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

DBRS Morningstar
December 4, 2020

Contents

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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

On December 4, 2020, 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 long term investment returns.

PSPIB achieved a net investment return of -0.6% for the year ended March 31, 2020 (F2020), outperforming its benchmark (BM) of -1.6%. The negative return reflects the shock that the global economy experienced in the first months of the Coronavirus Disease (COVID-19) pandemic, which occurred at PSPIB's fiscal year-end. Consequently, various asset classes delivered mixed results. The major positive return drivers were the fixed income portfolio, which added a gain of 10.0%, slightly outperforming its BM of 9.9%; infrastructure, delivering a return of 8.7% and outperforming its BM of -3.2%; and private equity with a return of 5.2%, while slightly underperforming its BM of 6.9%. However, the annual growth of the Fund was affected by the unprecedent events arising from the pandemic. The public market equities portfolio experienced a particularly negative impact through the weeks leading up to the fiscal year end, delivering a -11.2% return for the year and underperforming its BM of -10.0%.

Net assets rose to $169.7 billion as of March 31, 2020, growing by 1.1% over the year. Debt with recourse to the Fund from the capital market debt program rose by $1.7 billion to $15.8 billion, or 8.5% as a share of adjusted net assets as of March 31, 2020, compared with 7.8% as of March 31, 2019.

Subsequent to the fiscal year end, PSP Capital issued $1.5 billion of Series 13 medium term notes (MTN). PSP Capital aims to launch a global MTN program in F2022. 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 transfers from the Government of Canada have stayed positive in the last twenty years although they continue to trend down.

Over the past year, PSPIB continued to diversify into private markets. As all asset classes, including private markets, are within the range of their targets, the Fund intends to focus more on managing the portfolio from a total fund perspective to deliver on its risk return objective. Credit investments have also been added to the mix to broaden diversification at the total portfolio level which proved to be beneficial during the time of the recent pandemic-related crisis. PSPIB continues to increase its global footprint with offices in Ottawa, Montréal, London, New York, and a new office in Hong Kong, which was able to ramp up its operations with additions to private equity and infrastructure teams in F2020.

Financial Information

	For the year ended March 31				
(CAD millions)	**2020**	**2019**	**2018**	**2017**	**2016**
Net assets under Management	169,682	167,853	152,994	135,562	116,761
Total recourse debt [1]	15,808	14,119	12,193	10,807	8,851
As a share of adjusted net assets (%) [2]	8.5	7.8	7.4	7.3	7.0
Total investment return (%)	(0.6)	7.1	9.8	12.8	0.7
Benchmark return (%)	(1.6)	7.2	8.7	11.9	0.3

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

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, 2020, PSPIB held net assets of $169.7 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 Considerations

Strengths

1. High level of unencumbered assets and liquidity

The Fund had net assets of $169.7 billion as of March 31, 2020, 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 raised from capital market debt financing represents 8.5% 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 $58 billion on the account of $40 billion in investment returns compared with $18 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. Financial impact from the coronavirus pandemic
The coronavirus pandemic has led to economic contraction and weakened business performance, which in turn has affected asset valuations in public and private markets. An extended pandemic and long economic recovery could have an impact on PSPIB's asset base. However, PSPIB's low recourse debt burden continues to provide considerable room for asset base movements. Furthermore, PSPIB remains well positioned to meet short-term liquidity needs and longer-term liability obligations supported by a strong governance and long-term investment horizon.

3. Volatility inherent in investment activities
Asset valuation fluctuates over time. The current outlook of increased geopolitical risk, slow economic growth, low interest rates, 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.

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 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.

5. 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.

Investment Performance
PSPIB achieved a return of -0.6% in the year ended March 31, 2020, outperforming its BM of -1.6%. PSPIB has achieved an average annual return of 5.8% over the last five years, which compares positively with the BM return of 5.1% over the same period and the long-term real-return requirement of 4.0%.

In F2020, asset classes produced mixed results ranging from double-digit positive and negative returns. The performance drivers were the Complementary Portfolio, delivering a return of 13.6% compared with is BM of -1.6%; fixed income with a return of 10% compared with its BM of 9.9%; infrastructure, delivering a return of 8.7% and outperforming its BM of -3.2%; and private equity with a return of 5.2%, which slightly underperformed its BM of 6.9%. Overall, the total fund return was negatively affected by a decline in asset valuations in public equities and credit products in the first weeks of the pandemic, which occurred at the Fund's fiscal year end. PSPIB's 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. This strategy allowed the portfolio to benefit from the U.S. dollar appreciation in the last quarter of F2020, offsetting in part the decline in the value of the assets denominated in U.S. dollars.

