Rating Report

Public Sector Pension Investment Board & PSP Capital Inc.

Insight beyond the rating.

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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

DBRS Limited (DBRS) confirmed the Issuer Rating of the Public Sector Pension Investment Board (PSPIB or the Fund) at AAA. DBRS 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) 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 9.8% for the year ended March 31, 2018, exceeding its benchmark (BM) by 110 basis points (bps). Nearly all asset classes exceeded their respective BMs, with notable outperformance in private debt, natural resources and infrastructure. The Complementary Portfolio, which was added in F2017 and includes investments that do not fit within an existing asset class but support the total fund investment approach, outperformed the benchmark by 24.3%. Positive

Continued on P.2

Financial Information

($ millions)	2018	2017	2016	2015	2014
	For the year ended March 31				
Net assets	152,994	135,562	116,761	111,967	93,705
Total recourse debt 1	13,040	11,498	9,333	7,925	6,836
As a share of adjusted net assets (%) 2	7.9%	7.8%	7.4%	6.6%	6.8%
Total investment return	9.8%	12.8%	0.7%	14.2%	15.9%
Benchmark return	8.7%	11.9%	0.3%	13.1%	13.9%

1 Recourse debt reported at fair value in 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, 2018, PSPIB held net assets of $153.0 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)

investment return and ongoing pension contributions led to an $17.4 billion increase in net assets, which rose to $153.0 billion as at March 31, 2018.

Debt with recourse to the Fund rose by $1.4 billion to $13.0 billion, or 7.9% as a share of adjusted net assets as at March 31, 2018, compared with 7.8% as at March 31, 2017. Subsequent to fiscal year end, $1.25 billion in MTNs have been issued (Series 11). DBRS expects PSP Capital to continue to increasingly refinance maturing debt with term note issuance to balance out the amount of outstanding commercial paper (CP) and term notes. PSP Capital also aims to launch a global MTN program in F2020. 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 notes that the Fund meets the DBRS criteria for CP liquidity support, as outlined in the appendix to the *Rating Canadian Public Pension Funds & Related Exclusive Asset Managers* methodology 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, which is consistent with DBRS'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.

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 net contributions. The Fund has indicated that it will continue to increase its allocations to private markets to better match the risk/return profile of the portfolio with the long-term, inflation-sensitive nature of the pension obligations. With rising assets under management, the Fund also continues to seek to improve its geographic diversification.

DBRS notes that in February 2018, the Board appointed a new President and Chief Executive Officer (CEO) of the Fund, Neil Cunningham, who has been with PSPIB since 2004 and previously acted as Senior Vice President and Global Head of Real Estate and Natural Resources. In July 2018, Eduard van Gelderen was appointed as Chief Investment Officer, and will lead the Total Fund Strategy Group with oversight of multi-asset class investment strategies and total fund allocations and exposures.

Rating Considerations

Strengths	Challenges

Strengths

1. High level of unencumbered assets and liquidity
The Fund had net assets of $153.0 billion as at March 31, 2018, which provides the Fund with considerable flexibility in meeting its obligations. 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'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.

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.

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.

5. No responsibility for depositors' pension liabilities
In contrast to pension funds, PSPIB, as an exclusive asset manager, has no direct responsibility for the obligations faced by the pension plan depositors in relation to their members. The absence of pension plan funding risk translates into a much more stable net funding position, although a severe funding deficiency at any of the pension plans could eventually affect PSPIB's growth trend.

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 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 (46.5% of net assets as at March 31, 2018). A significant market correction could contribute to a sharp erosion of the asset base. The Fund's Policy Portfolio calls for a declining focus on public equities going forward, while private equity and other private market asset classes will continue to grow in importance.

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.

Investment Performance

PSPIB achieved a return of 9.8% in the year ended March 31, 2018, exceeding its BM by 110 bps compared with 90 bps in F2017 and 40 bps in F2016. The F2018 return was slightly lower than the F2017 return but was much higher than the return achieved in F2016. PSPIB has achieved an average annual return of 10.5% over the last five years, which compares positively with the BM return over the same period (9.4%) and the long-term real-return requirement (4.0%).

