Connecting to what matters

— 2021 Annual Report

PSP

Public Sector Pension Investment Board

About PSP Investments

The Public Sector Pension Investment Board (PSP Investments or PSP) is one of Canada's largest pension investment managers with $204.5 billion of net assets under management as at March 31, 2021. We invest the assets for the retirement of more than 900,000 current and retired members to meet the pension plan obligations of the federal Public Service, the Canadian Armed Forces, the Royal Canadian Mounted Police and the Reserve Force. While PSP is headquartered in Ottawa, our principal business office is in Montréal, and we have investment offices in New York, London and Hong Kong.

PSP Investments' statutory mandate is to manage amounts transferred to it by the Government of Canada for the funding of retirement benefits earned from April 1, 2000, in the best interests of the contributors and beneficiaries, and to invest with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the funding, policies and requirements of the pension plans and the ability of those plans to meet their financial obligations. For more information, visit investpsp.com or follow PSP on Twitter and LinkedIn.

Net assets per pension plan account

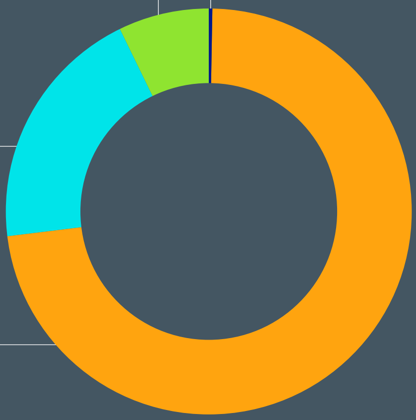
As at March 31, 2021
$ billion

$0.9
0.4%
Reserve Force

$14.7
7.2%
RCMP

$39.8
19.5%
Canadian Forces

$148.9
72.9%
Federal Public Service



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All amounts in the report are in Canadian dollars unless otherwise noted.
The photos in the report were taken prior to the COVID-19 pandemic.

Connecting to what matters

PSP delivered strong investment returns in fiscal 2021. Despite a physically and emotionally challenging year, we were able to stay focused on our investment mandate and total fund perspective, our responsibilities to the contributors and beneficiaries, and the health and well-being of our people.

We continue to enhance the long-term sustainability of the funds we manage through portfolio diversification and purposeful actions that take into account long-term investment trends as well as environmental, social and governance (ESG) factors.

ESG factors—like climate change, health and safety, and equity, inclusion and diversity (Ei&D)—are some of the most significant drivers of change in the world today, with major implications for businesses and long-term investors. We are committed to ensuring that our operations and investment strategies not only address them, but also promote positive outcomes through ongoing dialogue. We believe that active engagement is preferable to excluding or divesting investments.

This is why we strive to lead by example in Ei&D, and in the creation of a respectful and safe workplace. We are active stewards of the assets we own and regularly engage with our portfolio companies and partners across all asset classes to improve relevant ESG practices, such as encouraging high performing boards of directors and good governance.

We also support enhanced disclosure of companies' climate change risks and opportunities in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). Over the coming years, we aim to strengthen our expertise by integrating more sophisticated and comprehensive ESG measurement tools as they are developed.

This year, we've combined our annual and responsible investment reports to reflect the integration of ESG factors into our investment and asset management processes—and to demonstrate how we connect to what matters most to PSP's long-term investment performance.

Chair message

As I reflect on the 12 months since I wrote my last message, the COVID-19 pandemic has remained the dominant theme. I hope that you, your family and loved ones are keeping safe and well.

I'd like to thank the contributors and beneficiaries, federal Public Service employees, and members of the Armed Forces, Reserve Force and RCMP for working diligently under difficult circumstances to keep the rest of us safe. Your efforts on our behalf are much appreciated and we, at PSP, want to assure you that the money we're investing toward your pension is secure and growing.

PSP and its investment portfolio have remained resilient through the pandemic. In fact, the corporation reached a significant milestone at the end of its 2021 fiscal year—$204.5 billion in net assets under management. This was achieved in just over 20 years and, like the positive findings of the recent Special Examination of PSP, is a testament to the organization's strong governance and management.

As required by law, a special examination of PSP is carried out at least once every 10 years. After a rigorous review of the organization's policies and practices, the Examiners, who included the Auditor General of Canada and Deloitte LLP, concluded that PSP's systems and practices provide reasonable assurance that assets are safeguarded and controlled, resources are managed economically and efficiently, and operations are carried out effectively.

Long-term focus

While PSP's COVID-19 response was a standing agenda item at Board meetings in fiscal year 2021, we also oversaw initiatives such as the development of the organization's next long-term strategy. This work began two years earlier in a strategy session at which the Board and senior management considered long-term trends, priorities and risks, and decided on the direction PSP needed to go. From then on, CEO Neil Cunningham reported regularly to us on the progress being made, right up until February 2021 when the strategy was approved. As a Board, we're confident that this new strategy—*PSP Forward*—will keep PSP strongly positioned to navigate the challenges of a fast-changing investment environment, live up to heightened stakeholder expectations and assist to fulfil its mandate.

PSP's approach to ESG factors was another topic of discussion for the Board in fiscal year 2021. With the pandemic exposing cracks in society, and with mounting evidence of the pervasiveness of systemic racism and the threats posed by climate change, ESG related topics have never been so central to the investment conversation.

PSP has a lengthy history of identifying and managing ESG risks and opportunities in its investment processes, which has led to the high-quality portfolio it has today. As a Board, we reaffirmed our support for management's approach to responsible investing, which focuses on managing risks and engaging with the companies in which we have an ownership position to improve their ESG practices and enhance long-term value.

We were most pleased to see PSP recognized as one of the 16 public pension asset managers and four sovereign wealth funds considered frontrunners in sustainability in the United Nations Conference on Trade and Development's *How Public Pension and Sovereign Wealth Funds Mainstream Sustainability* report.

Board renewal

Board renewal was another focus area in fiscal year 2021. PSP 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.

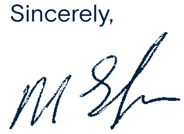
The terms of three directors expired in the 2020 fiscal year, but all three graciously agreed to stay in an interim capacity. I'm pleased to report that two of the three positions were filled in December 2020, and so we bid farewell to Léon Courville, Lynn Haight and Micheline Bouchard, whose contributions to PSP and to our Board deliberations over many years were exceptional. We sincerely thank them for their service.

With these retirements, we welcomed Susan Kudzman and Marianne Harris to the Board. Both are highly qualified with proven financial ability and relevant work experience. Just as PSP seeks to promote diversity in the companies in which it invests, we also do so within our Board and company management. Following these appointments, PSP has a gender balanced board of five men and five women.

In closing

On behalf of the Board, I would like to thank Neil Cunningham and his senior management team for their strong leadership in an extraordinary year. PSP is not only weathering the storm; it is poised for continued success as the world emerges from the pandemic and beyond. We also recognize the hard work and dedication of PSP's employees who rose to the challenges of the year with indomitable spirit.

Sincerely,



Martin Glynn
Chair of the Board

CEO message

Our fiscal year both began and ended in the midst of an active global pandemic, with all PSP employees working from home.

It was a year characterized by the enormous human and economic toll extracted by the pandemic, which only now may be dissipating as vaccines are administered to an increasing percentage of the global population. We also witnessed the impressive power of science, when combined with dedicated resources and cooperation among various players, to develop multiple vaccines in record time. COVID-19 and its variants are still with us, but progress is being made.

Despite the challenges of our 2021 fiscal year, PSP delivered its strongest absolute return in over 10 years and one of the highest in 20 years. We fully recovered from the market downturn that took place just before the 2020 fiscal year ended and achieved a 18.4% one-year return. Net assets under management crossed the $200 billion mark, reaching a record-high $204.5 billion, up from $169.8 billion at the end of our 2020 fiscal year.

While we focus on the long term, this past year demonstrated the strength and resilience of our portfolio through exceptionally turbulent times. As an organization, we also showed versatility and adaptability in managing the operational challenges of the pandemic, and in responding to some of the deeper social, economic and environmental issues that emerged.

Connecting our strategy with our mandate

Our mandate and responsibilities to the Government of Canada, and to the more than 900,000 contributors and beneficiaries of the pension plans for whom we invest, underpin the strategies we develop to deliver investment performance. Our previous corporate strategy—*Vision 2021*—has reached its conclusion, having succeeded in building a global footprint and scaling our operations to allow us to diversify our growing portfolio by geography, sector and investment type, while continuously stress-testing and managing portfolio risk. These capabilities have served us well through periods of economic turbulence and market uncertainty, contributing to our solid 10-year return of 8.9%.

Our needs for the future underpin the ambition of our new corporate strategy, *PSP Forward*. Enduring changes in our investment environment require a renewed strategic focus to ensure we remain well positioned.

PSP Forward will advance how we operate as a global organization focused on insight-driven decision-making that enhances total fund performance and our investments in public and private markets. Fundamental to success will be to increasingly think transversally; to share and leverage resources and capabilities that exist throughout the firm; to test and then fail-or-scale new strategies as their results are measured; and to ensure that we constantly revisit existing programs and priorities so that we adapt as needed to changes in our environment.

PSP Forward is anchored by three strategic pillars: (1) enhancing our total fund performance and global operations by aligning our systems, resources and investment focus; (2) generating valuable insights by leveraging hubs that institutionalize our knowledge, data, asset management practices and relationships; and (3) building an engaged and resilient workforce. By rallying all teams across our global footprint to work ever more collaboratively, the strategy will guide how we navigate the challenges in our environment and succeed.

Connecting to our people and communities

In a year where everyone felt the strain of the pandemic, the health and well-being of our own people was a top priority. We focused on staying connected, on ensuring that employees were safe and had the tools they needed to work productively from home, and on helping them deal with the stress and challenges of their circumstances. The personal commitment, resilience and energy they showed in return demonstrated the sense of community at PSP.

Perhaps the most telling example of this was how employees rallied around our COVID-19 Emergency Relief Initiative in the spring of 2020 and the PSP Gives Back campaign in the fall. These initiatives, including the introduction of a limited employer donation matching program, raised $1.17 million for non-profits serving our local communities and most vulnerable citizens.

We assembled a dedicated taskforce to guide our COVID-19 response. Throughout the year, the taskforce monitored the evolving situation and adjusted our office opening and closing plans in keeping with local government guidelines and employee readiness. Having seen how well people adapted to working remotely, one of the expected permanent changes coming out of our pandemic experience will be a shift to an increasingly hybrid—virtual/physical—workplace, where employees don't necessarily come into the office every day. This change should help us attract and retain the top talent needed going forward.

Equity, inclusion and diversity (Ei&D) have long been important to us—and I'm pleased to continue to co-chair our Ei&D Council. In the wake of the horrific incidents of racism witnessed during the year, we stepped up our Ei&D efforts in fiscal year 2021 and resolved to work harder for change, including by signing on to the BlackNorth Initiative, by which we pledge to work toward ending anti-Black systemic racism.

We undertook an audit of our human resources policies and practices to help us identify and eliminate systemic discrimination within our hiring and performance management processes. We also circulated a voluntary self-identification survey to give us a clearer picture of our workforce demographics.

Beyond our own workplace, board composition and diversity objectives featured in 93 engagements with companies in which we have an ownership position, and progress was noted on 58% of them.

> “Employees rallied around our COVID-19 Emergency Relief Initiative in the spring of 2020 and the PSP Gives Back campaign in the fall. The initiatives raised $1.17 million for non-profits serving our local communities and most vulnerable citizens.”

Connecting to the future

One of the long-term trends that has accelerated during the pandemic is the investor focus on ESG, including climate change. We believe that ESG risk factors must be taken into account in every investment we make. For every active investment, we integrate ESG risks and opportunities into our decision-making process. Once we've made an investment, we then monitor and manage the associated risks throughout its life and use our ownership position to encourage responsible corporate conduct. In so doing, we not only protect and enhance the long-term value of our holdings, we also see significant investment opportunities in this trend, most notably in the transition to a low-carbon economy.

Recognizing the importance of ESG considerations in investment decision-making, I joined the CEOs of Canada's largest pension plan investment managers in a statement advocating for standardized disclosure of companies' ESG risks and opportunities. Specifically, we called on companies to measure and disclose their performance on material, industry-relevant ESG factors using the Sustainability Accounting Standards Board (SASB) standards and the Task Force on Climate-related Financial Disclosures (TCFD) framework. We also committed to continue strengthening our own ESG disclosure and integration practices and allocating capital to investments that are best placed to deliver long-term sustainable value. We intend to continue increasing our investments in green assets, or assets that already demonstrate strong environmental and climate-related performance. However, we also want to invest in low-carbon enablers and transition assets, which present an opportunity to accelerate the transition to a low-carbon economy. As of March 31, 2021, about 6% of our total assets under management were green assets, which represented about $12.6 billion. PSP is considering the possibility of green bond offerings in the future.

Ahead of the 2021 proxy voting season, we adopted exceptional measures in support of shareholder interests and business continuity.

Following up on these measures, we engaged with portfolio companies with whom we had cast a vote by exception through a proxy letter campaign to deepen our understanding of their corporate governance and sustainability management practices during the pandemic. I encourage you to read the Responsible Investment Report (page 86) and climate-related disclosure (page 105) included in this year's annual report to learn more.

PSP specializes in spotting opportunities on the edge. As we look ahead, we see potential for new types of investments that don't fit neatly into traditional asset classes but would provide us with non-correlated returns to help achieve our mandate. Many of these types of investments are held in what we call our Complementary Portfolio.

Heartfelt thanks

In conclusion, I'd like to extend my sincere thanks to our Board of Directors for their sage counsel during these tumultuous times, and to my colleagues on our senior management team for their dedication to excellence, and for the empathy and energy with which they have guided our organization. We were pleased to promote David Ouellet to Senior Vice President and Chief Technology and Data Officer and member of our Executive Committee in fiscal year 2021, in recognition of the important role technology and data will play in our organization going forward.

I'd like to give special thanks to Guthrie Stewart, Vice Chair of our Investment Committee, who retired on June 1, 2021. It has been a pleasure to work closely with Guthrie, who came out of retirement almost six years ago to successfully build out and lead our Private Equity and Infrastructure teams. He has been a great mentor to many of our younger leaders and continued to contribute meaningfully right up until his retirement.

A big thanks as well to our employees who proved their mettle and delivered the PSP edge in an unforgettable year. Although our investment teams couldn't travel, they transacted at the same level of activity as in years past, ably assisted by our transaction support and other business partner teams. I have no doubt that our strong investment performance and the positive outcome of the Special Examination conducted in fiscal year 2021 by the Office of the Auditor General of Canada and Deloitte LLP resulted from the cumulative efforts of all PSP employees, focused on the singular goal of achieving high-quality, sustainable returns to fulfill our long-term mandate.

Sincerely,

Neil Cunningham
President and Chief Executive Officer

Executive committee

1 **Neil Cunningham**
President and
Chief Executive Officer

2 **Mélanie Bernier**
Senior Vice President
and Chief Legal Officer

3 **J.F. Bureau**
Senior Vice President
and Chief Financial
and Risk Officer

4 **Giulia Cirillo**
Senior Vice President,
Chief Human Resources and
Global Communications Officer

5 **David Ouellet**
Senior Vice President
and Chief Technology
and Data Officer

6 **David J. Scudellari**
Senior Vice President
and Global Head of Credit
and Private Equity Investments

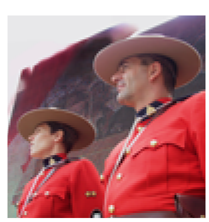
7 **Guthrie Stewart**
Vice Chair, Investment Committee

8 **Eduard van Gelderen**
Senior Vice President
and Chief Investment Officer
and Interim Global Head
of Capital Markets

Connecting to our mandate

PSP is tasked with managing and investing the funds transferred to it by the Government of Canada to help fund the pensions of Canada's public service employees and members of the Armed Forces, Reserve Force and RCMP.

We perform our role in the best interests of the pension plan contributors and beneficiaries, with a view to achieving a maximum rate of return without undue risk of loss.



Why it matters

Our mandate is set out in legislation and is the starting point for everything we do. It reminds us of who we serve and what is expected of us. Our mandate also drives our long-term thinking and investment strategies, compelling us to balance prospective risk and reward, and consider long-term trends and ESG factors, to ensure the sustainability of our portfolio.

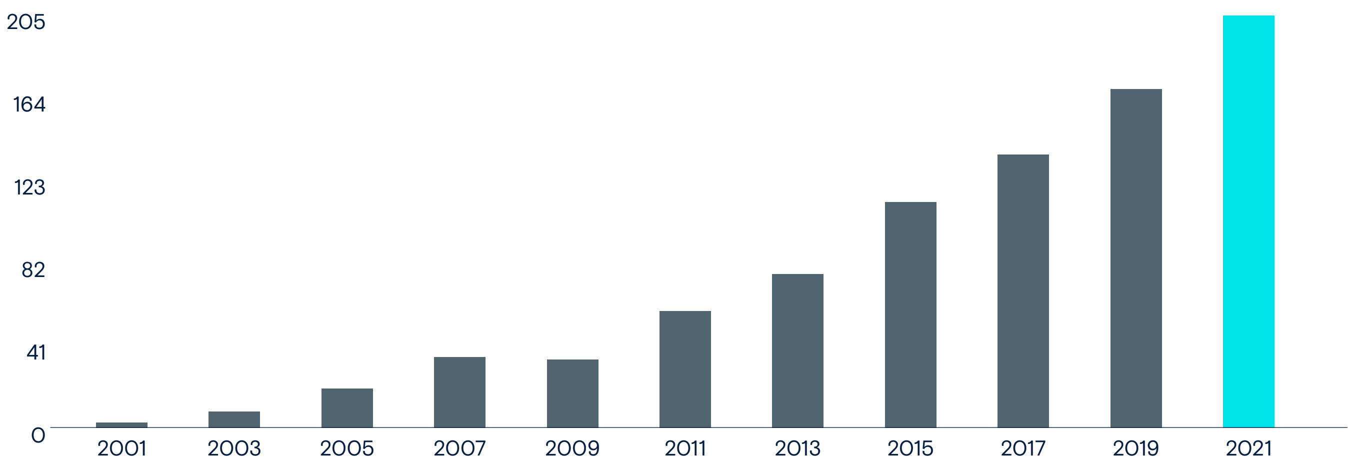
Our 20-year journey

Growing into a leading investment manager

PSP started operating on April 1, 2000. While our initial strategy was to pursue a passive, index replication model, over the ensuing years, we added active management, bolstered our in-house expertise, created new asset classes, opened international offices, and built a solid foundation from which to grow and improve. The result: $204.5 billion in net assets under management on March 31, 2021.

Net assets under management have steadily grown

($ billion, fiscal years ending March 31)



A leading and responsible investment manager

PSP has embraced responsible investment since its earliest days, adopting its first Social and Environmental Responsibility Policy and proxy voting guidelines in 2001. This laid the groundwork for becoming an active steward of our public market assets and, in 2007, launching a formal ESG engagement program with public issuers.

Over the past several years, as topics such as climate change, governance and diversity have risen in the public domain, we have refined our policies and processes related to the integration of ESG factors into our investment decisions for all private and public asset classes.

1999

PSP Investments incorporated as a Crown corporation under the *Public Sector Pension Investment Board Act*

2000

April 1. Starts to fund retirement benefits for the federal Public Service, Canadian Armed Forces and Royal Canadian Mounted Police

Single asset class: Capital Markets

2002

New Real Estate and Private Equity asset classes

2005

Membership at the Canadian Coalition for Good Governance

2006

New Infrastructure asset class

2007

Starts to fund retirement benefits for the Reserve Force

Signatory of the CDP

2009

Signatory of CDP Water

2011

New Natural Resources asset class

2014

Signatory of the United Nation's Principles for Responsible Investment (PRI)

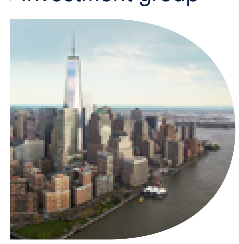
2015

New Credit Investments asset class

2016

Opening of the New York office

New Responsible Investment group



2017

Opening of the London Office – PSP's European hub

Creation of the Chief Investment Office (CIO) group

2018

Launch of initiative to assess our portfolio's exposure to climate change risks

2019

Opening of the Hong Kong office

(calendar years)

Financial highlights

Fiscal year 2021

Net AUM[1]

$204.5 B

Increase in net AUM

20.4%

10-year net annualized return	Cumulative 10-year net portfolio income (excluding contributions)	Cumulative net investment gains above the Reference Portfolio[2] over 10 years
8.9%	$106.2 B	$11.3 B
5-year net annualized return	Cumulative 5-year net portfolio income (excluding contributions)	Cumulative net investment gains above the Reference Portfolio over 5 years
9.3%	$70.3 B	$4.0 B
Total fund 1-year net portfolio return	Net contributions	Increase in AUM
18.4%	$3.0 B	$34.7 B

[1] Net AUM denotes net assets under management.

[2] The Government of Canada provides to PSP Investments a Reference Portfolio that communicates its tolerance for funding risk.

Financial highlights

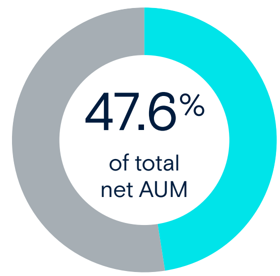
Fiscal year 2021

Capital Markets[1]

$97.5 B
Net AUM

26.6%
1-year rate of return

10.0%
5-year annualized return

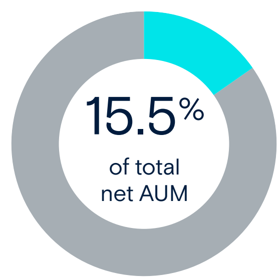


Private Equity

$31.7 B
Net AUM

28.4%
1-year rate of return

11.3%
5-year annualized return

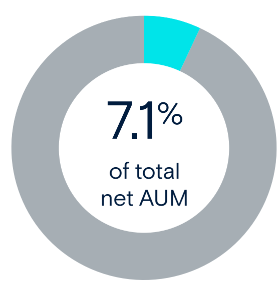


Credit Investments

$14.5 B
Net AUM

10.5%
1-year rate of return

11.7%
5-year annualized return



[1] Includes Public Market Equities and Government Fixed Income (excludes Cash and Cash Equivalents).

Financial highlights

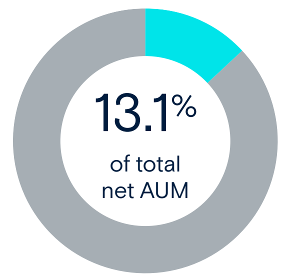
Fiscal year 2021

Real Estate

$26.8 B
Net AUM

3.8%
1-year
rate of return

6.1%
5-year
annualized return

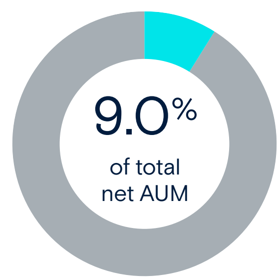


Infrastructure

$18.4 B
Net AUM

4.5%
1-year
rate of return

10.5%
5-year
annualized return

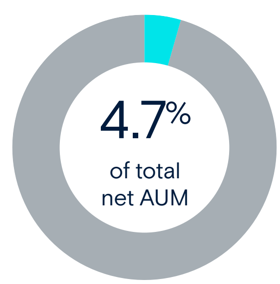


Natural Resources

$9.7 B
Net AUM

10.6%
1-year
rate of return

9.0%
5-year
annualized return



Highlights
Fiscal year 2021

100+
Countries

715 Transactions in private markets

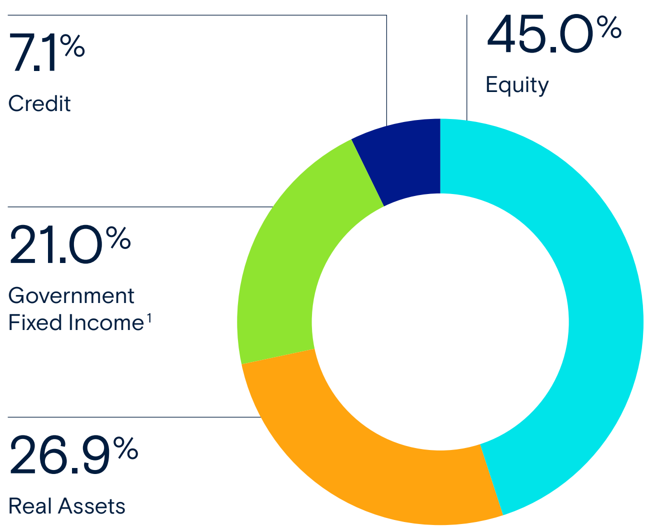
897 Employees

Headquartered in Ottawa, PSP Investments has its principal business office in Montréal and investment offices in New York, London and Hong Kong.

100+
Sectors and industries

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

Asset mix
As at March 31, 2021



[1] Includes Cash and Cash Equivalents.

Q&A with our CIO

Interview with Eduard van Gelderen, Chief Investment Officer

What is your view of this year's return?

This was a good year for PSP with a one-year net rate of return of 18.4%. Public equities recorded very strong performance amid the recovery that followed the COVID-19-induced decline in global equity markets at the end of the previous fiscal year.

A key measure of PSP's success is our performance compared to the Reference Portfolio, which demonstrates the long-term value PSP adds through portfolio construction and active investment activities. More information on the Reference Portfolio and how we measure our success can be found on page 31.

Our one-year net rate of return for fiscal year 2021 was lower than the Reference Portfolio's 21.8% return, but this is not unexpected given the strong performance of public equities. PSP's investment strategy is designed to exceed the return of the Reference Portfolio over the long term without exceeding its level of funding risk. The long-term horizon offers compelling investment opportunities, which have little to do with short-term market volatility. We strongly believe in the long-term benefits of our portfolio, and fully realize that it can underperform the Reference Portfolio over shorter periods when public equity returns are exceptionally strong.

A comparison over PSP's longer investment horizon is therefore much more meaningful. PSP's return of 8.9% over the last 10 years exceeds the Reference Portfolio's 8.2% return, which indicates that we continue to fulfill our objective of adding value.

What impact did COVID-19 have on investment deal making and due diligence?

Interestingly, COVID-19 did not slow us down; it simply challenged us to be more creative and find different ways to get things done. Our teams adjusted quickly to the new reality of working remotely and were able to continue doing business with the help of technology. When they couldn't travel to conduct due diligence on an investment, they relied on trusted partners to help.

What adjustments, if any, has PSP made to its target asset mix (Policy Portfolio)?

In November 2020, our Board approved the recommended changes in our Policy Portfolio to better align the portfolio with the new Reference Portfolio. We were able to enhance the risk-return characteristics of the Policy Portfolio by using a wide range of different asset classes and by relying on the creativity of our investment teams. The launch of an infrastructure strategy with a strong correlation to inflation, which will help us to lower the funding risk, is a good example of the interaction between the total fund approach and the asset classes.

What steps have you taken to further embed responsible investment into PSP's investment process?

Responsible investment has been an integral part of our investment process for many years—every transaction submitted to our Investment Committee includes an ESG assessment.

For private markets, we assessed more than 140 direct investment opportunities from an ESG perspective—focusing mainly on employee health and safety, labour practices, business ethics, cybersecurity and climate change risks. For public markets, we supported more than 150 ESG assessments, with proxy voting and engagement activities related to listed companies continuing to be an important area of focus too. I am very impressed that we were able to do all this in a work-from-home environment.

A significant part of our work is developing tools to harness and capitalize on the increasing amounts of ESG data available to us. We are very excited about this development as this data will enable our ESG activities to become more fact-based. At the same time, we are fully aware of the current limitations; not all data is relevant, and the amount of data is still too limited to base firm conclusions on. Moreover, a lot of data covers public equity markets, but not necessarily private assets. We're exploring how artificial intelligence can help us to overcome these challenges.

These new tools not only improve our capacity to assess risks, they're also being used to help identify investment opportunities that arise in an ever-evolving ESG landscape. This is a second important shift in our ESG approach. For example, our climate change toolkit helps our investment professionals assess climate-related risks and opportunities in all our private market investment opportunities. We are very keen to understand and adequately assess the investment opportunities and assets related to the energy transition as well as low-carbon assets. This is why we assembled a multi-asset class deal team—the Climate Working Group—to determine actionable investment opportunities in climate change and to start due diligence on a select number of them.

Performance that matters

In a world that never stands still, we continually evolve our investment lens to unlock new opportunities and mitigate risks.

Guided by our ESG framework (page 94), we are increasingly embedding ESG factors into our investment decisions and processes. As long-term investors, we look for investments that will benefit from enduring trends anchored in both innovation and sustainability.

ESG integration framework

	Investment opportunity	Investment decision	Asset management & active ownership
Internally managed investments	Identify key ESG factors and determine due diligence scope	In-depth assessment of material ESG risks and opportunities	Monitoring and re-assessment of ESG risks, opportunities and performance, shareholder engagement and proxy voting
Externally managed investments	Define due diligence scope based on investment strategy	In-depth assessment of ESG integration practices of the manager	Monitoring and re-assessment of ESG practices and engagement on ESG best practices

Selected transactions

Rising to the healthcare challenge

Founded in 1967, Cerba HealthCare is a leading player in medical diagnostics, with more than 700 labs and 100 technical facilities performing approximately 250,000 diagnostic tests a day in 40 countries around the world. Initially focused on specialty testing, the company has grown and diversified its service mix over the years to include routine testing, clinical trial services, diagnostic imaging and veterinary biology.

Once the COVID-19 pandemic took hold, Cerba HealthCare ramped up quickly to support the need to test people for the virus. In France, Cerba HealthCare was one of the first laboratory networks permitted to perform COVID-19 testing. We believe that companies like Cerba HealthCare will have an important role to play in critical healthcare infrastructure going forward and the pandemic will only increase the ongoing necessity to test for infectious diseases.

PSP joined the private markets firm Partners Group in acquiring Cerba in 2017 and, in March 2021, we agreed to reinvest alongside EQT Private Equity and management to continue the company's highly successful global M&A strategy and strong organic growth execution.

Since our initial investment, we have been working with Cerba HealthCare's board and management team on ESG best practices related to governance, data management, cybersecurity and environmental management. Furthermore, the company has created a board-level audit and risk committee and has been implementing several initiatives to reduce its energy consumption and carbon footprint.

Supporting climate solutions

PSP has a strong and growing renewable energy portfolio, totaling approximately $3.8 billion of direct investments in more than 250 renewable energy assets with an aggregated net power capacity of approximately 4.3 gigawatts as of March 31, 2021. This capacity produces about the same amount of electricity as consumed by over 1.2 million homes in a year, and is enough electricity to power more than 62 billion kilometers travelled by an electric vehicle in one year.

