Public Service Pension Plan

PUBLIC SERVICE PENSION PLAN

2019 Annual Report

Table of Contents

Our response to the global COVID-19 pandemic

The PSPP's Annual Report was written as at December 31, 2019 with the accompanying financial statements accurately reflecting the financial position of the Public Service Pension Plan and PSPP Corporation as at December 31, 2019.

With the COVID-19 pandemic impacting Canada and people around the world in 2020, we wanted to provide an update on the impact of COVID-19 on the Public Service Pension Plan.

There has been an extreme decline in global investment markets arising from the global outbreak of the COVID-19 virus that has affected all investors including PSPP Corporation. However, the Plan fund is secure for the long term. The Plan fund is well diversified in various asset classes and invested globally, for the long term, in accordance with prudent investment policies and guidelines approved by the PSPP Corporation Board of Directors. While the Plan fund has suffered some losses in the short term, it is well positioned to meet the long-term return objectives to ensure plan benefits are funded in compliance with the legislated funding structure.

All critical operational functions of PSPP remain operational during this pandemic. The PSPP Corporation has temporarily closed their office with all staff working from home. Our administrative service provider, Alberta Pensions Services Corporation and our investment manager, Alberta Investment Management Corporation have activated their business continuity plans which includes personnel working from home.

All retired Public Service Pension Plan members will receive their monthly pensions on time.

The PSPP Corporation and Board of Directors are actively monitoring the impacts of the COVID-19 pandemic and will take whatever steps are necessary to secure Plan benefits for Plan Members.

Message from the Chair

Linda Dalgetty,
Chair, Board of Directors

Looking back at 2019 — a year of change

Joint governance legislation

In 2019, we saw many changes to PSPP governance. Effective March 1, 2019, the Government of Alberta passed the *Joint Governance of Public Sector Pension Plans Act*. The Act allowed PSPP to be jointly governed by those who contribute to it — employers (represented by the Government of Alberta as the largest participating employer, the University of Alberta and the University of Calgary) and employees (represented by the Alberta Union of Provincial Employees and the University of Alberta Non-Academic Staff Association).

With the implementation of joint governance, the former Public Service Pension Board (PSP Board) ceased to exist effective March 1, 2019. In its place, a new governance structure, made up of three new entities, was created. These new entities assumed the responsibilities previously held by the President of Treasury Board, Minister of Finance and former PSP Board.

1. **PSPP Sponsor Board:** comprised of representatives appointed by employer and employee sponsor organizations and responsible for determining Plan benefits and funding.
2. **PSPP Corporation:** a new corporation established to be the trustee of the Plan Fund and administrator of the Plan.
3. **PSPP Corporation Board of Directors:** governs the PSPP Corporation, oversees the overall activities of the PSPP Corporation and is responsible for Plan management.

I want to thank everyone on the former PSP Board for their service in support of the Plan. Your work and dedication set the stage for the long-term sustainability of the Plan.

On behalf of the Board, I would also like to extend thanks to Lowell Epp who chaired the Board until August 2019. His experience and knowledge contributed to the success of the PSPP Corporation Board of Directors and Corporation's first year.

During 2019, the Board focused on developing strong governance processes to ensure prudent management of the Plan and Corporation. The Board implemented a Code of Conduct, Statement of Investment Policies & Procedures and other governing policies, established committees to assist the Board in fulfilling its responsibilities, and appointed a Chief Executive Officer for PSPP Corporation. The Board also worked collaboratively with the PSPP Sponsor Board to develop a common understanding of the roles and responsibilities of the three entities involved in the governance of the Plan.

More changes: Bill 22

In November 2019, the Government of Alberta introduced Bill 22, *Reform of Agencies, Boards and Commissions and Government Enterprises Act*, bringing unexpected reforms that impacted the governance and independence of PSPP, the Corporation, and the Corporation Board.

As a result of Bill 22:

- PSPP Corporation became a provincial corporation subject to legislation that applies to government agencies, boards and commissions.
- The Auditor General of Alberta became the auditor of the Corporation and the Plan.
- The appointment process for directors changed. Sponsor organizations now nominate an individual for appointment to the Board. The Government formalizes the appointment. Directors are appointed to the Board by the Lieutenant Governor of the Province of Alberta through an Order in Council.
- Alberta Investment Management Corporation (AIMCo) and Alberta Pensions Services Corporation (APS) were legislated as exclusive service providers for investment management and pension administration services of PSPP Corporation.

> Amid these changes, we are committed to acting in the best interest of the Plan and its members. Benefit security and long-term sustainability of the Plan remain our overarching goal. There were no changes to pension benefits in 2019 or to contribution rates effective January 1, 2020 as a result of the legislative changes.

