Investissements PSP Investments

2006 ANNUAL REPORT

THE PUBLIC SECTOR PENSION INVESTMENT BOARD

CORPORATE PROFILE

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, Canadian Forces and Royal Canadian Mounted Police in capital markets. 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.

HIGHLIGHTS – FISCAL YEAR 2006

- Consolidated net assets increase 43% to $27.6 billion
- Total portfolio return is 19.1%, compared to Policy Benchmark of 18.0%
- Diversification into private assets and global investment opportunities continues
- Policy Portfolio asset mix revised to include an allocation for infrastructure
- Administrative and support systems strengthened to keep pace with growth
- Communications and Government Relations unit added to the management team
- Team building continues – number of employees increases from 75 to 138

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ANNUAL OBJECTIVES

The legislation governing PSP Investments requires the annual report to include its objectives for the fiscal year under review, indicating to what extent they were met, and to state its objectives for the new fiscal year. This information is summarized below.

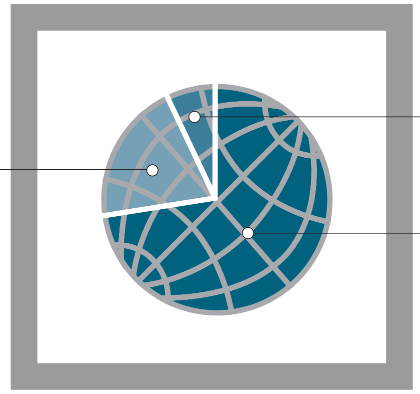
FISCAL YEAR 2006 OBJECTIVES	COMPLETED
• Continue implementing investments in real estate, private equity and other new asset classes	✓
• Further increase the level of active risk, within the authorized ceiling, in order to increase the level of returns	✓
• Develop enhanced capabilities to manage private transactions	✓
• Strengthen support staff and systems to keep pace with rapid growth of investment activities	✓

KEY OBJECTIVES FOR FISCAL YEAR 2007

- Further enhance support systems and services, with a particular focus on information technology, to reflect the increased size and complexity of the organization
- Assemble Infrastructure team and roll out infrastructure investments, while expanding investments in other private assets such as private equities and real estate
- Continue looking — with a longer-term view — for new sources of returns that will complement PSP Investments' liquidity and extended investment time horizon

PLAN ACCOUNTS' NET ASSETS

(As of March 31, 2006)
($,000)
% of total net assets



CHAIRPERSON'S REPORT

Fiscal year 2006 saw the continued rapid growth of PSP Investments and further diversification into new asset classes and new global markets. The sheer volume of net inflows to be invested — some $350 million a month — along with removal of the 30% limit on foreign content are among the factors that have necessitated moving beyond public markets to invest in assets such as private equity, real estate and infrastructure, while increasing our exposure to non-Canadian opportunities.

Paul Cantor
Chairperson

In the President's Report that follows, and throughout this annual report, we highlight the growth of PSP Investments and our achievements during the past year. On behalf of the Board of Directors, I wish to congratulate and thank our President and Chief Executive Officer (CEO), Gordon J. Fyfe, his management team and each and every member of the PSP Investments staff for their dedication and their contributions to the success of the organization.

From a governance perspective, "going global" has entailed taking steps to ensure that PSP Investments' Board — as well as management — is appropriately equipped to oversee an organization with a rapidly expanding, and increasingly complex, worldwide portfolio.

INVESTMENT SUB-COMMITTEE

One such initiative in 2006 involved the formation of a new investment sub-committee. This was done with a view to facilitating review of the steadily increasing numbers of investment transactions, while leaving more time on the Board agenda for discussions of broader investment-management policy. The sub-committee, comprised of directors with particular investment expertise, reviews real estate, private equity and infrastructure proposals presented for approval by management, summarizes them and conveys the information to the full Board, along with its recommendations with regard to the various proposals.

EDUCATION POLICY

The legislation governing PSP Investments calls for the Board to have directors with proven financial ability or other relevant experience to effectively achieve its objectives. In addition to directors with extensive investment-management experience, we need directors knowledgeable in key competencies like finance, risk management, human resources, regulatory affairs and communications. That said, investment management is PSP Investments' core business, and all Board members — regardless of their other expertise — need to continually enhance their knowledge in this critical area. Even within investment management, increased understanding of particular markets and asset classes such as real estate, private equity and infrastructure is required, given that PSP Investments now is making direct investments in these areas around the world.

