Public Sector Pension Investment Board
—2018 Annual Report

Think Look Move Forward

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

—Who we are

The Public Sector Pension Investment Board (PSP Investments) is one of Canada's largest pension investment managers, with $153.0 billion of net assets as of March 31, 2018.

We are a Canadian Crown corporation that invests funds for the pension plans of the federal public service, the Canadian Forces, the Royal Canadian Mounted Police and the Reserve Force. Our head office is located in Ottawa and our highly-skilled and diverse team of more than 800 professionals works from offices in Montréal, New York and London.

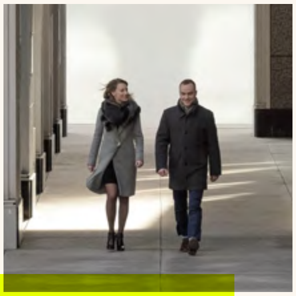
—What we do

PSP Investments' mandate is to manage the pension funds transferred to it by the Government of Canada in the best interests of contributors and beneficiaries, and to maximize investment returns without undue risk of loss.

To that end, we manage a diversified global portfolio composed of investments in public financial markets, private equity, real estate, infrastructure, natural resources and private debt.

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

Table of contents



At PSP Investments, we highlight the possible.

We explore every angle—across asset classes, markets and industries—to broaden our perspectives.

We work as one, recognizing that diversity is an asset that can help us realize the full potential of our ambitions.

Our tight collaboration has allowed us to develop a collective instinct for honing in on opportunities that would otherwise be overlooked, unnoticed, and unseen.

In blind spots or in plain sight, we always seek to **spot the edge.**

— Cover photo: Andrée-Anne Gagné, Analyst in Investment Finance and Olivier Ouellet, Director in Benefits & Wellness, at our main office in downtown Montréal. The prestigious office tower, co-owned by PSP Investments, is rated “AAA” and LEED Gold certified.

The making of a destination.

Washington, D.C.'s The Wharf

From left to right

— 1
George Fortin, Manager and **Loren Shore**, Director, Real Estate Investments

City living is changing. The increased densification of urban cores in global gateway cities is leading to a rise in consumer spending on experiences, including food and beverage, entertainment, culture, education and travel. With this fresh perspective in mind, our Real Estate team recognized a compelling opportunity in the transformation of the Wharf in Washington, D.C., into a vibrant mixed-use development.

"We saw the potential as soon as we were presented the project," said Kris Wojtecki, Managing Director, Real Estate Investments. "It would be the first site of its kind on a waterfront property in the US capital. After we reviewed the plans, getting to know the partner clinched the deal."

Our team was also inspired to go ahead by the LEED Gold certified design. For city leaders, the project ticked three key boxes in urban development: affordable housing, high-quality jobs and a potential tax base increase.

PSP made it possible to convert the Wharf into a vibrant destination. The Wharf provides a unique living experience with condos, apartments, shopping, dining, entertainment, piers, boat slips and a boardwalk. It's a place where diverse people can live, congregate and have fun.

"A project of this scale in a prestigious world capital was groundbreaking, not just for PSP but for the entire real estate world," added Kris. "Mixed-use real estate development is on the rise. With this project under our belt, PSP can play a big part in shaping the future of the real estate industry."

The grand opening of Phase 1 took place in the fall of 2017, with the support of Washington D.C.'s city council members and D.C.'s representative in Congress. Celebrations included fireworks, music and entertainment events, topped off by a Foo Fighters' concert. Phase 2 is currently in pre-development.

Highlights

US$**2.5 billion** investment

Total of **297,300** square metres

1,375 residences and **4** hotels (**800** rooms)

87,800 square metres Class A office space

4 hectares of parks, open spaces and civic areas

400 trees planted on the site

4 public-use piers and **400** boat slips

Financial highlights
— Fiscal year 2018

9.8%
Total fund one-year net portfolio return

10.5%
5-year net annualized return

7.1%
10-year net annualized return

$23.8 Billion
of cumulative net investment gains above the return objective over 10 years

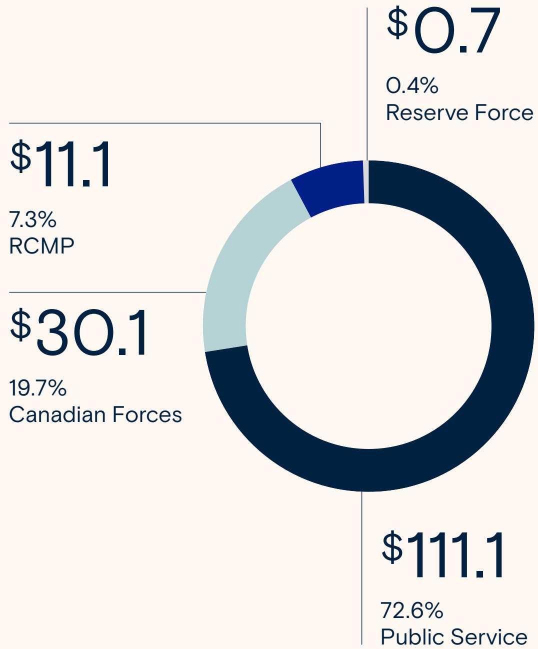
$71.6 Billion
of cumulative 10-year net investment income

$20.1 Billion
in new investments and commitments to Private Markets and Private Debt

$153.0 Billion
Net assets

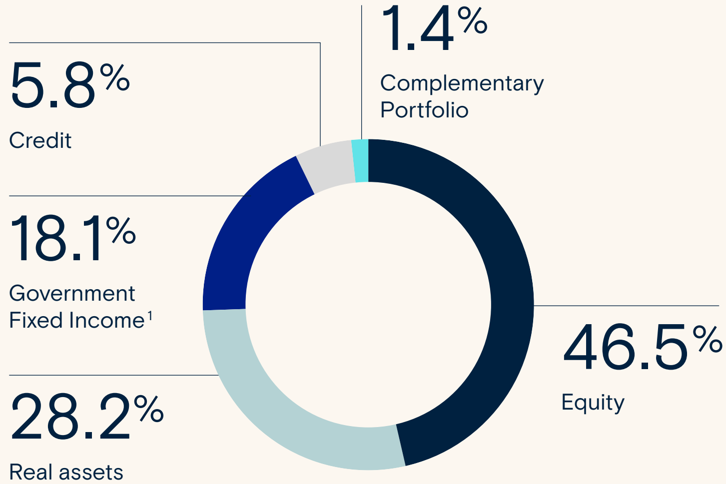
$3.9 Billion
Net contributions

12.9%
Increase in net assets



Net assets per pension plan account

As at March 31, 2018
$ billion



Asset mix

As at March 31, 2018

[1] Includes cash and cash equivalents.

Financial highlights

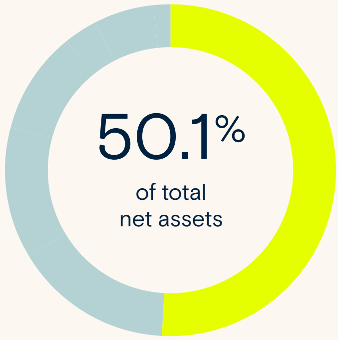
— Fiscal year 2018

Public Markets[1]

$76.7 Billion Net AUM

8.3% 1-year rate of return

10.6% 5-year annualized return

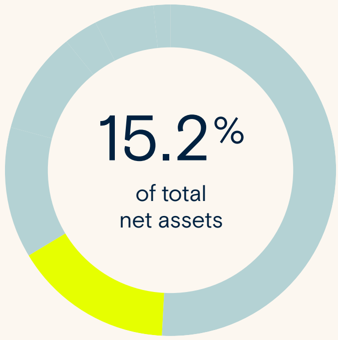


Real Estate

$23.2 Billion Net AUM

13.6% 1-year rate of return

12.7% 5-year annualized return

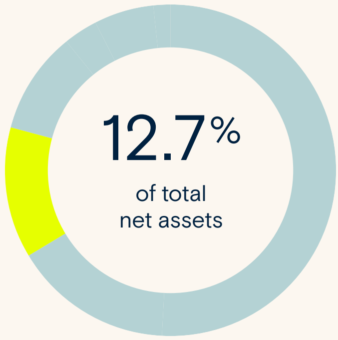


Private Equity

$19.4 Billion Net AUM

12.9% 1-year rate of return

7.9% 5-year annualized return



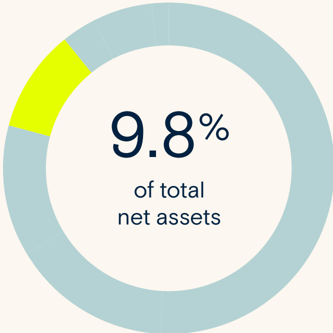
[1] Includes public market equities and government fixed income.
Total net assets exclude cash and cash equivalents.
"Net AUM" denotes net assets under management.

Infrastructure

$15.0 Billion Net AUM

19.3% 1-year rate of return

13.8% 5-year annualized return

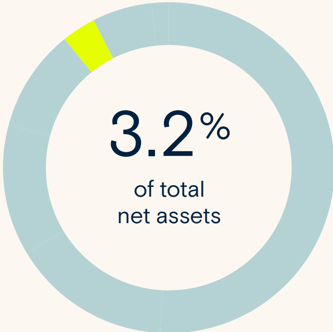


Natural Resources

$4.8 Billion Net AUM

11.2% 1-year rate of return

13.1% 5-year annualized return

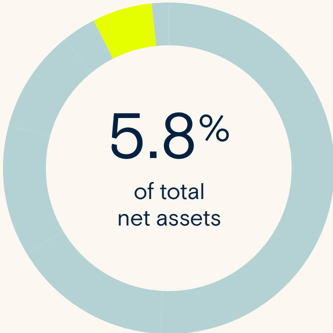


Private Debt

$8.9 Billion Net AUM

8.2% 1-year rate of return

16.5% Since inception annualized return (2.3 years)

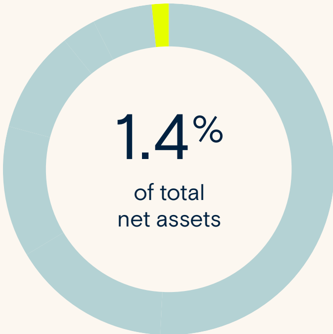


Complementary Portfolio

$2.2 Billion Net AUM

33.0% 1-year rate of return

31.4% Since inception annualized return (1.3 years)



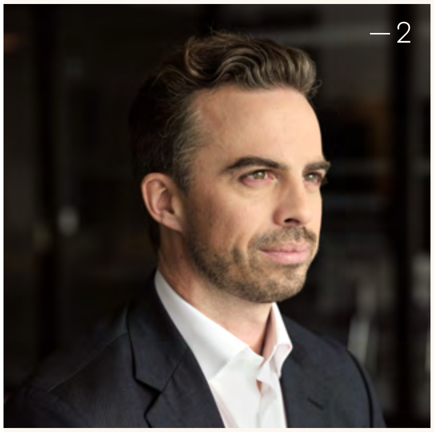
The Complementary Portfolio was introduced in fiscal year 2017 to capture investment opportunities that do not fit within an existing asset class but are deemed beneficial for the total fund.

Total net assets exclude cash and cash equivalents.
"Net AUM" denotes net assets under management.

A really “hip” investment.

Photo credit: CeramTec

CeramTec



From left to right

— 1
Pedram Shayegan, Manager,
Tolga Sengel, Director and
Przemek Obloj, Managing Director,
from the Private Equity team in Europe

— 2
David Morin, Senior Director,
Private Equity

Ceramics have been part of human life for millennia and today, are increasingly improving people's quality of life – notably through hip replacement procedures. To capitalize on the potential of this growing market, PSP acquired CeramTec, the world's leading manufacturer of high-performance ceramics, in partnership with BC Partners and Ontario Teachers' Pension Plan.

"Total hip replacement (THR) has been around since the 1960s and can be truly life-changing," said Przemek Obloj, Managing Director, Private Equity (Europe). "In leading hospitals, it takes less than an hour and gives people their mobility back within weeks. With people staying active longer, THR is often essential for maintaining their quality of life."

While metal components have historically accounted for the majority of hip replacements, ceramics are rapidly taking over as a biocompatible, high-performance alternative to metals.

CeramTec is the clear leader in this segment, selling 1.5 million hip implant components to world-leading hip implant system manufacturers in 2017. We estimate that CeramTec's components are used in nearly one out of two hip replacements worldwide. Always on the lookout for those rare businesses with strong fundamentals and long-term growth potential, we partnered with private equity firm BC Partners very early in the sale process.

"We knew it would be a competitive auction, so our consortium completed extensive work ahead of the process and put forward a binding offer two weeks before the deadline," said Przemek. "Being prepared and decisive enabled us to become part of CeramTec's exciting next chapter of growth."

Highlights

Founded in Germany in 1903 as a porcelain manufacturer

Over **10,000** different products used in medical technology, automotive, electronics, energy and environmental technology, and mechanical engineering

More than **3,400** employees worldwide

20 facilities in Europe, America and Asia

Key corporate objectives

In fiscal year 2017, we established a transformational foundation to support our Vision 2021 strategic plan. In fiscal year 2018, we focused on deploying and scaling new investment strategies, and on designing future state capabilities. Moving into fiscal year 2019 and beyond, we will maintain our focus on priorities to add value in the best interests of Canadian contributors and beneficiaries.

Cultivate One PSP

OBJECTIVES	FY2018 ACHIEVEMENTS	FY2019 PRIORITIES
Total Fund/Total Return Apply a Total Fund perspective to investment strategies, decision making processes, risk, leverage and liquidity management.	Implemented new Total Fund governance frameworks, benchmarks and risk measure for greater transparency and oversight. Implemented Total Fund portfolios to improve scalability, flexibility in deal selection and risk-return profile. Developed corporate views on key ESG themes to guide investment selection and monitor portfolio.	Enhance our approach to Total Fund strategies and decisions to continue improving the portfolio's coherence and performance.
Collaboration Increase collaboration and knowledge sharing across asset classes, internal groups, and with external partners and stakeholders.	Moved into new, collaborative work environment. Reinforced internal communications to increase cross-asset-class investment opportunities.	Develop integrated, cross-asset-class, go-to-market strategies to promote our extensive range of capital structure solutions. Develop systems to increase in-house accessibility to market insights.
Analytics Improve Total Fund analytics capabilities to enable more informed and effective business decisions.	Developed reporting and analytics tools to improve Total Fund decisions and efficiency.	Develop a PSP-wide analytics target state to leverage existing capabilities and develop new Total Fund capabilities.

Improve brand locally and internationally

OBJECTIVES	FY2018 ACHIEVEMENTS	FY2019 PRIORITIES
Communication and branding Develop communication strategies and tools to position PSP Investments as an employer, partner and investor of choice.	Developed a new brand and talent value proposition. Deployed external strategies to increase worldwide media coverage.	Deploy new brand positioning PSP as an agile and sought-after enabler of complex global transactions. Refine internal and external communication capabilities to strengthen team cohesion and positioning.
Relationships Develop and foster strategic, proactive and integrated relationships with key business partners, governments and communities.	Strengthened strategic relationships to increase scalability and maximize value. Redefined engagement approach with local and foreign government stakeholders.	Foster long-term, complementary partnerships to strengthen access to privileged investment opportunities. Reinforce our relationships with the Government of Canada and key foreign governments.

Increase our global footprint

OBJECTIVE	FY2018 ACHIEVEMENTS	FY2019 PRIORITIES
International offices Expand into new geographies to access local knowledge and market insights and enhance global transaction execution.	Expanded asset class and operational support in New York and London. Completed regulatory assessment and operational plan to launch in Asia.	Prepare the opening, in Asia, of our third international office.

Create scalable and efficient investment & operational activities

OBJECTIVES	FY2018 ACHIEVEMENTS	FY2019 PRIORITIES
Investment scalability & asset management Seek opportunities to invest innovatively at scale and enhance our asset management approach to continuously generate increased value.	Expanded deployment strategies and developed new partnerships and offerings.	Leverage our networks, capabilities and competitive advantages to incubate adjacent investment strategies. Strengthen asset management approach for greater consistency and value.
Operational efficiency Enhance agility and efficiency to execute complex transactions quickly.	Initiated support group transformations for greater scalability and efficiency. Evolved investment groups' operating model to adapt to expanding portfolios, teams and geographies.	Deploy new capabilities to streamline processes, improve reporting through investment lifecycles and facilitate asset and portfolio management.

Develop our talent

OBJECTIVES	FY2018 ACHIEVEMENTS	FY2019 PRIORITIES
Attraction Be recognized globally as a leading employer and successfully attract the right talent mix.	Developed a new Talent Value Proposition (TVP) to enhance candidate and employee experience.	Deploy our new TVP through the employee lifecyle. Deploy new talent acquisition and campus recruitment strategies to attract diverse talent worldwide.
Development and retention Deliver a work experience that matches our employer promise throughout the employee lifecycle.	Developed enhanced talent frameworks to provide best-in-class growth and development opportunities.	Roll out new career framework supporting performance management and development plans. Create and deploy top-tier management development programs.
Inclusion and diversity Expand our talent diversity and foster an inclusive and diverse workplace.	Broadened our Inclusion and Diversity vision (I&D). Held I&D forum and launched I&D council to build an inclusive work environment.	Operationalize Inclusion and Diversity (I&D) council and affinity groups to sustain I&D themes.
Culture Develop and foster a unified corporate culture across our global organization.	Continued to build a strong, participatory culture and encourage employee community involvement.	Promote expected behaviours for leaders and employees to support a One PSP culture of agility, insight, collaboration, entrepreneurship, empowerment and talent acceleration.

Highlighting the possible.

Photo credit: Air Medical Group Holdings

Air Medical Group Holdings

When the world's largest air ambulance provider wants to buy the largest provider of ground ambulance in the US, it involves complexity and many different players to complete the acquisition. There's also tremendous potential – for synergy between the two businesses and for growth as populations age and hospitals and municipalities outsource non-core services.

For our Private Debt team in the US, it was exactly the type of transaction they wanted to invest in. "Through our relationship with KKR, the owner of Air Medical Group Holdings, we were brought in to find a creative financing solution that worked with their existing capital structure and provided KKR the flexibility they desired," said Jeff Rowbottom, Managing Director, Private Debt. "While the merits of the merger were clear to us, our investment team still needed to complete our due diligence in a responsible manner within a tight timeline."

We believe that PSP's edge helped us secure an attractive investment – given both the size and breadth of different debt instruments that we can offer and the reliability of our execution capabilities. We pride ourselves on being agile, creative and collaborative within our team and with our partners.