Looking ahead

2020 continues to present challenges and opportunities. As a Board, we closely monitor market conditions and PSPP's investment strategy to ensure the Plan remains protected over the long-term. We've seen volatility in the financial markets, with the COVID-19 pandemic and low oil prices affecting investment returns and the global economy. While the Plan fund has suffered short-term losses, our investment portfolio is diversified and well positioned to meet the long-term return objectives to ensure plan benefits are funded in compliance with the legislated funding structure.

Your PSPP pension is secure, whether you are contributing to the Plan, or retired and receiving a pension. Stock market fluctuations do not impact your pension income. That's the benefit of a defined benefit pension plan.

I am grateful to everyone who has contributed to the Plan's success this past year and look forward to continuing the meaningful work of ensuring your PSPP remains sustainable for the long-term.

Message from the Chief Executive Officer

Lynette Martin,
Chief Executive Officer,
PSPP Corporation

Successfully navigating through an eventful year

2019 was marked by a number of major changes. Not only did the Plan transition to a jointly sponsored pension plan arrangement with a new governance structure, we also experienced the passage of Bill 22, which, among other changes, made PSPP Corporation a provincial corporation.

As a new corporation, we have been agile in responding to the changing environment and steadfast in our commitment to the Plan. Over the past year, we have developed processes and relationships with the Board of Directors, the PSPP Sponsor Board and service providers to ensure all appropriate parties are involved in the important decisions that affect the Plan, members, and employers. We added two seasoned professionals to the team to help with the oversight of the Plan and Plan fund. We will continue to build our resources to set the foundation for the Corporation's long-term success and to hold our legislated service providers accountable. Some of the projects currently under way in 2020 include:

- **Actuarial valuation:** The Corporation is conducting an actuarial valuation of the Plan as at December 31, 2019 to ensure there will be sufficient assets in the Plan fund to pay benefits to members. The results will help set contribution rates at sufficient levels to fund benefits currently being earned.
- **Experience study**: This study analyzes the actual events that happened in the Plan, such as the actual age of members retiring and mortality rates, and salary changes. The results will help set appropriate demographic assumptions for future actuarial valuations.
- **Asset liability study:** This study takes a comprehensive modelling approach to Plan liabilities and required cash flows to determine an optimal, risk-adjusted investment strategy to ensure all Plan benefits are paid to Plan members and to enhance the sustainability of the plan. The results will help determine whether adjustments to the Plan's investment policy (Statement of Investment Policies & Procedures), investment strategy and asset allocation are required to optimize investment performance and reduce unnecessary risk exposure.

- **Plan Text:** Prior to the transition to a jointly sponsored pension plan on March 1, 2019, the Plan rules and benefits were set out in legislation. The Corporation is working with the PSPP Sponsor Board in developing a single comprehensive Plan Text document to replace the former legislation.
- **Contract negotiations:** The Corporation is responsible for the investment and administration of the Plan. However, the day-to-day responsibilities are contracted to legislated exclusive service providers, Alberta Investment Management Corporation (AIMCo) and Alberta Pensions Services Corporation (APS). The Corporation will renegotiate the investment management agreement with AIMCo and pension services agreement with APS by the end of 2020.
- **Service delivery:** The Corporation oversees the services provided by AIMCo and APS to the Plan, members and employers. Corporation management is working closely with AIMCo and APS to improve alignment between our organizations, enhance the delivery of services, and manage costs charged to the Plan for these services.

Our response to COVID-19

The COVID-19 pandemic has changed the world significantly and caused turmoil in everyday lives and financial markets. Despite the changes, the Corporation is proud to have been able to continue operating with no interruption. In no small part, this was due to our staff moving quickly to work from home and conduct all meetings via video conferencing. I want to thank everyone who helped us adapt during this unprecedented time.

PSPP Corporation continues to closely monitor the situation and has been working with its pension administration service provider, APS, to ensure essential operations continue and its investment manager, AIMCo, to review the market impact and investment strategy.

PSPP is a Defined Benefit Pension Plan, which means that benefits are calculated based on a formula that includes pensionable salary and years of service. Pensions are not affected by contributions or by stock market fluctuations and economic downturns. Your PSPP pension is secure.

A Defined Benefit Pension is a valuable asset and forms an important source of our member's retirement income. I am proud to play a role in delivering on the pension obligation and ensuring the sustainability of the plan for the benefit of members.

Plan Overview

Plan Formula

The Public Service Pension Plan is a defined benefit pension plan. This means that a pension is calculated based on a formula that considers salary and years of service. PSPP provides its members with a lifetime pension that is not affected by market conditions or life expectancy.

