Rating Report
Public Sector Pension Investment Board & PSP Capital Inc.

DBRS Morningstar
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Contents

Clara Vargas
+1 416 597-7473
clara.vargas@dbrsmorningstar.com

Oxana Rhybak
+1 416 597-7339
oxana.rhybak@dbrsmorningstar.com

Shubhreen Dosanjh
+1 416 597-7459
shubhreen.dosanjh@dbrsmorningstar.com

Tim O'Neil
+1 416 597-7477
tim.oneil@dbrsmorningstar.com

Ratings

Debt	Rating	Rating Action	Trend
Public Sector Pension Investment Board			
Issuer Rating	AAA	Confirmed	Stable
PSP Capital Inc.			
Medium-Term Notes	AAA	Confirmed	Stable
Canadian Short-Term Promissory Notes	R-1 (high)	Confirmed	Stable
U.S. Commercial Paper Notes	R-1 (high)	Confirmed	Stable

Rating Update

DBRS Limited (DBRS Morningstar) confirmed the Public Sector Pension Investment Board's (PSP Investments or the Fund) Issuer Rating at AAA. DBRS Morningstar also confirmed PSP Capital Inc.'s (PSP Capital) Medium-Term Notes (MTNs) rating at AAA and both the Canadian Short-Term Promissory Notes and the U.S. Commercial Paper Notes ratings at R-1 (high), based on the unconditional and irrevocable guarantee provided by PSP Investments. The trends on all ratings remain Stable. The ratings are supported by PSP Investments' exclusive mandate to manage the assets of four depository pension plans, the role of the Government of Canada (rated AAA with a Stable trend by DBRS Morningstar) as sponsor of the plans, the high level of assets available to meet obligations, the strong liquidity position, and a record of strong long-term investment returns.

PSP Investments achieved a net investment return of 18.4% for the year ended March 31, 2021 (F2021), outperforming its benchmark (BM) of 16.5%. The strong return is attributable to a sharp rebound in equity markets and positive returns across all asset classes with the exception of fixed income. The major return drivers were public market equities, which gained 48.1%, outperforming their BM of 42.1%; private equity, which delivered 28.4% compared with a BM of 31.7%; credit investments, which added 10.5%, outperforming a BM of 9.6%; real estate with gains of 3.8% compared with a BM of -6.0%; and natural resources, with gains of 10.6% compared with their BM of 7.7%.

Net assets rose to $204.3 billion as of March 31, 2021, growing by 20.4% over the year. Debt with recourse to the Fund from the capital market debt program increased by $0.9 billion to $16.7 billion; however, given a strong asset growth in the year, it decreased to 7.6% as a share of adjusted net assets as of March 31, 2021, compared with 8.5% as of March 31, 2020. Since the last annual review completed on December 4, 2020, PSP Capital issued $1.0

billion of Series 14 MTNs. The global MTN program was launched in June 2021. Under this program, there were three new issuances of USD Senior Notes: USD 1.0 billion of 1.000% Senior Notes due 2026; USD 1.25 billion of 0.500% Senior Notes due 2024; and USD 1.0 billion of 1.625% Senior Notes due 2028. DBRS Morningstar expects PSP Capital to continue to issue term notes to refinance maturing debt, provide liquidity, and finance additional investment activities.

The Fund has a prudent approach to liquidity management and has ample sources of funding to draw upon. DBRS Morningstar notes that the Fund meets the DBRS Morningstar criteria for commercial paper (CP) liquidity support, as outlined in the *Rating Canadian Public Pension Funds & Related Exclusive Asset Managers* methodology's appendix entitled "Self-Liquidity for Canadian Public Pension Funds and Related Exclusive Asset Managers' CP Programs" (the Self-Liquidity Criteria). The Fund's liquidity position remains sound, with sufficient same-day available funds equal to at least five business days of upcoming liabilities and discounted assets equal to the remaining maximum authorized CP program limit; this is consistent with DBRS Morningstar's policy on backup liquidity support for pension plans and provides considerable short-term financial flexibility. The transfers from the Government of Canada have stayed positive in the last 20 years.