The final debt tranche that PSP led was a customized US$730 million unsecured term loan – an instrument that is rarely seen in the leveraged loan market. With Private Debt's help, KKR was able to combine these two important companies. We are gratified that patients and their families will benefit from Air Medical Group Holdings' expansion of their capabilities in the invaluable emergency transportation services they provide.

From left to right

—1
Jeff Rowbottom, Managing Director, **Alyssa Roland**, Manager and **Chip Mahoney**, Director, from the Private Debt team in New York

Highlights

Largest provider of emergency and non-emergency ground transportation services in the US

- Over **5 million** patients annually
- Fleet of more than **7,000** vehicles in **42** states

Largest independent provider of emergency air medical services in the world

- Over **83,000** transports annually, fleet of more than **320** medically-equipped helicopters and fixed wing aircraft in **33** states

The combined company employs more than **34,000** professionals

A year we can be proud of

This year, PSP Investments continued on its journey following its Vision 2021 strategic plan. Not only did it meet its core objectives — including making a number of complex investments in the international arena, strengthening its capabilities, and furthering its push to attract and develop strong talent — it also achieved a one-year return of 9.8% for the year ending March 31, 2018.

On February 7, 2018, the Board of Directors appointed Neil Cunningham as its new President and CEO. Neil, PSP's former Senior Vice President, Global Head of Real Estate and Natural Resources, has played a key role in developing and implementing the organization's current strategic plan, and possesses a deep understanding of the business, its mandate and stakeholders. With his 14 years of experience at the organization, along with his consistent demonstration of its core values, Neil is exactly the leader PSP needs to grow its international presence and assets, and maintain its commitment to Vision 2021.

I would like to thank outgoing President and CEO, André Bourbonnais for his three years of service to the organization. André led PSP through an accelerated evolution, which included the restructuring of the Private Equity group, the creation of a Private Debt asset class, the opening of offices in New York and London and the development of Vision 2021.

In fiscal year 2018, completed primarily under André's tenure, PSP saw a net portfolio return of 9.8%. That translates into a five-year net return of 10.5% and a 10-year net return of 7.1%, exceeding its long-term return objective. The management team and the organization's employees in Montréal, New York and London, grew the business and seized valuable opportunities.

Board activities

The Board once again played a key role in providing oversight of the organization, completing several strategic projects that support PSP toward Vision 2021. In preparation for a potential market correction, our Investment Committee, led by Timothy E. Hodgson, worked with Management to stress-test the portfolio in terms of the impact on performance, asset allocation, liquidity and leverage. It also approved changes to the Policy Portfolio. The Governance Committee, led by Garnet Garven, reviewed a number of items, including Director succession planning in the context of expected Board renewal, PSP's responsible investment strategy and the governance of PSP's portfolio entities. Our Audit Committee, led by William A. MacKinnon, worked with management on approving certain cost containment initiatives, while ensuring that the operating and capital budget continues to allow PSP to achieve Vision 2021. It also played an active role in updating the organization's cybersecurity strategy.

Finally, the Human Resources and Compensation Committee (HRCC), now led by Micheline Bouchard, made headway on its succession planning framework. It also supported the deployment of the compensation framework for employees in the New York and London offices, contributing to PSP's attraction and retention goals, and better positioning the organization to compete for top-tier talent on the world stage.

Key Board projects included the following:

Policy Portfolio
The Board of Directors approves, and annually reviews, the Statement of Investment Policies, Standards and Procedures (SIP&P), which governs the strategic allocation of assets, known as the Policy Portfolio. This year, the Treasury Board of Canada communicated to PSP a lower 10-year real rate of return target. The Board reviewed and approved adjustments proposed by management, which reduce the pension funding risk, while maintaining the Policy Portfolio's ability to generate a comfortable return margin above the Reference Portfolio. (See the MD&A on p. 34 for more details.)

Succession planning
With the departure of two directors and the terms of other directors having expired or ending in the near future, the Governance Committee and the Board focused considerable energy in fiscal year 2018 on ensuring that a strong succession planning and director onboarding process is in place for individual directors, as well as committee chairs. The HRCC also supported the organization's mandate toward top-tier practices in succession planning for management. The management succession plan was put to the test this year, and it proved successful, in allowing us to appoint Neil as President and CEO.

Climate change
The Board worked closely with the organization's Responsible Investment team to initiate a review of the portfolio's exposure to climate change risk and developed tools to ensure those risks are incorporated into PSP's underwriting and decision-making. This entails developing and implementing investment policies and processes to make the portfolio more resilient to the impacts of climate change, as well as encouraging enhanced disclosure on climate change risks by companies in which PSP invests. Read more about this in our separate 2018 Responsible Investment Report.

Looking ahead

The Board held a strategic session on innovation. We agreed with the management team's view on a clear framework for ensuring the organization prioritizes innovation in its activities, in the short and long term. Although it is a long-term investor, PSP has always had innovation in its DNA. While this drives PSP's investment process, the organization has always been committed to using innovation to make improvements from within — with enhanced processes, agility and speed of execution — so that it can deploy in a timely fashion.

Acknowledgements

On behalf of the Board, I would like to thank the external nominating committee mandated by the Government of Canada to identify and recommend qualified candidates to serve on our Board. Its crucial support facilitates the Board's succession planning, allowing us to ensure proper and consistent oversight of the organization year after year.

My fellow Board members provided disciplined support throughout the year. I want to especially recognize the work of Michael P. Mueller, who stepped down as Board Chair in January 2018. During his tenure, PSP evolved significantly. Mike joined our Board in 2006, when PSP had consolidated net assets of $35 billion and a grand total of 182 employees. Twelve years later, it has net assets of $153 billion and over 800 employees.

I would like to thank Cheryl Barker, who retired from the Board in January. During her 12-year tenure, Cheryl participated actively on all Board Committees and served as Interim Chair from 2012 to 2014. I would also like to express my gratitude to Micheline Bouchard, for taking over as Chair of the HRCC following my appointment as Board Chair. Micheline has been on our Board since September 2009, providing important continuity in the Board's functioning.

Finally, I would like to take this opportunity to formally welcome Miranda Hubbs, who joined our Board in August 2017.

In closing, I would like to thank PSP's employees for their collaborative approach and unparalleled agility — and, above all, their incredible dedication to the organization and its vision and mandate. And finally, a special thank you to senior management for their resourcefulness and discipline, in successfully leading PSP to meet its goals at the midpoint toward Vision 2021.

PSP has never been better positioned to spot the edge.

Martin J. Glynn
Chair of the Board

Think. Look. Move forward.

I'm honoured and excited to serve as PSP's new President & CEO. Having had the privilege to participate firsthand in the organization's impressive growth since I joined PSP 14 years ago, I am incredibly proud of our accomplishments and of our collaborative and innovative culture.

Fiscal year 2018 once again featured solid returns and exceptional efforts and accomplishments. Time and time again, our employees went above and beyond in demonstrating their commitment to our shared purpose: to contribute to the financial security of the contributors and beneficiaries who have served Canada in their careers.

Our vision is to be a leading global institutional investor that reliably delivers on its risk-return objective by being an agile and sought-after enabler of complex global investments. That all boils down to one simple word: Edge. Our edge is our ability to spot the unique advantage in everything we do and in our responsiveness to investment opportunities.

2018 results

For the year ending March 31, 2018, our portfolio return was 9.8% net of all costs. We delivered a net return of 10.5% on a five-year basis, exceeding our Policy Portfolio benchmark of 9.4% by 1.1%. We have also exceeded our return objective by delivering a net return of 7.1% on a 10-year basis. We have reached $153.1 billion of net assets under management at fiscal year-end, and expect to manage over $200 billion by 2025.

Our results were impacted by a combination of low interest rates and a global economic expansion supporting strong returns in both public and private markets. Despite increasing worries about a global trade war and protectionism, the markets generated strong returns, notably propelled by US fiscal reforms.

I'm very proud that, this year, all our asset classes had strong performances. Our people used their edge to find opportunities, demonstrating their creativity and resourcefulness. To recognize and celebrate our people, this report contains a section that highlights our talent (see p. 24), along with six stories on the teams behind some of our most noteworthy and complex, global investments of the past year. Each story reflects our collaborative approach and culture of critical and innovative thinking. Read about the Washington Wharf (p. 2), CeramTec (p. 8), Air Medical Group Holdings (p. 12), Blueshift Asset Management (p. 22), Australian Food & Fibre (p. 28) and Pattern Energy (p. 32).

Advancing our strategic plan

Throughout the year, our people worked collaboratively on the advancement of the five axes of our Vision 2021 Strategic Plan:

— Cultivate One PSP

In fiscal year 2018, we expanded our global research capability and improved processes. This will enable our people to leverage their powerful global networks across multiple geographic sectors and asset classes, to share knowledge and insights throughout the organization.

With the aid of 21 ambassadors from all our teams at all levels of the organization, we launched "One Workplace" at our offices in Montréal, New York and London. With this initiative, we converted our traditional offices into open, collaborative spaces with lots of natural light and common areas that offer a flexible functionality, encouraging ideation and innovation.

Our people also once again beat their own record in giving back to the community, donating 5,100 hours of their time to causes they support, as part of PSP Gives Back. They also donated $232,000 to community organizations, including Centraide.

— Improve our brand locally and internationally

This annual report launches our new branding: *Edge*. Expect to see it in action across all our platforms. Also, during the year we received an important accolade by being named one of Montréal's Top Employers.

Our vision is to be a leading global institutional investor that reliably delivers on its risk-return objective by being an agile and sought-after enabler of complex global investments. That all boils down to one simple word: **Edge**. Our edge is our ability to spot the unique advantage in everything we do and in our responsiveness to investment opportunities.

— Increase our global footprint

Following the opening of our New York and London offices in fiscal year 2017, we continued to expand our investment activities throughout the Americas, Europe and major Asian markets.

— Increase scalability and efficiency

We increased scalability and efficiency to support our Vision 2021 Strategic Plan, making considerable deployments, closing numerous investments, securing many new commitments through current and new relationships, and launching new internal systems to support operational efficiency. We transformed three of our largest internal groups with each having revamped its vision, service delivery model and organizational structure, in line with our strategic plan and industry best practices. This important undertaking will allow them to be more agile, responsive and effective business partners.

— Develop our talent

Our people are the key to our success. We finalized the complete revamp of our talent acquisition strategy, which we'll execute through a newly defined three-year roadmap. We held our first campus information sessions tailored to key student audiences and expanded the internship program to top schools in the US and UK.

We also launched our Inclusion & Diversity (I&D) Forum in November and initiated an I&D Council, which I co-chair, alongside Giulia Cirillo, Senior Vice President and Chief Human Resources Officer. The Council focuses on creating awareness of our individual unconscious biases and we established several affinity groups to help foster inclusivity at PSP.

On our radar

We believe climate change is a long-term structural shift that will have a material impact on investment risks and returns, across different sectors, geographies and asset classes. As a long-term investor, we must proactively address the reality of climate change risks and opportunities as part of our investment decisions. Read more about this in our 2018 Responsible Investment Report.

We're also focused on other specific challenges ranging from global populism and protectionism, to the rapid evolution of disruptive technologies, such as artificial intelligence, machine learning, block chain technology and autonomous vehicles, and the high valuations and strong competition for private assets. We're actively engaged in enhancing our innovation-based approach to understand the risks and opportunities these changes imply.

Thank you

I would like to thank each of our employees for their incredible work ethic and for fully supporting the numerous initiatives that Vision 2021 requires of them. It is always inspiring to see their passion and sense of purpose, and they deserve all the praise for the results we'll reap in the long-term.

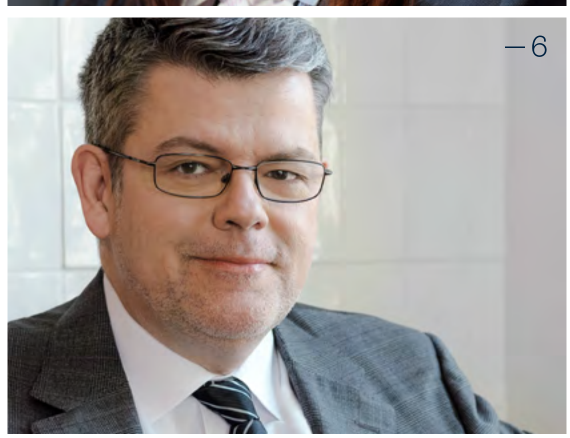
Additionally, I would like to express my deep gratitude to two individuals who helped to steer us to this point on our journey. During his three years as President and CEO, André Bourbonnais brought to PSP a vision of what we needed to become to fulfill our long-term mandate. Michael P. Mueller, former Chair of the Board, supported PSP through our most significant growth period, positioning us to maximize value to the pension plans of contributors and beneficiaries.

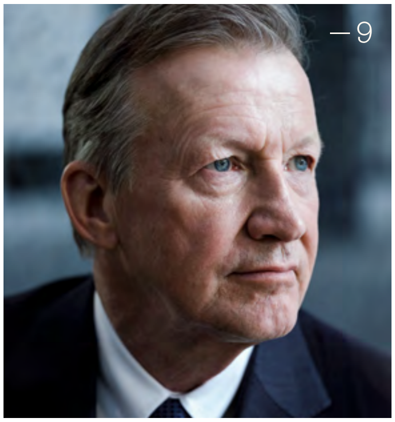
And finally, I'd like to thank Martin J. Glynn and the entire Board of Directors for their invaluable insight and guidance.

Neil Cunningham
President and
Chief Executive Officer

Executive committee

Think, look, move, **together.**





Neil Cunningham — 1
President
and Chief Executive Officer

Darren Baccus — 2
Senior Vice President
and Chief Legal Officer

Nathalie Bernier — 3
Senior Vice President,
Strategic and Business Planning
and Chief Financial Officer

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

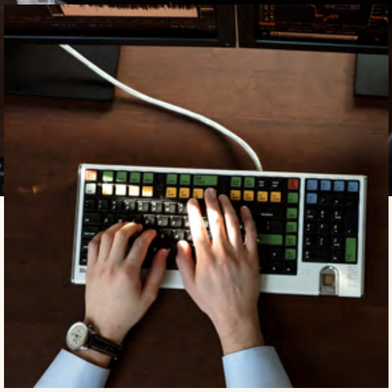
Giulia Cirillo — 5
Senior Vice President
and Chief Human Resources Officer

Alain Deschênes — 6
Senior Vice President
and Chief Operations Officer

Anik Lanthier — 7
Senior Vice President,
Public Markets
and Absolute Return Strategies

David J. Scudellari — 8
Senior Vice President,
Head of Principal Debt
and Credit Investments

Guthrie Stewart — 9
Senior Vice President
and Global Head of
Private Investments



Investing outside the box.

Blueshift Asset Management

There's one thing that distinguishes our Public Markets group – the team is always trying to think outside the box when it comes to investments, structures, fees and external partnerships.

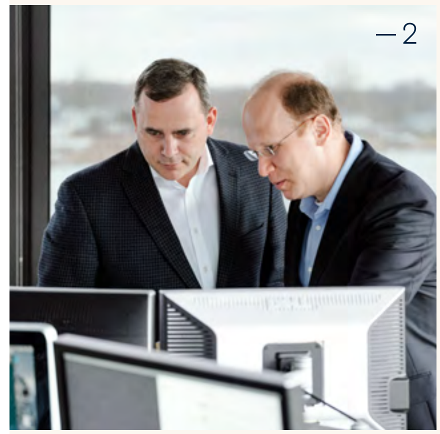
This is how Blueshift Asset Management was discovered. In 2017, PSP struck a deal with this new partner, an emerging hedge fund manager introduced to us through our partner network. Blueshift had developed a proprietary approach to embed high-frequency trading and order flow insights, as well as big data analytics, into a statistical arbitrage strategy.

Not your run-of-the-mill strategy, statistical arbitrage uses highly sophisticated computer models to take advantage of fleeting opportunities in equity markets.

"Statistical arbitrage funds managed by teams with good pedigrees and strong track records are typically closed or too expensive," said Timour Zilberchteine, Director, External Manager Search and Monitoring. "You have to look far and wide to find a proven partner with differentiated intellectual property."

That's where Blueshift came in. The firm emerged from the spinout of the asset management arm of a larger financial and technology company and was seeking a long-term strategic partner.

"By investing in Blueshift, we now have a strong relationship with a team that has deep expertise in high-frequency trading, possesses a sophisticated trading infrastructure and shares common values with PSP. We were able to negotiate mutually favourable terms that will help Blueshift to build its business and help PSP to secure capacity in a highly sought-after strategy."



— 1
Corey Dean, Business Analyst, Blueshift Asset Management

From left to right

— 2
Simon Fournier, Managing Director, and **Timour Zilberchteine**, Director, External Manager Search and Monitoring, Public Markets and Absolute Return Strategies

Highlights

Pioneered trading style combining insights from market-making and statistical arbitrage signals

Quantitative and quantamental investment process

Average trades per minute: over **500**

Data records processed daily: ~ **2 billion**

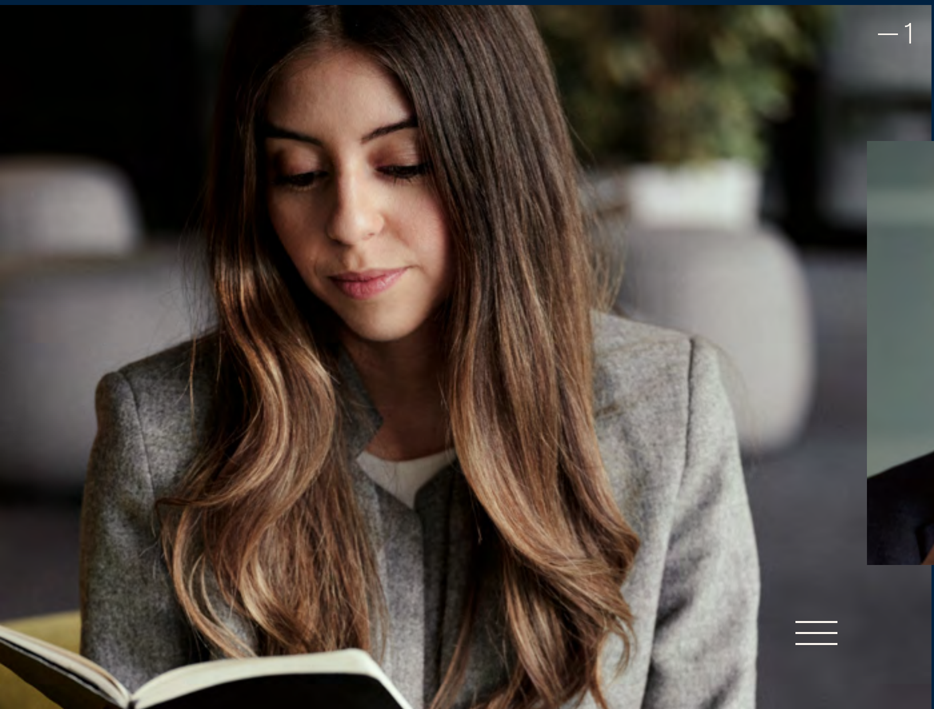
Diverse portfolio: **2,400** positions on average

Boston-based research centre

Co-location at **12** stock exchanges

People forward

We designated fiscal year 2018 the **year of talent** as we set our sights on nurturing our people and a One PSP culture to achieve our Vision 2021 strategy. Looking to support our growth and hire skilled professionals in a highly competitive market, we also recognized the need to enrich the PSP experience of our candidates and our employees from the moment they saw a PSP job posting. At the early stages of our journey, recent news suggest that we are on the right track: in January 2018, we were proud to learn that PSP Investments was named one of Montréal's top employers for the first time.



