

— Financial Statements

and Notes to the Financial Statements

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Management's Responsibility

for Financial Reporting

The consolidated financial statements of the Public Sector Pension Investment Board ("PSP Investments") as well as the financial statements of the Public Service, the Canadian Forces, the Royal Canadian Mounted Police, and the Reserve Force Pension Plan Accounts (the "financial statements") have been prepared by management and approved by the Board of Directors. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB) and incorporated into the CPA Canada Handbook. Management is responsible for the contents of these financial statements and the financial information contained in the annual report.

On a yearly basis, we certify that the design of the internal control regarding financial information is sufficient and that the design and functioning of the financial information disclosure controls and procedures are effective. We report any significant deficiencies to the Audit Committee ("Committee") of the Board of Directors of PSP Investments.

In this regard, investments of PSP Investments held during the year ended March 31, 2017 and March 31, 2018 were in accordance with the *Public Sector Pension Investment Board Act* (the "Act") and the Statement of Investment Policies, Standards and Procedures (the "SIP&P").



Neil Cunningham
President and Chief Executive Officer

May 15, 2018

In addition, PSP Investments maintains records and systems of internal control and supporting procedures to provide reasonable assurance that PSP Investments' assets are safeguarded and controlled, and that transactions are in accordance with the applicable provisions of Part X of the *Financial Administration Act* and, as appropriate, the Act, the accompanying regulations, the by-laws, and the SIP&P.

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

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



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

May 15, 2018

Investment Certificate

The *Public Sector Pension Investment Board Act* (the “Act”) requires that a certificate be signed by a director on behalf of the Board of Directors, stating that the investments of the Public Sector Pension Investment Board (“PSP Investments”) held during the financial year were in accordance with the Act and PSP Investments’ investment policies, standards and procedures. Accordingly, the Investment Certificate follows:

“The investments of PSP Investments held during the year ended March 31, 2018, were in accordance with the Act and PSP Investments’ Statement of Investment Policies, Standards and Procedures”.



Martin J. Glynn
Chair of the Board
May 15, 2018

— Public Sector Pension Investment Board

Consolidated Financial Statements

Independent Auditors' Report

To the President of the Treasury Board

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Public Sector Pension Investment Board (PSP Investments), which comprise the consolidated statements of financial position as at March 31, 2018 and March 31, 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor

considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of PSP Investments as at March 31, 2018 and March 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards as issued by the International Accounting Standards Board have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of PSP Investments and its wholly-owned subsidiaries that have come to our notice during our audits of the consolidated 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.


Margaret Haire, CPA, CA
Principal
for the Auditor General of Canada

May 15, 2018
Ottawa, Canada



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

May 15, 2018
Montréal, Canada

Consolidated Statements of Financial Position

As at

(Canadian \$ millions)	March 31, 2018	March 31, 2017
Assets		
Investments (Note 4.1)	178,958	158,803
Other assets	181	170
Total assets	179,139	158,973
Liabilities		
Trade payable and other liabilities	273	231
Investment-related liabilities (Note 4.1)	13,679	12,373
Borrowings (Notes 4.1, 8.2)	12,193	10,807
Total liabilities	26,145	23,411
Net assets	152,994	135,562
Equity		
Statutory rights held by the Government of Canada with respect to: (Note 9.1)		
Public Service Pension Plan Account	111,066	98,447
Canadian Forces Pension Plan Account	30,145	26,653
Royal Canadian Mounted Police Pension Plan Account	11,095	9,835
Reserve Force Pension Plan Account	688	627
Total equity	152,994	135,562
Total liabilities and equity	179,139	158,973

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

On behalf of the Board of Directors:



Martin J. Glynn
Chair of the Board



William A. Mackinnon
Chair of the Audit Committee

Consolidated Statements of Comprehensive Income

For the years ended March 31

(Canadian \$ millions)	2018	2017
Investment income	14,420	15,913
Investment-related expenses (Note 10)	(445)	(360)
Net investment income	13,975	15,553
Operating expenses (Note 11)	(450)	(370)
Net income	13,525	15,183
Other comprehensive loss		
Remeasurement of the net defined benefit liability	(14)	(4)
Comprehensive income	13,511	15,179

Consolidated Statements of Changes in Equity

For the years ended March 31

(Canadian \$ millions)	2018	2017
Fund transfers		
Balance at beginning of period	69,810	66,188
Fund transfers received during the period (Note 9.3)	3,921	3,622
Balance at end of period	73,731	69,810
Retained earnings		
Balance at beginning of period	65,752	50,573
Comprehensive income	13,511	15,179
Balance at end of period	79,263	65,752
Total equity	152,994	135,562

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

Consolidated Statements of Cash Flows

For the years ended March 31

(Canadian \$ millions)	2018	2017
Cash flows from operating activities		
Net income	13,525	15,183
Adjustments for non-cash items:		
Depreciation of equipment (Note 11)	31	30
Effect of exchange rate changes on cash and cash equivalents	18	(48)
Unrealized (gains) losses on borrowings	(189)	416
	13,385	15,581
Net changes in operating assets and liabilities		
Increase in investments	(19,748)	(24,864)
(Increase) decrease in other assets	(9)	9
Increase in trade payable and other liabilities	28	40
Increase in investment-related liabilities	1,303	6,512
Net cash flows used in operating activities	(5,041)	(2,722)
Cash flow from financing activities		
Proceeds from borrowings	27,325	26,760
Repayment of borrowings	(25,747)	(25,220)
Fund transfers received (Note 9)	3,921	3,622
Net cash flows provided by financing activities	5,499	5,162
Cash flow from investing activities		
Acquisitions of equipment	(45)	(46)
Net cash flows used in investing activities	(45)	(46)
Net change in cash and cash equivalents	413	2,394
Effect of exchange rate changes on cash and cash equivalents	(18)	48
Cash and cash equivalents at the beginning of the period	3,830	1,388
Cash and cash equivalents at the end of the period^A	4,225	3,830
Supplementary disclosure of cash flow information		
Interest paid	(198)	(139)

^A As at March 31, 2018, cash and cash equivalents were comprised of \$4,212 million (March 31, 2017 - \$3,805 million) held for investment purposes and included in Note 4.1, as well as \$13 million (March 31, 2017 - \$25 million) held for administrative purposes and included in Other assets.

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

Notes to the Consolidated Financial Statements

For the years ended March 31, 2018 and 2017

1 — Corporate Information

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

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

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

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

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

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

2 — Significant Accounting Policies

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

2.1. Basis of Presentation

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

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

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

These Consolidated Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 15, 2018.

Plan Accounts

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

2 — Significant Accounting Policies

(continued)

2.2. Investment Entity Status

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

(i) Mandate and business purpose

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

(ii) Performance evaluation

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

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

As described in Note 13, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

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

2.3. Summary of Significant Accounting Policies

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

2.3.1. Financial Instruments

(i) Classification

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

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

(ii) Recognition

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

(iii) Initial and subsequent measurement

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

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

(iv) Derecognition

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

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

and

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

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

2 — Significant Accounting Policies

(continued)

2.3. Summary of Significant Accounting Policies

(continued)

2.3.2. Determination of Fair Value

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

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

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

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

2.3.3. Functional and Presentation Currency

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

2.3.4. Foreign Currency Translation

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

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

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

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

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

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

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

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

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

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

2 — Significant Accounting Policies

(continued)

2.3. Summary of Significant Accounting Policies

(continued)

2.3.7. Offsetting of Financial Instruments

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

2.3.8. Equity

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

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

2.3.9. Investment Income

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

2.3.10. Investment-Related Expenses

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

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

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets as outlined in Note 10.

2.3.11. Fund Transfers

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

2.4. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

3 — Current and Future Changes in Accounting Standards

3.1. Accounting Standards Adopted in the Current Year

IAS 7 Statement of Cash Flows

IAS 7 was amended, effective for annual periods beginning on or after January 1, 2017, to add new guidance on disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes. PSP Investments has applied the amendments as of April 1, 2017 and has made the required note disclosures in its Consolidated Financial Statements as reflected in Note 8.3.

3.2. Accounting Standards Adopted before the Effective Date

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 initially 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.

3.3. Future Accounting Standards

A number of new standards, amendments and interpretations have been issued by the IASB, but are not yet effective. The following relates to one or more of PSP Investments' significant accounting policies or disclosures:

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. Management has determined that the amendment will not have an impact on PSP Investments' Consolidated Financial Statements.

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

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

(Canadian \$ millions)	March 31, 2018	March 31, 2017
Public markets		
Canadian equity	4,262	6,358
Foreign equity	34,652	29,503
Private markets		
Real estate	26,693	24,338
Private equity	16,265	13,617
Infrastructure	17,842	13,203
Natural resources	5,339	4,269
Fixed income		
Cash and money market securities	11,376	12,369
Government and corporate bonds ^A	22,589	25,053
Inflation-linked bonds	12,357	7,724
Private debt securities	14,126	9,152
Other fixed income securities ^A	24	58
Alternative investments	8,748	8,015
	174,273	153,659
Investment-related assets		
Amounts receivable from pending trades	1,115	1,145
Interest receivable	420	318
Dividends receivable	133	133
Securities purchased under reverse repurchase agreements	1,867	2,653
Derivative-related assets	1,150	895
	4,685	5,144
Investments representing financial assets at FVTPL	178,958	158,803
Investment-related liabilities		
Amounts payable from pending trades	(1,164)	(1,076)
Interest payable	(56)	(39)
Securities sold short ^B	(6,577)	(4,222)
Collateral payable ^B	(3,573)	(5,091)
Securities sold under repurchase agreements	(575)	(1,107)
Derivative-related liabilities	(1,734)	(838)
Investment-related liabilities representing financial liabilities at FVTPL	(13,679)	(12,373)
Borrowings		
Capital market debt financing	(12,193)	(10,807)
Borrowings representing financial liabilities designated at FVTPL	(12,193)	(10,807)
Net investments	153,086	135,623

^A During the year ended March 31, 2018, floating rate notes were reclassified out of other fixed income securities and into government and corporate bonds in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted to decrease other fixed income securities by \$3,259 million and increase government and corporate bonds by the same amount.

^B During the year ended March 31, 2018, collateral payable was reclassified out of securities sold short and presented separately under the new caption collateral payable in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted for consistency.