The Complementary Portfolio performed exceptionally well in F2020 despite heightened volatility in the markets. The high return was derived from dividends and distributions from portfolio companies, foreign exchange gains, and realized gains on preferred equity investments. Since its inception in January 2017, the Complementary Portfolio has generated a 14.9% return compared with its BM of 5.5%.

The fixed income portfolio was positioned for a decrease in yields and it captured the benefits of several interest rate reductions made by central banks. With almost 20% of the assets under management allocated to fixed income in F2020, the portfolio also benefitted from the increased demand for quality.

Public markets, natural resources, and real estate were among the worst performers as these assets were directly linked to the parts of the economy that were affected the most during the early pandemic.

Investment Returns [1]

	Five-Year Average	10-Year Average	For the year ended March 31				
			2020	**2019**	**2018**	**2017**	**2016**
Total investment return (%)	5.8	8.5	(0.6)	7.1	9.8	12.8	0.7
Benchmark return (%) [2]	5.1	7.5	(1.6)	7.2	8.7	11.9	0.3

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)

	2020			2019	2018	2017	2016
	Return	**Benchmark**	**Variance**	**Return**	**Return**	**Return**	**Return**
Government Fixed Income							
Cash and cash equivalents %) [2]	1.7	1.9	(0.2)	1.9	1.5	1.5	0.6
Fixed income (%)	10.0	9.9	0.1	4.8	1.6	2.9	3.6
Credit							
Private debt (%) [3]	4.3	(3.7)	8.0	9.2	8.2	27.5	3.0
Equities							
Public market equities (%) [4]	(11.2)	(10.0)	(1.2)	4.3	11.3	21.6	(5.3)
Canadian equities (%) [4]							(6.5)
U.S. large cap equities (%) [4]							(3.8)
EAFE large cap equities (%) [4]							(5.8)
Small cap equities (%) [4]							(0.6)
Emerging market equities (%) [4]							(9.8)
Private equity (%)	5.2	6.9	(1.7)	16.1	12.9	(3.4)	2.4
Real-Return Assets							
World inflation-linked bonds (%) [5]							**2.7**
Real estate (%)	(4.4)	(4.0)	(0.4)	7.6	13.6	10.8	14.4
Infrastructure (%)	8.7	(3.2)	11.9	7.1	19.3	14.4	12.7
Natural resources (%)	(5.2)	(5.8)	0.6	11.1	11.2	19.5	6.9
Complementary Portfolio (%)	13.6	(1.6)	15.2	0.04	33.0		
Net Return (%)	(0.6)	(1.6)	1.3	**7.1**	**9.8**	**12.8**	**0.7**

1 Net returns.

2 Includes amounts related to Complementary Portfolio in F2017.

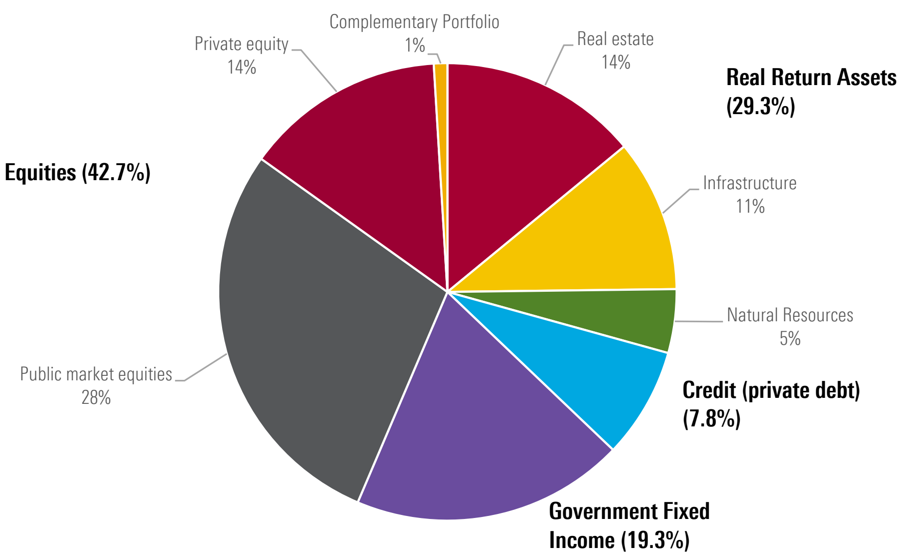
3 The private debt asset class was created in F2016.

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.

Investment Profile

Exhibit 1 Asset Mix as at March 31, 2020



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. However, during the fourth quarter of F2020, the public equities (although posting both positive absolute and relative performance in the first three quarters) were negatively affected by the pandemic. Nevertheless, several active investment strategies proved to be effective at the time of the economic crisis, which reduced the overall negative impact on equities.

