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MORNINGSTAR | DBRS

RATING REPORT

Public Sector Pension Investment Board & PSP Capital Inc.

Ratings

Debt	Rating Action	Rating	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 Issuer Rating of the Public Sector Pension Investment Board (PSPIB or the Fund) 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 PSPIB. The trends on all ratings remain Stable. The ratings are supported by PSPIB's 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 investment returns.

PSPIB achieved a net investment return of 7.1% for the year ended March 31, 2019 (F2019), close to its benchmark (BM) of 7.2%. All asset class strategies delivered positive results, although not all exceeded their BM. Private equity and private debt generated returns of 16.1% and 9.2%, respectively, outperforming their respective BM by more than 3.4%. The strong performance in private markets along with infrastructure and natural resources

Continued on P.2

Financial Information

($ millions)	2019	2018	2017	2016	2015
	For the year ended March 31				
Net assets	167,853	152,994	135,562	116,761	111,967
Total recourse debt[1]	14,996	13,040	11,498	9,333	7,925
As a share of adjusted net assets (%)[2]	8.2%	7.9%	7.8%	7.4%	6.6%
Total investment return	7.1%	9.8%	12.8%	0.7%	14.2%
Benchmark return	7.2%	8.7%	11.9%	0.3%	13.1%

1. Recourse debt 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

PSPIB 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, 2019, PSPIB held net assets of $167.9 billion.

PSP Capital Inc.

PSP Capital is a wholly owned subsidiary of PSPIB 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 PSPIB.

Rating Update (CONTINUED)

was enough to offset a weaker performance in public markets and real estate assets, which faced a challenging year marked by heightened volatility and lower yields, as a result of trade disputes and a weakened global economic outlook. Positive investment returns and ongoing fund transfers from the Government of Canada led to a $14.9 billion increase in net assets, which rose to $167.9 billion as at March 31, 2019.

Debt with recourse to the Fund rose by $1.8 billion to $15.0 billion, or 8.2% as a share of adjusted net assets as at March 31, 2019, compared with 7.9% as at March 31, 2018. Subsequent to fiscal year end, PSP Capital issued $1.75 billion in MTNs, through the re-opening of MTN Series 7, the re-opening of MTN Series 9, and the issuance of MTN Series 12. PSP Capital also aims to launch a global MTN program in 2020. DBRS Morningstar expects PSP Capital to continue to issue term notes to refinance maturing debt and to finance additional investment activities. PSPIB's recourse debt has remained below the 10% board limit, providing considerable room for cyclical fluctuations in asset values.

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' Commercial Paper 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 Fund also receives semi-monthly fund transfers from the Government of Canada, which the Chief Actuary of Canada estimates will remain positive for at least five years, albeit at a declining rate.

Over the next decade. the Fund's net assets under management are expected to surpass the $250 billion mark, on the strength of investment returns and government fund transfers. During the year ended March 31, 2019, PSPIB continued to reduce the exposure to public equities to 30.4% from 33.8%, while allocating greater resources to funding of private equities and private debt, which increased to 14.0% of net assets from 12.7% and to 6.2% from 5.8%, respectively. The Fund has indicated that after practically reaching its target asset allocations in F2019, it will be focusing more on managing the portfolio from a total fund perspective to deliver on its risk return objective. PSPIB continues to increase its global footprint with offices in Ottawa, Montréal, London, New York, and a new office in Hong Kong. The new office is expected to leverage local expertise to seize opportunities that will increase the scale worldwide, particularly in the Asia-Pacific region.

DBRS Morningstar notes that in F2019 the Government of Canada implemented a funding policy (Funding Policy) to be administered by the President of the Treasury Board. The Funding Policy provides the decision framework to support the funding of the four depository pension plans, whose assets are managed by PSPIB, including risk management practices and how to address a plan funding deficit or surplus. As part of the Funding Policy, an Asset Liability Committee (ALCO) was established that will include participation from representatives of the four plans, the Department of Finance, the Office of the Chief Actuary, and from PSPIB. The ALCO has started meeting in F2020 and will be responsible for setting the Reference Portfolio, which was previously determined by PSPIB's board of directors. DBRS Morningstar sees this change as positive, as it will improve the communication between the Treasury Board Secretariat, the Office of the Chief Actuary and PSPIB, supporting the funding of the four depository pension plans and compliance with PSPIB's mandate.

