risk Committee

Garnet Garven is Dean Emeritus of the Paul J. Hill School of Business and of the Kenneth Levene Graduate School of Business at the University of Regina. He is a Management Board member of the Pension Budget Reserve Fund at the Organization for Economic Cooperation and Development in Paris and a member of Canada's Accounting Standards Board. More recently, he was a Senior Fellow at Canada's Public Policy Forum. He 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 is a founding Director of Greystone Managed Investments and former Chair and CEO of the Saskatchewan Workers' Compensation 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
Human Resources and Compensation Committee
Investment and Risk Committee – Chair

Timothy E. Hodgson is Managing Partner of Alignvest Management Corporation. He is the Chairman of Alignvest Acquisition II Corporation, and also serves on the board of Meg Energy Corporation and Hydro One. 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 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
Investment and Risk Committee

Miranda C. Hubbs is currently a Director of Nutrien, 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 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, and of Roy Thomson Hall in Toronto. 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)	**2019**	2018	2017	2016	2015	2014	2013	2012	2011	2010
CHANGE IN NET ASSETS[1]										
Net investment income (loss)	**11,616**	13,975	15,553	1,098	13,966	12,793	7,194	1,888	7,043	7,605
Operating expenses	**503**	450	370	295	243	216	184	148	114	92
Other comprehensive income (loss)	**(3)**	(14)	(4)	4	(15)	17	–	–	–	–
Comprehensive income (loss)	**11,110**	13,511	15,179	807	13,708	12,594	7,010	1,740	6,929	7,513
Fund transfers	**3,749**	3,921	3,622	3,987	4,554	4,997	4,635	4,733	4,814	4,980
Increase (decrease) in net assets	**14,859**	17,432	18,801	4,794	18,262	17,591	11,645	6,473	11,743	12,493
NET ASSETS UNDER MANAGEMENT										
Equity										
Public Market Equities[2]	**51,035**	51,813	55,227	47,511	56,276	49,466	40,165	32,950	32,834	23,659
Private Equity	**23,539**	19,382	15,868	12,520	10,103	8,425	6,924	6,444	5,582	5,426
Government Fixed Income[3]	**34,389**	27,783	24,043	24,603	22,646	18,383	15,433	14,144	11,956	10,001
Credit	**10,475**	8,857	4,418	640	–	–	–	–	–	–
Real Assets										
Real Estate[4]	**23,538**	23,245	20,551	20,356	14,377	10,650	9,427	7,055	5,312	5,118
Infrastructure	**16,818**	14,972	11,149	8,701	7,080	6,011	3,854	3,607	2,356	2,073
Natural Resources	**6,759**	4,833	3,711	2,470	1,536	795	382	325	–	–
Complementary Portfolio	**1,426**	2,201	656	–	–	–	–	–	–	–
Net AUM	**167,979**	**153,086**	**135,623**	**116,801**	**112,018**	**93,730**	**76,185**	**64,525**	**58,040**	**46,277**
PERFORMANCE (%)										
Annual rate of return (net of expenses)	**7.1**	**9.8**	**12.8**	**0.7**	**14.2**	**15.9**	**10.3**	**2.6**	**14.1**	**21.1**
Benchmark	7.2	8.7	11.9	0.3	13.1	13.9	8.6	1.6	12.7	19.8

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.

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