For example, we have a 50% ownership stake in Cubico Sustainable Investments, one of the world's leading renewable energy infrastructure companies with a vast portfolio of onshore wind, solar photovoltaic, concentrated solar power and transmission line technologies. Committed to doing business in a socially and environmentally responsible manner, Cubico achieved a GRESB score nearly 10% higher than the industry average in 2020. The GRESB assessment is widely used by investors for benchmarking the ESG performance of real assets.

In early 2021, Cubico acquired Grupo T-Solar, giving the company a combined global portfolio that can produce enough energy to power nearly 2.4 million UK homes and avoid 1,830,000 tonnes of CO_2 emissions per year.

Since 2017, PSP has had a strategic relationship with Pattern Energy, a leading North American developer and operator of renewable generation facilities, through which we co-invest alongside Pattern to acquire equity interests in operating wind facilities across North America. In 2021, we completed a US$500 million investment program with Pattern, by acquiring a 49% equity interest in three Pattern-controlled operating wind farms. The positive environmental contribution from the three assets combined is over 2,000,000 tonnes of avoided CO_2 emissions, equivalent to taking about 450,000 cars off the road every year. With this transaction, PSP owns net installed capacity of 775 megawatts in nine Pattern-controlled wind farms across three US states and four Canadian provinces.

Innovation the world needs

It's estimated that the planet will have 9.7 billion people to feed by 2050—over two billion more than today. At the same time, the yield gains resulting from modern agricultural technologies have plateaued and climate change has caused weather volatility and droughts affecting farmers around the globe.

Indigo Ag, an agriculture technology company, is among the innovators tackling this problem. Founded on the breakthrough idea of harnessing a plant's microbiology, Indigo uses natural biological seed treatments and digital technology—including a digital grain and logistics marketplace—to improve the sustainability and profitability of farming.

Through its Indigo Carbon program, the company is pioneering a scalable, affordable and scientifically rigorous method for measuring how much carbon dioxide a farm removes from the atmosphere and reduces as a result of adopting more sustainable growing practices—unlocking a new income stream for growers in selling carbon credits.

These are the kinds of tools needed to accelerate the use of nature-based solutions such as agriculture in the fight against climate change.

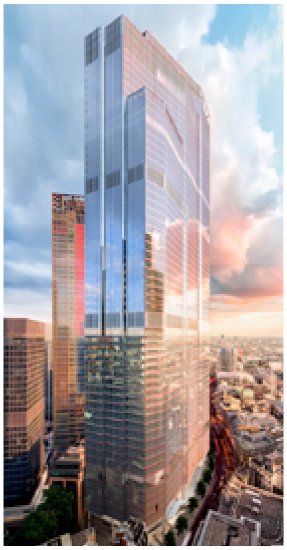
With our $125-million loan to Indigo, PSP is also innovating and helping the cause. Believed to be the first of its kind, the financing is backed by Indigo's intellectual property, which itself has been insured by a consortium of insurers. This novel deal structure protects PSP from downside losses and improves the risk-return profile of the deal, while helping Indigo leverage the significant value of its technologies to raise funds and continue its growth without equity dilution.

Responsible, resilient real estate

Located in the heart of the City of London and completed in December 2020, 22 Bishopsgate is at the forefront of the modern office workspace in terms of technology, amenities and flexibility. As corporate tenants require more optionality due to the incredible pace of technological change, the 61-storey tower includes nearly 120,774 square metres of high-specification office space along with smart integrated building management systems.

22 Bishopsgate is also second to none from a sustainability perspective, living up to a set of commitments that focus on well-being, learning, equality and the environment. Aspects of well-being include serving nurturing, well-made food in its restaurant and foods stalls, championing physical fitness through its gym spaces, helping tenants work toward Delos Well Standard accreditation—a globally recognized office wellness standard—and providing calming touches through giant houseplants and works of art.

The building is net zero operational carbon, using 100% certified renewable power and offset credits for the balance of carbon emissions. In addition to working to a set of circular economy principles built to reduce waste and make the smallest environmental impact possible, the property



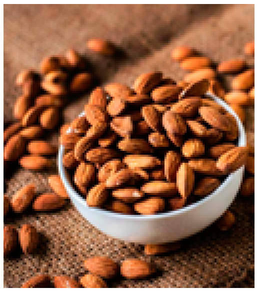
management team encourages tenants to focus on greener processes via an innovative consolidation centre—which reduces delivery emissions by 96%—a world-class recycling program, and access to systems and smart services that offer tips on saving energy and generating less waste.

PSP and partners Axa, Quadreal and Temasek each own 25% of 22 Bishopgate.

Nuts about sustainability

Pomona Farming, our majority-owned farmland management company, purchased Baker Farms in December 2020, making it the largest almond producer in the United States. The acquisition formed a new hub in Pomona's almond portfolio and further diversified the company's holdings across the state of California.

Pomona prides itself in farming responsibly, with a strong commitment to using natural resources sustainably and to benefitting the people in each of its local communities. Pomona is a participant in the Almond Board of California's Sustainability Program, a signatory to the UN-supported Principles of Responsible Investment in Farmland, and has achieved "Gold Standard" certification in the California Almond Sustainability Program. Here are just three examples of its sustainable practices:



- Pomona is creating more than 3,330 acres (1,336 ha.) of bee habitats, growing over 30 different plant varieties with bloom cycles staged throughout the year. It also hosts more than 750 honeybee hives over the winter at its three bee sanctuaries, each of which consists of several hundred contiguous acres of forage and flowers, supportive micro climates and plentiful water.
- The company manages irrigation and water sourcing to create additive recharge on the orchards, adding water back into underground basins, and thereby achieving an average water application across its Californian portfolio, that is well below the almond industry average.
- Pomona is eliminating harmful chemicals, completely eliminating organophosphate and neonicotinoid pesticides, and piloting targeted weed application technology, which reduces herbicide usage by 80% where implemented.

Tapping the potential of emerging market debt

As a result of the Policy Portfolio review, the allocation to emerging market debt (EMD) was increased within the fixed-income portfolio, as an additional avenue for geographical diversification.

While EMD—debt instruments such as bonds that are issued by countries with developing economies—has historically presented higher risk, there has been considerable improvement in this regard in recent years. With yields in emerging markets higher than those in developed markets, EMD presented an opportunity for PSP to enhance returns and reduce risks over the long term.

The gradual implementation of this allocation began several months ago, with the Capital Markets and CIO teams leveraging external managers as a way to gain access to the insights and expertise of specialists in the field of EMD. Recognizing the heightened level of ESG risks in emerging markets, the Responsible Investment group was also involved, conducting a thorough review and benchmarking of ESG integration best practices for EMD strategies. The key outcome: PSP is now partnering with a number of world-class managers to gain exposure to the asset class.

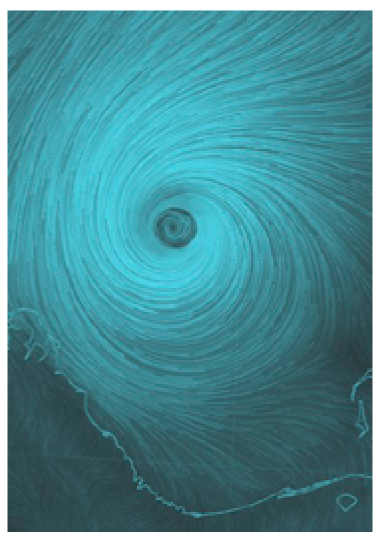
Finding new ways to diversify and reduce risk

In 2020, we spotted an opportunity to leverage our relationship with one of our Private Equity group's portfolio companies, Amwins, and to capitalize on our in-house insurance expertise, by seeding a new investment fund that specializes in the purchase of securities linked to natural catastrophe insurance policies sourced by Amwins and other catastrophe exposed contracts.

The cornerstone investment with Integral ILS, an independent alternative fund manager, represented our first insurance-linked securities (ILS) allocation. ILS is an attractive asset class for us given that it is uncorrelated to the broader financial markets and offers diversification benefits to our portfolio.

This latest investment has the potential to become a sizable portion of PSP and potentially a standalone asset class, consistent with our priority of pursuing alternative diversifying strategies. The Integral team has secured an additional investment from one of our peers and is in conversation with other likeminded investors to attract additional capital and continue scaling the fund.

Given the high degree of uncertainty in both the timing and the magnitude of the impact of climate change, catastrophe (re)insurance is an effective solution for mitigating such risks and helping to foster climate resilience in disaster-prone areas of the world. As part of our due diligence, our Responsible Investment group assessed key ESG risks and opportunities related to the transaction, notably the impact of climate change on underwriting and risk. Our teams also conducted an extensive review of the fund manager's expertise in properly considering the known impact of climate change in pricing individual transactions and managing portfolios. We will continue to engage with the fund manager on these topics going forward.



Corporate strategy

Fiscal year 2021 marked the end of our previous corporate strategy, *Vision 2021*, with meaningful progress achieved toward the objectives set in 2016.

Select examples include:

- **Cultivating One PSP** – by shifting to a total fund investment approach and mindset throughout the organization, including through the redesign of the CIO group mandate and employee incentive compensation program. Notably, over 50 transactions were completed during the period entailing cross-asset class collaboration.
- **Increasing our global footprint** – through the opening of offices in New York City, London and Hong Kong. Having re-allocated 5% of AUM from North America and Europe to Asia Pacific and emerging markets over the period, steady progress has been made to advance our global activities.
- **Improving our brand locally and internationally** – by positioning our investment teams as enablers of complex global transactions, including through the establishment of the Credit Investments team, which has enhanced our ability to finance transactions across the capital structure. Overall relationship management efforts have also meaningfully improved through more deliberate coordination of fund-wide and strategic partnerships.
- **Increasing scalability and efficiency** – having increased net deployment in private markets by 58% and active management in public markets by 14%, while enhancing workforce productivity over the period.
- **Developing our talent** – by more than doubling the number of women in leadership positions, launching a tailored leadership development program and implementing a new employee talent-value proposition.

In fiscal year 2021 specifically, we delivered on our total fund investment objectives by getting ready to operationalize new currency management and balance sheet optimization programs; we strengthened our data foundation by advancing our data structuring and defining an overall data management plan; and we established our plans for transversal and advanced analytics platforms.

PSP Forward

As *Vision 2021* reaches its conclusion, enduring changes occurring in our investment environment require a renewed strategic focus to ensure we remain well positioned. These include the current low-return environment in financial markets, heightened levels of geopolitical uncertainty, implications of the "Asian century," an accelerated pace of disruption and a changing workforce landscape. In this context, the ambition for *PSP Forward* is to be an insightful global investor and valued partner that is selective across markets and focused on the long term.

PSP Forward will advance how we operate as a global organization focused on insight-driven decision-making that enhances total fund performance and our investments.

Fundamental to success will be to increasingly think transversally; to share and leverage resources and capabilities that exist throughout the firm; to ideate, incubate and then fail-or-scale new strategies as their results are measured; and to ensure that we constantly revisit existing programs and priorities so that we adapt as needed to changes in our environment.

PSP Forward is anchored by three strategic pillars:

Global Fund First – will enhance our total fund performance and global operations by aligning our systems, resources and investment focus.

Insight Driven – will generate valuable insights by leveraging hubs that institutionalize our knowledge, data, asset management practices and relationships.

High-Performing Team – will build an engaged and resilient workforce that enables us to operate as an insightful and established global organization.

The strategy also sets out key performance indicators for tracking progress and driving accountability, and outlines the level of innovation expected as the changes embedded in the strategy are implemented.

Gaining an edge through data

Our technology and digital strategy (TDS) will be a key enabler of *PSP Forward*, with all three pillars of our corporate strategy requiring large-scale technology efforts. Our TDS vision is to support the future organization with scalable systems and partnerships, organized data and use of advanced analytics.

The five-year plan envisions migrating to a fully cloud-based environment with more consolidated systems and smart sourcing initiatives where relevant; delivering enriched, data-driven portfolio views to support more sophisticated portfolio management; and selectively leveraging next-generation technology and talent to take full advantage of artificial intelligence and machine learning.

Connecting to our people and communities

With our people working from home in fiscal year 2021, staying connected to them—and to what they needed to stay healthy and work productively—was one of our top priorities.

The heightened sense of community we experienced not only strengthened our culture and business, it also inspired our heartfelt response to the needs of those in the communities around us.

Why it matters

Our success depends on the strength and performance of our people. We must offer an employee experience that inspires them and empowers them to thrive—in order to attract and retain the diverse, high-quality talent needed to deliver our mandate and to make a positive impact through our investments and in our world.

Putting people first

Just as the world transformed virtually overnight when the COVID-19 pandemic took hold, so too did our workplace. Right from the outset, we prioritized the health, safety and wellness of our employees, so that as an organization we would be able to fulfill our mandate and responsibilities to contributors and beneficiaries. This principle underpinned our decisions in the ensuing weeks and months.

Measures taken in response to the pandemic included:

- Establishing a multi-disciplinary COVID-19 task force to monitor the evolving situation and adjust our actions in keeping with government guidelines from the various jurisdictions where we have offices, and with PSP's needs and our employees' readiness.
- Shifting the entire organization to work remotely as of March 2020, which remains the case at the time of writing.
- Providing a financial allowance to support employees in setting up their remote offices.
- Increasing communications through regular messages and videos from our CEO, and updated information on the COVID-19 hub on our intranet site.
- Enhancing our benefit plans with wellness and virtual health care services, including online yoga and mental wellness programs.
- Expanding mental health support including extending our Employee Assistance Program to family members, and offering virtual *Navigating the Pandemic* sessions for parents, employees living alone, employees caring for vulnerable individuals and others.
- Pausing all non-essential activity during the summer to give employees an opportunity to recharge and pace their workload.
- Planning for safe and effective alternate voluntary return to office workspace options, while meeting public health requirements in all jurisdictions.

Listening and learning

Regular employee engagement surveys are invaluable for gauging our workforce sentiment and attending to people's needs. We conducted 11 surveys during the fiscal year, including two dedicated COVID-19-related surveys. Nearly all employees participated—98% completed at least one survey and close to 83% contributed to each survey.

One of the things we learned through the surveys was that many employees wanted to continue their formal training and development during the pandemic. We were able to offer additional online courses and pivot training and learning programs from in-class to virtual. This included our leadership journey development program, which graduated 62 directors and senior directors, and 54 vice-presidents and senior managing directors during the year. Our leaders of talent development program for manager levels saw 62 managers and senior managers complete the course.

A total of 145 people received promotions during the year, all of whom were recognized at our first-ever virtual Promotions Celebration in December. We also actively encourage transversal movements within PSP to provide career building opportunities, by giving employees the opportunity to add new skills and experience. There were over 30 such transfers in fiscal year 2021.

High-performing team

Our employees will be key to delivering our *PSP Forward* strategy. Recognizing the important role they will play, *high-performing team* is one of the pillars of our strategy and we have identified two focus areas:

- Hybrid workforce model – adapting our employee experience for greater workplace flexibility, giving employees more autonomy, encouraging empowerment and drawing on the lessons learned during the pandemic as we work remotely.
- Resilient organization – upskilling, reskilling and preparing employees for the future of work by building AI and analytics skills, promoting transversal movement and creating an agile work structure with programs for alternative career opportunities.

Montréal's Top Employers 2021

PSP was named one of Montréal's Top Employers for the fourth consecutive year

Equity, inclusion and diversity

Why it matters — Our commitment to equity, inclusion and diversity is both good for society and good for our performance. Research supports its positive impact on attracting, retaining and engaging the best talent, fostering innovation and strengthening financial results. We also believe it enhances our decision-making and problem-solving capabilities, and strengthens connections within our global organization and with external partners and networks.

We are committed to shaping a culture of equity, inclusion and diversity (Ei&D), where we do our utmost to provide equal opportunity, respect and value one another for our differences, and create a safe space for all to belong and thrive. We want to be a leader in the investment industry in this area.

We have an active Ei&D Council, consisting of volunteers from across the organization, who use their voices to build awareness and understanding, and are the driving force behind our eight dedicated affinity groups. Through these groups, close to 100 employees are actively involved in, contribute to and lead our Ei&D efforts.

Here are three examples—selected from among the 15 initiatives launched by our Ei&D Council and collaborators in fiscal year 2021—showing the scope of our activities:

- We introduced a Veteran Integration Program pilot to create opportunities for veterans to leverage their wide-ranging skill sets in the business world. The tailored, one-year program includes a personal development plan, coaching, mentoring and sponsorship support. By the end of the program, participants will have gained meaningful industry and corporate experience, and developed professional networks, which they can use as a stepping stone to future employment opportunities.
- We hosted an Economic Reconciliation roundtable discussion which included three special guests from Fort Nelson First Nation, the First Nations Major Projects Coalition and First Nations Finance Authority who shared their perspectives on developing ESG investment standards, improving environmental practices, and increasing access to capital and ownership or involvement of First Nations in major projects on their lands.
- We launched an illuminating *We Are PSP* initiative, which encouraged employees to share on our intranet the unique experiences that shaped their lives and identities. The stories were moving and deepened our understanding of the challenges some of our people face.

"I'm honoured to be the first person in PSP's Veteran Integration Program. When I left the Royal Canadian Airforce after nine years of service, I knew I wanted to work in investment management but wasn't sure where my journey would take me. The path from the military to corporate Canada, and certainly into an elite financial institution like PSP, is not well-travelled, and I'm fortunate to have the support of PSP's Veteran Affinity Group and its senior leaders. I'm now in a position where I have the tremendous privilege of helping manage the investments that support my former brothers and sisters in arms, and I intend to make the most of this unique opportunity."

Maxime Roy, Analyst, Credit and Private Investment Risk

Seizing the moment to stop racism

The murders of George Floyd and others, and the global protests they triggered, were stark reminders that racism and discrimination still exist in our world and communities. We at PSP resolved to work harder for change. Our Ei&D Anti-racism, Culture and Religion affinity group took the lead on an anti-racism campaign within our workplace that kicked-off with a "Let's Talk about Racism" panel attended virtually by 778 employees.

Campaign initiatives included creating safe spaces for our Black colleagues to have open discussions on racism and their lived experiences, and to create an internal support network. We also offered educational activities during Black History Month, created opportunities to continue the dialogue throughout PSP, and established new external partnerships. Among them, our CEO signed on to the BlackNorth Initiative, committing PSP to promote dialogue about anti-Black racism, foster awareness of unconscious biases, remove barriers to advancement for Black employees, and more.

Continuing our journey

In fiscal year 2021, we took an important step forward in our Ei&D journey by performing a structural inclusion audit of our human resources policies, programs, processes and practices to identify any systemic barriers and opportunities for improvement. Along with this, we conducted a self-identification survey to give us a clearer picture of our workforce demographics, and embedded an inclusion index in our continuous engagement survey to gather employee feedback on how equitable, inclusive and diverse we actually are as an organization.

The research indicated that while our workforce is representative of the different dimensions of diversity, we need to continue evolving our practices and leadership styles to allow for true inclusion and equity.

Equity – While our hiring, benefits and compensation practices are not unfavourable to underrepresented talent, people in underrepresented groups continue to face structural barriers and disadvantages, mainly related to our advancement practices.

Inclusion – Employees generally appreciate PSP's commitment to Ei&D, although underrepresented groups tend to be slightly less satisfied.

Diversity – Overall representation[1] for the following groups is comparable to market[2], but decreases at leadership levels:

- Women (46% vs. 45.2% market availability)
- Black people (3%) and people of colour (18%) (Total of 21% vs. 17.3% market availability)
- People with disabilities (11.5% vs. 7.6% market availability)
- Indigenous peoples (1% vs. 1.5% market availability)
- LGBTQ+ identification (4% vs. estimated 10% - 20% of the population)
- Four generations are represented in our workforce, with the majority being shared by Gen Y with 52% representation and Gen X with 40%

[1] Representation data is based on the PSP self-identification survey.

[2] Since the majority of our workforce is in Canada, market availability rates are based on the 2016 Canadian National Survey and NOC codes and the 2017 Survey on Disability.

PSP people mosaic

78%

of employees counted themselves in by completing the voluntary self-identification survey

74%

of employees represent at least one dimension of diversity, although representation decreases at senior leadership levels (63%)

46%

of our employees represent multiple dimensions of diversity (intersectionality), but this representation also decreases at senior leadership levels (28%)

Based on the findings, we developed a three-year roadmap, which will focus on advancing Ei&D to create lasting systemic change. It will include measurable targets in order to monitor our progress. Our main areas of focus will be:

- Strengthening our commitment to Ei&D internally and externally.
- Narrowing gaps in representation for identified diversity groups across levels.
- Creating equitable practices and removing barriers for underrepresented groups.
- Continuing to build Ei&D literacy and intentionally inclusive behaviours.
- Driving inclusive and sustainable economic growth and investment practices.

PSP gives back

In the communities where we live and work, many citizens were at heightened risk and suffering. To help as best we could, we launched the COVID-19 Emergency Relief Initiative in May, a program in which PSP matched employees' donations up to $2,000 each. Our employees' compassion and generosity shone through and resulted in more than $727,000 being donated to the four organizations we chose to support: United Way, Red Cross, HealthPartners and Community Foundations Canada.

In the fall, we continued the employee donations matching program during our annual PSP Gives Back campaign and raised close to $439,000 for local community organizations selected by employees at each of our offices. This brought our total contributions for the year to more than $1.17 million.

Management's discussion of fund performance and results

Management's discussion of fund performance and results (the Management report) provides an analysis of the operations and financial position of PSP Investments for the year ended March 31, 2021 and should be read in conjunction with the Consolidated Financial Statements and accompanying notes for the years ended March 31, 2021 and 2020. The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS). In this report, we use a combination of financial measures, ratios, and non-GAAP measures to assess the performance. The non-GAAP measures used in this report do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures should be considered as supplemental in nature and not as a substitute for the related financial information prepared in accordance with IFRS. This report takes into account material elements, if any, between March 31, 2021 and June 10, 2021, the date of approval of this report by the Board of Directors. Additional information about PSP Investments is available on the website (www.investpsp.com).

Forward-looking statements

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

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

Our mandate

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

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

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

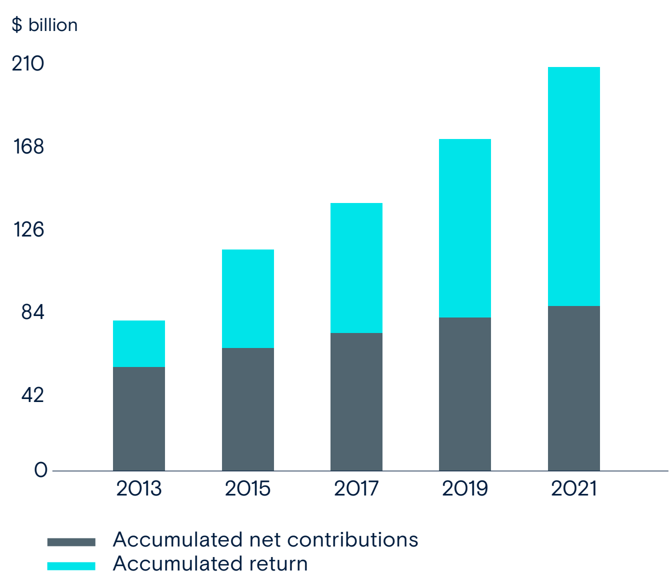
PSP Investments expects to deliver on its mandate by creating value through its **strategic asset allocation, dynamic asset allocation, and active management decisions.** Strategic asset allocation entails carefully designing asset classes and allocating strategic long-term targets to each of them through the Policy Portfolio and dynamic asset allocation involves navigating the asset allocation around those strategic targets over a mid-term horizon as the economic cycle evolves. Active management activities are designed to generate additional returns, through asset selection and assist in delivering on our mandate. Those activities are described further under "Investment Framework".

Fiscal year 2021 marked the end of our five-year *Vision 2021* strategy and the realization of our ambition of becoming a leading global institutional investor. Milestones achieved included: implementing a total fund investment approach; opening offices in New York City, London and Hong Kong; building scalable investment strategies and deploying more efficient operational models and decision-making processes; and implementing our talent value proposition worldwide, and our Equity, Inclusion and Diversity (Ei&D) Council. These accomplishments are the building blocks for our new strategy, called *PSP Forward*, which will advance how we operate and compete as a global organization.

The real test of PSP Investments' success is that we achieve our mandate over the long term and create value for the sponsor of the Plans, the Government, and manage assets in the best interest of the Plans' contributors and beneficiaries. As we will see throughout the next section, PSP Investments aims to achieve its mandate by having a robust investment approach aligned with the Government's risk tolerance.

The importance of investment returns in the funding of the pension plan obligations

At the end of fiscal year 2021, fund transfers received from the Government[1] since April 1, 2000, represented approximately 42% of net assets under management (AUM), with the remaining 58% representing investment returns earned by PSP Investments on those funds. As the Plans mature, the proportion of assets coming from investment returns is expected to continue growing. Having a robust investment framework aligned with our mandate and the Government's risk tolerance is therefore crucial for funding the Post-2000 Liabilities of the Plans.



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

Investment framework

The chart below illustrates our investment framework.

Mandate	Design and protect	Active management
Reference Portfolio Communicated on behalf of the President of the Treasury Board, it articulates the Government's risk tolerance (defined in terms of pension funding risk)	**Policy Portfolio** Long-term strategic asset allocation Medium-term dynamic asset allocation	**Actual portfolio** Includes active investment strategies within risk limits and total fund activities Complementary Portfolio

Mandate

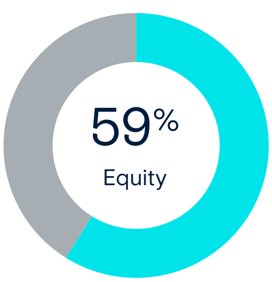
Reference Portfolio

The Reference Portfolio is the starting point of the investment framework. It is a passively managed, easily investable portfolio that is used by the Government of Canada to communicate its funding risk tolerance to PSP Investments. The Treasury Board of Canada Secretariat (TBS), communicates the Reference Portfolio to PSP Investments on behalf of the President of the Treasury Board. Through Asset-Liability Modelling (ALM), PSP Investments calculates the pension funding risk associated with the Reference Portfolio, which serves as a basis for its investment framework. Pension funding risk includes the risk of generating a deficit requiring additional contributions under adverse outcomes.

The Reference Portfolio has been an important part of PSP Investments' investment framework for many years as it anchors the risk and return parameters when it comes to implementing its legislated mandate of maximizing returns without undue risk of loss. Responsibility for the Reference Portfolio—which was developed, maintained and implemented by PSP Investments until recently—has been assumed by the Government this year, in accordance with the Funding Policy for the public sector pension plans. This fiscal year therefore marks the first time that a risk tolerance in the form of a Reference Portfolio, rather than a long-term return target, has been communicated to PSP Investments.

The Reference Portfolio is currently composed of 59% equities and 41% fixed income, as detailed below:

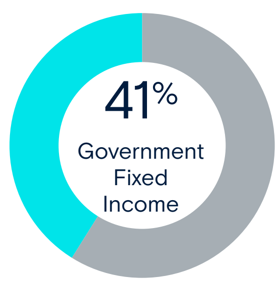
Reference Portfolio Asset Allocation



28%
EAFE Equity

21%
US Equity

10%
Canadian Equity



27%
Canadian Government Bonds

7%
World Government Bonds

5%
World Inflation-Linked Bonds

2%
Cash and Cash Equivalents

Design and protect the strategic asset allocation

Building on our mandate with the starting point being the risk tolerance conveyed by TBS via the Reference Portfolio's Asset Allocation, the second component of the investment framework is "design and protect". This component focuses on two elements:

- Designing the best possible portfolio, the Policy Portfolio, to allow PSP Investments to achieve its mandate to maximize returns without undue risk of loss over a long-term horizon.
- Aiming to ensure that, through the implementation of the Policy Portfolio, risk and return characteristics of PSP Investments' actual portfolio are aligned to those of the Policy 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 asset class exposures. The objective for the Policy Portfolio is to achieve a return greater than the Reference Portfolio over a period of 10 years with a lower or equal level of pension funding risk. This is achieved by including asset classes that diversify our sources of risk and return such as Real Estate, Private Equity, Infrastructure, Natural Resources, and Credit Investments.

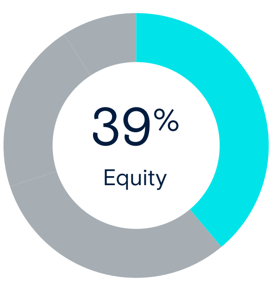
The inclusion of these asset classes is expected to provide a higher return for the Policy Portfolio compared to the Reference Portfolio without increasing funding risk for three primary reasons:

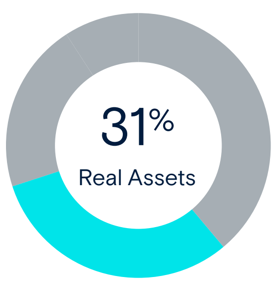
- Their inclusion improves portfolio diversification and therefore reduces pension funding risk.
- Over time, the private nature of these assets is expected to result in higher returns. The Plans' liabilities are long-term in nature and liquidity requirements are expected to be minimal until 2030. Since 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.

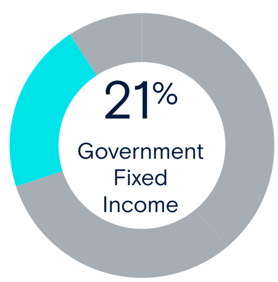
The Policy Portfolio is the predominant factor in determining PSP Investments' return and risk over time. As such, it is reviewed annually or more frequently, if required. Each review includes an asset-liability study to ensure the Policy Portfolio accounts for specific characteristics of both the markets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

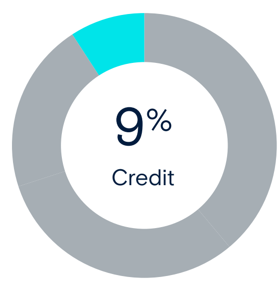
Target asset allocation[1]

Effective during fiscal year 2021









27%
Public Equity

12%
Private Equity

14%
Real Estate

12%
Infrastructure

5%
Natural Resources

Fixed Income
Cash and Cash Equivalents

Credit Investments

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

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

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

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

This fiscal year's review brought some changes to the Policy Portfolio that reflect the uncertainty in markets and strengthened the alignment with the Government's risk tolerance. This resulted in a Policy Portfolio with an increased robustness in terms of pension funding risk while maintaining its ability to generate higher returns than the Reference Portfolio over the long term.

