Annual Report 2007

The Public Sector Pension Investment Board

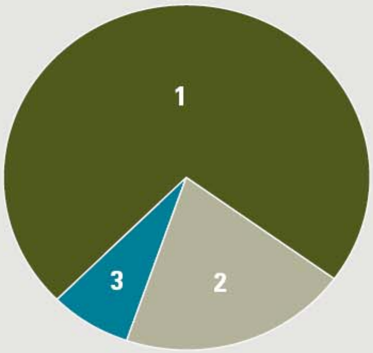
2007

Fiscal Year 2007

Highlights

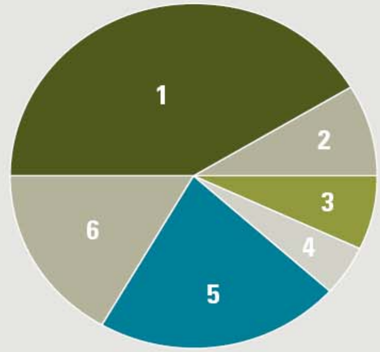
- Increase of consolidated net assets by 27% to $35 billion
- Total portfolio return of 11.3% compared to Policy Benchmark of 10.1%
- Increase of private assets committed and invested from $5.5 billion to $11.9 billion
- New responsibility for investing assets of a fourth plan – the Reserve Force Pension Plan
- Closing of a major landmark private transaction with Retirement Residences REIT and agreement to acquire Telesat Canada
- Expansion of private investments geographically – Assets now in Latin and South America, Asia, Eastern and Western Europe and Australia
- Launching of a real estate debt portfolio
- Launching of an infrastructure asset class
- Creation of new executive positions to enhance management: Management of public markets investments consolidated under one leader and a new position of Vice President of Risk Management
- Implementation of a new Asset Allocation Strategies and Research Group created under the leadership of a new First Vice President
- Team growth from 138 to 182 employees
- Upgrade of technology platform

PLAN ACCOUNTS' NET ASSETS
$34,968 M Net Assets



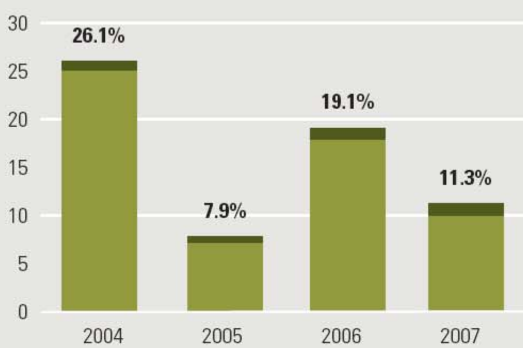
1 Public Service Plan Account $25,410 M – 72.7%
2 Canadian Forces Plan Account $7,033 M – 20.1%
3 RCMP Plan Account $2,525 M – 7.2%

ACTUAL ASSET MIX
As at March 31, 2007



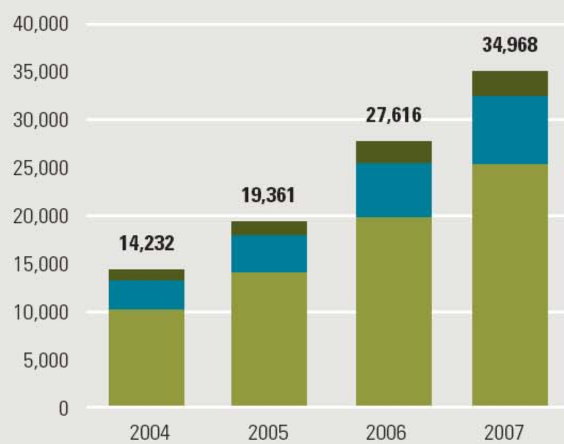
1 Developed World Equity – 41.6%
2 Small Cap Developed World Equity – 8.4%
3 Emerging Markets Equity – 7.1%
4 Private Equity – 4.8%
5 Nominal Fixed Income – 21.6%
6 Real-Return Assets – 16.5%

INVESTMENT PERFORMANCE
For the years ended March 31 (percent)



Value Added Above Benchmark
Benchmark Return

NET ASSETS (CONSOLIDATED)
As at March 31, 2007 ($ million)



RCMP
Canadian Forces
Public Service

Corporate Objectives

The legislation governing PSP Investments requires that the annual report includes its objectives for the fiscal year under review, reports on the status of those objectives and outlines the corporation's objectives for the next fiscal year.

FISCAL YEAR 2007 OBJECTIVES	STATUS
Further enhance support systems and services with a particular focus on information technology, to reflect the increased size and complexity of the organization.	COMPLETED Key accomplishments include: :: Implementation of Derivatives Management, Real Estate and Infrastructure Systems. :: Deployment of new information management tools to support human resources, payroll, legal document management and corporate finance services and systems. :: Development of an enterprise-wide data management program.
Assemble Infrastructure team and roll out infrastructure investments, while expanding investments in other private assets such as private equities and real estate.	COMPLETED Key accomplishments include: :: Establishing and enabling Infrastructure team. • Made investments and commitments valued at $702 million. :: Two landmark transactions: • Telesat Canada (Agreed). • Retirement Residences REIT (Closed).
Continue looking – with a longer term view – for new sources of returns that will complement PSP Investments' liquidity and extended investment time horizon.	COMPLETED AND ONGOING Key accomplishments include: :: Expanded Credit Markets activity. • Geographically, for example Latin America. :: Moved to direct private transaction. • Retirement Residences REIT and Telesat.

Key Corporate Objectives

Fiscal Year 2008

- Continue to build and strengthen our Public Market team and portfolio as we expand our breadth of activities beyond traditional markets and diversify our public market risks.
- Expand and improve our enterprise risk management activities, including investment risk under new leadership as our organization grows and evolves.
- Increase surveillance of corporate governance within our public equity holdings.

Corporate Profile

Who We Are and What We Do

The Public Sector Pension Investment Board (PSP Investments) is a crown corporation established to invest the net contributions received after April 1, 2000 from the pension plans of the Public Service, the Canadian Forces and the Royal Canadian Mounted Police in capital markets. PSP Investments has also recently been given the mandate to manage the employer and employee contributions made after March 1, 2007 to the Reserve Force Pension Plan. PSP Investments operates at arm's length from the federal government. Its statutory objectives are to manage the funds entrusted to it in the best interests of the contributors and beneficiaries of the Plans and to maximize investment returns without undue risk of loss.

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Chair's Report

PAUL CANTOR
Chair

PSP Investments posted another strong performance in fiscal year 2007, which is a tribute to the professionalism of the organization. On behalf of the Board of Directors, I wish to congratulate and thank our President and Chief Executive Officer, Gordon J. Fyfe, his management team and all the members of PSP Investments for their commitment to the organization and for the excellent work they do on behalf of the beneficiaries and the contributors of the pension plans whose investment funds are entrusted to our care.

I also salute the important contribution that my colleagues on the Board of Directors have made to building PSP Investments into a responsible, accountable and effective organization.

THE ROLE OF THE BOARD AT PSP INVESTMENTS

A Board of Directors plays a pivotal role in developing and determining the character, culture, reputation, performance and effectiveness of any corporate entity. This is especially the case in a crown corporation like PSP Investments where both the objects of the corporation and the role and responsibilities of the Board are defined in the establishing legislation, in our case in the Public Sector Pension Investment Board Act (the Act).

In the case of PSP Investments, Parliament has directed the corporation to manage the funds under its administration in the best interests of the beneficiaries and contributors of the Plans and to maximize investment returns without undue risk of loss. Everything that PSP Investments does should be measured against the degree to which it advances that policy objective.

Crown corporations differ from widely-held private sector corporations in that in the private sector, the development of vision, mission and strategy flow from an iterative process between the Board and management. Private sector shareholders have had little involvement in strategy development. In contrast, in crown corporations, vision and mission flow directly from the shareholder, which is the legislature, and devolve, usually through legislation, to the Board, and from there to management. Only within that framework, management applies their resources and expertise to take the lead in evolving the strategy alternatives for consideration and approval by the Board. Thus the crown corporation board has a unique responsibility which calls for the ability to interpret the legislative intent and satisfy itself that management proposals meet legislative expectations.