Rating Considerations

Strengths	Challenges

Strengths

1. High level of unencumbered assets and liquidity
The Fund had net assets of $167.9 billion as at March 31, 2019, and relatively low recourse debt, limited by the board of directors to 10% of net investments plus all recourse debt outstanding at the time of debt issuance, which provide the Fund with considerable flexibility in meeting its obligations. Current recourse debt represents 8.2% of net assets.

2. Exclusive mandate to manage pension assets
PSPIB 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 PSPIB for service costs post-April 1, 2000. The Reserve Force Pension Plan is also required to transfer to PSPIB 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
PSPIB 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. PSPIB 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 PSPIB 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. Over the last five years, PSPIB's net assets increased by $74.1 billion on the account of $54.3 billion in investment returns compared with $19.8 billion in net pension contributions received.

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 PSPIB. It accounts for approximately half of all 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 PSPIB's role as a manager of public pension assets a remote possibility.

2. Volatility inherent in investment activities
Like other large fund managers, PSPIB maintains considerable exposure to public and private equities (44.4% of net assets as at March 31, 2019). A significant market correction could contribute to a sharp erosion of the asset base.

3. Establishing framework to meet growth requirements
The Fund has experienced rapid growth since its inception in 1999. It has grown to over 800 employees and continues to mature as an organization. PSPIB continues to implement and refine its process, systems, and resources to meet growth and return expectations.

4. Asset reallocation towards 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 PSPIB's sound liquidity management practices. 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 semi-monthly net contributions from the Government of Canada.

Investment Performance

PSPIB achieved a return of 7.1% in the year ended March 31, 2019, close to its BM of 7.2%. PSPIB has achieved an average annual return of 8.8% over the last five years, which compares positively with the BM return over the same period (8.1%) and the long-term real-return requirement (4.0%).

All asset class strategies delivered positive results during F2019, although not all exceeded their BM. The investments in private equity and private debt generated returns of 16.1% and 9.2%, respectively, outperforming their respective BM by more than 3.5%. The strong performance in private equity, private debt, infrastructure, and natural resources was enough to offset a weaker performance in public markets and real estate assets, which faced a challenging year.

PSPIB implemented a new strategy for private equity in 2016, following the underperformance of some legacy investments. The new strategy led to strong returns in F2019 of 16.1% that exceeded its BM by 3.8%, attributed to valuation gains, particularly in the U.S. health sector, as well as distributed income and unhedged foreign exchange exposures. Private debt, infrastructure, and natural resources also delivered strong returns of 9.2%, 7.1%, and 11.1%, respectively. Private debt outperformed its BM of 5.7% on the back of sound credit selection, while infrastructure and natural resources outperformed their corresponding BM of 4.6% and 9.2%, respectively, primarily attributed to valuation gains in assets held in the transportation and utility sectors in Europe and North America and in timberland.

Although public markets and real estate delivered positive results too, the returns were slightly below their corresponding BM, as performance was affected by trade disputes, global growth concerns, and a low-yield environment. Public market equities, fixed income, and real estate achieved one-year returns of 4.3%, 4.8%, and 7.6%, respectively, compared with their BM of 4.5%, 5.3%, and 11.8%.

Investment Returns[1]	Five-Year Average	Ten-Year Average	For the year ended March 31				
			2019	**2018**	**2017**	**2016**	**2015**
Total investment return	8.8%	10.7%	7.1%	9.8%	12.8%	0.7%	14.2%
Benchmark return[2]	8.1%	9.6%	7.2%	8.7%	11.9%	0.3%	13.1%

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

Investment Performance (CONTINUED)