While the Policy Portfolio is expected to provide a higher return compared to the Reference Portfolio over the long term, the difference in returns between both might be significant in a given year. The Policy Portfolio includes significant allocations to private asset classes (including real assets) while the Reference Portfolio is simpler and more weighted toward public equities (59% weight of public equity in the Reference Portfolio versus 27% for the Policy Portfolio). When public equity asset classes perform well, the Reference Portfolio, tilted toward public equities, will tend to outperform the Policy Portfolio that is more diversified. Conversely, in years when asset class returns are dispersed, the Policy Portfolio will tend to outperform the Reference Portfolio.

Dynamic Asset Allocation

Several mechanisms such as portfolio rebalancing and risk limits are in place to ensure that the total fund's risk and return characteristics do not stray too far from the desired ones in the Policy Portfolio. Notably, a new total fund activity, the Dynamic Asset Allocation (DAA), was introduced this year to contribute to the implementation of the strategic asset allocation. In order to reach the desired exposures, it enables a smooth transition period following the addition of a new asset class, operational constraints when ramping up, or revising the targeted long-term weights. It seeks to improve the likelihood that the Policy Portfolio will deliver on PSP's long-term value proposition using business cycle analysis. Additionally, it adjusts the Policy Portfolio desired exposures to enhance the return and reduce the risk of the total fund while considering the current and mid-term economic and market conditions.

Active management

Actual portfolio

The third component of the investment framework, "Active management", refers to investment strategies aimed at outperforming a benchmark that reflects the desired risk and return characteristics that were identified as part of the strategic asset allocation decision. The objective of implementing active management strategies is for PSP Investments to achieve a return exceeding that of the Policy Portfolio while staying within Board approved risk limits.

Based on proprietary research, analytic capabilities and expert judgment, active management strategies focus on investing in securities whose risk-adjusted returns are expected to outperform the market.

Complementary Portfolio

In support of total fund activities, we introduced the Complementary Portfolio in fiscal year 2017 to focus primarily on cross-asset transactions. The Complementary Portfolio focuses on investments that are not within the mandate of an existing asset class but are beneficial to the total fund. The objectives of the Complementary Portfolio include incubating innovative strategies and seeking to obtain knowledge and insights that can be leveraged throughout PSP Investments. The objective of this portfolio is to improve the long-term risk-reward profile of the total fund.

The mandate of the Complementary Portfolio was recently expanded to focus more on innovation strategies, including the Alternative Risk Premium (ARP) and Knowledge Driven (KD) strategies. The ARP strategy seeks to invest in assets with expected return streams that are uncorrelated to general economic conditions and traditional financial markets. The KD strategy, on the other hand, seeks to make investments in the pursuit of knowledge and insights while providing an appropriate financial return. KD investments are generally with partners that have the ability to impact multiple assets classes and business partners within PSP Investments and are expected to be very long-term relationships.

Since its introduction in January 2017, the Complementary Portfolio has returned 11.2% on an annualized basis compared to the benchmark return of 5.7%, primarily due to the strong performance of certain investments in the financials and communications sectors.

Evaluating the performance of our investment approach

As our investment approach is designed and implemented to accomplish our objective of achieving our mandate, evaluating the performance of our investment approach is important.

We measure performance across different time horizons to provide different insights. While measuring long-term performance is in line with the nature of our mandate and helps us evaluate the results of our investment decisions across market cycles, medium-term performance measures the efficiency of implementing the asset classes' investment strategies. Although we also measure performance annually as each year contributes to the long-term performance, we do not place excessive importance on performance during any given year since we believe that it reflects prevailing temporary market conditions and volatility.

Measures of success at the total fund level

Our long-term success is measured through the following performance objectives:

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

As mentioned previously, our investment strategy is built to achieve a return greater than the Reference Portfolio over a period of 10 years with a lower or equal level of pension funding risk. As a result, achieving this return over the long term is our primary performance objective as it measures the value added by PSP Investments' strategic decision to build a more diversified portfolio—the Policy Portfolio—that includes less liquid asset classes, to dynamically allocate assets over a mid-term horizon and to engage in active management strategies.

We believe a 10-year period appropriately reflects the long-term nature of our mandate and, consequently, our investment approach.

Achieve a return, net of expenses, exceeding the Total Fund Benchmark return over 10-year and 5-year periods

As mentioned previously, PSP Investments engages in active management strategies to achieve a return exceeding that of the Policy Portfolio while staying within Board-approved risk limits. In order to assess the value added by such strategies, we measure the difference between PSP Investments' net performance results and the Total Fund Benchmark. We measure such difference on a 10-year basis to align with our mandate and on a 5-year basis to assess the efficiency of such strategies at the asset class level.

The Total Fund Benchmark expresses the implementation of the Policy Portfolio and accounts for any accepted over/underweighting in the target weights of the Policy Portfolio. As a result, the performance of the Total Fund Benchmark is based on actual weights and is used to isolate the performance impact of the third component of the investment framework, namely, the active management strategies.

Asset class performance evaluation

To evaluate whether PSP Investments met the objectives set as part of the assessment of the investment approach, we use benchmarks associated to the asset classes in the Reference Portfolio and Policy Portfolio.

PSP Investments undertook an exhaustive review of its benchmarks resulting in the adoption of customized public indices as benchmarks for private asset classes. The benchmarks in the table below were used to measure fiscal year 2021 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
US Equity	S&P 500
Europe, Asia, Far East (EAFE) Equity	MSCI EAFE
Small Cap Equity	S&P 600
Global Equity	MSCI World
Emerging Markets (EM) Equity	MSCI EM
Private Equity	Customized benchmark composed of public securities[1, 2]
Government Fixed Income	
Cash & Cash Equivalents	FTSE Canada 91 Day T-Bill
Canadian Government Bonds	FTSE Canada Universe All Government Bond
World Government Bonds	JP Morgan Government Bond Index (GBI) Global
World Inflation-Linked Bonds	Bloomberg Barclays World Govt Inflation-Linked
Emerging Market Debt	Blend of customized GBI-EM Global Diversified and JPM EMBI Global Diversified
Credit	
Credit Investments	Blend of BofA Merrill High Yield Indices (United States & Europe) and S&P Global Leveraged Loan Index[2]
Real Assets	
Real Estate	Customized benchmark composed of public securities[1, 2]
Infrastructure	Customized benchmark composed of public securities[1, 2]
Natural Resources	Customized benchmark composed of public securities[1, 2]
Complementary Investments	Customized benchmark composed of public securities[2]

[1] The customized benchmark is determined based on a selection of public securities within the MSCI All Country World Index (ACWI) IMI, adjusted for factors such as leverage and aligned with the characteristic of each asset class as set in its mandate.

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

Analysis of our total fund results

$204.5 B
Net AUM

$169.8 B
Net AUM (FY2020)

$31.6 B
Net Income

8.9%
10-year annualized return[1]

7.8%
10-year Total Fund Benchmark return[1]

8.2%
10-year Reference Portfolio return[1]

9.3%
5-year annualized return[1]

8.3%
5-year Total Fund Benchmark return[1]

8.9%
5-year Reference Portfolio return[1]

18.4%
1-year annualized return[1]

16.5%
1-year Total Fund Benchmark return[1]

21.8%
1-year Reference Portfolio return[1]

Our long-term results

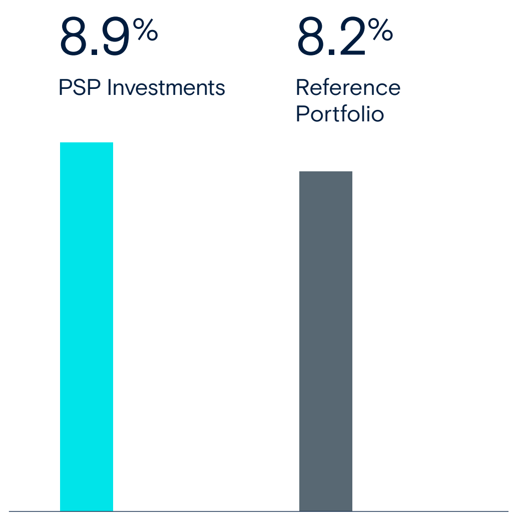
As discussed above, measures of success at the total fund level are comprised of the following three objectives and their related benchmarks against which we can evaluate the success of our long-term investment approach:

1. **Actual Return compared to the Reference Portfolio return (10-year)**

The Reference Portfolio reflects what an investor could achieve with a passive investment approach and is implemented to adjust to the Government's risk tolerance. 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.

Return compared to Reference Portfolio return

10-year net annualized return[1]



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

2. Actual Return compared to the Total Fund Benchmark return (10-year)

This objective is used to measure the value added by PSP Investments' active management activities. Over the last 10 years, these activities generated returns that exceeded the Total Fund Benchmark by 1.1% per year. Over the past 10 years, PSP Investments' annualized return of 8.9% was supported by strong relative performance in all markets except Private Equity. PSP Investments' outperformance of 1.1% when compared to the Total Fund Benchmark is mostly attributable to its Real Assets and Credit Investment asset classes.

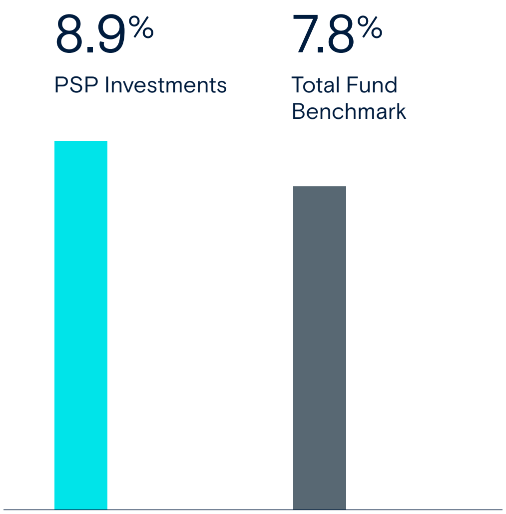
3. Actual Return compared to the Total Fund Benchmark return (5-year)

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 Total Fund Benchmark by 1.0% per year with all but one of PSP Investments' asset classes exceeding their respective benchmarks.

PSP Investments' annualized return of 9.3% was driven mainly by the strong performance of Public Market Equities (13.2%) and of all Real Assets as well as Credit Investments (11.7%).

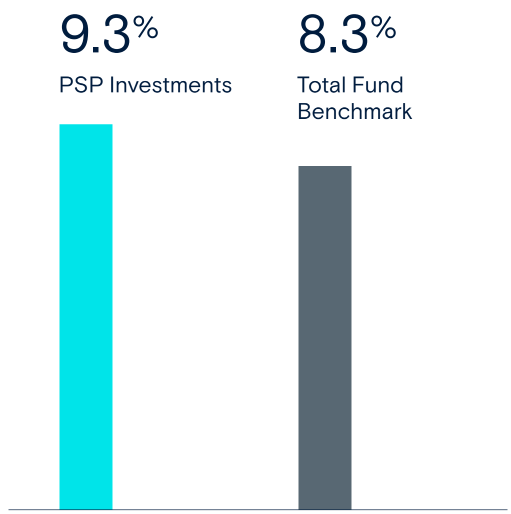
Return compared to the Total Fund Benchmark return

10-year net annualized return[1]



Return compared to the Total Fund Benchmark return

5-year net annualized return[1]



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

Our short-term results

Macroeconomic and financial market context

The economic backdrop in the past year has been largely characterized by a growth rebound in the wake of the COVID-19 pandemic. This recovery was aided by the gradual reopening of sectors under lockdown, the recent launch of effective vaccines, and an unprecedented injection of fiscal and monetary stimulus.

Despite this ongoing recovery from a global recession, economic output remains below its pre-pandemic peak. Most economies continue to face a high degree of slack, particularly within their labour markets. Moreover, the improvement in global economic activity has been uneven. The US economy has healed at a rapid pace due to a faster dismantling of lockdown measures, a relatively successful vaccination campaign and a more aggressive fiscal policy response (estimated to be roughly 15% of GDP in both 2020 and 2021). In contrast, growth in other major economies, including Canada, has lagged over the last year as economic concerns mostly took a backseat to public health considerations.

In response to the growth and corporate profit rebound, risk assets have delivered stellar returns throughout the year. This strong performance was supported by favourable valuations following the pandemic sell-off, as well as reduced uncertainty as a result of policymaker lifelines. Alternatively, the performance of safe-haven sectors and currencies were lackluster as investors rotated into pro-cyclical assets.

Global public market equities surged over the past year after having collapsed by roughly a third (in local currency terms) during the pandemic crisis. This rally has allowed most benchmarks to surpass their pre-COVID peaks. On the geographical level, the multi-year outperformance of US equities continued as tech giants were deemed clear winners amidst an environment of strict lockdowns. Canadian equities, given their heavy weighting toward resource sectors, did not keep up pace relative to global equities, with the energy industry continuing to face long-term headwinds to profit growth. The EAFE bloc also lagged the global benchmark given its tilt toward cyclical sectors that underperformed due to widespread lockdowns. Meanwhile, the return of emerging markets equities was on par with the global benchmark.

Nominal government fixed income offered lackluster returns due to the reversal of the previous flight-to-safety that took place amidst the pandemic panic. Most recently, a renewed fear of future inflation as a result of extraordinary monetary and fiscal stimulus further lifted bond yields (particularly in the United States), thereby driving down valuations. Meanwhile, the steady rise in inflation expectations drove the outperformance of inflation-linked bonds. Both nominal and inflation-linked government bond yields remain well below pre-crisis levels, reflecting the commitment of global central banks to keeping policy rates anchored to their lower bounds.

Within currencies, the US dollar declined against most currencies as a result of reduced market volatility and a shift toward riskier assets. The dollar was further weighed down by an elevated valuation, rapidly rising US deficits, and a loss in yield advantage compared to rates in the rest of the world. The Canadian dollar was a key beneficiary of the weaker US dollar, rising from close to $0.70 to nearly $0.80 by fiscal year-end. The British pound also performed exceptionally well given the end of “Brexit” and the conclusion of a free trading agreement between the United Kingdom and the European Union.

In the commodity space, most sectors recorded rapid gains in tandem with the global demand rebound. Supply curtailments from OPEC+ members[1] and a tepid rise in US shale production brought back balance to the oil market. This dynamic fueled the rally in crude prices, which touched nearly $70/bbl[2] after starting the fiscal year near $20/bbl. Copper prices also benefitted greatly, which can be attributed to robust Chinese demand as well as the increasing perception of the metal’s critical role in de-carbonizing the global economy in future decades. As for agriculture and natural resources, severe supply bottlenecks stemming from pandemic lockdowns led to a surge in prices.

Summary of total fund portfolio evolution

The net AUM of PSP Investments increased by nearly $35.0 billion during fiscal year 2021, among which $31.6 billion came from Net Income and $3.0 billion came from net contributions received by PSP Investments.

The strategy to diversify into private markets has led to a steady increase in the proportion of net AUM composed of private assets as those asset classes came within reach of their target allocations. The implementation of those changes improved diversification at the total portfolio level, providing for an enhanced risk and return profile.

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[1] OPEC+ members comprise the members of the Organization of the Petroleum Exporting Countries (OPEC), plus ten additional oil exporting countries.

[2] Oil barrel.

Over time, one of the objectives when constructing our portfolio is to ensure it is adequately diversified from a geographic perspective. While our allocation in North America remains the highest, reflecting the size and depth of the market as well as the favourable business environment, the allocation to emerging markets has steadily increased over the past years notably as a result of our growing allocation in emerging market debt.

Total fund performance analysis

PSP Investments recorded a return of 18.4% in fiscal year 2021. This was PSP Investments' best net return of the last 10 years, which was driven by a market recovery across most asset classes. Notably, Public Market Equities delivered a return of 48.1% and Private Equity returned 28.4% over one year.

PSP Investments' net return for the fiscal year exceeded its Total Fund Benchmark return of 16.5% by nearly 2.0%. While the majority of the asset classes delivered a return in excess of their benchmarks, Real Estate and Public Market Equities investments contributed the most to the total fund outperformance. The Reference Portfolio delivered an even higher return of 21.8% due to its exclusive allocation to public asset classes, which was expected given the equity market's strong recovery since the market's sudden decline in March 2020. Over the long run, PSP Investments' portfolio is expected to achieve higher returns than the Reference Portfolio, since the former is more diversified and more resilient to the different factors impacting markets.

Currency exposure

Given that the majority of PSP Investments' assets are denominated in foreign currencies, currency fluctuations can have a significant short-term impact on investment returns.

PSP Investments' decision to leave most of its foreign currency exposure unhedged is based on the belief that foreign currency exposures contribute to the diversification of PSP Investments' portfolio. Countercyclical currencies, such as the US dollar, tend to move in opposite directions of the stock market and therefore are expected to reduce losses in times of crisis, a very desirable characteristic from a total fund perspective. In fiscal 2021, most major currencies (with the exception of the Australian dollar) depreciated against the Canadian dollar amid strong stock market gains. Currency fluctuations reduced net income by $13.4 billion, largely caused by the depreciation of the US dollar (-11.7%), followed by losses from exposures to the euro, Japanese yen, and Brazilian real. The appreciation of the Australian dollar partially offset the foreign exchange loss. This is in contrast with fiscal year 2020, when the US dollar's significant appreciation made up for part of the losses on the value of assets when the COVID-19 pandemic hit in the fourth quarter, again reflecting the diversifying nature of currencies relative to market movements.

Such fluctuations are expected in the short term given the volatile nature of currencies; in the long run, we expect currencies to act as natural diversifiers and reduce the volatility in the total portfolio's performance.

Analysis of our results by asset class

The table below presents the annual, five-year and ten-year annualized performance of the asset classes, set out in the SIP&P as well as the overall Total Fund 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 Total Fund Benchmark return. The table also presents the five-year annualized return by asset class and for the total portfolio relative to their respective benchmark.

	FISCAL YEAR 2021								
				1-year rate of return (%)		5-year rate of return (%)		10-year rate of return (%)	
ASSET CLASS	Net AUM (billions $)	Net AUM (%)	Portfolio[2] income (millions $)	Portfolio	Benchmark	Portfolio	Benchmark	Portfolio	Benchmark
Equity									
Public Market Equities (Includes absolute-return strategies, funded through leverage)	60.2	29.4	21,533	48.1	42.1	13.2	12.1	10.6	9.8
Private Equity	31.7	15.5	7,224	28.4	31.7	11.3	15.1	11.5	13.3
Government Fixed Income									
Fixed Income	37.3	18.2	(988)	(2.3)	(3.1)	3.3	3.1	5.2	5.1
Cash and Cash Equivalents	5.7	2.8	366[3]	1.4	0.2	1.6	1.0	1.4	0.9
Credit									
Credit Investments	14.5	7.1	1,392	10.5	9.6	11.7	5.1	11.6[5]	4.0[5]
Real Assets									
Real Estate	26.8	13.1	1,014	3.8	(6.0)	6.1	3.7	9.3	4.6
Infrastructure	18.4	9.0	793	4.5	3.5	10.5	4.3	9.6	5.4
Natural Resources	9.7	4.7	864	10.6	7.7	9.0	3.7	10.9	4.1
Complementary Portfolio	0.2	0.1	39	0.2	6.0	11.2[4]	5.7[4]	11.2[4]	5.7[4]
Total Portfolio[1]	204.5	100.0[6]	32,237	18.4	16.5	9.3	8.3	8.9	7.8

All returns are calculated based on a time-weighted rate of return methodology.

1 Total portfolio return is net of all expenses.

2 This measure may not have a standardized meaning under IFRS and may not be comparable to similar measures disclosed by our peers. Total portfolio return is net of interest expenses of $259 million, certain transaction costs of $44 million and other expenses of $48 million, which when added back results in arriving to Investment income of $32,588 million as reported in the Consolidated Statement of Net Income under IFRS.

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

4 Annualized return since inception (4.2 years).

5 Annualized return since inception (5.3 years).

6 Figures do not add up due to rounding.

Capital Markets

$97.5 B
Net AUM

$81.1 B
Net AUM (FY2020)

$20.5 B
Portfolio Income

26.6%
1-year
rate of return

23.0%
Benchmark return[1]

10.0%
5-year
annualized return

9.3%
Benchmark return

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

Public Market Equities are managed by both internal and external managers using a combination of traditional active, absolute return, and passive strategies. The Public Market Equities portfolio has an investment philosophy grounded in a risk-adjusted approach, which allows for the identification of the best opportunities in public equity and absolute return strategies. The diversified Public Market Equities' team leverages external partners to complement the internal public market value proposition. Our internal equity research platform provides ongoing market insights across the organization and across asset classes.

Fixed Income is managed by an experienced team of investment professionals that invests in Corporate Credit and Global Sovereign Interest Rates. As of fiscal year 2021, Capital Markets has begun investing in Emerging Markets Debt ("EMD") strategies.

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[1] Excludes Cash and Cash Equivalents.

Summary of portfolio evolution

Capital Markets ended the fiscal year with a net AUM of $97.5 billion, up from $81.1 billion at the end of fiscal year 2020. The growth of the portfolio was mainly driven by positive portfolio income.

Performance analysis

Public Market Equities

48.1%	42.1%	13.2%	12.1%
1-year rate of return	Benchmark return	5-year annualized return	Benchmark return

Following an eventful year marked by the continued propagation of COVID-19 through several waves, the concurrent quick and unprecedented central bank policy measures, government vaccination responses and the US election, global equity markets have more than recovered from their initial March 2020 lows. Public Market Equities, with a year-end AUM of $60.2 billion ($48.4 billion in 2020), took advantage of this environment and outperformed its benchmarks by 6.0%. All Public Market Equities strategies positively contributed to outperformance.

Profiting from the surge in mergers, public offering activities, and event-driven situations over the last twelve months, both internal and external hedge funds largely contributed to Public Market Equities' good relative performance in fiscal year 2021. On the long only side, Public Market Equities' internal strategy outperformed its benchmark, primarily as a result of the portfolio being repositioned earlier in fiscal year 2021 to benefit from certain economies reopening, as well as the anticipated vaccination campaigns. Driven most notably by the rotation out of growth toward value stocks, and with positive stock selection and favorable sector allocations, Public Market Equities' external long only equity portfolio also outperformed its benchmark.

Over five years, the Public Market Equities portfolio has had a return of 13.2%, outperforming its benchmark by 1.03%. This outperformance reflects the long-term resilience that the Public Market Equities portfolio displayed during recent volatile times.

Fixed Income

(2.3)%	(3.1)%	3.3%	3.1%
1-year rate of return	Benchmark return	5-year annualized return	Benchmark return

Fixed Income ended the fiscal year with a net AUM of $37.3 billion, up from $32.7 billion at the end of fiscal year 2020. The growth of the portfolio's AUM was mostly driven by external capital deployment, though all Fixed Income strategies positively contributed to the portfolio's 0.84% outperformance.

As a result of the massive liquidity injections from central banks, fiscal year 2021 was shaped by a rapidly improving global economic outlook that supported the general market trend of financing equity purchases through selling bonds. Although central banks reiterated a very accommodative policy stance on numerous occasions before their economies were back to pre-COVID-19 conditions, some investors positioned themselves in line with the view that central banks would have to tighten policy sooner than anticipated in order to counteract potential rising inflation. As Capital Markets' internally managed active fixed-income portfolio was overweight in both inflation-protected bonds and in corporate credit, the portfolio outperformed its benchmark in fiscal year 2021.

Finally, Capital Markets deployed $5.3 billion to three managers during fiscal year 2021. Inception to date, the EMD portfolios added positive contribution to excess return. Absolute returns in EMD proved to be challenging with pressure coming from the sell-off in global yields and poor COVID-19 response in key emerging markets. Nevertheless, the positive investment thesis relative to EMD remains intact due to its attractive valuation compared to developed markets.

Over five years, Fixed Income has outperformed its benchmark by 0.25%, as a result of the portfolio's opportunistic positioning to take advantage of various movements in global sovereign interest rates and credit markets.

Private Equity

$31.7 B
Net AUM

$24.0 B
Net AUM (FY2020)

$7.2 B
Portfolio Income

28.4%
1-year
rate of return

31.7%
Benchmark return[1]

11.3%
5-year
annualized return

15.1%
Benchmark return

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

Summary of portfolio evolution

Private Equity ended fiscal year 2021 with a net AUM of $31.7 billion, an increase of $7.7 billion from the year prior. The growth of the portfolio was driven by $5.1 billion in acquisitions and $8.3 billion in valuation gains, partially offset by $3.1 billion in dispositions and financing proceeds and $2.6 billion in currency losses.

Private Equity deployed $2.3 billion of capital this year in new co-investments and to support growth in portfolio companies as well as $2.8 billion through the funds. This was partially offset with significant dispositions resulting from active portfolio management including asset sales and refinancings.

[1] In alignment with PSP Investments' corporate policy not to hedge foreign currency exposure, the benchmark for Private Equity is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

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

- SitusAMC, a leading provider of services and technology supporting the real estate finance industry, headquartered in the United States
- Ziply Fiber, a US-based provider of communication services to residential and commercial customers in the Pacific Northwest region

Unfunded commitments in connection with fund investments totalled $11.8 billion at the end of fiscal year 2021. During the year, Private Equity signed new fund commitments of $3.9 billion through 24 new funds primarily with existing partners.

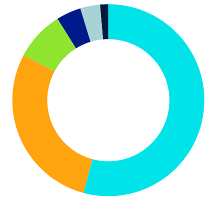
Finally, the fiscal year 2021 activity has increased portfolio sectorial exposure to health care and financials, while decreasing exposure to industrials, materials and consumer staples.

Performance analysis

Private Equity achieved a one-year rate of return of 28.4% in fiscal year 2021, compared to a benchmark return of 31.7%. Total portfolio income reached $7.2 billion, driven by valuation gains of $8.3 billion and distributed income of $1.6 billion, partially offset by currency losses of $2.7 billion, which decreased the one-year rate of return and the benchmark of the asset class by 12.6%.

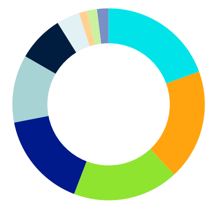
Portfolio income was primarily attributable to direct and co-investments across the four main sectors: health care, consumer discretionary, technology and the financials. Investments in those sectors particularly benefitted from continued growth, favourable market conditions and successful exits completed in fiscal year 2021.

Over five years, Private Equity achieved a rate of return of 11.3%, compared to a benchmark return of 15.1%, primarily due to the underperformance of certain investments in the communications, consumer staples and industrials sectors. However, the most recent portion of the portfolio, invested over the past six years following a change in asset class strategy (and which is now over 85% of AUM), has generated a five-year return in excess of the benchmark.



Geographic diversification
As at March 31, 2021 (%)

54.2	United States
28.6	Europe
8.5	Emerging markets
4.2	Canada
3.3	Asia
1.2	Other



Diversification by sector
As at March 31, 2021 (%)

19.6	Health Care
18.5	Consumer Discretionary
17.9	Financials
16.1	Technology
11.4	Communications
7.8	Industrials
3.8	Materials
1.5	Consumer Staples
1.5	Energy
1.9	Other

Credit Investments

$14.5 B
Net AUM

$13.3 B
Net AUM (FY2020)

$1.4 B
Portfolio Income

10.5%
1-year rate of return

9.6%
Benchmark return[1]

11.7%
5-year annualized return

5.1%
Benchmark return

Credit Investments focuses on non-investment-grade credit investments in North America and Europe across private and public markets, as well as rescue financing and distressed debt opportunities.

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

[1] In alignment with PSP Investments' corporate policy not to hedge foreign currency exposure, the benchmark for Credit Investments is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

Summary of portfolio evolution

Credit Investments ended fiscal year 2021 with a net AUM of $14.5 billion, up from $13.3 billion at the end of fiscal year 2020. Net change in AUM of $1.2 billion was mainly driven by acquisitions of $5.8 billion and net valuation gains of $1.6 billion, offset by $5.0 billion in dispositions primarily driven by opportunistic refinancing by borrowers as the market recovered and currency losses of $1.1 billion.

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

Performance analysis

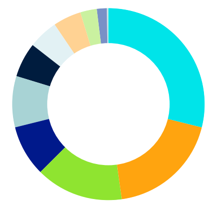
Credit Investments achieved a one-year rate of return of 10.5% compared to a benchmark return of 9.6%. A substantial contributor to absolute return was the significant market rebound experienced during 2020 resulting from US and European government fiscal stimulus, which saw a full recovery of last year's unrealized valuation loss. Credit Investments' outperformance versus the benchmark is largely attributed to its credit selection where there were no defaults for portfolio companies in fiscal year 2021, and an interest spread above benchmark.

Portfolio income of $1.4 billion largely consists of net valuation gains, interest and fee income, offset by currency losses. Credit Investments was negatively impacted by foreign exchange losses due to significant underlying US dollar exposure, decreasing the one-year rate of return and the benchmark of the asset class by 11.9%.

On a five-year basis, Credit Investments achieved a rate of return of 11.7%, compared to a benchmark return of 5.1%. Credit Investments continues to benefit from strong credit selection, allowing for interest income that exceeds that of the benchmark since inception.

Geographic diversification
As at March 31, 2021 (%)

72.2	North America
27.8	Europe



Diversification by sector
As at March 31, 2021 (%)

29.0	Technology
18.9	Industrials
14.6	Health Care
8.7	Financials
8.6	Consumer Discretionary
6.0	Materials
4.9	Consumer Staples
4.8	Communications
2.7	Energy
1.7	Real Estate
0.1	Utilities

Product split
As at March 31, 2021 (%)

47.9	First Lien
52.1	Non First Lien

Real Estate

$26.8 B
Net AUM

$23.8 B
Net AUM (FY2020)

$1.0 B
Portfolio Income

3.8%
1-year rate of return

(6.0)%
Benchmark return[1]

6.1%
5-year annualized return

3.7%
Benchmark return

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

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

Summary of portfolio evolution

Real Estate ended fiscal year 2021 with net assets under management of $26.8 billion, a $3.0 billion increase from the year prior. The evolution of the Real Estate portfolio was driven by $3.2 billion in acquisitions, $2.4 billion in valuation gains offset by currency losses of $2.0 billion and $0.6 billion in dispositions and financing proceeds.

Real Estate focused on deploying into high conviction sectors, resulting in key acquisitions within the industrial and life science sectors. The low-yield environment continued, making core assets acquisitions challenging. This is reflected in the strategy behind the majority of the acquisitions that were value-add and opportunistic. The core assets we acquired were concentrated in major international cities and high-growth markets.

As part of its portfolio optimization, the Real Estate group disposed of core assets in the office sectors in Europe and Australia, which had attained their objectives and non-strategic assets in the United States, Canada and Brazil.