PSP Investments has been fortunate in that from the outset it has always enjoyed the guidance and leadership of a strong Board with deep experience in finance, investments, pensions, and corporate management. The very high quality of the Board is derived from the legislation establishing our recruitment process, which, in my experience, is among the best in the Canadian public sector.

The core of PSP Investments' Board recruitment process is an independent Nominating Committee which operates at arm's length from the Board and the government, and is led by an industry expert, currently Mr. Claude Lamoureux, President and Chief Executive Officer of the Ontario Teachers' Pension Plan, and composed of representatives of the four Plans whose funds are invested by PSP Investments. The Nominating Committee receives information from the Board's own Governance Committee, which identifies what we require in terms of the experience and skill sets of new directors.

A Board of Directors plays a pivotal role in developing and determining the character, culture, reputation, performance and effectiveness of any corporate entity.

The Nominating Committee conducts a candidate search including public advertising and retention of a professional executive recruitment firm, vets the candidates and develops a slate of nominees, taking into account not only expertise, experience, and board compatibility but also the matters of geographic distribution, gender and diversity. These are put before the President of the Treasury Board who brings the recommendations to Cabinet for review and consideration. While government may reject any nominee, it may not substitute or name to the Board any individual whose name was not advanced through PSP Investments' independent recruitment process.

Another unique challenge faced by boards of crown corporations is to reconcile the issues which can, and do, arise between general public policy objectives and the specific legislated mandate of the corporation.

PSP Investments' Board had to address one such issue in fiscal year 2007 when Bill C-2, the Federal Accountability Act was introduced, which provided that PSP Investments would be included in its purview. The Board has the responsibility to ensure that PSP Investments, as a crown corporation, is a transparent and accountable organization and we therefore welcomed the government's initiative. The Federal Accountability Act will provide the basis for us to make information available in respect of our general administrative expenses.

The Federal Accountability Act also protects commercial information relating to our investments. During Parliamentary hearings, amendments to the Bill were proposed which would have removed the protection of our commercial information. We assisted Parliament in its deliberations by appearing before the House of Commons Legislative Committee on Bill C-2 and before the Senate Committee on Legislative and Constitutional Affairs. In the end, Parliament struck a balance between complying with the general public policy objectives of transparency, disclosure and accountability while maintaining the organization's ability to meet its primary responsibility to maximize investment returns for the beneficiaries and contributors of the Plans.

Another Board of Directors responsibility is investment management where the Act imposes specific and non-delegatable responsibilities on Board members. The responsibilities include the allocation of assets among classes and the appointment of managers with discretionary authority.

The direct responsibility of the Board for these investment management matters is another reason why it is critical that we recruit Board members with the expertise, training and experience necessary to allow them to discharge their responsibilities to the organization, their colleagues and to the contributors and beneficiaries of the Plans. This has become even more vital as the organization has grown in size and complexity.

Our recruitment process has ensured that the organization has been able to recruit and attract highly qualified, knowledgeable and independent persons to serve on its Board of Directors.

CHANGES TO THE BOARD IN FISCAL YEAR 2007

Fiscal year 2007 was an excellent case in point as six outstanding new directors joined the Board. Joining the Board in fiscal year 2007 were:

- Jamie Baillie: Mr. Baillie, a CA, is President and CEO of Credit Union Atlantic and brings experience in human resources, real estate, infrastructure and banking.
- Cheryl Barker: Ms. Barker, a CA, was formerly President of Manitoba Telecom Services and brings extensive experience in telecommunications, technology and pension fund oversight.
- Léon Courville: Mr. Courville was formerly President of the National Bank of Canada following his distinguished professorship at HEC Montréal with experience in economics, banking and derivatives.
- Tony R. Gage: Mr. Gage has over thirty years of experience in investment management and pension fund oversight, most recently as Chair of Phillips, Hager & North Investment Management Ltd.
- Michael P. Mueller: Mr. Mueller served as Vice Chair of TD Securities and as President and CEO of MDS Capital and brings to the Board credit, investment banking and private equity experience as well as expertise in areas such as health care.
- William (Bill) J. Saunderson: Mr. Saunderson, a CA, founded Sceptre Investments. In 1995 he was elected an Ontario MPP and was appointed Minister of Economic Development and Trade. He brings extensive knowledge of publicly traded securities and of infrastructure projects.

I welcome all our new directors to the Board and look forward to working with them. Our new members will help to offset the five departures from the Board and fill our vacancy.

Leaving the Board were Mr. Dick Bradshaw, Mr. Jean Douville, Ms. Carol Hansell, Mr. Carl Otto, and Ms. Susan Sherk. After the year end, Ms. Lynn Loewen resigned from the Board due to a potential conflict of interest that might arise between PSP Investments and her current employer. On behalf of the Board, management, and personally, I thank all our retiring directors for their commitment and support. They were each instrumental in contributing to the growth and strength of PSP Investments during its formative years. We wish each of them our very best in the future.

At PSP Investments, we believe that good corporate governance is a major determinant of good business performance and that good directors are critical to good governance. I am proud to say that fiscal year 2007 demonstrated the soundness of those beliefs which will continue to guide the development and growth of the organization.

President's Report

GORDON J. FYFE

President and Chief Executive Officer

PSP Investments' fiscal 2007 was a year in which the total performance of the fund was again strong. Contributing to this performance were asset classes added to the Policy Portfolio over the last three years – namely real estate (36.5% return) and emerging market equities (18.8% return). Our private investment and infrastructure portfolios are rapidly growing and I am convinced that our recent investments will have a positive impact on the future return. Our public market investments continue to be moved from passive to active management while we broaden and diversify our risk beyond equity markets. And even while these efforts to build our investment teams progressed this past year we delivered strongly on our commitment to strengthen our operations and support teams to keep pace.

And so I am pleased to say, as detailed in this report, that the corporation achieved all its key objectives for fiscal year 2007. Most importantly we continued to build an organization capable of generating positive returns now and with the tools and expertise to deliver financial security for the beneficiaries of our Plans in the future.

LANDMARK TRANSACTIONS HIGHLIGHT SOLID INVESTMENT PERFORMANCE

Financially, PSP Investments achieved a rate of return of 11.3% for the Consolidated Pension Plan Account, outperfoming its Policy return of 10.1% by 1.2%. This is the fourth consecutive year in which the rate of return has bettered the Policy Benchmark.

This strong performance was due, in part, to the successful implementation of our strategy of portfolio diversification and of creating value by shifting into actively managed assets. During the year, we continued to build the corporation's capacity to participate in investment opportunities outside the public market by ensuring that the corporation has the human, technological, legal, accounting and investment management resources it needs to be an effective player in the private equity, infrastructure and real estate markets.

In fiscal year 2007 the corporation announced its participation in two landmark transactions – the acquisition of Retirement Residences REIT and the agreement to acquire Telesat Canada – that demonstrated its emergence as an organization capable of capitalizing on the full spectrum of investment opportunities. Three years ago, PSP Investments was not investing in private equity, real estate or infrastructure assets. By fiscal year 2007 the corporation had developed to the point where it participated in three of the top twenty-five largest transactions in Canada. This is a significant achievement and one which promises to generate significant long-term benefits for contributors and beneficiaries of the Plans since the corporation now has the tools and expertise to acquire and manage a more diversified and sophisticated portfolio of assets.

Going forward, we will continue to explore opportunities to secure returns and to create new value in all private markets – debt and equity – as either a participant in first quartile funds or, increasingly, as a co-investor or direct investor.

NEW STRUCTURES ENHANCE MANAGEMENT AND TRANSPARENCY

This drive into private investments has in no way caused us to ignore or turn our backs on the public markets. To the contrary, public markets account for about 85% of our assets today and will remain an important focus going forward. The quality and performance of our public market investments are a major determinant of the overall performance of the fund. To strengthen the management of this vital component of our portfolio we have consolidated our public market activities under one leader while expanding both our internal and external activities.