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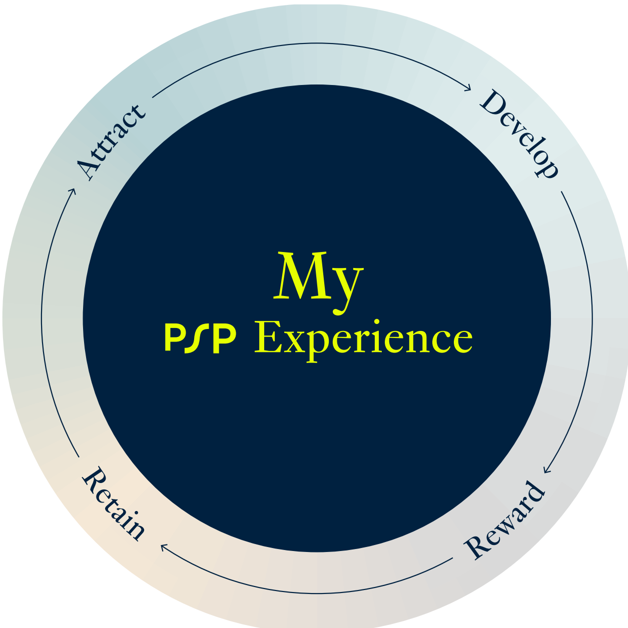
Attract

Nurturing the employee experience



Finding talent in all the right places

In fiscal year 2018, we filled over 80 new positions as a result of our growth. About two-thirds of our new team members were investment professionals, while the rest joined functional areas such as technology, finance and human resources.

We changed how we are connecting with candidates, emphasizing not only skill sets, but also diversity and cultural fit. We want people who thrive in a collaborative and inclusive work environment, where diversity is embraced and they are encouraged to be open-minded, speak up and share insights.

We are using unique, invitation-only events as a way of giving candidates early exposure to our people and culture. Our Public Markets group held an on-site event for 120 students from management schools in Montréal and Toronto. After a rousing welcome from senior executives, the students met with various Public Markets portfolio teams to gain a first-hand view of what it's like to work for us.

PSP recognized as one of Montréal's Top Employers (2018)

Carolyne Poirier — 1
Advisor, Human Resources

"I started working for PSP for the first time in 2012 as a student, when there was no formal internship program. The next year, I was offered a part-time job during the last year of my bachelor's. Eventually, I was offered a full-time job, starting in the summer, to help create our internship program from scratch. We developed a structured offering and then promoted it during road shows at universities and student events at PSP. Today, we welcome a wonderful community of close to 100 interns each year. I'm about to take up a new challenge with the Human Resources business partner team, serving the Private Market groups."

Nicolas Babkine — 2
Director, Derivatives Trading, Public Markets

"After leaving the Armed Forces, I worked as a securities broker and obtained my Chartered Financial Analyst (CFA) designation. Before joining PSP in 2015, my job involved collaborating with the Derivatives team. I found the people approachable and the culture appealing. So, when a position opened up, I didn't hesitate. I already knew a lot of my colleagues! Today we trade, and raise questions together, as a team. We work very closely. I have latitude in my work, and PSP encourages me to develop professionally. When I see my friends in the Forces, I like to remind them that I help invest their pension fund!"

Develop

Learning with intent

Employees tell us that challenging assignments and exceptional development opportunities are two key reasons why they choose to work at PSP. Building on the impressive qualifications they bring with them, we encourage continued skills and talent development.

Instead of one-size-fits-all learning, we believe in approaches that are fit for purpose. We encourage immersive learning so that every day at work should offer a learning opportunity. This is why we encourage our leaders to share their work experience, coach their teams, mentor or provide on-the-job “stretch” assignments to shape the future of PSP. At the same time, we encourage employees to become owners of their career path and to seek opportunities to learn and grow.

In fiscal year 2018, we rolled out training focused on diversity and inclusion, as well as on respect in the workplace. We also worked on developing leaders of talent, initiating a program for first-time people managers. Not only does this give participants an opportunity to network with others in similar situations, they also learn about what’s expected of our leaders and how to motivate and engage their teams.

We continued to provide financial support for employees pursuing accreditation and enrolling in outside courses and workshops, such as a 100-day boot camp for women (l’Effet A) aimed at honing their communication and networking skills.

Reward

Choosing PSP everyday

We want our people to consciously choose to join PSP every single day that they work with us. For this, they need to feel good about being part of our organization, cultivate meaningful relationships, and be able to leverage their skills, knowledge, experiences, as well as the diversity of thoughts and perspectives in all they do.

To fuel powerful networks inside and outside PSP, we literally knocked down the walls, as part of a “One Workplace” initiative. Whereas most people used to be in closed offices, they now work in open and collaborative spaces that include an innovation and ideation corner for brainstorming, a quiet space for reflection and focus, a studio for gatherings, and a unique coffee shop overlooking our outdoor patio for socializing and networking.

Also popular among our employees:

- Our PSP Gives Back program provides employees with two paid time off days per year to volunteer at local charities that are important to them. Many groups make it a team event. For example, one team spent a day at Moisson Montréal, a local food bank, emptying the contents of more than 20,000 donated coffee pods into bags so the coffee could be more readily used by people with standard coffeemakers. Moisson Montréal presented us with its Gold Award for investing over 932 volunteer hours since 2016.
- In December 2017, we held a townhall meeting connecting our various offices via videoconference. Titled *Future Forward*, the meeting highlighted long-term investing trends and opportunities, with internal experts bringing our investment stories to life.

The results of our efforts are clearly illustrated in our employee engagement scores. Our most recent survey indicated that 94% of employees would recommend working at PSP.

Retain

Valuing diversity

We demystified inclusion and diversity at PSP in fiscal year 2018. The focus was on leveraging differences rather than similarities, creating an inclusive workplace, and making inclusion and diversity a leadership commitment. Not only are these the right things to do, studies have shown that diverse and inclusive organizations outperform others on various counts, including financial returns and innovation.[1]

A conversation rooted in respect

Our newly formed Inclusion & Diversity (I&D) Council spearheads our efforts, both in promoting inclusion and diversity and in meeting our requirements under the *Employment Equity Act*. Co-chaired by Giulia Cirillo, Senior Vice-President and Chief Human Resources Officer, and Neil Cunningham, President and CEO, the Council is a cross-sectional group of 56 employees who are passionate about creating an inclusive and diverse One PSP culture. In addition to belonging to the Council, each person is also an ambassador for one of eight affinity groups:

- First Nations
- Veterans
- People with disabilities
- LGBTQ
- Gender dynamics
- Multi (generational, character and individuality, work-life commitments)
- Cultural and religious background (ethnicity, culture, religion, visible minorities)
- Diversity of thought and perspective (education, skills, experience, background)

In a strong show of leadership support, each senior leader made a personal pledge to promote a specific aspect of inclusion and diversity. Their pledges are posted to our intranet for all employees to see. For example, one leader pledged to lead efforts to eradicate any form of age discrimination, while another committed to being a visible ally to the LGBTQ community.

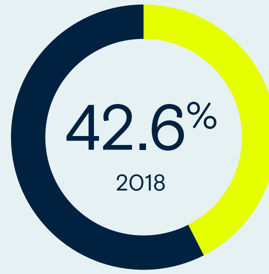
Inclusion and diversity training was a priority. A three-day I&D forum in the fall offered six different workshops, including an inclusive leadership workshop for executives and people managers. All employees attended at least one session. We also held mandatory *Respect in the Workplace* training in January and February to talk about creating a healthy work environment, recognizing inappropriate behaviour, knowing one's role and responsibilities, and accessing resources for ensuring a respectful and harassment-free workplace.

[1] Source: https://www.mckinsey.com/business-functions/organization/our-insights/why-diversity-matters and https://www.fastcompany.com/40515712/want-a-more-innovative-company-simple-hire-a-more-diverse-workforce

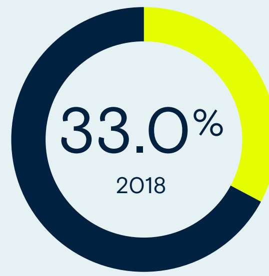
[2] As at March 31, 2018

Workforce by numbers[2]

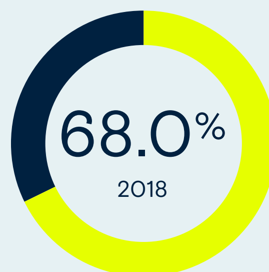
Women in total workforce



Women in senior roles



Women and visible minorities in intern roles



Members of visible minority groups as a percentage of total workforce

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

Thinking alike and seeing afar.

Photo credit: Australian Food & Fibre

Australian Food & Fibre

Over the years, the Robinson family built their agricultural business, Australian Food & Fibre (AFF), into a world-class Australian cotton producer with highly efficient and proven expertise in sustainable land development and water management.

“Long before we’d met them, the team had heard great things about both AFF and the Robinsons through our existing network of partners in the country,” said Marc Drouin, Managing Director and Head of Natural Resources. “So when the opportunity to partner with them came along, we jumped at it.”

“Intrigued by the Natural Resources group’s first Australian joint venture with the Hewitt family, the Robinsons saw in PSP a potential like-minded partner who could help AFF continue to grow at a healthy pace without jeopardizing the long-term future of the business.”

AFF and PSP ultimately signed a long-term joint venture agreement that gives AFF capital to fund acquisitions and other capital projects, while also unlocking access to PSP’s global network of agriculture partners, who all share a strong focus on and commitment to employee health and safety, and the environment. Meanwhile, PSP benefits from having direct ownership in yet another, forward-thinking joint venture operating in a stable, farming- and investor-friendly country, and well poised to seize opportunities.

Concurrent with the execution of our joint venture agreement, together we completed our first joint acquisition by purchasing Koramba, one of the county’s largest contiguous cotton farms. AFF has also since invested in a sophisticated new health and safety reporting system and in projects aimed at improving its farms’ resilience to climate events, while reducing its use of pesticides to below industry peers.

From left to right

— 1
Joe Robinson, Chief Executive Officer, AFF, with **Jon Carter** and **Steve Porter**

— 2
Marc Drouin, Managing Director and Head of Natural Resources, **Ricardo Eusebi**, Director, **Christina Tannous**, Director, Portfolio Management and Operations and **Dinos Papoulias**, Associate

— 3
Yannick Beaudoin, Managing Director, **Irene Xue**, Associate and **Alienor Armand**, Manager, Natural Resources

Highlights

Among the top **10** producers of cotton in Australia

8 farms (5 owned / 3 leased)

Approximately **32,000** hectares of land under management

Total production in 2017
25 million kilograms of cotton
40 million kilograms of cereals

85 employees

Mindful investing

As a pension investment manager with a long-term horizon, we must invest responsibly. We strongly believe that environmental, social and governance factors – such as climate change, health and safety and ethical conduct – are material to long-term returns and that we need to integrate them into our investment decision-making processes.

Two years ago, we created a dedicated Responsible Investment team to strengthen our practices across all asset classes and shine a different light on our investments. Today, this team is an integral part of PSP's connected approach and contributes to investment decisions by flagging risks related to environmental, social and governance (ESG) factors and identifying opportunities to create value. This collaboration with our investment teams extends to the monitoring of investments in both public and private markets. In a short time, these efforts have positioned PSP onto the world stage of responsible investing. Here are some of the past year's highlights. To learn more, see our 2018 Responsible Investment Report.

2018 Highlights

- Updated our Responsible Investment Policy and Proxy Voting Guidelines to further support our ESG integration strategy.
- Initiated a comprehensive assessment of our portfolio's exposure to climate change risk and developed tools to ensure risks are incorporated into our underwriting and decision-making – and that we are positioned to seize investment opportunities to enhance the portfolio's resilience.
- Publicly supported the 30% Club Investor Statement, in which a group of Canada's largest institutional investors called for 30% representation of women on boards of directors and executive management teams of S&P/TSX composite index companies by 2022.
- Issued our inaugural Responsible Investment annual report in the summer of 2017.
- Ranked among the world's 25 most responsible asset allocators in a new study released by Bretton Woods II program at New America.
- Joined 30 Canadian and international financial institutions and pension funds in issuing a joint *Declaration of Institutional Investors on Climate-Related Financial Risks*, calling on publicly traded companies in Canada to commit to enhanced disclosure on their exposure to climate change risks, and the measures they are taking to manage them.

How we work

Our Responsible Investment team focuses on four areas:

- Policy development and strategy, including monitoring ESG themes, measuring risks and identifying opportunities for each asset, and on a total portfolio basis
- Advisory role to the Board, President and CEO, and investment groups
- Responsible investment oversight of our investments
- ESG training to increase our internal knowledge and capabilities

Public markets

As part of the investment analysis and decision-making processes, we look to identify material ESG factors. We also use our ownership positions to promote good corporate governance practices by exercising our proxy voting rights and actively engaging with publicly listed companies. We engage with publicly listed companies in our investment portfolios based on factors such as the ability to create shareholder value, the prospects for success and the relevancy of issues. Some engagements entail one or two meetings over a period of months, while others are more complex and warrant multiple meetings with board members and senior management over several years.

Private markets

We contribute to the investment process of our Real Estate, Private Equity, Infrastructure, Natural Resources and Private Debt groups by identifying ESG risks and opportunities, including those linked to carbon emissions, climate change, health and safety, human rights and business ethics. Our insight in ESG risk and opportunity analysis is integral to PSP's due diligence and investment process. Throughout the life of an investment, our investment teams monitor ESG factors and, when risks arise, they ensure that mitigation measures are implemented as necessary.

Externally managed funds

We allocate capital to external managers for public market investments and make a significant portion of our private market investments through funds. For all externally managed mandates and funds, we assess the ESG practices of the managers and partners to ensure that their approach is aligned with our Responsible Investment Policy and expectations.

Industry involvement

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

Last year, we voted at

3,871

meetings for a total of

43,172

resolutions in all regions of the world.

We also engaged with

582

public companies directly, collaboratively and through a service provider of various ESG issues such as executive compensation, board composition, climate change and cybersecurity.

See our 2018 Responsible Investment Report to learn more.

Environmental assessment

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

In fiscal year 2018, all investments reviewed by PSP Investments were considered unlikely to cause significant adverse environmental effects.

Vision makes visionaries.

Pattern Energy

By now, most people have seen the effects of climate change on our world and come to realize that we need to do things differently to sustain our future.

Our Infrastructure group drew this same conclusion more than a decade ago and zeroed in on opportunities in clean, renewable energy like hydroelectricity, solar and wind power in Europe. The early experience helped them gain valuable insights into the risk profile of the space and its future. Fast forward to today and with technologies improving and costs declining, renewable power is now both emissions-free and highly economic. We continue to build on our investment platforms, and with five major investments over the past several years, renewable energy investments make up more than one-quarter of our Infrastructure portfolio.

In 2017, we became the largest shareholder in Pattern Energy, one of the best-regarded wind developers and operators in North America.

“This deal was unique in that we created a co-investment relationship where we have positions in both the private and listed entities of Pattern Energy and we have the right to acquire more assets directly as the business grows,” said Michael Larkin, Director, Infrastructure Investments.

“The devil is in the details when it comes to executing complex deals like this. We needed to adapt the transaction to Pattern Energy’s structure, while ensuring that it would be a meaningful, large-scale investment program for us. I’m proud to say that we achieved both objectives.”

If further proof of the wisdom of our investment was needed, we had only to look at Pattern Energy’s Meikle Wind power facility in British Columbia, which was recognized by Clean Energy BC in 2017 as a shining example of how to bring together zero-carbon energy generation, local economic development and sustainable business.

— 1
Anthony Lence Roy, Mont Sainte-Marguerite wind power facility, Québec, Pattern Energy

From left to right

— 2
Patrick Chabot, Manager and **Michael Larkin**, Director, Infrastructure Investments

— 3
Cyrus Aga and **Louis-Éric Bonin**, Associates, Infrastructure Investments

Highlights

Leading US-based independent renewable energy company

Operating more than **4,500** MW of wind and solar power projects

Utility-scale projects in the US, Canada, Chile, and Japan, as well as additional development projects in Mexico

The largest wind power producer in Canada with **1,533** MW operational capacity

9 facilities across **4** provinces

Management's discussion of fund performance and results

Our mandate

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

- manage amounts that are transferred to it in the best interests of contributors and beneficiaries under the Plans, and
- invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the Plans and the ability of those Plans to meet their financial obligations.

PSP Investments' strategic ambition is to be a leading global investor, working together and focusing on a total fund investment approach that optimizes our ability to identify opportunities, deploy capital and capture value.