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[1] In alignment with PSP Investments' corporate policy not to hedge foreign currency exposure, the benchmark for Real Estate is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

Fiscal year 2021 acquisitions included:

- An investment in a US Residential Single-Family Rental portfolio with Pretium
- Multiple acquisitions within our US life science partnership with Longfellow
- Development of a second fully leased building to Amazon in the Boston Seaport district with WS Development
- A commitment in one of the largest pure-play industrial open-ended funds in the United States managed by Clarion
- Three office properties in Paris to be repositioned with Tishman Speyer
- A commitment to a Fund targeting major developed markets in the Asia Pacific region as well as China managed by KKR

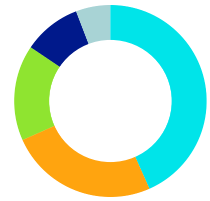
The largest single acquisition was a major life science portfolio concentrated in the leading innovation markets of Boston, San Francisco, San Diego and Seattle in the United States and Cambridge in the United Kingdom through a Blackstone Fund.

Performance analysis

Real Estate achieved a one-year rate of return of 3.8% in fiscal year 2021, compared to a benchmark of -6.0%. Total portfolio income reached $1.0 billion, driven mainly by valuation gain of $3.0 billion primarily attributable to the industrial portfolio which continued to benefit from strong fundamentals, our mixed-use development projects and diversified funds that significantly recovered. On the other hand, the senior housing portfolio and the retail portfolio, particularly the US malls, were negatively impacted by the pandemic. The multi-family assets in US gateway markets suffered from decrease in occupancy and declining rents.

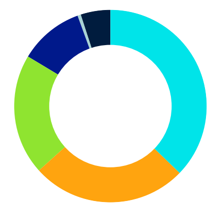
The Real Estate portfolio was negatively impacted by foreign exchange losses due to significant US dollar exposure, decreasing the one-year rate of return and the benchmark by 8.7%.

Over five years, Real Estate achieved a rate of return of 6.1%, compared to a benchmark return of 3.7%, primarily due to the strong performance of the global logistics portfolio, the Canadian multi-family portfolio, the UK student housing portfolio as well as our office portfolios in Australia and Europe.



Geographic diversification
As at March 31, 2021 (%)

43.4	United States
25.0	Canada
16.1	Western Europe
9.8	Emerging markets
5.7	Australasia



Diversification by sector
As at March 31, 2021 (%)

37.4	Residential/Retirement
26.0	Office
20.4	Industrial
10.7	Retail
0.6	Real Estate Debt
4.9	Other

Infrastructure

$18.4 B
Net AUM

$18.3 B
Net AUM (FY2020)

$0.8 B
Portfolio Income

4.5%
1-year
rate of return

3.5%
Benchmark return[1]

10.5%
5-year
annualized return

4.3%
Benchmark return

Infrastructure invests globally on a long-term basis, primarily in the sectors of transportation, communications and utilities, which include renewable power. The Infrastructure asset class provides positive elements of diversification, relative stability and illiquidity premiums that enhance the overall risk-return profile of PSP Investments' total fund. More specifically, the group has recently formalized a new strategy within its mandate that will focus on investing in assets providing strong inflation protection features while offering further benefits.

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

[1] In alignment with PSP Investments' corporate policy not to hedge foreign currency exposure, the benchmark for Infrastructure is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

Summary of portfolio evolution

At the end of fiscal year 2021, net assets under management totalled $18.4 billion, a slight increase of $0.1 billion from the year prior. The evolution of the portfolio was driven by $2.3 billion in acquisitions and $1.6 billion in valuation gains, partially offset by $2.4 billion in dispositions and financing proceeds, and $1.4 billion in currency losses.

Infrastructure deployment this year was mostly done across existing platforms and portfolio companies to provide necessary capital to support growth and acquisitions. A total of $1.6 billion was deployed in direct and co-investments primarily in the communications and utilities sectors, more specifically data centres and renewable power. Notable deployments include AirTrunk, one of the largest Asia-Pacific hyperscale data centre operators, which is going through a rapid expansion. These deployments were partially offset by $1.8 billion in dispositions resulting from asset sales including Alpha Trains.

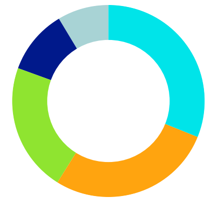
Finally, the fiscal year 2021 activity has changed the portfolio diversification by increasing exposure to Asia and Oceania and the communications sector, whilst decreasing exposure to the US as well as the industrials sector, more specifically transportation.

Performance analysis

Infrastructure achieved a one-year rate of return of 4.5% in fiscal year 2021, compared to a benchmark return of 3.5%. Total portfolio income reached $0.8 billion, driven by valuation gains of $1.6 billion and distributed income of $0.7 billion, partially offset by currency losses of $1.5 billion, which decreased the one-year rate of return and the benchmark of the asset class by 8.6%.

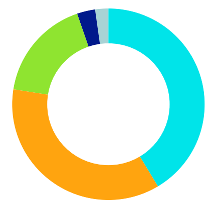
Portfolio income was primarily attributable to the communications sector for which the underlying investments benefited from sustained growth and favorable market conditions. The transportation sector, more specifically the airport sub-sector, has continued to underperform this year due to the Covid-19 pandemic resulting in lower air traffic.

Over five years, Infrastructure achieved a rate of return of 10.5%, compared to a benchmark return of 4.3% primarily due to the strong performance of investments in the transportation and communications sectors.



Geographic diversification
As at March 31, 2021 (%)

31.2	Europe
27.9	Emerging markets
21.5	US
10.8	Asia and Oceania
8.6	Canada



Diversification by sector
As at March 31, 2021 (%)

41.5	Industrials
36.1	Utilities
17.2	Communications
3.0	Technology
2.2	Energy

Natural Resources

$9.7 B
Net AUM

$7.6 B
Net AUM (FY2020)

$0.9 B
Portfolio Income

10.6%
1-year
rate of return

7.7%
Benchmark return[1]

9.0%
5-year
annualized return

3.7%
Benchmark return

Natural Resources focuses on partnering with best-in-class local operators to invest in agriculture and timber assets in investment-friendly jurisdictions around the world.

The group targets opportunities well poised to benefit from secular trends driving continued demand growth and increasingly constrained supply.

A high component of land, water or biological assets typically underpins its investments and adds to downside protection. As the portfolio continues to scale, the group will also be increasingly more proactive in identifying complementary post farmgate opportunities and in selectively expanding the scope of existing partnerships.

[1] In alignment with PSP Investments' corporate policy not to hedge foreign currency exposure, the benchmark for Natural Resources is set such that it remains neutral to currency movements, meaning that the actual currency return impact on the asset class is reflected in the benchmark.

Summary of portfolio evolution

Natural Resources ended fiscal year 2021 with a net AUM of $9.7 billion, an increase of $2.1 billion from the year prior. With the addition of over 200,000 hectares over the period, Natural Resources now has a global footprint amounting to more than 1.6M hectares of farmland, and almost 0.9M hectares of timberland.

Fiscal year 2021 was marked by continued strong deployment of $1.9 billion in agriculture and timber and significant valuation gains of $1.1 billion. Deployment for the year reflects a successful targeted effort by the group to diversify by expanding its footprint in Latin America ($0.5 billion) and Europe ($0.2 billion) in addition to increasing its presence in North America ($0.9 billion) and Australasia ($0.3 billion). Notable developments throughout the year include:

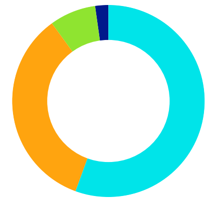
- Acquired a high-quality timberland asset located in the heart of Chile's forestry region, representing the group's first timber footprint in Latin America.
- Established its first operating joint venture in the Iberian Peninsula through the acquisition of a stake in one of the world's largest olive producers with a near-term focus to expand into almonds.
- Acquired a diversified portfolio of wine grape vineyards located in the two largest wine-producing states in the United States.
- Continued to scale and grow existing agriculture joint ventures with their deployment of $0.8 billion in new farmland and developments.

Performance analysis

Natural Resources achieved a one-year rate of return of 10.6% in fiscal year 2021, compared to a benchmark return of 7.7%. The portfolio income was $0.9 billion (including foreign exchange currency loss of $0.4 billion), mainly driven by net valuation gains of $1.1 billion and distributed income of $0.2 billion. A large driver of valuation gains was due to strengthening market comparables and a recovery of last year's valuation losses related to COVID-19.

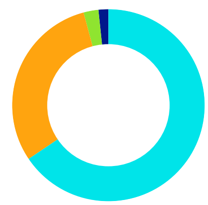
Natural Resources' portfolio was negatively impacted by foreign exchange losses mainly due to significant US dollar exposure partially offset by Australian dollar exposure, decreasing the one-year rate of return and the benchmark of the asset class by 4.7%.

Over five years, Natural Resources achieved a rate of return of 9.0% compared to a benchmark return of 3.7%, primarily due to strong performance and accretive asset valuations from the timberland assets and agriculture investments.



Geographic diversification
As at March 31, 2021 (%)

55.8	Australasia
34.3	North America
7.8	Latin America
2.1	Europe



Diversification by sector
As at March 31, 2021 (%)

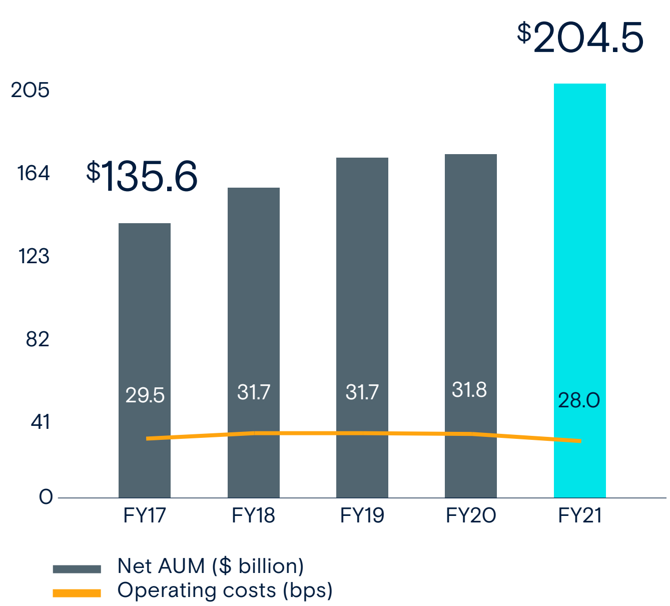
65.7	Agriculture
30.4	Timber
2.5	Oil and gas
1.4	Other

Operating costs and total cost ratio

Operating costs

Over the past five years, PSP Investments has been building the organization and ramping up capabilities to achieve its *Vision 2021* five-year strategic plan. To this end, significant transformations have been implemented to achieve its objectives. While deploying its strategic plan over the last years, PSP Investments has seen signs of scalability with a slower rate of increase in operating costs year-over-year. Furthermore, management deployed measures this year aimed at containing operating costs to address COVID-19 uncertainties. These translated into a decrease of 5.3% in fiscal year 2021 (versus an increase of 9.6% in fiscal year 2020 and an increase of 12% in fiscal year 2019).

Total operating costs[1] amounted to $521 million in fiscal year 2021, a decrease of $30 million compared to $551 million in fiscal year 2020. This decrease was mainly due to reduced costs in travel driven by COVID-19 restrictions. Additionally, certain management decisions taken this year, such as a temporary hiring and salary freeze, led to lower compensation costs growth. In fiscal 2021, PSP Investments generated strong net income as the market recovered and this translated into a higher ending AUM of $204.5B versus $169.8B in fiscal year 2020. These two elements combined resulted in an operating cost ratio of 28.0 bps, representing a 3.8 bps decrease versus fiscal year 2020 (31.8 bps).



In fiscal year 2021, salaries and employee benefits totaled $322 million, compared to $319 million in fiscal year 2020. PSP Investments had 897 employees as at March 31, 2021; an increase of 1% from 888 employees as at March 31, 2020.

Headcount rose at our primary business office in Montréal, as well as in London. At the end of fiscal year 2021, in our international offices, we had 63 employees in London, 42 employees in New York and 6 employees in Hong Kong. Approximately 29% of our total salaries and benefits are denominated in foreign currencies, compared to 27% in fiscal year 2020.

[1] This measure does not have the standardized meaning under IFRS as disclosed in the Consolidated Statement of Net Income (Loss). Operating costs exclude $11 million of other recovered expenses, in connection with the remeasurement of certain operating liabilities (not subject to cost ratios), which when added back result in arriving to Operating expenses of $510 million as reported in the Consolidated Statement of Net Income (Loss) under IFRS.

Total cost ratio

In the last 10 years, total costs grew slightly more than the average AUM, adding 6.5 bps compared to 60.6 bps in fiscal year 2012. This was expected as PSP Investments has considerably changed in size and in asset mix, with a shift toward more internal, active management and private markets. PSP Investments also invested in new tools and systems to support these changes as well as the growth of the AUM and asset classes.

Over the past five years, total costs decreased from 70.5 bps in fiscal year 2017 to 67.1 bps in fiscal year 2021. As part of PSP Investments' *Vision 2021*, we have been reshaping our approach to investing and seeing encouraging results. We continue to pursue internal active management, which started as early as fiscal year 2004. Accordingly, we increased the allocation of the portfolio toward more private market asset classes, reaching almost 50% at the end of fiscal year 2021 compared to 29.5% at the launch of *Vision 2021*. Private markets offer increased potential for higher long-term returns and value-add. To tap into global opportunities, we opened international offices and built a local presence in London, New York and Hong Kong. Associated costs for adopting *Vision 2021* are reflected in the increases in operating costs, transaction volumes as well as management fees.

PSP Investments' total cost ratio decreased from 72.4 bps in fiscal year 2020 to 67.1 bps in fiscal year 2021. The total cost ratio measures operating and asset-management costs as a percentage of average net AUM. Asset management costs 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 lower transaction costs combined with the markets having rebounded in fiscal year 2021.

Enterprise risk management

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

Risk management framework

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

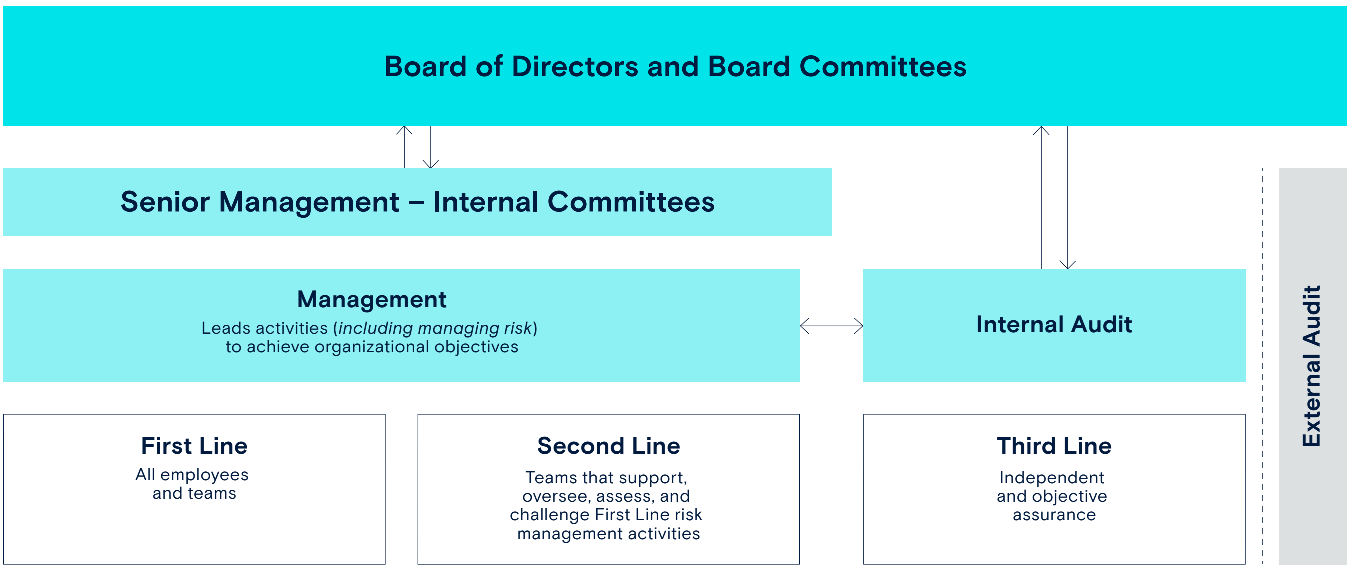
Risk governance

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

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

The risk management framework is anchored in PSP Investments' Three Lines approach to managing risk to ensure accountability, alignment, collaboration and coordination.

Governance Model



Risk Appetite Statement

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

Risk management and related policies

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

Enterprise risk categories

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

Risk identification, assessment and monitoring

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

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

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

Shared risk culture

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

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

Liquidity and Capital Management

Liquidity management

Objectives

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

Governance and management

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

Risks and stress testing

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

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

Capital management

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

Funds transfers

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

Leverage

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

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

Guarantees, Indemnities and Commitments

Guarantees and indemnities

In the normal course of business, PSP Investments provides indemnifications to its Directors, its Officers, its vice presidents and to certain PSP Investments representatives who are asked to serve on boards of directors or investment advisory boards of entities in which PSP Investments or its investment entity subsidiaries have made an investment or have a financial interest. In certain cases, indemnification is also provided to third parties and as a result, PSP Investments may be required to indemnify such third parties in connection with the performance of their contractual obligations. To date, PSP Investments has not received any claims nor made any payments for such indemnities.

In certain investment transactions, PSP Investments and its investment entity subsidiaries also provide guarantees or issue letters of credit to third parties. These agreements ensure that investment entity subsidiaries and certain investees are supported in the event of a default based on the terms of the respective loan or other agreements. As at March 31, 2021, the maximum amount of the obligations which could be assumed by PSP Investments and its investment entity subsidiaries in relation to such guarantees was $2,239 million, compared to $2,802 million in the prior year, while it was $93 million, compared to $89 million in the prior year for letters of credit issued.

For further details on guarantees and indemnities, please refer to Note 16 of the Consolidated Financial Statements.

Commitments

PSP Investments and its investment entity subsidiaries have committed to enter into investment transactions, which will be funded over the next several years in accordance with agreed terms and conditions. As at March 31, 2021, these commitments amounted to $27,234 million, compared to $25,261 million in the prior year. The increase compared to last year was due to new investments in the year primarily in real estate and private debt securities.

For further details on commitments, please refer to Note 17 of the Consolidated Financial Statements.

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.

Why it matters

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, who 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.

Highlights of our corporate governance framework and practices

- Separation of Chair and CEO
- Independence of all Board members
- Gender balance on the Board with 50% of Directors being female
- Annual review of the Board's skills, competencies and diversity matrix and Director succession planning
- Annual Board evaluation process
- Robust Director education program
- Onboarding program for new Directors
- *In camera* sessions at all Board and committee meetings
- Terms of Reference for the Board and all committees
- Speak-up line and compliance culture
- Annual review of risk appetite, risk policies and risk limits and framework
- Annual strategic session
- Succession planning for the CEO and key executives

In this section, we discuss key governance activities undertaken in fiscal year 2021 and provide an overview of our governance framework and practices.

Governance framework

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

Board responsibilities

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

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

The Board's specific responsibilities include:

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

Board committees

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

- **Investment and Risk Committee** — Oversees PSP Investments' investment and risk management functions.
- **Audit Committee** — Reviews financial statements and the adequacy and effectiveness of internal control systems, and oversees the internal audit function. The Audit Committee is also responsible for matters relating to technology and cybersecurity.
- **Governance Committee** — Monitors the effectiveness of the Board, reviews related policies, and oversees responsible investment and compliance matters including the application of the Code of Conduct.
- **Human Resources and Compensation Committee** — Ensures policies and procedures are in place to manage the human resources function efficiently and effectively, and to offer all employees fair and competitive compensation aligned with performance and risk targets.

The responsibilities of the Board and its committees are more fully described in their respective Terms of Reference, which are reviewed at least every two years.

Learn more
Terms of Reference

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.

PSP Investments is 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 on September 25, 2020.

Pursuant to the *Financial Administration Act*, PSP Investments must undergo a yearly external audit. The Auditor General of Canada and Deloitte LLP serve as our joint external auditors and are also responsible for conducting special examinations at least once every 10 years. A special examination was performed in fiscal year 2021. No significant deficiencies in the corporate management practices or management of investments and operations of PSP Investments were found during the audit. Although areas of improvement were identified, PSP Investments generally maintained reasonable systems and practices for accomplishing its mandate. More information on the special examination report is available on page 111.

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

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

Learn more
Code of Conduct for Directors, Employees and Consultants

Responsible investment

Our Responsible Investment Policy forms part of our overarching responsible investment strategy and has been reviewed and approved by our Board of Directors.

This Policy articulates our approach with respect to how we integrate ESG factors into our investment process and how we work as active stewards of the assets we own. PSP Investments' responsible investment approach is aligned with our investment mandate and our total fund perspective. At the center of our responsible investment approach is the investment belief that identifying, monitoring and capitalizing on ESG factors is material to long-term investment performance. As a long-term investor, we believe that managing ESG factors contributes to a better total fund long-term performance, by helping us find new opportunities, steer our capital toward more attractive areas and mitigate key risks. More information on PSP Investments' practices can be found in the Responsible Investment Report (page 86 of this report).

Board procedures and effectiveness

PSP Investments' Board plays an active role in decision-making, 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 investment and risk-related topics. This year's strategic session, which for the first time was held virtually, focused primarily on refining the pillars for the *PSP Forward* strategic plan that was approved by the Board in fiscal year 2021.

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

The Board and Board committees may consult with external advisors. During fiscal year 2021, the Human Resources and Compensation Committee and the Governance Committee each sought the services of an external consultant.

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

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

PSP Investments' Board of Directors met 11 times in fiscal year 2021. Board committees met a total of 25 times.

Fiscal year 2021 key activities

Investment and Risk Committee	• Reviewed and approved 17 investments, in addition to receiving quarterly reporting on investments approved under the Delegation of Investment Authorities. • Approved changes to the Risk Appetite Statement, Board risk limits framework and risk policies. • Reviewed PSP Investments' top investment and non-investment risks and how these risks are being addressed. • Reviewed PSP Investments' approach to currency management and approval of adjustments to align with PSP Investments' total fund approach. • Reviewed PSP Investments' approach to identifying and monitoring geopolitical events and risks. • Oversaw, with the Audit Committee, the implementation of enhanced reporting providing a holistic view on PSP' Investments' total fund and asset classes from a risk-return perspective.
Audit Committee	• Received a detailed report on the cyber risks faced by PSP Investments, including an independent assessment of PSP Investments' cybersecurity maturity. • Reviewed PSP Investments' valuation procedure for private assets. • Reviewed detailed benchmarking of total costs and received a forecasting report on long-term costs. • Reviewed and discussed with the external auditors and management the results of the special examination. • Approved a new banking relationship.
Governance Committee	• Proposed enhancements to the Board evaluation process. • Recommended for Board approval committee composition changes, including a new Chair for the Governance Committee and Audit Committee as part of the succession planning process. • Oversaw the successful onboarding of two new Directors. • Recommended for Board approval amendments to By-Law no 1 to modernize certain sections and allow for the possibility to call special urgent meetings on shorter notice. • Recommended for Board approval Director remuneration changes that came into effect on April 1, 2021. • Recommended for Board approval the 2020 Responsible Investment Annual Report, which included enhanced disclosure on climate change risks, and received an update on PSP Investments' climate change strategy. • Worked with management to continue to enhance PSP Investments' speak-up line process. • Proposed improvements to the Board's skills, competencies and diversity matrix which is used by the Board in identifying desired skills and competencies of future Board members. • Received new reporting on stakeholder relations and reviewed PSP Investments' internal communication plan, which was adapted as a result of the pandemic.
Human Resources and Compensation Committee	• Conducted a full review of succession planning for the CEO and senior officers. • Reviewed detailed market benchmarking reports on compensation and talent priorities and strategies. • Approved revised compensation and severance guidelines. • Continued to focus on Ei&D initiatives and recommended for Board approval a new diversity policy confirming PSP Investments' commitment to Ei&D as key focus areas for shaping its culture. • Coordinated Board training on unconscious bias and diversity-related matters. • Continued focus on COVID-19 and the future of work, i.e., hybrid workforce.

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 President of the Treasury Board and the Treasury Board of Canada Secretariat.

The appointment process is designed to ensure that the Board has a full contingent of high-calibre Directors with proven financial ability and relevant work experience. The Governance Committee regularly reviews and updates desirable and actual competencies, experiences and diversity requirements to ensure that decisions are made with a view to having a diverse Board that can provide the oversight and guidance needed for PSP Investments to fulfill its mandate. In addition to the above, all Directors are screened to ensure they have the following personal attributes: integrity, leadership/ability to influence, ability to think strategically, personal communication skills and business acumen.

The following charts show the geographic mix, diversity and average tenure of members of the Board of Directors:

Board succession planning and onboarding

Board succession planning continued to be a key focus area of the Governance Committee and the full Board in fiscal year 2021 as the terms of some directors expired and additional terms will be expiring in the coming year. Following the departures of Micheline Bouchard, Lynn Haight and Léon Courville, PSP Investments successfully onboarded two new Directors: Marianne Harris and Susan Kudzman. Both bring considerable knowledge and experience to complement the existing skills and competencies of the Board of Directors. The newly appointed Directors participated in a structured orientation program that introduced them to PSP Investments' culture and operations.

There is currently one vacancy on the Board. Discussions are ongoing with the external nominating committee and Government to ensure that this vacancy and future vacancies are filled within a reasonable timeframe by candidates possessing the requisite competencies, experience and diversity characteristics. As part of the Board Chair succession planning, Maryse Bertrand was appointed Chair of the Governance Committee, replacing Garnet Garven who replaced William Mackinnon as Chair of the Audit Committee.

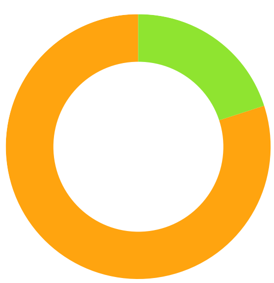
Gender

2021 (%)

50 Female
50 Male

Visible Minority

2021 (%)



20 Yes
80 No

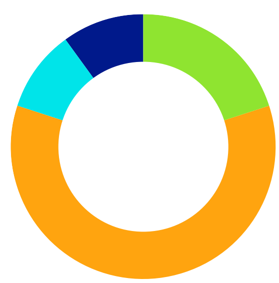
Tenure

2021 (%)

60 0–4 years
20 5–8 years
20 9–12 years

Geographic

2021 (%)



20 Québec
60 Ontario
10 British Columbia
10 Saskatchewan

Director education

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

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

Board members

PSP Investments' Board is currently composed of 10 independent, professional Directors. The biographies of PSP Investments' Directors can be found on page 81.

Remuneration

The Board's approach to Director remuneration reflects the provisions of the Act, which require it to set its remuneration at a level comparable to the remuneration received by persons having similar responsibilities and engaged in similar activities. The Board reviews remuneration and considers changes based on recommendations prepared by the Governance Committee. The Board recently approved certain remuneration changes that came into effect on April 1, 2021. Following a review by an external compensation consultant, these changes were initially approved last fiscal year but were delayed in light of the economic climate at the time.

	FY2021 $	FY2022 $
Annual retainer for the Board Chair	200,000	215,000
Annual retainer for each Director other than the Board Chair	60,000	65,000
Annual retainer for each Board Committee Chair	15,000	18,000
Attendance fee for each Board meeting	1,500[1]	1,500[1]
Attendance fee for each committee meeting	1,500[1]	1,500[1]
Travel fees for attending a Board meeting in person, if his or her primary or secondary residence is outside Québec or Ontario	1,500	1,500

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

Total fiscal year 2021 remuneration for Directors was $1,233,206. Directors are not entitled to additional remuneration in the form of retirement benefits or short-term or long-term incentives. The following tables provide details:

Meeting attendance

	Board of Directors		Investment and Risk Committee		Audit Committee		Governance Committee		Human Resources and Compensation Committee	
	Regular	Special	Regular	Special[8]	Regular	Special	Regular	Special	Regular	Special
Number of meetings Fiscal Year 2021[1]	8/8	3/3	4/4	5/5	5/5	1/1	4/4	1/1	5/5	
Maryse Bertrand	8/8	3/3	4/4	4/5			4/4	1/1	5/5	
Micheline Bouchard[2]	7/7	2/2	3/3	4/4			3/3	1/1	4/4	
Léon Courville[3]	7/7	2/2	3/3	4/4			3/3	1/1	4/4	
David C. Court	8/8	3/3	4/4	5/5	4/4	1/1	1/1		1/1	
Garnet Garven	8/8	3/3	4/4	5/5	5/5	1/1	3/3	1/1		
Martin Glynn[4]	8/8	3/3	4/4	5/5						
Lynn Haight[5]	7/7	2/2	3/3	4/4	4/4	1/1	3/3	1/1		
M. Marianne Harris[6]	1/1	1/1	1/1	1/1	1/1					
Timothy E. Hodgson	8/8	3/3	4/4	5/5					5/5	
Miranda C. Hubbs	8/8	3/3	4/4	5/5			1/1		5/5	
Susan Kudzman[7]	1/1	1/1	1/1	1/1					1/1	
Katherine Lee	7/8	3/3	3/4	5/5	4/5	1/1	1/1			
William A. MacKinnon	8/8	3/3	4/4	5/5	5/5	1/1				

1 Certain Committee meetings were held concurrently with Board of Directors meetings. All Directors are members of the Investment and Risk Committee.
2 Ms. Bouchard ceased to be a Director on December 18, 2020.
3 Mr. Courville ceased to be a Director on December 18, 2020.
4 Mr. Glynn is an ex-officio member of the Audit Committee, Governance Committee and Human Resources and Compensation Committee.
5 Ms. Haight ceased to be a Director on December 18, 2020.
6 Ms. Harris was appointed to the Board of Directors on December 18, 2020.
7 Ms. Kudzman was appointed to the Board of Directors on December 18, 2020.
8 One joint meeting with the Board of Directors, no fees.

Directors' compensation for fiscal year 2021

	Annual Retainer $	Chair of a Committee/ Annual Retainer $	Boards/ Committees Meeting Fees[1] $	Total $
Maryse Bertrand[2]	60,000	8,723	42,000	110,723
Micheline Bouchard[3]	42,880		34,500	77,380
David C. Court	60,000		39,000	99,000
Léon Courville[4]	42,880		34,500	77,380
Garnet Garven[5]	60,000	15,000	43,500	118,500
Martin Glynn	200,000			200,000
Lynn Haight[6]	42,880		36,000	78,880
M. Marianne Harris[7]	17,283		7,500	24,783
Timothy E. Hodgson	60,000	15,000	36,000	111,000
Miranda C. Hubbs	60,000	15,000	37,500	112,500
Susan Kudzman[8]	17,283		7,500	24,783
Katherine Lee	60,000		34,500	94,500
William A. MacKinnon[9]	60,000	6,277	37,500	103,777

1 A single meeting fee is awarded for Board and Committee meetings held concurrently.
2 Ms. Bertrand became the Chair of the Governance Committee on September 1, 2020 in replacement of Mr. Garven.
3 Ms. Bouchard ceased to be a Director on December 18, 2020.
4 Mr. Courville ceased to be a Director on December 18, 2020.
5 Mr. Garven became the Chair of the Audit Committee on September 1, 2020 in replacement of Mr. MacKinnon.
6 Ms. Haight ceased to be a Director on December 18, 2020.
7 Ms. Harris was appointed to the Board of Directors on December 18, 2020.
8 Ms. Kudzman was appointed to the Board of Directors on December 18, 2020.
9 Mr. MacKinnon ceased to be the Chair of the Audit Committee on September 1, 2020.