In fiscal year 2007 the corporation announced its participation in two landmark transactions that demonstrated its emergence as an organization capable of capitalizing on the full spectrum of investment opportunities.

In fiscal year 2007, we expanded our support activities with the creation of both the Asset Allocation Strategies and Research group to improve our internal research and the position of Vice President, Risk Management, reinforcing the team responsible for overseeing our investment and operational risks. Finally, we were required to create a position to deal with the new challenge of complying with the Access to Information Act, to which PSP is expected to be subject starting in September.

LOOKING AHEAD

In addition to our investment performance targets, we have established three key objectives for our organization in fiscal year 2008:

- Continue to build and strengthen our Public Market team and portfolio as we expand our breadth of activities beyond traditional markets and diversify our public market risks.
- Expand and improve our enterprise risk management activities, including investment risk, as our organization grows and evolves.
- Increase surveillance of corporate governance within our public equity holdings.

Each of these objectives is intended to improve our ability to meet our primary mandate to maximize returns on the funds we invest while minimizing risk of loss – in short to provide a secure financial future for the members of the Plans and to honor the pension promise.

ACKNOWLEDGEMENTS

As President and Chief Executive Officer of PSP Investments I have every confidence, based on the past performance of PSP Investments' team, that these objectives will be achieved. I want to thank everyone at PSP Investments for their contribution to a successful and productive year and for their creativity, energy and commitment. On behalf of management I want to thank our Chair, Mr. Paul Cantor, and the other members of the Board of Directors for their support and guidance. I would like to say a special thanks to our five Directors who retired from the Board this year. Dick, Carl, Susan, Carol and Jean, thanks for your support, guidance and critical eye during the last three and a half years.

I look forward to working with PSP Investments' team and the Board to build on the very solid foundations for growth and security we have been able to put in place in the past year.

Management's Discussion of Fund Performance and Results

ECONOMIC OVERVIEW AND BACKGROUND

Fiscal year 2007 was dominated by a generally friendly environment conducive to good returns in most asset classes. Globally, liquidity remained high, with record investments being directed through non-conventional channels. Private equity firms saw a significant increase in capital inflows, which helped drive mergers and acquisitions (M&A) activity to an unprecedented level of US$3.9 trillion.

The recent downturn in the US sub-prime loan market, the growing inflation concerns, partly driven by rising crude oil prices and the global imbalances between surplus and deficit countries remain tangible risks to the sustainable growth of the world economy.

MAJOR ECONOMIES

Fiscal year 2007 was a story of two very different halves. In the first half of the year, and particularly in the first quarter, all major regional economies enjoyed strong growth. By contrast the second half of the year was characterized by a fairly sharp deceleration caused partly by the emergence of two major problem areas – the US housing market and the disappointing performance of the Japanese economy which continues to stagnate.

The interest rate policies of the central banks also contributed to the slowdown in growth in the world economy. The central banks generally have been in a tightening mode for the past one to three years. The long series of rate hikes in the US ended in July and the Federal Reserve kept the funds' rate unchanged until the end of the year at 5.25%. The Bank of Canada followed suit, with its target overnight rate now at 4.25%. The European Central Bank's (ECB) rate hike cycle proved more prolonged than expected, as the ECB increased its rate five times to 3.75%.

Inflationary pressure increased during the year in OECD economies which were operating at or near their full potential. In those economies the narrowing of the output gap, rising commodity prices, especially for crude oil and petroleum products, faster growth in nominal wages, robust labour markets and low unemployment rates combined to push both the headline and core inflation numbers above policy makers' comfort zones.

CANADA

In Canada, the strong labor market was a key factor underpinning robust consumer spending and general aggregated demand. In summary, the Bank of Canada estimates that the economy is now operating at its potential output limit of 2.8%. With the unemployment rate down near a 30-year low at 6.1% and core inflation close to target, Canada posted yet another year of stable economic growth.

USA

Despite a strong job market and low unemployment rate, US gross domestic product (GDP) growth slowed in the third quarter of 2006, curbed by the downturn in the housing market. Major declines in residential investment and a sharp drop in residential construction sliced more than one percentage point off expected GDP growth leading to the meager figure of 2.5% in the fourth quarter, compared with real GDP growth of 5.6% posted in the first quarter of 2006.

EUROPE

In Europe consumer spending, which ECB President Jean-Claude Trichet referred to as "the third stage of the rocket", finally took off. Real GDP growth reached 3.3% in the fourth quarter of 2006. Underlying inflation pressures remain subdued though there is continuing pressure from low productivity growth and increasing unit labor costs.

JAPAN

Japan's economy is emerging, albeit more slowly than expected, from a deflationary period. The slow pace of recovery is in part due to the fact that the domestic economy has failed to generate solid autonomous momentum. The economy remains vulnerable to exogenous shocks due to the country's continued reliance on foreign investors for additional risk capital.

EMERGING MARKETS

The emerging markets (EM) in general continued their impressive performance, chalking up growth rates more than double those in the developed world. Key to this performance has been a very supportive backdrop of solid global growth, low inflation, low developed-country policy interest rates, and high commodity prices. Furthermore, EM economies, especially in Asia and Latin America, are highly levered to trends in global demand and manufacturing.

FINANCIAL MARKET PERFORMANCE

Stock markets' performances were fueled by strong corporate earnings, M&A activity, expectations of an economic "soft-landing" and central banks' "measured pace" monetary policies. The MSCI G7 Equity Index gained 10.06% in local currency. The S&P 500 Index gained 11.83%, while European stocks outperformed all developed markets returning between 9% and 26%. In contrast, the Japanese Nikkei Index followed the Japanese economy's weak performance, posting a meager return of 2.29%.

CANADIAN EQUITIES

The Canadian equity market had a turbulent year, influenced by the movement in oil and base metal prices and by the misfortunes of the income trust sector. Following announcements by telecommunications giants TELUS and Bell Canada Enterprises of their intentions to convert to income trusts, on October 31, 2006, the Canadian federal government proposed new rules that will effectively end the tax benefits of the income trust structure for most trusts.

The S&P / TSX Composite Index, which includes income trusts, gained 11.42%, well behind the equity-only Composite Index which returned 14.19%. The slump in oil prices led to a mixed performance for the Oil and Gas sector which posted a negative return of –10.76% as opposed to the booming Basic Materials sector which produced a return of 42.90%.

US EQUITIES

US equities followed the conventional wisdom that an environment of slowing growth generally favors large capitalizations. The S&P 600 Small Cap Index returned 5.29%, compared to 11.83% for the S&P 500. The turmoil in the sub-prime sector adversely affected the financial sector, leading to negative performance for Q1 2007 but overall positive performance of +11.46% for the fiscal year.

EMERGING MARKET EQUITIES

Throughout fiscal year 2007, virtually every EM economy sustained strong growth bolstered by the hefty 22% increase of foreign direct investments, whose inflows reached US$1.2 trillion in 2006 compared to US$955 billion for 2005. All of the MSCI emerging market indices produced superior returns. The EM Latin America, produced a yearly return of 27.71%, followed closely by the BRIC (Brazil, Russia, India and China) Index, returning 24.54% in local currency. The worst regional EM Index performer for fiscal year 2007 was the MSCI Europe & Middle East, generating a return of 10.36%.

In China, the Shanghai SE Composite gained 150.22% in local currency, in a highly volatile market peaking in February with a one-day drop of nearly 9%. This heightened volatility spread worldwide, resulting in global sell-off in the equity markets.

THE BOND MARKETS

Bond markets abroad performed modestly during Q4 2006 as central banks in both Europe and the U.S. took measures to stave off inflation. In Canada, the mid-term bonds returned 5.83% and long-term bonds returned 6.51%. Short-term bonds also achieved a positive return of 4.56%. The shape of the yield curve became inverted in September 2006, following the inversion of the US curve earlier in July, in an anticipation of interest rate cuts by the Federal Reserve. Furthermore, the flight to quality following the May sell-off of the equity markets increased demand for bonds on the long end of the curve, additionally depressing long-term yields.