The positive total fund return in F2018 was as a result of a healthy return in public equity (11.3%), a rebound in private equity returns (12.9% in F2018 compared with -3.4% in F2017) as well as continuous strong returns in the real estate, infrastructure and natural resources asset classes. Nearly all asset classes exceeded their BMs, with the exception of private equity and fixed income. Private equity returns continue to remain below the BM because of some legacy investments. Public market equities generated a strong return of 11.3%, exceeding its BM of 10.3%. In the first three quarters of F2018, low interest rates and low market volatility contributed to strong returns. In the last quarter of F2018, the markets generated strong returns, likely a result of U.S. fiscal reforms, but gains later reversed as a result of trade uncertainty.

Fixed income delivered a positive return of 1.6%, slightly below its BM of 1.7%.

All real-return assets continued to perform exceptionally well relative to their BMs. Real estate achieved a 13.6% return compared with its BM of 12.3% with the largest contributors being investments in global retirement and health care platform, a Canadian multi-family partnership, UK student housing partnership and U.S. mixed-use developments. Infrastructure generated the highest return of 19.3% compared with its BM return of 12.1% on the strength of valuation gains in the transportation, utilities and communications sectors. Of the real-return asset classes, natural resources outperformed its BM the most, achieving a strong return of 11.2% compared with its BM return of 3.1%, driven by strong valuation gains, most notably from investments in timber.

Private debt has performed well since inception in 2015, achieving a strong 8.2% return compared with its BM return of 2.3%. The returns were mainly driven by interest and fee income. The Complementary Portfolio, added in F2017, outperformed its benchmark by 24.3%.

Investment Returns 1	Five-year Average	Ten-year Average	For the year ended March 31				
			2018	2017	2016	2015	2014
Total investment return	10.5%	7.1%	9.8%	12.8%	0.7%	14.2%	15.9%
Benchmark return 2	9.4%	6.8%	8.7%	11.9%	0.3%	13.1%	13.9%

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

Investment Performance (CONTINUED)

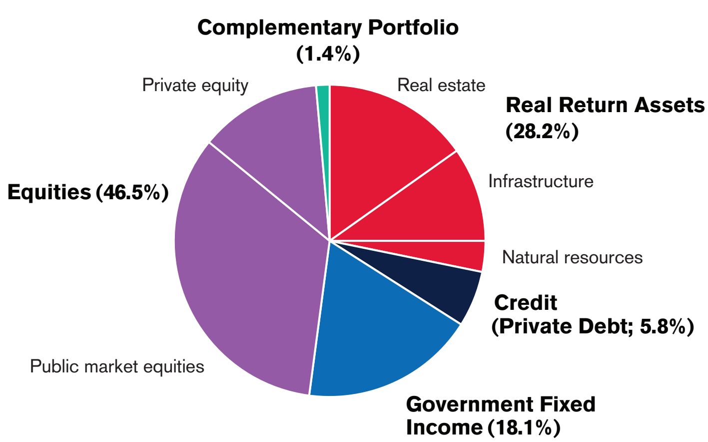
Returns by Major Portfolio 1

(For the year ended March 31)	2018			2017	2016	2015	2014
	Return	Benchmark	Variance	Return	Return	Return	Return
Government Fixed Income							
Cash and cash equivalents 2	1.5%	0.8%	0.7%	1.5%	0.6%	1.3%	1.4%
Fixed income	1.6%	1.7%	(0.1%)	2.9%	3.6%	9.4%	4.0%
Credit							
Private debt 3	8.2%	2.3%	5.9%	27.5%	3.0%	n/a	n/a
Equities							
Public market equities 4	11.3%	10.3%	1.0%	21.6%	(5.3%)		
Canadian equities 4					(6.5%)	7.2%	16.1%
U.S. large cap equities 4					(3.8%)	29.5%	29.5%
EAFE large cap equities 4					(5.8%)	12.9%	28.3%
Small cap equities 4					(0.6%)	25.0%	38.7%
Emerging market equities 4					(9.8%)	15.2%	6.1%
Private equity	12.9	17.6%	(4.7%)	(3.4%)	2.4%	9.4%	24.0%
Real-Return Assets							
World inflation-linked bonds 5					2.7%	16.9%	6.9%
Real estate	13.6%	12.3%	1.3%	10.8%	14.4%	12.8%	12.2%
Infrastructure	19.3%	12.1%	7.2%	14.4%	12.7%	10.4%	9.4%
Natural resources	11.2%	3.1%	8.1%	19.5%	6.9%	12.2%	20.0%
Complementary Portfolio	**33.0%**	**8.7%**	**24.3%**				
Weighted-Average Return 6	**10.2%**	**8.7%**	**1.5%**	**13.2%**	**1.0%**	**14.5%**	**16.3%**