Human Resources and Compensation Committee
Discussion and Analysis

Report of the HRCC

Why compensation matters

PSP's success depends on the strength and performance of its people. That's why we must ensure that our human resources policies and programs connect to what matters to them, drive behaviours that support the delivery of our mandate and are in the best interest of our stakeholders.

To this end, a high-performing team is one of the three pillars of our new strategic plan, and our compensation program is designed to attract and retain top talent, reward strong performance and reinforce business strategies and priorities.

While the health and safety of PSP employees was a foremost concern in fiscal year 2021, the Human Resources and Compensation Committee (HRCC) of the Board also oversaw the implementation of changes to the organization's incentive compensation plan, which aligned the plan with the total fund, and the advancement of PSP's journey to create a more equitable, inclusive and diverse workplace.

Compensation principles

To successfully fulfill its mandate, PSP Investments must strive to attract, develop, reward and retain top talent. The employee value proposition, with compensation as a cornerstone, must be compelling to successfully compete for highly skilled professionals with the right capabilities.

PSP Investments' Compensation Plan focuses on the following primary objectives:

- Ensure global alignment within PSP Investments, while remaining sensitive to local market practices.
- Provide structure around job levels, salaries and incentive targets to ensure external competitiveness and internal equity.
- Reflect industry best practices and be aligned with stakeholders' best interests.

Moreover, to implement a pay-for-performance approach, the Board established a Compensation Policy that is designed to maintain total compensation at a fair and competitive level, while also ensuring that the Compensation Plan is aligned with PSP Investments' strategic objectives and integrated with business performance measurement. PSP Investments' Compensation Policy provides balanced performance-based compensation and is effectively designed to reward prudent risk taking.

The Board of Directors ensures that PSP Investments' executive compensation and incentives are consistent with PSP Investments' Compensation Policy. In order to verify alignment, the services of Hugessen Consulting ("Hugessen"), an independent compensation consulting firm, were retained in fiscal year 2021 to assist the HRCC in its review of executive compensation. Hugessen reports solely to the HRCC.

Total compensation

=

Base salary + **Total incentive** + **Benefits** + **Pension**

Total compensation is primarily comprised of base salary, a total incentive (split between annual and deferred cash), benefits and pension. The Total Incentive Plan, which includes annual and deferred compensation elements, is further described in the Compensation discussion and analysis section.

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 Chief Executive Officer
- David J. Scudellari – Senior Vice President and Global Head of Credit and Private Equity Investments
- Eduard van Gelderen – Senior Vice President and Chief Investment Officer and Interim Global Head of Capital Markets
- Jean-François Bureau – Senior Vice President and Chief Financial and Risk Officer
- Guthrie Stewart – Vice Chair, Investment Committee

Compensation framework

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

Promote enterprise-wide collaboration

- All permanent employees participate in the Total Incentive Plan.
- Total fund investment performance is a component of incentive compensation at all levels.

Mitigate short-term risk taking

- Total fund performance is measured over seven- and ten-year retrospective periods.
- Deferred component (PDFU) extends the period for incentives "at risk" for three years after the grant date.

Be competitive to attract and retain the right people

- Compensation and incentive structures are aligned with relevant markets for talent, based on level, group and location.
- Target total direct compensation (i.e., base salaries and target incentive) is competitive, with the flexibility to pay above or below based on the principles of pay for performance.

Align pay with performance

- Establish alignment with the stakeholders' key measures of success, including the long-term rate of return objective.
- Include both relative and absolute total fund performance as part of the incentive framework.
- For senior management, ensure a significant portion of total compensation is deferred and "at risk", or subject to performance conditions.

Enable individual differentiation

- Emphasize individual and group performance to ensure behaviours are aligned with PSP Investments' vision and values.
- Allow for discretion at every level of evaluation.

Adapt to changing circumstances

- Enable the HRCC, Board of Directors and president and CEO to ensure pay for performance outcomes are adapted to PSP Investment's changing environment and unique conditions.

Pay level benchmarking process

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

Risk management

Our Total Incentive Plan reflects our responsibility to our sponsor and to PSP Investments' contributors and beneficiaries. The Total Incentive Plan is aligned with the long-term investment mandate and strategy and takes into consideration the target return and risk appetite.

Key risk mitigating features:

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

Total compensation

Annual base salary

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

Total Incentive Plan

For fiscal year 2021, a few notable adjustments have been made to the Total Incentive Plan formula and components in order to better reflect and integrate the total fund strategic and performance objectives.

They include:

- The introduction of the Reference Portfolio (10-year reference period) as the relative performance measure for the total fund
- Revised weightings for the total fund and group factor components, now respectively 60% and 40% for all employees
- Removal of the asset class component within the incentive plan formula

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By doing so, the Total Incentive Plan:

- Captures all the "value added" by PSP for its stakeholders
- Creates alignment of incentives as everyone benefits by building a better portfolio
- Creates alignment of behaviours as everyone benefits from doing what's best for the total fund
- Creates clarity on organizational strategic direction and promotes collaboration across all PSP

The Total Incentive Plan generates a total incentive grant that is split between an annual cash payment and a deferred cash grant.

The total incentive grant is based on performance relating to 60% total fund investment performance and 40% group objectives for all. Individual performance is used as a modifier and individual performance scores are determined upon a review of individual objectives relative to predetermined goals.

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

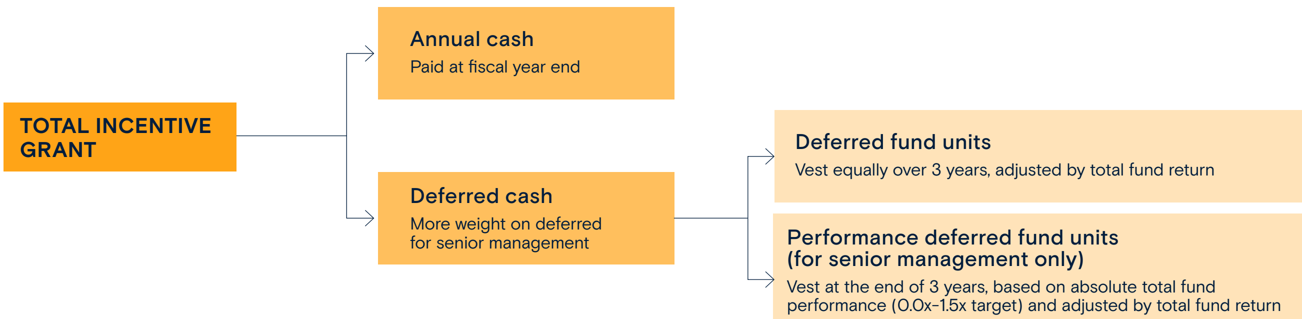
All employees participate in the same incentive plan and each employee has a target incentive opportunity based on their group and level. All employees can earn up to a maximum of two (2) times their target incentive opportunity.

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

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

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

Component	Total fund performance		Group factor score		Individual performance score		Total incentive grant 0.00× to 2.00×
Measure/ reference period	75% vs Reference Portfolio 10-year reference period 25% absolute 7-year reference period	+	Group Scorecards	×	Individual performance objectives	=	
Weighting	60% for all		40% for all		n/a		
Multiplier	0.00× to 1.50×		0.00× to 1.50×				



The incentive amounts and the payment thereof are subject to restrictions and conditions as per the Total Incentive Plan provisions.

Restricted Fund Units

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

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

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

Other benefits

Group benefits

Based on their respective locations, employees have access to comprehensive benefits, including health and dental care, disability, critical illness, life insurance and accidental death and dismemberment. They also have access to virtual health care services, an employee-assistance program and a variety of other programs and tools to help them reach their optimal level of well-being.

Retirement savings

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

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

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

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

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

Perquisites:

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

Pay mix

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

The president and CEO's target incentive is 400% of base salary, split 40% into annual cash paid out in the current year ("short-term incentive") and 60% into deferred awards ("long-term incentive"). Within the deferred portion, 50% is allocated to deferred fund units and 50% to performance-based deferred fund units.

For senior vice presidents in asset classes, the target incentive is 350% of base salary, split 50% into annual cash paid out in the current year ("short-term incentive") and 50% into deferred awards ("long-term incentive"). Within the deferred portion, 60% is allocated to deferred fund units and 40% to performance-based deferred units.

President & CEO

% of target total compensation

20	Base salary
32	Short-term incentive
48	Long-term incentive

Senior Vice Presidents in Asset Classes

% of target total compensation

22	Base salary
39	Short-term incentive
39	Long-term incentive

Fiscal 2021 results – Performance outcomes and compensation decisions (ending March 31, 2021)

Our compensation program includes two key investment performance elements:

1. The absolute total fund net performance measured against the return objective over a rolling 7-year period
2. The net relative performance of the total fund against the Reference Portfolio over a rolling 10-year period

Absolute total fund net performance

Since fiscal year 2015, PSP Investments has generated a net return on investment of 8.7% per annum, which is higher than the long-term return objective.

Relative total fund net performance

Long-term value creation is often a function of the ability to deliver investment returns above a defined benchmark. As at March 31, 2021, the annualized 10-year net relative investment performance for the total fund against the Reference Portfolio was 0.7%.

Compensation decisions made in fiscal year 2021

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

For fiscal year 2021, the president and CEO's personal objectives were aligned with PSP Investments' strategy, mission and values, including:

- Sustaining and enhancing the "One PSP Culture"
- Promoting PSP's brand and visibility
- Operational efficiency

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.

Executive compensation

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

The following tables illustrate NEOs selected and ranked by grant value in fiscal year 2021 whereby deferred cash grants continue to be subject to varying with total fund return for up to three more years. The total compensation payout value received in fiscal year 2021, including the values payable from prior year's deferred grants, is also illustrated and includes cash received from former plans, new plans and any transitional arrangements.

Comprehensive fiscal year 2021 total compensation

	Fiscal year	Base salary[1,2] (A)	Annual cash payout (B)	Deferred cash 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[3] (F)	Deferred cash + LTIP + RFU payout (G)	**Total compensation (payout value) (A+B+F+G)**
Neil Cunningham[4] President and Chief Executive Officer	2021	501,923	1,212,084	1,818,126	3,532,133	0	170,800	**3,702,933**	44,485	1,931,446	**3,689,938**
	2020	503,846	1,205,200	1,807,800	3,516,846	0	123,000	**3,639,846**	45,409	1,395,161	**3,149,616**
	2019	500,000	1,211,520	1,817,280	3,528,800	0	364,400	**3,893,200**	44,871	1,416,959	**3,173,350**
David J. Scudellari[5] Senior Vice President and Global Head of Credit and Private Equity Investments	2021	451,731	1,156,149	1,156,148	2,764,028	300,000	16,062	**3,080,090**	34,676	1,828,091	**3,470,647**
	2020	453,462	1,249,855	1,249,855	2,953,172	0	18,769	**2,971,941**	30,895	491,483	**2,225,695**
	2019	450,000	1,294,453	1,294,453	3,038,906	0	19,885	**3,058,791**	26,484	345,897	**2,116,834**
Eduard van Gelderen[4,6] Senior Vice President and Chief Investment Officer and Interim Global Head of Capital Markets	2021	401,538	734,063	734,063	1,869,664	0	26,233	**1,895,897**	32,005	473,422	**1,641,028**
	2020	403,077	743,173	743,173	1,889,423	300,000	20,000	**2,209,423**	34,689	251,118	**1,432,057**
	2019	269,231	405,650	405,650	1,080,531	260,000	13,463	**1,353,994**	82,953	71,415	**829,249**
Jean-François Bureau[4] Senior Vice President and Chief Financial and Risk Officer	2021	351,346	394,632	394,632	1,140,610	200,000	126,200	**1,466,810**	34,514	550,923	**1,331,415**
	2020	341,327	341,003	341,003	1,023,333	150,000	101,000	**1,274,333**	35,598	482,481	**1,200,409**
	2019	335,000	285,471	285,470	905,941	0	145,100	**1,051,041**	34,781	461,723	**1,116,975**
Guthrie Stewart[4,7] Vice Chair, Investment Committee	2021	351,346	308,386	308,385	968,117	0	24,500	**992,617**	23,439	1,454,262	**2,137,433**
	2020	352,692	933,223	933,223	2,219,138	0	24,500	**2,243,638**	34,333	1,348,380	**2,668,628**
	2019	350,000	950,355	950,355	2,250,710	0	23,155	**2,273,865**	32,366	868,381	**2,201,102**

1 For fiscal year 2021, represents base salary earned which included 26.1 pay periods versus the standard 26 pay periods.

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

3 "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 (including the virtual health care offering and the employee assistance program) and dental care coverage, as well as other special cash or amounts in accordance with contractual arrangements, where applicable.

4 All amounts reported in CAD.

5 All amounts reported in USD.

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

7 Mr. Stewart was appointed Vice Chair, Investment Committee on June 1, 2020 and retired from PSP Investments on June 1, 2021.

Deferred incentive cash grants cumulative value

The total cumulative value of all deferred incentive cash granted but not yet vested or paid to PSP Investments' NEOs (as at March 31, 2021) is shown in the following table.

	Award type	Total outstanding grants	Estimated future payouts[1]		
			FY2022	FY2023	FY2024
Neil Cunningham[2]	DFUs	1,814,543	907,201	604,321	303,021
	PDFUs	2,721,603	908,640	903,900	909,063
	Total	**4,536,146**	**1,815,841**	**1,508,221**	**1,212,084**
David J. Scudellari[3]	DFUs	1,452,523	740,092	481,201	231,230
	PDFUs	1,480,182	517,781	499,942	462,459
	RFUs	200,000	100,000	100,000	0
	Total	**3,132,705**	**1,357,873**	**1,081,143**	**693,689**
Eduard van Gelderen[2]	DFUs	818,839	376,578	295,448	146,813
	PDFUs	753,154	162,260	297,269	293,625
	RFUs	100,000	100,000	0	0
	Total	**1,671,993**	**638,838**	**592,717**	**440,438**
Jean-François Bureau[2]	DFUs	430,274	204,221	147,127	78,926
	PDFUs	408,442	114,188	136,401	157,853
	RFUs	183,334	116,667	66,667	0
	Total	**1,022,050**	**435,076**	**350,195**	**236,779**
Guthrie Stewart[2]	DFUs	748,392	438,393	248,322	61,677
	PDFUs	876,785	380,142	373,289	123,354
	Total	**1,625,177**	**818,535**	**621,611**	**185,031**

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

[2] All amounts reported in CAD.

[3] All amounts reported in USD.

Retirement benefits

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

	Plan type	Accumulated value at beginning of year	Compensatory increase[1]	Non-compensatory increase[2]	Accumulated value at year-end
All amounts reported are in USD					
David J. Scudellari	Safe Harbor 401(k)	194,951	16,062	84,265	295,278
All amounts reported are in CAD					
Eduard van Gelderen	Defined Contribution	64,199	26,233	41,028	131,460
Guthrie Stewart	Defined Contribution	193,903	24,500	53,620	272,023

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

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

Defined benefit pension plan (Canada)

	Number of years of credited service[1]	Annual benefit		Accrued obligation at beginning of year[2,4]	Compensatory increase[5]	Non-compensatory increase[6]	Accrued obligation at year end[2,7]
		At year end[2]	At age 65[2,3]				
Neil Cunningham	13.4	134,200	162,600	2,290,400	170,800	548,100	3,009,300
Jean-François Bureau	11.1	75,800	144,300	1,322,000	126,200	224,800	1,673,000

1 Number of credited years of service used for both the DB Employee Pension Plan and the DB Supplemental Employee Retirement Plan as at March 31, 2021.

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, 2021.

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

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

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

7 Accrued obligation using a discount rate of 2.70%. The obligations are calculated as at March 31, 2021, using the assumptions and methods that were used for the accounting disclosures as at December 31, 2020.

Post-employment policies

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

	Years of service[1,2]	Months of severance	Total severance[3,4]
Neil Cunningham[5]	16.8	24.0	2,660,000
David J. Scudellari[6]	5.4	17.0	1,753,125
Eduard van Gelderen[5]	2.7	14.0	1,073,333
Jean-François Bureau[5]	11.0	18.0	975,000

1 Assumes a notional termination as at March 31, 2021.

2 Mr. Stewart retired from PSP Investments on June 1, 2021.

3 The President and Chief Executive Officer'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 and the equivalent of 24 months of perquisites.

4 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 and the equivalent of 12 months of perquisites. One month of severance is added for each completed year of service, up to a total maximum of 18 months.

5 All amounts reported in CAD.

6 All amounts reported in USD.

Severance pay also includes continuous group insurance coverage of 24 months for the President and Chief Executive Officer and up to 18 months for senior vice presidents.

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

Directors' biographies

Martin Glynn

Chair of the Board
Board member since
January 30, 2014

Committee Membership
Investment and Risk Committee

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

Maryse Bertrand

Board member since
September 7, 2018

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

Maryse Bertrand serves as a board member of National Bank of Canada, Gildan Activewear Inc. and Metro Inc. She is also the Chair of the board of directors of the Institute of Corporate Directors (ICD) (Québec Chapter) and Vice-Chair of the Board of McGill University. She is a former director of the Caisse de dépôt et placement du Québec. From 2016 to 2017, she was Strategic Advisor and Counsel at Borden Ladner Gervais LLP, and prior to that she was Vice-President, Real Estate Services, Legal Services and General Counsel at CBC/Radio-Canada, where she also chaired the National Crisis Management Committee and the board of directors of ARTV, a specialty channel. Prior to 2009, she was a partner at Davies Ward Phillips and Vineberg LLP, where she specialized in mergers and acquisitions and corporate finance, and served on the firm's national management committee. She was named Advocatus emeritus (Ad. E.) in 2007 by the Québec Bar in recognition of her exceptional contributions to the legal profession. Ms. Bertrand has a law degree (with high distinction) from McGill University and a Master in Risk Management from New York University, Stern School of Business.

David C. Court

Board member since
October 30, 2018

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

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

Directors' biographies

Garnet Garven

Board member since
September 29, 2011

Committee Membership
Audit Committee – Chair
Investment and Risk Committee

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

M. Marianne Harris

Board member since
December 18, 2020

Committee Membership
Audit Committee
Investment and Risk Committee

M. Marianne Harris is a member of the board of directors of Sun Life Financial Inc., Loblaw Companies Limited and President's Choice Bank. She was previously a member of the board of directors of Hydro One Limited and Agrium Inc., and Chair of the Investment Industry Regulatory Organization of Canada (IIROC). In the non-profit sector, she is Chair of the Toronto Club, a member of the Investment Committee for the Princess Margaret Cancer Centre, a Director of the Dean's Advisory Council for the Schulich School of Business and a Director of the Advisory Council for the Hennick Centre for Business and Law. She has over three decades of investment banking, leadership and management experience in Canada and the United States acquired primarily at Merrill Lynch and RBC Capital Markets. Ms. Harris has an MBA from the Schulich School of Business, a Juris Doctor from Osgoode Hall and a Bachelor of Science (Honours) from Queens University.

Timothy E. Hodgson

Board member since
December 17, 2013

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

Timothy E. Hodgson is Chair of the Board of Hydro One and of Sagicor Financial Company Ltd and serves on the board of Sagicor Group Jamaica. He is a former Managing Partner of Alignvest Management Corporation and 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 previously served on the boards of MEG Energy Corporation, the Global Risk Institute, KGS-Alpha Capital Markets, Bridgepoint Health, Richard Ivey School of Business and NEXT Canada. Mr. Hodgson holds an MBA from Ivey Business School, and a BCom from the University of Manitoba. Mr. Hodgson obtained his CPA, CA designation in 1986 and has been named a Fellow of the Chartered Professional Accountants of Canada. He is also a member of the Institute of Corporate Directors.

Directors' biographies

Miranda C. Hubbs

Board member since
August 15, 2017

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

Miranda C. Hubbs is currently a director of Nutrien Ltd. and Imperial Oil, and Vice-Chair of the Canadian Red Cross. She previously served on the boards of Agrium Inc. and Spectra Energy Corp. She is a founding member and national co-chair of the Canadian Red Cross Tiffany Circle-Women Leading Through Philanthropy, and serves on the Advisory Board of the Toronto Biennial of Art, the ICD Climate Strategy Advisory Board, and the Global Risk Institute Sustainable Finance Advisory Committee. 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. Ms. Hubbs holds a BSc from Western University and an MBA from Schulich School of Business at York University. She is a CFA charter holder and a National Association of Corporate Directors Governance Fellow, a Sustainability Accounting Standards Board FSA Credential Holder, and holds the CERT Certificate in Cybersecurity Oversight issued by the CERT division of the Software Engineering Institute at Carnegie Mellon University.

Susan Kudzman

Board member since
December 18, 2020

Committee Membership
Human Resources and
Compensation Committee
Investment and Risk Committee

Susan Kudzman has recently retired as Executive Vice-President, Chief Risk Officer and Corporate Affairs at Laurentian Bank of Canada. She previously held the position of Executive Vice-President and Chief Risk Officer at Caisse de dépôt et placement du Québec. Ms. Kudzman is Chair of the Board of Yellow Pages Limited, and also serves on the boards of Medavie, Transat A.T. Inc, Financeit and Nomad Royalty Company. She is involved in many community and philanthropic activities. Ms. Kudzman holds a Bachelor's degree in Actuarial Science and the titles of Fellow of the Canadian Institute of Actuaries (FCIA), Fellow of the Society of Actuaries (FSA) and Chartered Enterprise Risk Analyst (CERA).

Katherine Lee

Board member since
June 25, 2018

Committee Membership
Audit Committee
Governance Committee
Investment and Risk Committee

Katherine Lee is currently a Corporate Director of BCE Inc. and Colliers International Group. She was the President and CEO of GE Capital Canada. Prior to this role, Ms. Lee served as CEO of GE Capital Real Estate in Canada from 2002 to 2010, building it to a full debt and equity operating company. Ms. Lee joined GE in 1994, where she held a number of positions, including Director, Mergers & Acquisitions for GE Capital's pension fund advisory services based in San Francisco, and Managing Director of GE Capital Real Estate Korea based in Seoul and Tokyo. She is active in the community, championing women's networks and Asia-Pacific forums. Ms. Lee earned a BCom degree from the University of Toronto. She is a a CPA and CA.

Directors' biographies

William A. MacKinnon

Board member since
January 14, 2010

Committee Membership
Audit Committee
Investment and Risk Committee

William A. MacKinnon is active in professional and community circles, serving as Chair of the boards of Traferox Technologies Inc. and Woodgreen Foundation, and as a board member of Roy Thomson Hall in Toronto. He is a former board member of TELUS Corporation. An accountant by profession, Mr. MacKinnon joined KPMG LLP Canada in 1968, became a partner in 1977 and was CEO from 1999 until his retirement at the end of 2008. For several years, he served on the KPMG international board of directors. Mr. MacKinnon holds a BCom from the University of Manitoba, and CPA and CA designations. He was named a Fellow of the Chartered Professional Accountants of Canada in 1994.

Consolidated 10-year financial review

($ million)	**2021**	2020	2019	2018	2017	2016	2015	2014	2013	2012
CHANGE IN NET ASSETS[1]										
Net investment income (loss)	**32,091**	(500)	11,616	13,975	15,553	1,098	13,966	12,793	7,194	1,888
Operating expenses	**510**	551	503	450	370	295	243	216	184	148
Other comprehensive income (loss)	**–**	9	(3)	(14)	(4)	4	(15)	17	–	–
Comprehensive income (loss)	**31,581**	(1,042)	11,110	13,511	15,179	807	13,708	12,594	7,010	1,740
Fund transfers	**3,036**	2,871	3,749	3,921	3,622	3,987	4,554	4,997	4,635	4,733
Increase in net assets	**34,617**	1,829	14,859	17,432	18,801	4,794	18,262	17,591	11,645	6,473
NET ASSETS UNDER MANAGEMENT										
Equity										
Public Market Equities[2]	**60,201**	48,368	51,035	51,813	55,227	47,511	56,276	49,466	40,165	32,950
Private Equity	**31,748**	24,038	23,539	19,382	15,868	12,520	10,103	8,425	6,924	6,444
Government Fixed Income[3]	**42,965**	33,388	34,389	27,783	24,043	24,603	22,646	18,383	15,433	14,144
Credit	**14,474**	13,295	10,475	8,857	4,418	640	–	–	–	–
Real Assets										
Real Estate[4]	**26,817**	23,817	23,538	23,245	20,551	20,356	14,377	10,650	9,427	7,055
Infrastructure	**18,389**	18,302	16,818	14,972	11,149	8,701	7,080	6,011	3,854	3,607
Natural Resources	**9,712**	7,645	6,759	4,833	3,711	2,470	1,536	795	382	325
Complementary Portfolio	**185**	945	1,426	2,201	656	–	–	–	–	–
Net AUM	**204,491**	**169,798**	**167,979**	**153,086**	**135,623**	**116,801**	**112,018**	**93,730**	**76,185**	**64,525**
PERFORMANCE (%)										
Annual rate of return (net of expenses)	**18.4**	**(0.6)**	**7.1**	**9.8**	**12.8**	**0.7**	**14.2**	**15.9**	**10.3**	**2.6**
Benchmark	16.5	(1.6)	7.2	8.7	11.9	0.3	13.1	13.9	8.6	1.6

[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.

Connecting to the future

— 2021 Responsible Investment Report

Public Sector Pension Investment Board

At PSP, we have a longstanding practice of responsible investing as a means to better manage risk and generate the long-term returns needed to achieve our mandate. Through our actions, we can also promote positive change on pressing social and environmental challenges, and contribute to a more inclusive, equitable and sustainable future.

Why it matters

Environmental, social and governance (ESG) factors are some of the most significant drivers of change in the world today, with major implications for businesses and long-term investors. We believe that ESG risk factors must be taken into account in every investment we make; however, we also want to capitalize on the significant investment opportunities that can arise as companies put sustainability at the centre of their strategies and operations.

$204.5 B

Net AUM*

Diversified asset mix*

% of total net AUM

Capital Markets 47.6%	Private Equity 15.5%
Credit Investments 7.1%	Real Estate 13.1%
Infrastructure 9.0%	Natural Resources 4.7%

* As at March 31, 2021. Excludes Cash and Cash Equivalents and the Complementary Portfolio. All dollar amounts in this report are in Canadian dollars unless otherwise indicated. Net AUM denotes net assets under management.

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Responsible Investment Report

After an unprecedented 12 months, PSP's fiscal year ended the same way it started—in the midst of the COVID-19 pandemic. That said, society is managing through the uncertainty and making progress, and so are we.

What's been interesting to us, as long-time proponents of responsible investing, is how the pandemic has been an accelerator of ESG trends and opportunities. COVID-19 has demonstrated the value of futureproofing investments by focusing on resilience in the face of long-term structural trends such as climate change, digitalization, and diversity and inclusion. Institutional investors like PSP play a vital role in promoting resilience by investing with an ESG lens and using our influence to encourage companies to put sustainability and inclusive growth at the centre of their operations.

At PSP, we have put in place a robust ESG integration framework, which we continually strengthen, to identify emerging ESG risks and opportunities early and steer capital to investments best placed to deliver long-term value. Our agile approach is aligned with international best practices and enables us to adapt quickly to changing circumstances, as was the case this past year.

Data and disclosure were focus areas in fiscal year 2021. In an increasingly complex world, it's imperative that investors have consistent and complete information on how companies are addressing ESG factors that can contribute significantly to value creation or erosion. To this end, our CEO joined the CEOs of Canada's seven other largest pension plan investment managers in signing a statement that called on companies and investors to report more transparently and in a standardized way that is useful to investment decision-making.

Aside from the pandemic, 2020 was historic in terms of government, corporate and investor efforts to limit global warming to well below 2°C, in line with the Paris Agreement. As of early 2021, countries representing more than 65% of global CO_2 emissions and more than 70% of the world economy have pursued opportunities to adapt quickly to a low-carbon economy (source). Moreover, according to the Task Force on Climate-related Financial Disclosures (TCFD) 2020 Status Report, the number of organizations aligning with the TCFD framework has grown to more than 1,500 organizations globally, including more than 1,340 companies with a market capitalization of $12.6 trillion and financial institutions responsible for assets of $150 trillion (source). Keeping pace with these trends, climate change and its related risks and opportunities remain at the forefront of PSP's investment strategy and stewardship activities.

In fiscal year 2021, we further enhanced tools to better integrate climate change factors into our investment decisions, at the total portfolio, asset class and individual asset levels. We also participated in the Investor Leadership Network's climate change initiative, contributing to a report on climate change mitigation and scenario analysis, and continued to refine our reporting in alignment with the TCFD framework.

Another significant focus area for us in fiscal year 2021 was diversity and inclusion. We led engagement efforts on diversity and inclusion through our global stewardship service provider and continued to support the 30% Club Canada, whose aim is to achieve a better gender balance at the board and senior management levels of companies. We also signed the BlackNorth Initiative's pledge, committing to specific actions and targets designed to end anti-Black systemic racism and create opportunities for underrepresented groups.

As the world looks to rebound and recover from the COVID-19 pandemic, PSP remains committed to ensuring its operations and investment strategies promote positive environmental, social and governance outcomes. In this decisive decade for the planet, we see it as more important than ever that all segments of society work together to unlock a better future for people and the planet.

Sincerely,

Stéphanie Lachance

Stéphanie Lachance
Managing Director, Responsible Investment

Key achievements

In our last Responsible Investment Report, we identified four priorities for fiscal year 2021. Here we discuss key achievements for each of these priorities, and provide insights into market developments that will continue to shape these topics.

Managing and monitoring ESG key performance indicators (KPIs)

Priorities – Effective management of ESG factors increases the likelihood that companies will perform well over the long term, while managing risk and capitalizing on opportunities. To that end, we will refine the tools we use to monitor and manage ESG KPIs across our portfolio.

Fiscal year 2021 achievements – To gain insight into the ESG performance of our portfolio and identify opportunities to mitigate risk and create value, we made progress on several initiatives.