THE REAL ESTATE SECTOR

Despite the US housing market slowdown, the real estate sector generally produced impressive results. However, the increased delinquencies in the US sub-prime mortgage sector led to underperformance of the mortgage REITs and mortgage finance companies. The effects were even more pronounced in the credit market segment, where the credit spreads on lower credit quality sub-prime asset-backed securities increased from 400 to more than 1400 basis points throughout the first two months of 2007.

THE COMMODITY MARKETS

Overall, fiscal year 2007 was a year of dissonance for the commodity markets. Crude futures climbed to a record of nearly $78 a barrel in mid-July, but finally retreated to close the year at $65. Gold futures reached a 26-year high in May 2006, and closed the year with a gain of 11.5%. Copper futures tapped a record at more than $4 a pound; platinum reached an all-time high above $1,300 an ounce and silver climbed to a more than two-decade high above $15.

INVESTMENT POLICY AND STRATEGY

INVESTMENT OBJECTIVES

The mandate of PSP Investments is set out in section 4 of the Public Sector Pension Investment Board Act (the Act):

- To manage funds in the best interests of contributors and beneficiaries under the plans; and
- To maximize returns 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.

Based on these statutory objectives, the following investment objectives were established:

- Absolute Performance: Achieving a return (net of expenses) at least equal to the actuarial rate of return as determined by the Chief Actuary of Canada; and
- Relative Performance: Achieving a return exceeding the Policy Benchmark return by 0.50% (with a minimum value added component equal to expenses).

ASSET POLICY MIX

By the end of the fiscal year 2007, most of the asset classes were in line with their target weights as described in the Statement of Investment Policies, Standards and Procedures (SIP&P), with the exception of underweights in Private Equity and Infrastructure compensated by overweights in US large capitalization and Canadian bonds.

In fiscal year 2007, PSP Investments started implementing a new hedging policy for its foreign investments. This policy will be rolled out over a three-year span. Its goal is to minimize the impact of the foreign exchange movements on PSP Investments' assets over the long-term.

POLICY PORTFOLIO

The Policy Portfolio depicted on the following page shows the market exposure of the various asset classes in the approved weightings. This market exposure will be achieved using both internal and external managers, by investing in both physical and synthetic assets and by employing both active and passive strategies.

As mentioned in last year's annual report, S&P proposed including 72 income trusts in the S&P / TSX Composite Index. An internal study was conducted and, upon management's recommendation, the Board decided to not adopt the modified benchmark, while allowing its external portfolio managers to determine which income trusts were suited to their respective portfolios. The Canadian government announced on October 31, 2006, that new tax measures would be introduced, thereby eliminating the tax advantage of income trusts. The Board's decision to not adopt the income trust benchmark allowed the fund to avoid an estimated $251 million loss of value when the new measures were announced.

In the fall of 2006, a new department was created specifically to monitor the effectiveness of the Policy Portfolio and to explore investment opportunities as they present themselves, such as the case with income trusts. The Policy Portfolio has remained unchanged since the last fiscal year.

NAME :: ASSET CLASS	LONG-TERM TARGET WEIGHT	LONG-TERM RANGE
Equities	**62%**	
:: Developed World	40%	
• Canadian Equity	30%	24–36
• US Large Cap Equity	5%	4–6
• EAFE Large Cap Equity	5%	4–6
:: Small Cap	7%	5–9
:: Emerging Markets	7%	6–8
:: Private Equity	8%	8–10
Nominal Fixed Income	**15%**	
:: Cash & Cash Equivalents	2%	0–4
:: World Government Bonds	5%	3–7
:: Canadian Fixed Income	8%	4–12
Real-Return Assets	**23%**	
:: World Inflation-Linked Bonds	5%	3–7
:: Real Estate	10%	5–15
:: Infrastructure	8%	5–11

ACTIVE MANAGEMENT STRATEGY

PSP Investments has an active-management strategy designed to add value on top of the Policy Portfolio, in accordance with a risk budget – approved by the Board – which management can allocate to active strategies. Within this framework, management works to optimize its "roster" of active strategies, in order to meet the value added objectives set out above, under the Investment Objectives heading.

Active-management activities involve both internal and external managers and are not limited to the asset classes of the Policy Portfolio. They include mandates in other spheres such as currency management and tactical asset-allocation across countries and asset classes.

Indeed, PSP Investments believes that the best way to achieve its active-management target is through the diversification of its revenue sources. That process continued in fiscal year 2007, with eight new active mandates awarded. The value at risk decreased by about 7% in dollar terms due to diversification and mandate changes.

FUND PERFORMANCE AND INVESTMENT RESULTS

INVESTMENT RESULTS

In fiscal year 2007, the Consolidated Pension Plan Account produced investment income of $3.5 billion, before expenses. This compares with investment income of $4.1 billion generated in fiscal year 2006. The net decrease of $672 million reflects a consolidated rate of return of 11.3% on an average net asset base of $30.4 billion for the Consolidated Pension Plan Account in fiscal year 2007, compared to a return of 19.1% on an average net asset base of $23.1 billion in fiscal year 2006.

PERFORMANCE MEASUREMENT AND EVALUATION

Based on the SIP&P, PSP Investments evaluates its investment strategies, as well as individual investment mandates, through performance measurement. The performance for each respective investment strategy and mandate is compared to an appropriate benchmark.

BENCHMARKS

- The SIP&P.
- The return for each asset class is compared against the relevant benchmark return.
- A combined Policy Benchmark is constructed using the asset class benchmarks weighted by their allocations as established by the actual asset mix.
- The Consolidated Pension Plan Account return is compared to the Policy Benchmark return.

RATES OF RETURN

In fiscal 2007, the Consolidated Pension Plan Account achieved a rate of return above that set by its Policy Benchmark. In fiscal 2007 the Consolidated Pension Plan Account generated a rate of return of 11.3%, exceeding by 1.2 percentage points the Policy Benchmark rate of return of 10.1%. Over the last four fiscal years the Consolidated Pension Plan Account has posted a rate of return of 15.9% as compared to the Policy Benchmark rate of return of 15.0% over that same period.

Real-return assets were a major source of value added in fiscal 2007 generating a rate of return of 18.0%, surpassing the Policy Benchmark rate of return of 5.2% by 12.8 percentage points. This strong performance was driven by returns on the real estate portfolio which accounted for most of the excess return.

The performance of real-return assets and in particular, the real estate asset class offset the underperformance of the equities and nominal fixed income asset classes relative to their respective benchmarks.

In the case of equities, foreign equities suppressed value and as a consequence the portfolio, which generated a rate of return of 12.5%, did not achieve the benchmark rate of return of 13.1%. Over the past four fiscal years however, largely on the strength of US equities, equities have exceeded the benchmark rate of return by 0.3 percentage points returning 19.9% as compared to a benchmark of 19.6%.

The benchmark rate of return for nominal fixed income in fiscal 2007 was 4.8% and the portfolio achieved a rate of return of 4.7% due to the performance of the Canadian fixed income asset class. As is the case with the equity portfolio, the fixed income portfolio has generated a rate of return of 6.0% slightly above its benchmark rate of return of 5.9% over the past four fiscal years.

The performance of the Consolidated Pension Plan Account in fiscal 2007, in both absolute and relative terms, reflects the benefits of a more diversified portfolio with regards to asset classes and strategies. In fiscal year 2008, PSP Investments will continue to implement its diversification strategy and expects to achieve the long-term target weights established in the Policy Portfolio by continuing the ramp up in the private asset classes.

RATES OF RETURN ON CONSOLIDATED PENSION PLAN ACCOUNT (AS OF MARCH 31, 2007)

	ONE YEAR		FOUR YEARS (ANNUALIZED)	
	Portfolio Returns %	Benchmark Returns %	Portfolio Returns %	Benchmark Returns %
Equities :: Developed World :: Small Cap :: Emerging Markets :: Private Equity	12.5	13.1	19.9	19.6
Nominal Fixed Income :: Cash & Cash Equivalents :: World Government Bonds :: Canadian Fixed Income	4.7	4.8	6.0	5.9
Real-Return Assets :: World Inflation-Linked Bonds :: Real Estate :: Infrastructure	18.0	5.2	n/a	n/a
Total Return	11.3	10.1	15.9	15.0

These are consolidated time-weighted rates of return, before fees and expenses, and represent the consolidated performance of the three pension plan accounts. They are calculated in accordance with the performance calculation methodology recommended by the CFA Institute, and are audited as such. The total portfolio return includes the performance impact of absolute return strategies.