PSP Investments is one of the leading investment managers that integrates various aspects of environmental, social, and governance factors, including diversity, equity, and inclusion (DEI), into its investment approach and company operations. Specifically, substantial work has been done this year in identifying investment risks and opportunities considering climate change. PSP Investments has a growing renewable energy portfolio totalling $3.8 billion of direct investments in more than 250 renewable energy assets. As all traditional asset classes are within the range of their targets, the Fund continues to focus more on managing the portfolio from a total fund perspective, while identifying individual opportunities within the existing classes. To increase geographical diversification, the allocation toward emerging market debt within the fixed income portfolio was increased. The Fund has an active DEI Council consisting of company volunteers who are dedicated to promoting DEI within the organization through various initiatives. PSP Investments has a diverse workforce and actively engages in fostering the DEI culture.

Financial Information

	For the year ended March 31				
(CAD millions)	**2021**	**2020**	**2019**	**2018**	**2017**
Net assets under management	204,299	169,682	167,853	152,994	135,562
Total recourse debt [1]	16,731	15,808	14,119	12,193	10,807
As a share of adjusted net assets (%) [2]	7.6	8.5	7.8	7.4	7.3
Total investment return (%)	18.4	(0.6)	7.1	9.8	12.8
BM return (%)	16.5	(1.6)	7.2	8.7	11.9

1 Recourse debt from capital market debt financing reported at fair value since 2018 and at capital amounts repayable at maturity in prior years.
2 For the purposes of the ratio calculation, net assets are adjusted by adding back recourse debt.

Issuer Description

Public Sector Pension Investment Board

PSP Investments is a non-agent Crown corporation created to manage the net contributions received since April 1, 2000, for the pension plans of the federal Public Service (the Public Service), the Canadian Forces, and the Royal Canadian Mounted Police (RCMP), and, since March 1, 2007, for the pension plan of the Reserve Force. As at March 31, 2021, PSP Investments held net assets of $204.3 billion.

PSP Capital Inc.

PSP Capital is a wholly owned subsidiary of PSP Investments that was created in 2005 to raise financing for investment activities through short-term and long-term borrowing. The ratings on the debts issued by PSP Capital are predicated on the unconditional and irrevocable guarantee provided by PSP Investments.

Rating Considerations

Strengths

1. High level of unencumbered assets and liquidity

The Fund had net assets of $204.3 billion as of March 31, 2021, and relatively low recourse debt, which provides the Fund with considerable flexibility in meeting its obligations. Current recourse debt raised from capital market debt financing represents 7.6% of net assets.

2. Exclusive mandate to manage pension assets

PSP Investments was established for the sole purpose of managing some of the federal government's pension plan assets. The Public Service, Canadian Forces, and RCMP pension plans are required under their respective constituting Acts to transfer all net pension contributions to PSP Investments for service costs post-April 1, 2000. The Reserve Force Pension Plan is also required to transfer to PSP Investments all net contributions received on or after March 1, 2007. This makes depositors captive and adds certainty to cash flows and net assets.

3. Ongoing net contributions

PSP Investments manages the net contributions received in relation to pension plan benefits earned by employees since April 1, 2000, through the Public Service, Canadian Forces, and RCMP pension plans. PSP Investments also has the mandate to manage the net contributions received after March 1, 2007, from the Reserve Force Pension Plan. The most recent actuarial valuations project positive cash flows to PSP Investments for at least five years, which will provide strong support to liquidity and asset growth. However, DBRS Morningstar notes that as the Fund continues to gain scale, net pension contributions become less important to net asset growth. Since April 1, 2000, transfers received from the government represent about 42% of net assets under management; the remaining 58% is attributable to investment returns.

4. Strong plan sponsor in the Government of Canada

The Government of Canada is the sponsor of the four pension plans whose funds are managed by PSP Investments. It accounts for employer portion of pension contributions, which provides considerable stability and certainty of cash flows.

Challenges

1. Political risks that could weaken depositor relationships

The R-1 (high) and AAA ratings partly reflect the high level of net assets available to meet obligations; however, new legislation could conceivably be introduced, allowing plan depositors to seek alternative asset managers, which could adversely affect net assets and therefore reduce debt coverage. Given that the Fund was set up specifically to service the pension plans, DBRS Morningstar considers any wholesale change in PSP Investments' role as a manager of public pension assets a remote possibility.