- Leveraged the use of innovative data solutions to develop a proprietary scoring methodology to dynamically measure and identify material ESG risks and opportunities in our public market portfolios.
- Strengthened our approach to managing and monitoring ESG KPIs by leveraging new data sources and analytics.
- Developed and launched a robust asset-level data gathering tool to facilitate benchmarking and analysis of our real estate assets across ESG KPIs, including energy, greenhouse gas (GHG) emissions, water, waste and building certification.
- Designed consolidated ESG monitoring dashboards to help the Responsible Investment group monitor the integration of ESG considerations in investment activities.

PSP Forward – Gaining access to comparable and reliable data will remain a priority as we seek to drive value by extracting deeper insights from ESG information. We also aim to increasingly link ESG KPIs to traditional financial indicators in order to assess their financial materiality.

Support knowledge sharing and value creation

Priorities – Support knowledge sharing and collaborative initiatives to strengthen ESG practices as drivers of value creation for our portfolio companies.

Fiscal year 2021 achievements – With the COVID-19 pandemic and the rise of ESG considerations across our investment activities and asset classes, it became increasingly clear that organizations can no longer get by with siloed information. Knowledge sharing enables an organization to learn from mistakes and keep its employees empowered and engaged. It also enables PSP to advance its strategy and scale success in a systematic way.

- Developed climate change toolkits for our investment professionals, which provide guidance and resources for identifying and assessing potential material climate risks and opportunities at the investment level.
- Developed our corporate governance dashboard, a collaborative tool that transforms our approach to using traditional proxy voting data into a dynamic process for monitoring portfolio company governance over time and sharing insights with our Capital Markets group.
- Collaborated with like-minded organizations to advance responsible investment best practices and ESG trends, including the Principles for Responsible Investment (PRI), the Investor Leadership Network (ILN), the Institutional Limited Partners Association (ILPA), the SASB Alliance, the Canadian Coalition for Good Governance (CCGG), the Pension Investment Association of Canada (PIAC) Investor Stewardship Committee and CFA Montréal's ESG Committee.
- Shared insights on ESG governance considerations with PSP's private company board nominees and continued our engagements on corporate governance and ESG practices with public portfolio companies.
- Conducted research on emerging ESG trends to guide investment professionals through the process of identifying and assessing potential material risks and opportunities that can be integrated into fundamental analysis.

PSP Forward – In an effort to further integrate ESG factors into our portfolio construction process, investment decision-making and active ownership, we will focus on incorporating ESG trends into our investment theses and engagement activities, and developing new strategies that keep us at the forefront of ESG innovation.

Continue assessing climate change risks and opportunities

Priorities – We will continue our assessment of the multifaceted risks and opportunities associated with climate change and improving the resilience of our portfolio.

Fiscal year 2021 achievements – We continue to advance a multi-year, fund-wide climate change approach approved by our Board of Directors and senior management.

- Continued to systematically assess climate change physical and transition risks when evaluating investment opportunities.
- Performed climate change scenario analysis and stress testing on our Policy and Reference Portfolios to assess the resilience of our total fund strategy to different climate temperature pathways.
- Actively participated in the Investor Leadership Network's (ILN) Climate Change initiative and contributed to a new report, Climate Change Mitigation and Your Portfolio, aimed at helping colleagues and peer investors better understand the implications of climate change mitigation scenarios that align to the Paris Agreement's target of limiting the increase in average temperature to 1.5°C.
- Participated in the CDP Science-Based Targets Campaign, which focused on accelerating the adoption of science-based climate targets and objectives in the corporate sector.
- See page 105 for details on these initiatives and our TCFD-aligned climate-related disclosures.

PSP Forward – We will update our corporate view on climate change, initially developed in 2018, to establish a stronger link between PSP's climate change commitments and our overall ESG and corporate strategy.

Measuring the impact of our investments

Priorities – In the context of a changing world, we will continue to refine our approach to measuring the impact of our investments, with a greater focus on social factors.

Fiscal year 2021 achievements – The COVID-19 pandemic has prompted a focus on social considerations as critical and positive contributors to long-term value creation and risk mitigation. This has reaffirmed our commitment to measuring the social impact of our investments.

- Enhanced our ability to measure and manage our positive and sustainable social impact by engaging with partners on tools and methodologies for assessing impact, and discussing their stakeholder reports.
- Delivered a presentation with industry peer on impact measurement and management to internal groups.
- Increased the number of engagements with companies we are invested in to address issues related to diversity, human capital management and human rights.
- Increased our focus on metrics related to diversity and inclusion, including the percentage of women at the executive and board levels of our portfolio companies.

PSP Forward – We will shift to an ESG approach that is firmly anchored to data and focused on key ESG opportunities as determined by measuring and managing social and environmental outcomes resulting from our investment activities and operations.

Our evolving approach to responsible investment

PSP's responsible investment activities are a key pillar of our Chief Investment Officer (CIO) group's strategy and total fund approach. Over the past several years, we have built a strong responsible investment foundation and a robust ESG integration and active ownership framework.

Our approach has matured over time, with ESG factors now included in PSP's broader investment risk framework and the Government's Funding Policy for the Public Sector Pension Plans, and the importance of ESG integration being one of our fundamental investment beliefs.

Our dedicated Responsible Investment group is housed in our CIO group, giving them the unique ability to systematically oversee and implement responsible investment activities across the total fund. The Responsible Investment group works across all asset classes to:

- Integrate material ESG factors into the investment decision-making and monitoring processes.
- Provide advice and guidance on key ESG themes and trends.
- Pursue active ownership through proxy voting and engagement.
- Share knowledge and build internal scalability through ESG training and collaborative analytical tools.

As a global investor on the cutting edge, we recognize that our responsible investment framework must continually evolve to account for emerging ESG risks and opportunities. Over the past year, we empowered our investment teams to gain additional insights from new data and enhanced our ESG integration approach to dynamically monitor the materiality of emerging risks and opportunities.

Fiscal year 2021 updates

- Continued sharpening our focus on diversity and inclusion.
- Developed innovative and proprietary tools to monitor the ESG profile of our portfolio companies and partners on a total fund basis, throughout the entire investment cycle.
- Enhanced our approach to monitoring corporate governance practices and engagement with a focus on board effectiveness in overseeing material ESG risks and opportunities, including climate change, and our proxy voting priorities.

PSP Forward – To remain agile and insightful, we intend to enhance our approach to climate change and data integration, while continuing to strengthen our governance and partnerships. We believe this will help us elevate ESG as a key value driver and an integral part of PSP's portfolio construction process and investment decisions.

To further align capital allocation decisions with their expected economic, environmental and social outcomes, we will continue developing tools that improve our ability to measure and manage against relevant industry standards and benchmark (e.g., GRESB, Sustainability Accounting Standards Board (SASB), TCFD, UN Sustainable Development Goals).

ESG integration framework

Our ESG integration framework is evergreen and embedded into our total fund approach, enabling us to address material ESG factors throughout the life of every investment we make. Beyond simply identifying and assessing material ESG risks, we look to capitalize on investment opportunities provided by ESG factors and capture new trends. At all times, our process is flexible and dynamic, readily adapted for different asset classes and investment strategies, and to account for emerging ESG factors.

Throughout the ownership period, we actively manage and monitor material ESG factors with a view to mitigating risks, identifying changes in ESG performance, and capturing value-creation opportunities to improve results. Our ESG integration approach is highly collaborative, with investment teams and the Responsible Investment group working together to assess ESG performance over time to protect and enhance long-term financial value.

Our ESG integration framework, shown below, provides a snapshot of how ESG factors are considered at different stages of the investment process for both internally and externally managed investments. This framework prioritizes materiality but remains flexible so that processes can be tailored to the asset class and investment strategy and keep pace with emerging ESG risks and opportunities. The focus on materiality is about ensuring that we thoroughly account for the ESG factors that could have a significant impact on a company's financial or operating performance.

ESG integration framework

	Investment opportunity	Investment decision	Asset management & active ownership
Internally managed investments	Identify key ESG factors and determine due diligence scope	In-depth assessment of material ESG risks and opportunities	Monitoring and re-assessment of ESG risks, opportunities and performance, shareholder engagement and proxy voting
Externally managed investments	Define due diligence scope based on investment strategy	In-depth assessment of ESG integration practices of the manager	Monitoring and re-assessment of ESG practices and engagement on ESG best practices

In the sections that follow, we provide a more comprehensive view of our approach to ESG integration for internally managed public and private market investments, and for externally managed investments.

ESG integration for internally managed investments

Investment analysis and decision-making

As part of the investment analysis and decision-making processes for internally managed investments, we conduct an in-depth assessment of material ESG risks and opportunities. Findings are incorporated into the investment thesis and considered alongside traditional financial factors.

Applying dynamic materiality to public market investments

Our approach to ESG integration seeks to be agile and reflective of the dynamic nature of ESG materiality—recognizing that ESG considerations that may not be viewed as material can become material in the future. One has only to look at the COVID-19 pandemic as an example of how issues such as employee health and safety can increase in materiality over time. For this reason, we recently enhanced our approach to ESG integration by factoring in the dynamic nature of materiality and monitoring companies' ESG performance using an artificial intelligence screening tool. The tool captures real-time changes in stakeholder sentiment through various media sources, which can help in the early identification of potential risks and opportunities.

When contemplating active positions in publicly traded securities, we prioritize corporate governance practices, focusing on board composition and effectiveness, executive compensation practices and shareholder rights. We believe that well-governed companies are better able to manage social and environmental issues and more likely to prosper over time. This process should also include transparent, timely disclosure of reliable information sufficient for investors to make informed long-term decisions.

In fiscal year 2021, we produced more than 150 ESG assessments to support our Capital Markets group across developed and emerging markets, integrating ESG considerations into fundamental analysis and decision-making.

Case study

Innovative corporate governance dashboard for benchmarking ESG best practices

Our Responsible Investment, Fundamental Equity Strategies and Digital Business Solutions groups sought to gain an information edge from governance data gathered through the traditional proxy voting process. Using a data-driven scoring and screening solution that monitors portfolio company governance over time, we developed a dashboard for systematically benchmarking a company's corporate governance performance against its peers – alongside fundamental analysis and using similar concepts such as trend and momentum. The teams were also able to pull in information from various public company disclosure materials housed in a library of more than 230 governance factors, which has enabled us to transform qualitative insights from our proxy voting activities into critical input for our investment decision-making process.

Private market opportunities

ESG due diligence and assessment for private market investments is tailored to the opportunity, and varies by industry, sector and geography. Where required, we engage external experts and consultants to provide additional insight. In fiscal year 2021, ESG considerations were reviewed for more than 140 direct transactions across PSP's five private market asset classes: Credit Investments, Infrastructure, Natural Resources, Private Equity and Real Estate. The most common material ESG factors raised were employee health and safety, labour practices, business ethics, cybersecurity and climate change risks.

Case study

Climate change toolkits

Climate change is a critical challenge of our time. We are witnessing the magnitude of the risks that it poses to the assets and businesses in which we are investing. We are also experiencing an unprecedent acceleration of the impact of climate change in certain regions of the world and in certain industries. In this changing world, we must be able to identify and assess potential material climate risks and opportunities at the investment level.

Given the dynamic nature of the materiality of climate change, in fiscal year 2021, we enhanced our tools for integrating climate change factors into our investment decisions, at the total portfolio, asset class and individual asset levels. These toolkits were useful, notably when we considered an investment in a real estate asset in a coastal US city.

Leveraging the real estate toolkit, we were able to identify climate change physical risks—primarily flooding and sea level rise—as material to the transaction. The toolkit highlighted relevant resources to assess and understand the asset's potential risk exposure and financial impacts associated with the location. Moreover, using the toolkit, we became aware of potential opportunities related to climate change in the form of resource efficiency and energy source improvements.

Case study

Eye on cybersecurity

Recent trends and cybersecurity statistics reveal an exponential increase in data hacks and breaches triggered by the COVID-19 pandemic, resulting most notably from the unexpected implementation of stay-at-home policies across organizations. Cybersecurity stands as one of the biggest risks to business and the global economy (source). Ever agile and dynamic in our approach to emerging ESG risks, we rolled out a cyber maturity framework, processes and tools to assist our asset classes in assessing investee cyber risks and addressing the identified risks throughout the investment lifecycle.

The Responsible Investment and Information Security groups work hand-in-hand in identifying investments with high cyber risk and factoring cybersecurity risks and opportunities into our investment decisions. The collaboration and complementary roles of these two groups proved to be critical when considering a co-investment in a specialized player in the cybersecurity space presenting ESG risks. Throughout our due diligence, the groups worked closely together to identify the actions needed to mitigate risks, the capacity of the company's management team to address the gaps, and the quality and expertise of our partner in ensuring that there were no deficiencies going forward. Satisfied with the findings, our Private Market team proceeded with the investment.

Active ownership of public companies

We use our ownership positions to promote good corporate governance practices, exercising our proxy voting rights and actively engaging with companies on material ESG issues. Board responsiveness, ESG performance and management of controversies are monitored to inform our voting decisions and prioritize our engagement activities.

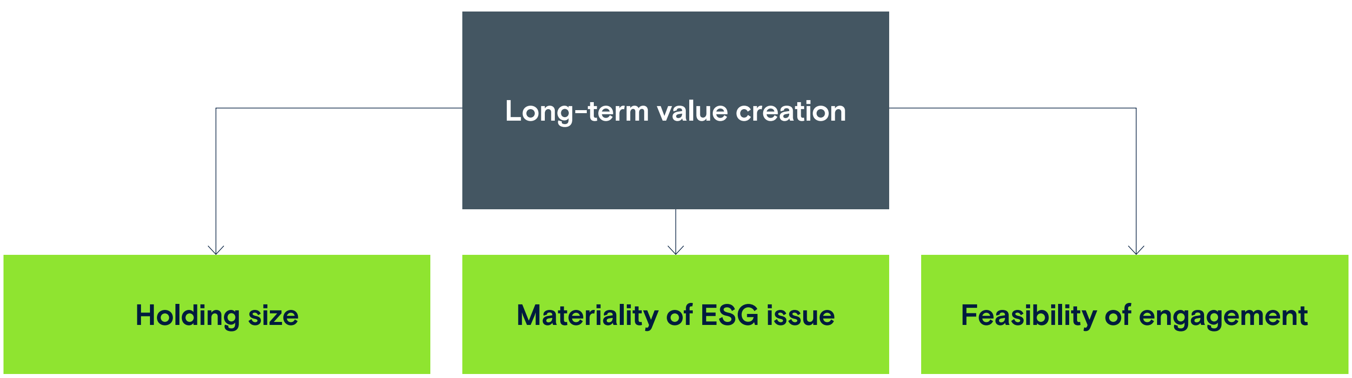
Materiality as the basis for engagement

To encourage positive change and steer capital toward value creation opportunities, we rely on constructive, continuous and objectives-driven engagement to understand a company's management approach and strategies for managing emerging trends and mitigating potential risks over time.

We may choose to engage with companies either directly, through our global stewardship service provider, or collaboratively with other investors. The engagement strategy is tailored to the relevant issues, and whether they are specific to PSP or core to the investment strategy. Insights from our engagement activities are shared among our internal teams as part of our integrated responsible investment process and used to inform our proxy voting activities.

Our engagement strategy is focused on the most material ESG risks and opportunities. We look to engage with the public companies in which we have an equity or debt position that offer the highest potential for successful outcomes and long-term value creation, taking into account the size of our holding and the materiality of the ESG issues.

Engagement selection process



In fiscal year 2021, we engaged either directly, with the assistance of a global stewardship service provider, or in collaboration with like-minded investors or organizations such as the Canadian Coalition for Good Governance, with 882 publicly listed companies whose securities we hold.

Our engagements were undertaken globally and covered a broad range of industries. These engagements were initiated by us or by companies in our portfolio to address specific ESG factors or themes, or in the context of our proxy voting activities.

Case study

Treating people fairly and with respect

Engagement themes: labour and environmental practices

Collaboratively with our global engagement service provider, we have been engaging with a household products company for a number of years on strategy, risk and communication. Following a successful collaborative engagement in which we provided guidance on investor communications best practices, the company's board hosted its first shareholder engagement day. Under new leadership, the company also embarked on a strategic transformation that drove a culture change and a greater focus on corporate responsibility and sustainability.

While the company had a reputation for being hard on its suppliers, we became more comfortable over the course of our engagement that they were indeed treating suppliers fairly. We continued our engagement throughout the pandemic and were pleased to see the new leadership team monitoring its suppliers and offering support.

In 2020, the company received accreditation as a living wage employer, which requires employers to make commitments regarding the number of hours worked and the security of those hours. We also addressed the importance of monitoring environmental impacts, particularly in the areas of pollution and waste. The company has publicly announced a plastics reduction target and now measures and discloses its plastics footprint, providing a regularly updated breakdown of plastics used across its product packaging. Going forward, we will continue to monitor the company's progress, but are encouraged by the direction taken.

Case study

Growing importance of climate change

Engagement themes: climate change and human rights

We joined our global engagement service provider in engaging with a publicly listed emerging markets company specializing in the design, development and manufacturing of communication technologies.

The growing importance of climate change commitments by global customers is a material issue for this sector, especially for companies with complex supply chains—as evidenced by the number of large customers setting targets to decarbonize their supply chain as early as 2030 and ultimately achieve net zero emissions by 2050. The materiality of this issue has helped us engage with the company on setting long-term GHG emissions targets to maintain its competitive position over the long term. We were pleased when the company adopted a low carbon transition strategy and we will continue to engage with them on the execution of their strategy. On human capital management, we were pleased to see the company commit to undertaking a review of any potential links to forced labour in sensitive regions.

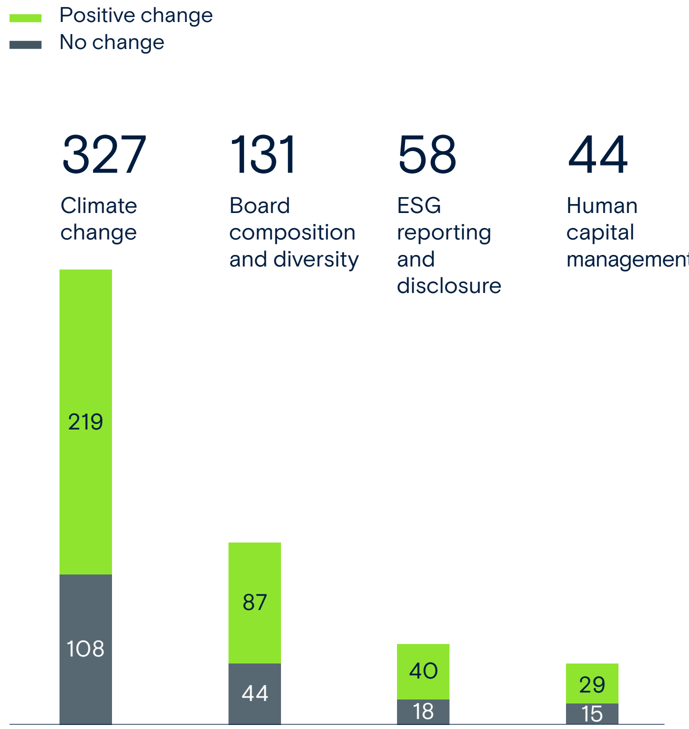
Case study

Engagement statistics

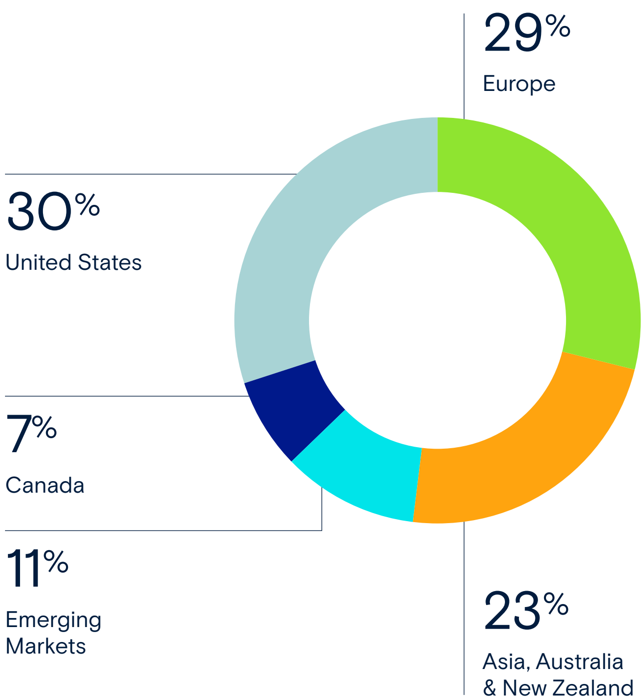
At the start of fiscal year 2021, our priorities included increasing our focus on social factors (including human capital management, and diversity and inclusion); assessing risks and opportunities associated with climate change; and monitoring ESG key performance indicators, disclosure and best practices. Our collaborative engagement activities have led to marked progress across multiple geographic regions over the past year.

Over the longer term, our focus will remain on corporate governance and sustainability management practices, to support effective management of material environmental and social factors, and on comprehensive risk management systems that can adapt to emerging risks and opportunities, while supporting long-term resilience.

Engagement progress in FY2021



Companies engaged – by country or region (FY2021)



Proxy voting

Our Proxy Voting Principles (Principles) are implemented with flexibility in support of the long-term success of the companies in which we invest.

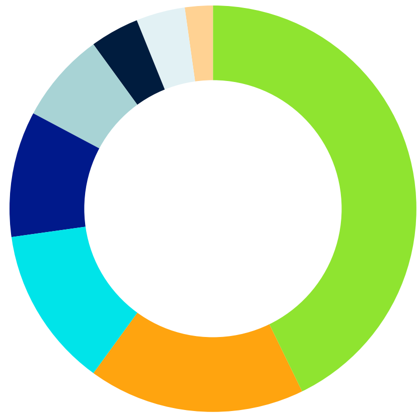
Our Principles outline our expectations with regard to the corporate governance and sustainability practices of public companies in which we invest. They identify the topics on which we may vote from time to time and inform our voting decisions. Each year, ahead of the proxy voting season, we review our Principles, supporting guidelines and procedures to ensure that emerging trends and practices are appropriately addressed.

The review conducted in fiscal year 2021 reinforced our belief that boards should have appropriate levels of diversity in the backgrounds, experience and competencies of their directors, as well as policies supporting diversity. We also intend to take a more proactive approach to supporting shareholder proposals in favour of timely disclosure of ESG performance and practices that have a material influence on investment risks and returns, including those related to climate change.

In fiscal year 2021, we responded quickly to the unexpected circumstances presented by COVID-19. This included adapting our approach to proxy voting in support of business continuity; for example, by adopting exceptional measures to allow virtual annual meetings for the public companies in which we have ownership positions and, in some cases, supporting the re-election of directors deemed essential to navigating the crisis.

Subsequent to implementing these measures, we engaged with portfolio companies through a proxy letter campaign to deepen our understanding of their management practices during the pandemic. As part of our post-proxy season engagement process, we used an artificial intelligence screening tool to monitor the potential impact on the resilience of companies where employee health and safety or labour practices were at heightened risk due to the pandemic. This tool enabled us to surface trends and insights into implications of the pandemic on key ESG factors such as social impact, labour and supply chain.

Resolutions voted – by topic (FY2021)



43%	Board & committee composition
17%	Financial & auditor
13%	Capital structure
10%	Compensation
7%	M&A and anti-takeover
4%	Amendments to articles
4%	Shareholders' resolutions
2%	Other

We voted at 5,903 meetings on a total of 62,006 management and shareholder resolutions in all regions of the world in fiscal year 2021. This included votes by exception at more than 420 meetings on topics such as diversity, virtual shareholder meetings, director tenure and executives on board. We followed up on these actions with engagement letters to more than 100 individual companies.

Details of our proxy voting records are available on our website.

Asset management in private markets

With transactional activity muted in the first few months of the year as the pandemic took hold, many private market investors shifted their attention to the ownership phase of the investment lifecycle and, in particular, to managing the ESG aspects of their investments. Given the considerable health and safety risks of the pandemic, many asset owners sought to minimize the harmful impacts on people's lives as best they could and to adapt to a rapidly evolving situation.

As the crisis unfolded, government officials around the world introduced lockdown measures, physical distancing and other isolation measures to suppress transmission of the virus, causing the global economy to slide quickly into a recession. A significant number of businesses had to shut down, which led, among other things, to a reduction in the number of hours worked and to job losses. While the crisis affected industries, businesses and workers in different ways, it also exposed certain pre-existing imbalances, notably related to diversity and inclusion, which spurred global investors to rethink what's important and start measuring and managing with more scrutiny.

At PSP, we looked at this challenging period as an opportunity to further embed the integration of ESG factors into our asset management. We evolved our active ownership practices by increasing the measurement and management of ESG outcomes resulting from our activities and operations. Key activities in fiscal year 2021 included: improving our proprietary ESG monitoring framework for private markets, particularly for real estate; actively engaging with our portfolio companies and external partners on how they were integrating material ESG considerations throughout the entire investment life cycle; enhancing our approach to managing and monitoring ESG risks and opportunities by leveraging new data sources and analytics; and requiring companies to provide consistent and decision-useful ESG information aligned with disclosure standards such as SASB and TCFD.

Monitoring ESG key performance indicators across our total fund

In private markets, we monitor ESG factors and practices throughout the life of our internally managed investments. We leverage our access to portfolio companies' management teams and our typically larger ownership stake, which often includes board representation, to influence a company's ESG practices. The aim is to encourage sustainable corporate conduct and enhance long-term corporate performance.

While our engagement approach is tailored to the investment type, our goal remains the same: to achieve greater alignment between financial returns and sustainable corporate behaviour, and to clarify PSP's expectations with respect to specific ESG factors.

We generally hold private assets for the long term and are increasingly focused on monitoring KPIs, including those that expand beyond traditional financial metrics, to identify the various levers of risk mitigation and value creation. These KPIs include environmental metrics related to energy, waste, water and GHG emissions, as well as metrics for health and safety, labour conditions and Ei&D. By measuring the impact of our investments through ESG KPIs, we can benchmark portfolio companies and share leading practices.

Over the past year, for our real estate asset class alone, we assessed 39 real estate partners globally and gathered asset-level data for 1,090 properties across various sectors and geographies through our proprietary real estate ESG assessment tool. The roughly 200,000 data points from our partners focus on all material items linked to risk and value creation, which are informed by empirical evidence and best market practices including GRESB and other well-recognized standards such as SASB and the TCFD. The initiative has provided us with high-quality data that we can use to generate asset-level, sector-level and portfolio-level insights through the lens of both risks and opportunities.

ESG disclosure and best practice

With the deployment of climate change toolkits, we provided asset class-specific guidance and resources to our investment professionals to support their assessment of climate change in investment decisions.

Our engagements with our portfolio companies on their ESG performance in fiscal year 2021 revealed a number of notable ESG practices and trends for each asset class as shown here:

Real Estate

- Increased focus on health and wellness in buildings, tenant and community engagement initiatives, including long-term care homes.
- Identification and monitoring of climate change physical risks including implementation of asset resiliency plans in regions where assets could be negatively impacted by climate hazards.
- Detailed monitoring of resource consumption and intensity data for environmental metrics (e.g., energy, waste, water, GHG emissions) and benchmarking of performance at the asset and portfolio levels.
- Greater focus on technology and sustainability-related solutions (also known as proptech)—similar to the way fintech focuses on the use of technology in finance, proptech uses digital innovation to address the needs of the property industry.

Infrastructure

- Increased focus on labour practices and employee health and safety to ensure workers are protected from the COVID-19 virus.
- Assessment of how companies could be affected by the rapidly evolving regulatory environment on climate-related matters.
- Greater focus on the risks and opportunities associated with the transition to a low-carbon economy.
- Uptick in collaboration and knowledge sharing with an emphasis on ESG strategy and development of frameworks to identify, manage and reduce operational risks.

Natural Resources

- Increased focus on understanding risks and opportunities associated with climate and climate change on specific agricultural commodities and regions.
- Enhanced usage of climate change scenario analysis and modelling to assess climate-related physical risks.
- Rising interest in forest conservation, reforestation, and sustainable land management practices in light of current and expected carbon pricing dynamics and use of offsets.
- Greater focus on labour practices and employee health and safety measures.

Private Equity and Credit Investments

- Heightened focus on business ethics, product quality and safety, resilient supply chains, cybersecurity and data privacy.
- Increased focus and efforts on board and company-wide diversity, equity and inclusion.
- More TCFD-related disclosure as climate-related risks and opportunities are materializing across sectors and industries.
- Greater interest among portfolio companies in developing sustainable business strategies.

Case study

Responsible, resilient real estate

PSP increased its exposure to the life science sector in 2020 by committing to BioMed's Core+ Fund managed by Blackstone. BioMed is a leader in the life science real estate sector with a portfolio concentrated in the leading innovation markets of Boston, San Francisco, San Diego, Seattle and Cambridge, UK.

With the world seeking vaccines and treatments for COVID-19, investment in this sector has surged amid the pandemic—and it's expected to grow even further, driven by an aging population and the accelerated pace of innovation.

Investing in the BioMed fund supports delivery of the state-of-the-art real estate needed by life sciences and biopharma companies. Through the incorporation of leading-edge technologies and sustainability solutions, coupled with dynamic tenant engagement methodologies, BioMed provides tenants with safe, environmentally-friendly spaces to drive research and innovation. These spaces support positive community health outcomes while minimizing impact.

Prior to investing, we engaged with the sustainability team of Blackstone, the owner of the BioMed Fund, to better understand their evolving ESG integration practices and monitoring of ESG key performance indicators.

ESG integration for externally managed investments

We allocate a portion of our capital to externally managed mandates and fund investments across our public and private market portfolios. Forging the right relationships is critical in these situations and we engage regularly with our external partners on ESG topics throughout the investment lifecycle.