Accordingly, we introduced a new Education Policy, which encourages Board members to augment their understanding of investment management. Under the policy, new directors with less extensive previous exposure to investment management are expected to take one of several available courses tailored to the particular needs of pension fund trustees. Beyond that, education will be a shared responsibility with management, which will provide training in areas of particular importance to PSP Investments, coupled with self-study initiatives to be undertaken by individual directors as appropriate.

PEER REVIEW

From the outset, PSP Investments has been committed to high standards in corporate governance. With regard to the assessment of Board performance, we previously followed a procedure whereby members evaluated the work of the Board as a whole and, more recently, the Chair's performance. During fiscal 2006, we took things a step further, instituting a comprehensive process of peer review whereby each director evaluates the individual performance of all other Board members. This robust procedure places PSP Investments in the front ranks of both private and public sector organizations with regard to performance assessment. A planned next step is to incorporate a process for evaluating the performance of the chairs of our various Board committees.

AMENDED CODE OF CONDUCT

Integrity, honesty and trust are essential elements of PSP Investment's business success, and they also form the underlying principles of the Code of Conduct that all officers and employees are bound to adhere to. In February 2006, as part of a regular review process, the Board approved amendments to the Code that stemmed from the growth of the organization, as well as changing expectations in governance. The amendments included new procedures with respect to the handling, maintenance and communication of confidential information; updated restrictions governing the personal trading of securities by employees; and new procedures for employees to report apparent instances of non-compliance.

INTERNAL POLICIES AND PROCEDURES

A Special Examination of PSP Investments' financial and management controls, systems and practices — which, according to our legislation, must be carried out at least once every six years — was completed during fiscal 2006. The Examination concluded that our framework was well developed. While a number of recommendations for enhancements were proposed, we were pleased that no significant deficiencies were identified.

LIAISON WITH PLAN REPRESENTATIVES

Gordon J. Fyfe and I met with representatives of the three pension plans in October 2005 to review events of the previous year and outline our plans and objectives for fiscal year 2007. As well, Ms. Monique Collette, current Chair of the plan representative group, attended an off-site conference with Board members and the senior management team, where she had the opportunity to participate in in-depth discussions of underlying issues of investment management.

We also formalized the process by which the Board's Governance Committee provides the plan members' Nominating Committee with information on desirable competencies for new directors needed to round out the Board. As a result, our nominating process meets the requirements of the federal government's new accountability legislation, while providing an extra layer of independence by virtue of a Nominating Committee that operates at arm's length from the Board of Directors.

ACKNOWLEDGEMENTS

In summary, fiscal 2006 was another busy and challenging year for PSP Investments and its Board of Directors. I would like to take this opportunity to express my appreciation to my fellow Board members for their hard work and wise counsel.

As the theme of this year's report indicates, PSP Investments is operating these days with much more of a world view, reflecting the reality of today's rapidly changing global investment climate. From a governance perspective, we already have been addressing this new reality, as evidenced by recent initiatives with regard to investment policy and directors' education, and by our continual review of key practices and procedures. Indeed, the Board's approval of diversification into new asset classes and new global markets is very much in keeping with PSP Investments' vision and mandate, which entail looking everywhere for opportunities to maximize returns and achieve superior investment performance, without undue risk of loss.

A crucial consideration going forward will be the need to identify and attract directors who possess the broadly-based understanding of global markets that the Board will require to address ever more complex investment management issues, provide sound advice and give informed consent.

In conclusion, I wish to reiterate the Board's commitment to building on the strong foundations already in place and delivering the very highest standards of corporate governance, appropriate to changing times and circumstances.

Paul Cantor
Chairperson

This is my third President's Report since joining PSP Investments as President and CEO in late 2003. Over the intervening 30 months, my colleagues and I, working in collaboration with the Board, have made numerous changes to the investment portfolio — always with a view to improving the fund's projected long-term returns. Although it will be some time yet before the full impact of these changes is evident, we have begun to see beneficial results in the form of strong returns from investments in new asset classes.

Gordon J. Fyfe
President and Chief Executive Officer

The return on the Consolidated Pension Plan Account for fiscal year 2006 was 19.1%, while investment income created during the year was $4.14 billion. This compares to a consolidated account return of 7.9% and investment income of $1.35 billion in fiscal year 2005. Noteworthy contributions to our results for fiscal 2006 came from emerging-market equities, which delivered returns of 39.6%, and from real estate, at 21.6%. Canadian equities, U.S. small-capitalization equities and non-North American equities also performed well. All the teams involved are to be commended for their contributions to a successful year.