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

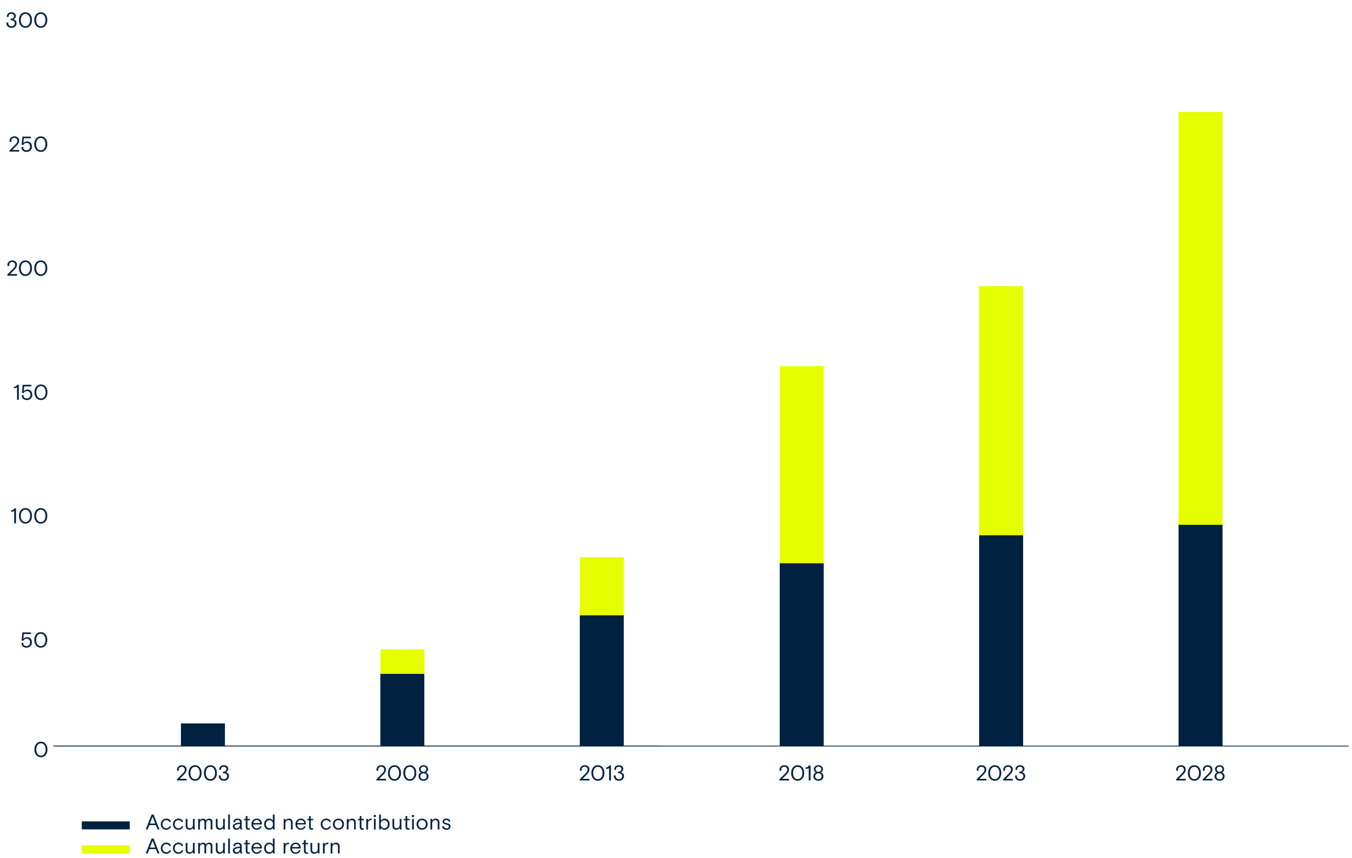
The real test of PSP Investments' success is that we achieve our mandate over the long term and create value for the sponsor of the Plans, the Government of Canada, and their contributors and beneficiaries. As we will see throughout the next section, PSP Investments has been successful in realizing its mandate.

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

At the end of fiscal year 2018, fund transfers received from the Government[1] since April 1, 2000, represented approximately 50% of net AUM, with the remaining 50% representing investment returns earned by PSP Investments on those funds. As illustrated in the chart below, as the Plans mature, the proportion of assets coming from investment returns is expected to reach about 70% over the long term. This means that for every dollar of pension benefits paid, 70 cents will be sourced from investment returns.

Having a robust investment approach aligned with our mandate and the objectives of the Government is therefore crucial for funding the Post-2000 Liabilities of the Plans.

Historical and Projected Net AUM
$ billion



Cumulative amounts are based on historical contributions (net of benefit payments) and PSP Investments' assets up to March 31, 2018, and are projected using the latest actuarial valuations of the Plans afterward.

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

Investment framework

Return objective		Reference portfolio		Policy portfolio		Active portfolio
Communicated by the Treasury Board of Canada Secretariat	→	Articulates risk appetite (defined in terms of pension funding risk)	→	Long-term Strategic Asset Allocation	→	Includes Active Managment Strategies within active risk limits

The chart above illustrates our investment framework.

Return Objective

To provide more clarity to our mandate, the Treasury Board of Canada Secretariat (TBS), which oversees the Government's relationship with PSP Investments, communicates a long-term real rate of return objective to us each year. It represents a way for the Government to communicate its funding objectives for the Post-2000 Liabilities.

In fiscal year 2018, TBS lowered the long-term Return Objective to 4.0%, down from 4.1%. TBS also introduced a real Return Objective of 3.3% for the next 10 years.

Our aim is to establish a long-term investment portfolio which has an expected real rate of return that is at least equal to the Return Objective.

Reference Portfolio

Based on the Return Objective, PSP Investments develops a Reference Portfolio, a simple portfolio composed of publicly traded securities that could be passively managed at minimal cost. The Reference Portfolio is designed in such a way that, based on our long-term capital market assumptions, it is expected to deliver the Return Objective with the minimum investment risk. Accordingly, a Reference Portfolio composed of 70% equities and 30% fixed income is expected to deliver the Return Objective over the long term, and establishes the pension funding risk deemed acceptable by the Government to achieve our mandate (risk appetite).

The Return Objective and the Reference Portfolio form the foundation of our investment approach, which is composed of the following two elements:

i. A Policy Portfolio that diversifies our sources of risk and return

ii. Active Portfolio

Policy Portfolio

The Policy Portfolio is built as a more diversified, resilient and liability-aware portfolio than the Reference Portfolio. It articulates PSP Investments' long-term target exposure to asset classes.

The objective for the Policy Portfolio is to achieve a return greater than the Reference Portfolio with a lower or equal level of pension funding risk. This is achieved by including asset classes that diversify our sources of risk and return such as Real Estate, Private Equity, Infrastructure, Natural Resources, and Private Debt.

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

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

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

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

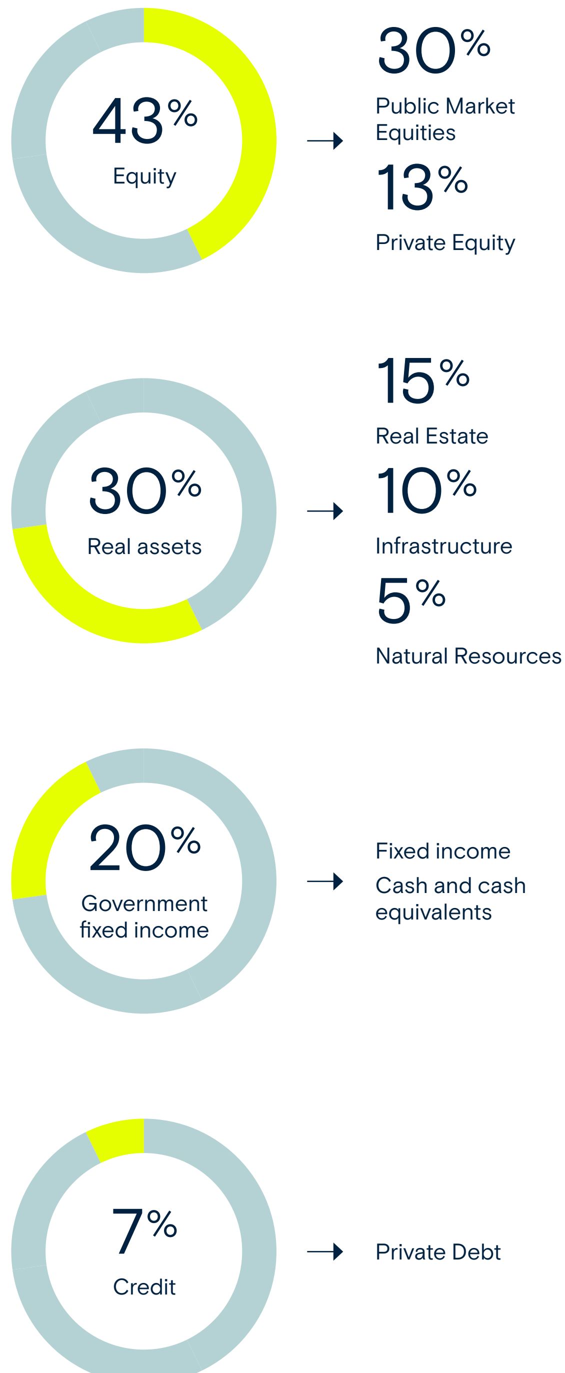
Following the fiscal year 2018 review, the Board approved a 4.0% shift from equity to fixed income assets to reduce the pension funding risk. The new Policy Portfolio is more robust in terms of pension funding risk while maintaining the portfolio's ability to generate higher returns than the Reference Portfolio.

Active Portfolio

The second element of our investment approach is to implement active management strategies. Based on thorough and proprietary research, we seek to invest in companies and securities whose risk-adjusted returns are expected to outperform the market.

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

Target asset allocation[1]
Effective during fiscal year 2018



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

Total fund approach

A key priority of PSP Investments' five-year strategic plan is to implement an investment approach that focuses on the total fund rather than only on individual asset classes.

The total fund approach, implemented by the Total Fund Strategy Group (previously the CIO group), guides our long-term investment strategy and focuses on managing total fund allocations and exposures in terms of asset classes, geographies, sectors and risk factors. The objective of the total fund approach is to complement asset classes' bottom-up perspective with top-down views, and act on them.

New hedging strategy

A prime example of a decision implemented at the total fund level in fiscal year 2018 is to maintain foreign exposure unhedged and use hedging strategies dynamically, on a tactical basis, as part of the total fund strategy. We believe that by not systematically hedging exposure in foreign currencies, we will improve the Policy Portfolio's risk-return profile by significantly reducing hedging cost in the long term and reducing pressure on liquidities, leverage and operations. Furthermore, the Canadian dollar tends to be procyclical and positively linked to commodity prices and the global equity markets. Therefore, it is expected that foreign currencies will act as a diversifier in the Policy Portfolio (acting as a natural hedge against economic shocks on asset returns). Finally, the impact of currency fluctuation over the long term is not expected to be significant as currencies tend to fluctuate around their equilibrium value, driven by financial flows, interest rates and term of trades.

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

Complementary Portfolio

In support of our total fund approach, we have introduced in fiscal year 2017 the Complementary Portfolio, which enables us to capture investment opportunities that fit our mandate but are outside the scope of our current investment framework. This portfolio supports scalability, provides us with additional flexibility and improves the risk-return profile of the total fund.

Evaluating the performance of our investment approach

Benchmarks

During fiscal year 2017, as part of the review of our compensation framework, we reviewed the benchmarks of many asset classes to improve their alignment with their respective investment strategies and market performance. The revised benchmarks came into effect on April 1, 2017 and were used to evaluate our performance for fiscal year 2018.

The benchmarks in the table below were used to measure fiscal year 2018 relative performance for each asset class set out in the SIP&P as well as for the overall Policy Portfolio.

ASSET CLASS	BENCHMARK
Equity	
Canadian Equity	S&P/TSX Composite Index
US large cap Equity	S&P 500 Index
Europe, Australia, Far East ("EAFE") large cap Equity	MSCI EAFE Index
Small Cap Equity	S&P 600 Index
Developed Markets Equity	MSCI World Index
Emerging Markets ("EM") Equity	MSCI EM Index
Private Equity	Private Equity Manager Universe[2]
Government Fixed Income	
Cash & Cash Equivalents	FTSE TMX Canada 91 days T-bill Index
Fixed Income	JP Morgan Government Bond Index Global Barclays World Government Four Country (custom) ILB Index FTSE TMX Government Bond Index and FTSE TMX Canadian Corporate
Credit	
Private Debt	Blend of BoA Merrill High Yield Indices (US & Euro) and S&P Leveraged Loan Indices (US & European)[2]
Real Assets	
Real Estate	Customized Benchmark[1,2]
Infrastructure	Customized Benchmark[1,2]
Natural Resources	Customized Benchmark[1,2]
Complementary Portfolio	Policy Portfolio Benchmark

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

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

Our long-term results

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

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

This objective measures PSP Investments' success in achieving the long-term Return Objective. Over the past 10 years, PSP Investments has recorded a net annualized rate of return of 7.1%, compared to 5.8% for the Return Objective.

Considering the size and timing of contributions, this outperformance amounts to $23.8 billion in net investment gains above the Return Objective over this 10-year period.

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

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

The Reference Portfolio reflects what the Government could achieve with a passive investment approach, taking into consideration its Return Objective. Over the last 10 years, PSP Investments' performance exceeded the performance of the Reference Portfolio by 0.7% per year. This result was achieved without incurring more pension funding risk than the Reference Portfolio.

This additional 0.7% represents the value added by PSP Investments' strategic decision to build a more diversified portfolio – the Policy Portfolio – that includes less liquid asset classes, and to engage selectively in active management activities.

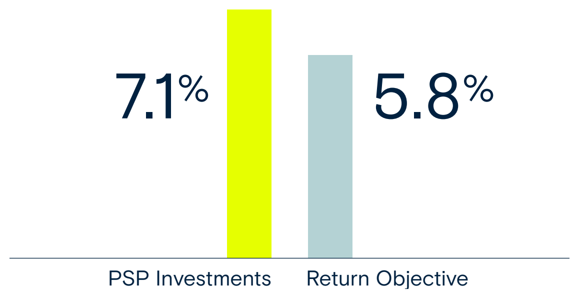
3. Achieve a return, net of expenses, exceeding the Policy Portfolio benchmark return over 5-year periods.

This objective is used to measure the value added by PSP Investments' active management activities. Over the last five years, these activities generated returns that exceeded the primary benchmark, the Policy Portfolio, by 1.1% per year.

Notable contributors include the solid performance of our real estate, infrastructure and natural resources portfolios against their respective benchmarks.

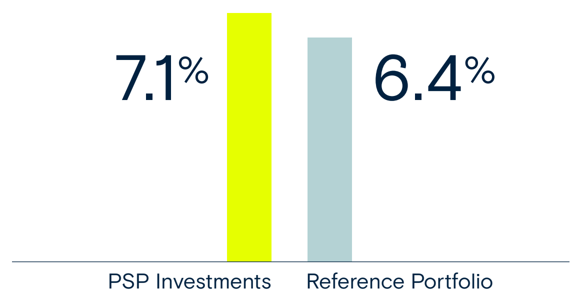
Return compared to Return Objective

10-year net annualized return



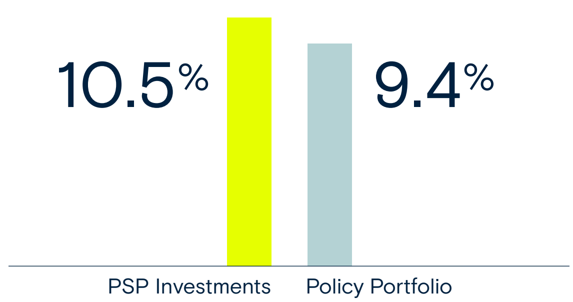
Return compared to Reference Portfolio

10-year net annualized return



Return compared to Policy Portfolio benchmark

5-year net annualized return



Our fiscal year 2018 annual results

9.8%	$153.0	$13.5	$3.9
1-year net rate of return	Billion Net assets	Billion Comprehensive income	Billion Net contributions

On a gross basis, the portfolio delivered a 10.2% return in fiscal year 2018, compared to a 13.2% return in the previous fiscal year. The net assets of PSP Investments increased by $17.4 billion during fiscal year 2018, representing an increase of 12.9%. Net assets at the end of fiscal year 2018 were $153.0 billion, compared to $135.6 billion at the end of the previous fiscal year.

Comprehensive income reached $13.5 billion (i.e., net investment income less operating expenses and other comprehensive income) in the current fiscal year, compared to $15.2 billion in fiscal year 2017. PSP Investments also received net contributions of $3.9 billion in the current fiscal year compared to $3.6 billion in the previous fiscal year.

The net rate of return of 9.8% for the fiscal year that ended on March 31, 2018, compares favourably to our Policy Portfolio benchmark, which recorded an 8.7% gain during the same period. The difference represents the value added by PSP Investments' active management activities. Most of our asset classes contributed to both our absolute return and excess return over the Policy Portfolio, as described in the next section.

Our fiscal year 2018 annual results by asset class

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

	FISCAL YEAR 2018			
ASSET CLASS	Net AUM (millions $)	Net AUM (%)	Portfolio Returns (%)	Benchmark Returns (%)
Equity				
Public Market Equities (Includes absolute-return strategies, funded through leverage)	51,813	33.8	11.3	10.3
Private Equity	19,382	12.7	12.9	17.6
Government Fixed Income				
Fixed Income	24,856	16.2	1.6	1.7
Cash and Cash Equivalents	2,927	1.9	1.5	0.8
Credit				
Private Debt	8,857	5.8	8.2	2.3
Real Assets				
Real Estate	23,245	15.2	13.6	12.3
Infrastructure	14,972	9.8	19.3	12.1
Natural Resources	4,833	3.2	11.2	3.1
Complementary Portfolio	2,201	1.4	33.0	8.7
Total portfolio[1]	**153,086**	**100.0**	**9.8**	**8.7**

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

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

Public Markets

Despite a turbulent last quarter, public equity markets ended fiscal year 2018 with significant gains. In this context, our investments in public equities recorded a strong return of 11.3% during fiscal year 2018. Public equities outperformed their benchmarks by 1.0%. Absolute return mandates are the strongest contributors to the excess return.

The first three quarters of fiscal year 2018 delivered steady equity market gains; the combination of low interest rates and a highly synchronized global expansion provided a positive backdrop for returns, with very low market volatility. However, in the fourth quarter volatility surged: the passage of US tax reform spurred investor risk-taking and at first, public equities soared, but those gains later reversed, as investors' worries of a global trade war, and more inflation took hold.

Global equities will remain supported by strong corporate profitability given the ongoing global expansion. However, as the business cycle matures and the cost of capital increases due to rising interest rates, returns are likely to be more volatile than at earlier stages of the recovery. Valuations may be challenged to improve from already relatively high levels.

Global bond yields were broadly flat during the first three quarters of fiscal year 2018, before increasing in the fourth quarter. The same factors that drove equity price returns were also responsible for modest, but positive market performance in fixed income markets for fiscal year 2018. Fixed-income underperformed its benchmark by less than 0.1%. The prospect of further monetary policy normalization around the globe implies a tough backdrop for bonds for the remainder of the business cycle.

