AUDITORS' REPORT

To the President of the Treasury Board

We have audited the Balance Sheet of the Public Sector Pension Investment Board – Public Service Pension Plan Account ("the Public Service Pension Plan Account") as at March 31, 2009, and the Statements of Net Loss from Operations and Comprehensive Income and of Changes in Net Assets for the year then ended. These financial statements are the responsibility of the Public Sector Pension Investment Board's (PSP Investments) management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Public Service Pension Plan Account as at March 31, 2009, and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

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

Deloitte & Touche LLP[1]

[1] Chartered accountant auditor permit No. 18527

Montreal, Canada
May 11, 2009

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
May 11, 2009

BALANCE SHEET

As at March 31

($ millions)	2009	2008
ASSETS		
Investments (Note 3 (a))	**$ 27,865**	$ 30,620
Investment-related assets (Note 3 (a))	**537**	1,693
Other assets	**26**	13
Due from the Canadian Forces Pension Plan Account (Note 7)	**6**	12
Due from the Royal Canadian Mounted Police Pension Plan Account (Note 7)	**2**	4
TOTAL ASSETS	**$ 28,436**	$ 32,342
LIABILITIES		
Investment-related liabilities (Note 3 (a))	**$ 3,897**	$ 4,019
Accounts payable and accrued liabilities	**43**	59
TOTAL LIABILITIES	**$ 3,940**	$ 4,078
NET ASSETS	**$ 24,496**	$ 28,264
Accumulated net income from operations and comprehensive income	**$ 184**	$ 7,131
Accumulated fund transfers	**24,312**	21,133
NET ASSETS	**$ 24,496**	$ 28,264

Commitments (Note 11)

The accompanying notes are an integral part of the financial statements.

On behalf of the Board of Directors:

Paul Cantor
Chair of the Board

Keith Martell
Chair of the Audit and Conflicts Committee

STATEMENT OF NET LOSS FROM OPERATIONS AND COMPREHENSIVE INCOME

For the year ended March 31

($ millions)	2009	2008
INVESTMENT LOSS (Note 6)	$ (6,884)	$ (143)
OPERATING EXPENSES (Note 7)	$ 63	$ 56
NET LOSS FROM OPERATIONS AND COMPREHENSIVE INCOME	$ (6,947)	$ (199)

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN NET ASSETS

For the year ended March 31

($ millions)	2009	2008
NET ASSETS, BEGINNING OF YEAR (as previously reported)	$ 28,264	$ 25,410
Change in accounting policy – financial instruments	–	(4)
NET ASSETS, BEGINNING OF YEAR (as restated)	$ 28,264	$ 25,406
Fund transfers (Note 5)	3,179	3,057
Net loss from operations and comprehensive income	(6,947)	(199)
(Decrease) increase in net assets for the year	(3,768)	2,858
NET ASSETS, END OF YEAR	$ 24,496	$ 28,264

The accompanying notes are an integral part of the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

ORGANIZATION

The Public Sector Pension Investment Board (PSP Investments) was formed pursuant to the *Public Sector Pension Investment Board Act* ("the Act") with a mandate to invest the net contributions of the Public Service, Canadian Forces and Royal Canadian Mounted Police pension plans in financial markets. At the end of March 2007, PSP Investments' mandate was expanded to include the investment of the net contributions of the Reserve Force pension plan. The first net contributions were received from the Reserve Force pension plan in April 2007.

The Public Service Pension Fund was established by amendments to the *Public Service Superannuation Act*, to receive contributions and make benefit payments in respect of member service after April 1, 2000. The net contributions are transferred, by the Public Service Pension Fund, to PSP Investments – Public Service Pension Plan Account for investment. PSP Investments maintains records of the pension fund's net contributions, as well as the allocation of its investments and the results of its operations in the plan account.

PSP Investments is responsible for managing amounts that are transferred to it in the best interests of the beneficiaries and contributors under the *Public Service Superannuation Act*. The amounts are to be invested with a view of achieving a maximum rate of return, without undue risk of loss, with regards to the funding, policies and requirements of the *Public Service Superannuation Act*.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

These financial statements present the financial position and operations of PSP Investments and its wholly-owned subsidiaries as they pertain to the investment of the net contributions transferred to it from the Public Service Pension Fund in respect of member service after April 1, 2000. Accordingly, they do not reflect all of the assets or the details of the pension contributions, payments and liabilities of the Public Service Pension Fund. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and the requirements of the Act. PSP Investments qualifies as an Investment Company and therefore reports its investments at fair value, in accordance with Accounting Guideline 18, "Investment Companies" (AcG-18). All changes in fair value were included in investment income as net unrealized gains or losses in the year the change occurred (Note 6 (a)).

Comparative figures have been reclassified to conform to the current year's presentation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

VALUATION OF INVESTMENTS

Investments for each asset class are recorded as of the trade date (the date upon which the substantial risks and rewards are transferred) and are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Market prices or rates are used to determine fair value where an active market exists (such as a recognized stock exchange), as it is the best evidence of the fair value of an investment. If quoted market prices or rates are not available, then fair values are estimated using present value or other valuation techniques, using inputs existing at the balance sheet dates. If available, market observable inputs are applied to valuation models.

Valuation techniques are generally applied to private equity, infrastructure and real estate investments as well as over-the-counter (OTC) derivatives. The values derived from applying these techniques are impacted by the choice of valuation model and the underlying assumptions made concerning factors such as the amounts and timing of future cash flows, discount rates, volatility and credit risk.

Fair values of investments are determined as follows:

(a) Cash & Cash equivalent investments are recorded at cost plus accrued interest, which approximate fair value, and are mostly comprised of cash, floating rate notes, term deposits and government short-term securities.

(b) Quoted market prices for public equities, using the bid price for long positions and the ask price for short positions, are used to present the fair value of these investments.

Unit values obtained from each of the funds' administrators, reflecting the market prices of the underlying securities, are used to present the fair value of pooled funds.

(c) Private equity and infrastructure investments are fair-valued at least annually.

The fair value for investments held directly by PSP Investments is determined using acceptable industry valuation methods such as earnings multiples, discounted cash flows analysis, price of recent investments and publicly traded comparables. Valuation techniques involve assumptions including discount rates and the projected length of cash flows. The valuation methodologies have been developed based on the *International Private Equity and Venture Capital Valuation Guidelines*.

In the case of investments in fund portfolios, fair value is generally determined based on the audited fair values reported by the fund's general partner using acceptable industry valuation methods.