The rate of return for the Consolidated Pension Plan Account for fiscal 2006 was 1.1% above the return of the Policy Benchmark of 18.0%. Over the past three fiscal years, the fund's total return has averaged 0.9% above the Policy Benchmark return of 16.6%.

While I am pleased with the results for the latest fiscal year, I wish to reiterate that the changes we have been making are aimed primarily at generating enhanced long-term performance. The goal is to achieve a 4.3% rate of return, after inflation. Over the past three fiscal years, PSP Investments has returned an annualized 17.5%, or 15.5% after inflation.

PRESIDENT'S REPORT

CONTINUED DIVERSIFICATION AND GLOBALIZATION

By the end of fiscal year 2006, approximately $2.7 billion had been committed to private equity. Although less liquid than public-market investments (the cycle from investment to return of capital can extend up to 12 years in some cases), private equity offers the prospect of superior long-term returns, enabling us to take advantage of PSP Investments' unique liquidity and its long investment time horizon. While we have high expectations for the returns from this portfolio, it will be a number of years before we begin to see the full benefit of the efforts PSP Investments' Private Equity team is currently making.

Approximately $1.9 billion had been invested in real estate as of March 31, 2006, up from $429 million a year earlier. The attraction of real estate to a pension fund like ours is that it's an inflation-sensitive investment. Our expanding global real estate portfolio includes quality residential and commercial assets in Canada, the United States, Europe and Asia. Holdings range from light-industrial complexes to retirement residences, hotels, office towers and high-end residential buildings in cities such as Calgary, New York and Tokyo. PSP Investments' Real Estate team is still actively investing to achieve the 10% target weight set by the Board, but our efforts of fiscal 2006 brought us a long way towards meeting that objective.

Our diversification away from public markets continued this year with the introduction of an 8% Policy Benchmark target in infrastructure. Examples of typical investments in the infrastructure asset class range from airports, highways and ports to pipelines and power plants. Like real estate, infrastructure investments are inflation-sensitive — revenues earned tend to increase with inflation — are generally long-term in nature and require large outlays of capital.

In the wake of a federal government decision to drop the 30% limit on the foreign content of pension funds, assets may now flow around the world to where they can generate the best returns. Here again, PSP Investments' Policy Benchmark has changed to reflect this development. We have become decidedly more global in terms of seeking out the best investment opportunities by increasing our non-Canadian target allocations to small-capitalization equities, fixed income and world inflation-linked bonds.

Our target allocation to less liquid assets — real estate, private equity, infrastructure, small caps and emerging market equities — now represents a combined 40%. These new allocations are quite a departure from the 97% of assets that were invested in liquid large-cap, public equity markets and Canadian government bonds just over two years ago. Our target allocation to inflation-sensitive assets – real estate, infrastructure and inflation-linked bonds — has increased from zero to 23% of assets over the same period.

ENSURING THAT ADMINISTRATIVE AND SUPPORT SYSTEMS KEEP PACE

To help sustain this ongoing diversification and globalization, we have been strengthening the requisite support and administrative systems in key areas like finance, legal, taxation, information technology, human resources, communications and government relations.

Net assets under management totaled $27.6 billion at the end of fiscal 2006. Given the expected level of inflows and conservative estimates of future returns, the net asset figure is projected to exceed $40 billion in another three years and will likely hit the $100-billion mark within 10 years. Consequently, we are managing the organization not only to generate returns on the net assets under management today, but also in preparation for what PSP Investments will become in the future. This means focusing not only on the scope of resources but — even more importantly — the quality of those resources. In short, we are building for the future.

That said, however, our essential corporate infrastructure is now in place and the job of assembling a senior management team largely completed. As of March 31, 2006, PSP Investments had 138 employees, compared with 75 a year earlier. In addition to the administrative areas I alluded to earlier, we have added leadership for the infrastructure asset class over the past year, as well as expanding internal management of public markets. The challenge now is to build on that foundation, so that we are able to provide the strategic direction, support and oversight appropriate to an organization with considerably increased scope, scale and sophistication of operations.

In that regard, we were encouraged by the findings of a legislated mandatory Special Examination of PSP Investments' controls, systems and practices that was carried out over the past fiscal year. In a final report issued in November 2005, the examiners not only concluded there were no significant deficiencies, but also noted that we have "continued to build a team that has the depth and specialized expertise required to manage an expanding, increasingly diversified pool of assets within a growing organization."