Investment opportunity

To ensure that the ESG integration approach for each externally managed mandate and fund investment is consistent with our Responsible Investment Policy and expectations, we have an in-house proprietary assessment framework that evaluates our external managers' and general partners' ESG practices across more than 35 indicators and three key pillars:

What our in-house framework evaluates

ESG framework

Policy | Resources

- ESG or responsible investment policy, proxy voting guidelines
- Resources (internal, external, ESG-dedicated)
- Training

Investment process

Pre-investment | Investment decision | Ownership & engagement

- Systematic identification of ESG factors
- Inclusion of ESG factors in decision-making process
- Post-investment monitoring and engagement
- Climate change and diversity considerations
- Portfolio-level ESG performance/incidents

Communication & leadership

Reporting | Leadership activities

- ESG reporting to investors
- Participation in industry events and initiatives, and best practice support
- Mandate/fund-specific ESG reporting
- Diversity at firm level

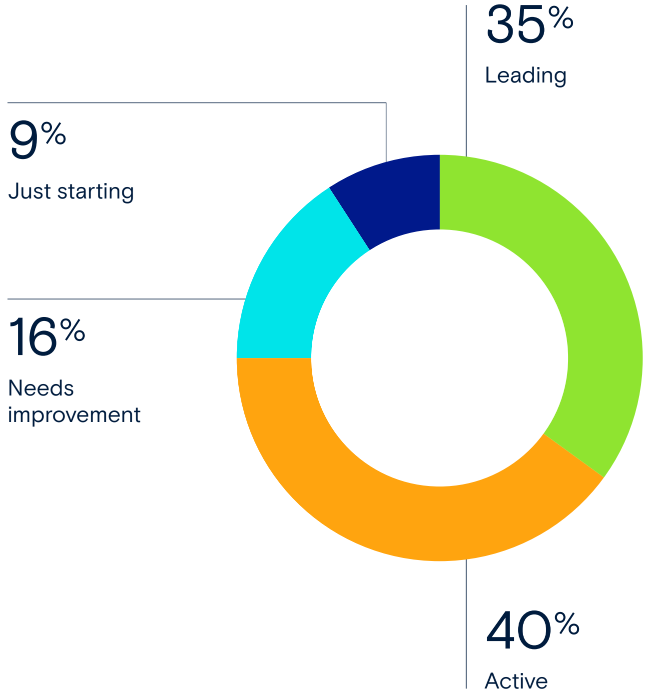
Given how responsible investment practices have evolved over the past year, we are in the process of revamping our assessment framework to incorporate emerging practices, enhance tracking of both broad KPIs that are relevant across diverse geographies and assets and custom ESG KPIs for certain investments (both at the fund and portfolio levels), and increase our focus on TCFD-related disclosures.

Investment decision-making and asset management

In fiscal year 2021, we assessed the ESG integration practices of 35 fund investment opportunities and five new externally managed mandate opportunities. In keeping with our objective of encouraging ESG best practices, we completed the benchmark assessment update of our third- and fourth-quartile external managers for Public Markets with a view to monitoring changes in their practices. Through this exercise, we reviewed six managers, of which four made progress on their PSP ESG quartile score. We engaged with each manager as part of our benchmark assessment update and provided a customized report highlighting KPIs and best practices. Notable progress was achieved in the implementation of new responsible investment policies in emerging markets and the systematic integration of ESG factors in some quantitative strategies.

Having systematically assessed our external partners' practices over the past three years, we have learned that ESG is moving to the mainstream. Approximately 75% of our externally managed investments are with general partners who have leading or engaged approaches to integrating ESG factors and applying ESG principles firm-wide.

ESG benchmark for externally managed commited investments



Engaging with partners

ESG practices are evolving rapidly among our external partners. Through our fiscal year 2021 assessment process, we gained insight into notable ESG practices that we believe will soon become commonplace. A few of these trends are outlined below[1]:

Public markets

- Robust integration of climate change-related data into financial modeling.
- Company scoring on quality of climate-related risks disclosure, in line with the TCFD recommendations.
- Analysis of company ESG profiles using industry-specific ESG frameworks similar to SASB.
- Use of unstructured data and artificial intelligence tools to complement company disclosure.
- Development of quantitative models that integrate ESG factors alongside other traditional factors.
- Integration of material ESG factors in investment review of sovereign issuers.
- Formal and integrated ESG engagement process with engagement outcomes affecting the investment decision-making process.

Private markets

- Increased focus on post-investment activities with ESG integration into value-creation plans and training of board nominees on ESG topics.
- Monitoring of ESG KPIs that are material to portfolio companies and use of tools that enable ESG data to be collected alongside financial metrics.
- Fund-specific ESG reporting including ESG metrics.
- Diversity and inclusion initiatives at both the partner and portfolio company level.
- Increased focus on climate change-related risks and opportunities to guide investment decisions.
- Increased focus on social factors (e.g., employee health and safety, labour practices).

[1] For the purposes of this report, these are general trends and thus may not be applicable across all asset classes or investment strategies.

TCFD reporting

The TCFD was established by the Financial Stability Board of the G20 to develop a consistent framework for climate-related financial disclosures. These disclosure recommendations are intended to help the financial community understand material climate change risks. Since its inception, the number of organizations expressing support for the TCFD has grown to over 1,500 organizations globally, including over 1,340 companies with a market capitalization of $12.6 trillion and financial institutions responsible for assets of $150 trillion[1].

At PSP, we believe that climate change is a long-term structural trend that may have a material impact on investment risks and returns across sectors, geographies and asset classes. As stated in our Responsible Investment Policy, we integrate climate change risks and opportunities in our investment due diligence and asset management processes across all asset classes. We have adopted a multi-year, fund-wide climate change approach based on three pillars:

Integration of climate change factors into our investment decisions, at the total portfolio, asset class and individual asset levels.

Monitoring of the portfolio's exposure to climate change as part of our asset management processes.

Engagement with portfolio companies for better climate change-related financial risk disclosures.

We support the TCFD recommendations and believe their implementation will foster improved transparency on climate change-related financial risks and opportunities in capital markets. To that end, we encourage enhanced disclosure on climate change risks by all companies in which we invest. As an asset owner, PSP is committed to steadily enhancing disclosure about how we manage climate change-related financial risks and opportunities. These efforts are aligned with the statement of the CEOs of Canada's eight largest pension plan investment managers, including PSP, to require increased transparency from companies, notably by reporting relevant material ESG data in a standardized way.

In the coming months, we will be reviewing and updating our climate change approach, mainly to further support integration of climate change risks and opportunities in our investment processes and establish a stronger link with our overall ESG and corporate strategy. We will also advance work to increase the robustness of our disclosure practices.

[1] Source: https://assets.bbhub.io/company/sites/60/2020/09/2020-TCFD_Status-Report.pdf

Governance

Disclose the organization's governance around climate-related risks and opportunities

PSP believes that climate change is a long-term structural trend that will likely have a material impact on investment risks and returns, across different sectors, geographies and asset classes. Given the broad implications of climate change across PSP's investment activities, operations, risk management, audit and reporting, the level of board and senior executive oversight of our efforts to understand and manage climate-related risks and opportunities has significantly increased over the years.

The Responsible Investment group, which is housed in PSP's Chief Investment Office (CIO) group, is responsible for coordinating the development, and overseeing the implementation, of PSP's climate change approach in collaboration with investment groups and business partners. The Responsible Investment group reports regularly to the Board, the Board's Governance Committee and senior management on ESG matters, including climate change. New objectives and priorities are established annually in line with our multi-year climate strategy, to maintain progress and adapt to evolving climate-related trends.

Beyond the Board and senior management, presentations are regularly delivered to investment groups to keep them informed of key climate change trends and risks, and of our progress in implementing PSP's climate change approach. In fiscal year 2021, we conducted several workshops with investment groups on our new and proprietary climate change toolkit, which supports the implementation of our climate change approach.

In the past few months, the Responsible Investment group has started updating the corporate view on climate change to strengthen the link between PSP's climate change commitments and its overall ESG and corporate strategy. The climate change corporate view, which we originally developed in 2018, articulates our view on investment risks and opportunities related to climate change and our approach is anchored in three pillars: (i) integrating climate change considerations in our investment decisions; (ii) investing in companies and assets that will be resilient to climate change and will grow and prosper in a low-carbon economy; and (iii) engaging with portfolio companies to influence their disclosure on climate change. This climate change approach applies across all asset classes in PSP's portfolio, and is readily adapted for different investment strategies and industry sectors.

Strategy

Disclose, where material, the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy and financial planning

We understand that climate change risks and opportunities impact industries in very different ways. They can act as a risk amplifier and, more generally, trigger paradigm shifts by challenging conventional business models and traditional industries.

As a long-term investor, we have a fiduciary obligation to proactively address climate change risks and opportunities as part of our investment strategy. This entails developing and implementing investment policies and processes to make our total fund strategy more resilient to the impacts of climate change.

From a strategic asset allocation perspective, our multi-year climate change approach includes climate scenario analysis and stress-testing, which help us understand how climate change can influence investment performance in both the short and long term and what steps could be taken to protect and position our portfolio of assets. Conducted annually, this exercise improves our understanding of the impacts of climate change physical and transition risks on our long-term asset allocation.

In conducting our scenario analysis, we consider three different scenarios across three different time horizons (2030, 2050 and 2100). We assume 2°C, 3°C and 4°C warming scenarios, and factor in both transition risks—including GHG emissions policies for high-emitting sectors—and physical risks, such as extreme weather events. Based on this analysis, we estimate the average "climate impact on annual return" at the total Reference Portfolio and Policy Portfolio levels, as well as at the asset class and industry sector levels. Our most recent results confirmed the overall resilience of our long-term asset allocation across all three scenarios, with some variations in potential impacts.

From a bottom-up perspective, we focus on incorporating climate factors across the investment cycle, including performing in-depth climate change vulnerability studies at the inception of an investment, and as part of our ongoing asset management activities and exit strategy. Our key objective is to understand how an organization, or an asset, is likely to perform in a range of future environments, including in a low-carbon transition.

Recently, we have begun to assess new opportunities as a means of raising capital for either new assets that can positively contribute to the low-carbon transition or for improving the ESG performance of our existing assets. As the world strives to achieve net-zero carbon emissions, PSP aims to participate in the climate transition by proactively incorporating ESG trends into our investment theses and development of new strategies. We have also engaged with key players in the sustainable finance and the taxonomy of green activities to inform our go-forward strategy with respect to low-carbon investments.

Risk Management

Disclose how the organization identifies, assesses and manages climate-related risks

Through our analysis of climate change risks and opportunities, we seek to understand the consequences of climate change on our ability to generate long-term positive returns. Climate change-related risks are assessed as part of our annual review of our corporate and investment risks and are reviewed by our Board. We also conduct an annual, enterprise-wide risk and control self-assessment exercise to identify and evaluate key risks, including climate change, and to assess the adequacy and effectiveness of our mitigation activities.

Climate change risks can manifest in different ways across investment portfolios. For example, physical risks from extreme weather events and long-term shifts in climate patterns can disrupt businesses and negatively impact local and regional economies and real assets. Transition risks, on the other hand, are those induced by societal responses to avert the worst impacts of climate change, including shifts in policy, legislation, technology and markets resulting from climate change mitigation and adaptation measures. In this regard, the transition to a low-carbon economy is driving innovation and growth in low-carbon solutions in many sectors, creating new opportunities for long-term investors. To take into account the world of tomorrow, we factor these climate risks into our investment processes—with a view to enhancing performance, steering capital toward more attractive areas and mitigating potential issues.

We integrate climate change risks into our investment decisions, at the total portfolio, asset class and individual asset levels. For example:

- At the total portfolio level, we perform climate change scenario analysis as part of our portfolio construction process to assess the resilience of our long-term asset allocation. This assessment informs which asset classes or sectors may present higher exposure to climate change transition and physical risks. The results have confirmed the overall resilience of our long-term asset allocation.
- At the asset class level, we analyze the exposure of our real estate, infrastructure and natural resources assets to physical risks of climate change, which could manifest themselves as acute or natural weather events such as hurricanes, wildfires or droughts. Together with some of our Canadian pension fund peers, we are currently collaborating to further enhance a tool to assist in the appraisal of climate change physical risks. This online platform tool will enable us to assess physical risks for multiple asset classes (e.g., public and private equities, fixed income, real assets) and asset types (e.g., equity/debt, corporate/sovereign). It also covers climate hazard data for any location in the world. One of the key benefits is that it translates climate change physical risks into real financial impacts at the asset, company and portfolio level.
- At the asset level, we evaluate material climate change risks and opportunities across the investment cycle. For each investment, we consider whether climate change could have a material impact on the company, based on the sector and geography in which it operates. Relevant physical and transition risks, as well as opportunities, are then assessed during due diligence. Where relevant, we engage external advisors to support the assessment of climate change risks for potential investment opportunities that present a higher exposure to these risks. In fiscal year 2021, we launched a proprietary climate change toolkit to investment professionals, which helps ensure that change risks and opportunities for new and existing investments are assessed in an effective and systematic manner. The climate change toolkit provides guidance on typical climate-related risks and opportunities by asset class, including potential financial impacts, based on location. It also includes recommended due diligence scoping questions, a list of available resources, a directory of climate change reports, and tools enabling us to monitor PSP's portfolio carbon footprint and avoided emissions.
- Lastly, to ensure that we align with industry best practices in assessing climate change risks and opportunities at the investment level, we often leverage our relationships with external consultants and industry experts. In fiscal year 2021, for example, we routinely engaged with external climate experts on topics such as water rights and licensing, wildfire management, carbon offset systems, regenerative agriculture and sustainable forestry. We strive to continuously improve our understanding of the potential downside risks associated with climate change, as well as potential benefits and opportunities across key industries. The transition to a low-carbon economy is driving innovation and growth in many sectors, creating tremendous opportunities for long-term investors like PSP.

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities, where such information is material.

PSP began measuring the carbon footprint and carbon intensity of its assets under management in fiscal year 2017, and last year publicly disclosed those numbers for the first time. We published our methodology, including formulas and scope of coverage, in an effort to inspire and encourage better climate-related disclosure by like-minded investors and/or partner organizations. We continue to focus our efforts on making improvements to our in-house carbon footprint management framework, including continuous evolution of our tools and systems to monitor portfolio carbon metrics of various asset classes on a quarterly basis.

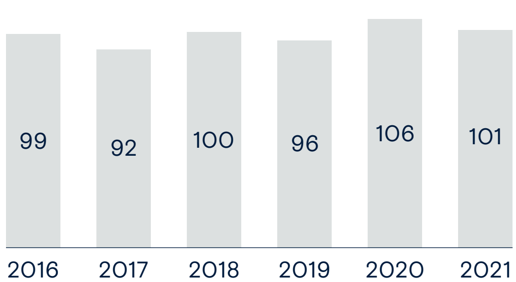
We see tremendous value in having a global, standardized GHG accounting and reporting approach to allow for better comparability of data and greater adoption of the TCFD recommendations. We recognize that the quality and availability of climate-related data is still an area for improvement, and we continue to seek Scope 1, 2 and 3 emissions data from the companies in which we invest. We encourage disclosure and participation to the CDP (formerly known as Carbon Disclosure Project) and enhanced climate-related disclosures, in accordance with the TCFD's recommendations. Where appropriate in our proxy voting activities, we support shareholder proposals seeking enhanced climate-related disclosures. Beyond this, we are actively engaging with external experts and consultants to obtain insights on the implications of emerging trends related to climate change metrics and targets.

As part of our commitment to steadily enhance disclosure about how we manage climate change-related financial risks in line with the TCFD, we are disclosing our portfolio's carbon footprint and weighted average carbon intensity (WACI) over the past six years, based on equity ownership as demonstrated in the table below.

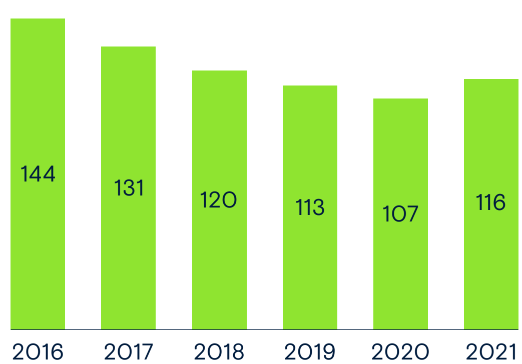
PSP portfolio carbon footprint metrics

	Carbon footprint	Weighted average carbon intensity
Metric	Total carbon emissions for PSP portfolio normalized by the market value of PSP portfolio (tons CO2e/$ million invested)	**PSP portfolio exposure to carbon-intensive companies** (tons CO2e/$ million revenue)
Carbon accounting equation	1. Calculate portfolio carbon emissions: $\sum_{i}^{n} \frac{\text{Holding NAV}_i}{\text{Issuer'}_i\text{s Mkt Cap}} * \text{Issuer'}_i\text{ GHG emissions}$ 2. Divide by PSP portfolio NAV	$\sum_{i}^{n} \frac{\text{Holding NAV}_i}{\text{PSP portfolio NAV}} * \frac{\text{Issuer'}_i\text{ GHG emissions}}{\text{Issuer'}_i\text{ revenues}}$

Carbon footprint
As of March 31



Weighted average carbon intensity
As of March 31



This year, our portfolio carbon footprint trended slightly downward, from 106 to 101 tons of CO_2e per million dollars invested. This 5% year-over-year decline is in part due to a reduction in carbon-intensive sectors and an increase in low-carbon investments. PSP's green assets now stand at 12.6B$ as of March 31, 2021. This includes investments in sustainable infrastructure, renewable energy, green buildings and certified sustainable forestry. PSP's weighted average carbon intensity has increased by approximately 8% this year, while still being down by about 19% compared to our 2016 starting point. PSP's exposure to emerging markets, combined with a decline of average issuer's revenues in those markets, have caused the carbon intensity to increase this year.

The last 12 months have been a time of significant change globally, with COVID-19 impacting real GDP growth, unemployment, valuation of currencies and commodities, and the day-to-day operation of firms in both public and private markets. Moreover, recent sector rotation in global equity indices away from low-emitting sectors, including information technology, consumer staples and health care, and toward traditionally higher-emitting sectors, including energy and materials, has also contributed to upwards pressure on PSP's weighted average carbon intensity.

Methodology

We include scope 1 and scope 2 emissions in our portfolio carbon footprint metrics. At this stage, Scope 3 emissions are excluded from the calculation because the comparability, coverage, transparency and reliability of scope 3 data is generally insufficient in the marketplace. We intend to include greater amounts of Scope 3 data as it becomes available.

Scope 1 emissions are direct emissions from owned or controlled sources at our portfolio companies. Scope 2 emissions are those associated with purchased energy. Scope 3 covers other indirect emissions such as the extraction and production of purchased materials and fuels, outsourced activities, business travel and waste disposal.

We use emissions data from a third-party, which are combined with market data and PSP's positions to calculate the portfolio carbon footprint and WACI.

We recognize that companies use different methodologies to calculate and report their carbon emissions. For those companies that do not report their carbon emissions, we use a waterfall approach for estimating carbon emissions, which is consistent across our public and private market portfolios:

1. Company-reported emissions (28% of NAV)
2. Estimate based on company-specific factors (5% of NAV)
3. Proxy based on sub-industry average emissions (67% of NAV)

Scope

This section lists the asset classes and instrument types included in the portfolio carbon footprint metrics, which represent 76% of our net assets as of March 31, 2021.

Public markets

- In-scope: shares in long-only public equity strategies, securities held through market indexes or exchange traded funds (ETFs), externally managed investments
- Out of scope: government bonds, cash and money market instruments, non-equity derivatives

Private markets

- In-scope: direct and fund investments in private equity, infrastructure, real estate and natural resources
- Out of scope: any balances associated with working capital, cash or debt instruments, credit investments, fund of funds.

PSP Forward

In November 2020, CEO's from Canada's leading eight pension funds released a statement calling on companies and investors to help drive sustainable and inclusive economic growth. Looking forward, we will seek to establish a more robust evidence and data set to guide our investment decision-making and position our total portfolio favourably in a low-carbon environment. PSP will continue to improve and refine its carbon footprinting methodology, which will include placing more emphasis on obtaining additional company specific data, particularly from the largest emitters across the portfolio. We will further increase our engagement with portfolio companies and partners on decarbonization planning and active asset management strategies aligned with targets based on climate science, to ensure business plans are resilient in the face of a changing climate.

2021

Special Examination

Independent Auditors' Report

Report of the Joint Auditors to the Board of Directors of the Public Sector Pension Investment Board

Office of the Auditor General of Canada

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Special examination reports

Special examinations are a form of performance audit that is conducted within Crown corporations. The Office of the Auditor General of Canada audits most, but not all, Crown corporations.

The scope of special examinations is set out in the *Financial Administration Act*. A special examination considers whether a Crown corporation's systems and practices provide reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

More details about the audit objective, scope, approach, and sources of criteria are in About the Audit at the end of this report.

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Deloitte.

7 May 2021

To the Board of Directors of the Public Sector Pension Investment Board:

We have completed the special examination of the Public Sector Pension Investment Board in accordance with the plan presented to the Audit Committee of the Board of Directors on 13 February 2020. As required by section 139 of the *Financial Administration Act*, we are pleased to provide the attached final special examination report to the Board of Directors.

We will also present this report for tabling in Parliament shortly after it has been made public by the Public Sector Pension Investment Board.

We will be pleased to respond to any comments or questions you may have concerning our report at your meeting on 14 May 2021.

We would like to take this opportunity to express our appreciation to the board members, management, and the corporation's staff for the excellent cooperation and assistance offered to us during the examination.

Yours sincerely,

Deloitte LLP[1]

Mélanie Cabana
Principal (responsible for the audit)
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[1] CPA auditor, CA,
public accountancy permit No. A121444

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Audit Summary

We found no significant deficiencies in the corporate management practices or management of investments and operations of the Public Sector Pension Investment Board during the period covered by the audit. Though we identified areas for improvement, the corporation generally maintained reasonable systems and practices for accomplishing its mandate.

Introduction

Background

Role and mandate

1. The Public Sector Pension Investment Board is a Crown corporation created in 1999 under the *Public Sector Pension Investment Board Act*. It invests and manages contributions from the pension plans of the public service, the Canadian Armed Forces, the Royal Canadian Mounted Police (RCMP), and the Reserve Force. As outlined in the *Public Sector Pension Investment Board Act*, the corporation is responsible for

- managing the contributions that are transferred to it from the pension plans in the best interests of the contributors and beneficiaries
- investing its assets with a view to achieving a maximum rate of return, without undue risk of loss, considering the funding, policies, and requirements of the pension plans and the ability of those plans to meet their financial obligations

2. The Treasury Board of Canada Secretariat oversees the government's relationship with the corporation. In the 2018–19 fiscal year, the secretariat worked with the corporation and other pension plan stakeholders to implement a funding policy that aligned with the government's funding risk tolerance. The secretariat also created the Asset Liability Committee, which included departmental officials representing each of the plans, and other significant stakeholders, including officials of the corporation. This committee provides a forum for the review and discussion of the funding risks, and supports the secretariat's role in ensuring that these risks remain within the established funding levels. During our audit, the secretariat communicated the government's funding risk tolerance and long-term real rate-of-return objective for the pension assets that the corporation managed.

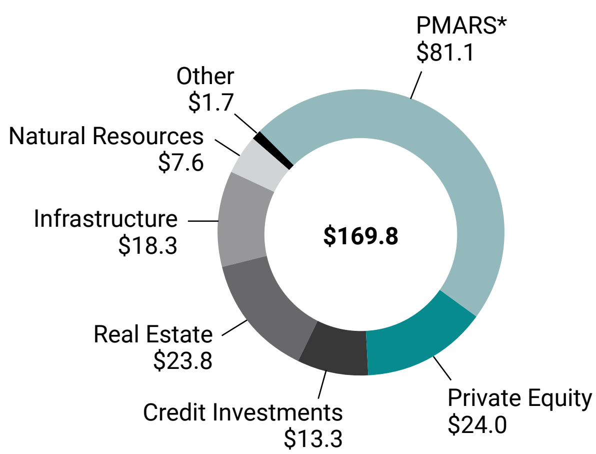
Nature of business and operating environment

3. To develop its investment portfolio and investment management strategies, the corporation uses the government's funding risk tolerance level, long-term real rate-of-return objective, and inflation expectations. In the 2019–20 fiscal year, the government's real rate-of-return objective was 3.6% for the following 10 years and 4.0% thereafter. The corporation's objective is to establish a long-term investment strategy that achieves an expected real rate of return that is at least equal to the government's rate-of-return objective, without assuming undue risk of loss. The corporation developed an actively managed investment portfolio aimed at outperforming, at a lower or equal level of pension funding risk, a passively managed portfolio over a 10-year period.

4. As of 31 March 2020, the total fund 1-year **net portfolio return** was −0.6%. This rate of return was affected by the market conditions brought about by the coronavirus disease (COVID-19) pandemic. The 5-year and 10-year **net annualized returns** were 5.8% and 8.5% respectively.

5. The corporation is one of Canada's largest pension investment managers. As of 31 March 2020, it was managing $169.8 billion in assets. These assets were invested in 6 asset classes (Exhibit 1), in more than 100 sectors and industries across 85 countries. The corporation also held investments in 147 subsidiaries around the world, including 6 wholly owned operating subsidiaries. The subsidiaries are companies the corporation controls as part of its investment portfolio.

Exhibit 1—Asset classes under management, as of 31 March 2020 ($ billions)



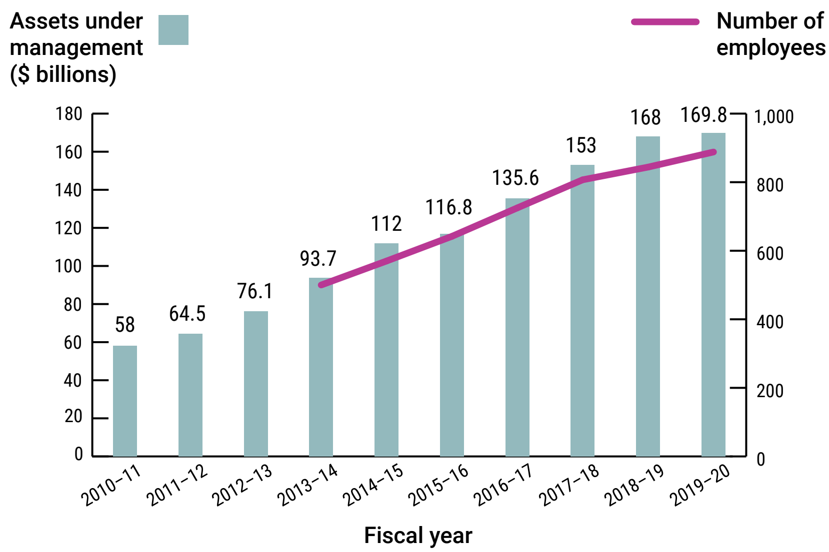
* Public Markets and Absolute Return Strategies: includes public market equities and government fixed income

Source: Adapted from the Public Sector Pension Investment Board's website

Net portfolio return—The amount an investment portfolio gains or loses in a given period of time, after deducting fees, costs, and other expenses.
Net annualized return—The average amount an investment portfolio gains or loses per year, over a given period of time, after deducting fees, costs, and other expenses.

6. The corporation has 888 employees in 5 offices around the world. Its head office is in Ottawa, while its main business offices are in Montréal, New York, London, and Hong Kong. The offices in New York, London, and Hong Kong opened in the past 5 years. The corporation has grown significantly since our last special examination in 2011, particularly over the past 5 years (Exhibit 2).

Exhibit 2—Public Sector Pension Investment Board growth since 2010–11



Source: Adapted from the Public Sector Pension Investment Board's website

7. In the 2020–21 fiscal year, after the implementation of the Funding Policy for the Public Sector Pension Plans, the Treasury Board of Canada Secretariat communicated to the corporation the government's funding risk tolerance by providing a portfolio breakdown of investment types (equity and fixed income) in line with this funding risk tolerance level. This practice replaced the communication of a long-term real rate-of-return objective.

Focus of the audit

8. Our objective for this audit was to determine whether the systems and practices we selected for examination at the Public Sector Pension Investment Board were providing the corporation with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively, as required by section 138 of the *Financial Administration Act*.

9. In addition, section 139 of the *Financial Administration Act* requires that we state an opinion, with respect to the criteria established, on whether there was reasonable assurance that there were no significant deficiencies in the systems and practices we examined. We define and report significant deficiencies when, in our opinion, the corporation could be prevented from having reasonable assurance that its assets are safeguarded and controlled, its resources are managed economically and efficiently, and its operations are carried out effectively.

10. On the basis of our risk assessment, we selected systems and practices in the following areas:

- corporate management practices
- investments and operations management

The selected systems and practices, and the criteria used to assess them, are found in the exhibits throughout the report.

11. More details about the audit objective, scope, approach, and sources of criteria are in **About the Audit** at the end of this report (see pages 22–26).

Findings, Recommendations, and Responses

Corporate management practices

The corporation had good corporate management practices in some areas and opportunities for improvement in others

What we found

12. We found that the corporation had good corporate management practices. However, improvements were needed in performance measurement, performance monitoring and reporting, risk mitigation, and risk monitoring and reporting.

13. The analysis supporting this finding discusses the following topics:

- Corporate governance
- Strategic planning
- Corporate risk management

14. For additional information, see **Subsequent Event** at the end of the report.

Context

15. The corporation is governed by a Board of Directors composed of 11 members, including the Chair, who are appointed by the **Governor in Council** upon recommendation from the President of the Treasury Board.

16. The board oversees the corporation and is accountable to Parliament for the fulfillment of its duties. It reports through the President of the Treasury Board, as well as the ministers of National Defence and of Public Safety and Emergency Preparedness, in fulfilling its duties as pension investment manager.

17. The board is supported by an Investment and Risk Committee, Audit Committee, Governance Committee, and Human Resources and Compensation Committee.

18. The corporation is exempt from certain sections of Part X of the *Financial Administration Act*. As a result, it does not have to submit an annual corporate plan or an operating and capital budget for government approval.