For each investment the relevant methodology is applied consistently over time.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

VALUATION OF INVESTMENTS (continued)

(d) The fair value of investments in real estate held directly by PSP Investments is determined at least annually, using acceptable industry valuation methods, such as discounted cash flows and comparable transactions. Valuation techniques involve various assumptions including capitalization rate and the projected cash flows and/or net operating income. The assumptions are supported by observable market data. Management uses the services of a third-party appraiser to determine the fair value of real estate investments. These valuations are prepared using professional appraisal standards, such as the Canadian Uniform Standards of Professional Appraisal Practice and the Uniform Standards of Professional Appraisal Practice in the United States of America.

In the case of investments in fund portfolios, fair value is generally determined based on the audited fair values reported by the fund's general partner using acceptable industry valuation methods.

The fair value of real estate loans is estimated by discounting expected future cash flows using interest rates offered for similar loans to borrowers with similar credit ratings. Management may use the services of a third-party appraiser to determine the fair value of real estate loans.

For each investment the relevant methodology is applied consistently over time.

(e) Fixed income securities are valued at quoted market prices using the bid price for long positions and the ask price for short positions, where available. Where quoted market prices are not available, estimated values are calculated using either an appropriate interest rate curve with a spread associated with the credit quality of the issuer or other generally accepted pricing methodologies.

(f) All listed derivative financial instruments are recorded at fair value using quoted market prices with the bid price for long positions and the ask price for short positions. For derivatives traded OTC, appropriate valuation techniques, such as discounted cash flows using current market yields, are used to determine fair value. The assumptions used include the statistical behaviour of the underlying instruments and the ability of the model to price consistently with observed market transactions. For many pricing models there is no material subjectivity because the methodologies employed do not necessitate significant judgement and the pricing inputs are observed from actively quoted markets. Additionally, the pricing models used are widely accepted and used by other market participants.

The fair value of credit derivatives, including credit default swaps and synthetic collateralized debt obligations, are also determined based on valuation techniques. Certain assumptions are made with respect to the probability of the event of default of the underlying securities, of its recovery rate and its corresponding impact on cash distributions. The instrument is then valued by discounting the expected cash flows by an appropriate discount factor.

VALUATION OF CAPITAL DEBT FINANCING

The fair value of PSP Investments' short-term capital debt financing includes the cost amount and accrued interest, which approximates fair value. The fair value of PSP Investments' long-term capital debt financing is determined based on quoted market prices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

TRANSACTION COSTS

Transaction costs are incremental costs directly attributable to the acquisition, issue, or disposal of a financial asset or financial liability. Transaction costs are expensed as incurred and recorded as a component of investment income.

INVESTMENT MANAGEMENT FEES

Investment management fees are costs directly attributable to the external management of funds on behalf of PSP Investments. Investment management fees incurred for the Private Equity, Real Estate and Infrastructure asset classes are paid, as determined by the fund manager, either by the investment directly, through capital contributions by PSP Investments or offset against distributions received from the investment (Note 3 (a) (ii)). These amounts are recorded against investment income. Investment management fees are also incurred for certain public equity investments and these amounts are paid directly by PSP Investments and recorded against investment income (Note 6).

INCOME RECOGNITION

The investment income (loss) has been allocated proportionately based on the asset value held by the Public Service Pension Plan Account ("the Plan").

Investment income is made up of dividends, accrued interest income, realized gains and losses on the disposal of investments and unrealized gains and losses which reflect the change in unrealized appreciation (depreciation) of investments held at the end of the year. Dividend income is recognized on the ex-dividend date. Investment income from private market investments also includes the related distributions from pooled funds, limited partnerships as well as from direct and co-investments.

TRANSLATION OF FOREIGN CURRENCIES

Investment transactions in foreign currencies are recorded at the rates of exchange prevailing on the transaction date. Investments denominated in foreign currencies and held at the end of the year are translated at exchange rates in effect at the year-end date. The resulting realized and unrealized gains and losses on foreign exchange are included in investment income.

FUND TRANSFERS

Amounts received from the Public Service Pension Fund are recorded in its respective plan account.

INCOME TAXES

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

USE OF ESTIMATES

In preparing these financial statements, management must make certain estimates and assumptions which can affect the reported values of assets and liabilities, principally the valuation of private equity, infrastructure and real estate investments, related income and expenses and note disclosures. Actual results may differ from estimates.

2. CHANGES IN ACCOUNTING POLICIES

NEW ACCOUNTING STANDARDS

On April 1, 2008, PSP Investments adopted the *Canadian Institute of Chartered Accountants (CICA) Handbook* Section 1535, "Capital Disclosures", as well as Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation".

Section 1535, "Capital Disclosures" specifies the disclosure of (i) an entity's objectives, policies, and processes for managing capital, (ii) quantitative data about what the entity regards as capital, (iii) whether the entity has complied with any capital requirements, and (iv) if it has not complied, the consequences of such non-compliance. The adoption of this standard has no significant impact on PSP Investments' financial statements other than additional note disclosure in Note 9.

Section 3862, "Financial Instruments – Disclosures" and Section 3863, "Financial Instruments – Presentation" replace Section 3861, "Financial Instruments – Disclosure and Presentation". The new standards revise and enhance disclosures about the significance of financial instruments to the entity's financial position and performance, the nature and extent of the risks arising from financial instruments and how the entity manages those risks. The adoption of this standard is disclosed in Note 4.

Additionally, in January 2009, the Emerging Issues Committee (EIC) of the CICA issued EIC-173 "Credit risk and the fair value of financial assets and financial liabilities" which requires that the fair value of financial instruments (including derivative financial instruments) take into account the counterparties' credit risk for assets and PSP Investments' credit risk for liabilities. The adoption of EIC-173 did not have a significant impact on PSP Investments' financial statements.

FUTURE ACCOUNTING CHANGES

In February 2008, the Accounting Standards Board (AcSB) confirmed that Canadian GAAP for publicly accountable enterprises will be converged with International Financial Reporting Standards (IFRS) effective January 1, 2011. PSP Investments will be required to report under IFRS for interim and annual financial statements effective April 1, 2011 with IFRS comparatives.