Private Markets

Within this global economic context, our private markets portfolios all generated strong returns, and most of them outperformed their benchmarks. Gains in the infrastructure portfolio were the strongest contributor to our total relative performance. Our real estate, natural resources and private debt portfolios also recorded strong absolute and relative returns against their benchmarks. Our private equity portfolio recorded strong results, although below benchmark primarily due to the continued underperformance of certain investments. Significant changes have been made to the strategy and team resources since fiscal year 2016 and we are seeing improved performance above benchmark this year from investments made over that more recent period.

As our private asset classes continue to grow and approach their Policy Portfolio allocation targets, we expect to reap increased benefits from their contributions to total fund returns.

Currency Exposure

Given the proportion of PSP Investments' assets that are invested abroad, currency fluctuations can have a significant short-term impact on investment returns. This was again the case in fiscal year 2018. After a large run-up in previous years, the US dollar steadily depreciated against all other developed market currencies, particularly the euro and the British pound and to some extent the Canadian dollar. The prospect of improving growth opportunities outside of the US, coupled with signals from major central banks that their ultra-easy monetary policy settings were approaching their limit, encouraged investors to venture away from the US dollar and into other strong currencies. The British pound staged a strong recovery as worries over a Brexit "cliff edge" dissipated, while the Canadian dollar finished the year just 3% higher relative to the US dollar after a rollercoaster year. The net impact from foreign exchange fluctuations resulted in a loss of $1.1 billion in fiscal year 2018. This overall loss can be explained by higher exposures to the US dollar offset by lower exposures to other currencies such as the euro and the British pound.

Public Markets

$76.7 Billion Net AUM	$6.3 Billion Investment income	8.3% 1-year rate of return	10.6% 5-year annualized return
		7.7% Benchmark return	10.3% Benchmark return

Public Markets is composed of public equity, absolute return and fixed-income strategies. Investments are managed by both internal and external managers using a combination of active, absolute and index-replication strategies. Public Markets provides scalable portfolios to deliver the benchmark performance of certain public markets asset classes within the Policy Portfolio, adds value through active management within risk limits, and accounts for more than 50% of assets under management.

Public Markets generated significant returns (adding $461 million above the benchmark) in a year that started off with market volatility at historical lows and with accelerating global growth. Economic growth maintained its momentum throughout the fiscal year, in part supported by the US tax reform plan. However, with geopolitical risks increasing, Public Markets positioned itself to protect against the risk of falling equity markets, which proved prudent during the last quarter when volatility rose and markets corrected. Inflation started to rise at the beginning of the fiscal year and showed signs of further increasing in major developed countries. During fiscal year 2018, global yields in these countries also increased as global central banks gradually tightened monetary conditions.

- At fiscal 2018 year-end, net assets managed in active strategies totaled $45.8 billion, up from $38.8 billion at fiscal 2017 year-end; net assets managed in internal active strategies totaled $31 billion, compared with $24.6 billion at fiscal 2017 year-end.
- Public Market equities, which include absolute return strategies, accounted for $51.8 billion of net assets at fiscal 2018 year-end, compared with $55.2 billion at fiscal 2017 year-end.
- The largest contributor to performance during the fiscal year was the externally managed absolute return portfolio which had another strong year, adding more than $400 million in absolute return. Positive returns were generated by most of the managers . The portfolio proved resilient in all types of market conditions during the year.
- In addition, the new Global Investment Partnerships Portfolio, which was launched toward the end of the last fiscal year, added close to $130 million in value during the year and continued to deploy capital through direct and indirect transactions as well as implementing new strategic partnerships.
- The internally managed active Multi-Strategy and Asset Management portfolio generated almost $25 million in value. After a strong performance during the first three quarters of the fiscal year, the portfolio was negatively impacted in the last quarter, mainly by weakness in event-driven strategies.
- Both internally and externally managed long-only portfolios detracted value compared with their benchmarks, largely due to stock selection. The Global Fundamental Portfolio was launched in the second quarter and was fully activated toward the end of the year, in close collaboration with the new internal global equity research platform.
- The internally managed active fixed-income portfolio slightly underperformed its benchmark by five basis points.
- Going forward, Public Market equities will continue to grow its existing strategies, and further develop the new Global Long Short portfolio, which was incubated in the fourth quarter. In addition, the Global Macro and Relative Value Opportunities portfolio will be launched at the beginning of fiscal year 2019.

— PSP invested in a platform that digitizes how businesses transact with each other. Leap years ahead of the traditionally closed loop of company supply chains, Tradeshift offers unlimited access to any company on the platform, creating in all respects an online marketplace. The benefits of this open source platform will accelerate with a brand new feature: financial institutions will join shortly to provide credit and financing.

Real Estate

$23.2 Billion Net AUM

$2.8 Billion Investment income

13.6% 1-year rate of return

12.3% Benchmark return[1]

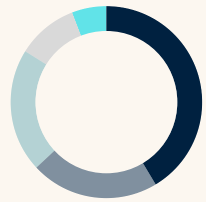
12.7% 5-year annualized return

6.9% Benchmark return

Real Estate focuses on building a world-class portfolio of assets in major international cities, based on global themes such as technology, lifestyle, urbanization and demographics. We prefer to own assets directly with first class partners that have local expertise and are aligned with us in creating value and generating return. We also invest with a few select funds in specific markets or strategies where direct ownership is more challenging.

- Real Estate achieved a strong performance despite an ongoing low-yield environment generating a one-year rate of return of 13.6%, compared to a benchmark return of 12.3%. To this end, investment income generated was $2.8 billion, mainly driven by net valuation gains of $2.2 billion. Investment income also included a foreign exchange loss of $129 million that negatively impacted the one-year rate of return of the asset class by 1.0%. Our largest contributors were Revera, our global retirement and health care platform (Canada, US and UK); Starlight, our Canadian multi-family partnership, Greystar, our UK student housing partnership, and our US mixed-use developments. These investments produced positive results due to increases in occupancy, repositioning of assets, implementation of value-add strategies and valuation appreciation in alternative asset classes such as student and senior housing in the UK. On the other hand, Brazilian assets, US Retail and US single-family land subdivision projects performed below expectations.
- Fiscal year 2018 was a year of stabilization and consolidation reflecting the maturity of our portfolio that reached its allocation target of 15% in 2016. Our total acquisitions of $2.5 billion were mostly made through existing strategies in US lifestyle retail, US multi-residential properties, and industrial assets in Europe, the US and Mexico. Our dispositions of $2.4 billion were mainly non-strategic assets and assets where the business plan had been achieved, in the European office sector, Canadian multi-residential assets and US industrial properties. We syndicated 50% of a portfolio of retail and office properties in New Zealand while creating a long-term partnership with a like-minded investor.
- Development projects underway include a large London office development at 22 Bishopsgate, delivery of two luxury apartment towers with ground floor retail in the Boston Seaport District project and completion of the first phase of the Wharf project in Washington, D.C.
- The Real Estate group has established its presence in PSP's London office where a team of seven employees oversees our investment activities in Europe.

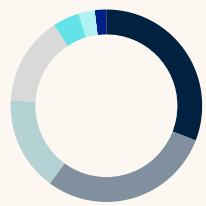
— This year, our focus on growing innovative sectors such as e-commerce and technology has led to the development of a third Amazon location in the Salt Lake City area, in partnership with USAA Real Estate. This facility complements Amazon's two other locations in the Sacramento and Chicago areas. Each location offers over 855,000 square feet of state-of-the-art industrial space.



Geographic diversification

As at March 31, 2018 (%)

41.5	US
21.6	Canada
20.8	Western Europe
10.3	Emerging countries
5.8	Australasia



Diversification by sector

As at March 31, 2018 (%)

30.9	Residential/Retirement
29.2	Office
15.9	Industrial
15.1	Retail
4.3	Other
2.7	Health care
1.9	RE Debt

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

Private Equity

$19.4 Billion Net AUM

$2.1 Billion Investment income

12.9% 1-year rate of return

17.6% Benchmark return[1]

7.9% 5-year annualized return

12.6% Benchmark return

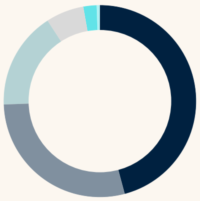
Private Equity strategically builds relationships with external fund managers and investment partners, leveraging their networks and sector and geographic expertise to source long-term direct investment and co-investment opportunities. Over the last three years, our team, strategy and portfolio have undergone significant transformations, and results of the implemented program have exceeded expectations in fiscal year 2018.

Private Equity has generated a one-year rate of return of 12.9% in fiscal year 2018, compared to a benchmark return of 17.6%. Portfolio performance continued to be partially offset by underperformance of certain investments, primarily in the communications and technology sectors. However, investments completed in the last three years, representing $9.9 billion of assets, have generated returns significantly above benchmark.

Total investment income reached $2.1 billion mainly driven by net valuation gains of $1.2 billion, notably in the financial and industrial sectors where recent investments performed especially well. In particular, our investment in Advisor Group, one of the largest US networks of independent financial advisors, benefited from strong organic growth and favourable market conditions. Investment income also included a foreign exchange loss of $95 million that negatively impacted the one-year rate of return of the asset class by 0.9%.

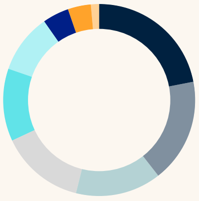
- In fiscal year 2018, Private Equity deployed a total of $4.4 billion mostly across the US and Europe, and primarily with new investing relationships, including new direct investments and co-investments totaling $2.3 billion, which now represent 51% of assets under management. Net deployments reached $2.6 billion for the year.
- Private Equity also committed a total of $4.1 billion for future deployment through 17 funds, 11 of which are with new fund partners.
- New direct investments were made primarily in the health care and industrial sectors, including, amongst others, the acquisition of significant interests in:
  - Cerba Healthcare, a leading European operator of clinical pathology laboratories
  - CeramTec, the world's leading producer of technical ceramics
- Private Equity also committed to invest in Fives, a global industrial engineering group, and Kindred Healthcare, a leading US provider of home health care and hospice operator.

— During the year, Private Equity also completed a significant investment in Learning Care Group, the second-largest network of early childhood education facilities in the US. Alongside American Securities, a recent fund partner with exceptional insight into this growing market, we developed an innovative structure with a mix of annual revenue and upside participation, which sets the stage for a successful partnership.



Geographic diversification
As at March 31, 2018 (%)

46.1	US
28.5	Europe
16.5	Emerging markets
6.2	Canada
2.4	Asia
0.3	Other



Diversification by sector
As at March 31, 2018 (%)

22.2	Financials
17.3	Consumer discretionary
14.4	Industrials
14.3	Health care
12.3	Technology
9.9	Communications
4.4	Energy
3.9	Consumer staples
1.3	Other

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

Infrastructure

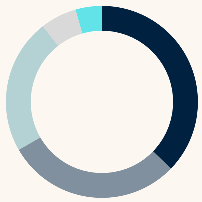
$15.0 Billion Net AUM	$2.3 Billion Investment income

19.3%	1-year rate of return	12.1% Benchmark return[1]
13.8%	5-year annualized return	7.0% Benchmark return

Infrastructure invests globally on a long-term basis, primarily in the transportation, power generation, telecommunications and public utilities sectors. The group is focused on direct investments, including platforms and co-investments.

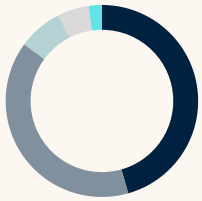
Fiscal year 2018 was a record year for Infrastructure with a one-year rate of return of 19.3%, compared to a benchmark return of 12.1%. This translates into $2.3 billion of investment income mainly driven by net valuation gains of $1.3 billion attributable to investments in Europe and in emerging markets, particularly in the transportation, utilities and communications sectors. Further, our AviAlliance airports platform benefited from notable growth in traffic. Regulatory changes in various jurisdictions and a positive outlook favourably influenced the performance of our investments in the utilities and telecommunications sectors. Investment income also included a foreign exchange gain of $466 million that positively impacted the one-year rate of return of the asset class by 3.8%.

- In fiscal year 2018, our Infrastructure group deployed a total of $3.3 billion, including $2.2 billion of direct investments. Net deployments reached $2.0 billion for the year.
- The largest investments were: our multi-stage investment in Pattern Energy, a leading North American renewable energy company, our new partnership with Global Infrastructure Partners to acquire Equis Energy, a wind and solar portfolio in Asia, and the acquisition of a participation in Aerostar Airport Holdings, the concessionaire of San Juan Airport in Puerto Rico, the largest airport in the Caribbean.
- We also participated in the first closing of F2i's Third Fund, which inherited the assets of F2i's First Fund through a merger. The merger allowed the Third Fund to begin its activities with a truly impressive infrastructure portfolio in the airports, natural gas networks, renewable energy and integrated water operator sectors.



Geographic diversification
As at March 31, 2018 (%)

37.4	Europe
29.3	Emerging markets
22.8	US
6.3	Asia and Oceania
4.2	Canada



Diversification by sector
As at March 31, 2018 (%)

45.7	Industrials
39.6	Utilities
7.4	Communications
5.4	Energy
1.9	Technology

— Infrastructure acquired a significant minority interest in Land Services SA, the exclusive provider of registry and property valuation services for the state of South Australia for the next 40 years. Land Services SA currently processes over 200,000 transactions each year that will be progressively moved online. This transaction highlights Infrastructure's innovative approach to investing and is another step in the development of our partnership with MIRA, the world's largest infrastructure investor.

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

Natural Resources

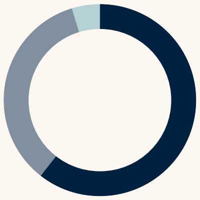
$4.8 Billion Net AUM	$450 Million Investment income	11.2% 1-year rate of return	13.1% 5-year annualized return
		3.1% Benchmark return[1]	4.1% Benchmark return

Natural Resources focuses on direct investments in real assets in timber, agriculture, and other related opportunities, which are well suited to the liability profile of the pension plans that PSP invests for. Natural Resources' strategy will continue to prioritize direct, long-term investments and building scale with like-minded operational and financial partners. The group believes its partnerships with a growing number of best-in-class, local operators provide it with meaningful comparative advantages.

Natural Resources continues to ramp-up its portfolio with the addition of five new Australian agricultural joint ventures, each focused on different sub-sectors in the country. Australia is a core target geography for investment by Natural Resources, given its ample agricultural resources, geopolitical stability and investor-friendly environment. In line with its aggregation strategy, the asset class also acquired additional properties in its pre-existing agricultural platforms in the US and Australia.

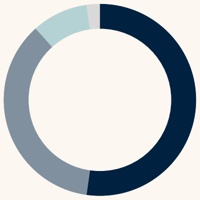
Natural Resources achieved strong results with a one-year rate of return of 11.2%, compared to a benchmark return of 3.1%. The group generated investment income of $450 million in fiscal year 2018, mainly attributable to net valuation gains of $332 million, primarily in timber. Investment income included a foreign exchange loss of $129 million that negatively impacted the one-year rate of return of the asset class by 3.8%.

- Net assets under management grew by $1.1 billion on a year-over-year basis, resulting primarily from net deployments of $864 million.
- Timber investments continued to account for most investment income, and still represent 52.3% of assets under management. However, Natural Resources has made significant progress in diversifying its investments into agriculture, which now amount to $2.0 billion and 36.1% of AUM, following $755 million of capital deployment this year.



Geographic diversification
As at March 31, 2018 (%)

60.7	Australasia
34.8	North America
4.5	Other



Diversification by sector
As at March 31, 2018 (%)

52.3	Timber
36.1	Agriculture
9.6	Oil and gas
2.0	Other

— During the past year, Natural Resource's Sage Agri Investments' joint venture acquired 2,000 acres across four properties (wine grapes and citrus) in California. Sage Agri is a joint venture with Murray Wise & Associates, a pioneering institutional investor in US agriculture, to acquire, develop and lease permanent crop properties to operators in the US. These investments provide an asymmetric return profile due to limited exposure to operating risk, significant downside protection through ownership of land and other real assets, and attractive upside potential given the positive supply and demand fundamentals of permanent crops.

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

Private Debt

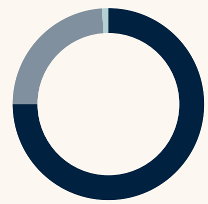
$8.9 Billion	Net AUM
$569 Million	Investment income
8.2%	1-year rate of return
2.3%	Benchmark return
16.5%	Since inception annualized return (2.3 years)
4.4%	Benchmark return

Private Debt focuses on direct non-investment grade primary and secondary credit investments in North America and Europe, in both private and public markets. Our global team in New York, London and Montréal commits to large positions across the debt capital structure in the form of loans and bonds. The group balances credit quality, structure, deployment opportunity, risk-return profile, asset mix and portfolio diversification, among other considerations.

Private Debt had a strong fiscal year 2018 performance with a one-year rate of return of 8.2% compared to a benchmark return of 2.3%. Investment income of $569 million was mainly driven by interest and fee income, partially offset by foreign exchange movements. The asset class continued to deploy significant amounts of capital at attractive risk-reward profiles and benefited from a broad market rally.

- Net capital deployment reached $4.3 billion for the year, including investments in revolving credit facilities, first and second lien term loans and secured and unsecured bonds.
- Private Debt also collaborated with other asset classes and facilitated the commitment to several preferred equity investments, which were allocated to the Complementary Portfolio.
- Private Debt's portfolio is diversified across geographies, industries, equity sponsors and asset types. In the face of a rising interest rate environment, the team focused the portfolio more heavily toward floating rate exposure. In its full first year of operations, Private Debt's London team made great strides toward its long-term portfolio allocation target. European assets under management accounted for 24.0% of the global Private Debt portfolio, up from 8.0% in the prior year.

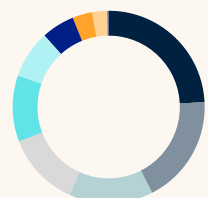
— In early 2018, Private Debt participated in the debt financing in support of Carlyle's acquisition of MedRisk, with investments across the revolving credit facility, first lien term loan and second lien term loan. MedRisk is a leading provider of managed physical medicine for the workers' compensation industry and related market sectors. This transaction highlights Private Debt's flexibility in participating in tranches across the debt capital structure.