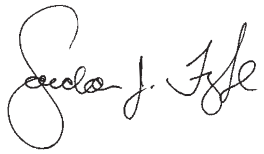
One of my stated priorities when I became CEO was to build a strong management team. I believe we now have the pool of talent we require to succeed and a culture that will enable us to do so. Indeed, I am pleased that many of the strategies being put in place today have sprung from the minds of key personnel attracted over the past couple of years. We are committed to maintaining the entrepreneurial culture that has enabled us to quickly evolve into a dynamic, results-oriented organization. At the end of the day, the bottom line here at PSP Investments — our raison d'être — is returns.

PRIORITIES FOR FISCAL YEAR 2007

Much of our recent focus has been on growing the investment side of the organization. For the balance of fiscal 2007— and probably for the following year as well — we will be increasingly focused on the support side of things, particularly information technology, to ensure that we have the robust, state-of-the-art systems and procedures required to support continued growth. At the same time, however, we will be rolling out and ramping up new investment categories. Going forward, the prospects for returns from traditional asset classes are diminishing, so we must continue to look for new sources of returns that complement PSP Investments' liquidity and long-term investment time horizon.

ACKNOWLEDGEMENTS

In closing, I wish to thank the entire PSP Investments team for their hard work and commitment throughout another busy and successful year. I also would like to formally welcome Bruno Guilmette, Vice President, Infrastructure Investments, and Anne-Marie Laurendeau, Director, Communications and Government Relations, both of whom joined our team during fiscal 2006. I am also grateful to the Board of Directors for its continued support and to our Chairman, Paul Cantor, for his dedication and guidance throughout the year. And finally, I would like to remember Josée Dufresne, a wonderful member of our Real Estate team, who recently passed away. Josée reminded us all of the difference a single person can make.



Gordon J. Fyfe
President and Chief Executive Officer

PSP Investments completed its sixth year of operation on March 31, 2006. During that period, it received $4.2 billion in net contributions from the Public Service, Canadian Forces and Royal Canadian Mounted Police Pension Funds. The market value of invested net assets as of March 31, 2006 totaled $27.6 billion, compared with $19.4 billion a year earlier.

MARKET PERFORMANCE

Fiscal year 2006 saw a continuation of essentially the same major underlying economic and investment themes that had prevailed during the previous year.

Even though world gross domestic product (GDP) has been expanding at a satisfactory level, the significant imbalances that exist between some of the world's major economic regions continue to surprise observers. For instance, the United States is running twin trade and current-account deficits equivalent to approximately 9.5% of GDP, while Asia is running a huge surplus.

The U.S. now attracts about 70% of world savings. Asian central banks hold massive reserves of U.S.-dollar-denominated debt, and the Bank of China has just displaced the Bank of Japan as the biggest holder of U.S. dollars.

Meanwhile, the world is awash in liquidity. This situation tends to compress the liquidity premium in all markets, as more money chases the same finite opportunities worldwide. This environment could well persist for the next year, maintaining pressure on risk premiums.

Most central banks in the developed world either initiated or maintained a tightening trend with regard to monetary policy during fiscal year 2006. The U.S. Federal Reserve raised rates eight times during the period, by a total of 2 percentage points. The Fed Fund rate now stands at 4.75% — it was at 1% in June 2004.

Both the European Central Bank (ECB) and the Bank of Canada started their own tightening campaigns. Beginning in December 2005, the ECB raised rates twice. Meanwhile, the Bank of Canada raised its overnight rate five times between September 2005 and the end of fiscal year 2006, during which the rate climbed from 2.5% to 3.75%. As well, the Bank of Japan announced that it intended to cease its quantitative easing policy as soon as possible, which could well bring an end to the low interest rates that have prevailed in that region of the world.

Surprisingly, the rate increases in the short end of the spectrum did not translate into higher long-term bond yields. The result was a significant flattening of yield curves in Canada and the United States. The demand for long-dated, fixed-income instruments is probably responsible for this special situation.

The increased pace of rate hikes helped support demand for the U.S. dollar, which gained 1% on a trade-weighted basis. The Canadian dollar — well supported by merger-and-acquisition activities, higher oil prices and generally higher commodity prices — gained 3.5% against the U.S. dollar, 9.8% against the Euro and almost 14% against the Japanese yen.