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.1. Public Markets

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

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

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

4.1.2. Private Markets

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

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

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

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

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

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

4.1.3. Fixed Income

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

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Consolidated Statements of Cash Flows and amounted to \$4,212 million as at March 31, 2018 (March 31, 2017 – \$3,805 million). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

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

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

Other fixed income securities consist of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009.

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

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

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

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.4. Alternative Investments

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

4.1.5. Amounts Receivable and Payable from Pending Trades

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

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

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

4.1.6. Interest and Dividends Receivable

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

4.1.7. Interest Payable

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

4.1.8. Securities Sold Short

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

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

4.1.9. Collateral Payable

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

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

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

4.1.11. Borrowings under the Capital Market Debt Program

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

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.12. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

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

Warrants and Rights

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

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

Determination of Fair Value of Derivative Financial Instruments

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

(Canadian \$ millions)	March 31, 2018			March 31, 2017		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	3,794	-	-	1,404	-	-
Warrants and rights	3	3	-	3	8	-
Options: Purchased	10,589	252	-	3,871	31	-
Written	7,217	-	(144)	3,243	-	(27)
OTC						
Swaps	26,774	146	(649)	28,936	257	(113)
Options: Purchased	1,525	44	-	1,908	49	-
Written	853	-	(32)	1,856	-	(44)
Currency derivatives						
Listed						
Futures	121	-	-	137	-	-
OTC						
Forwards	27,751	198	(419)	28,152	99	(304)
Swaps	3,003	1	(56)	4,590	17	(43)
Options: Purchased	8,278	57	-	9,600	89	-
Written	8,502	-	(50)	9,754	-	(69)
Interest rate derivatives						
Listed						
Futures	14,600	-	-	7,939	-	-
Options: Purchased	49,524	18	-	34,398	6	-
Written	42,835	-	(15)	37,959	-	(3)
OTC						
Swaps	14,597	175	(145)	12,425	157	(95)
Options: Purchased	49,904	249	-	35,629	178	-
Written	52,207	-	(209)	46,973	-	(122)
OTC-cleared						
Swaps	65,171	-	-	39,161	-	-
Credit derivatives						
OTC						
Credit default swaps: Purchased	1,243	-	(15)	1,086	-	(18)
Written ^A	235	2	-	297	4	-
Options: Purchased	644	5	-	-	-	-
Written	-	-	-	-	-	-
OTC-cleared						
Credit default swaps: Purchased	1,241	-	-	831	-	-
Written ^A	602	-	-	1,187	-	-
Total		1,150	(1,734)		895	(838)

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

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

(Canadian \$ millions)	March 31, 2018			March 31, 2017		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Listed derivatives	128,683	273	(159)	88,954	45	(30)
OTC derivatives	195,516	877	(1,575)	181,206	850	(808)
OTC-cleared derivatives	67,014	–	–	41,179	–	–
Total		1,150	(1,734)		895	(838)

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

(Canadian \$ millions)	March 31, 2018	March 31, 2017
Less than 3 months	125,971	110,636
3 to 12 months	119,957	103,410
Over 1 year	145,285	97,293

4.2. Fair Value Hierarchy

4.2.1. Classification

Financial assets and financial liabilities described under Note 4.1 are classified within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
 - (i) Quoted prices for similar assets or liabilities in active markets.
 - (ii) Quoted prices for identical or similar assets or liabilities in markets that are not active.
 - (iii) Inputs other than quoted prices that are observable for the asset or liability.
 - (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

The classification within the levels of the hierarchy is established at the time of the initial determination of fair value of the asset or liability and reviewed at the end of each reporting period. PSP Investments determines whether a transfer between levels has occurred and recognizes such transfer at the beginning of the reporting period.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2018 classified within the fair value hierarchy:

(Canadian \$ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	3,400	862	–	4,262
Foreign equity	29,531	3,227	1,894	34,652
Private markets				
Real estate	–	–	26,693	26,693
Private equity	–	–	16,265	16,265
Infrastructure	–	–	17,842	17,842
Natural resources	–	–	5,339	5,339
Fixed income				
Cash and money market securities	–	11,376	–	11,376
Government and corporate bonds	–	22,425	164	22,589
Inflation-linked bonds	–	12,357	–	12,357
Private debt securities	–	–	14,126	14,126
Other fixed income securities	–	13	11	24
Alternative investments	–	1,668	7,080	8,748
	32,931	51,928	89,414	174,273
Investment-related assets				
Amounts receivable from pending trades	–	1,115	–	1,115
Interest receivable	–	420	–	420
Dividends receivable	–	133	–	133
Securities purchased under reverse repurchase agreements	–	1,867	–	1,867
Derivative-related assets	200	950	–	1,150
	200	4,485	–	4,685
Investments representing financial assets at FVTPL	33,131	56,413	89,414	178,958
Investment-related liabilities				
Amounts payable from pending trades	–	(1,164)	–	(1,164)
Interest payable	–	(56)	–	(56)
Securities sold short	(5,069)	(1,508)	–	(6,577)
Collateral payable	–	(3,573)	–	(3,573)
Securities sold under repurchase agreements	–	(575)	–	(575)
Derivative-related liabilities	(159)	(1,575)	–	(1,734)
Investment-related liabilities representing financial liabilities at FVTPL	(5,228)	(8,451)	–	(13,679)
Borrowings				
Capital market debt financing	–	(12,193)	–	(12,193)
Borrowings representing financial liabilities designated at FVTPL	–	(12,193)	–	(12,193)
Net investments	27,903	35,769	89,414	153,086

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2017 classified within the fair value hierarchy:

(Canadian \$ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	5,475	883	–	6,358
Foreign equity	25,728	3,480	295	29,503
Private markets				
Real estate	–	–	24,338	24,338
Private equity	–	–	13,617	13,617
Infrastructure	–	–	13,203	13,203
Natural resources	–	–	4,269	4,269
Fixed income				
Cash and money market securities	–	12,369	–	12,369
Government and corporate bonds ^A	–	24,796	257	25,053
Inflation-linked bonds	–	7,724	–	7,724
Private debt securities	–	–	9,152	9,152
Other fixed income securities ^A	–	41	17	58
Alternative investments	–	1,524	6,491	8,015
	31,203	50,817	71,639	153,659
Investment-related assets				
Amounts receivable from pending trades	–	1,145	–	1,145
Interest receivable	–	318	–	318
Dividends receivable	–	133	–	133
Securities purchased under reverse repurchase agreements	–	2,653	–	2,653
Derivative-related assets	45	850	–	895
	45	5,099	–	5,144
Investments representing financial assets at FVTPL	31,248	55,916	71,639	158,803
Investment-related liabilities				
Amounts payable from pending trades	–	(1,076)	–	(1,076)
Interest payable	–	(39)	–	(39)
Securities sold short ^B	(2,867)	(1,355)	–	(4,222)
Collateral payable ^B	–	(5,091)	–	(5,091)
Securities sold under repurchase agreements	–	(1,107)	–	(1,107)
Derivative-related liabilities	(30)	(808)	–	(838)
Investment-related liabilities representing financial liabilities at FVTPL	(2,897)	(9,476)	–	(12,373)
Borrowings				
Capital market debt financing	–	(10,807)	–	(10,807)
Borrowings representing financial liabilities designated at FVTPL	–	(10,807)	–	(10,807)
Net investments	28,351	35,633	71,639	135,623

^A During the year ended March 31, 2018, floating rate notes were reclassified out of other fixed income securities and into government and corporate bonds in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted to decrease other fixed income securities within Level 2 by \$3,259 million and increase government and corporate bonds within Level 2 by the same amount.

^B During the year ended March 31, 2018, collateral payable was reclassified out of securities sold short and presented separately under the new caption collateral payable in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted for consistency.

During the year ended March 31, 2018, listed equity securities with a fair value of \$43 million, classified as Level 2 as at March 31, 2017 were transferred to Level 1 as a result of trading restrictions having expired.

There were no transfers between Level 1 and Level 2 during the year ended March 31, 2017.

4 — Financial Assets and Financial Liabilities

(continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2018:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian \$ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets Foreign equity	Direct investments	1,894	Net asset value method (NAV) ^A	N/A	N/A
Private markets Real estate	Direct and co-investments	25,048	Discounted cash flow (DCF)	Discount rate ^{B, C}	5.00% – 22.10% (7.94%)
Terminal capitalization rate ^{B, C}				4.25% – 9.75% (5.92%)	
Direct capitalization			Capitalization rate ^{B, D}	2.75% – 9.09% (5.30%)	
			Stabilized occupancy rate ^{D, E}	94.00% – 100.00% (98.29%)	
Sales comparison approach			Price per square foot ^{D, E}	\$27.50 – \$1,107.92 (\$90.83)	
NAV ^A			N/A	N/A	
Transaction price			N/A	N/A	
Other private markets	Fund investments	1,645	NAV ^A	N/A	N/A
Other private markets	Direct and co-investments	27,221	DCF	Discount rate ^B	6.00% – 12.70% (8.94%)
			Market comparables	N/A	N/A
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
Other private markets	Fund investments	12,225	NAV ^A	N/A	N/A
Fixed income Corporate bonds	Convertible bonds	164	DCF	Discount rate ^B	4.70% – 10.00% (7.40%)
Private debt securities	Direct and co-investments	10,160	DCF	Discount rate ^B	5.90% – 17.25% (9.79%)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
Private debt securities	Fund investments	3,966	NAV ^A	N/A	N/A
Other fixed income	Asset-backed term notes	11	Third-party pricing ^A	N/A	N/A
Alternative investments	Fund investments	7,080	NAV ^A	N/A	N/A
Total		89,414			

^A In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2017:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian \$ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets Foreign equity	Direct investments	295	Net asset value method (NAV) ^A	N/A	N/A
Private markets Real estate	Direct and co-investments	22,916	Discounted cash flow (DCF)	Discount rate ^{B, C}	4.50% – 25.00% (8.06%)
Terminal capitalization rate ^{B, C}				4.25% – 10.25% (6.04%)	
Direct capitalization			Capitalization rate ^{B, D}	2.75% – 8.00% (5.69%)	
			Stabilized occupancy rate ^{D, E}	94.00% – 100.00% (97.77%)	
Sales comparison approach			Price per square foot ^{D, E}	\$2.82 – \$1,115.10 (\$153.82)	
NAV ^A			N/A	N/A	
Transaction price			N/A	N/A	
Other private markets	Fund investments	1,422	NAV ^A	N/A	N/A
	Direct and co-investments	21,639	DCF	Discount rate ^B	5.91% – 12.70% (9.36%)
			Market comparables	N/A	N/A
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
Fund investments	9,450	NAV ^A	N/A	N/A	
Fixed income Corporate bonds	Convertible bonds	257	DCF	Discount rate ^B	3.90% – 14.10% (7.50%)
Private debt securities	Direct and co-investments	4,861	DCF	Discount rate ^B	4.49% – 12.25% (9.07%)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
Other fixed income	Fund investments	4,291	NAV ^A	N/A	N/A
	Asset-backed term notes	17	Third-party pricing ^A	N/A	N/A
Alternative investments	Fund investments	6,491	NAV ^A	N/A	N/A
Total		71,639			

^A In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2018:

(Canadian \$ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains	Transfer out of Level 3	Closing Balance
Public markets	295	657	(57)	–	6	993	–	1,894
Private markets	55,427	9,836	(4,487)	–	1,115	4,261	(13)	66,139
Fixed income	9,426	7,820	(3,204)	(26)	218	67	–	14,301
Alternative investments	6,491	1,336	(935)	–	79	109	–	7,080
Derivative-related receivables/ payables (net)	–	17	–	(17)	–	–	–	–
Total	71,639	19,666	(8,683)	(43)	1,418	5,430	(13)	89,414

As at March 31, 2017, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2018, the investment was transferred to Level 2 as the related securities became publicly traded. The securities held by PSP Investments are unregistered and can only be sold upon their registration.