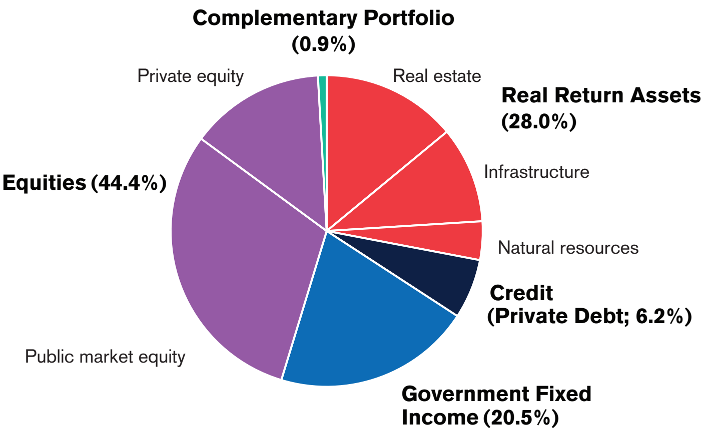
Returns by Major Portfolio[1]	For the year ended March 31			For the year ended March 31			
	2019			2018	2017	2016	2015
	Return	Benchmark	Variance	Return	Return	Return	Return
Government Fixed Income							
Cash and cash equivalents[2]	1.9%	1.5%	0.4%	1.5%	1.5%	0.6%	1.3%
Fixed income	4.8%	5.3%	(0.5%)	1.6%	2.9%	3.6%	9.4%
Credit							
Private debt[3]	9.2%	5.7%	3.5%	8.2%	27.5%	3.0%	n/a
Equities							
Public market equities[4]	4.3%	4.5%	(0.2%)	11.3%	21.6%	(5.3%)	
Canadian equities[4]						(6.5%)	7.2%
U.S. large cap equities[4]						(3.8%)	29.5%
EAFE large cap equities[4]						(5.8%)	12.9%
Small cap equities[4]						(0.6%)	25.0%
Emerging market equities[4]						(9.8%)	15.2%
Private equity	16.1%	12.3%	3.8%	12.9	(3.4%)	2.4%	9.4%
Real-Return Assets							
World inflation-linked bonds[5]						2.7%	16.9%
Real estate	7.6%	11.8%	(4.2%)	13.6%	10.8%	14.4%	12.8%
Infrastructure	7.1%	4.6%	2.5%	19.3%	14.4%	12.7%	10.4%
Natural resources	11.1%	9.2%	1.9%	11.2%	19.5%	6.9%	12.2%
Complementary Portfolio	**0.04%**	**7.2%**	**(7.2%)**	**33.0%**			
Weighted-Average Return[6]	**7.1%**	**7.2%**	**(0.1%)**	**10.2%**	**13.2%**	**1.0%**	**14.5%**

1. Gross returns. 2. Includes amounts related to Complementary Portfolio in F2017. 3. The private debt asset class was created in F2016. 4. For F2017, returns for Canadian equities, U.S. large cap equities, EAFE large cap equities, small cap equities, and emerging market equities are reported together as public market equities. 5. Included in fixed income starting in F2017. 6 The Policy Portfolio BM is weighted using actual portfolio asset-class weightings.

Investment Profile

As part of the Fund's five-year investment strategy, the Total Fund Strategy Group continues to implement the Fund's shift toward a total portfolio investment approach. The investment approach incorporates the real rate of return objective, a Reference Portfolio, a Policy Portfolio, and active management strategies. The Reference Portfolio is a simple, passively managed portfolio of publicly traded securities that is expected to achieve the real rate of return objective over the long term at minimal cost. PSPIB has determined that a Reference Portfolio of 63% public equities (down from 70% in F2018) and 37% fixed income (up from 30% in F2018) would achieve this return objective. The pension funding risk that would result from investing in the Reference Portfolio helps to determine the risk appetite of the Fund. PSPIB aims to achieve an average annual return of at least 4.0% over the long term within this level of risk. In F2019, the Treasury Board maintained the long-term real return requirement at 4.0% based on economic trends and demographic experience. In F2019, the Treasury Board also communicated a real return objective of 3.6% for the next 10 years.