PSP Investments began investing in real-return assets in October 2003. Accordingly, annualized 4-year returns will not be available before 2008 for this asset class.

Assets and Expenses

CHANGES IN NET ASSETS

The Consolidated Pension Plan Account began fiscal year 2007 with net assets of $27.6 billion at market value. Consolidated net contributions during the year added $4 billion. After factoring in the net income from operations, consolidated net assets as of the fiscal year 2007 year-end were $35 billion at market value.

EXPENSES

The cost of operating PSP Investments during fiscal year 2007 totaled $103 million, compared to $79 million in fiscal year 2006. That total includes operation expenses ($52 million in fiscal year 2007 versus $39 million in fiscal year 2006) and external investment management fees ($51 million in fiscal year 2007 versus $40 million in fiscal year 2006). The higher costs can be attributed primarily to the growth in assets under management and to a continuing shift to actively managed assets, which entail considerably higher expense than passive mandates. Actively managed assets, such as absolute return strategies, international investments and private investments, experienced the highest growth in fiscal year 2007.

In fiscal year 2007, expenses amounted to 0.341% of average assets – or 0.172% of average assets, when external investment management fees are excluded (compared with 0.342% and 0.170%, respectively, in fiscal year 2006).

Expenses will continue to increase in fiscal year 2008 principally due to the following factors:

- An increase in costs in managing our public markets driven by increases in externally managed active mandates such as absolute return, small cap developed world equity and US large cap equity, coupled with the strengthening of quantitative research capabilities and structured credit investment expertise;
- An increase in technology-related expenditures which reflects a continuation of major initiatives that began in fiscal year 2007. These initiatives, when completed, will ensure a secure, robust and efficient technology platform that will enable the organization to efficiently manage enterprise-wide data; and
- In order to deliver the Policy Portfolio, a continued shift in asset mix from fixed income and passively managed Canadian equities, to more expensive asset classes, such as equities in international markets and private investments.

PSP Investments employs various measures that help maintain tight financial controls such as a budgeting, forecasting and benchmarking process. Total cost as a percentage of average assets under management is affected by size and complexity of investment activities. Size is the most critical factor that impacts a fund's cost structure particularly on a percentage of assets basis. The larger a given fund the higher the economies of scale. Investment activities undertaken by PSP Investments are as complex and diversified as those of larger funds/plans but, as yet, without the critical asset base over which to spread the requisite costs. With assets forecast to continue increasing at a significant rate over the next few years and the continued deployment of funds in newly created asset classes, we expect PSP Investments' expense ratios (as a percentage of assets) to gradually decrease.

RISK MANAGEMENT

The risk management function at PSP Investments has been restructured in the last year, consolidating both the investment and operational risk functions under one risk management group. As part of this consolidation PSP Investments has created a new Vice President Risk Management position reporting to the First Vice President, Chief Financial and Operations Officer. The creation of a senior risk management position and the consolidation of risk management are aimed at establishing an enterprise risk management approach and promote a risk conscious culture at PSP Investments. The risk management group under the new vice presidency will have the responsibility for managing not only traditional investment risks but to provide a more robust and extensive focus on the broader subject of corporate risk.

The investment risk process is seamlessly imbedded in PSP Investments' process for investments. PSP Investments takes a two-stage approach when allocating funds among investments. The first stage (Policy Portfolio) involves a detailed study of the funds allocation among major asset classes, taking into account the liabilities associated with the plan's obligation to pay future pensions. Based on the asset class allocation analysis, funds are allocated among investment managers, subject to constraints that each exposure falls within the specified range. The second stage is the establishment of the fund's active risk budget. Portfolio managers are allocated capital by taking into account the risks generated by their activities, and according to the investment guidelines and procedures and their skills in generating excess return given a risk budget.

The newly structured risk group aims to contribute to the optimization of PSP Investments' investment structure and its maximization of returns for a given level of risk.

Governance of PSP Investments

Effective governance is essential to safeguard the capital entrusted to PSP Investments and to ensure that appropriate objectives are pursued and achieved in line with the fulfillment of the corporation's legislated mandate. This section describes PSP Investments' governance model including PSP Investments' mandate, the roles of the Board of Directors and Board Committees and key policies that guide the organization's activities and behaviour.

LEGISLATED MANDATE

The legislated mandate of PSP Investments Board, as established by the Public Sector Pension Investment Board Act (the Act), is to manage funds received "in the best interests of the contributors and beneficiaries" of the three Plans; 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 Plans… and the ability of those Plans to meet their financial obligations."

RELATIONSHIP TO PENSION PLANS

Effective April 1, 2000, the federal government created three new pension plan funds – one each for the existing Public Service, Canadian Forces and Royal Canadian Mounted Police (RCMP) pension plans. These pension funds receive the employer and employee contributions in respect of each plan to provide for liabilities for service after April 1, 2000. The balances (that is, contributions after payment of benefits accrued since April 1, 2000 and after plan administration expenses) are transferred to separate accounts at PSP Investments, to be invested in accordance with the approved investment policy and strategy.

On March 1, 2007, the federal government established the Reserve Force Pension Plan and the amounts deposited to the plan will be transferred to PSP Investments pursuant to the terms of the establishing regulation and within the meaning of the Act.

The government is the sponsor and administrator of the Plans. The President of the Treasury Board is responsible for the Public Service Plan, the Minister of National Defence for the Canadian Forces Plan and the Reserve Force Plan, and the Minister of Public Safety for the RCMP Plan.

The President and CEO and the Chair meet once a year with the Advisory Committees of the Plans. In fiscal year 2007, they met with the representatives of the three plans in December 2006. PSP Investments also communicates on an ongoing basis with the Chief Actuary of Canada and with Treasury Board officers.

ACCOUNTABILITY AND REPORTING

PSP Investments' President and CEO is appointed by and reports to the Board of Directors. The Board of Directors reports to Parliament through the President of the Treasury Board, who is responsible for PSP Investments' legislation and is required to table its annual report in Parliament.

PSP Investments is required to provide quarterly financial statements and the annual report to the President of the Treasury Board, the Minister of National Defence and the Minister of Public Safety.

SELECTION OF DIRECTORS

A Board of Directors comprised of 12 members, including the Chair, governs PSP Investments. As at March 31, 2007, all 12 board positions were occupied.

The Governor in Council appoints all members of the Board of Directors on the recommendation of the President of the Treasury Board. Qualified candidates for directorship are selected and recommended to the President of the Treasury Board by an eight-member Nominating Committee that operates at arm's length from the Board of Directors.

PSP Investments' legislation disqualifies as directors, members of the Senate, the House of Commons and provincial legislatures, federal government employees and those entitled to benefits from the Plans (The list of Directors may be found on page 28.).

Biographical information about each of the Directors may also be viewed on PSP Investments' website: **www.investpsp.ca** under "About PSP – Board of Directors".

DUTIES OF DIRECTORS

In order to ensure that legislated and regulatory objectives are met, the Board of Directors has defined its role to include, among other responsibilities, the following:

- Appointment of the CEO.
- Approval on an annual basis of a written Statement of Investment Policies, Standards and Procedures (SIP&P).
- Approval of strategies and benchmarks for achieving investment performance objectives.
- Adoption of appropriate policies for the proper conduct and management of PSP Investments, including a Code of Conduct for officers and employees and a Conflict of Interest Procedures for Directors.
- Ensuring that an effective operational and risk management system is in place, including appropriate risk management policies.
- Approval of human resources and compensation policies.
- Establishment of appropriate performance evaluation processes for the Board of Directors, the President and CEO and other members of senior management.
- Approval of quarterly and annual financial statements for each underlying Pension Plan Account and for PSP Investments as a whole.

BOARD COMMITTEES

The Board of Directors has established four standing committees and one sub-committee to assist in the fulfillment of its obligations:

- Investment Committee.
- Governance Committee.
- Human Resources and Compensation Committee.
- Audit and Conflicts Committee.
- Investment Sub-Committee.