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2017:

(Canadian \$ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains	Transfer out of Level 3	Closing Balance
Public markets	–	261	–	–	–	34	–	295
Private markets	46,262	9,866	(2,738)	–	667	1,370	–	55,427
Fixed income	6,287	5,233	(1,950)	(679)	386	149	–	9,426
Alternative investments	5,398	918	(480)	–	53	602	–	6,491
Total	57,947	16,278	(5,168)	(679)	1,106	2,155	–	71,639

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2018 (March 31, 2017 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

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

(Canadian \$ millions)	March 31, 2018	March 31, 2017
Securities lending and borrowing		
Securities lent	11,554	13,241
Collateral held ^A	12,295	14,103
Securities borrowed	5,105	2,882
Collateral pledged ^B	5,285	3,021
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	584	1,110
Collateral pledged	584	1,109
Securities purchased under reverse repurchase agreements	1,883	2,661
Collateral held ^C	1,876	2,655
Derivative contracts		
Collateral pledged	1,779	309
Collateral held ^D	3	228

^A The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to \$3,505 million as at March 31, 2018 (March 31, 2017 – \$5,080 million) and securities amounted to \$8,790 million as at March 31, 2018 (March 31, 2017 – \$9,023 million). All cash collateral is reinvested.

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

^C The collateral received is in the form of securities of which \$1,508 million has been used in connection with short selling transactions as at March 31, 2018 (March 31, 2017 – \$1,355 million) and nil has been used in connection with securities sold under repurchase agreements (March 31, 2017 – \$207 million).

^D As part of collateral held, cash amounted to \$2 million as at March 31, 2018 (March 31, 2017 – \$10 million) and securities amounted to \$1 million as at March 31, 2018 (March 31, 2017 – \$218 million). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

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

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

(i) *Control and significant influence*

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

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

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

(ii) *Joint control*

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

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

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2018, 103 investment entity subsidiaries were incorporated in North America, 23 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2017 – 103 in North America, 23 in Europe, 10 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 80 investees directly or through its investment entity subsidiaries as at March 31, 2018 (March 31, 2017 – 77 investees).

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

Entity's Name	March 31, 2018		
	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
Revera Inc.	North America	100	Controlled investee
AviAlliance GmbH	Europe	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
Roccapina Fund, L.P.	North America	100	Controlled investee
TDF S.A.S.	Europe	22	Associate
Cubico Sustainable Investments Limited	Global	50	Jointly controlled investee
Big Box Properties	North America	49	Jointly controlled investee

Entity's Name	March 31, 2017		
	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
Revera Inc.	North America	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
AviAlliance GmbH	Europe	100	Controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
Roccapina Fund, L.P.	North America	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Telesat Holdings Inc.	North America	35	Associate
TDF S.A.S.	Europe	22	Associate
Big Box Properties	North America	49	Jointly controlled investee

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

6.2. Structured Entities

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

Information regarding structured entities is included, as applicable, within disclosures of investment risk management under Note 7, guarantees and indemnities under Note 15 and commitments under Note 16.

7 — Investment Risk Management

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

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

7.1. Market Risk

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

7.1.1. Measurement of Market Risk

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

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

The absolute volatility is statistically valid under normal market conditions and does not specifically consider losses from severe market events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

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

	March 31, 2018 (%)	March 31, 2017 (%)
Absolute volatility	7.2	7.6

Stress Testing

Although the absolute volatility is a widely accepted risk measure, it is complemented by other risk measurement methodologies that provide greater insight on market risk. PSP Investments uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of PSP Investments' net asset values. The terms to maturity of the classes of financial instruments, outlined in Note 4.1, with the most significant exposure to interest rate risk were as follows as at:

(Canadian \$ millions)	March 31, 2018					Total
	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	
Cash and money market securities	–	–	–	–	11,376 ^A	11,376
Government and corporate bonds	3,484	8,277	5,218	3,427	2,183 ^B	22,589
Inflation-linked bonds	–	4,102	4,411	3,844	–	12,357
Private debt securities	3	1,426	6,998	1,541	4,158 ^C	14,126
Other fixed income securities	11	–	–	–	13 ^B	24
Total fixed income	3,498	13,805	16,627	8,812	17,730	60,472

(Canadian \$ millions)	March 31, 2017					Total
	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	
Cash and money market securities	–	–	–	–	12,369 ^A	12,369
Government and corporate bonds ^D	2,443	9,430	6,093	3,828	3,259 ^B	25,053
Inflation-linked bonds	4	1,813	2,866	3,041	–	7,724
Private debt securities	79	894	3,553	–	4,626 ^C	9,152
Other fixed income securities ^D	17	21	–	–	20 ^B	58
Total fixed income	2,543	12,158	12,512	6,869	20,274	54,356

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

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

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

^D During the year ended March 31, 2018, floating rate notes were reclassified out of other fixed income securities and into government and corporate bonds in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted to decrease other fixed income securities within the "Other" column by \$3,259 million and increase government and corporate bonds within the "Other" column by the same amount.

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

Certain alternative investments, reverse repurchase agreements, as well as derivative contracts described in Notes 4.1.4, 4.1.10 and 4.1.12, respectively, are also subject to interest rate risk exposures. These exposures are reflected in the absolute volatility calculation described in Note 7.1.1.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

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

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

Currency	March 31, 2018		March 31, 2017	
	Fair Value (Canadian \$ millions)	% of Total	Fair Value (Canadian \$ millions)	% of Total
US Dollar	82,368	68.4	63,698	70.5
Euro	12,202	10.1	5,677	6.3
Japanese Yen	3,554	3.0	3,301	3.6
British Pound	2,953	2.5	2,781	3.1
Australian Dollar	2,637	2.2	1,167	1.3
South Korean Won	2,612	2.2	2,394	2.6
Hong Kong Dollar	2,397	2.0	1,194	1.3
Brazilian Real	2,156	1.8	2,040	2.3
Mexican Peso	1,956	1.6	791	0.9
Indian Rupee	1,377	1.1	1,234	1.4
New Taiwan Dollar	1,029	0.9	996	1.1
Swiss Franc	798	0.7	930	1.0
Others	4,342	3.5	4,196	4.6
Total	120,381	100.0	90,399	100.0

As at March 31, 2018, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of \$23,374 million (US\$14,668 million, €2,541 million, £180 million, 22 million South African rands, 13,553 million Colombian pesos and 1,439 million Mexican pesos) which were not included in the foreign currency exposure table above.

As at March 31, 2017, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of \$20,185 million (US\$12,532 million, €2,088 million, £190 million, 22 million South African rands, 58 million Brazilian reals, 13,553 million Colombian pesos, 232 million Mexican pesos and 126 million Australian dollars) which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

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

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

As at March 31, 2018, PSP Investments' maximum exposure to credit risk amounted to \$62 billion (March 31, 2017 – \$55 billion). This amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 15 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

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

Credit Rating	March 31, 2018 (%)	March 31, 2017 (%)
AAA-AA	51.2	54.2
A	20.9	20.0
BBB	2.5	4.5
BB or below	24.4	19.9
No rating ^A	1.0	1.4
Total	100.0	100.0

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

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

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

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

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

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

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

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

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

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

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

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

Financial Assets

(Canadian \$ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Consolidated Statements of Financial Position	Less: Related Amounts Not Set Off in the Consolidated Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2018						
Reverse repurchase agreements	1,867	–	1,867 ^A	496	1,371	–
OTC-derivatives	917	40	877 ^B	870	1	6
Total	2,784	40	2,744	1,366	1,372	6
March 31, 2017						
Reverse repurchase agreements	2,653	–	2,653 ^A	207	2,446	–
OTC-derivatives	856	6	850 ^B	609	174	67
Total	3,509	6	3,503	816	2,620	67

Financial Liabilities

(Canadian \$ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Consolidated Statements of Financial Position	Less: Related Amounts Not Set Off in the Consolidated Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2018						
Repurchase agreements	575	–	575 ^A	496	79	–
OTC-derivatives	1,615	40	1,575 ^B	869	705	1
Collateral payable	2	–	2 ^C	1	–	1
Total	2,192	40	2,152	1,366	784	2
March 31, 2017						
Repurchase agreements	1,107	–	1,107 ^A	207	900	–
OTC-derivatives	814	6	808 ^B	609	184	15
Total	1,921	6	1,915	816	1,084	15

^A As described in Note 4.1.10.

^B As described in Note 4.1.12.