2. Volatility inherent in investment activities

Asset valuation fluctuates over time. The current outlook of slower economic growth and uncertainty arising from the emergence of new Coronavirus Disease (COVID-19) variants, low interest rates, increased geopolitical risk, and maturing demographics can lead to an increased exposure to riskier assets. Riskier assets can offer potentially higher long-term results, but may also add more volatility to the valuation of the asset base in the short term.

3. Asset reallocation toward more illiquid assets

The Fund has been increasing the allocation toward illiquid assets in recent years. Although this strategy has contributed to generate higher returns and reduce volatility in the portfolio, it can also make the Fund more vulnerable to liquidity risk. This risk is mitigated by PSP Investments' sound liquidity management practices based on a total fund approach. The Fund maintains sufficient same-day available funds equal to at least five business days of upcoming liabilities and discounted assets equal to the remaining maximum authorized CP program limit, consistent with DBRS Morningstar's Self-Liquidity Criteria, which further enhances financial flexibility and supports the short-term ratings. The Fund also receives semimonthly net contributions from the Government of Canada.

4. Establishing framework to meet growth requirements

The Fund has experienced rapid growth since its inception in 1999. It has grown to more than 800 employees and continues to mature as an organization. PSP Investments continues to implement and refine its process, systems, and resources to meet growth and return expectations.

Investment Performance

PSP Investments achieved a return of 18.4% in the year ended March 31, 2021, outperforming its BM of 16.5%. PSP Investments has achieved an average annual return of 9.3% over the last five years, which compares positively with the BM return of 8.3% over the same period.

F2021 was a year of exceptionally healthy returns, substantially driven by strong performance of public and private equities. As noted by the Fund, its Public Market Equities' internal strategy outperformed its BM because of strategic allocations that proved to be beneficial as economies began to reopen. Public Market Equities returned 48.1% compared with a BM of 42.1% in F2021. Private Equities delivered 28.4%, although this fell short of its

BM of 31.7%. Strong results were also delivered by some real assets, such as natural resources, which gained 10.6% compared with a BM of 7.7%. Credit investments also brought double-digit results, delivering 10.5% versus a BM of 9.6%. The fixed income strategy was the only asset class that delivered a negative return, at -2.3%; however, it outperformed its BM of -3.1%. PSP Investments' policy is not to hedge its exposure to foreign currencies from a strategic perspective, although exposures to certain currencies may from time to time be hedged based on market conditions and outlook. In F2021, because of major currencies the portfolio has been exposed to having depreciated against the Canadian dollar, net income declined by $13.4 billion. Nevertheless, the Fund expects the unhedged currency positions to be natural diversifiers and volatility stabilizers in the long run.

The Complementary Portfolio returned 0.2% in the year versus its BM of 6.0%. The Complementary Portfolio includes investments that are beneficial to the Fund but that are outside of the existing asset classes' investment framework. The scope of investments within the Complementary Portfolio has been recently broadened to include more innovative strategies, with the focus on alternative risk premium and knowledge-driven strategies. Since its inception in January 2017, the Complementary Portfolio has generated a 11.2% return compared with its BM of 5.7%.

The fixed income portfolio returned -2.3%, outperforming its BM of -3.1%, which was attributable to lower valuations of fixed income securities as bond yields were going up. The portfolio outperformed its BM because of an overweight in inflation-protected bonds and in corporate credit.

Investment Returns [1]

	Five-Year Average	10-Year Average	For the year ended March 31				
			2021	**2020**	**2019**	**2018**	**2017**
Total investment return (%)	9.3	8.9	18.4	(0.6)	7.1	9.8	12.8
BM return (%) [2]	8.3	7.8	16.5	(1.6)	7.2	8.7	11.9

1 Net returns.
2 The Policy Portfolio BM is weighted using actual portfolio asset-class weightings.

Returns by Major Portfolio [1]

(For the year ended March 31)

	2021			2020	2019	2018	2017
	Return	**Benchmark**	**Variance**	**Return**	**Return**	**Return**	**Return**
Government Fixed Income							
Cash and cash equivalents %) [2]	1.4	0.2	1.2	1.7	1.9	1.5	1.5
Fixed income (%)	(2.3)	(3.1)	0.8	10.0	4.8	1.6	2.9
Credit							
Credit investments (%)	10.5	9.6	0.9	4.3	9.2	8.2	27.5