As part of the Fund's five-year investment strategy, the Chief Investment Officer Group continues to implement the Fund's shift toward a total fund investment approach. Several initiatives to enhance the ability to apply such approach were launched, among which is a shift to anchoring performance and programs to the Reference Portfolio. 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 68% equities (up from 63% in F2019) and 32% fixed income (down from 37% in F2019) 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 government. PSPIB aims to outperform the Reference Portfolio over the long term within this level of risk. In F2020, the Treasury Board maintained the long-term real return target of 3.6% over the next 10 years and 4.0% thereafter based on economic trends and demographic experience.

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 (ALCO) was established that includes participation from representatives of the four plans, the Treasury Board of Canada Secretariat, the Department of Finance, the Office of the Chief Actuary, and from PSPIB. The ALCO held three meetings in F2020 and, starting from F2021, will be responsible for setting the Reference Portfolio, which was previously determined by PSPIB's board of directors. The governance of the committee was established during the initial meetings, which also provided an opportunity to facilitate information sharing among stakeholders. DBRS Morningstar sees ALCO's role 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 is finishing the transition to the target asset mix identified in the Policy Portfolio. 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 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. The board concluded in the F2020 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 F2021 will be on its Total Fund approach, which includes several initiatives to enhance PSPIB's ability to apply a total fund perspective when crafting investment strategies, making business decisions and managing risk, leverage and liquidity.

While much of the deviation between the actual portfolio and the Policy Portfolio relates to transitioning, the Fund also employs active investment management (such as asset selection), 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 support 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 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 demands on liquidities and hedging costs in the long run, though it could create some short-term volatility. In F2020, strategically unhedged USD positions captured the benefits of the U.S. dollar bull market through the crisis at the end of the fiscal year.

The Fund continues to increase its global footprint with offices in Ottawa, Montréal, London, New York, and 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.

Net Investments	Long-Term Target Asset Allocation		As at March 31				
	F2020	**F2019**	**2020**	**2019**	**2018**	**2017**	**2016**
Government fixed income (%)	20.0	20.0	19.7	20.5	18.1	17.7	21.2
Credit							
Private debt (%) [1]	7.0	7.0	7.8	6.2	5.8	3.3	0.5
Equities							
Public market equity (%)	30.0	30.0	28.5	30.4	33.8	40.7	40.7
Private equity (%)	13.0	13.0	14.2	14.0	12.7	11.7	10.7
Total equities (%)	**43.0**	**43.0**	**42.7**	**44.4**	**46.5**	**52.4**	**51.4**
Real-return assets							
Real estate (%)	15.0	15.0	14.0	14.0	15.2	15.2	17.4
Infrastructure (%)	10.0	10.0	10.8	10.0	9.8	8.2	7.4
Natural resources (%)	5.0	5.0	4.5	4.0	3.2	2.7	2.1
Total real return assets (%)	**30.0**	**30.0**	**29.3**	**28.0**	**28.2**	**26.1**	**26.9**
Complementary Portfolio (%)	n/a	n/a	0.6	0.9	1.4	0.5	
Total (%)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

1 The credit investments (formerly private debt) asset class was created in F2016.
2 Figures do not add up due to rounding.

Net Asset Position

Change in Net Assets

	For the year ended March 31				
(CAD millions)	**2020**	**2019**	**2018**	**2017**	**2016**
Investment income	203	12,195	14,420	15,913	1,369
Investment-related expenses	(703)	(579)	(445)	(360)	(271)
Net investment income	(500)	11,616	13,975	15,553	1,098
Operating expenses	(551)	(503)	(450)	(370)	(295)
Fund transfers	2,871	3,749	3,921	3,622	3,987
Other comprehensive income (loss)	9	(3)	(14)	(4)	4
Increase in Net Assets	**1,829**	**14,859**	**17,432**	**18,801**	**4,794**
Net Assets	**169,682**	**167,853**	**152,994**	**135,562**	**116,761**

PSPIB's net assets reached $169.7 billion as of March 31, 2020, an increase of $1.8 billion over the prior year. Net investment income generated losses of $500 million, while fund transfers added $2.9 billion. Operating costs reduced net assets by $551 million. With the exception of the past year, the Fund's net asset position has seen rapid growth in the last 10 years from 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 rose by 21% in the year ended March 31, 2020, driven by increases in liabilities related to securities sold under repurchase agreements, derivative-related liabilities, 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 increased to $4.5 billion in F2020 from $1.0 billion in 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 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 uses derivatives to enhance returns or to replicate investments synthetically and to manage duration in the fixed-income portfolio.