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

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

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

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

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2018 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities^A				
Amounts payable from pending trades	(1,164)	–	–	(1,164)
Interest payable	(54)	(2)	–	(56)
Securities sold short	(6,577)	–	–	(6,577)
Collateral payable	(3,573)	–	–	(3,573)
Securities sold under repurchase agreements	(575)	–	–	(575)
Capital market debt financing	(4,731)	(1,589)	(5,873)	(12,193)
Trade payable and other liabilities	(170)	–	(103)	(273)
Total	(16,844)	(1,591)	(5,976)	(24,411)
(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	500	241	409	1,150
Derivative-related liabilities ^A	(828)	(477)	(429)	(1,734)
Total	(328)	(236)	(20)	(584)

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

Financial Liabilities (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2017 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities^A				
Amounts payable from pending trades	(1,076)	-	-	(1,076)
Interest payable	(37)	(2)	-	(39)
Securities sold short ^B	(4,222)	-	-	(4,222)
Collateral payable ^B	(5,091)	-	-	(5,091)
Securities sold under repurchase agreements	(1,107)	-	-	(1,107)
Capital market debt financing	(5,771)	(1,240)	(3,796)	(10,807)
Trade payable and other liabilities	(154)	(2)	(75)	(231)
Total	(17,458)	(1,244)	(3,871)	(22,573)

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	236	337	322	895
Derivative-related liabilities ^A	(392)	(180)	(266)	(838)
Total	(156)	157	56	57

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

^B During the year ended March 31, 2018, collateral payable was reclassified out of securities sold short and presented separately under the new caption collateral payable in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted for consistency.

8— Borrowings

8.1. Credit Facilities

During the year ended March 31, 2017, PSP Investments entered into a revolving credit facility in the amount of \$2 billion and a demand line of credit in the amount of \$1 billion (together “the Credit Facilities”).

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

These Credit Facilities were not drawn upon as at March 31, 2018 and March 31, 2017.

8.2. Capital Market Debt Financing

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

The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. During the year ended March 31, 2018, a combined limit of \$12 billion for the Canadian and U.S. short-term promissory note component replaced the segregated limits of \$3 billion for issuances in Canada and US \$5 billion for issuances in the United States for the year ended March 31, 2017.

PSP Investments’ capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2018 and March 31, 2017.

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

(Canadian \$ millions)	March 31, 2018		March 31, 2017	
	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 1.16% and 1.85% and maturing within 26 and 364 days of issuance (March 31, 2017 – between 0.57% and 0.78%, maturing within 26 and 273 days)	948	944	1,348	1,346
Short-term US Dollar promissory notes, bearing interest between 1.39% and 2.17% and maturing within 28 and 365 days of issuance (March 31, 2017 – between 0.68% and 1.16%, maturing within 30 and 266 days)	5,389	5,376	5,671	5,665
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	1,000	1,023	500	528
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	985	1,026	985	1,060
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	1,250	1,213	1,250	1,236
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	965	945	970	972
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	1,710	1,666	-	-
Total	12,247	12,193	10,724	10,807

Unrealized gains in connection with borrowings amounted to \$189 million for the year ended March 31, 2018 (unrealized losses of \$416 million for the year ended March 31, 2017).

8— Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

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

(Canadian \$ millions)	2018	2017
Short-term promissory notes	77	50
Medium-term notes	116	84
Total	193	134

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2018.

(Canadian \$ millions)	Opening balance	Proceeds from borrowing	Repayment of borrowings	Non-cash changes		Closing balance
				Foreign exchange gains	Fair value ^A gains	
Capital market debt financing	10,807	27,291	(25,713)	(37)	(155)	12,193
Credit facilities	–	34	(34)	–	–	–
Borrowings	10,807	27,325	(25,747)	(37)	(155)	12,193

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2017.

(Canadian \$ millions)	Opening balance	Proceeds from borrowing	Repayment of borrowings	Non-cash changes		Closing balance
				Foreign exchange losses	Fair value ^A gains	
Capital market debt financing	8,851	26,760	(25,220)	459	(43)	10,807
Borrowings	8,851	26,760	(25,220)	459	(43)	10,807

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

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 12.

9.2. Shares Issued

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

9.3. Fund Transfers

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

(Canadian \$ millions)	2018	2017
Public Service Pension Fund	2,814	2,712
Canadian Forces Pension Fund	827	659
Royal Canadian Mounted Police Pension Fund	280	251
Reserve Force Pension Fund	-	-
Total	3,921	3,622

10 — Investment-Related Expenses

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

(Canadian \$ millions)	2018	2017
Interest expense	213	151
Transaction costs	139	134
External investment management fees ^A	41	32
Other (net)	52	43
Total	445	360

^A Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to \$161 million for the year ended March 31, 2018 (\$152 million for the year ended March 31, 2017). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.5% of the total invested and/or committed amount, totaled \$312 million for the year ended March 31, 2018 (\$296 million for the year ended March 31, 2017). Such fees are embedded in the fair value of the investments.

11 — Operating Expenses

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

(Canadian \$ millions)	2018	2017
Salaries and employee benefits	262	210
Professional and consulting fees	72	61
Premises and equipment	26	21
Market data and business applications	31	27
Depreciation of equipment	31	30
Custodial fees	5	4
Other operating expenses	23	17
Total	450	370

12 — Allocation of Comprehensive Income

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

12.1. Investment Income

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

12.2. Expenses

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

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

(%)	2018	2017
Public Service Pension Plan Account	72.6	72.5
Canadian Forces Pension Plan Account	19.7	19.7
Royal Canadian Mounted Police Pension Plan Account	7.2	7.3
Reserve Force Pension Plan Account	0.5	0.5
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.

13 — Related Party Transactions

13.1. Certain Investees

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 15 and 16, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income as those with unrelated parties.

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

13.2. The Government of Canada and Government-Related Entities

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

(i) The Government of Canada

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

(ii) Government-Related Entities

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

13.3. Compensation of Key Management Personnel

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

(Canadian \$ millions)	2018	2017
Short-term compensation and other benefits	20	16
Long-term compensation and other benefits	5	8
Total	25	24

As disclosed in Note 15, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

14 — Capital Management

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

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

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

15 — Guarantees and Indemnities

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

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

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

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

- As at March 31, 2018 and March 31, 2017, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to \$2,550 million as at March 31, 2018 (March 31, 2017 – \$2,077 million) plus applicable interest and other related costs. The arrangements mature between November 2018 and November 2029 as of March 31, 2018 (March 31, 2017 – between May 2017 and September 2028).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling \$53 million as at March 31, 2018 (March 31, 2017 – \$35 million) in relation to investment transactions.

16 — Commitments

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

(Canadian \$ millions)	March 31, 2018	March 31, 2017
Foreign equity	5	–
Real estate	2,292	2,826
Private equity	11,342	9,062
Infrastructure	3,879	3,750
Natural resources	457	755
Private debt securities	3,758	3,110
Alternative investments	2,232	1,242
Total	23,965	20,745

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2018 (March 31, 2017 – 2035).

— Royal Canadian Mounted Police Pension Plan Account

Financial Statements

Independent Auditors' Report

To the Minister of Public Safety and Emergency Preparedness

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Sector Pension Investment Board – Royal Canadian Mounted Police Pension Plan Account (the Royal Canadian Mounted Police Pension Plan Account), which comprise the statements of financial position as at March 31, 2018 and March 31, 2017, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Royal Canadian Mounted Police Pension Plan Account as at March 31, 2018 and March 31, 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards as issued by the International Accounting Standards Board have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions in the Royal Canadian Mounted Police Pension Plan Account that have come to our notice during our audits 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 the Public Sector Pension Investment Board and its wholly-owned subsidiaries.


Margaret Haire, CPA, CA
Principal
for the Auditor General of Canada

May 15, 2018
Ottawa, Canada



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

May 15, 2018
Montréal, Canada

Statements of Financial Position

As at

(Canadian \$ millions)	March 31, 2018	March 31, 2017
Assets		
Investments (Note 4.1)	12,987	11,522
Other assets	13	19
Total assets	13,000	11,541
Liabilities		
Trade payable and other liabilities	19	16
Investment-related liabilities (Note 4.1)	992	898
Borrowings (Notes 4.1, 8.2)	885	784
Due to the Public Service Pension Plan Account	9	8
Total liabilities	1,905	1,706
Net assets	11,095	9,835
Equity (Note 9)	11,095	9,835
Total liabilities and equity	13,000	11,541

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

On behalf of the Board of Directors:



Martin J. Glynn
Chair of the Board



William A. Mackinnon
Chair of the Audit Committee

Statements of Comprehensive Income

For the years ended March 31

(Canadian \$ millions)	2018	2017
Investment income	1,046	1,154
Investment-related expenses (Note 10)	(32)	(26)
Net investment income	1,014	1,128
Operating expenses (Note 11)	(33)	(27)
Net income	981	1,101
Other comprehensive income (loss)		
Remeasurement of the net defined benefit liability	(1)	-
Comprehensive income	980	1,101

Statements of Changes in Equity

For the years ended March 31

(Canadian \$ millions)	2018	2017
Fund transfers		
Balance at beginning of period	5,120	4,869
Fund transfers received during the period (Note 9.2)	280	251
Balance at end of period	5,400	5,120
Retained earnings		
Balance at beginning of period	4,715	3,614
Comprehensive income	980	1,101
Balance at end of period	5,695	4,715
Total equity	11,095	9,835

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

Statements of Cash Flows

For the years ended March 31

(Canadian \$ millions)	2018	2017
Cash flows from operating activities		
Net income	981	1,101
Adjustments for non-cash items:		
Depreciation of equipment (Note 11)	2	2
Effect of exchange rate changes on cash and cash equivalents	1	(4)
Unrealized (gains) losses on borrowings	(14)	30
	970	1,129
Net changes in operating assets and liabilities		
Increase in investments	(1,436)	(1,784)
(Increase) decrease in other assets	-	-
Increase in trade payable and other liabilities	2	3
Increase in investment-related liabilities	94	471
Net cash flows used in operating activities	(370)	(181)
Cash flow from financing activities		
Proceeds from borrowings	1,980	1,919
Repayment of borrowings	(1,865)	(1,808)
Repayment to the Public Service Pension Plan Account	(38)	(30)
Advances from the Public Service Pension Plan Account	39	32
Fund transfers received (Note 9)	280	251
Net cash flows provided by financing activities	396	364
Cash flow from investing activities		
Acquisitions of equipment	(4)	(3)
Net cash flows used in investing activities	(4)	(3)
Net change in cash and cash equivalents	22	180
Effect of exchange rate changes on cash and cash equivalents	(1)	4
Cash and cash equivalents at the beginning of the period	285	101
Cash and cash equivalents at the end of the period^A	306	285
Supplementary disclosure of cash flow information		
Interest paid	(14)	(10)

^A As at March 31, 2018, cash and cash equivalents were comprised of \$305 million (March 31, 2017 - \$277 million) held for investment purposes and included in Note 4.1, as well as \$1 million (March 31, 2017 - \$8 million) held for administrative purposes and included in Other assets.