Commodities showed high levels of volatility. For instance, in futures markets, the natural gas price went from $7.20 to a high of $15.78 and then back to $7.20, all in the same fiscal year. The oil price increased by 15% over that same period. Copper and gold were up 81% and 36%, respectively.

The Canadian stock market, as reflected by the S&P/TSX total return Index, gained 28.6% during fiscal year 2006, mostly driven by the energy (+55%), materials (+34%) and financial (+27%) sectors. On U.S. markets, meanwhile, the S&P 500 total return Index gained 11.7% in local currency, and the Dow Jones Industrial Index was up 8.3%.

FISCAL YEAR 2006 RESULTS

INVESTMENT RESULTS

In fiscal year 2006, the Consolidated Pension Plan Account produced investment income of $4.1 billion, before expenses. This compares with investment income of $1.3 billion generated in fiscal 2005. The net increase of $2.8 billion reflects a consolidated rate of return of 19.1% for the Consolidated Pension Plan Account in fiscal 2006, surpassing the return of 7.9% recorded in fiscal 2005.

PERFORMANCE MEASUREMENT AND EVALUATION

PSP Investments uses rigorous performance measurement as an essential tool for management to evaluate its investment strategies, as well as its internal and external managers.

BENCHMARKS

- PSP Investments' Statement of Investment Policies, Standards and Procedures (SIP&P) defines the relevant benchmark for each of the asset classes.
- The return for each asset class is compared against the relevant benchmark return.
- A combined Policy Benchmark is calculated by taking into account the asset class benchmarks and the asset class weights as established in the SIP&P.
- The Consolidated Pension Plan Account return is compared to the Policy Benchmark return.

RATES OF RETURN ON CONSOLIDATED PENSION PLAN ACCOUNT (AS OF MARCH 31, 2006)

	One year		Four-Year (annualized)	
	Portfolio Returns %	Benchmark Returns %	Portfolio Returns %	Benchmark Returns %
Equities (Developed world, small cap, emerging markets, private equity)	24.6	24.3	8.8	8.6
Fixed Income (Cash & cash equivalents, world government bonds, Canadian fixed income)	4.4	4.5	7.0	6.8
Real Return Assets (World inflation-linked bonds, real estate, infrastructure)	17.5	9.7	n/a*	n/a*
Total Return	**19.1**	**18.0**	**8.8**	**8.4**

These are time-weighted rates of return, before fees and expenses, for the consolidation 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 2007 for this asset class.

RATE OF RETURN

In fiscal year 2006, the rate of return for the Consolidated Pension Plan Account was 19.1%. The account outperformed its Policy Benchmark — which returned 18.0% — by 1.1%. Since inception, the account generated a rate of return of 5.5% compared to the benchmark's return of 5.3%.

The improved performance achieved during fiscal 2006, in both absolute and relative terms, reflects the benefits of a more diversified portfolio with regard to asset classes and strategies. Over the course of the year, initiatives were implemented to increase the allocation of capital to private investments and to develop absolute-return strategies. In fiscal year 2007, PSP Investments will continue to ramp up investments in asset classes such as private equities and infrastructure in order to achieve the long-term target weights established in the Policy Portfolio.

CHANGES IN NET ASSETS

The Consolidated Pension Plan Account began fiscal year 2006 with net assets of $19.4 billion at market value. Consolidated net contributions during the year added $4.2 billion. After factoring in the net income from operations, consolidated net assets as of the fiscal 2006 year-end were $27.6 billion at market value.

EXPENSES

The cost of operating PSP Investments during fiscal year 2006 totaled $79.1 million, compared to $35.1 million in fiscal year 2005. That total includes operating expenses ($39.3 million in fiscal year 2006 versus $20.8 million in 2005) and external investment management fees ($39.9 million in fiscal year 2006 versus $14.3 million in fiscal year 2005). 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 mandates, international equities and private investments, experienced the highest growth in fiscal 2006. Although these actively managed asset classes are generally more expensive to manage, they offer the potential of higher returns.

In fiscal year 2006, expenses amounted to 0.342% of average assets — or 0.170% of average assets, when external investment management fees are excluded (compared with 0.211% and 0.125%, respectively, in fiscal year 2005).