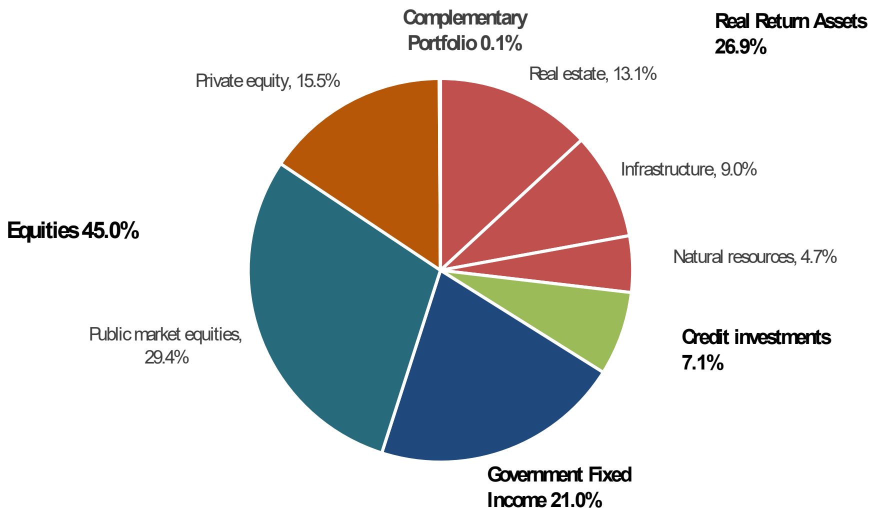
Equities							
Public market equities (%)	48.1	42.1	6.0	(11.2)	4.3	11.3	21.6
Private equity (%)	28.4	31.7	(3.3)	5.2	16.1	12.9	(3.4)
Real-Return Assets							
Real estate (%)	3.8	(6.0)	9.8	(4.4)	7.6	13.6	10.8
Infrastructure (%)	4.5	3.5	1.0	8.7	7.1	19.3	14.4
Natural resources (%)	10.6	7.7	2.9	(5.2)	11.1	11.2	19.5
Complementary Portfolio (%)	0.2	6.0	(5.8)	13.6	0.04	33.0	
Net Return (%)	18.4	16.5	9.3	**(0.6)**	**7.1**	**9.8**	**12.8**

1 Net returns.

2 Includes amounts related to Complementary Portfolio in F2017.

Investment Profile

Exhibit 1 Asset Mix as at March 31, 2021



Source: DBRS Morningstar.

Historically, the Fund has maintained a portfolio with high public equity allocations as a percentage of the total asset mix, taking advantage of their cumulative favourable net contributions, which proved to be successful in F2021. Overall, all of the Fund's asset classes are currently at or around their targeted allocation limits. There are a few strategies that the Fund is looking to pursue further, such as greater allocations toward credit investments and emerging market debt as a means of increasing the portfolio diversification.

As part of the Fund's five-year investment strategy, Vision 2021, it implemented a shift toward a total fund investment approach. The Fund has successfully completed the Vision 2021 strategy, with notable achievements like increasing net investment in private markets by 58% and increasing active management in public markets by 14%. Allocation toward private market asset classes has increased to almost 50% from 29.5% at the launch of the strategy. A new investment strategy, PSP Forward, through which the Fund plans to further enhance the total fund performance and global operations, was approved in February 2021.

The updated investment approach includes a Reference Portfolio, a Policy Portfolio, and active management strategies. In 2021, the Government of Canada took over responsibility for the Reference Portfolio. The Treasury Board of Canada Secretariat now communicates a composition of the Reference Portfolio to PSP Investments on behalf of the president of the Treasury Board. The Reference Portfolio is a simple, passively managed portfolio of publicly traded securities that the government uses to communicate its funding risk tolerance to PSP Investments. It is currently composed of 59% equities and 41% fixed income. PSP

Investments aims to outperform the Reference Portfolio over the long term within the level of funding risk suggested by the government. It is the first year that the Fund has received a risk tolerance in the form of a Reference Portfolio rather than a long-term return target.