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

Notes to the Financial Statements

For the years ended March 31, 2018 and 2017

1 — Corporate Information

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

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

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

Pursuant to the *Royal Canadian Mounted Police Superannuation Act*, the Government of Canada, which administers the Plan and the Fund, may at any time call upon the net assets of PSP Investments allocated to the Fund’s Plan Account for amounts required for the purpose of paying benefits under the Plan in respect of Post2000 Service, or generally, for the purpose of reducing any non-permitted surplus in the Fund.

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

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

2 — Significant Accounting Policies

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

2.1. Basis of Presentation

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

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

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

These Financial Statements were authorized for issue in accordance with a resolution of the Board of Directors on May 15, 2018.

2 — Significant Accounting Policies

(continued)

2.2. Investment Entity Status

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

(i) Mandate and business purpose

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

(ii) Performance evaluation

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

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

As described in Note 13, since PSP Investments is a Crown corporation, it is considered to be related to the Government of Canada as well as other entities that are controlled or jointly controlled by the Government of Canada or entities over which the latter has significant influence. Consequently, since the funds managed by PSP Investments originate from related parties, it may be considered not to meet the typical characteristic outlined above. However, the Act provides a framework to ensure that PSP Investments operates at arm's length from the Government of Canada. Accordingly, it meets all of the mandatory items of the definition described above and qualifies as an investment entity.

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

2.3. Summary of Significant Accounting Policies

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

2.3.1. Financial Instruments

(i) Classification

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

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

(ii) Recognition

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

(iii) Initial and subsequent measurement

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

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

(iv) Derecognition

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

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

and

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

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

2 — Significant Accounting Policies

(continued)

2.3. Summary of Significant Accounting Policies

(continued)

2.3.2. Determination of Fair Value

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

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

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

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

2.3.3. Functional and Presentation Currency

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

2.3.4. Foreign Currency Translation

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

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

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

2.3.5. Securities Lending and Securities Borrowing and Related Collateral

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

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

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

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

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

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

2 — Significant Accounting Policies

(continued)

2.3. Summary of Significant Accounting Policies

(continued)

2.3.7. Offsetting of Financial Instruments

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

2.3.8. Equity

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

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

2.3.9. Investment Income

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

2.3.10. Investment-Related Expenses

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

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

External investment management fees are directly attributable to the external management of assets on behalf of PSP Investments. These fees are paid directly by PSP Investments and comprise base fees accrued as a percentage of the fair value of the assets managed externally and performance fees accrued as a function of various performance indicators. This excludes amounts not paid directly by PSP Investments for certain pooled fund investments classified under alternative investments and for investments in private markets as outlined in Note 10.

2.3.11. Fund Transfers

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

2.4. Significant Accounting Judgments, Estimates and Assumptions

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

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

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

3 — Current and Future Changes in Accounting Standards

3.1. Accounting Standards Adopted in the Current Year

IAS 7 Statement of Cash Flows

IAS 7 was amended, effective for annual periods beginning on or after January 1, 2017, to add new guidance on disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes. PSP Investments has applied the amendments as of April 1, 2017 and has made the required note disclosures in the Financial Statements as reflected in Note 8.3.

3.2. Accounting Standards Adopted before the Effective Date

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 initially adopted IFRS 9 (2014) in its 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.

3.3. Future Accounting Standards

A number of new standards, amendments and interpretations have been issued by the IASB, but are not yet effective. The following relates to one or more of PSP Investments' significant accounting policies or disclosures:

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. Management has determined that the amendment will not have an impact on the Financial Statements.

4 — Financial Assets and Financial Liabilities

4.1. Classes of Financial Assets and Financial Liabilities

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

(Canadian \$ millions)	March 31, 2018	March 31, 2017
Public markets		
Canadian equity	309	461
Foreign equity	2,515	2,140
Private markets		
Real estate	1,937	1,766
Private equity	1,181	988
Infrastructure	1,295	958
Natural resources	387	309
Fixed income	-	
Cash and money market securities	826	898
Government and corporate bonds ^A	1,639	1,817
Inflation-linked bonds	897	560
Private debt securities	1,025	664
Other fixed income securities ^A	2	5
Alternative investments	635	582
	12,648	11,148
Investment-related assets		
Amounts receivable from pending trades	81	83
Interest receivable	30	23
Dividends receivable	9	10
Securities purchased under reverse repurchase agreements	136	193
Derivative-related assets	83	65
	339	374
Investments representing financial assets at FVTPL	12,987	11,522
Investment-related liabilities		
Amounts payable from pending trades	(84)	(78)
Interest payable	(4)	(3)
Securities sold short ^B	(477)	(306)
Collateral payable ^B	(259)	(370)
Securities sold under repurchase agreements	(42)	(80)
Derivative-related liabilities	(126)	(61)
Investment-related liabilities representing financial liabilities at FVTPL	(992)	(898)
Borrowings		
Capital market debt financing	(885)	(784)
Borrowings representing financial liabilities designated at FVTPL	(885)	(784)
Net investments	11,110	9,840

^A During the year ended March 31, 2018, floating rate notes were reclassified out of other fixed income securities and into government and corporate bonds in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted to decrease other fixed income securities by \$236 million and increase government and corporate bonds by the same amount.

^B During the year ended March 31, 2018, collateral payable was reclassified out of securities sold short and presented separately under the new caption collateral payable in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted for consistency.

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.1. Public Markets

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

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

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

4.1.2. Private Markets

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

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

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

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

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

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

4.1.3. Fixed Income

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

Cash and money market securities include instruments having a maximum term to maturity of one year, such as treasury bills, certificates of deposit and bankers' acceptances. A portion of such instruments has maturities of 90 days or less and is held to meet short-term financial commitments. Such instruments are readily convertible into known amounts of cash and have an insignificant risk of change in value. They are considered cash and cash equivalents for purposes of the Statements of Cash Flows and amounted to \$305 million as at March 31, 2018 (March 31, 2017 – \$277 million). Treasury bills are valued based on prices obtained from third-party pricing sources. Such prices are determined using the most representative price within a spread of dealer quotations. Certificates of deposit and bankers' acceptances are recorded at cost plus accrued interest, which approximates their fair value given their short-term nature.

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

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

Other fixed income securities consist of asset-backed term notes (ABTNs) and mortgage-backed securities. The ABTNs were received in exchange for third-party or non-bank sponsored asset-backed commercial paper (ABCP) that suffered a liquidity disruption in mid-August 2007 and were subsequently restructured in January 2009.

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

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

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

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.4. Alternative Investments

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

4.1.5. Amounts Receivable and Payable from Pending Trades

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

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

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

4.1.6. Interest and Dividends Receivable

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

4.1.7. Interest Payable

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

4.1.8. Securities Sold Short

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

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

4.1.9. Collateral Payable

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

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

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

4.1.11. Borrowings under the Capital Market Debt Program

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

4 — Financial Assets and Financial Liabilities

(continued)

4.1. Classes of Financial Assets and Financial Liabilities

(continued)

4.1.12. Derivative-Related Assets and Liabilities

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

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

PSP Investments uses the following types of derivative financial instruments:

Swaps

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

Futures

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

Forwards

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

Options

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

Warrants and Rights

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

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

Determination of Fair Value of Derivative Financial Instruments

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.12. Derivative-Related Assets and Liabilities (continued)

The following table summarizes the derivatives portfolio as at:

(Canadian \$ millions)	March 31, 2018			March 31, 2017		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Equity and commodity derivatives						
Listed						
Futures	275	-	-	102	-	-
Warrants and rights	-	-	-	-	1	-
Options: Purchased	769	18	-	281	2	-
Written	524	-	(11)	235	-	(2)
OTC						
Swaps	1,943	11	(47)	2,099	18	(8)
Options: Purchased	111	3	-	138	4	-
Written	62	-	(3)	134	-	(3)
Currency derivatives						
Listed						
Futures	9	-	-	10	-	-
OTC						
Forwards	2,014	14	(30)	2,043	7	(22)
Swaps	218	-	(4)	333	1	(3)
Options: Purchased	601	4	-	697	6	-
Written	617	-	(4)	708	-	(5)
Interest rate derivatives						
Listed						
Futures	1,060	-	-	576	-	-
Options: Purchased	3,594	1	-	2,496	1	-
Written	3,109	-	(1)	2,754	-	-
OTC						
Swaps	1,059	13	(10)	901	12	(7)
Options: Purchased	3,622	18	-	2,585	13	-
Written	3,788	-	(15)	3,409	-	(9)
OTC-cleared						
Swaps	4,730	-	-	2,841	-	-
Credit derivatives						
OTC						
Credit default swaps: Purchased	90	-	(1)	79	-	(2)
Written ^A	17	-	-	22	-	-
Options: Purchased	47	1	-	-	-	-
Written	-	-	-	-	-	-
OTC-cleared						
Credit default swaps: Purchased	90	-	-	60	-	-
Written ^A	43	-	-	86	-	-
Total		83	(126)		65	(61)

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

4 — Financial Assets and Financial Liabilities (continued)

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

4.1.12. Derivative-Related Assets and Liabilities (continued)

Total derivative-related assets and liabilities are comprised of:

(Canadian \$ millions)	March 31, 2018			March 31, 2017		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets	Liabilities		Assets	Liabilities
Listed derivatives	9,340	19	(12)	6,454	4	(2)
OTC derivatives	14,189	64	(114)	13,148	61	(59)
OTC-cleared derivatives	4,863	-	-	2,987	-	-
Total		83	(126)		65	(61)

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

(Canadian \$ millions)	March 31, 2018	March 31, 2017
Less than 3 months	9,142	8,027
3 to 12 months	8,706	7,503
Over 1 year	10,544	7,059

4.2. Fair Value Hierarchy

4.2.1. Classification

Financial assets and financial liabilities described under Note 4.1 are classified within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that PSP Investments can access at the end of the reporting period.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or the liability, either directly or indirectly. Level 2 inputs include:
 - (i) Quoted prices for similar assets or liabilities in active markets.
 - (ii) Quoted prices for identical or similar assets or liabilities in markets that are not active.
 - (iii) Inputs other than quoted prices that are observable for the asset or liability.
 - (iv) Market-corroborated inputs.
- Level 3 inputs are unobservable inputs for the asset or liability that are used within model-based techniques. They reflect management's assessment of the assumptions that market participants would use in pricing the assets or liabilities.