Geographic diversification

As at March 31, 2018 (%)

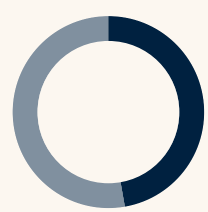
75.1	North America
24.0	Europe
0.9	Oceania



Diversification by sector

As at March 31, 2018 (%)

24.2	Health care
18.4	Technology
14.1	Industrials
12.5	Consumer discretionary
11.2	Financials
8.1	Communications
5.4	Materials
3.4	Energy
2.6	Consumer staples
0.1	Utilities



Product split

As at March 31, 2018 (%)

47.3	First Lien
52.7	Non First Lien

Complementary Portfolio

$2.2
Billion
Net AUM

$536
Million
Investment income

33.0% 1-year rate of return
8.7% Benchmark return

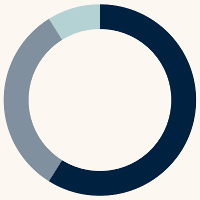
31.4% Since inception annualized return (1.3 years)
10.4% Benchmark return

The Complementary Portfolio focuses on investments that are not within the mandate of an existing asset class but are deemed beneficial for the total fund. It provides PSP Investments with additional flexibility by making it possible to capture investment opportunities that would not otherwise be pursued.

The Complementary Portfolio achieved a strong performance with a one-year rate of return of 33% in fiscal year 2018 compared to a benchmark return of 8.7%. It generated investment income of $536 million, mainly driven by net valuation gains of $449 million. While the Complementary Portfolio includes investments across various sectors and within the broad spectrum of capital structures, it is geographically concentrated in the US. Consequently, it was impacted by the fluctuation of the US dollar relative to the Canadian dollar over the course of fiscal year 2018. To this end, investment income included foreign exchange gains of $4.6 million. The net AUM of the Complementary Portfolio grew by $1.5 billion year-over-year with net deployments of $1.1 billion.

Geographic diversification
As at March 31, 2018 (%)

100.0	US



Diversification by sector
As at March 31, 2018 (%)

59.1	Financials
32.1	Communications
8.8	Materials

— In fiscal year 2018, the Complementary Portfolio benefited from a new investment in Virtu Financial Inc., a publicly-traded leading market-maker and liquidity provider to global financial markets. This equity investment was made to support the acquisition of Knight Capital (KCG) Holdings which was completed in July 2017. The transaction was made alongside principals of North Island, which include Bob Greifeld, former CEO and Chairman of Nasdaq, and Glenn Hutchins, co-founder of Silver Lake Partners, and another large institutional investor. The Private Equity team lead the transaction in collaboration with Public Markets.

Operating expenses and cost ratio

Operating expenses

PSP Investments' total operating expenses were $450 million or 31.7 cents per $100 of average net AUM in fiscal year 2018, compared to $370 million or 29.5 cents per $100 of average net AUM in fiscal year 2017.

For fiscal year 2018, the increase in operating expenses is mainly attributable to increased headcount and headcount-related expenses required to deliver on our strategic plan objectives, as outlined in Vision 2021. In particular, we continued to increase our physical presence in our international offices, to strengthen our internal management investment capabilities and to upgrade our systems to better support our growing internal investment capabilities.

In fiscal year 2018, salaries and employee benefits totalled $262 million, compared to $210 million in fiscal year 2017. PSP Investments had 807 employees at March 31, 2018; an increase of 11% from 725 employees at March 31, 2017.

Headcount rose at our primary business office in Montréal and at our two international offices in New York and London. At the end of fiscal year 2018, we had 40 employees in London and 26 employees in New York. Approximately 18% of our total salaries and benefits are denominated in foreign currencies. In line with our strategic objective to increase our global footprint, we expect this percentage to rise as we continue to expand into new geographies and the number of specialized investment professionals based in our international offices – as well as in Montréal – continues to grow. We are seeing scalability benefits as we grow headcount. The ratio of investment to non-investment professionals is improving year over year.

Occupancy costs for fiscal year 2018 totaled $23 million, compared to $17 million in fiscal 2017. Approximately half of the increase reflects a full year occupancy at our international offices, which represent about 25% of PSP's total occupancy cost.

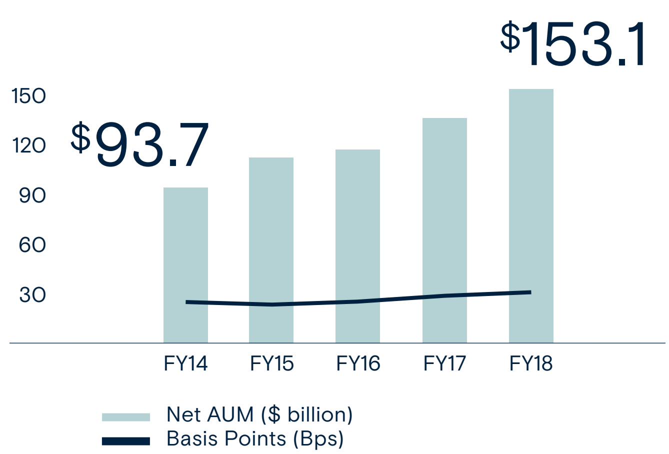
Internal active management reduces costs

PSP Investments adopted its internal active management investment strategy in fiscal year 2004. Internal active management allows us to align our interests more closely with those of our investment partners and to better control our investment and exit strategies. Over the last five years, assets managed internally have increased by approximately $58 billion, from $56 billion in fiscal year 2014 to $114 billion in fiscal year 2018, while operating expenses grew by only $234 million, from $216 million in fiscal year 2014, to $450 million in fiscal year 2018.

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

Total cost ratio

PSP Investments' total cost ratio decreased from 70.5 cents per $100 of average net AUM in fiscal year 2017 to 69.8 cents per $100 of average net AUM in fiscal year 2018. The total cost ratio measures operating and asset-management expenses as a percentage of average net AUM. Asset management expenses include management fees paid to external asset managers and transaction costs. Transaction costs can vary significantly year-over-year, depending on the complexity and size of private market investment activities. The year-over-year decrease in the cost ratio is due to a less significant increase in management fees and transaction costs than our growth in assets under management, partially offset by increase in operating expenses mentioned above.



Enterprise risk management

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

We made a number of enhancements to our risk management practices in fiscal year 2018:

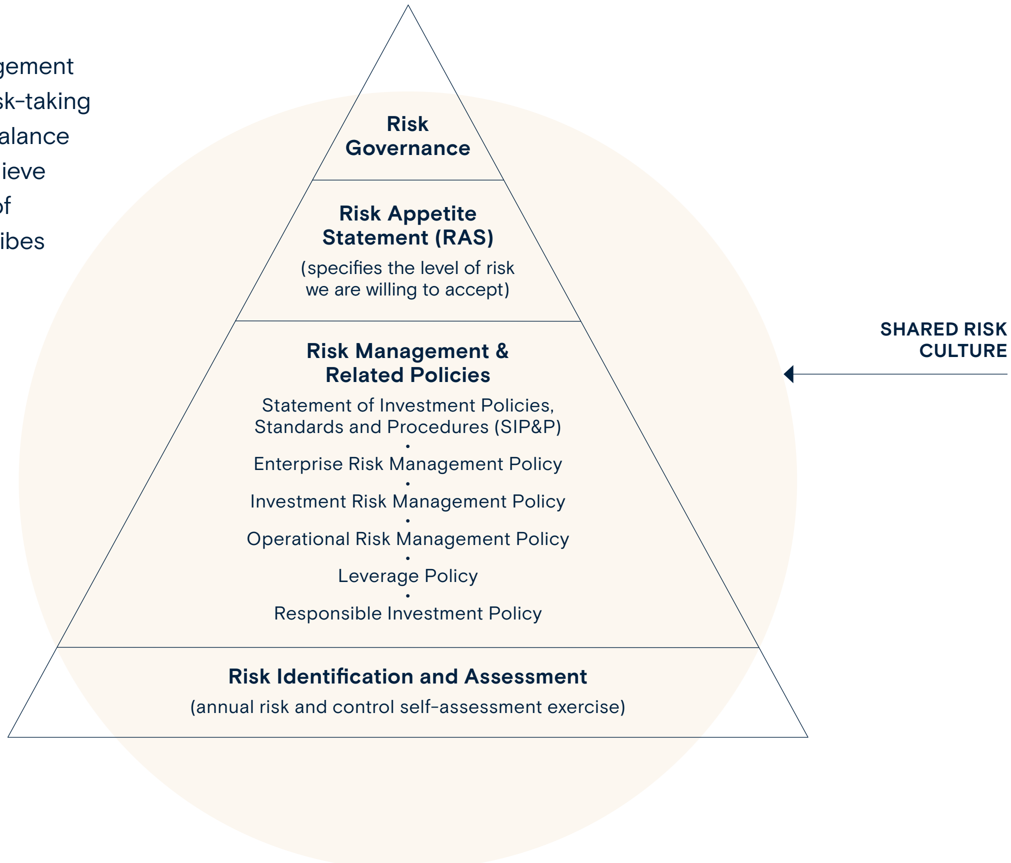
Refined our total fund investment risk management approaches — To support our total fund approach, we continued to build systems for generating high-quality, multi-dimensional total fund risk views. A key area of focus was on enhancing our methodology for evaluating risks associated with different types of asset classes such as private market investments versus public markets. Through the innovative use of fundamental and quantitative methodologies, PSP Investments aims to increase its holistic understanding of the dynamics impacting the total fund from a risk perspective.

Adapted our practices to our increasing global footprint — Members of our Risk Management group work closely with our investment groups, providing strategic risk analysis and daily reports. We now have boots on the ground in our London office to provide a European perspective and help ensure that risk management is both timely and tightly integrated into our investment processes.

With the expansion of our global footprint, we completed a full review of PSP's global insurance program. In addition, we have strengthened our travel processes, providing location-specific security and medical information, as well as alerts, to our business travellers.

Risk management framework

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



Risk governance

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

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

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

Governance Model

BOARD OF DIRECTORS AND BOARD COMMITTEES

EXECUTIVE AND SENIOR MANAGEMENT COMMITTEES		
Risk and Investment	Senior Management Group	Valuation
New Business Activity	Portfolio Construction and Management	Operations Coordination

Three Lines of Defence Model

First line of defence	Second line of defence	Third line of defence
Management and all employees	Governance, Risk, and Control functions	Internal Audit

External audit

Risk Appetite Statement

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

Risk management categories

ENTERPRISE RISK CATEGORY	
Investment risk	**Non-investment risk**
• Market risk • Liquidity risk • Credit and counterparty risk • Concentration risk • Leverage risk • Responsible Investment	• Strategic risk • Governance risk • Stakeholder risk • Legal and regulatory risk • Operational risk • Reputational risk

Risk identification and assessment

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

In fiscal year 2018, the Board participated in a risk-identification survey, ensuring a top-down complementary review.

Risks inherent to PSP are identified through this exercise, while external risks are regularly monitored and the most relevant ones are integrated into the exercise. This results in a comprehensive identification of our most significant risks that takes into account the internal and external risk environments.

Shared risk culture

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

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

Governance

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

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

One of the Governance Committee's primary responsibilities is succession planning for Board members. Directors play an active role in guiding the organization and we need to support the external nominating committee and Government in ensuring we have a full contingent of individuals qualified to govern a leading global institutional investor such as ours.

With the departure of two directors and the terms of other directors having expired or ending in the near future, the Governance Committee and the Board focused considerable energy in fiscal year 2018 on ensuring that a strong succession planning and director onboarding process is in place for individual directors as well as committee chairs. This work was beneficial in onboarding our newest director, Miranda C. Hubbs, and in transitioning to a new Chair of the Board and new Chair of the Human Resources and Compensation Committee.

In this section, we discuss key governance activities undertaken in fiscal year 2018 and provide an overview of our governance framework and practices.

Governance framework

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

Board responsibilities

PSP Investments' operations and activities are overseen by a Board of Directors composed of 11 independent directors,[1] who perform three vital functions:

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

The Board's specific responsibilities include:

- Determining the organization's strategic direction in collaboration with senior management;
- Selecting and appointing the President and CEO and annually reviewing his or her performance;
- Reviewing and approving the Statement of Investment Policies, Standards and Procedures (SIP&P) for each pension plan on an annual basis;
- Approving a Risk Appetite Statement and ensuring that effective enterprise, investment and operations risk management policies are in place;
- Approving benchmarks for measuring investment performance;
- Establishing and monitoring compliance with codes of conduct for directors and employees;
- Approving human resources and compensation policies, and establishing appropriate performance evaluation processes for Board members, the President and CEO, and other senior management members;
- Approving quarterly and annual financial statements for each pension plan and for PSP Investments as a whole.

Terms of reference for the Board, its committees and the Board and Committee Chairs are approved by the Board and are regularly reviewed.[2]

Board committees

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

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

Learn more
About our Board of Directors
Board Committees

Accountability and reporting

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

Our President and CEO, and the Chair of the Board, are required to meet once a year with advisory committees appointed to oversee the pension plans. We are also required to hold an annual public meeting. The most recent meeting was held in Ottawa on November 22, 2017.

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

[1] There are currently two vacancies on the Board.

[2] The Terms of Reference of the Board, its committees and the Board and Committee Chairs will be reviewed in fiscal year 2019.

Ethics and compliance

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

In most situations, our personal values and integrity guide us to the correct decisions and actions. However, we have also developed a Code of Conduct for PSP Investments' Officers, Employees and Consultants and a separate Code of Conduct for Directors. The Codes provide a practical framework to help individuals better understand PSP Investments' principles, values and expected business practices and behaviours.

Code of Conduct for Officers, Employees and Consultants

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

Code of Conduct for Directors

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

Learn more

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

Board procedures and effectiveness

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

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

There is frequent discussion at the Board and Board committee levels between directors and management. Board members and senior management hold an annual strategy session for in-depth discussions on investments and risk-related topics. This year's strategic session focused on innovation, which is a key component of our investment beliefs.

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

The Board and Board committees may consult with external advisors. During fiscal year 2018, the Human Resources and Compensation Committee sought the services of an external consultant.

The Governance Committee oversees the formal process for evaluating the performance of the Board Chair, the Chairs of Board committees, individual directors and the Board as a whole. All directors, as well as the President and CEO, and certain senior management members, participate in the evaluation process. The Chair of the Governance Committee presents evaluation results to the Board. The ensuing discussions focus on achievements and expectations, and on concerns and opportunities for improvement. Any measures deemed necessary are subsequently implemented.

Fiscal year 2018 key activities

Investment Committee	• Reviewed and approved 26 investments • Approved changes to the Policy Portfolio • Stress tested the portfolio in preparation for a potential market downturn
Audit Committee	• Reviewed PSP Investments' cybersecurity strategy, maturity and roadmap for the future • Increased focus on cost containment measures as part of the annual budget process • Approved two Canadian domestic term debt issuances
Governance Committee	• Reviewed the governance of portfolio entities • Supported management in enhancing PSP Investments' responsible investment strategy • Implemented a new investment delegation framework
Human Resources and Compensation Committee	• Transitioned to new portfolio benchmarks • Supported the deployment of the compensation framework for employees in the New York and London offices

PSP Investments' Board of Directors met 12 times in fiscal year 2018. Board committees met for a total of 26 times.

Director appointment process

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

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

The appointment process is designed to ensure that the Board has a full contingent of high-calibre directors with proven financial ability and relevant work experience. The Governance Committee regularly reviews and updates desirable and actual competencies and experiences to ensure that decisions are made with a view to having a Board that can provide the oversight and guidance needed for PSP Investments to fulfill its mandate.

Director orientation and education

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

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

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

Board members

PSP Investments' Board is composed of 11[1] independent, professional directors who bring a wealth of experience and expertise to their role. The biographies of PSP Investments' directors can be found on page 73.

Remuneration

The Board's approach to director remuneration reflects the requirements of the *Public Sector Pension Investment Board Act*. The Board reviews remuneration once every two years and considers changes based on recommendations prepared by the Governance Committee.

Following an in-depth review of director remuneration in the previous year, several changes were implemented in fiscal year 2018. This included increases in retainer fees of $40,000 for the Board Chair and $25,000 for other directors. As a result, directors were compensated as follows in fiscal year 2018:

	$
Annual retainer for the Board Chair	200,000
Annual retainer for each director other than the Board Chair	60,000
Annual retainer for each Board Committee Chair	15,000
Attendance fee for each Board meeting	1,500[2]
Attendance fee for each committee meeting	1,500[2]
Travel fees for a director attending a Board meeting in person, if his or her primary or secondary residence is outside Québec or Ontario	1,500

[1] There are currently two vacancies on the Board.

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

Total fiscal year 2018 remuneration for directors was $1,246,330. Directors are not entitled to additional remuneration in the form of retirement benefits or short-term or long-term incentives. The following tables provide details:

Meeting attendance

	Board of Directors		Investment Committee		Audit Committee		Governance Committee		Human Resources and Compensation Committee	
	Regular	Special	Regular	Special	Regular	Special	Regular	Special	Regular	Special
Number of meetings Fiscal Year 2018[1]	9	3	5	4	6		4	1	6	
Cheryl Barker[2]	7/7	2/2	3/3	4/4					4/4	
Diane Bean[3]	9/9	3/3	5/5	4/4	4/4				2/2	
Micheline Bouchard	9/9	3/3	5/5	3/4			4/4	1/1	6/6	
Léon Courville	9/9	3/3	5/5	3/4			4/4	1/1	6/6	
Garnet Garven	9/9	3/3	5/5	4/4	6/6		4/4	1/1		
Martin J. Glynn[4]	9/9	3/3	5/5	4/4			4/4	1/1	6/6	
Lynn Haight	9/9	2/3	5/5	3/4	6/6		4/4	1/1		
Timothy E. Hodgson[5]	9/9	3/3	5/5	4/4	1/2				4/4	
Miranda C. Hubbs[6]	6/6	3/3	3/3	2/3	3/3					
William A. MacKinnon	8/9	3/3	5/5	4/4	6/6					
Michael P. Mueller[7]	6/7	2/2	3/3	3/4						

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

2 Ms. Barker's term as director ended on January 30, 2018.

3 Ms. Bean ceased to be a member of the Human Resources and Compensation Committee on June 9, 2017 and was appointed member of the Audit Committee on the same date.

4 Mr. Glynn was appointed Chair Designate on January 31, 2018 and was confirmed as Chair of the Board, by the Governor General in Council, on May 11, 2018. As a result, Mr. Glynn became an ex-officio member of the Audit Committee, Governance Committee and Human Resources and Compensation Committee and attended one meeting of each of the Human Resources and Compensation committee and Governance committee in this new capacity.