Expenses will continue to increase in fiscal year 2007 due to the following factors:

1. An increase in externally managed active mandates for public markets, primarily in the foreign equity and absolute-return asset classes;
2. An increased allocation to private assets, which necessitated the building of a new Infrastructure investment team, the formation of a Real Estate debt team and staff additions for the Private Equity team to support co-investments and monitor existing investments;
3. A general increase in the volume of investments in the absolute-return, international equities and private investment asset classes; and
4. An increase in technology-related expenditures to effectively support new and existing asset classes, to ensure a secure, robust and efficient technology platform, and to enable the organization to properly manage enterprise-wide data through a period of sustained growth.

PSP Investments remains vigilant with regard to expenses and is committed to maintaining tight financial controls. However, the organization remains in a ramp-up mode. 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.

This section summarizes the statutory investment objectives of PSP Investments as well as the policy and strategy being used to achieve these objectives. A complete review of investment strategy carried out during fiscal 2005 led to the development of a revised asset-mix policy, which includes allocating more money to asset classes that are less liquid and provide greater protection against inflation. In fiscal 2006, the Policy Portfolio was further revised to encompass infrastructure investments and to authorize increased exposure to non-Canadian investment opportunities. As well, management continued to implement and expand its active-management strategy, which focuses on the efficient utilization of active risk in order to generate returns in excess of those of the Policy Portfolio.

INVESTMENT OBJECTIVES

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

1. *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
2. *Relative Performance*: Achieving a return exceeding the Policy Benchmark return by 0.50% (with a minimum value-added component equal to expenses).

These two objectives were met in fiscal 2006.

ASSET MIX POLICY

In fiscal year 2006, the Canadian government removed the 30% limit imposed on the foreign content of registered pension plans. This enabled PSP Investments to review its asset allocation.

The ultimate objective of any defined-benefit (DB) plan is to achieve and maintain a positive funded status — i.e. the difference between the market value of assets and the present value of liabilities — at the lowest possible cost to the plan sponsor. PSP Investments utilized the opportunity afforded by the removal of the foreign content limit to work closely with the Office of the Chief Actuary in order to better understand the liability structure of the three pension funds whose contributions it is responsible for investing.

Among the key conclusions in that regard, it was established that:

- The three funds are the youngest in Canada — and among the youngest in the world. They therefore exhibit specific features not attributable to more mature plans. The duration of their liabilities is around 20 years, compared with the average 12-15 year duration of typical DB plans in Canada, the United States and Europe.
- Forecasted net contributions remain positive for the next 28 years.

Such lengthy duration drives the need for inclusion in the portfolio of long-term assets with bond-like cash-flow structure, which will respond symmetrically to movements in real interest rates. Accordingly, amendments to the Policy Portfolio approved by the Board of Directors during fiscal 2006 introduced infrastructure as a new asset class, in recognition of its diversification benefits and better liability-matching characteristics. The latest amendments also reflected the new opportunities created by the removal of the foreign-content limits to geographically diversify investments in fixed-income instruments, small-capitalization equities and real-return bonds.

At the same time, targets for Canadian fixed-income investments and EAFE large-cap equities have been reduced. The changes are designed to enable PSP Investments to fully participate in and benefit from the ongoing trend to globalization. Other new asset classes could be added in the future.

The Board of Directors approved the amended asset-mix policy in February 2006. PSP Investments' Statement of Investment Policies, Standards and Procedures (SIP&P) may be viewed on PSP Investments' website: **www.investpsp.ca** under Investments – Investment Policy.

REVISED POLICY PORTFOLIO

The changes are reflected in the revised Policy Portfolio depicted below, which 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.

Name	Asset Class	Long-term target weight	Long-term range
Developed World Equity (Total)		**40%**	
	Canadian Equity	30%	24-36
	US Large Cap Equity	5%	4-6
	EAFE Large Cap Equity	5%	4-6
Small Cap Developed World Equity		**7%**	5-9
Emerging Markets Equity		**7%**	6-8
Private Equity		**8%**	6-10
Nominal Fixed Income (Total)		**15%**	
	Cash & Cash Equivalents	2%	0-4
	World Government Bonds	5%	3-7
	Canadian Fixed Income	8%	4-12
Real Return Assets (Total)		**23%**	
	World Inflation-linked Bonds	5%	3-7
	Real Estate	10%	5-15
	Infrastructure	8%	5-11

Until the phase-in is complete, there will be discrepancies between long-term policy and actual asset allocations for these asset classes. Existing Policy Portfolio weightings will be drawn down to bring these asset classes to their respective long-term policy weightings during the transition period.