The classification within the levels of the hierarchy is established at the time of the initial determination of fair value of the asset or liability and reviewed at the end of each reporting period. PSP Investments determines whether a transfer between levels has occurred and recognizes such transfer at the beginning of the reporting period.

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2018 classified within the fair value hierarchy:

(Canadian \$ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	247	62	–	309
Foreign equity	2,143	234	138	2,515
Private markets				
Real estate	–	–	1,937	1,937
Private equity	–	–	1,181	1,181
Infrastructure	–	–	1,295	1,295
Natural resources	–	–	387	387
Fixed income				
Cash and money market securities	–	826	–	826
Government and corporate bonds	–	1,627	12	1,639
Inflation-linked bonds	–	897	–	897
Private debt securities	–	–	1,025	1,025
Other fixed income securities	–	1	1	2
Alternative investments	–	121	514	635
	2,390	3,768	6,490	12,648
Investment-related assets				
Amounts receivable from pending trades	–	81	–	81
Interest receivable	–	30	–	30
Dividends receivable	–	9	–	9
Securities purchased under reverse repurchase agreements	–	136	–	136
Derivative-related assets	14	69	–	83
	14	325	–	339
Investments representing financial assets at FVTPL	2,404	4,093	6,490	12,987
Investment-related liabilities				
Amounts payable from pending trades	–	(84)	–	(84)
Interest payable	–	(4)	–	(4)
Securities sold short	(368)	(109)	–	(477)
Collateral payable	–	(259)	–	(259)
Securities sold under repurchase agreements	–	(42)	–	(42)
Derivative-related liabilities	(12)	(114)	–	(126)
Investment-related liabilities representing financial liabilities at FVTPL	(380)	(612)	–	(992)
Borrowings				
Capital market debt financing	–	(885)	–	(885)
Borrowings representing financial liabilities designated at FVTPL	–	(885)	–	(885)
Net investments	2,024	2,596	6,490	11,110

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.1. Classification (continued)

The following table shows the fair value of financial assets and financial liabilities as at March 31, 2017 classified within the fair value hierarchy:

(Canadian \$ millions)	Level 1	Level 2	Level 3	Total Fair Value
Public markets				
Canadian equity	397	64	–	461
Foreign equity	1,867	252	21	2,140
Private markets				
Real estate	–	–	1,766	1,766
Private equity	–	–	988	988
Infrastructure	–	–	958	958
Natural resources	–	–	309	309
Fixed income				
Cash and money market securities	–	898	–	898
Government and corporate bonds ^A	–	1,799	18	1,817
Inflation-linked bonds	–	560	–	560
Private debt securities	–	–	664	664
Other fixed income securities ^A	–	3	2	5
Alternative investments	–	110	472	582
	2,264	3,686	5,198	11,148
Investment-related assets				
Amounts receivable from pending trades	–	83	–	83
Interest receivable	–	23	–	23
Dividends receivable	–	10	–	10
Securities purchased under reverse repurchase agreements	–	193	–	193
Derivative-related assets	4	61	–	65
	4	370	–	374
Investments representing financial assets at FVTPL	2,268	4,056	5,198	11,522
Investment-related liabilities				
Amounts payable from pending trades	–	(78)	–	(78)
Interest payable	–	(3)	–	(3)
Securities sold short ^B	(208)	(98)	–	(306)
Collateral payable ^B	–	(370)	–	(370)
Securities sold under repurchase agreements	–	(80)	–	(80)
Derivative-related liabilities	(2)	(59)	–	(61)
Investment-related liabilities representing financial liabilities at FVTPL	(210)	(688)	–	(898)
Borrowings				
Capital market debt financing	–	(784)	–	(784)
Borrowings representing financial liabilities designated at FVTPL	–	(784)	–	(784)
Net investments	2,058	2,584	5,198	9,840

^A During the year ended March 31, 2018, floating rate notes were reclassified out of other fixed income securities and into government and corporate bonds in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted to decrease other fixed income securities within Level 2 by \$236 million and increase government and corporate bonds within Level 2 by the same amount.

^B During the year ended March 31, 2018, collateral payable was reclassified out of securities sold short and presented separately under the new caption collateral payable in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted for consistency.

During the year ended March 31, 2018, listed equity securities with a fair value of \$3 million, classified as Level 2 as at March 31, 2017 were transferred to Level 1 as a result of trading restrictions having expired.

There were no transfers between Level 1 and Level 2 during the year ended March 31, 2017.

4 — Financial Assets and Financial Liabilities

(continued)

4.2. Fair Value Hierarchy (continued)

4.2.2. Process for Level 3 Fair Value Determination

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2018:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian \$ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets Foreign equity	Direct investments	138	Net asset value method (NAV) ^A	N/A	N/A
Private markets Real estate	Direct and co-investments	1,818	Discounted cash flow (DCF)	Discount rate ^{B, C}	5.00% – 22.10% (7.94%)
Terminal capitalization rate ^{B, C}				4.25% – 9.75% (5.92%)	
Direct capitalization			Capitalization rate ^{B, D}	2.75% – 9.09% (5.30%)	
			Stabilized occupancy rate ^{D, E}	94.00% – 100.00% (98.29%)	
Sales comparison approach			Price per square foot ^{D, E}	\$27.50 – \$1,107.92 (\$90.83)	
NAV ^A			N/A	N/A	
Transaction price			N/A	N/A	
Other private markets	Fund investments	119	NAV ^A	N/A	N/A
	Direct and co-investments	1,976	DCF	Discount rate ^B	6.00% – 12.70% (8.94%)
			Market comparables	N/A	N/A
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
Fund investments	887	NAV ^A	N/A	N/A	
Fixed income Corporate bonds	Convertible bonds	12	DCF	Discount rate ^B	4.70% – 10.00% (7.40%)
Private debt securities	Direct and co-investments	737	DCF	Discount rate ^B	5.90% – 17.25% (9.79%)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
Other fixed income	Fund investments	288	NAV ^A	N/A	N/A
	Asset-backed term notes	1	Third-party pricing ^A	N/A	N/A
Alternative investments	Fund investments	514	NAV ^A	N/A	N/A
Total		6,490			

^A In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.3. Level 3 Significant Inputs (continued)

The following table outlines key information with respect to significant inputs related to financial assets and financial liabilities categorized within Level 3 as at March 31, 2017:

Financial Assets and Financial Liabilities	Type of Investment	Fair Value (Canadian \$ millions)	Significant Valuation Techniques	Significant Unobservable Inputs	Range (Weighted Average)
Public markets Foreign equity	Direct investments	21	Net asset value method (NAV) ^A	N/A	N/A
Private markets Real estate	Direct and co-investments	1,663	Discounted cash flow (DCF)	Discount rate ^{B, C}	4.50% – 25.00% (8.06%)
Terminal capitalization rate ^{B, C}				4.25% – 10.25% (6.04%)	
Direct capitalization			Capitalization rate ^{B, D}	2.75% – 8.00% (5.69%)	
			Stabilized occupancy rate ^{D, E}	94.00% – 100.00% (97.77%)	
Sales comparison approach			Price per square foot ^{D, E}	\$2.82 – \$1,115.10 (\$153.82)	
NAV ^A			N/A	N/A	
Transaction price	N/A	N/A			
Other private markets	Fund investments	103	NAV ^A	N/A	N/A
	Direct and co-investments	1,570	DCF	Discount rate ^B	5.91% – 12.70% (9.36%)
			Market comparables	N/A	N/A
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
Fund investments	685	NAV ^A	N/A	N/A	
Fixed income Corporate bonds	Convertible bonds	18	DCF	Discount rate ^B	3.90% – 14.10% (7.50%)
Private debt securities	Direct and co-investments	353	DCF	Discount rate ^B	4.49% – 12.25% (9.07%)
			NAV ^A	N/A	N/A
			Transaction price	N/A	N/A
Other fixed income	Fund investments	311	NAV ^A	N/A	N/A
	Asset-backed term notes	2	Third-party pricing ^A	N/A	N/A
Alternative investments	Fund investments	472	NAV ^A	N/A	N/A
Total		5,198			

^A In certain cases, fair value is determined by third parties where valuation information is not available to PSP Investments.

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

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

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

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

4 — Financial Assets and Financial Liabilities (continued)

4.2. Fair Value Hierarchy (continued)

4.2.4. Level 3 Reconciliation

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2018:

(Canadian \$ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains ^A	Transfer out of Level 3	Closing Balance
Public markets	21	48	(4)	–	–	73	–	138
Private markets	4,021	713	(324)	–	81	310	(1)	4,800
Fixed income	684	566	(233)	(2)	17	6	–	1,038
Alternative investments	472	97	(68)	–	5	8	–	514
Derivative-related receivables/payables (net)	–	1	–	(1)	–	–	–	–
Total	5,198	1,425	(629)	(3)	103	397	(1)	6,490

As at March 31, 2017, a private market investment was classified under Level 3 as its fair value was determined based on significant unobservable inputs. During the year ended March 31, 2018, the investment was transferred to Level 2 as the related securities became publicly traded. The securities held by PSP Investments are unregistered and can only be sold upon their registration.

The following table shows a reconciliation of all movements related to financial assets and financial liabilities categorized within Level 3 for the year ended March 31, 2017:

(Canadian \$ millions)	Opening Balance	Purchases	Sales	Settlements	Realized Gains	Unrealized Gains ^A	Transfer out of Level 3	Closing Balance
Public markets	–	19	–	–	–	2	–	21
Private markets	3,364	716	(199)	–	48	92	–	4,021
Fixed income	457	380	(141)	(49)	28	9	–	684
Alternative investments	392	67	(35)	–	4	44	–	472
Total	4,213	1,182	(375)	(49)	80	147	–	5,198

^A Includes Plan Account allocation adjustments.

4.2.5. Level 3 Sensitivity Analysis

In the course of measuring fair value of financial instruments classified as Level 3, valuation techniques used incorporate assumptions that are based on non-observable data. Significant assumptions used for each asset class are described in Note 4.2.3. Although such assumptions reflect management's best judgment, the use of reasonably possible alternative assumptions could yield different fair value measures representing, at a minimum, a 3% increase and 3% decrease as at March 31, 2018 (March 31, 2017 – 3% increase and 3% decrease) in the fair value of financial instruments categorized as Level 3. This excludes fund investments, where a sensitivity analysis is not possible given the underlying assumptions used are not available to PSP Investments. In the case of fund investments, the fair value is determined as indicated in Note 4.2.2.