5 Mr. Hodgson ceased to be a member of the Audit Committee on June 9, 2017 and was appointed member of the Human Resources and Compensation Committee on the same date.

6 Ms. Hubbs was appointed to the Board of Directors on August 15, 2017.

7 Mr. Mueller's term as director ended on January 30, 2018. As Chair of the Board, Mr. Mueller was an ex-officio member of the Audit Committee, Governance Committee and Human Resources and Compensation Committee and attended meetings in that capacity.

Directors' compensation for fiscal year 2018

	Annual Retainer $	Chair of a Committee/ Annual Retainer $	Boards/ Committees Meeting Fees[1] $	Travel Fees $	Total $
Cheryl Barker	50,000	–	30,000	6,000	86,000
Diane Bean	60,000	2,885	40,500	6,000	109,385
Micheline Bouchard	60,000	2,125	45,000	1,500	108,625
Léon Courville	60,000	–	45,000	1,500	106,500
Garnet Garven	60,000	15,000	46,500	9,000	130,500
Martin J. Glynn	83,333	9,657	34,500	9,000	136,490
Lynn Haight	60,000	–	43,500	1,500	105,000
Miranda C. Hubbs	37,663	–	25,500	1,500	64,663
Timothy E. Hodgson	60,000	15,000	39,000	1,500	115,500
William A. MacKinnon	60,000	15,000	39,000	1,500	115,500
Michael P. Mueller	166,667	–	–	1,500	168,167

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

Report of the Human Resources
— and Compensation Committee

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

HRCC Governance Process

The Human Resources and Compensation Committee (HRCC) is composed of directors who are knowledgeable about human resources-related issues. At the end of fiscal year 2018, committee members were:

- Micheline Bouchard (Chair)
- Léon Courville
- Timothy E. Hodgson

The Board of Directors ensures that PSP Investments' executive compensation and incentives are consistent with PSP Investments' Compensation Policy. In order to verify alignment, the services of an independent compensation consulting firm were retained in fiscal year 2018 to assist the HRCC in its review of executive compensation. The compensation consulting firm reports solely to the HRCC.

Compensation framework

In a highly competitive market for talent, the Compensation Policy is designed to attract and retain highly skilled employees, reward performance and reinforce business strategies and priorities. The Board recognizes the fundamental value of a motivated and committed team, and strongly believes that the recruitment and retention of high-performing employees is critical to PSP Investments' ongoing success.

Over the past two fiscal years, PSP Investments completed a comprehensive review of its short-term and long-term incentive plans and implemented a new compensation framework. In terms of incentives, the review was designed to achieve three primary objectives:

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

The total incentive plan, which includes annual and deferred payout components, is further described in this section. Fiscal 2018 year-end is the second year in which annual payouts were determined under this plan.

PSP Investments' compensation framework is driven by a pay-for-performance approach that focuses on both absolute and relative performance assessments, and:

- Rewards long-term performance
- Discourages short-term decision-making and undue risk-taking
- Ensures that total fund investment performance is a component of incentives at all organizational levels in order to encourage and reinforce the benefits of enterprise-wide collaboration and to align efforts to achieve PSP Investments' mandate
- Establishes incentives as a significant component of target total compensation for senior management

To implement the pay-for-performance approach, the Board established a Compensation Policy that aims to maintain total compensation at a fair and competitive level. Compensation is aligned with PSP Investments' strategic plan and integrated with business performance measurement. The Compensation Policy provides balanced performance-based compensation to reward responsible risk-taking. Total compensation includes base salary, annual cash and deferred cash, benefits, pension and other forms of compensation.

Compensation discussion and analysis

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

- Neil Cunningham – President and CEO
- David J. Scudellari – Senior Vice President, Head of Principal Debt and Credit Investments
- Guthrie Stewart – Senior Vice President, Global Head of Private Investments
- Anik Lanthier – Senior Vice President, Public Markets and Absolute Return Strategies
- André Bourbonnais – former President and CEO
- Daniel Garant – former Executive Vice President and Chief Investment Officer

Principles of our compensation framework

In a highly competitive market for talent, PSP Investments' compensation framework is designed to attract and retain highly skilled employees, reward performance and reinforce the business strategies and priorities outlined in Vision 2021. Specifically, the framework is designed to:

Promote enterprise-wide collaboration	All employees participate in the same incentive plan, although performance measure weights are aligned with the ability to impact results and may vary based on level and group. This ensures that total fund investment performance is a component of incentive compensation at all levels and that it encourages and reinforces the benefits of collaboration while aligning efforts to achieve the organization's mandate.
Be sufficiently competitive to attract and retain the right people	The compensation and incentives structure is aligned with relevant markets for talent, based on level and group. Total direct compensation is established at the competitive market median for successfully achieving target performance levels, and above the competitive market median for exceptional performance. The design tends to offer salaries at median with incentive targets at or above median.
Enable individual differentiation	The compensation and incentives framework places more emphasis on individual and group performance and allows for an evaluation of behaviours aligned with PSP Investments' vision and values, in addition to performance outcomes. It allows for discretion at every level of evaluation.
Adapt to changing circumstances	The compensation and incentives framework allows the HRCC, Board, and President and CEO to ensure pay-for-performance outcomes are adapted to PSP Investments' changing environment and unique conditions.
Align pay with performance	The compensation and incentives framework provides enhanced alignment with the stakeholders' key measures of success, including the long-term rate of return objective. The compensation and incentives framework balances relative and absolute total fund performance. For senior management, a significant portion of total compensation is deferred and "at risk", or subject to performance conditions.
Discourage short-term risk taking	Investment performance is measured over five-year and seven-year retrospective periods. A deferred component extends the period for incentives "at risk" for an additional three years after the grant date.

The alignment of PSP Investments' compensation framework with Vision 2021 is expected to span several years. In fiscal year 2018, investment performance benchmarks and value-added objectives were implemented further to a fiscal year 2017 review aimed at ensuring consistency with our corporate strategy. The adjusted benchmarks were used to ensure compensation levels are aligned and competitive with market.

Pay level benchmarking process

Given the diversity in skills, capabilities and competencies PSP Investments requires to fulfil its mandate, executive and non-executive compensation levels, programs and practices are periodically evaluated by comparing them with those of peer organizations operating in similar markets. We strive to be competitive with organizations with which we compete for talent, although comparisons may vary by employee group and country of residence. For target levels of investment performance, we position total direct compensation near the median of our peers. We have the option to pay above this level for exceptional performance or below it for less than optimal performance. Depending on the employee group, our peers include Canadian pension funds, banks, insurance companies and investment managers, as well as other relevant employers in Montréal and elsewhere in Canada. For certain positions based outside Canada, such as in the US and the UK, we compare compensation to investment management organizations in local markets.

Risk management

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

Key risk mitigating features in our compensation program include:

- **Significant pay "at risk"** – A large portion of pay for senior management and other senior employees comes in the form of deferred compensation and incentives. All deferred compensation is adjusted upward or downward based on total fund return over the vesting period.
- **Long-term horizon** – Investment performance is measured over retrospective five-year and seven-year periods and aligned with PSP Investments' long-term total fund return objectives. Once granted, the deferred portion continues to vest over a subsequent three-year period; this effectively aligns pay with performance over an eight to 10-year period.
- **Maximum payouts** – Each performance measure in the total incentive formula is subject to an absolute maximum of 1.5x target. The total incentive multiplier is subject to an absolute maximum of 2.0x target.
- **Robust benchmark investment return targets** – Benchmarks and value-added objectives, which are used to calculate performance within the total incentive plan, reflect an appropriate balance of risk and return and are aligned with the Board-approved investment strategy and risk limits.
- **HRCC discretion to govern pay** – The HRCC uses its discretion to adjudicate annual and long-term performance compared to pre-defined targets and expectations. It also has the ultimate discretion to adjust pay levels to ensure they are aligned with PSP Investments' performance and are reasonable from an overall cost perspective.

Compensation framework

Salary

Purpose:

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

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

Total incentive

Purpose:

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

Each year, the incentive program generates a total incentive award that is split into an annual cash payment and a deferred cash award.

The total incentive is based on performance relating to three components: group objectives, total fund investment performance and asset class investment performance. (Asset class investment performance does not apply to business partners, only to investment employees.) The applicable performance components are weighted according to level and position. Individual performance is used as a modifier and individual performance factors are determined upon review of individual objectives relative to predetermined goals. For more senior employees, a significantly greater emphasis is placed on total fund investment performance.

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

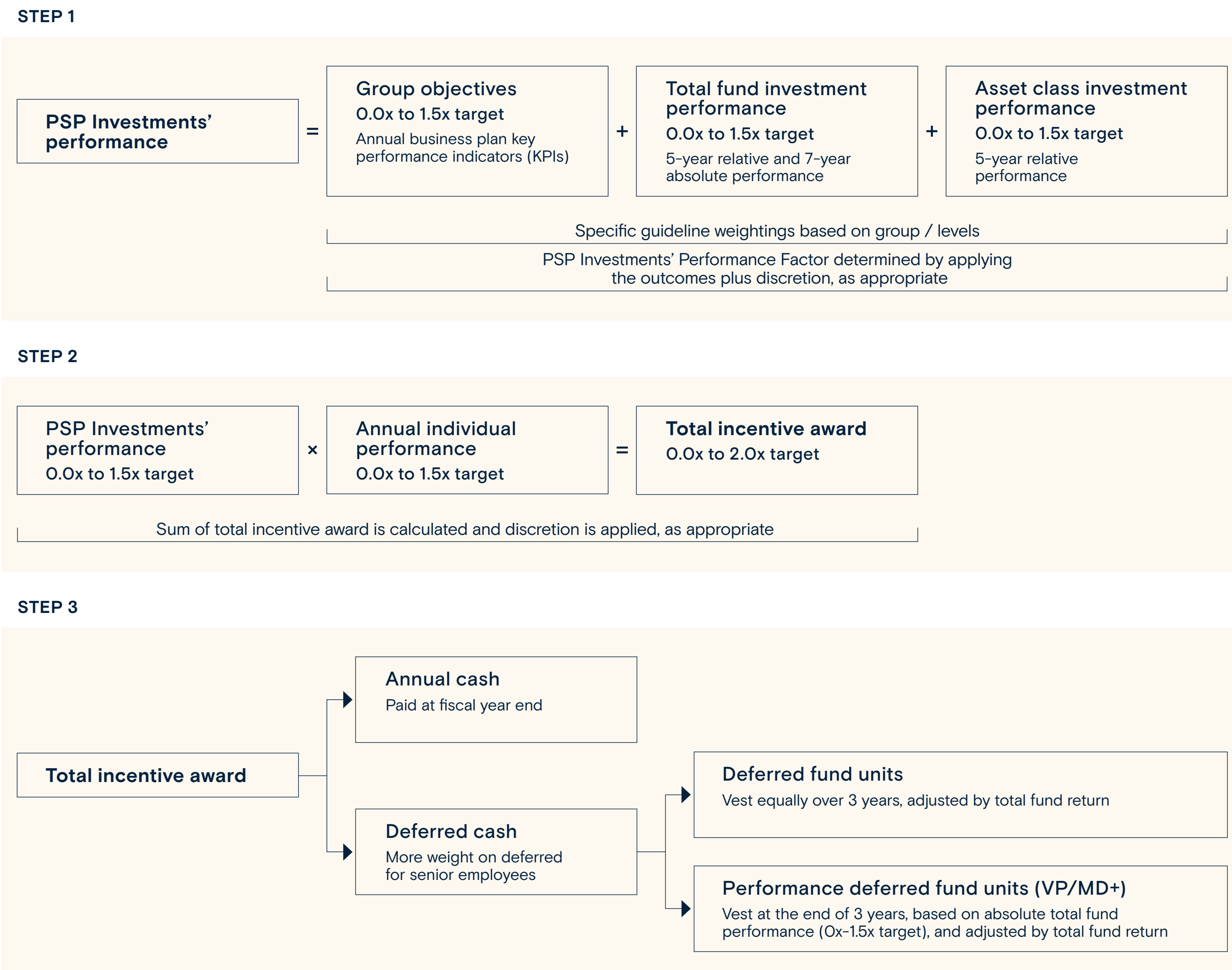
All employees participate in the same incentive structure and each employee has a target incentive opportunity based on his or her group and level. All employees can earn up to a maximum of two times the target incentive opportunity before the total fund rate of return and additional performance conditioning are applied to the deferred cash portion.

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

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

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

Total incentive plan framework[1]



Note: During the transition to the new incentive program implemented in fiscal year 2017, additional payments may be made to honour historical grants, such as those authorized prior to fiscal year 2017, and other entitlements.

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

Restricted Fund Units

Purpose:

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

Restricted Fund Units (RFUs) may be awarded in special circumstances warranted by extraordinary performance or market-related considerations, such as the demand for talent.

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

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

Other benefits

Purpose:

- To provide competitive group benefits and retirement savings programs.

Group benefits:

Based on their respective locations, employees have the same benefits, including health and dental care, long-term disability, critical illness, life insurance, accidental death and dismemberment, and access to an employee-assistance program.

Retirement savings:

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

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

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

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

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

Perquisites:

Executives are provided with a perquisites allowance, including a health-and-lifestyle assessment.

Pay mix

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

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

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

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

Fiscal 2018 results: performance outcomes and compensation decisions

A key determinant of our compensation program is the relative performance of our total fund and major asset classes against their respective benchmarks.

Another critical element of our incentive program is our absolute performance against the return objective, measured over a rolling seven-year period. Since fiscal year 2012, PSP Investments has generated a net return on investment of 9.33%, which is higher than the long-term return objective.

Long-term value creation is often a function of the ability to consistently deliver investment returns above a defined benchmark. For fiscal year 2018, our five-year relative investment performance for the purpose of compensation is summarized in relation to each sector's respective target, as follows:

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

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

Compensation decisions made in fiscal year 2018

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

For fiscal year 2018, the President and CEO's personal objectives – in addition to superior investment performance – were aligned with PSP Investments' strategy, mission and values, including:

- One PSP
- Branding
- Global footprint
- Scalability and efficiency
- Develop our talent
- Strive for excellence
- Delegate responsibility and embrace empowerment
- Act with integrity
- Act as one team
- Be results driven

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

Compensation disclosure

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

The current compensation framework for Canadian-based NEOs was implemented in fiscal year 2017 and focuses on awards granted for the current year including: base salary and a total incentive that is split between annual cash and a deferred cash award. The following tables illustrate NEOs selected and ranked by grant value in fiscal year 2018. The total compensation payout value received in fiscal year 2018 is also illustrated and includes cash received from former plans, new plans and any transitional arrangements. Due to some organizational changes in 2015, some of the new executive team members in Canada and in the U.S. had specific arrangements for guarantee periods and are eligible for cash and/or deferred payments, while existing executive team members are in transition from payments under the former incentive plans. In addition, with the opening of offices in New York and London, the Board has approved the compensation framework for these employees which came in effect in fiscal year 2018.

Total direct compensation (grant value)

	Base salary	Annual cash	Deferred cash (grant)	Total direct compensation (grant)[1]
Neil Cunningham[2, 4]	371,923	1,068,636	1,164,801	2,605,360
David J. Scudellari[3]	350,000	1,098,672	1,098,672	2,547,344
Guthrie Stewart[2]	350,000	1,000,213	1,000,213	2,350,426
Anik Lanthier[2]	335,000	925,396	925,395	2,185,791
Former Officers				
André Bourbonnais[2, 5]	500,000	0	0	500,000
Daniel Garant[2, 6]	100,000	0	0	100,000

1 Total Direct Compensation granted includes both annual cash and deferred cash earned for fiscal year 2018. The incentive framework was effective April 1, 2016 for Canadian-based NEOs and effective April 1, 2017 outside of Canada.

2 All amounts reported in CAD.

3 All amounts reported in USD.

4 Mr. Cunningham was appointed President and Chief Executive Officer of PSP Investments on February 7, 2018. He previously held the position of Senior Vice President, Global Head of Real Estate and Natural Resources.

5 Mr. Bourbonnais was President and Chief Executive Officer of PSP Investments until February 7, 2018 and pursued his employment as Special Advisor until March 31, 2018. For FY18, base salary was earned until March 31, 2018. Pursuant to his contractual agreement, Mr. Bourbonnais was guaranteed a total direct compensation for FY18, in respect of base salary and total incentive payments. Amount paid in accordance with his contractual arrangements is shown under the Total Direct Compensation (payout value) table below.

6 Mr. Garant was employed by PSP Investments as Executive Vice President and Chief Investment Officer until June 30, 2017. For FY18, base salary was earned until June 30, 2017. Amount paid In accordance with post-employment policies and incentive plan provisions is shown under the Total Direct Compensation (payout value) table below.

Total direct compensation (payout value)

	Base salary	Annual cash	Deferred cash / LTIP (payout of previous grants)	Special RFUs (payout of previous grants)	Special cash	Total direct compensation (payout)
Neil Cunningham[1, 3]	371,923	1,068,636	1,331,872	0	0	2,772,431
David J. Scudellari[2, 4]	350,000	1,098,672	0	103,163	675,000	2,226,835
Guthrie Stewart[1]	350,000	1,000,213	223,216	405,102	0	1,978,531
Anik Lanthier[1]	335,000	925,396	520,230	112,182	0	1,892,808
Former Officers						
André Bourbonnais[1, 5]	500,000	0	0	0	2,000,000	2,500,000
Daniel Garant[1, 6]	100,000	0	902,305	113,407	1,968,750	3,084,462

1 All amounts reported in CAD.

2 All amounts reported in USD.

3 Mr. Cunningham was appointed President and Chief Executive Officer on February 7, 2018. Compensation components such as base salary, annual cash, deferred cash and LTIP payouts reflect his tenure as former Senior Vice President, Global Head of Real Estate and Natural Resources until his recent appointment as President and CEO.

4 Mr. Scudellari was awarded a discretionary cash bonus included under Special Cash.

5 Mr. Bourbonnais was President and Chief Executive Officer of PSP Investments until February 7, 2018 and pursued his employment as Special Advisor until March 31, 2018. For FY18, base salary was earned until March 31, 2018. Pursuant to his contractual agreement for FY18, Mr. Bourbonnais received a guarantee whereby his total direct compensation be no less than $2.5 million, included under Special Cash.

6 Mr. Garant was employed by PSP Investments as Executive Vice President and Chief Investment Officer until June 30, 2017. For FY18, base salary was earned until June 30, 2017. LTIP and RFU grants were earned and paid under the terms of the plans. Special Cash includes severance amount paid In accordance with post-employment policies in effect.