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

Exhibit 1: Asset Mix as at March 31, 2018



As part of the Fund's five-year investment strategy, the Total Fund Strategy Group (previously the Chief Investment Officer 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 (4.0%) over the long term at minimal cost. PSPIB has determined that a Reference Portfolio of 70% public equities (down from 71% in F2017) and 30% fixed-income (up from 29% in F2017) 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 F2018, the Treasury Board

Investment Profile (CONTINUED)

decreased the long-term real return requirement to 4.0% from 4.1% based on economic trends and demographic experience. In August 2018, the Treasury Board also introduced a real return objective of 3.6% for the next ten years.

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, with private debt expanding since its inception in F2016. Historically, the Fund was heavily allocated to public equities, but it is moving 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. 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. In F2018, the Board approved a 4.0% shift in the Policy Portfolio towards fixed income assets and away from equity to reduce the pension funding risk.

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 is 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 risk-return profile by reducing hedging costs in the long run, though it could create some short-term volatility.

The Fund will also continue to reduce its home-country bias in coming years by allocating an increasing share of net assets to other advanced and emerging markets. The changes are likely to be most pronounced in the public market portfolios.

Net Investments	Long-term target asset allocation F2018	Long-term target asset allocation F2017	As at March 31				
			2018	2017	2016	2015	2014
Government Fixed Income	20.0%	16.0%	18.1%	17.7%	21.2%	20.3%	19.6%
Credit							
Private debt 1	7.0%	7.0%	5.8%	3.3%	0.5%	n/a	n/a
Equities							
Public market equity	30.0%	34.0%	33.8%	40.7%	40.7%	50.2%	52.8%
Private equity	13.0%	13.0%	12.7%	11.7%	10.7%	9.0%	9.0%
	43.0%	**47.0%**	**46.5%**	**52.4%**	**51.4%**	**59.2%**	**61.8%**
Real-Return Assets							
Real estate	15.0%	15.0%	15.2%	15.2%	17.4%	12.8%	11.4%
Infrastructure	10.0%	10.0%	9.8%	8.2%	7.4%	6.3%	6.4%
Natural resources	5.0%	5.0%	3.2%	2.7%	2.1%	1.4%	0.8%
	30.0%	**30.0%**	**28.2%**	**26.1%**	**26.9%**	**20.5%**	**18.6%**
Complementary Portfolio	N/A	N/A	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

($ millions)	2018	2017	2016	2015	2014
	For the year ended March 31				
Investment income	14,420	15,913	1,369	14,276	13,050
Investment-related expenses	(445)	(360)	(271)	(310)	(257)
Net investment income	13,975	15,553	1,098	13,966	12,793
Operating expenses	(450)	(370)	(295)	(243)	(216)
Fund transfers	3,921	3,622	3,987	4,554	4,997
Other comprehensive income (loss)	(14)	(4)	4	(15)	17
Increase in Net Assets	**17,432**	**18,801**	**4,794**	**18,262**	**17,591**
Net Assets	**152,994**	**135,562**	**116,761**	**111,967**	**93,705**

PSPIB's net assets reached $153.0 billion as at March 31, 2018, an increase of $17.4 billion over the prior year. Net investment income accounted for $14.4 billion, while fund transfers added a further $3.9 billion. Operating costs reduced net assets by $450 million. The Fund's net asset position has seen rapid growth in recent years from strong investment returns and significant 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 12% in the year ended March 31, 2018, driven by increases in liabilities related to accounts payable from pending trades, interest payable, securities sold short, capital market borrowing and derivative-related liabilities.

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 $1.7 billion as at F2018 year end from $0.8 billion the prior year. The notional value of derivatives positions has increased over the past few years, but DBRS 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.

The Fund had $0.6 billion of liabilities related to repurchase agreements on its balance sheet as at year end. The Fund makes limited use of repurchase agreements — mostly to adjust the duration of the fixed-income portfolio.

As at fiscal year end, total recourse debt rose to $13.0 billion because of the issuance of additional MTNs, increasing to 7.9% as a percentage of adjusted net assets. Subsequent to fiscal year end, $1.25 billion Series 11 MTNs were issued (November 2018). DBRS expects PSP Capital to continue to increasingly refinance maturing debt with term note issuance to balance out the amount of outstanding CP and term notes. 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 high-quality, actively traded securities, while further high-quality debt securities are held in the fixed-income portfolio. PSPIB also maintains a $2 billion committed line of credit and $1 billion of demand facilities (both undrawn as at March 31, 2018) 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'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 CEO, 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, and in F2018, continued to refine its total fund investment risk management approach.