The Policy Portfolio represents the long-term target asset allocation and is reviewed at least annually by the board. PSP Investments has mostly finished the transition to the target asset mix identified in the Policy Portfolio. Historically, the Fund has been heavily allocated to public equities; however, it continues to move toward private market asset classes, such as private equity, infrastructure, and natural resources, in search of higher returns. Post-2000 liabilities under the depository plans are expected to have minimal liquidity requirements from PSP Investments for pension payments before 2030, excluding the impact from potential contribution holidays. The long-term, illiquid private market investments help the Fund to match the risk/return profile of the portfolio with the long-term, inflation-sensitive nature of the pension obligations. This fiscal annual review of the Policy Portfolio introduced a few changes to better align the Portfolio with the government risk tolerance while enhancing the risk-return profile. The Fund's infrastructure strategy, which offers long-term inflation protection, was one of the techniques to fulfill this objective.

The final component of the investment mandate is active investment management implemented within set risk budgets to generate additional returns over and above the Policy Portfolio. Active management benefits from the Fund's proprietary research, in-house expert decision making, and analytic competence. In public market equities, for example, this may be achieved through over- and under-weighting specific securities relative to the portfolio equity BM.

The Complementary Portfolio was introduced in F2017 to make investments that do not necessarily fit within an existing asset class but support PSP Investments' total fund investment approach and improve the long-term risk-reward profile. The Complementary Portfolio does not have a target allocation; however, it is limited to 3.0% of the Fund's value. The Complementary Portfolio has returned 11.2% on an annual basis since its launch.

In F2018, PSP Investments also implemented a new hedging strategy to maintain foreign exposure unhedged and to use hedging strategies dynamically when needed, which the Fund continues to follow. PSP Investments views this change as an improvement to the risk-return profile by taking advantage of the diversifying impact of certain currencies on the Total Fund and reducing demand on liquidity and hedging costs in the long run, though it could create some short-term volatility.

Net Investments	Long-Term Target Asset Allocation		As at March 31				
	F2021	**F2020**	**2021**	**2020**	**2019**	**2018**	**2017**
Government fixed income (%)	21.0	20.0	21.0	19.7	20.5	18.1	17.7
Credit							
Credit investments (%)	9.0	7.0	7.1	7.8	6.2	5.8	3.3
Equities							
Public market equity (%)	27.0	30.0	29.4	28.5	30.4	33.8	40.7
Private equity (%)	12.0	13.0	15.5	14.2	14.0	12.7	11.7
Total equities (%)	**39.0**	**43.0**	**45.0**	**42.7**	**44.4**	**46.5**	**52.4**
Real-Return Assets							
Real estate (%)	14.0	15.0	13.1	14.0	14.0	15.2	15.2
Infrastructure (%)	12.0	10.0	9.0	10.8	10.0	9.8	8.2
Natural resources (%)	5.0	5.0	4.7	4.5	4.0	3.2	2.7
Total real return assets (%)	**31.0**	**30.0**	**26.9**	**29.3**	**28.0**	**28.2**	**26.1**
Complementary Portfolio (%)	n/a	n/a	0.1	0.6	0.9	1.4	0.5
Total (%)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

1 Figures do not add up because of rounding.

Net Asset Position

Change in Net Assets					
	For the year ended March 31				
(CAD millions)	**2021**	**2020**	**2019**	**2018**	**2017**
Investment income	32,588	203	12,195	14,420	15,913
Investment-related expenses	(497)	(703)	(579)	(445)	(360)
Net investment income	32,091	(500)	11,616	13,975	15,553
Operating expenses	(510)	(551)	(503)	(450)	(370)
Fund transfers	3,036	2,871	3,749	3,921	3,622
Other comprehensive income (loss)	-	9	(3)	(14)	(4)
Increase in Net Assets	**34,617**	**1,829**	**14,859**	**17,432**	**18,801**
Net Assets	**204,299**	**169,682**	**167,853**	**152,994**	**135,562**

PSP Investments' net assets increased to $204.3 billion as of March 31, 2021, from $169.7 billion last year, growing by 20.4% year over year. Net investment income generated gains of $32.6 billion, while fund transfers added $3.0 billion. Operating costs reduced net assets by $510 million. The Fund's net asset position has been rapidly growing, fuelled by strong investment returns and solid net contributions stemming from the Fund’s mandate to manage assets for post-2000 pension liabilities.