The Investment Committee includes all the members of the Board. The composition of the other committees is set out on page 28 of this report.

All of PSP Investments' Directors would be considered to be "independent" for the purposes of Canadian securities legislation; therefore all committees of the Board are composed entirely of independent directors.

DIRECTORS' COMPENSATION

The approach to director remuneration adopted by the Board, on the recommendation of the Governance Committee, reflects key requirements of the Act, which state that: (a) the Board should include a "sufficient number of directors with proven financial ability or relevant work experience such that the Board will be able to effectively achieve its objectives"; and (b) that directors' compensation should be set "having regard to the remuneration received by persons having similar responsibilities and engaged in similar activities".

The Board reviews directors' compensation once every two years and considers whatever changes may be warranted based on a report and recommendations provided by the Governance Committee. The most recent review was conducted in fiscal year 2007 and the annual retainers payable to the directors and the Chair were increased accordingly.

Each director receives an annual retainer of $25,000 and meeting fees of $1,500 for each Board of Directors' meeting and $1,000 for each committee meeting. However, only a single fee is paid when Board and Investment Committee meetings are held concurrently. Should a Board meeting or any standing or ad hoc committee of the Board last less than one hour, the meeting fee is reduced to $500. In recognition of the significant additional time and responsibility demanded of the chairs of Board committees, committee chairs receive an additional retainer of $7,500 per year.

The Board Chair – who is responsible for the effective overall operation of the Board and its activities, as well as for the relationship between the Board and management, and for PSP Investments' reporting relationship to its stakeholders – is paid a total of $115,000 per annum in recognition of those services, while foregoing all other retainers and meeting fees.

The Board met 14 times during fiscal year 2007 and its committees held 23 meetings. In recognition of the added impact on Board members who are not from central Canada, an additional fee of $1,000 is paid to directors who attend a meeting in person if their primary residence is not in Québec or Ontario.

The compensation paid to directors during fiscal year 2007 is summarized in Note 9(a) to the financial statements of PSP Investments. The Terms of Reference for the Board Chair and for the Board of Directors may be viewed in their entirety on PSP Investments' website: **www.investpsp.ca** under "Governance – Duties & Responsibilities".

EXECUTIVE COMPENSATION

PSP Investments designs executive compensation policies to attract and retain qualified executives by providing compensation packages that are competitive within the pension fund industry and compensates executives in a manner that encourages individual performance consistent with the organization's objectives. PSP Investments has retained Mercer Human Resource Consulting to provide it with compensation information using similar Canadian pension funds as the comparator base.

To attract and retain qualified, experienced and engaged employees, at all levels of the organization, compensation must be fair and competitive. Total compensation is a function of the employee's level of performance, responsibilities and experience, external market conditions as well as internal equity across the firm.

PSP Investments believes that total compensation plans that are aligned with its business strategy and integrated with business performance measurement and employee performance evaluation processes contribute to improving business performance and employee engagement.

To be competitive with the external market, PSP Investments' objective is to pay base salaries at the median of the market, while offering incentive plans with potential payouts superior to the median of the external market, resulting in significant total cash compensation potential for superior performers.

For compensation to be an effective tool for attraction and retention, it is essential that it be integrated with other human resources policies, plans, procedures and practices such as employee performance management and professional development planning.

CONFLICT OF INTEREST PROCEDURES FOR DIRECTORS

The Conflict of Interest Procedures for Directors are derived from the Act and are intended to provide a workable process for identifying, minimizing and resolving potential conflicts of interest. The procedures help ensure that directors have a full understanding and appreciation of PSP Investments' principles and values to assist them in determining appropriate business practices and behaviour.

The Conflict of Interest Procedures for Directors set out in detail the statutory and fiduciary duties of the directors relating to conflicts of interest. The Conflict of Interest Procedures for Directors, among other things:

- Require directors to give written notice to the Board of Directors of the nature and extent of the directors' interest in a transaction or proposed transaction;
- Prohibit directors from voting on a resolution or participating in a discussion in any circumstances if the directors have a conflict of interest, including, but not limited to transactions involving their interests;
- Require the disclosure of any other business activity which, directly or indirectly, affects the ativities of, or is in competition with, PSP Investments.

The Governance Committee is responsible for monitoring the application of these procedures.

The Conflict of Interest Procedures may be viewed in their entirety on PSP Investments' website: **www.investpsp.ca** under "Governance – Conflict of Interest".

ASSESSMENT OF BOARD PERFORMANCE

The regulations adopted under the Act require that the Board of Directors set out in the annual report the procedures in place for the assessment of its own performance. A formal performance evaluation policy, adopted in accordance with those requirements, focuses on procedures designed to encourage frank and confidential discussions between the Chair and individual directors, as well as between the Chair and the President and CEO of PSP Investments.

To facilitate the assessment process, guidelines for evaluating the performance of the Chair, the individual performance of all Board members and of the Board as a whole are distributed once a year to every director as well as to the President and CEO. The guidelines take the form of a questionnaire. Directors submit their completed questionnaires to the Chair of the Governance Committee, who summarizes the information and presents it to the Board of Directors.

The Board discussion focuses on concerns and opportunities for improvement, what is working properly or has improved since previous assessments. During fiscal year 2007, the board-review process was expanded to incorporate a process for evaluating the performance of the Chairs of Board committees.

CODE OF CONDUCT

In accordance with the Act, PSP Investments has a Code of Conduct for officers and employees (Code of Conduct). As well as ensuring stringent compliance with the relevant statutory requirements, the Code of Conduct serves as a framework that provides officers and employees with a full understanding of the organization's corporate principles and values to assist them in determining appropriate business practices and behaviour.

The Code of Conduct includes a whistle-blowing provision, designed to encourage officers and employees to step forward and report any questionable practices or apparent instances of non-compliance. The Code of Conduct also provides that an employee may report non-compliance with the Code of Conduct or questionable financial practices to the Chair of the Audit and Conflicts Committee in all confidentiality in accordance with PSP Investments' Whistle-Blowing Procedures.

Among other things, the Code of Conduct deals with overall honesty and integrity; compliance with the Code of Conduct and the law; conflict of interest procedures for officers and employees; the integrity of accounting records and financial information; the handling and use of confidential information; prohibitions on insider trading; the reporting of personal investment transactions; receiving or giving entertainment or gifts; membership in non-profit associations; political activities; and dealings with public officials.

In fiscal year 2007, the Board of Directors reviewed the Code of Conduct and a number of amendments were made to take into account the continued growth in the number of employees and volume of assets entrusted to PSP Investments' management, as well as the changing nature of the investment business.

As well, PSP Investments maintains a restricted list of securities in respect of which the organization has confidential knowledge. Officers and employees are prohibited from trading in securities on the restricted list.

The Audit and Conflicts Committee is responsible for monitoring the application of the Code of Conduct.

The Code of Conduct may be viewed on PSP Investments' website: **www.investpsp.ca** under "Governance – Code of Conduct".

PROXY VOTING GUIDELINES

The Proxy Voting Guidelines (Guidelines) are designed to ensure that shares beneficially owned by PSP Investments will be voted in accordance with its investment policy and objectives.

The Guidelines stipulate that PSP Investments will give due consideration to corporate governance principles when assessing the merits of an issue and will exercise its voting rights with a view to maximizing the value of its shareholdings.

The Guidelines focus on four areas considered crucial in terms of their potential impact on performance:

- The independence, size and effectiveness of a company's board of directors;
- Management and directors' compensation, including stock options and incentive compensation plans;
- Takeover protection; and
- Shareholder rights.

The Guidelines apply equally to securities managed internally and those held in portfolios managed for PSP Investments by external managers.

The Proxy Voting Guidelines may be viewed on PSP Investments' website: **www.investpsp.ca** under "Investments – Investment policies – Proxy Voting Guidelines".

POLICY ON SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

The primary responsibility of PSP Investments is to provide for the financial benefit of contributors and beneficiaries of the Plans from which it receives funds, and to support the fulfillment of the pension promise explicit in those plans.