PSP Investments is currently evaluating the impact of the adoption of IFRS on its financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

3. INVESTMENTS

(A) INVESTMENT PORTFOLIO

The investment portfolio, before allocating the effect of derivative contracts and investment-related assets and liabilities to the asset classes to which they relate, as at March 31, is as follows:

($ millions)	2009		2008	
	Fair Value	**Cost**	Fair Value	Cost
Developed World Equity				
Canadian Equity	**$ 4,608**	**$ 5,588**	$ 5,528	$ 5,146
US Large Cap Equity	**519**	**715**	1,341	1,516
EAFE Large Cap Equity	**842**	**1,340**	1,444	1,538
Small Cap Developed World Equity	**536**	**721**	998	1,180
Emerging Markets Equity	**1,059**	**1,333**	1,333	1,172
Private Equity	**3,080**	**3,611**	2,933	2,833
Nominal Fixed Income				
Cash & Cash Equivalents	**2,230**	**2,411**	2,665	2,664
World Government Bonds	**550**	**489**	1,300	1,306
Canadian Fixed Income	**5,280**	**5,307**	6,325	6,644
Real Return Assets				
World Inflation-Linked Bonds	**142**	**144**	150	142
Real Estate	**5,152**	**4,656**	4,165	3,374
Infrastructure	**1,966**	**1,693**	999	978
Absolute Return	**1,901**	**1,983**	1,439	1,464
INVESTMENTS	**$ 27,865**	**$ 29,991**	$ 30,620	$ 29,957
Investment-Related Assets				
Amounts receivable from pending trades	**$ 186**	**$ 191**	$ 1,293	$ 1,290
Derivative-related receivables	**351**	**47**	400	62
Total Investment-Related Assets	**$ 537**	**$ 238**	$ 1,693	$ 1,352
Investment-Related Liabilities				
Amounts payable from pending trades	**$ (366)**	**$ (367)**	$ (1,438)	$ (1,440)
Securities sold short	**(382)**	**(444)**	(528)	(542)
Derivative-related payables	**(1,240)**	**(71)**	(926)	(38)
Capital debt financing (Note 8)				
Short-term	**(1,145)**	**(1,145)**	(1,127)	(1,127)
Long-term	**(764)**	**(742)**	–	–
Total Investment-Related Liabilities	**$ (3,897)**	**$ (2,769)**	$ (4,019)	$ (3,147)
NET INVESTMENTS	**$ 24,505**	**$ 27,460**	$ 28,294	$ 28,162

NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2009

3. INVESTMENTS (continued)

(A) INVESTMENT PORTFOLIO (continued)

(i) Developed World Equity, Small Cap Developed World Equity and Emerging Markets Equity

Developed World Equity, Small Cap Developed World Equity and Emerging Markets Equity (referred to as "Public Market Equities") include common shares, American depository receipts, global depository receipts, participation notes, preferred shares, income trust units, exchange traded funds, and securities convertible into common shares of publicly listed issuers.

(ii) Private Equity, Real Estate and Infrastructure

The private equity asset class is comprised of direct investments and fund portfolios in equity ownerships or investments with the risk and return characteristics of equity. They include investments in private companies, mezzanine debt and distressed debt. As at March 31, 2009, the total amount of financing included in the private equity portfolio for direct investments controlled by PSP Investments for the Plan is nil (2008 – nil).

The real estate asset class is comprised of direct ownerships in properties, third-party debts and fund investments in the real estate sector. The real estate investments are classified into two portfolios (an equity portfolio and a debt portfolio). The equity portfolio is comprised of direct ownerships in income-producing properties in office, retail, industrial, hospitality and residential sectors, as well as private funds and publicly traded securities invested in real estate assets. The debt portfolio is comprised of third-party loans such as junior and senior debts, construction loans, bridge loans, income-participating loans, mezzanine loans and other structured investments where significant portions of the value are attributed to the underlying real estate assets. Real estate investments are made in accordance with the approved policies for leverage specifically applicable for this asset class. The real estate asset class is accounted for in the investment portfolio net of all third-party financings. As at March 31, 2009, the total amount of financing included in the real estate portfolio for direct investments controlled by PSP Investments for the Plan is approximately $2,720 million (2008 – $2,100 million).

Infrastructure investments are comprised of direct investments and fund portfolios in equity and debt instruments in public and private companies primarily engaged in the management, ownership or operation of assets in power, regulated businesses, transportation, telecom or social infrastructure. Infrastructure investments are made in accordance with the approved policies for leverage specifically applicable for this asset class. As at March 31, 2009, the total amount of financing included in the infrastructure portfolio for direct investments controlled by PSP Investments for the Plan is approximately $400 million (2008 – $250 million).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

3. INVESTMENTS (continued)

(A) INVESTMENT PORTFOLIO (continued)

(ii) Private Equity, Real Estate and Infrastructure (continued)

The fair value of certain direct investments in Private Equity and Infrastructure are determined using valuation techniques whereby certain assumptions cannot be fully supported by prices from observable current market transactions. Varying certain key elements of the valuation technique will have an impact on the fair value of the investments as at March 31, 2009. For example, increasing the discount rate by 50 bps would result in a decrease to the fair value of these investments of $171 million; decreasing the discount rate by 50 bps would result in an increase to the fair value of these investments of $281 million.

The Private Equity, Real Estate and Infrastructure asset classes are referred to as "Private Market Investments". The fair values of the majority of private market investments are reviewed at least annually, and any resulting adjustments are reflected as unrealized gains or losses in investment income. The fair value of private market investments that are invested in funds are determined based on the audited annual financial statements received from external investment managers.

Investment management fees, as disclosed in Note 1, are incurred for private market investments and generally vary between 0.2% and 5.5% of the total invested amount. Investment management fees of $140 million for the year ended March 31, 2009 (2008 – $91 million) were recorded against investment income.

(iii) Nominal Fixed Income and World Inflation-Linked Bonds

Nominal Fixed Income includes Cash & Cash Equivalents and Bonds. Cash on hand and cash equivalents include the following instruments having a maximum term of one year or less: demand deposits, Treasury bills, short-term notes, bankers' acceptances, term deposits and guaranteed investment certificates. Floating rate notes are considered cash and cash equivalents provided the coupons reset more than once per year. Bonds include Canadian government bonds, Canadian provincial and territorial bonds, Canadian municipal and corporate bonds, as well as international sovereign bonds.

PSP Investments held third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007.

Subsequent to the liquidity disruption event, PSP Investments participated in a restructuring process with other investors. On August 16, 2007, a standstill agreement was entered into by a number of significant investors and financial institutions that transacted with the non-bank sponsored conduits. The Pan-Canadian Investors Committee for Third-Party Structured Asset-Backed Commercial Paper ("the Investors' Committee") was subsequently formed, consisting of an important number of major ABCP investors, to oversee the restructuring process during this standstill period.