The Fund’s investment-related liabilities and capital market debt decreased by 25% in the year ended March 31, 2021, because of a substantial decline in value of derivative-related liabilities and repurchase agreements in the year. Derivative-related liabilities decreased to $1.5 billion in F2021 from $4.5 billion in F2020. The Fund uses derivatives to enhance returns or to replicate investments synthetically and to manage duration in the fixed income portfolio. DBRS Morningstar notes that counterparty risk in derivative contracts has been mitigated through a quality selection of counterparties, the use of counterparty agreements, netting, and collateral exchanges; thus, much of the remaining risk relates to underlying market risk.

The Fund has strict board-imposed limits on the amount of total leverage (25% of adjusted net assets). Furthermore, the Fund has internal guidelines limiting the amount of leverage that can come from its capital market program. The Fund's current recourse debt load is below 10% of adjusted net assets. As at F2021, recourse debt raised from the capital market debt program rose to $16.7 billion, representing 7.6% of adjusted net assets. Since the last annual review completed on December 4, 2020, PSP Capital has issued $1.0 billion of Series 14 MTNs. The global MTN program was launched in June 2021. Under this program, there were three new issuances of USD Senior Notes: USD 1.0 billion of 1.000% Senior Notes due 2026; USD 1.25 billion of 0.500% Senior Notes due 2024; and USD 1.0 billion of 1.625% Senior Notes due 2028. DBRS Morningstar expects PSP Capital to continue to issue term notes to refinance maturing debt and to finance additional investment activities.

PSP Investments maintains a prudent approach to liquidity management. The Fund’s treasury department monitors liquidity needs daily and maintains its own accounts to ensure that liquidity is available to meet near-term cash needs. Liquidity levels are set by senior management, which seeks to ensure that the treasury department has sufficient liquidity available to meet all cash commitments/requirements. The treasury department maintains liquidity in the form of cash, money market securities, floating-rate notes, bonds, and high-quality public equities from major stock exchanges. PSP Investments also maintains a $2 billion committed line of credit and $1 billion of demand facilities (both undrawn as of March 31, 2021) as additional sources of liquidity. In managing liquidity, PSP Investments employs a total fund approach through a centralized platform, the Corporate Liquidity Fund (CLF). The primary objectives of the CLF are safety of capital and liquidity and collateral eligibility. The CLF is composed primarily of highly rated government or government-related fixed income securities to meet its collateral requirements.

The Fund’s liquidity position remains sound, with sufficient same-day available funds equal to at least five business days of upcoming liabilities and discounted assets equal to the remaining maximum authorized CP program limit, which is consistent with DBRS

Morningstar's policy on backup liquidity support for pension plans and further highlights the Fund's flexibility to meet short-term obligations through its diversified sources of liquidity in the event of severe market disruptions.

PSP Investments employs an enterprise risk management framework covering a broad array of risks, including operational, strategic, investment, legal and regulatory, and reputational. Risk management is led by the chief financial and risk officer, who reports to the chief executive officer (CEO), with oversight from the board. PSP Investments continues to enhance its risk management functions by working closely with the investment groups, providing strategic risk analysis and daily reports. PSP Investments' risk framework includes comprehensive sensitivities analysis and stress-testing scenarios, which are a centerpiece in the implementation of its liquidity framework and which enabled it to prepare in advance for the coronavirus pandemic-related crisis.

Investment-Related Liabilities and Capital Market Debt

	For the year ended March 31				
(CAD millions)	**2021**	**2020**	**2019**	**2018**	**2017**
Investment-Related Liabilities [1]					
Accounts payable from pending trades	1,524	1,016	956	1,164	1,076
Interest payable	71	94	69	56	39
Securities sold short [2]	2,774	3,890	6,298	6,577	4,222
Collateral payable [2]	2,214	3,351	3,012	3,573	5,091
Securities sold under repurchase agreements	3,279	8,787	5,627	575	1,107
Derivative-related liabilities	1,463	4,535	962	1,734	838
Capital market debt [1]	16,731	15,808	14,119	12,193	10,807
Total	**28,056**	**37,481**	**31,043**	**25,872**	**23,180**

1 Fair-market-value basis.
2 During the year ended March 31, 2018, collateral payable was reclassified out of securities sold short and presented separately. Accordingly, 2017 figures were adjusted for consistency.