In December 2005, the composition of the S&P/TSX Composite Index was altered to include 72 income trusts. Initially, 50% of the trusts' market capitalization was included in the index and the remaining 50% was added in March 2006. PSP Investments has decided to authorize its portfolio managers to determine which income trusts are suited to their respective portfolios, rather than requiring them to hold a broader range of income trusts by including them in the benchmark.

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 2006, with active mandates awarded to eight new external managers and the addition of four new internal processes. The value at risk increased by about 50% in dollar terms but only by 10% when expressed in basis points, due to the increase in assets under management.

INVESTMENT RISK MANAGEMENT

A critical aspect of the revised asset-mix policy and active-management strategy is PSP Investments’ focus on measuring and managing investment risk. A fundamental law in investing is that the search for returns necessarily involves taking on some level of risk. In this context, risk is not something to be avoided. Rather, it is something to be managed, intelligently and efficiently, in the quest for superior investment performance.

The risk-management philosophy at PSP Investments has evolved constantly since the organization’s inception. A rigorous process is in place, overseen by a dedicated team of professionals and supported by the appropriate systems. Risk is measured at all levels, from individual stocks up to total PSP Investments assets. The diversification benefits of investment in different asset classes and investment styles also can be quantified.

During fiscal year 2006, we further enhanced the rigour and scope of the risk-management process to reflect PSP Investments’ continuing diversification into new asset classes such as real estate and infrastructure. In addition to monitoring and measuring market risks, we now have in place a team that focuses on credit risks incurred in both public and private market investments.

The main benefit of the process is that new opportunities – in terms of asset classes, investment styles and individual managers – can be evaluated with regard to the additional risk they entail and the potential rewards and/or diversification benefits they offer.

By following the risk-management process, PSP Investments is able to optimize its investment structure, with a view to maximizing returns for a given level of risk.

Effective governance is essential in order to safeguard the capital entrusted to PSP Investments and to ensure that appropriate objectives are pursued and achieved in line with the fulfillment of its legislated mandate. This section of the annual report presents pertinent information on PSP Investments’ mandate, the roles of the Board of Directors and Board Committees and key policies designed to guide the organization’s activities and behaviour.

LEGISLATED MANDATE

The legislated mandate of PSP Investments 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 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 April1, 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.

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 Minister of Public Safety for the RCMP Plan.

The President and CEO and the Chairperson meet once a year with the Advisory Committees of the Plans. Ongoing communication also is in place 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 Chairperson, governs PSP Investments. At March 31, 2006, 11 board positions were occupied and the nominating process to fill current and anticipated vacancies was ongoing. The Governor in Council appoints all members 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

GOVERNANCE

Commons and provincial legislatures, federal government employees and those entitled to benefits from the three Plans. (The list of current Directors may be found on page 62.)

Biographical information about each of the Directors may also be viewed on PSP Investments' website: **www.investpsp.ca** under About Us – 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 of a written Statement of Investment Policies, Standards and Procedures;
- 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, Conflict of Interest Procedures and risk-management policy;
- 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;
- Preparation and 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;
- Investment Sub-Committee;
- Audit and Conflicts Committee;
- Governance Committee;
- Human Resources and Compensation Committee.

Recommendations of Board committees are subject to the approval of the full Board. The Investment Committee includes all the members of the Board. The composition of the other committees is set out on page 62 of this report.

The Investment Sub-Committee was formed during fiscal year 2006, with a view to facilitating and expediting review of the steadily increasing numbers of investment transactions, while leaving more time on the Board agenda for discussions of broader investment-management policy. The sub-committee, comprised of directors with particular investment expertise, reviews all individual transactions presented for approval by management, summarizes them and conveys the information to the Board, along with its recommendations with regard to the various proposals.

All of PSP Investments' directors would be considered to be "independent" for the purposes of Canadian securities legislation. One of the directors, Carol Hansell, although an independent member of the board of directors, would not be considered to be an independent member of the Audit and Conflicts Committee as she is a partner of a firm which provides legal advisory services to subsidiaries of PSP Investments from time to time. The contribution that Ms. Hansell could make to the Audit and Conflicts Committee was regarded as important and, as the remaining four members of the Audit and Conflicts Committee would be considered independent, in our view, any conflict of interest that might arise could be handled by our well-developed conflict of interest procedures. The fees paid by the PSP subsidiaries to Ms. Hansell's firm are not material to either party. However, in order to achieve the highest governance standard, Ms. Hansell is no longer a member of that Committee. The Human Resources and Compensation Committee is composed entirely of independent directors.