As part of the Investors' Committee restructuring plan, the following asset categories were pooled together under three separate vehicles: (1) leveraged super senior (LSS) tranches of collateralized debt obligations and other assets (collectively referred to as "LSS/Hybrid Assets"); (2) Traditional Assets which include securitized assets (for example, credit card receivables and auto loans); and (3) Ineligible Assets which include assets with uncertain credit quality by reason of their exposure to US subprime mortgages or otherwise. Investors in ABCP received long-term floating rate notes (for each of the aforementioned investment vehicles) with maturities based upon the maturity of the underlying assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

3. INVESTMENTS (continued)

(A) INVESTMENT PORTFOLIO (continued)

(iii) Nominal Fixed Income and World Inflation-Linked Bonds (continued)

Under the Investors' Committee restructuring plan, the LSS/Hybrid Assets were split into two separate and distinct master asset vehicles (MAV); the first, referred to as "MAV1", in which case investors elected to commit their pro rata share of a margin funding facility associated with their underlying assets; and the second, referred to as "MAV2", whereby investors are able to commit less than, or none of their pro rata share of a margin funding facility, in which case certain investors, foreign banks and Canadian banks will fund the remaining portion. PSP Investments participated in MAV1. Within the MAV1, the LSS/Hybrid assets were further restructured into different classes (Class A-1, Class A-2, Class B, Class C, Traditional Assets (TA) and Ineligible Assets (IA)) of floating rate notes in order to permit a credit rating to be obtained on two of these notes (Class A-1 and Class A-2). A third MAV, referred to as "MAV3", includes series secured solely by TA and IA notes. Additionally, the margin funding facilities in MAV1 and MAV2 are provided by third-party lenders, Canadian banks, asset providers, noteholders and the Federal and Provincial governments of Canada. These facilities are designed to reduce the risk that the newly formed vehicles will not be able to meet margin calls if future circumstances warrant them. The key parties to the restructuring have also agreed to enhance the transaction by including a moratorium which prevents collateral calls for a period of 18 months from the implementation and closing date of the restructuring.

As at January 21, 2009, the Investors' Committee implemented and closed the ABCP restructuring transaction. Pursuant to the terms of the restructuring, ABCP holders exchanged their investments for long-term floating rate notes. As at January 21, 2009, PSP Investments held ABCP with an overall face value of $1,962 million, of which $1,422 million has been allocated to the Plan. PSP Investments has adopted a valuation technique to determine the fair value of the long-term floating rate notes that were received.

Under the terms of the restructuring plan, PSP Investments has received $878 million of MAV1 Class A-1 notes, $590 million of MAV1 Class A-2 notes, $101 million of MAV1 Class B notes, $48 million of MAV1 Class C notes, $28 million of MAV1 TA tracking notes, $89 million of MAV1 IA tracking notes, $114 million of MAV3 TA tracking notes and $114 million of MAV3 IA tracking notes. The amounts that have been allocated to the Plan are as follows: $636 million of MAV1 Class A-1 notes, $428 million of MAV1 Class A-2 notes, $72 million of MAV1 Class B notes, $35 million of MAV1 Class C notes, $20 million of MAV1 TA tracking notes, $65 million of MAV1 IA tracking notes, $83 million of MAV3 TA tracking notes and $83 million of MAV3 IA tracking notes. In addition, PSP Capital Inc., a wholly-owned subsidiary of PSP Investments, has provided funding facilities of a maximum amount of $969 million to support potential margin calls on the long-term floating rate notes.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

3. INVESTMENTS (continued)

(A) INVESTMENT PORTFOLIO (continued)

(iii) Nominal Fixed Income and World Inflation-Linked Bonds (continued)

The MAV1 notes, excluding TA and IA notes, are expected to return approximately Banker's Acceptance (BA) plus 30 bps (before funding facility and administrative costs) and have an average maturity of eight years. The MAV1 and MAV3 TA tracking notes and the MAV1 and MAV3 IA tracking notes reflect the net return and maturity of the respective series' underlying assets (assumed to have a maturity of eight years). For the purpose of valuation, the restructured floating rate notes of MAV1, excluding TA and IA notes, were proxied to comparable eight-year floating rate notes as at January 21, 2009. The Class A-1 and Class A-2 notes are A-rated and the Class B and Class C notes are established at a credit rating of BB for valuation purposes, and accordingly, were proxied to floating rate notes with similar credit quality and terms. MAV1 and MAV3 TA tracking notes are assumed to be AAA-rated and to have a maturity of eight years and a return of BA + 40 bps. The TA tracking notes were proxied to comparable floating rate notes as at January 21, 2009. The MAV1 and MAV3 IA tracking notes contain principally assets that have exposure to US subprime loans and mortgages. A valuation of the IA tracking notes was performed based on the credit quality of the underlying assets. The implicit cost of the funding facilities, approximating 120 bps, reduces the expected yield of the long-term floating rate notes.

Based on the above valuation methodology, management's best estimate of the fair value of ABCP allocated to the Plan, prior to the exchange into long-term floating rate notes at January 21, 2009, is equal to approximately $704 million (March 31, 2008 – $1,105 million).

On March 31, 2009, PSP Investments measured the fair value of its new long-term floating rate notes. During this valuation, PSP Investments reviewed the assumptions made in its valuation technique, taking into consideration new information available as well as changes in the credit market environment. As at March 31, 2009, the fair value of the new long-term floating rate notes allocated to the Plan amounted to $755 million and the cumulative write-down on both the ABCP and new long-term floating rate notes allocated to the Plan amounted to $667 million, representing 47% of the original face value. The fair value calculation includes a negative amount of $68 million in respect of the funding facilities allocated to the Plan as at March 31, 2009.

The long-term floating rate notes allocated to the Plan are reported as Canadian fixed income under the investment portfolio (Note 3 (a)). The write-down on the ABCP is included as part of the absolute return on investment income in Note 6 (b).

The fair value of the long-term floating rate notes was established as a function of the information available as at March 31, 2009, which includes certain assumptions used in the valuation model such as interest rate spreads, assumed credit rating of restructured notes, expected returns of the restructured notes, as well as the maturity and liquidity of the restructured notes. Varying certain key elements of the valuation technique will have an impact on the fair value of the long-term floating rate notes allocated to the Plan as at March 31, 2009. For example, increasing interest rate spreads by 50 bps would result in a decrease to the fair value of the long-term floating rate notes allocated to the Plan by $44 million. The fair value of the long-term floating rate notes allocated to the Plan may change in future periods as a result of fluctuations in the major elements of the valuation methodology.

(iv) Absolute Return

In addition to the different asset classes outlined in the asset mix policy, PSP Investments employs a number of absolute return strategies, consisting of derivative financial products such as those described in Note 3 (b), whose objective is to generate positive returns regardless of market conditions.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2009

3. INVESTMENTS (continued)

(B) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts, the value of which is derived from changes in underlying assets, interest or exchange rates. PSP Investments uses derivative financial instruments to increase returns or to replicate investments synthetically. Derivatives are also used to reduce the risk associated with existing investments.

PSP Investments uses the following types of derivative financial instruments as described below:

(i) Swaps

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

(ii) Futures

Futures are standardized contracts to take or make delivery of an asset (buy or sell) at a specific time in the future for a specific price that has been agreed upon today. Futures are used to adjust exposures to specified assets without directly purchasing or selling the underlying assets.

(iii) Forwards

Forwards are contracts involving the sale by one party and the purchase by another party of a predefined amount of an underlying instrument, at a predefined price and a predefined date in the future. Forwards are used for yield enhancement purposes or to manage exposures to currencies and interest rates.