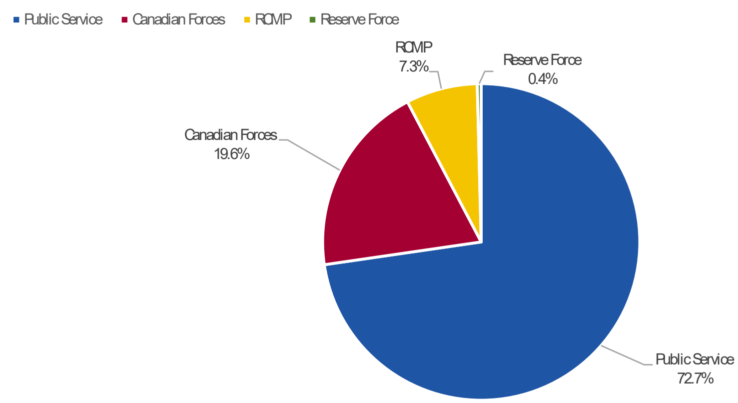
Capital Market Debt Outstanding [1]

(CAD millions)	**Maturity**	**Interest Rate (%)**	**Amount [1]**
Canadian Short-Term Promissory Notes [2]	27 days to 364 days	0.97 to 1.87	352
U.S. Commercial Paper Notes [2]	7 days to 366 days	0.03 to 2.02	5,389
Medium-Term Notes, Series 7	Apr. 2024	3.29	1,571
Medium-Term Notes, Series 8	Aug. 2021	1.34	1,255
Medium-Term Notes, Series 9	Nov. 2023	2.09	1,558
Medium-Term Notes, Series 10	Jun. 2022	1.73	1,595
Medium-Term Notes, Series 11	Nov. 2025	3.00	1,348
Medium-Term Notes, Series 12	Jan. 2030	2.05	1,250
Medium-Term Notes, Series 13	Jun. 2026	0.90	1,463
Medium-Term Notes, Series 14	Mar. 2028	1.50	950
Total			**16,731**

1 Fair value.
2 Maturity, principal, and the interest rate are Canadian-dollar equivalent as of March 31, 2021.

About PSP Investments

Exhibit 2 Net Assets per Pension Plan (March 31, 2021)



Source: DBRS Morningstar.

PSP Investments is a Crown corporation created in 1999 under the Public Sector Pension Investment Board Act to manage the net contributions received in relation to pension plan benefits earned by employees since April 1, 2000, through the Public Service, Canadian Forces, and RCMP pension plans. PSP Investments also has the mandate to manage the net contributions received after March 1, 2007, from the Reserve Force Pension Plan. As at March 31, 2021, net investments under PSP Investments management and available to service pension benefits amounted to $204.5 billion. PSP Investments operates at arm's length from the Government of Canada. Its mandate is to manage the funds transferred in the best interests of the contributors and beneficiaries to maximize investment returns without undue risk of loss, considering the funding, policies, and requirements of the plans and the plans' abilities to meet their financial obligations.

Pension benefits accrued by plan members before April 1, 2000, under the Public Service, Canadian Forces, and RCMP pension plans are held separately in the accounts of the Government of Canada (Superannuation Accounts).

Actuarial valuations of the contributing pension plans are conducted in a staggered manner. The most recent actuarial valuation conducted as at March 31, 2017, for the Public Service, which represents the majority of net assets (72.9%), and as at March 31, 2018, for the RCMP, revealed a surplus position, while the latest valuations conducted as at March 31, 2016, for the Canadian Forces and the Reserve Force showed a deficit position. The deficit positions in the pension funds are caused by a combination of factors, including investment losses from the financial crisis and revisions of actuarial assumptions over the intervaluation periods. As is required under the governing Acts of each of these plans, the actuarial deficits will be amortized with equal annual payments over 15 years, with special payments being made by the plan sponsor.