That responsibility notwithstanding, the Policy on Social and Environmental Responsibility states that "…we believe that the adoption of socially responsible policies and practices in the corporations and entities in which we invest will enhance long-term shareholder value."

The Policy on Social and Environmental Responsibility may be viewed on PSP Investments' website: **www.investpsp.ca** under "Investments – Investment policies – Policy on Social & Environmental Responsibility".

In 2006, PSP Investments joined the Canadian Coalition for Good Governance. In that same year, PSP Investments became signatories of the Carbon Disclosure Project, which is a group of 284 institutional investors representing $41 trillion in assets under management who are encouraging public companies to disclose how they are managing climate risk issues that may be affecting their business.

SPECIAL EXAMINATION

The Budget Implementation Act, 2005 made PSP Investments subject to the provisions of sections 132 to 147 of the Financial Administration Act (FAA). Pursuant to those FAA provisions the President of the Treasury Board is required to cause a Special Examination in respect of PSP Investments and its subsidiaries to be carried out at least once every five years. Previously the Special Examination had to be conducted once every six years.

The most recent Special Examination was conducted in fiscal year 2006, the results of which were presented in a Special Examination Report dated November 15, 2005. The Special Examination found that there were no significant deficiencies in PSP Investments' systems and practices.

Glossary

A

ACT
The Public Sector Pension Investment Board Act is the legislation which governs PSP Investments.

ACTIVE INVESTMENT MANAGEMENT
The application of manager skill in selecting investments, with the goal of earning higher returns than the general market.

ACTIVE RISK
The probability of investment losses from active investment management relative to a benchmark.

ANNUAL REPORT
A publication that includes the audited financial statements of an organization as well as management's discussion and analysis (MD&A) of its financial results and operations. PSP Investments' annual report must be issued within 90 days of its March 31 year-end and tabled by the President of the Treasury Board in the House of Commons and the Senate.

ANNUALIZED RATE OF RETURN
A rate of return expressed over one year, although the actual rates of return being annualized are for periods longer or shorter than one year.

ASSET MIX
The proportion of assets invested in cash, fixed income securities, equities and other asset classes. Asset mix should reflect an investor's investment goals and risk tolerance.

ASSET MIX POLICY
Policy setting the guidelines for the management of the asset mix needed to achieve an expected level of investment returns. Pension funds set their asset mix policy to ensure that investment returns plus plan member contributions are sufficient to pay all current and future pension benefits. In making our investment decisions, we take into consideration the financial obligations of the pension funds for which PSP Investments invests money.

B

BASIS POINT
One-hundredth of a percentage point. The difference between 5.25% and 5.50% is 25 basis points.

BENCHMARK
A standard against which rates of return can be measured, such as stock and bond market indexes developed by stock exchanges and investment dealers.

C

CFA INSTITUTE
The CFA Institute (CFAI) is an international, non-profit organization of more than 70,000 investment practitioners and educators in over 100 countries. The investment performance standards of CFAI details methodology and guidelines that promote uniformity in reporting investment performance.

CASH EQUIVALENTS
Short-term, highly liquid securities (e.g. commercial papers, treasury bills, demand notes) with a term to maturity of less than one year from the date of issue. These investments are relatively easy to convert into cash.

COST VALUE (OR BOOK VALUE)
The purchase price, or original cost, of an investment.

CREDIT RISK
The risk of loss linked to the capacity of a borrower or a counterparty to meet its financial obligations.

CUSTODIAN
An independent organization entrusted with holding investments on behalf of the owner. The custodian maintains the financial records for the investments and may perform other services for the owner as well.

D

DERIVATIVES

Financial contracts that derive their value from an underlying asset or index, such as an interest rate or foreign currency exchange rate. For example, a derivative contract based on the S&P 500 Index of large US stocks fluctuates in value with the index, but involves buying one contract rather than each stock in the index. Derivatives can be less expensive and easier to acquire than the underlying assets. They can be used to manage risk, reduce cost and enhance returns. Some common derivatives are forwards, futures, swaps and options.

DIVERSIFICATION

A strategy to spread investment risk among different asset classes (stocks and bonds), among different types of assets (public and private equities), among securities (different stocks), among economic sectors (financial services and natural resources) and among different countries.

E

EQUITIES (OR STOCKS)

Financial instruments that represent an ownership interest in a corporation, as well as a claim to proportionate shares of that corporation's assets and earnings.

F

FAIR VALUE (OR MARKET VALUE)

The most recent price at which a security transaction took place.

FISCAL YEAR

A company's accounting or financial reporting year. Our fiscal year commences April 1 and ends March 31.

FIXED INCOME SECURITIES

Securities, such as bonds, mortgages, debentures and preferred shares, that generate a predictable stream of interest by paying a fixed rate of return until a specific date, maturity or redemption.

FOREIGN CURRENCY RISK

The risk that an investment's value will be affected by changes in exchange rates. International investments cause investors to face the risk of currency fluctuations.

I

INDEX

A broad-based measurement of a general market trend. Called an index because it is designed to reflect not only price changes, but value changes as well.

INDEX FUND

An investment fund that closely replicates the return of a market index.

INFLATION-LINKED

That has a behaviour highly correlated with inflation.

INFRASTRUCTURE

Long-term capital facilities – such as highways, utilities, airports and pipelines – offering essential services to the community. Investments in infrastructure assets are attractive due to the low volatility of returns and desirable revenue characteristics such as predictability and sensitivity to inflation.

INVESTMENT MANAGEMENT FEE

An annual fee paid to an investment manager for its services. The fee can be based on the level of assets under management, or on the performance of the portfolio.

M

MARKET RISK

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market.

MSCI EAFE INDEX

A stock index created by Morgan Stanley Capital Inc. (MSCI) to measure the returns of investments in Europe, Australia and the Far East. It contains stocks from 21 countries, including Japan, Australia, Hong Kong, New Zealand, Singapore, the UK and the Euro zone countries.

O

OPTION

A derivative contract that grants the owner the right, but not the obligation, either to buy or sell a specified quantity of an asset at a fixed price on or before a specific date.

P

PASSIVE INVESTMENT MANAGEMENT

A strategy designed to replicate a market index return by gaining exposure to individual securities in proportions that closely resemble their composition in an underlying index.

PENSION PLAN ACCOUNT (OR PLAN ACCOUNT)

Separate account established by PSP Investments for each of the pension plan funds to receive the pension fund's net contributions as well as the allocation of its investments and the results of its operations. There are three (3) pension plan accounts, one for each pension plan fund.

PENSION PLAN FUND

Created effective April 1, 2000 by the federal government to receive the employer and employee net contributions in respect of the pension plans to provide for liabilities for service after April 1, 2000. There are three (3) pension plan funds, one for each of the Public Service Pension Plan; the Canadian Forces Pension Plan and the Royal Canadian Mounted Police (RCMP) Pension Plan. As of April 2007, we started to receive contributions for the funds for the Reserve Force.

PENSION PLANS (OR PLANS)

The pension plans of the federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police and the Reserve Force.

PLAN LIABILITIES

Plan liabilities represent the financial obligations of a pension plan relative to the benefits earned by the plan participants. The liabilities correspond to the value calculated by the pension actuary of all future benefits accrued as of the date of valuation.

POLICY PORTFOLIO

The asset mix, set by the Board of Directors, identifying how the funds managed should be allocated between different asset classes (example: cash, fixed income securities, equities, real estate,…).

PORTFOLIO

A group of investments, such as equities and bonds and possibly financial instruments such as derivatives grouped for investment purposes.

PRIVATE EQUITY

Ownership interest in assets that do not trade on public exchanges or over the counter.

PROXY VOTING RIGHTS

Written authorization by a shareholder for someone else to represent them and vote their shares at a shareholders' meeting, generally under stipulated guidelines or conditions.

R

RETURN (OR RATE OF RETURN)

The percentage change in assets value in a particular period, consisting of income (such as interest, dividends or rent), plus realized and unrealized capital gains or capital losses.

RISK

The probability of investment losses, either in absolute terms, or versus a benchmark.