Exhibit 1: Asset Mix as at March 31, 2019



In F2019, the Government of Canada implemented a Funding Policy that provides the decision framework to support the funding of PSPIB's four depository pension plans. The Funding Policy applies only to the pension liabilities accrued since 2000 for the Public Service, the RCMP, and the Canadian Forces and since 2007 for the Reserve Forces. The Funding Policy provides guidance and rules to support prudent governance of the plans with the objective to ensure that sufficient assets are accumulated to meet the cost of the pension benefits, to limit the degree of volatility in plan funding, to keep plans affordable and sustainable and to support intergenerational fairness. As part of the Funding Policy, an Asset Liability Committee was established that will include participation from representatives of the four plans, the Department of Finance, the Office of the Chief Actuary, and from PSPIB. The ALCO started meeting in F2020 and will be responsible for setting the Reference Portfolio, which was previously determined by PSPIB's board of directors. DBRS Morningstar sees this change as positive, as it will improve the communication between the Treasury Board Secretariat, the Office of the Chief Actuary, and PSPIB, supporting the funding of the four depository pension plans and compliance with PSPIB's mandate.

The Policy Portfolio represents the long-term target asset allocation and is reviewed at least annually by the board. PSPIB continues to transition to the target asset mix identified in the Policy Portfolio, achieving the target asset allocation for most assets classes in F2019. Historically, the Fund was heavily allocated to public equities, but it has moved toward greater allocations to private market asset classes. The shift is driven in large part by the enviable position of the Fund. Post-2000 liabilities under the depository plans are expected to have minimal liquidity requirements from PSPIB for pension payments before 2030, excluding the impact from 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. The board concluded in the F2019 review that the Policy Portfolio remains robust and has the ability to generate returns higher than the Reference Portfolio and as such, approved to leave the target asset allocations at the same levels. Having achieved the target allocation across most asset classes, the Fund's focus for F2020 will be to enhance the decision-making from a Total Fund perspective.

While much of the deviation between the actual portfolio and the Policy Portfolio relates to transitioning, the Fund also employs active investment management, implemented within set risk budgets for each mandate, to generate additional returns over and above the Policy Portfolio. 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 supports PSPIB's total fund investment approach. The Complementary Portfolio does not have a target allocation; however, it is limited to 3.0% of the Fund's value.

In F2018, PSPIB also implemented a new hedging strategy to maintain foreign exposure unhedged and to use hedging strategies dynamically when needed. PSPIB expects this change to improve the risk-return profile by reducing hedging costs in the long run, though it could create some short-term volatility. In F2019, unhedged foreign exchange exposures contributed to enhance returns in nearly all asset classes.

The Fund continues to increase its global footprint with offices in Ottawa, Montréal, London, New York, and a new office in Hong Kong. The new office is expected to leverage local expertise to seize opportunities that will increase the scale worldwide, particularly in the Asia-Pacific region.

Investment Profile (CONTINUED)

Net Investments	Long-Term Target Asset Allocation F2019	Long-Term Target Asset Allocation F2018	As at March 31 2019	2018	2017	2016	2015
Government fixed income	20.0%	20.0%	20.5%	18.1%	17.7%	21.2%	20.3%
Credit							
Private debt[1]	7.0%	7.0%	6.2%	5.8%	3.3%	0.5%	n/a
Equities							
Public market equity	30.0%	30.0%	30.4%	33.8%	40.7%	40.7%	50.2%
Private equity	13.0%	13.0%	14.0%	12.7%	11.7%	10.7%	9.0%
	43.0%	**43.0%**	**44.4%**	**46.5%**	**52.4%**	**51.4%**	**59.2%**
Real-Return Assets							
Real estate	15.0%	15.0%	14.0%	15.2%	15.2%	17.4%	12.8%
Infrastructure	10.0%	10.0%	10.0%	9.8%	8.2%	7.4%	6.3%
Natural resources	5.0%	5.0%	4.0%	3.2%	2.7%	2.1%	1.4%
	30.0%	**30.0%**	**28.0%**	**28.2%**	**26.1%**	**26.9%**	**20.5%**
Complementary portfolio	n/a	n/a	0.9%	1.4%	0.5%		
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