PSP Investments is governed by a board of directors consisting of 11 directors, including a chairperson. Each director is appointed by the Governor in Council on the recommendation of the president of the Treasury Board for a term not exceeding four years and is eligible for reappointment for one or more additional terms. The president of the Treasury Board's recommendation is made from a list of qualified candidates proposed by an external nominating committee. The board reports to Parliament through the president of the Treasury Board and is responsible for, among other things, appointing the CEO, approving policies and procedures for investment activities, remuneration, leverage, liquidity, and risk management. The board is currently operating at full capacity with no vacant positions.

Ranking and Legal Issues

In contrast to pension funds, PSP Investments, as an exclusive asset manager, has no direct responsibility for the obligations faced by the depositors in relation to the benefits owed to their members. This greatly reduces the volatility of PSP Investments' net asset position. An updated legal opinion provided by PSP Investments’ external legal counsel states that the obligation resulting from the guarantee ranks senior to amounts that become due to the pension plans compared with the pari passu opinion originally obtained when the ratings were first assigned. While this is a positive development, DBRS Morningstar generally puts limited emphasis on such legal opinions in its rating assessments for public pension funds, given the absence of legal certainty pertaining to this issue.

Under their respective constituting Acts, the Public Service, Canadian Forces, and RCMP pension plans are required to deposit net contributions exclusively with PSP Investments. The Reserve Force Pension Plan also has similar requirements under its constituting regulations. This results in a fairly captive client base and solid cash inflows, given the favourable demographics of the plans. In theory, depositors could seek legislative changes enabling them to deposit new pension contributions or transfer existing funds elsewhere. Should this happen, PSP Investments could see net assets fall considerably, potentially affecting its credit rating; however, DBRS Morningstar perceives this scenario to be very remote because PSP Investments was created specifically to service those pension plans.

PSP Investments operates at arm’s length from the federal government, which reduces the possibility of political intervention. Nonetheless, its constituting Act permits the Governor in Council to make regulations in respect of the percentage of assets that must be allocated to Government of Canada bonds. As a result, the government could conceivably use the Fund as a lender of last resort in times of heavy financial stress. Given the Government of Canada's very robust credit profile and its moral obligation to protect the financial integrity of the pension plans, DBRS Morningstar views this scenario as very remote.

Structure of Guarantees from PSP Investments to PSP Capital

PSP Investments unconditionally and irrevocably guarantees the full payment of principal and interest in respect of the MTNs, Canadian Short-Term Promissory Notes, and U.S. Commercial Paper Notes issued by PSP Capital. Should PSP Capital fail to make required payments, investors can demand payment from PSP Investments under the guarantee without first exhausting recourse to PSP Capital. DBRS Morningstar has reviewed a legal opinion obtained by PSP Investments from its legal counsel stating that, subject to certain assumptions and qualifications, the guarantee is a legal, valid, and binding obligation of PSP Investments; enforceable against PSP Investments in accordance with its terms; and that PSP Investments has the necessary corporate power to guarantee the principal and interest of PSP Capital's MTNs, Canadian Short-Term Promissory Notes, and U.S. Commercial Paper Notes.

Rating History

	Current	2020	2019	2018	2017	2016
Public Sector Pension Investment Board						
Issuer Rating	AAA	AAA	AAA	AAA	AAA	AAA
PSP Capital Inc.						
Medium-Term Notes	AAA	AAA	AAA	AAA	AAA	AAA
Canadian Short-Term Promissory Notes	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)
U.S. Commercial Paper Notes	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)	R-1 (high)

Previous Action

- Confirmed, December 4, 2020.

Commercial Paper Limit

- PSP Capital Inc.: $12.0 billion for Canadian Short-Term Promissory Notes and U.S. Commercial Paper Notes combined.

Related Research

- *Rating Canadian Public Pension Funds & Related Exclusive Asset Managers*, April 30, 2021.
- *North American Structured Finance Flow-Through Ratings*, January 4, 2021.

Previous Report

- Public Sector Pension Investment Board & PSP Capital Inc.: Rating Report, December 4, 2020.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrsmorningstar.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.

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We rate more than 3,000 issuers and nearly 60,000 securities worldwide, providing independent credit ratings for financial institutions, corporate and sovereign entities, and structured finance products and instruments. Market innovators choose to work with us because of our agility, transparency, and tech-forward approach.

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