5 — Collateral Pledged and Received

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

(Canadian \$ millions)	March 31, 2018	March 31, 2017
Securities lending and borrowing		
Securities lent	839	961
Collateral held ^A	892	1,023
Securities borrowed	370	209
Collateral pledged ^B	384	219
Securities repurchase and reverse repurchase agreements		
Securities sold under repurchase agreements	42	81
Collateral pledged	42	80
Securities purchased under reverse repurchase agreements	137	193
Collateral held ^C	136	193
Derivative contracts		
Collateral pledged	129	23
Collateral held ^D	-	17

^A The minimum fair value of cash collateral required is equal to 102% of the fair value of the securities lent, and in the case of securities collateral 105%. As part of collateral held, cash amounted to \$254 million for the Plan Account as at March 31, 2018 (March 31, 2017 - \$368 million) and securities amounted to \$638 million as at March 31, 2018 (March 31, 2017 - \$655 million). All cash collateral is reinvested.

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

^C The collateral received is in the form of securities of which \$110 million has been used in connection with short selling transactions as at March 31, 2018 (March 31, 2017 - \$98 million) and nil has been used in connection with securities sold under repurchase agreements (March 31, 2017 - \$15 million).

^D As part of collateral held, cash amounted to \$174 thousand as at March 31, 2018 (March 31, 2017 - \$1 million) and securities amounted to \$49 thousand as at March 31, 2018 (March 31, 2017 - \$16 million). All cash collateral is reinvested.

6 — Interests in Other Entities

6.1. Subsidiaries, Joint Ventures and Associates

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

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

(i) *Control and significant influence*

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

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

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

(ii) *Joint control*

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

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

6 — Interests in Other Entities (continued)

6.1. Subsidiaries, Joint Ventures and Associates (continued)

In the normal course of business, investments in private markets are commonly held through investment entity subsidiaries formed by PSP Investments. As at March 31, 2018, 103 investment entity subsidiaries were incorporated in North America, 23 in Europe, 11 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia (March 31, 2017 – 103 in North America, 23 in Europe, 10 in Oceania, 4 in Central and South America, 1 in Africa and 1 in Asia).

In addition, PSP Investments controlled 80 investees directly or through its investment entity subsidiaries as at March 31, 2018 (March 31, 2017 – 77 investees).

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

Entity's Name	March 31, 2018		
	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
Revera Inc.	North America	100	Controlled investee
AviAlliance GmbH	Europe	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
Roccapina Fund, L.P.	North America	100	Controlled investee
TDF S.A.S.	Europe	22	Associate
Cubico Sustainable Investments Limited	Global	50	Jointly controlled investee
Big Box Properties	North America	49	Jointly controlled investee

Entity's Name	March 31, 2017		
	Principal Place of Business	Ownership Interest Held by PSP Investments (%)	Relationship to PSP Investments
Revera Inc.	North America	100	Controlled investee
Kaingaroa Timberlands Ltd.	Oceania	56	Jointly controlled investee
AviAlliance GmbH	Europe	100	Controlled investee
Roadis Transportation B.V.	Global	100	Controlled investee
FirstLight Power Resources Holding Inc.	North America	100	Controlled investee
Roccapina Fund, L.P.	North America	100	Controlled investee
SEGRO European Logistics Partnership S.a.r.l.	Europe	50	Jointly controlled investee
Telesat Holdings Inc.	North America	35	Associate
TDF S.A.S.	Europe	22	Associate
Big Box Properties	North America	49	Jointly controlled investee

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

6.2. Structured Entities

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

Information regarding structured entities is included, as applicable, within disclosures of investment risk management under Note 7, guarantees and indemnities under Note 15 and commitments under Note 16.

7 — Investment Risk Management

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

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

7.1. Market Risk

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

7.1.1. Measurement of Market Risk

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

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

The absolute volatility is statistically valid under normal market conditions and does not specifically consider losses from severe market events. It also assumes that the future will behave in a pattern similar to the past. Consequently, if future market conditions differ significantly from those of the past, potential losses may differ from those originally estimated.

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

	March 31, 2018 (%)	March 31, 2017 (%)
Absolute volatility	7.2	7.6

Stress Testing

Although the absolute volatility is a widely accepted risk measure, it is complemented by other risk measurement methodologies that provide greater insight on market risk. PSP Investments uses stress testing and scenario analysis to examine the impact on financial results of abnormally large movements in risk factors. Such techniques are used to test a portfolio's sensitivity to various risk factors and key model assumptions. These methods also use historically stressed periods to evaluate how a current portfolio reacts under such circumstances. Stress testing and scenario analysis are also deployed to assess new product performance.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.2. Interest Rate Risk

Interest rate risk refers to the risk that fluctuations in interest rates will directly affect the fair value of the Plan Account's net asset values. The terms to maturity of the classes of financial instruments, outlined in Note 4.1, with the most significant exposure to interest rate risk were as follows as at:

(Canadian \$ millions)	March 31, 2018					Total
	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	
Cash and money market securities	–	–	–	–	826 ^A	826
Government and corporate bonds	252	601	379	249	158 ^B	1,639
Inflation-linked bonds	–	298	320	279	–	897
Private debt securities	–	104	508	112	301 ^C	1,025
Other fixed income securities	1	–	–	–	1 ^B	2
Total fixed income	253	1,003	1,207	640	1,286	4,389

(Canadian \$ millions)	March 31, 2017					Total
	Less than 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years	Other	
Cash and money market securities	–	–	–	–	898 ^A	898
Government and corporate bonds ^D	177	684	442	278	236 ^B	1,817
Inflation-linked bonds	–	131	208	221	–	560
Private debt securities	6	64	258	–	336 ^C	664
Other fixed income securities ^D	1	2	–	–	2 ^B	5
Total fixed income	184	881	908	499	1,472	3,944

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

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

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

^D During the year ended March 31, 2018, floating rate notes were reclassified out of other fixed income securities and into government and corporate bonds in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted to decrease other fixed income securities within the "Other" column by \$236 million and increase government and corporate bonds within the "Other" column by the same amount.

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

Certain alternative investments, reverse repurchase agreements, as well as derivative contracts described in Notes 4.1.4, 4.1.10 and 4.1.12, respectively, are also subject to interest rate risk exposures. These exposures are reflected in the absolute volatility calculation described in Note 7.1.1.

7 — Investment Risk Management (continued)

7.1. Market Risk (continued)

7.1.3. Foreign Currency Risk

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

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

Currency	March 31, 2018		March 31, 2017	
	Fair Value (Canadian \$ millions)	% of Total	Fair Value (Canadian \$ millions)	% of Total
US Dollar	5,978	68.4	4,622	70.5
Euro	886	10.1	412	6.3
Japanese Yen	258	3.0	240	3.6
British Pound	214	2.5	202	3.1
Australian Dollar	191	2.2	85	1.3
South Korean Won	190	2.2	174	2.6
Hong Kong Dollar	174	2.0	86	1.3
Brazilian Real	156	1.8	148	2.3
Mexican Peso	142	1.6	57	0.9
Indian Rupee	100	1.1	89	1.4
New Taiwan Dollar	75	0.9	72	1.1
Swiss Franc	58	0.7	68	1.0
Others	315	3.5	304	4.6
Total	8,737	100.0	6,559	100.0

As at March 31, 2018, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of \$1,696 million for the Plan Account (US\$1,065 million, €185 million, £13 million, 2 million South African rands, 984 million Colombian pesos and 104 million Mexican pesos) which were not included in the foreign currency exposure table above.

As at March 31, 2017, PSP Investments and its investment entity subsidiaries also had commitments, denominated in foreign currencies of \$1,465 million for the Plan Account (US\$909 million, €151 million, £14 million, 2 million South African rands, 4 million Brazilian reals, 983 million Colombian pesos, 17 million Mexican pesos and 9 million Australian dollars) which were not included in the foreign currency exposure table above.

7 — Investment Risk Management (continued)

7.2. Credit Risk

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

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

As at March 31, 2018, the Plan Account's maximum exposure to credit risk amounted to \$4 billion (March 31, 2017 - \$4 billion). This amount is presented before collateral held and netting arrangements that do not qualify for offsetting under IFRS. The maximum credit exposure excludes guarantees disclosed in Note 15 as well as investments in funds classified as alternative investments in Note 4.1. Such funds hold fixed income securities among other types of instruments.

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

Credit Rating	March 31, 2018 (%)	March 31, 2017 (%)
AAA-AA	51.2	54.2
A	20.9	20.0
BBB	2.5	4.5
BB or below	24.4	19.9
No rating ^A	1.0	1.4
Total	100.0	100.0

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

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.1. Counterparty Risk

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

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

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

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

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

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

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

7 — Investment Risk Management (continued)

7.2. Credit Risk (continued)

7.2.2. Offsetting

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

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

Financial Assets

(Canadian \$ millions)	Gross Amount of Recognized Financial Assets	Less: Gross Amount of Recognized Financial Liabilities Set Off	Net Amount of Financial Assets Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Liabilities	Collateral Held and Not Recognized	
March 31, 2018						
Reverse repurchase agreements	136	–	136 ^A	36	100	–
OTC-derivatives	67	3	64 ^B	63	–	1
Total	203	3	200	99	100	1
March 31, 2017						
Reverse repurchase agreements	193	–	193 ^A	15	178	–
OTC-derivatives	61	–	61 ^B	44	13	4
Total	254	–	254	59	191	4

Financial Liabilities

(Canadian \$ millions)	Gross Amount of Recognized Financial Liabilities	Less: Gross Amount of Recognized Financial Assets Set Off	Net Amount of Financial Liabilities Presented in the Statements of Financial Position	Less: Related Amounts Not Set Off in the Statements of Financial Position		Net
				Recognized Financial Assets	Collateral Pledged and Not Derecognized	
March 31, 2018						
Repurchase agreements	42	–	42 ^A	36	6	–
OTC-derivatives	117	3	114 ^B	63	51	–
Total	159	3	156	99	57	–
March 31, 2017						
Repurchase agreements	80	–	80 ^A	15	65	–
OTC-derivatives	59	–	59 ^B	44	14	1
Total	139	–	139	59	79	1

^A As described in Note 4.1.10.

^B As described in Note 4.1.12.