1. The private debt asset class was created in F2016.

Net Asset Position

Change in Net Assets	For the year ended March 31				
($ millions)	**2019**	**2018**	**2017**	**2016**	**2015**
Investment income	12,195	14,420	15,913	1,369	14,276
Investment-related expenses	(579)	(445)	(360)	(271)	(310)
Net investment income	11,616	13,975	15,553	1,098	13,966
Operating expenses	(503)	(450)	(370)	(295)	(243)
Fund transfers	3,749	3,921	3,622	3,987	4,554
Other comprehensive income (loss)	(3)	(14)	(4)	4	(15)
Increase in Net Assets	**14,859**	**17,432**	**18,801**	**4,794**	**18,262**
Net Assets	**167,853**	**152,994**	**135,562**	**116,761**	**111,967**

PSPIB's net assets reached $167.9 billion as at March 31, 2019, an increase of $14.9 billion over the prior year. Net investment income accounted for $11.6 billion, while fund transfers added a further $3.7 billion. Operating costs reduced net assets by $503 million. The Fund's net asset position has seen rapid growth in recent years from strong investment returns and 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 rose by 20% in the year ended March 31, 2019, driven by increases in liabilities related to securities sold under repurchase agreements and capital market borrowings.

The Fund has strict board-imposed limits on the amount of total leverage (25% of adjusted net assets) taken by the Fund and the amount of recourse debt (10% of adjusted net assets). The Fund remains comfortably below both limits.

Derivative-related liabilities decreased to $1.0 billion as at F2019 from $1.7 billion the prior year. The notional value of derivatives positions has increased over the past few years, but DBRS Morningstar notes that counterparty risk has been mitigated through the use of counterparty agreements, netting, and collateral exchanges; thus, much of the remaining risk relates to underlying market risk. The Fund uses derivatives to enhance returns or to replicate investments synthetically and to manage duration in the fixed-income portfolio.

As at fiscal year-end, total recourse debt rose to $15.0 billion because of the issuance of additional MTNs, representing 8.2% of adjusted net assets. Subsequent to fiscal year end, $1.75 billion in MTNs have been issued, through the re-opening of MTN Series 7, the re-opening of MTN Series 9, and the issuance of MTN Series 12. PSP Capital also aims to launch a global MTN program in 2020. DBRS Morningstar expects PSP Capital to continue to issue term notes to refinance maturing debt and to finance additional investment activities. The level of recourse debt remains below the 10% limit set by the board, providing considerable room for cyclical fluctuations in asset values.

PSPIB 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. PSPIB also maintains a $2 billion committed line of credit and $1 billion of demand facilities (both undrawn as at March 31, 2019) as additional sources of liquidity.

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 in the event of severe market disruptions.

PSPIB 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 Risk Officer, who reports to the Chief Executive Officer, with oversight from the board. PSPIB continues to enhance its risk management functions by working closely with the investment groups, providing strategic risk analysis and daily reports. In F2019 risk management continued to build systems for generating high-quality multi-dimensional total fund risk views.

Net Asset Position (CONTINUED)

Investment-Related Liabilities and Capital Market Debt

($ millions)	2019	2018	2017	2016	2015
	For the year ended March 31				
Investment-Related Liabilities[1]					
Accounts payable from pending trades	956	1,164	1,076	576	1,604
Interest payable	69	56	39	27	32
Securities sold short[2]	6,298	6,577	4,222	2,661	534
Collateral payable[2]	3,012	3,573	5,091		
Securities sold under repurchase agreements	5,627	575	1,107	1,438	0
Derivative-related liabilities	962	1,734	838	1,159	2,892
Capital market debt[1]	14,119	12,193	10,807	8,851	7,413
Total	**31,043**	**25,872**	**23,180**	**14,712**	**12,475**
Recourse debt[3]	14,996	13,040	11,498	9,333	7,925
As a share of adjusted net assets (%)[4]	8.2%	7.9%	7.8%	7.4%	6.6%

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. 3. Includes capital market debt, letters of credit against credit facilities, guarantees by the PSPIB, and a non-revolving term loan. Recourse debt is measured using fair value since 2018 and the amounts payable at maturity in prior years. 4. For the purposes of the ratio calculation, net assets are adjusted by adding back recourse debt.