Comprehensive fiscal year 2018 total compensation

	Fiscal year	Base salary (A)	STIP / Annual cash payout (B)	Deferred cash / LTIP grant (C)	Sub-total compensation (grant value) (A+B+C)	Restricted fund unit / Special cash grants (D)	Pension and SERP Plans (E)	**Total compensation (grant value) (A+B+C+D+E)**	Other compensation[1] (F)	Deferred cash + LTIP + RFU payout (G)	**Total compensation (payout value) (A+B+F+G)**
Neil Cunningham[2, 4] President and Chief Executive Officer	2018	371,923	1,068,636	1,164,801	2,605,360	0	85,000	**2,690,360**	32,147	1,331,872	**2,804,578**
	2017	350,000	919,830	919,830	2,189,660	0	145,500	**2,335,160**	31,918	1,261,015	**2,562,763**
	2016	320,000	679,376	288,000	1,287,376	0	54,500	**1,341,876**	27,468	1,296,000	**2,322,844**
David J. Scudellari[3, 5] Senior Vice President, Head of Principal Debt and Credit Investments	2018	350,000	1,098,672	1,098,672	2,547,344	675,000	18,077	**3,240,421**	698,487	103,163	**2,250,322**
	2017	350,000	n/a	n/a	350,000	250,000	22,274	**622,274**	1,678,029	93,982	**2,122,011**
	2016	144,399	n/a	n/a	144,399	0	808	**145,207**	1,637,425	0	**1,781,824**
Guthrie Stewart[2, 6] Senior Vice President, Global Head of Private Investments	2018	350,000	1,000,213	1,000,213	2,350,426	0	17,500	**2,367,926**	31,576	628,318	**2,010,107**
	2017	350,000	1,016,756	1,016,756	2,383,512	250,000	18,130	**2,651,642**	413,172	0	**1,779,928**
	2016	173,750	255,187	165,750	594,687	325,000	8,688	**928,375**	335,568	0	**764,505**
Anik Lanthier[2, 7] Senior Vice President, Public Markets and Absolute Return Strategies	2018	335,000	925,396	925,395	2,185,791	0	142,100	**2,327,891**	28,295	632,412	**1,921,103**
	2017	300,000	807,509	807,508	1,915,017	382,101	26,500	**2,323,618**	160,344	510,390	**1,778,243**
	2016	285,082	286,391	246,037	817,510	370,000	198,800	**1,386,310**	127,480	507,643	**1,206,596**
Former Officers											
André Bourbonnais[2, 8] President and Chief Executive Officer	2018	500,000	0	0	500,000	0	39,366	**539,366**	2,041,448	0	**2,541,448**
	2017	500,000	1,228,500	1,842,750	3,571,250	898,703	25,962	**4,495,915**	746,793	789,450	**3,264,743**
	2016	500,000	691,933	500,000	1,691,933	0	24,519	**1,716,452**	2,069,350	0	**3,261,283**
Daniel Garant[2, 9] Executive Vice President and Chief Investment Officer	2018	100,000	0	0	100,000	0	93,100	**193,100**	1,978,452	1,015,712	**3,094,164**
	2017	400,000	788,375	788,375	1,976,750	0	61,900	**2,038,650**	32,276	1,041,098	**2,261,750**
	2016	380,615	487,919	344,408	1,212,942	300,000	197,600	**1,710,542**	23,720	964,960	**1,857,214**

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

2 All amounts reported in CAD.

3 All amounts reported in USD.

4 Mr. Cunningham was appointed President and Chief Executive Officer on February 7, 2018. Compensation components such as base salary, annual cash, deferred cash and LTIP payouts, pension plans as well as other compensation reflect his tenure as former Senior Vice President, Global Head of Real Estate and Natural Resources until his recent appointment as President and CEO.

5 Mr. Scudellari was awarded a discretionary cash bonus, included as part of other compensation.

6 Mr. Stewart had elected to defer his FY2016 RFU grant payment until March 31, 2018. Pursuant to his 2015 employment agreement, Mr. Stewart was given a guarantee that his total direct compensation for FY2017, in respect of base salary and total incentive plan payments, would be no less than $1.5 million per year. In order to meet his guarantee, Mr. Stewart was awarded a discretionary cash bonus in FY17, included as part of other compensation.

7 Ms. Lanthier was appointed to the role of Senior Vice President, Public Markets and Absolute Return Strategies as of July 1, 2015. In 2017, Ms. Lanthier was awarded a discretionary cash bonus, included as part of other compensation. Ms. Lanthier elected to defer her FY2017 RFU grant payment until March 31, 2019.

8 Mr. Bourbonnais was President and Chief Executive Officer of PSP Investments until February 7, 2018 and pursued his employment as Special Advisor until March 31, 2018. For FY18, base salary was earned until March 31, 2018. Pursuant to his contractual agreement for FY18, Mr. Bourbonnais received a guarantee whereby his total direct compensation be no less than $2.5 million. In order to meet his guarantee, Mr. Bourbonnais was paid a discretionary cash bonus, included as part of other compensation.

9 Mr. Garant was employed by PSP Investments as Executive Vice President and Chief Investment Officer until June 30, 2017. For FY18, base salary was earned until June 30, 2017. LTIP and RFU grants were earned and paid under the terms of the plans. Other compensation includes severance amount paid In accordance with post-employment policies in effect.

Long-term incentive granted

The following table shows the estimated future payouts to PSP Investments' NEOs.

	Award type	Fiscal year 2018 grant	Vesting period	Estimated future payouts		
				FY2019	FY2020	FY2021
Neil Cunningham[2]	Deferred Cash[1] RFU	1,164,801 0	3 years 3 years	223,344 0	223,344 0	718,114 0
David J. Scudellari[3]	Deferred Cash[1] RFU	1,098,672 0	3 years 3 years	219,734 0	219,734 0	659,203 0
Guthrie Stewart[2]	Deferred Cash[1] RFU	1,000,213 0	3 years 3 years	200,043 0	200,043 0	600,128 0
Anik Lanthier[2]	Deferred Cash[1] RFU	925,395 0	3 years 3 years	185,079 0	185,079 0	555,237 0
Former Officers						
André Bourbonnais[2]	Deferred Cash[1] RFU	0 0	3 years 3 years	Not applicable		
Daniel Garant[2]	Deferred Cash[1] RFU	0 0	3 years 3 years	Not applicable		

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

[2] All amounts reported in CAD.

[3] All amounts reported in USD.

Long-term incentive cumulative value

At March 31, 2018, the total cumulative value of all long-term incentive awards granted but not yet vested or paid to PSP Investments' NEOs is shown in the following table.

		Awards paying out at the end of fiscal year			
	Plan	2019	2020	2021	Total
Neil Cunningham[4]	Deferred Cash[1]	407,310	775,242	718,114	1,900,666
	Historical – LTIP[2]	720,000	0	0	720,000
	RFU[3]	0	0	0	0
	TOTAL	**1,127,310**	**775,242**	**718,114**	**2,620,666**
David J. Scudellari[5]	Deferred Cash[1]	219,734	219,734	659,203	1,098,671
	Historical – LTIP[2]	n/a	n/a	n/a	n/a
	RFU[3]	103,163	0	0	103,163
	TOTAL	**322,897**	**219,734**	**659,203**	**1,201,834**
Guthrie Stewart[4]	Deferred Cash[1]	403,394	810,097	600,128	1,813,619
	Historical – LTIP[2]	310,781	0	0	310,781
	RFU[3]	0	0	0	0
	TOTAL	**714,175**	**810,097**	**600,128**	**2,124,400**
Anik Lanthier[4, 6]	Deferred Cash[1]	346,581	669,584	555,237	1,571,401
	Historical – LTIP[2]	305,240	0	0	305,240
	RFU[3]	309,488	0	0	309,488
	TOTAL	**961,309**	**669,584**	**555,237**	**2,186,130**
Former Officers					
André Bourbonnais	Deferred Cash[1]	Not applicable			
	Historical – LTIP[2]				
	RFU[3]				
	TOTAL				
Daniel Garant	Deferred Cash[1]	Not applicable			
	Historical – LTIP[2]				
	RFU[3]				
	TOTAL				

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

[2] Historical LTIP: Accumulated values are estimated using total fund and asset class performance in accordance with the LTIP transition measures adopted in conjunction with the approval of the new incentive plan implemented in FY2017. No total fund return has been included.

[3] RFU: Accumulated values reflect PSP Investments' total fund rate of return for FY17 and FY18, where applicable, but no returns for future years.

[4] All amounts reported in CAD.

[5] All amounts reported in USD.

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

Retirement benefits

Canadian defined contribution pension plan and safe harbor 401(k) plan

	Plan type	Accumulated value at beginning of year	Compensatory increase[1]	Non-compensatory increase[2]	Accumulated value at year end
All amounts reported are in USD					
David J. Scudellari	Safe Harbor 401(k)	56,138	18,077	29,577	103,792
All amounts reported are in CAD					
Guthrie Stewart	Defined Contribution	56,698	17,500	20,705	94,903
Former Officer					
André Bourbonnais	Defined Contribution	108,379	39,366	32,663	180,408

[1] Includes employer contributions, under both the DC Pension Plan and the DC Supplemental Employee Retirement Plan, for Canadian NEOs.

[2] Includes employee contributions and regular investment earnings on employer and employee contributions, under both the DC Pension Plan and the DC Supplemental Employee Retirement Plan, for Canadian NEOs.

Canadian defined benefit pension plan

	Number of years of credited service[1]	Annual benefit At year end[2]	Annual benefit At age 65[2,3]	Accrued obligation at beginning of year[2,4]	Compensatory increase[5]	Non-compensatory increase[6]	Accrued obligation at year end[2,7]
Neil Cunningham	10.4	70,300	109,100	1,140,400	85,000	188,500	1,413,900
Anik Lanthier	11.9	71,100	193,000	936,600	142,100	305,500	1,384,200
Former Officer							
Daniel Garant[8]	0	0	0	1,113,600	93,100	(1,206,700)	0

1 Number of credited years of service used for both the DB Employee Pension Plan and the DB Supplemental Employee Retirement Plan.
2 Sum of benefits accrued under the DB Employee Pension Plan and the DB Supplemental Employee Retirement Plan.
3 For the purpose of calculating the annual benefits payable at age 65, the final average earnings are calculated as at March 31, 2018.
4 Accrued obligation using a discount rate of 4.1%. The obligations are calculated as at March 31, 2017 using the assumptions and methods that were used for the accounting disclosures as at December 31, 2016.
5 Includes employer service cost at the beginning of the year, the impact arising from the difference between actual pensionable earnings and those anticipated at the prior year end and the impact of amendments to the pension plans if any.
6 Includes employee contributions and benefit payments made in the year, change in assumptions, non-pay-related experience and the interest cost for the year.
7 Accrued obligation using a discount rate of 3.5%. The obligations are calculated as at March 31, 2018 using the assumptions and methods that were used for the accounting disclosures as at December 31, 2017.
8 The numbers presented above for Mr. Garant reflect that he was employed by PSP Investments until June 30, 2017 and elected to transfer the commuted value of his pension before March 31, 2018. Upon the end of his employment, he had accumulated 8.8 years of credited service.

Post-employment policies

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

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

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

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

	Years of service[1]	Severance	Resignation
Neil Cunningham[2]	13.8	2,660,000	0
David J. Scudellari[3]	2.4	1,157,451	0
Guthrie Stewart[2]	2.6	1,169,613	0
Anik Lanthier[2]	11.9	1,381,875	0
Former Officers			
André Bourbonnais	3.0	Not applicable	
Daniel Garant	8.8	Not applicable	

1 Assumes a notional termination as at March 31, 2018.
2 All amounts reported in CAD.
3 All amounts reported in USD.

Directors' biographies

Martin J. Glynn

Chair of the Board

Board member since
January 30, 2014

Committee Membership
Investment Committee

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

Diane Bean

Board member
since June 18, 2010

Committee Membership
Audit Committee
Investment Committee

Diane Bean is a member of the Board of Directors of Manulife International Ltd. (Asia) and of The Insurance Company of the West Indies Ltd., and was founding Co-Chair of the Toronto Region Immigrant Employment Council. At the time of her retirement in 2011, she was Executive Vice President of Corporate Affairs and Human Resources, with responsibility for global HR, at Manulife Financial Corp. During her 30-year career with the company, she also served as Regional Executive in Canada, the US, Asia and Europe, and held senior positions in IT and Business Development. Ms. Bean holds a BCom from the University of Toronto.

Micheline Bouchard

Board member since
September 29, 2011

Committee Membership
Human Resources and
Compensation Committee - Chair
Governance Committee
Investment Committee

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

Léon Courville

Board member since
March 5, 2007

Committee Membership
Governance Committee
Investment Committee
Human Resources
and Compensation Committee

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

Garnet Garven

Board member since
September 29, 2011

Committee Membership
Governance Committee – Chair
Investment Committee
Audit Committee

Garnet Garven is Dean Emeritus of the Paul J. Hill School of Business and of the Kenneth Levene Graduate School of Business at the University of Regina. He is a Management Board member of the Pension Budget and Reserve Fund at the Organization for Economic Co-operation and Development in Paris, and a voting member of the Accounting Standards Board (Canada). More recently, he was a Senior Fellow at Canada's Public Policy Forum, a national Ottawa-based think tank. He has served as Deputy Minister to the Premier of Saskatchewan, Cabinet Secretary and Head of the Saskatchewan Public Service. He holds a BBA from the University of Regina, an MBA (Finance) from the University of Saskatchewan and an Honorary CPA from the Chartered Professional Accountants of Canada. Mr. Garven was a Research Fellow in Corporate Governance at the Ivey Business School, Western University. A founding Director of Greystone Managed Investments Inc. and former Chair and CEO of the Saskatchewan Workers' Compensation Board, he has also served on a variety of other public, private and not-for-profit boards.

Lynn Haight

Board member since
January 14, 2010

Committee Membership
Audit Committee
Governance Committee
Investment Committee

Lynn Haight is the Chair of the Independent Audit and Oversight Committee of the United Nations High Commission for Refugees in Geneva, and is also a member of the Board of Green Shield Canada. She recently concluded her term as Chair of the Consortium Board of the Consultative Group of International Agricultural Research Centers in Washington. Ms. Haight sits on the Board of the Somerville College Foundation at the University of Oxford. In 2009, she retired as COO and CFO of the Foresters International Insurance Organization. She previously served as Vice President, US Fixed Annuities, and as Chief Accountant of Manulife Financial Corp. She has served as a Trustee and Chair of the Audit Committee of the Ontario Arts Council, and as Chair of Forester Holdings Europe, of Tafelmusik Baroque Orchestra, of the World Agroforestry Centre in Nairobi and of the Sectoral Advisory Group for business services to the Canadian Minister of International Trade. Ms. Haight holds an MA Honours from the University of Oxford. She is a Fellow of the Chartered Professional Accountants of Canada, of the Institute of Chartered Accountants in England and Wales, and of the Canadian Association of Management Consultants. She is also a Certified Corporate Director.

Timothy E. Hodgson

Board member since
December 17, 2013

Committee Membership
Investment Committee – Chair
Human Resources
and Compensation Committee

Timothy E. Hodgson is Managing Partner of Alignvest Management Corporation. He is the Chairman and Director of Alignvest Acquisition II Corporation and a Director of MEG Energy Corp. He was Special Advisor to Bank of Canada Governor Mark Carney from 2010 to 2012. Mr. Hodgson spent much of his early career with Goldman Sachs Group, Inc. and served as CEO at Goldman Sachs Canada, Inc. from 2005 to 2010. He sits on the boards of KGS-Alpha Capital Markets, LP, the Global Risk Institute in Financial Services and NEXT Canada. He has previously served on the boards of directors of Goldman Sachs Canada, Inc. and the Ivey Business School. Mr. Hodgson holds an MBA from Ivey Business School, and a BCom from the University of Manitoba. He is a Chartered Professional Accountant (CPA, CA) and a member of the Institute of Corporate Directors.

Miranda C. Hubbs

Board member since
August 15, 2017

Committee Membership
Audit Committee
Investment Committee

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

William A. MacKinnon

Board member since
January 14, 2010

Committee Membership
Audit Committee – Chair
Investment Committee

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

Consolidated 10-year financial review

($ million)	**2018**	2017	2016	2015	2014	2013	2012	2011	2010	2009
CHANGE IN NET ASSETS[1]										
Net investment income (loss)	**13,975**	15,553	1,098	13,966	12,793	7,194	1,888	7,043	7,605	(9,493)
Operating expenses	**450**	370	295	243	216	184	148	114	92	86
Other comprehensive income (loss)	**(14)**	(4)	4	(15)	17	–	–	–	–	–
Comprehensive income (loss)	**13,511**	15,179	807	13,708	12,594	7,010	1,740	6,929	7,513	(9,579)
Fund transfers	**3,921**	3,622	3,987	4,554	4,997	4,635	4,733	4,814	4,980	4,431
Increase (decrease) in net assets	**17,432**	18,801	4,794	18,262	17,591	11,645	6,473	11,743	12,493	(5,148)
NET ASSETS UNDER MANAGEMENT										
Equity										
Public Market Equities[2]	**51,813**	55,227	47,511	56,276	49,466	40,165	32,950	32,834	23,659	11,411
Private Equity	**19,382**	15,868	12,520	10,103	8,425	6,924	6,444	5,582	5,426	4,191
Government Fixed Income[3]	**27,783**	24,043	24,603	22,646	18,383	15,433	14,144	11,956	10,001	11,096
Credit	**8,857**	4,418	640	–	–	–	–	–	–	–
Real Assets										
Real Estate[4]	**23,245**	20,551	20,356	14,377	10,650	9,427	7,055	5,312	5,118	4,653
Infrastructure	**14,972**	11,149	8,701	7,080	6,011	3,854	3,607	2,356	2,073	2,446
Natural Resources	**4,833**	3,711	2,470	1,536	795	382	325	–	–	–
Complementary Portfolio	**2,201**	656	–	–	–	–	–	–	–	–
Net AUM	**153,086**	**135,623**	**116,801**	**112,018**	**93,730**	**76,185**	**64,525**	**58,040**	**46,277**	**33,797**
PERFORMANCE (%)										
Annual rate of return (net of expenses)	**9.8**	**12.8**	**0.7**	**14.2**	**15.9**	**10.3**	**2.6**	**14.1**	**21.1**	**(23.1)**
Benchmark	8.7	11.9	0.3	13.1	13.9	8.6	1.6	12.7	19.8	(17.6)

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

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

[3] Includes Cash & Cash Equivalents.

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

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