(iv) Options

Options are the right, but not the obligation, to buy or sell a given amount of an underlying security, index, or commodity, at an agreed-upon price stipulated in advance, either at a determined date or at any time before the predefined maturity date.

(v) Warrants and Rights

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

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

(vi) Collateralized Debt Obligations

A type of asset-backed security that is constructed from a portfolio of credit-related assets. Collateralized debt obligations are usually divided into several tranches with different credit risk levels and corresponding interest payments. Any losses are applied first to the more junior tranches (lowest risk rating) before moving up in seniority.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

3. INVESTMENTS (continued)

(B) DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

The following table summarizes the derivatives portfolio as at March 31:

($ millions)		2009		2008	
INVESTMENTS		**Notional Value**	**Fair Value**	Notional Value	Fair Value
Equity and Commodity Derivatives					
Futures		**$ 455**	**$ –**	$ 636	$ 6
Total Return Swaps		**2,109**	**77**	3,746	(30)
Variance Swaps		**78**	**5**	166	(2)
Warrants		**1**	**1**	27	7
Options:	Listed-purchased	**–**	**–**	137	4
	Listed-written	**–**	**–**	143	(5)
Currency Derivatives					
Forwards		**14,951**	**(126)**	10,422	(133)
Swaps		**–**	**–**	605	(52)
Options:	OTC-purchased	**449**	**5**	1,256	24
	OTC-written	**113**	**(1)**	666	(20)
Interest Rate Derivatives					
Bond forwards		**253**	**–**	2,008	2
Futures		**–**	**–**	1,035	–
Interest Rate Swaps		**2,852**	**(3)**	3,987	12
Total Return Swaps		**2,556**	**40**	2,444	11
Swaptions		**1,817**	**–**	5,241	–
Options:	Listed-purchased	**–**	**–**	631	1
	Listed-written	**1,807**	**–**	892	(2)
	OTC-written	**1,088**	**–**	–	–
Credit Derivatives: [1]					
	Purchased	**46**	**38**	46	21
	Sold	**1,183**	**(925)**	980	(370)
Total		**$ 29,758**	**$ (889)**	$ 35,068	$ (526)

[1] Credit derivatives include collateralized debt obligations and a credit default swap. PSP Investments, through sold credit derivatives, indirectly guarantees the underlying reference obligations. The maximum potential exposure is the notional amount of the sold credit derivatives as shown in the table above.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

3. INVESTMENTS (continued)

(B) DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The fair value of derivative contracts, as at March 31, is represented by:

($ millions)	**2009**	2008
Derivative-related receivables	**$ 351**	$ 400
Derivative-related payables	**(1,240)**	(926)
Total	**$ (889)**	$ (526)

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

($ millions)	**2009**	2008
Under 1 year	**$ 26,294**	$ 25,111
1 to 5 years	**3,024**	8,523
Over 5 years	**440**	1,434
Total	**$ 29,758**	$ 35,068

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

3. INVESTMENTS (continued)

(C) INVESTMENT ASSET MIX

The Statement of Investment Policies, Standards and Procedures (SIP&P) sets out the long-term target weights of the assets that shall be invested for the four Plan Accounts. Investments are classified by asset mix category as set out in the SIP&P based on the economic intent of the investment strategies of the underlying assets.

The net investments, as at March 31, are as follows:

($ millions)	2009			2008		
Asset Class	Fair Value		Policy Portfolio Long-Term Target	Fair Value		Policy Portfolio Long-Term Target
Developed World Equity						
Canadian Equity	$ 6,391	26.1%	30.0%	$ 8,377	29.6%	30.0%
US Large Cap Equity	672	2.7	5.0	1,280	4.5	5.0
EAFE Large Cap Equity	756	3.1	5.0	1,329	4.7	5.0
Small Cap Developed World Equity	566	2.3	5.0	1,401	5.0	5.0
Emerging Markets Equity	1,539	6.3	7.0	1,979	7.0	7.0
Private Equity	3,039	12.4	10.0	2,884	10.2	10.0
Nominal Fixed Income						
Cash & Cash Equivalents [1]	53	0.2	2.0	386	1.4	2.0
World Government Bonds	1,526	6.2	5.0	1,632	5.8	5.0
Canadian Fixed Income	3,084	12.6	8.0	3,521	12.4	8.0
Real Return Assets						
World Inflation-Linked Bonds	1,732	7.1	5.0	1,605	5.7	5.0
Real Estate	3,374	13.8	10.0	2,925	10.3	10.0
Infrastructure	1,773	7.2	8.0	975	3.4	8.0
NET INVESTMENTS	$ 24,505	100.0 %	100.0%	$ 28,294	100.0%	100.0%

[1] Includes amounts related to absolute return and real estate debt strategies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

3. INVESTMENTS (continued)

(D) SECURITIES LENDING

The Plan participates in securities lending programs whereby it lends securities in order to enhance portfolio returns. Any such securities lending requires collateral in cash, high-quality debt instruments or shares securities with a fair value equal to no less than 102% of the value of the securities lent. As at March 31, 2009, securities with an estimated fair value of $1,958 million (2008 – $3,701 million) were loaned out, while securities contractually receivable as collateral had an estimated fair value of $2,050 million (2008 – $3,842 million).

(E) SECURITIES COLLATERAL

The Plan deposited or pledged securities with a fair value of $755 million as collateral with various financial institutions as at March 31, 2009 (2008 – $298 million). Securities with a fair value of $77 million (2008 – $23 million) have been received from other counterparties as collateral. PSP Investments does not repledge any collateral held. All collateral deposited, pledged and received were held with counterparties who had a minimum credit rating of "A–" as at March 31, 2009. The terms and conditions are outlined in Note 4 (b) (i).

4. INVESTMENT RISK MANAGEMENT

Investment risk management is a central part of PSP Investments' strategic management. It is a continuous process whereby PSP Investments methodically addresses the risks related to its various investment activities with the goal of achieving a maximum rate of return without undue risk of loss and a sustained benefit within each activity and across the total portfolio.

A risk governance structure that includes required reporting on risk to all levels within the organization also ensures that appropriate objectives are pursued and achieved in line with the fulfillment of PSP Investments' legislated mandate. The Board of Directors and its committees oversee various issues related to risk and receive assurance from management and an independent internal auditor reporting directly to the Audit and Conflicts Committee.