19. To achieve its mandate, the corporation sets out strategic objectives in its strategic plan. It also develops performance indicators to measure its progress toward these objectives. Performance indicators are a means of measuring an output or outcome, to gauge the performance of a program, policy, or initiative. Along with the indicators, the corporation uses targets to specify the success levels or goals it must reach to achieve strategic objectives. For the 2016–21 period, the corporation identified 5 strategic objectives:

- Cultivate One PSP (encourage a total fund view across the corporation)
- improve its brand both locally and internationally
- increase its global footprint
- increase scalability and efficiency
- develop its people

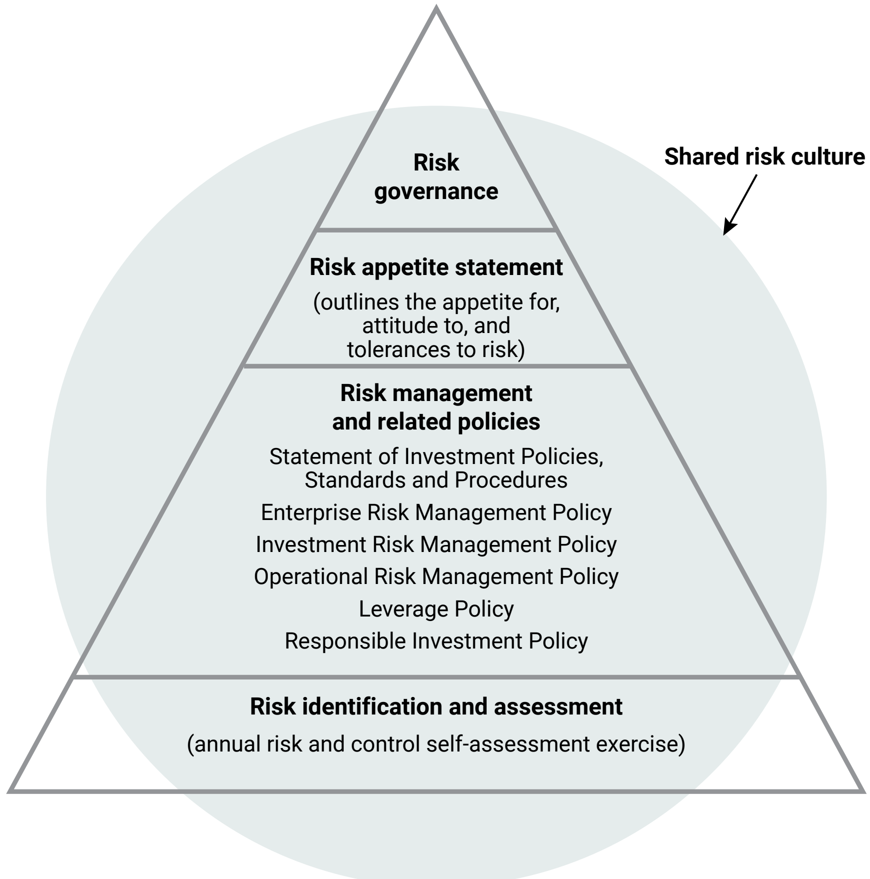
At the time of our audit, the corporation was developing its 2021–26 strategic plan.

Governor in Council—The Governor General, acting on the advice of Cabinet, as the formal executive body that gives legal effect to those decisions of Cabinet that are to have the force of law.

20. The corporation uses a risk management framework (Exhibit 3) that includes risk governance, a risk appetite statement, risk management and related policies, and risk identification and assessment:

- Risk governance refers to processes by which decisions about risks are made and implemented.
- A risk appetite statement specifies the level and types of risk that a corporation is willing to take to meet its strategic objectives. It sets the basic goals, parameters, and limits for the risks an organization is assuming. At the corporation, the board reviews and approves the risk appetite statement annually.
- Risk management policies outline the guiding principles governing a corporation's overall values and approach to managing risk. The corporation uses risk management policies to mitigate investment and non-investment risks (Exhibit 4).
- Risk identification and assessment refers to the process in which risks are identified, categorized, and assessed, on the basis of their potential impact and likelihood of occurrence. The corporation conducts an annual, enterprise-wide risk and control self-assessment exercise to identify and evaluate significant risks, and assess the effectiveness of its risk mitigation activities. This exercise supports the corporation's business planning process and ensures that risks are factored into its overall strategy. The board participates in this process through an annual risk-identification survey.

Exhibit 3—The corporation has a risk management framework



Source: Public Sector Pension Investment Board 2020 annual report

Exhibit 4—The corporation has both investment and non-investment risks

Investment risks	Non-investment risks
• Market risk • Liquidity risk • Credit and counterparty risk • Concentration risk • Leverage risk • Environmental, social, and governance risk	• Financial crime and fraud • Reporting and taxation • Strategic or business • Legal, contractual, or regulatory • Digital or non-digital asset • Operational • People

Source: Public Sector Pension Investment Board 2020 annual report

Recommendations

21. Our recommendations in this area of examination appear at paragraphs 26, 32, 33, 34, and 37.

Corporate governance

22. **Analysis.** We found that the corporation had good systems and practices for corporate governance (Exhibit 5).

Exhibit 5—Corporate governance—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board independence	The board functioned independently.	The board functioned independently from management when making decisions. The corporation established processes for board members to declare real, potential, or apparent conflicts of interest.	✓
Providing strategic direction	The board provided strategic direction.	The board provided strategic direction to management that aligned with the corporation's mandate and strategic plan. The direction also aligned with the government's funding risk tolerance level and long-term rate-of-return objective. The board set objectives for the President and Chief Executive Officer and assessed his performance. This activity aligned with the corporation's strategic direction. The corporation had regular communication with its stakeholders and shareholders, which helped the board provide strategic direction to the corporation.	✓

Legend—Assessment against the criteria

✓ Met the criteria

! Met the criteria, with improvement needed

– Did not meet the criteria

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Board appointments and competencies	The board collectively had the capacity and competencies to fulfill its responsibilities.	The board determined the skills and expertise it needed to be effective. The board communicated its needs for member appointments to the responsible minister. The corporation provided new board members with orientation sessions and training material. The board was composed of 11 members with staggered terms. Four of them had expired terms; however, they planned to remain on the board until they were replaced. For additional information, see **Subsequent Event** at the end of the report.	Met the criteria
Board oversight	The board carried out its oversight role over the corporation.	The board's governance structure reflected the nature and complexity of the corporation's business and responsibilities. The board made decisions, requested and challenged information, offered direction, and followed up on management actions. The board annually evaluated its performance and the performance of its committees. The corporation's internal audit department provided an independent, objective view on risk and internal controls. This activity supported the board's oversight. The board reviewed information related to the governance of the corporation's subsidiaries and their performance. Internal audits on the governance of the subsidiaries were performed at an appropriate frequency.	Met the criteria

Legend—Assessment against the criteria

- Met the criteria
- Met the criteria, with improvement needed
- Did not meet the criteria

Strategic planning

23. **Analysis.** We found that the corporation had good systems and practices for strategic planning. However, improvements were needed in performance measurement and in performance monitoring and reporting (Exhibit 6).

Exhibit 6—Strategic planning—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Strategic planning processes	The corporation established a strategic plan and strategic objectives that were aligned with its mandate.	The corporation developed a 2016–21 strategic plan and an annual corporate plan. The plans included the corporation's strategic objectives, which aligned with its mandate. In developing its strategic objectives, the corporation considered the government's priorities, rate-of-return objective, funding policy, and long-term trends. It also considered the internal and external environments, and the corporation's strengths, weaknesses, and significant risks. The President and Chief Executive Officer's and senior management's performance objectives and performance appraisals aligned with the corporation's strategic objectives. The corporation's performance management and compensation framework supported its long-term strategic objectives and prudent risk taking. The corporation developed a new information technology strategy that addressed future information technology needs and the corporation's strategic objectives.	
Performance measurement	The corporation established performance indicators in support of achieving strategic objectives.	The corporation had a systematic performance measurement process and established performance indicators to assess its progress toward strategic objectives. **Weakness** Some of the corporation's non-investment performance indicators did not have specific targets for measuring the achievement of the strategic objectives.	

Legend—Assessment against the criteria

- Met the criteria
- Met the criteria, with improvement needed
- Did not meet the criteria

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Performance monitoring and reporting	The corporation monitored and reported on progress in achieving its strategic objectives.	The corporation established a process to monitor progress toward its strategic objectives. The corporation reported on many performance indicators to stakeholders, including the public. The corporation monitored and reported quarterly to senior management and the board on its progress in implementing the strategic initiatives. **Weakness** The corporation did not consistently report to the board on some of its non-investment performance indicators and on progress toward its targets.	

Legend—Assessment against the criteria

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

24. **Weaknesses—Performance measurement, monitoring, and reporting.** In our 2011 special examination report, we noted that the corporation had reported on the execution of tasks, rather than on outcomes. In the current audit, we found that the corporation had improved in this area. It established performance indicators for its 2016–21 strategic objectives. It also monitored and reported on the completion of strategic initiatives, and on its performance indicators and targets related to investment management. However, we found that some of its non-investment performance indicators did not have specific targets. We also found that the corporation did not report on all of its non-investment performance indicators consistently to the board. For example:

- For the strategic objective related to branding itself as a global pension investment manager, the corporation had performance indicators, but no specific targets to measure whether the objective would be achieved.
- For the strategic objective related to talent and the prioritization of inclusion and diversity, the corporation had performance indicators, but no specific targets to measure whether the objective would be achieved.

25. This weakness matters because monitoring progress against performance indicators and targets would help the corporation assess its progress toward its strategic objectives. Without this information, it cannot take timely action if it is at risk of not achieving them. The weakness also matters because if the corporation does not consistently report on all its performance indicators and targets, the board cannot fully monitor its performance.

26. **Recommendation.** The corporation should ensure that its strategic objectives are supported by performance indicators with targets that are specific and measurable. It should also regularly and consistently monitor and report on its performance against these indicators.

The corporation's response. *Agreed. In support of its next 5-year strategic plan, the corporation is developing performance indicators to monitor the achievement of its strategic objectives. In the course of the 2021–22 fiscal year, the corporation will set targets for the indicators and will regularly monitor and report on progress against these indicators. The corporation will complete these by the end of 2021–22.*

Corporate risk management

27. **Analysis.** We found that while the corporation had good systems and practices for corporate risk management, improvements were needed in some areas (Exhibit 7).

Exhibit 7—**Corporate risk management—Key findings and assessment**

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Risk identification and assessment	The corporation identified and assessed risks to achieve strategic objectives.	The corporation had a systematic risk management process in place. The corporation identified and assessed its significant risks through its risk and control self-assessment process and involved all departments in this process. The corporation identified, assessed, monitored, and reported on the risk of fraud, wrongdoing, and insider trading. The corporation established risk assessment practices for information technology systems and information assets.	Met the criteria

Legend—Assessment against the criteria

- Met the criteria
- Met the criteria, with improvement needed
- Did not meet the criteria

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Risk mitigation	The corporation defined and implemented risk mitigation measures.	The corporation defined risk mitigation measures and assigned owners in the annual Risk and Control Self-Assessment Report. The corporation had a risk appetite statement, approved by the board, for significant investment and non-investment risks. The corporation's Compliance Department developed a compliance methodology. This department oversaw how the corporation complied with the laws and regulations of the jurisdictions it operated in. The corporation established risk mitigation measures for information technology systems and information assets, and took action to ensure that they were safeguarded. **Weaknesses** In its risk appetite statement, the corporation did not establish risk appetite metrics, thresholds, or limits for some significant non-investment risks. The corporation had not fully implemented a risk-based compliance program. The corporation had a model validation procedure but it did not include a model risk assessment methodology and other model risk management procedures.	

Legend—Assessment against the criteria

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Risk monitoring and reporting	The corporation monitored and reported on the implementation of risk mitigation measures.	The corporation provided risk management reports to senior management and the board quarterly. The corporation established risk monitoring practices for information technology systems and information assets to ensure they were safeguarded. The Compliance Department provided periodic reports to the board on the status of the corporation's compliance with laws and regulations. **Weaknesses** The corporation provided the Risk and Control Self-Assessment Report to senior management and the board only once a year. This report did not include timelines and deliverables for every mitigation measure. It also did not consistently include an update on the corporation's progress on implementing risk mitigation measures.	
Investment risk management	The corporation had risk management processes, methodologies, models, and tools in place to support identification, measurement, monitoring, and reporting of risks inherent to investment activities.	The corporation defined investment risk governance and management processes, and separated investment risk management duties and oversight appropriately. The corporation had investment risk management policies that aligned with its strategic direction and risk appetite. The corporation documented and regularly reviewed its valuation and investment risk measurement methodologies, assumptions, and models. Investment risk information, including exceptions and escalations, was reported on a timely basis to senior management and quarterly to the board. The corporation performed regular and ad hoc scenario analyses and stress tests, and analyzed and reported the results.	

Legend—Assessment against the criteria

Met the criteria

Met the criteria, with improvement needed

Did not meet the criteria

28. **Weaknesses—Risk mitigation.** In our 2011 special examination report, we found that the corporation had not defined its risk tolerance for non-investment risks. We found that during this audit period, the corporation had improved in this area. It established a board-approved risk appetite statement to set risk appetite for investment and non-investment risks. It also set risk appetite metrics, with thresholds or limits, for its investment risks. However, as also noted in a 2019 internal audit report, it did not set metrics and thresholds or limits, when applicable, for some of its significant non-investment risks. The thresholds or limits would set the degree of risk that the corporation is prepared to accept in pursuing its objectives. Because it did not set these parameters, management was left to make decisions without clear guidance on how much risk the corporation would accept before responding with mitigation measures.

29. We also found that the corporation had not fully implemented a risk-based compliance program. At the time of our audit, it was in the process of completing compliance risk assessments, using a risk-based approach that would evaluate how its business units were complying with the regulations relevant to its operations.

30. The corporation used models for valuing financial instruments and measuring risk. It adopted a model validation procedure that assessed models as critical or non-critical, and set requirements for model documentation, validation, and oversight. However, as also noted in a 2019 internal audit report, the model validation procedure did not outline a methodology for model risk assessment, or procedures for model development, ownership, maintenance, independent validation, monitoring, or reporting.

31. These weaknesses matter because without risk appetite thresholds and limits for significant non-investment risks, the corporation cannot ensure that its decision making aligns with the board-approved risk appetite statement. Furthermore, completing compliance risk assessments for laws and regulations relevant to its operations would ensure that the corporation does not inadvertently contravene a law or regulation, exposing it to financial and reputational risk. Finally, a complete model risk validation procedure would provide consistency in model governance and model risk management activities. This would also allow the corporation to communicate its expectations of model risk management throughout all its departments.

32. **Recommendation.** The corporation should set risk appetite metrics and thresholds or limits for significant non-investment risks.

The corporation's response. *Agreed. The corporation is establishing tolerances or thresholds for non-investment risks, as an initiative to provide additional assurance on its management and monitoring of key non-investment risks for management and the board, as appropriate. The corporation will identify the appropriate tolerances or thresholds for* *the significant non-investment risks, recognizing that these may in some cases be best expressed qualitatively. The corporation will complete these matters by the end of the 2021–22 fiscal year.*

33. **Recommendation.** The corporation should complete compliance risk assessments, using a risk-based approach, to evaluate its adherence to the regulations relevant to its operations.

The corporation's response. *Agreed. The corporation intends to continue to complete compliance risk assessments of its business units in accordance with its internal schedule and before the end of the 2021–22 fiscal year.*

34. **Recommendation.** The corporation should develop and apply, enterprise-wide, a model risk management framework comprising model governance, a model risk assessment methodology, a model validation methodology, and model risk management activities. The corporation could leverage and expand its current model validation procedure to develop this framework.

The corporation's response. *Agreed. During the 2020–21 fiscal year, the corporation reviewed and enhanced its model governance framework with an emphasis on the framework ownership, roles and responsibilities, and scope of the framework—including model definition, model inventory and materiality assessment linked to the review cycle, model documentation, and validation requirements. In 2021–22, the corporation will determine priority areas to expand the application of the framework, based on materiality.*

35. **Weakness—Risk monitoring and reporting.** The corporation provided risk monitoring information to senior management and the board through its Enterprise Risk Management Quarterly Report and the Risk and Control Self-Assessment Report. The latter report described the corporation's significant investment and non-investment risks, and identified mitigation measures for each of them. However, the corporation provided this report only once a year and did not include timelines and deliverables for every mitigation measure. The report also did not consistently include updates of the corporation's progress toward implementing those measures.

36. This weakness matters because without timelines and deliverables for each mitigation measure, the corporation cannot effectively track its progress toward implementing them. Also, without regular reporting to the board on risk mitigation measures, the board cannot effectively monitor the corporation's progress in implementing these measures.

37. **Recommendation.** The corporation should continue to enhance its reporting to the board on implementation of mitigation measures, to identify clear timelines and deliverables, and provide a periodic update on progress and completion as part of its risk and control self-assessment process.

The corporation's response. *Agreed. The corporation prioritizes the continued enhancement of its reporting to the board, to ensure that the information is effective, streamlined, and appropriate. The corporation will consider augmenting its periodic board updates with regard to progress and completion of key mitigation measures, where relevant. The corporation will complete these matters by the end of the 2021–22 fiscal year.*

Investments and operations management

The corporation had good practices for investments and operations management

What we found

38. We found that the corporation had good systems and practices for managing its investments and operations.

39. The analysis supporting this finding discusses the following topic:

- Investments and operations management

Context

40. The corporation's business units and departments manage its assets to achieve its mandate. The corporation also has a team of investment professionals that designs investment strategies aligned with its investment objectives and Statement of Investment Policies, Standards and Procedures. This team also manages risks and investment performance.

41. As a global pension investment manager with a long-term view, the corporation integrates environmental, social, and governance factors within its investment decision making.

Recommendations

42. We made no recommendations in this area of examination.

Investments and operations management

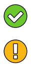
43. **Analysis.** We found that the corporation had good systems and practices for investments and operations management (Exhibit 8).

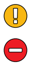
Exhibit 8—Investments and operations management—Key findings and assessment

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Operational planning	The corporation defined operational plans that were aligned with its strategic plans and mandate.	The corporation's operational plans aligned with the corporate business plan and strategy, and incorporated stakeholders' requirements. The corporation documented, approved, and communicated investment strategies for each asset class. The strategies aligned with the corporation's strategic objectives and established risk appetite limits. The corporation had an enterprise information technology strategy, a human resources strategy, and a data governance and management strategy that aligned with its strategic direction. Succession planning was in place for all senior and critical positions. The plans identified top and high-potential individuals, with the objective of developing and retaining them.	
Operational plan implementation	Management implemented the operational plans to deliver results in accordance with the expected output of the business units.	Management implemented and monitored its operational plans. To carry out investment activities, management clearly defined the levels of authority required for each asset class. The investment authority limits were periodically reviewed and updated. The corporation monitored adherence to the investment authority limits and reported breaches. The investment-related business units identified, approved, and engaged external managers and investment partners. The investment-related business units documented arrangements with external managers and investment partners, and monitored and reported on their performance against targets. New investment initiatives were assessed and approved by independent departments before launch, in alignment with the corporation's risk and return objectives and its investment strategy and expertise.	

Legend—Assessment against the criteria

 Met the criteria

 Met the criteria, with improvement needed

 Did not meet the criteria

Systems and practices	Criteria used	Key findings	Assessment against the criteria
Performance monitoring and reporting	The corporation monitored and reported on its operational results.	The corporation periodically monitored and reported on compliance with investment policies and guidelines. The corporation measured, monitored, and reported operational results and investment performance against targets to senior management and the board. The corporation established an independent department that monitored investment compliance and performance monitoring and reporting. The corporation adjusted its business and investment strategies in response to stakeholder needs and internal and external environments, and to fulfill its mandate.	✔
Responsible investment	The organization integrated environmental, social, and governance risks when making decisions and managing its investments.	The corporation developed a responsible investment strategy that aligned with those of its peers. The corporation established a portfolio-wide climate change approach that integrated climate considerations into investment management. The corporation established processes and frameworks for asset classes, to integrate environmental, social, and governance risks as part of investment due diligence and investment management. The corporation communicated information to stakeholders about its responsible investment strategy and activities through an annual Responsible Investment Report. This report aligned with the responsible investment reports of the corporation's peers.	✔

Legend—Assessment against the criteria

- ✔ Met the criteria
- ! Met the criteria, with improvement needed
- ⊖ Did not meet the criteria

Commentary on the United Nations' Sustainable Development Goals

44. In 2015, Canada and other United Nations member states adopted the 2030 Agenda for Sustainable Development, a vision for partnership, peace, and prosperity for all people and the planet. The 2030 Agenda outlined 17 Sustainable Development Goals that aimed to address current and future social, economic, and environmental challenges. At the national level, the Government of Canada reiterated its commitment to implementing these goals.

45. The federal government recently established formal expectations for the integration of the Sustainable Development Goals by federal departments and agencies. Similar expectations were not established for Crown corporations.

46. As part of its Sustainable Development Strategy, the Office of the Auditor General of Canada has committed to reporting on progress toward these goals as part of its audit work. As a result, we asked the corporation's senior management about whether the corporation had integrated these goals into its investment operations.

47. Senior management told us that the corporation was aware of the Sustainable Development Goals and was monitoring how its peers were integrating and reporting against them. It had not systematically integrated these goals into its investment operations. However, its investment operations and the activities of its Responsible Investment group, as reported in its 2019 Responsible Investment Report, indirectly addressed 3 of the goals:

- gender equality (Goal 5)
- affordable and clean energy (Goal 7)
- responsible consumption and production (Goal 12)

48. The 2019 Responsible Investment Report did not explicitly link the corporation's activities to the Sustainable Development Goals. Because its investment operations and the activities of the Responsible Investment group contributed to aspects of the Sustainable Development Goals, there is an opportunity for the corporation to enhance its reporting on the sustainability impact of its investment activities. It could also consider reporting on its contributions to support the government's commitment to the Sustainable Development Goals.

49. In our view, the Sustainable Development Goals offer a framework for organizations, including Crown corporations, to identify and contribute to social, economic, and environmental impacts through their activities and to report on results. We encourage Crown corporations, including the Public Sector Pension Investment Board, to consider and integrate these goals as a means of embedding sustainability considerations into their operations, while supporting the government in this important initiative.

Conclusion

50. In our opinion, on the basis of the criteria established, there was reasonable assurance that there were no significant deficiencies in the corporation's systems and practices we examined. We concluded that the Public Sector Pension Investment Board maintained its systems and practices during the period covered by the audit in a manner that provided the reasonable assurance required under section 138 of the *Financial Administration Act*.

Subsequent Event

51. The corporate governance section of this report discusses the board appointments for the Public Sector Pension Investment Board. At the end of our examination, 4 of the 11 board members' terms had expired. As of 1 February 2021, 3 positions were filled and 1 position was vacant.

About the Audit

This independent assurance report was prepared by the Office of the Auditor General of Canada (the Office) and Deloitte LLP on the Public Sector Pension Investment Board. Our responsibility was to express

- an opinion on whether there was reasonable assurance that during the period covered by the audit, there were no significant deficiencies in the corporation's systems and practices we selected for examination
- a conclusion about whether the corporation complied in all significant respects with the applicable criteria

Under section 131 of the *Financial Administration Act*, the corporation is required to maintain financial and management control and information systems and management practices that provide reasonable assurance of the following:

- Its assets are safeguarded and controlled.
- Its financial, human, and physical resources are managed economically and efficiently.
- Its operations are carried out effectively.

In addition, section 138 of the act requires the corporation to have a special examination of these systems and practices carried out at least once every 10 years.

All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001—Direct Engagements, set out by the Chartered Professional Accountants of Canada (CPA Canada) in the CPA Canada Handbook—Assurance.

The Office and Deloitte LLP apply the Canadian Standard on Quality Control 1 and, accordingly, maintain comprehensive systems of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

In conducting the audit work, we complied with the independence and other ethical requirements of the relevant rules of professional conduct applicable to the practice of public accounting in Canada, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

In accordance with our regular audit process, we obtained the following from the corporation:

- confirmation of management's responsibility for the subject under audit
- acknowledgement of the suitability of the criteria used in the audit
- confirmation that all known information that has been requested, or that could affect the findings or audit conclusion, has been provided
- confirmation that the audit report is factually accurate

Audit objective

The objective of this audit was to determine whether the systems and practices we selected for examination at the Public Sector Pension Investment Board were providing the corporation with reasonable assurance that its assets were safeguarded and controlled, its resources were managed economically and efficiently, and its operations were carried out effectively, as required by section 138 of the *Financial Administration Act*.

Scope and approach

Our audit work examined the Public Sector Pension Investment Board. The scope of the special examination was based on our assessment of the risks the corporation faced that could affect its ability to meet the requirements set out by the *Financial Administration Act*.

The systems and practices selected for examination for each area of the audit are found in the exhibits throughout the report.

As part of our examination, we interviewed members of the Board of Directors, senior management, and employees of the corporation to gain insight into its systems and practices. We reviewed documents related to the systems and practices selected for examination. We tested the systems and practices to obtain the required level of audit assurance. Our testing sometimes included detailed sampling. For example, we selected samples based on auditors' judgment in corporate governance, strategic planning, corporate risk management, and investments and operations management.

In carrying out the special examination, we relied on the internal audits of wholly owned operating subsidiaries' governance, business continuity management, global private investment acquisition and disposal processes, and natural resources and real estate acquisition and disposal processes.

We did not examine the systems and practices of the Public Sector Pension Investment Board's subsidiaries, including those that are wholly owned. We did examine the systems and practices that the Public Sector Pension Investment Board had in place to exercise oversight over its subsidiaries.

Sources of criteria

The criteria used to assess the systems and practices selected for examination are found in the exhibits throughout the report.

Corporate governance

Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations, Treasury Board of Canada Secretariat, 2005

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

ERM—Integrating with Strategy and Performance, Committee of Sponsoring Organizations of the Treadway Commission, 2017

Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Department of Finance and Treasury Board, 1996

20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006

Performance Management Program for Chief Executive Officers of Crown Corporations—Guidelines, Privy Council Office, 2016

Practice Guide: Assessing Organizational Governance in the Public Sector, The Institute of Internal Auditors, 2014

Strategic planning

Meeting the Expectations of Canadians: Review of the Governance Framework for Canada's Crown Corporations, Treasury Board of Canada Secretariat, 2005

Guidelines for the Preparation of Corporate Plans, Treasury Board of Canada Secretariat, 1996

Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Treasury Board of Canada Secretariat, 1996

Recommended Practice Guideline 3, Reporting Service Performance Information, International Public Sector Accounting Standards Board, 2015

20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006

ERM—Integrating with Strategy and Performance, Committee of Sponsoring Organizations of the Treadway Commission, 2017

Corporate risk management

20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

ERM—Integrating with Strategy and Performance, Committee of Sponsoring Organizations of the Treadway Commission, 2017

Corporate Governance in Crown Corporations and Other Public Enterprises—Guidelines, Treasury Board of Canada Secretariat, 1996

COBIT 4.1 Framework—DS5 (Ensure Systems Security) and ME3 (Ensure Compliance with External Requirements), IT Governance Institute and ISACA

COBIT 5 Framework, ISACA

Global Technology Audit Guide: Assessing Cybersecurity Risk—Roles of the Three Lines of Defense, Institute of Internal Auditors, 2016

Cyber Security Self-Assessment Guidance, Office of the Superintendent of Financial Institutions, 2013

Investments and operations management

20 Questions Directors Should Ask about Risk, Canadian Institute of Chartered Accountants, 2006

Guidelines for the Preparation of Corporate Plans, Treasury Board of Canada Secretariat, 1996

Pension Plan Prudent Investment Practices Guideline and Self-Assessment Questionnaire, CAPSA, 2011

The Global Investment Performance Standards, CFA Institute, 2020

Investment Industry Standards, CFA Institute

ERM—Integrating with Strategy and Performance, Committee of Sponsoring Organizations of the Treadway Commission, 2017

A Guide to the Project Management Body of Knowledge (PMBOK® Guide), fourth edition, Project Management Institute Inc., 2008

COBIT 5 Framework—APO05 (Manage Portfolio), BAI01 (Manage Programmes and Projects), ISACA

COBIT 5 Framework—EDM02 (Ensure Benefits Delivery), ISACA

Plan-Do-Check-Act management model adapted from the Deming Cycle

Internal Control—Integrated Framework, Committee of Sponsoring Organizations of the Treadway Commission, 2013

Risk Principles for Asset Managers, The GARP Buy Side Risk Managers Forum, 2015

Liquidity Risk Principles for Asset Managers, The GARP Buy Side Risk Managers Forum, 2017

Funding Policy for the Public Sector Pension Plans, Treasury Board of Canada Secretariat, 2018

Public Sector Pension Investment Board Act

Principles of Responsible Investment, United Nations, 2006

Transforming Our World: The 2030 Agenda for Sustainable Development, United Nations, 2015

Final Report: Recommendations of the Task Force on Climate-related Financial Disclosures, Financial Stability Board, 2017

Final Report of the Expert Panel on Sustainable Finance, Environment and Climate Change Canada, 2019

Period covered by the audit

The special examination covered the period from 1 September 2019 to 23 October 2020. This is the period to which the audit conclusion applies. However, to gain a more complete understanding of the significant systems and practices, we also examined certain matters that preceded the start date of this period. We also noted a subsequent event on 18 December 2020.

Date of the report

We obtained sufficient and appropriate audit evidence on which to base our conclusion on 1 February 2021, in Montréal, Canada.

Audit team

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List of Recommendations

The following table lists the recommendations and responses found in this report. The paragraph number preceding the recommendation indicates the location of the recommendation in the report, and the numbers in parentheses indicate the location of the related discussion.

Recommendation	Response
Corporate management practices	
26 The corporation should ensure that its strategic objectives are supported by performance indicators with targets that are specific and measurable. It should also regularly and consistently monitor and report on its performance against these indicators. **(24–25)**	**The corporation's response.** Agreed. In support of its next 5-year strategic plan, the corporation is developing performance indicators to monitor the achievement of its strategic objectives. In the course of the 2021–22 fiscal year, the corporation will set targets for the indicators and will regularly monitor and report on progress against these indicators. The corporation will complete these by the end of 2021–22.
32 The corporation should set risk appetite metrics and thresholds or limits for significant non-investment risks. **(28–31)**	**The corporation's response.** Agreed. The corporation is establishing tolerances or thresholds for non-investment risks, as an initiative to provide additional assurance on its management and monitoring of key non-investment risks for management and the board, as appropriate. The corporation will identify the appropriate tolerances or thresholds for the significant non-investment risks, recognizing that these may in some cases be best expressed qualitatively. The corporation will complete these matters by the end of the 2021–22 fiscal year.
33 The corporation should complete compliance risk assessments, using a risk-based approach, to evaluate its adherence to the regulations relevant to its operations. **(28–31)**	**The corporation's response.** Agreed. The corporation intends to continue to complete compliance risk assessments of its business units in accordance with its internal schedule and before the end of the 2021–22 fiscal year.
34 The corporation should develop and apply, enterprise-wide, a model risk management framework comprising model governance, a model risk assessment methodology, a model validation methodology, and model risk management activities. The corporation could leverage and expand its current model validation procedure to develop this framework. **(28–31)**	**The corporation's response.** Agreed. During the 2020–21 fiscal year, the corporation reviewed and enhanced its model governance framework with an emphasis on the framework ownership, roles and responsibilities, and scope of the framework—including model definition, model inventory and materiality assessment linked to the review cycle, model documentation, and validation requirements. In 2021–22, the corporation will determine priority areas to expand the application of the framework, based on materiality.

Recommendation	Response
37 The corporation should continue to enhance its reporting to the board on implementation of mitigation measures, to identify clear timelines and deliverables, and provide a periodic update on progress and completion as part of its risk and control self-assessment process. **(35–36)**	**The corporation's response.** Agreed. The corporation prioritizes the continued enhancement of its reporting to the board, to ensure that the information is effective, streamlined, and appropriate. The corporation will consider augmenting its periodic board updates with regard to progress and completion of key mitigation measures, where relevant. The corporation will complete these matters by the end of the 2021–22 fiscal year.

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