Further information relative to PSP Investments' committees, including their specific terms of reference, may be viewed on PSP Investments' website: **www.investpsp.ca** under Governance – Duties & Responsibilities.

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 2004 and in 2005 there were no significant changes. Each director receives an annual retainer of $20,000 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 committees 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 Chairperson – 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 $98,000 per annum in recognition of those services, while foregoing all other retainers and meeting fees.

The Board met 11 times during fiscal year 2006 and its Committees held 20 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 Quebec or Ontario.

The compensation paid to directors during fiscal year 2006 is summarized in Note 7(a) to the financial statements of PSP Investments. The Terms of Reference for the Board Chairperson and for the Board of Directors may be viewed in their entirety on PSP Investments' website: **www.investpsp.ca** under Governance – Duties & Responsibilities.

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. They 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 sets out in detail the statutory and fiduciary duties of the directors relating to conflicts of interest. The Conflict of Interest Procedures include a requirement for the provision of written notice by directors 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 relating to any transaction involving their interests; require the disclosure of any other business activity which, directly or indirectly, affects the activities of, or is in competition with, PSP Investments; require the abstention from voting and the physical absence from discussions relating to any resolution if the director has a conflict of interest. The Governance Committee of the Board of Directors 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 Policy.

ASSESSMENT OF BOARD PERFORMANCE

The regulations adopted under PSP Investments' governing legislation 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 Chairperson and individual directors, as well as between the Chairperson and the President and CEO of PSP Investments.

To facilitate the assessment process, guidelines for evaluating the performance of the Chairperson 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 discussion focuses on concerns and opportunities for improvement, what is working properly or has improved since previous assessments. During fiscal 2006, the board-review process was expanded, with each director also required to evaluate the individual performance of all other Board members. A planned next step is to incorporate a process for evaluating the performance of the chairs of Board committees.

CODE OF CONDUCT

In accordance with its governing legislation, PSP Investments has a Code of Conduct for officers and employees. As well as ensuring stringent compliance with the relevant statutory requirements, the Code 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. It 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 also provides that an employee may report non-compliance with the Code or questionable financial practices to the Chair of the Audit Committee in all confidentiality in accordance with PSP Investments' whistle-blowing Procedures.

In fiscal year 2006, the Board of Directors reviewed the Code 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.

Among other things, the Code deals with overall honesty and integrity; compliance with the Code 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 nonprofit associations; political activities; and dealings with public officials. 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.

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 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 considering 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 – 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 – Policy on Social & Environmental Responsibility.

SPECIAL EXAMINATION

As provided in subsection 44(1) of the *Act**, the President of the Treasury Board is required to cause a Special Examination to be carried out at least once every six years in respect of PSP Investments and its subsidiaries.

This is not an audit in the conventional sense. Rather, the purpose of the Special Examination is to determine if the financial and management control and information systems and management practices, referred to in paragraph 35(1)(b) of the *Act*, "were... being maintained in a manner that provided reasonable assurance that they met the requirements of paragraphs 35(2)(a) and (c)" of the *Act*.

There are three phases to the Special Examination process: Phase I, completed in fiscal 2005, entailed the definition of focus areas; Phase II, the actual examination, was carried out during the first half of fiscal 2006; Phase III entailed reporting the findings. The Special Examination Report, dated November 15, 2005, found that there were no significant deficiencies in PSP Investments' systems and practices.

*In June 2005, as legislated by the *Budget Implementation Act, 2005* - Bill C-43 (assented to June 29, 2005), sections 36 to 46 of the *Act* were repealed and Section 3(6) was amended to state that Sections 132 to 147 of the *Financial Administration Act* (*FAA*) applied to PSP Investments. Pursuant to the *FAA*, a special examination must now be carried out at least once every five years (s.138 (2))

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 relative to a benchmark from active investment management.

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 three public sector pension funds for which PSP Investments invest money.

B

Basis Point
One-hundredth of a percentage point. The difference between 5.25 per cent and 5.50 per cent 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, nonprofit organization of more than 70,000 investment practitioners and educators in over 100 countries. The investment performance standards of CFA 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 U.S. 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), 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 behavior 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 factor 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 U.K. 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 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.

Pension Plans (or Plans)
The pension plans of the federal Public Service, the Canadian Forces and the Royal Canadian Mounted Police.

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 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 percent 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 U.S. 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 & 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.

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