The use of financial instruments exposes PSP Investments to credit and liquidity risks as well as market risks including foreign exchange and interest rate risks. These risks are managed in accordance with the Investment Risk Handbook, which is an integral part of PSP Investments' risk control system. The Investment Risk Handbook contains an Investment Risk Management Policy which supplements the SIP&P (Policy Portfolio). The Policy Portfolio determines a diversification strategy to mitigate risk whereby PSP Investments invests in a diversified portfolio of investments based on established criteria. Additionally, the objective of these policies is to provide a framework for the management of credit, liquidity and market risks. Derivative financial instruments, traded either on exchanges or OTC are one of the vehicles used to mitigate the impact of market risk.

Risk Management is responsible for overseeing the various risk management functions including, but not limited to, investment risk functions. Risk Management monitors these risks and reports to senior management on a continuous basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

4. INVESTMENT RISK MANAGEMENT (continued)

(A) MARKET RISK

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, volatility in share and commodity prices, interest rate, foreign exchange or other risk variables affecting all securities traded in the market.

Market risk is measured using the method known as Value-at-Risk (VaR). VaR is the maximum loss not exceeded with a given probability defined as the confidence level, over a given period of time. PSP Investments has chosen a yearly 95% confidence level to measure and report VaR. PSP Investments uses a Historical VaR model incorporating three years of monthly market returns which are scaled to a twelve-month holding period. Risk Management is responsible for implementing and maintaining a VaR measurement methodology for all asset classes and all financial risk factors.

Historical VaR is statistically valid under normal market conditions and does not specifically consider losses from severe market events. The Historical VaR model also assumes that the future will behave in a similar pattern to the past. If future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated. The VaR is an estimate of a single value in a distribution of potential losses that can be experienced. As a result, it is not an estimate of the maximum potential loss.

The goal of actively managing the portfolio is to outperform the policy portfolio benchmarks while maintaining the active risk under 400 basis points. Relative VaR, as a result, is the maximum amount of loss of total investments, with 95% certainty, relative to the policy portfolio benchmark over a twelve-month period.

The following table shows the total Relative VaR and the diversification effect as at March 31. The diversification effect captures the effect of holding different types of assets which may react differently in various types of situations and thus having the effect of reducing overall Relative VaR.

Active Risk Taken

(Relative VaR – $ millions)	2009	2008
Public Market Equities	$ 571	$ 300
Nominal Fixed Income	–	7
Real Return Assets	772	613
Absolute Return	841	148
Total Relative VaR (Undiversified)	2,184	1,068
Diversification Effect	(1,203)	(429)
Total Relative VaR	**$ 981**	$ 639

Risk Management monitors the absolute risk of the Policy Portfolio on a quarterly basis to ensure no undue loss may be experienced by PSP Investments.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2009

4. INVESTMENT RISK MANAGEMENT (continued)

(A) MARKET RISK (continued)

Generally, changes in VaR between reporting periods are due to changes in the level of exposure, volatilities and/or correlations among asset classes. Although VaR is a widely accepted risk measure, it must be complemented by other risk measures. PSP Investments therefore uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Stress testing and scenario analysis are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio would fare under such circumstances. Stress testing is also deployed to assess new product behaviour. Stress testing and scenario analysis are utilized as a complement to the Historical VaR measure in order to provide greater insight on the size of potential losses that may be experienced. PSP Investments uses the expected shortfall and tail analysis measures to determine this. Expected shortfall is defined as the conditional expectation beyond the VaR level. It is measured by averaging all data points showing a loss greater than VaR measured at a given confidence level. By increasing the confidence level of the VaR measure from 95% to 99%, PSP Investments is able to assess the size of the potential loss that would be exceeded one year out of 100 (instead of one year out of 20). Therefore, there is a greater probability for larger losses, at the 99% confidence level, in extreme market conditions. Risk Management presents a stress testing and scenario analysis report to senior management on a quarterly basis.

(i) Interest Rate Risk

Interest rate risk refers to the effect on the fair value of PSP Investments' net asset value due to fluctuations in interest rates. Changes in interest rates will directly affect the fair value of PSP Investments' assets. The most significant exposure to interest rate risk is the investment in bonds and real estate loans.

The terms to maturity of the investments, before allocating the effect of derivative contracts and investment-related assets and liabilities, as at March 31, are as follows:

	Terms to Maturity					
($ millions)	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	2009 Total	2008 Total
Government of Canada bonds	$ 927	$ 890	$ 173	$ 328	$ 2,318	$ 1,295
Provincial and Territorial bonds	219	299	195	359	1,072	940
Municipal bonds	9	16	36	3	64	86
Corporate bonds	91	430	296	1,009	1,826	4,004
Total Canadian Fixed Income	$ 1,246	$ 1,635	$ 700	$ 1,699	$ 5,280	$ 6,325
Total World Government Bonds	$ 7	$ 221	$ 178	$ 144	$ 550	$ 1,300
Total World Inflation-Linked Bonds	$ –	$ 13	$ 18	$ 111	$ 142	$ 150
Real Estate Loans [1]	$ 260	$ 264	$ –	$ 21	$ 545	$ 366
Grand Total	$ 1,513	$ 2,133	$ 896	$ 1,975	$ 6,517	$ 8,141

[1] Real Estate Loans are a component of the Real Estate asset class disclosed in Note 3 (a).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

4. INVESTMENT RISK MANAGEMENT (continued)

(A) MARKET RISK (continued)

(i) Interest Rate Risk (continued)

The terms to maturity of PSP Investments' capital debt financing are disclosed in Note 8.

Absolute return strategies, as described in Note 3, and derivative contracts are also subject to interest rate risk exposures. These exposures are reflected in the VaR calculation described in Note 4 (a).

Additionally, accounts receivable from pending trades and Cash & Cash equivalents are considered short-term in nature, and, as a result, their exposure to interest rate risk would not be significant.

(ii) Foreign Currency Risk

PSP Investments and its subsidiaries are exposed to currency risk through holdings of securities, units in pooled funds and units in limited partnerships of non-Canadian assets. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. To mitigate this risk, PSP Investments may take, through foreign exchange forward contracts, positions in foreign currencies. PSP Investments' policy is to hedge 50% of its foreign currency investments excluding emerging markets equity.

The underlying net foreign currency exposures, after allocating the effect of derivative contracts and investment-related assets and liabilities for both monetary and non-monetary items, as at March 31, are as follows:

	2009		2008	
Currency (in Canadian $)	**Fair Value** **($ millions)**	**% of Total**	Fair Value ($ millions)	% of Total
US Dollar	**$ 3,353**	**52.9%**	$ 4,227	52.8%
Euro	**1,498**	**23.6**	1,666	20.8
British Pound	**376**	**5.9**	666	8.3
Yen	**282**	**4.5**	464	5.8
Hong Kong Dollar	**217**	**3.4**	179	2.2
New Taiwan Dollar	**126**	**2.0**	167	2.1
Korean Won	**120**	**1.9**	178	2.2
Australian Dollar	**120**	**1.9**	136	1.7
Brazilian Real	**47**	**0.7**	313	3.9
Others	**202**	**3.2**	16	0.2
Total	**$ 6,341**	**100.0%**	$ 8,012	100.0%

PSP Investments and its subsidiaries also have commitments, denominated in foreign currencies of $5,154 million ($3,435 million US, €472 million, £2 million and 314 million South African Rands (ZAR)) which are not included in the foreign currency exposure table.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2009

4. INVESTMENT RISK MANAGEMENT (continued)

(B) CREDIT RISK

PSP Investments is exposed to credit risk, that is, the risk that the issuer of a debt security or a counterparty to a derivative contract is unable to meet its financial obligations.