7 — Investment Risk Management (continued)

7.3. Liquidity Risk

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

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

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

Financial Liabilities

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2018 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities^A				
Amounts payable from pending trades	(84)	–	–	(84)
Interest payable	(4)	–	–	(4)
Securities sold short	(477)	–	–	(477)
Collateral payable	(259)	–	–	(259)
Securities sold under repurchase agreements	(42)	–	–	(42)
Capital market debt financing	(343)	(116)	(426)	(885)
Trade payable and other liabilities	(11)	–	(8)	(19)
Total	(1,220)	(116)	(434)	(1,770)

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	36	17	30	83
Derivative-related liabilities ^A	(60)	(35)	(31)	(126)
Total	(24)	(18)	(1)	(43)

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

7 — Investment Risk Management (continued)

7.3. Liquidity Risk (continued)

Financial Liabilities (continued)

The following tables present the fair value of non-derivative-related financial liabilities as well as derivative-related financial instruments, aggregated according to their maturities as at March 31, 2017 and excluding the impact of guarantees and indemnities disclosed in Note 15:

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Non-derivative-related financial liabilities^A				
Amounts payable from pending trades	(78)	-	-	(78)
Interest payable	(3)	-	-	(3)
Securities sold short ^B	(306)	-	-	(306)
Collateral payable ^B	(370)	-	-	(370)
Securities sold under repurchase agreements	(80)	-	-	(80)
Capital market debt financing	(419)	(90)	(275)	(784)
Trade payable and other liabilities	(11)	-	(5)	(16)
Total	(1,267)	(90)	(280)	(1,637)

(Canadian \$ millions)	Less than 3 Months	3 to 12 Months	Over 1 Year	Total
Derivative-related financial instruments				
Derivative-related assets	18	24	23	65
Derivative-related liabilities ^A	(28)	(13)	(20)	(61)
Total	(10)	11	3	4

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

^B During the year ended March 31, 2018, collateral payable was reclassified out of securities sold short and presented separately under the new caption collateral payable in order to better reflect their nature and common characteristics. Accordingly, comparative figures were adjusted for consistency.

8— Borrowings

8.1. Credit Facilities

During the year ended March 31, 2017, PSP Investments entered into a revolving credit facility in the amount of \$2 billion and a demand line of credit in the amount of \$1 billion (together “the Credit Facilities”).

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

These Credit Facilities were not drawn upon as at March 31, 2018 and March 31, 2017.

8.2. Capital Market Debt Financing

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

The maximum amount authorized by the Board of Directors for the capital market debt program is 10% of the net investments plus all recourse debt outstanding of PSP Investments at the time of commitment to issuance. During the year ended March 31, 2018, a combined limit of \$12 billion for the Canadian and U.S. short-term promissory note component replaced the segregated limits of \$3 billion for issuances in Canada and US \$5 billion for issuances in the United States for the year ended March 31, 2017.

PSP Investments’ capital market debt financing was in compliance with the limits authorized by the Board of Directors during the years ended March 31, 2018 and March 31, 2017.

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

(Canadian \$ millions)	March 31, 2018		March 31, 2017	
	Capital Amounts Payable at Maturity	Fair Value	Capital Amounts Payable at Maturity	Fair Value
Short-term Canadian Dollar promissory notes, bearing interest between 1.16% and 1.85% and maturing within 26 and 364 days of issuance (March 31, 2017 – between 0.57% and 0.78%, maturing within 26 and 273 days)	69	69	98	98
Short-term US Dollar promissory notes, bearing interest between 1.39% and 2.17% and maturing within 28 and 365 days of issuance (March 31, 2017 – between 0.68% and 1.16%, maturing within 30 and 266 days)	391	390	411	411
Medium-term notes Series 5, bearing interest of 3.03% per annum and maturing on October 22, 2020	72	74	36	38
Medium-term notes Series 7, bearing interest of 3.29% per annum and maturing on April 4, 2024	72	75	71	76
Medium-term notes Series 8, bearing interest of 1.34% per annum and maturing on August 18, 2021	91	88	91	90
Medium-term notes Series 9, bearing interest of 2.09% per annum and maturing on November 22, 2023	70	69	71	71
Medium-term notes Series 10, bearing interest of 1.73% per annum and maturing on June 21, 2022	124	120	-	-
Total	889	885	778	784

Unrealized gains in connection with borrowings amounted to \$14 million for the year ended March 31, 2018 (unrealized losses of \$30 million for the year ended March 31, 2017).

8— Borrowings (continued)

8.2. Capital Market Debt Financing (continued)

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

(Canadian \$ thousands)	2018	2017
Short-term promissory notes	5,608	3,657
Medium-term notes	8,387	6,055
Total	13,995	9,712

8.3. Reconciliation of Liabilities Arising from Financing Activities

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2018.

(Canadian \$ millions)	Opening balance	Proceeds from borrowing	Repayment of borrowings	Non-cash changes		Closing balance
				Foreign exchange gains	Fair value ^A gains	
Capital market debt financing	784	1,978	(1,863)	(3)	(11)	885
Credit facilities	–	2	(2)	–	–	–
Borrowings	784	1,980	(1,865)	(3)	(11)	885

The following provides a reconciliation of liabilities arising from financing activities, including both changes arising from cash and non-cash changes for the year ended March 31, 2017.

(Canadian \$ millions)	Opening balance	Proceeds from borrowing	Repayment of borrowings	Non-cash changes		Closing balance
				Foreign exchange losses	Fair value ^A gains	
Capital market debt financing	643	1,919	(1,808)	33	(3)	784
Borrowings	643	1,919	(1,808)	33	(3)	784

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

9 — Equity

9.1. Statutory Rights Held by the Government of Canada

Pursuant to the *Superannuation Acts*, the Government of Canada is entitled to PSP Investments' net assets allocated to each of the Plan Accounts for the purposes set out in the *Superannuation Acts*. The allocation of PSP Investments' net assets and comprehensive income to each of the Plan Accounts at a point in time is based on the allocation policy outlined in Note 12.

9.2. Fund Transfers

PSP Investments received fund transfers from the Government of Canada of \$280 million for the year ended March 31, 2018 (\$251 million for the year ended March 31, 2017) for the Fund, recorded in the Plan Account.

10 — Investment-Related Expenses

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

(Canadian \$ millions)	2018	2017
Interest expense	15	11
Transaction costs	10	10
External investment management fees ^A	3	2
Other (net)	4	3
Total	32	26

^A Consists of amounts incurred for investments in public markets that are paid directly by PSP Investments. Other fees are paid by certain pooled fund investments classified under alternative investments which amounted to \$12 million for the year ended March 31, 2018 (\$11 million for the year ended March 31, 2017). Such fees are embedded in the fair value of the funds.

Similarly, management fees related to investments in private markets and private debt securities are not paid directly by PSP Investments. Such fees, which generally vary between 0.1% and 2.5% of the total invested and/or committed amount, totaled \$23 million for the year ended March 31, 2018 (\$22 million for the year ended March 31, 2017). Such fees are embedded in the fair value of the investments.

11 — Operating Expenses

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

(Canadian \$ millions)	2018	2017
Salaries and employee benefits	19,045	15,234
Professional and consulting fees	5,231	4,464
Premises and equipment	1,863	1,518
Market data and business applications	2,287	1,933
Depreciation of equipment	2,241	2,216
Custodial fees	331	282
Other operating expenses	1,679	1,218
Total	32,677	26,865

12 — Allocation of Comprehensive Income

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

12.1. Investment Income

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

12.2. Expenses

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

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

(%)	2018	2017
Public Service Pension Plan Account	72.6	72.5
Canadian Forces Pension Plan Account	19.7	19.7
Royal Canadian Mounted Police Pension Plan Account	7.2	7.3
Reserve Force Pension Plan Account	0.5	0.5
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.

13 — Related Party Transactions

13.1. Certain Investees

As outlined in Note 2.1, investments in unconsolidated subsidiaries, jointly controlled investees and associates are measured at FVTPL. Transactions between PSP Investments and such entities or subsidiaries of such entities are related party transactions. PSP Investments enters into investment transactions with such related parties in the normal course of its business, more specifically, as part of private markets and certain fixed income investments described under Note 4.1 as well as guarantees, indemnities and commitments described under Notes 15 and 16, respectively. Since balances in connection with all investment transactions are measured at FVTPL, those transactions undertaken with related parties have the same impact on net assets and comprehensive income as those with unrelated parties.

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

13.2. The Government of Canada and Government-Related Entities

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

(i) The Government of Canada

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

(ii) Government-Related Entities

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

13.3. Compensation of Key Management Personnel

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

(Canadian \$ millions)	2018	2017
Short-term compensation and other benefits	1,435	1,167
Long-term compensation and other benefits	348	572
Total	1,783	1,739

As disclosed in Note 15, PSP Investments may also be required to indemnify certain members of key management personnel for costs incurred, such as claims, actions or litigations in connection with the exercise of specific aspects of their duties.

14 — Capital Management

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

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

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

15 — Guarantees and Indemnities

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

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

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

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

- As at March 31, 2018 and March 31, 2017, PSP Investments and its investment entity subsidiaries agreed to guarantee and, in some cases, provide indemnification for the performance of certain investees under contractual agreements. The majority of these agreements are borrowing arrangements. In the event a default occurs under such agreements, which is of limited recourse in certain cases, PSP Investments or its investment entity subsidiaries could assume obligations of up to \$2,550 million as at March 31, 2018 (March 31, 2017 – \$2,077 million), of which \$185 million has been allocated to the Plan Account (March 31, 2017 – \$151 million) plus applicable interest and other related costs. The arrangements mature between November 2018 and November 2029 as of March 31, 2018 (March 31, 2017 – between May 2017 and September 2028).
- Additionally, PSP Investments and its investment entity subsidiaries issued letters of credit totalling \$53 million as at March 31, 2018 (March 31, 2017 – \$35 million), of which \$4 million has been allocated to the Plan Account (March 31, 2017 – \$3 million) in relation to investment transactions.

16 — Commitments

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

(Canadian \$ millions)	March 31, 2018	March 31, 2017
Foreign equity	–	–
Real estate	166	205
Private equity	823	657
Infrastructure	282	272
Natural resources	33	55
Private debt securities	273	226
Alternative investments	162	90
Total	1,739	1,505

Funding in connection with the above commitments can be called upon at various dates extending until 2035 as at March 31, 2018 (March 31, 2017 – 2035).