Net Asset Position (CONTINUED)

Investment-Related Liabilities and Capital Market Debt

($ millions)	2018	2017	2016	2015	2014
	For the year ended March 31				
Investment-Related Liabilities 1					
Accounts payable from pending trades	1,164	1,076	576	1,604	948
Interest payable	56	39	27	32	16
Securities sold short 2	6,577	4,222	2,661	534	715
Collateral Payable 2	3,573	5,091			
Securities sold under repurchase agreements	575	1,107	1,438	0	632
Derivative-related liabilities	1,734	838	1,159	2,892	1,211
Capital market debt 1	12,193	10,807	8,851	7,413	6,242
Total	**25,872**	**23,180**	**14,712**	**12,475**	**9,764**
Recourse debt 3	13,040	11,498	9,333	7,925	6,836
As a share of adjusted net assets (%) 4	7.9%	7.8%	7.4%	6.6%	6.8%

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 in 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.

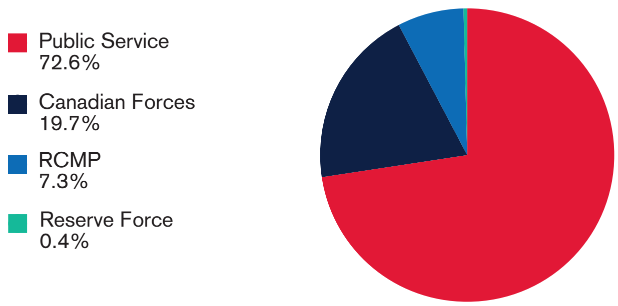
Capital Market Debt Outstanding

($ millions)	Maturity	Interest Rate	Amount 1
Canadian Short-Term Promissory Notes 2	26 days–364 days	1.16%–1.85%	944
U.S. Commercial Paper Notes 2	28 days–365 days	1.39%–2.17%	5,376
Medium-Term Notes, Series 5	Oct. 2020	3.03%	1,023
Medium-Term Notes, Series 7	Apr. 2024	3.29%	1,026
Medium-Term Notes, Series 8	Aug. 2021	1.34%	1,213
Medium-Term Notes, Series 9	Nov. 2023	2.09%	945
Medium-Term Notes, Series 10	Jun. 2022	1.73%	1,666
Total 3			**12,193**

1 Fair value. 2 Maturity, principal and the interest rate are Canadian-dollar equivalent as at March 31, 2018. 3 The $1.25 billion 3.00% Series 11 MTNs were issued on November 5, 2018, and are due on November 5, 2025.

About PSPIB

Exhibit 2: Net Assets per Pension Plan as at March 31, 2018



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, 2018, net investments under PSPIB management and available to service pension benefits amounted to $153.0 billion. PSPIB operates at arm's length from the Government of Canada, and 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.

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 (72.6%), 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 have decreased compared with the previous actuarial valuations. The latest valuation for the Public Service is as at March 31, 2017; that for the RCMP is as at March 31, 2015; and that for the Canadian Forces (the Regular Force and Reserve Force combined) is as at March 31, 2016. 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, liquidity management and leverage and risk management. Martin J. Glynn was appointed as a new Board chair in 2018 to replace Michael P. Mueller. One position on the Board was filled by Miranda C. Hubbs in August 2017 and while Cheryl Barker retired from the Board in January 2018, Maryse Bertrand and Katherine Lee also joined the Board in 2018.

On February 8, 2018, the Board appointed Neil Cunningham as a new President and CEO. He has been with PSPIB since 2004 in previous roles as Senior Vice President and Global head of Real Estate and Natural Resources and has played a key role in the development and implementation of the current five-year strategic plan. The Fund also continues to seek further geographic diversification with the recently opened offices in New York and London and plans to open an office in Asia in F2019.

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 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 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 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	2017	2016	2015	2014	2013
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 8, 2017.

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*, July 2018.
- *Structured Finance Flow-Through Ratings*, January 2018.

Previous Report

- Public Sector Pension Investment Board & PSP Capital Inc.: Rating Report, December 8, 2017.

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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