Credit risk encompasses the risk of a deterioration of creditworthiness and the respective concentration risk. Credit risk monitoring entails an evaluation of the credit quality of each issuer to which PSP Investments is exposed. To perform this evaluation PSP Investments relies on four recognized credit rating agencies. A minimum of two credit ratings are used to classify each security; securities rated by only one agency are classified as "not rated". If the agencies disagree as to a security credit quality, PSP Investments uses the lowest of the available ratings.

To monitor the evolution of credit risk, PSP Investments periodically produces a concentration report by credit rating of all credit-sensitive financial securities with the exception of securities held in pooled funds or for private market investments. Concentration tables are also produced by issuer, geographic area and industry.

PSP Investments' concentration of credit risk by credit rating, as at March 31, is as follows:

	2009	2008
Investment grade (AAA to BBB–)	**88.7%**	86.5%
Below investment grade (BB+ and below)	**–**	0.3
Not rated:		
Rated by a single credit rating agency [1]	**8.5**	0.4
Not rated by credit rating agencies [2]	**2.8**	12.8
Total	**100.0%**	100.0%

[1] As at March 31, 2009, includes Class A-1 and Class A-2 ABCP holdings that were restructured and converted to floating rate long-term notes on January 21, 2009. These notes are A-rated by Dominion Bond Rating Service (DBRS) (Note 3 (a) (iii)).

[2] Includes Class A-1 and Class A-2 ABCP holdings that were not rated by DBRS as at March 31, 2008.

The breakdown of credit concentration risk does not include investments in distressed debt included in pooled funds in the amount of approximately \$2 billion as at March 31, 2009 (2008 – \$507 million). Such investments are excluded as they typically include debt securities of issuers close to default, and the investment in such securities are quasi-equity in nature.

As at March 31, 2009, PSP Investments also has a net notional exposure of \$1.4 billion to collateralized debt obligations, of which 71% of the dollar exposure is rated "Investment grade", as well as funding facilities of a maximum amount of \$969 million to support potential margin calls on the long-term floating rate notes (Note 3 (a) (iii)).

As at March 31, 2009, PSP Investments' maximum exposure to credit risk, not taking into consideration the excluded elements described above, amounts to approximately \$11.0 billion (2008 – \$13.6 billion).

(i) Counterparty Risk

Counterparty risk represents the credit risk from current and potential exposure related to transactions involving derivative contracts. In order to minimize derivative contract counterparty risk, PSP Investments deals only with counterparties with a minimum credit rating of "A–" as at the trade date, as provided by a recognized credit rating agency. PSP Investments monitors the credit ratings of counterparties on a daily basis and has the ability to terminate all trades with counterparties who have their credit rating downgraded below "A–" subsequent to the trade date. PSP Investments also uses credit mitigation techniques such as master-netting arrangements and collateral transfers through the use of Credit Support Annexes (CSA).

NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2009

4. INVESTMENT RISK MANAGEMENT (continued)

(B) CREDIT RISK (continued)

(i) Counterparty Risk (continued)

PSP Investments' policy also requires the use of the International Swaps and Derivative Association (ISDA) Master Agreement with all counterparties to derivative contracts. The ISDA Master Agreement provides the contractual framework within which dealing activities across a full range of OTC products are conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or other pre-determined events occur.

Additionally, the CSA to the ISDA Master Agreement enables PSP Investments to realize any collateral placed with it in the event of the failure of the counterparty and requires PSP Investments to contribute further collateral when requested. The CSA also regulates the exchange of collateral when the credit exposure to a counterparty exceeds a predetermined threshold. Note 3 (e) provides information on the collateral deposited and received.

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

(C) LIQUIDITY RISK

Liquidity risk corresponds to PSP Investments' ability to meet its financial obligations. PSP Investments' cash position is monitored on a daily basis. In general, investments in cash and cash equivalents, debt and public equities are expected to be highly liquid, as they will be invested in securities that are actively traded. Risk Management utilizes appropriate measures and controls to monitor liquidity risk in order to ensure that there is sufficient liquidity to meet financial obligations as they come due. A liquidity report taking into consideration future forecasted cash flows is prepared and presented to senior management on a weekly basis. This ensures that sufficient cash reserves are available to meet forecasted cash outflows. Additionally, a contingency plan, involving back-up sources of liquidity, is maintained and can be deployed in case of market disruption.

PSP Investments has the ability to raise additional capital through the use of its capital debt program. This program allows PSP Investments to issue short-term promissory notes and medium-term notes to a maximum amount of $3 billion and $1 billion, respectively. Note 8 provides additional information on the usage of the capital debt program.

The terms to maturity of the notional amount of derivatives, including related payable amounts, are disclosed in Note 3 (b). All other significant financial liabilities have a term to maturity of one year or less.

5. FUND TRANSFERS

PSP Investments received fund transfers of $3,179 million for the year ended March 31, 2009 (2008 – $3,057 million) from the Public Service Pension Fund. The transfers received are comprised of the net employer and employee contributions to the Public Service pension plan in respect of member service after April 1, 2000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

6. INVESTMENT INCOME (LOSS)

(A) INVESTMENT INCOME (LOSS)

Investment income (loss), for the year ended March 31, is as follows:

($ millions)	2009	2008
Interest income	$ 339	$ 527
Dividend income	297	269
Other income	173	79
Security lending income	5	7
Interest expense (Note 8)	(48)	(37)
Transaction costs	(26)	(16)
External investment management fees [1]	(38)	(45)
	702	784
Net realized (losses) gains [2]	(4,499)	1,138
Net unrealized losses [3]	(3,087)	(2,065)
Investment Income (Loss)	**$ (6,884)**	$ (143)

[1] These are amounts incurred for public market investments and paid directly by PSP Investments (Note 1). Amounts incurred for Private Market Investments are disclosed in Note 3 (a) (ii).

[2] Includes foreign currency losses of $439 million for the year ended March 31, 2009 (2008 – $425 million).