Capital Market Debt Outstanding[1]

($ millions)	Maturity	Interest Rate	Amount[1]
Canadian Short-Term Promissory Notes[2]	56 days to 365 days	1.79% to 2.20%	648
U.S. Commercial Paper Notes[2]	21 days to 365 days	2.45% to 2.84%	6,214
Medium-Term Notes, Series 5	Oct. 2020	3.03%	965
Medium-Term Notes, Series 7	Apr. 2024	3.29%	997
Medium-Term Notes, Series 8	Aug. 2021	1.34%	1,238
Medium-Term Notes, Series 9	Nov. 2023	2.09%	1,003
Medium-Term Notes, Series 10	Jun. 2022	1.73%	1,742
Medium-Term Notes, Series 11	Nov. 2025	3.00%	1,312
Total			**14,119**

1. Fair value. 2. Maturity, principal, and the interest rate are Canadian-dollar equivalent as at March 31, 2019.

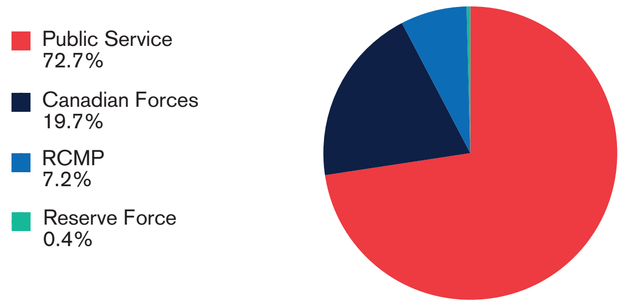
About PSPIB

PSPIB 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. PSPIB also has the mandate to manage the net contributions received after March 1, 2007, from the Reserve Force Pension Plan. As at March 31, 2019, net investments under PSPIB management and available to service pension benefits amounted to $167.9 billion. PSPIB 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, having regards to the funding, policies and requirements of the Plans, and their ability 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 majority of net assets (72.7%), revealed a surplus position. The latest valuations for the rest of the plans, RCMP (March 31, 2015); and the Canadian Forces, the Regular Force and Reserve Force combined (March 31, 2016) 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

Exhibit 2: Net Assets per Pension Plan as at March 31, 2019



with equal annual payments over 15 years, with special payments being made by the plan sponsor.

PSPIB 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 recommendation of the President of the Treasury Board 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. Martin J. Glynn was appointed as a new board chair in 2018. In F2019, three positions were filled by Maryse Bertrand, Katherine Lee, and David C. Court, reaching gender balance on the board for the first time. The board is currently at full capacity with no vacant positions.

Ranking and Legal Issues

In contrast with pension funds, PSPIB, 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 PSPIB's net asset position. An updated legal opinion provided by PSPIB's 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 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 PSPIB. 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, PSPIB could see net assets fall considerably, potentially affecting its credit rating; however, DBRS Morningstar perceives this scenario to be very remote since PSPIB was created specially to service those pension plans.

PSPIB 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 very robust credit profile of the Government of Canada and its moral obligation to protect the financial integrity of the pension plans, this scenario is seen as very remote.

Structure of Guarantees from PSPIB to PSP Capital

PSPIB 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 PSPIB under the guarantee without first exhausting recourse to PSP Capital. DBRS Morningstar has reviewed a legal opinion obtained by PSPIB from its legal counsel stating that, subject to certain assumptions and qualifications, the guarantee is a legal, valid, and binding obligation of PSPIB; enforceable against PSPIB in accordance with its terms; and that PSPIB 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	2018	2017	2016	2015	2014
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 7, 2018.

Related Research

- *Rating Canadian Public Pension Funds & Related Exclusive Asset Managers*, May 2019.
- *Structured Finance Flow-Through Ratings*, January 2019.

Commercial Paper Limit

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

Previous Report

- Public Sector Pension Investment Board & PSP Capital Inc.: Rating Report, December 7, 2018.

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.dbrs.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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