As at F2020, recourse debt raised from the capital market debt program rose to $15.8 billion, representing 8.5% of adjusted net assets. Subsequent to fiscal year end, $1.5 billion in MTNs have been issued through Series 13. PSP Capital aims to launch a global MTN program in F2022. 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 of March 31, 2020) as additional sources of liquidity. Liquidity preservation has been number one priority for the Fund during the time of the recent pandemic related crisis where several measures were implemented to maintain its sound and healthy levels. Specifically, PSPIB's long-term hedging policy proved to be beneficial during this time. Other multiple strategies helped stabilize and even enhance the liquidity.

Currently, 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 Financial and 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. PSPIB's risk framework includes comprehensive sensitivities analysis and stress-testing scenarios which are a centerpiece in the implementation of their liquidity framework which enabled them to prepare in advance for the upcoming pandemic-related crisis.

Investment-Related Liabilities and Capital Market Debt

	For the year ended March 31				
(CAD millions)	**2020**	**2019**	**2018**	**2017**	**2016**
Investment-Related Liabilities [1]					
Accounts payable from pending trades	1,016	956	1,164	1,076	576
Interest payable	94	69	56	39	27
Securities sold short [2]	3,890	6,298	6,577	4,222	2,661
Collateral payable [2]	3,351	3,012	3,573	5,091	
Securities sold under repurchase agreements	8,787	5,627	575	1,107	1,438
Derivative-related liabilities	4,535	962	1,734	838	1,159
Capital market debt [1]	15,808	14,119	12,193	10,724	8,722
Total	**37,481**	**31,043**	**25,872**	**23,180**	**14,712**

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.

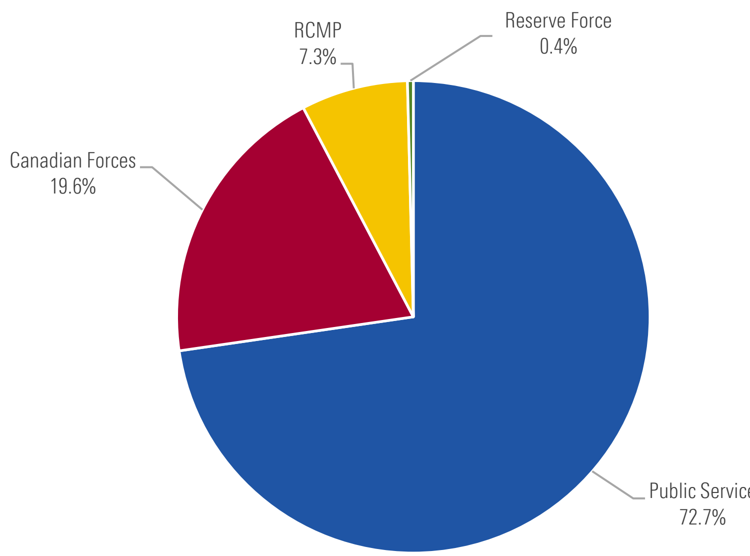
Capital Market Debt Outstanding [1]

(CAD millions)	Maturity	Interest Rate (%)	Amount [1]
Canadian Short-Term Promissory Notes [2]	27 days to 364 days	0.97 - 1.87	324
U.S. Commercial Paper Notes [2]	7 days to 366 days	0.03 - 2.02	5,933
Medium-Term Notes, Series 5	Oct. 2020	3.03	1,013
Medium-Term Notes, Series 7	Apr. 2024	3.29	1,512
Medium-Term Notes, Series 8	Aug. 2021	1.34	1,191
Medium-Term Notes, Series 9	Nov. 2023	2.09	1,525
Medium-Term Notes, Series 10	Jun. 2022	1.73	1,697
Medium-Term Notes, Series 11	Nov. 2025	3.00	1,346
Medium-Term Notes, Series 12	Jan. 2030	2.05	1,267
Total			**15,808**

1 Fair value.
2 Maturity, principal, and the interest rate are Canadian-dollar equivalent as of March 31, 2020.

About PSPIB

Exhibit 2 Net Assets per Pension Plan (March 31, 2020)



Source: DBRS Morningstar.

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, 2020, net investments under PSPIB management and available to service pension benefits amounted to $169.8 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, 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 (72.7%), 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.

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. The board is currently operating at full capacity with no vacant positions.

Ranking and Legal Issues

In contrast to 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 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 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 because 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	2019	2018	2017	2016	2015
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 6, 2019.

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 27, 2020.
- *North American Structured Finance Flow-Through Ratings*, January 2, 2020.

Previous Report

- Public Sector Pension Investment Board & PSP Capital Inc.: Rating Report, December 6, 2019.

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

For the definition of an Issuer Rating, please refer to the Credit Ratings Global 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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