RISK-ADJUSTED RETURN

A measure of investment return adjusted to reflect the risk that was assumed to produce that return.

S

SOCIAL INVESTING

An investment process that uses screens to select or avoid investing in certain companies or industries to reflect religious, economic, political, social or personal priorities.

S&P / TSX EQUITY INDEX

The most diversified Canadian market index representing almost 90% of the capitalization of Canadian-based companies listed on the TSX, excluding income trusts. A committee of the Toronto Stock Exchange and Standard and Poor's selects companies for inclusion in the S&P / TSX Equity Index.

STANDARD AND POOR'S 500 COMPOSITE INDEX (S&P 500 TOTAL RETURN INDEX)

A US Index consisting of 500 stocks chosen for market size, liquidity and industry group representation. It is a market-value-weighted index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. The Standard and Poor's company selects stocks for inclusion in the Index.

STATEMENT OF INVESTMENT POLICIES, STANDARDS AND PROCEDURES (SIP&P)

A written investment policy approved by the Board of Directors, and reviewed at least annually, relating to each pension plan fund. This is a requirement under paragraph 7(2)(a) of the Act. It addresses matters such as categories of investments; use of derivative products; asset diversification and expected investment returns; management of credit, market and other financial risks; liquidity of investments; lending of cash and securities; evaluation of investments that are not regularly traded on a public exchange; and the exercise of any voting rights that PSP Investments has through its investments.

T

TIME-WEIGHTED RATE OF RETURN

A return calculation methodology that eliminates the impact of cash flows into (or out of) a portfolio. This methodology recognizes the fact that managers have no control over the size and timing of cash flows.

V

VOLATILITY

Generally refers to variability (in frequency and magnitude) of returns around an average or reference point over a period of time.

Board of Directors
and Investment Committee

* **Jamie Baillie**, President and Chief Executive Officer, Credit Union Atlantic, Halifax, Nova Scotia
Bob Baldwin, Ottawa, Ontario
Cheryl Barker, Winnipeg, Manitoba
Paul Cantor, Chair of the Board PSPIB, Special Adviser, Bennett Jones LLP, Toronto, Ontario
* **Léon Courville**, Lac Brome, Québec
Tony R. Gage, West Vancouver, British Columbia
Jean Lefebvre, Montréal, Québec
* **Lynn Loewen**, Vice President Finance Operations, Bell Canada, Montréal, Québec
Keith G. Martell, Chair of the Board, First Nations Bank of Canada, Saskatoon, Saskatchewan
Michael P. Mueller, Toronto, Ontario
Anil K. Rastogi, Vice President and Chief Information Officer, McCain Foods Limited, Florenceville, New Brunswick
William J. Saunderson, Toronto, Ontario

Committees
and Sub-Committee

AUDIT AND CONFLICTS COMMITTEE

Cheryl Barker
Tony R. Gage
Lynn Loewen, Chair
Keith G. Martell
Anil K. Rastogi
William J. Saunderson

GOVERNANCE COMMITTEE

Bob Baldwin, Chair
Cheryl Barker
Lynn Loewen
William J. Saunderson

HUMAN RESOURCES AND COMPENSATION COMMITTEE

Bob Baldwin
Tony R. Gage
Jean Lefebvre
Keith G. Martell, Chair
Michael P. Mueller

INVESTMENT SUB-COMMITTEE

Tony R. Gage, Chair
Jean Lefebvre
Keith G. Martell
Michael P. Mueller

* **Messrs. Baillie and Courville were appointed as members of various committees of the Board on April 5, 2007. Ms. Loewen resigned as director and committee member on April 13, 2007. Other changes to the membership of committees of the Board also occurred in April and in May 2007.**

PUBLIC SECTOR PENSION INVESTMENT BOARD
ATTENDANCE OF DIRECTORS
BOARD AND COMMITTEES – FISCAL YEAR 2007

	Board of Directors/ Investment Committee	Audit and Conflicts Committee	Governance Committee	Human Resources and Compensation Committee	Investment Sub-Committee
Number of meetings Fiscal Year 2007	14	6	7	5	5
Jamie Baillie [1]	1/1	–	–	–	–
Bob Baldwin	11/14	–	7/7	5/5	–
Cheryl Barker [2]	4/4	1/1	1/1	–	–
Richard Bradshaw [3]	3/3	–	–	2/2	2/2
Paul Cantor [4]	14/14	6/6	7/7	5/5	5/5
Léon Courville [5]	0/1	–	–	–	–
Jean E. Douville [6]	10/10	4/4	–	–	–
Tony R. Gage [7]	10/11	3/3	–	3/3	1/1
Carol Hansell [8]	5/6	0/1	2/3	–	–
Jean Lefebvre	14/14	–	–	5/5	5/5
Lynn Loewen	11/14	6/6	7/7	–	–
Keith G. Martell	12/14	5/6	–	3/5	–
Michael P. Mueller [9]	4/4	–	–	–	–
Carl H. Otto [10]	10/10	–	5/5	–	4/4
Anil K. Rastogi	14/14	6/6	–	–	–
William J. Saunderson [11]	4/4	1/1	1/1	–	–
Susan Sherk [12]	10/13	–	2/2	4/5	–

1 Mr. Baillie was appointed director on March 5, 2007 and member of the Investment Committee on the same date.

2 Ms. Barker was appointed director on December 18, 2006 and member of the Investment Committee on the same date. She was appointed member of the Audit and Conflicts Committee and of the Governance Committee on February 15, 2007.

3 Mr. Bradshaw's appointment term expired, and, on appointment of a successor on June 27, 2006, Mr. Bradshaw ceased to be member of the Board and its Committees.

4 Mr. Cantor ceased to be a member of the Investment Sub-Committee on February 15, 2007. While he is not a member of the Audit and Conflicts Committee, of the Governance Committee, of the Human Resources and Compensation Committee and of the Investment Sub-Committee, as Board Chair, he may attend all of the Committee meetings.

5 Mr. Courville was appointed director on March 5, 2007 and member of the Investment Committee on the same date.

6 Mr. Douville resigned as director on November 28, 2006 and as member of the Investment Committee and of the Audit and Conflicts Committee on the same date.

7 Mr. Gage was appointed director on June 27, 2006 and member of the Investment Committee on the same date. He was appointed member of the Audit and Conflicts Committee and of the Human Resources and Compensation Committee on August 2, 2006. He was appointed member of the Investment Sub-Committee on November 9, 2006 and he was appointed Chair of the Investment Sub-Committee on February 15, 2007 in replacement of Mr. Paul Cantor.

8 Ms. Hansell resigned as member of the Audit and Conflicts Committee on May 12, 2006. She resigned as director on September 14, 2006 and member of the Investment Committee and of the Governance Committee on the same date.

9 Mr. Mueller was appointed director on December 18, 2006 and member of the Investment Committee on the same date. He was appointed member of the Human Resources and Compensation Committee and of the Investment Sub-Committee on February 15, 2007 but these committees have not held meetings between February 15 and March 31, 2007.

10 Mr. Otto's appointment term expired, and, on appointment of a successor on December 18, 2006, Mr. Otto ceased to be member of the Board and its Committees.

11 Mr. Saunderson was appointed director on December 18, 2006 and member of the Investment Committee on the same date. He was appointed member of the Audit and Conflicts Committee and of the Governance Committee on February 15, 2007.

12 Ms. Sherk was appointed member of the Governance Committee on November, 2006. Her appointment term expired, and, on appointment of a successor on March 5, 2007, Ms. Sherk ceased to be member of the Board and its Committees.

Management

Guy Archambault, First Vice President, Human Resources

Bernard Augustin, First Vice President, Public Market Investments

André Collin, First Vice President, Real Estate Investments

Assunta Di Lorenzo, First Vice President and General Counsel

Gordon J. Fyfe, President and Chief Executive Officer

Bruno Guilmette, First Vice President, Infrastructure Investments

Anne-Marie Laurendeau, Director, Communications and Government Relations

Pierre Malo, First Vice President, Asset Allocation Strategies and Research

Derek Murphy, First Vice President, Private Equity

John Valentini, First Vice President, Chief Financial and Operations Officer

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