[3] Includes unrealized gains of $133 million for the year ended March 31, 2009 for certain direct investments in Private Equity and Infrastructure determined using valuation techniques for which certain assumptions cannot be fully supported by prices from observable current market transactions.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

6. INVESTMENT INCOME (LOSS) (continued)

(B) INVESTMENT INCOME (LOSS) BY ASSET MIX

Investment income (loss) by asset mix based on the economic intent of the investment strategies of the underlying assets as outlined in the SIP&P, for the year ended March 31, after allocating net realized and unrealized gains and losses on investments to the asset classes to which they relate, is as follows:

($ millions)	2009	2008
Developed World Equity		
Canadian Equity	$ (2,610)	$ 172
US Large Cap Equity	(326)	(341)
EAFE Large Cap Equity	(430)	(174)
Small Cap Developed World Equity	(357)	(461)
Emerging Markets Equity	(715)	124
Private Equity	(1,153)	190
Nominal Fixed Income		
Cash & Cash Equivalents	25	41
World Government Bonds	347	121
Canadian Fixed Income	142	214
Real Return Assets		
World Inflation-Linked Bonds	119	57
Real Estate	(566)	547
Infrastructure	81	19
Absolute Return [1]	(1,441)	(652)
Investment Income (Loss)	$ (6,884)	$ (143)

[1] Includes amounts related to real estate debt strategies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

7. EXPENSES

(A) ALLOCATION OF EXPENSES

The Act requires that the costs of operation of PSP Investments be charged to the plans for which it provides investment services. Under section 4(3) of the Act, the President of the Treasury Board shall determine to which plan account these costs will be charged, in consultation with the Minister of National Defence and the Minister of Public Safety. An allocation policy has been developed which allocates the direct costs of investment activities, such as external investment management fees and custodial fees, to each plan account, based upon the asset value of each plan account at the time the expense was incurred.

All other operating expenses, excluding the direct cost of investment activities listed above, for the year ended March 31, have been allocated as follows:

	2009	2008
Public Service Pension Plan Account	**72.6%**	72.6%
Canadian Forces Pension Plan Account	**20.1**	20.1
Royal Canadian Mounted Police Pension Plan Account	**7.2**	7.2
Reserve Force Pension Plan Account	**0.1**	0.1
Total	**100.0%**	100.0%

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

(B) OPERATING EXPENSES

Operating expenses allocated to this plan account, for the year ended March 31, consist of the following:

($ thousands)	**2009**	2008
Salaries and benefits	**$ 35,055**	$ 25,107
Professional and consulting fees	**7,255**	14,889
Office supplies and equipment	**6,374**	4,997
Other operating expenses	**5,797**	4,549
Depreciation of fixed assets	**3,381**	2,315
Occupancy costs	**2,624**	1,832
Custodial fees	**910**	1,482
Remuneration earned by Directors	**661**	553
Travel and related expenses for Directors	**278**	117
Communication expenses	**68**	118
Total	**$ 62,403**	$ 55,959

NOTES TO THE FINANCIAL STATEMENTS
For the year ended March 31, 2009

8. CAPITAL DEBT FINANCING

As of March 31, 2009, PSP Capital Inc., a wholly-owned subsidiary of PSP Investments, has $1,579 million (2008 – $1,551 million) of short-term promissory notes outstanding with maturity dates between 28 and 364 days of issuance, of which $1,145 million (2008 – $1,127 million) has been allocated to the Public Service Pension Plan Account and included in Note 3 (a) as a short-term investment-related liability. As at March 31, 2009, PSP Capital Inc. has $1 billion (2008 – nil) of medium-term notes issued and outstanding, of which $725 million (2008 – nil) has been allocated to the Public Service Pension Plan Account. These medium-term notes bear interest of 4.57% per annum and have a maturity date of December 9, 2013; $600 million of these medium-term notes were issued on December 9, 2008 and $400 million were issued on February 24, 2009. These medium-term notes are included in Note 3 (a) as a long-term investment-related liability. As at March 31, 2009, the fair value, including accrued interest, of these medium-term notes is $1,054 million (2008 – nil), of which $764 million (2008 – nil) has been allocated to the Public Service Pension Plan Account. The maximum authorized by the Board of Directors for the short-term promissory notes and medium-term notes is $3 billion and $1 billion, respectively. The capital raised was used primarily to finance real estate and infrastructure investments and is unconditionally and irrevocably guaranteed by PSP Investments.

The operating expenses incurred by PSP Capital Inc. were allocated to each plan account as described in Note 7 (a).

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

($ millions)	2009	2008
Short-term promissory notes	$ 41	$ 37
Medium-term notes	7	–
Total	**$ 48**	$ 37

9. CAPITAL MANAGEMENT

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

- To invest fund transfers, outlined in Note 5, in the best interests of the beneficiaries and contributors under the *Superannuation Acts*. The funds received are invested with a view of achieving a maximum rate of return, without undue risk of loss, with regards to the funding, policies and requirements of the pension plans established under the *Superannuation Acts*. The funds are also invested in accordance with the Investment Risk Management policies which are outlined in Note 4.
- To maintain an appropriate credit rating to achieve access to the capital markets at the lowest cost of capital. Through PSP Capital Inc., and its leverage policies, PSP Investments has the ability to raise capital by issuing short-term promissory notes and medium-term notes. Note 8 provides information on the capital debt financing and Note 4 (c) provides information on PSP Investments' liquidity. Additionally, as at March 31, 2009, PSP Investments has an operating line of credit of $10 million. As at March 31, 2009, no amounts have been withdrawn.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2009

10. GUARANTEES AND INDEMNITY

PSP Investments provides indemnification to its Directors, its Officers and to certain PSP Investments representatives who are asked to serve the boards or like bodies of entities in which PSP Investments has made a substantial investment. As a result, but subject to the Act, PSP Investments may be required to indemnify these parties for costs incurred, such as claims, actions or litigations in connection with the exercise of their duties. To date, PSP Investments has not received any claims nor made any payment for such indemnity.

As part of investment transactions, PSP Investments and its subsidiaries guaranteed letter of credit facilities. The beneficiaries of these letter of credit facilities have the ability to draw against these facilities to the extent that the contractual obligations, as defined in the related agreements, are not met. As at March 31, 2009, the maximum exposure of the plan was $11 million (2008 – $9 million).

As at March 31, 2009, PSP Investments agreed to guarantee, as part of an investment transaction, a non-revolving term loan. In the event of a default, the Plan would assume the obligation up to $292 million plus interest and other related costs.

PSP Investments also unconditionally and irrevocably guarantees all credit facilities, short-term promissory notes and medium-term notes issued by its wholly-owned subsidiary, PSP Capital Inc.

11. COMMITMENTS

PSP Investments and its subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. As at March 31, 2009, the outstanding commitments for the Plan amounted to $5,494 million ($3,356 million for private equity investments, $1,301 million for real estate investments, $419 million for public market investments and $418 million for infrastructure investments).