1.4%	x	your highest average salary earned for five consecutive years up to the average YMPE (Year's Maximum Pensionable Earnings)	x	years of service in PSPP
		+		
2%	x	your highest average salary earned for five consecutive years above the average YMPE	x	years of service in PSPP

About the Plan

The Public Service Pension Plan (PSPP or Plan) was first established in 1947. It is a defined benefit pension plan for eligible employees of the Government of Alberta, its agencies, boards, commissions. The Plan is funded by investment earnings as well as equal contributions from active Plan members and participating employers. As of December 31, 2019, the Plan had almost 90,000 members and 28 participating employers.

Participating Employers

- Agriculture Financial Services Corporation
- Alberta Energy Regulator
- Alberta Gaming, Liquor and Cannabis Commission
- Alberta Innovates
- Alberta Investment Management Corporation
- Alberta Pensions Services Corporation
- Alberta Securities Commission
- The Alberta Union of Provincial Employees
- Alberta Utilities Commission
- ATB Financial
- The Board of Governors of Bow Valley College (also known as Bow Valley College)
- The Board of Governors of NorQuest College (also known as NorQuest College)
- The Board of Governors of Northern Lakes College (also known as Northern Lakes College)
- The Board of Governors of Portage College (also known as Portage College)
- Board of Governors of The Banff Centre (also known as Banff Centre for Arts and Creativity)
- Government of Alberta
- The Governors of Athabasca University (also known as Athabasca University)
- The Governors of The University of Alberta (also known as The University of Alberta)
- The Governors of The University of Calgary (also known as The University of Calgary)
- The Governors of The University of Lethbridge (also known as The University of Lethbridge)
- InnoTech Alberta Inc.
- LAPP Corporation
- Legislative Assembly Office
- PSPP Corporation
- SFPP Corporation
- Special Areas Board
- Travel Alberta
- The Workers' Compensation Board

Legislation

Late in 2018, the Government of Alberta enacted legislation, the *Joint Governance of Public Sector Pension Plans Act* (Joint Governance Act), to allow PSPP to be jointly governed by those who contribute to it—employers (represented by the Government of Alberta as the largest participating employer, and the University of Alberta and the University of Calgary), and employees (represented by the Alberta Union of Provincial Employees and the University of Alberta Non-Academic Staff Association).

On March 1, 2019, the Plan transitioned to a jointly sponsored governance structure which saw the creation of three new entities to oversee and make decisions about the Plan and the Plan fund:

1. PSPP Sponsor Board — responsible for plan design, including benefits, rules, eligibility and contributions.
2. PSPP Corporation — administrator and trustee of the Plan and Plan fund.
3. PSPP Corporation Board of Directors — responsible for overseeing the activities of PSPP Corporation.

The Plan, subject to certain exemptions granted under the EPPA Exemption Regulation, also became a registered pension plan under the *Employment Pension Plans Act* (EPPA). The EPPA and its regulations sets out the minimum standards that registered pension plans, such as PSPP, must meet in respect of its members. The Alberta Superintendent of Pensions has regulatory oversight over plan compliance with the EPPA.

Prior to March 1, 2019, PSPP was governed under the *Public Sector Pension Plans Act* and its regulations. The President of Treasury Board and Minister of Finance was the administrator and trustee of the Plan, and had final approval on changes to the Plan, including benefits.

About PSPP Corporation

The Joint Governance Act established PSPP Corporation as a provincial corporation without share capital. PSPP Corporation became the administrator and trustee of the Plan and Plan fund, effective March 1, 2019. PSPP Corporation is responsible for carrying out all of the functions and responsibilities of a plan administrator under the EPPA and ensures the Plan complies with all applicable legislation. PSPP Corporation operates on a cost recovery basis, with all expenses incurred being recovered from the Plan fund. The Corporation has a legal duty to act in the best interest of the Plan and Plan members.

In carrying out its responsibilities as administrator and trustee, the Corporation, in accordance with the Joint Governance Act, has agreements with Alberta Pensions Services Corporation (APS) for pension administration services, and Alberta Investment Management Corporation (AIMCo) for investment management services. Although pension administration and investment functions have been legislatively delegated to APS and AIMCo, the ultimate responsibility for these critical functions lies with PSPP Corporation.

The Joint Governance Act originally permitted the Corporation to select its own service providers five years after March 1, 2019. However, the Joint Governance Act was amended in late 2019 by Bill 22, the *Reform of Agencies, Board and Commissions and Government Enterprises Act, 2019*, to remove this option, among other changes. This imposed a requirement on the Corporation to continue using APS and AIMCo as its exclusive service providers indefinitely.

Legislated Changes to Plan and Corporation Governance

The *Reform of Agencies, Board and Commissions and Government Enterprises Act, 2019*, passed in late 2019 amended legislation related to the governance of PSPP. The legislated changes to PSPP did not affect the Plan's core jointly sponsored governance structure, core pension benefits, and contribution rates. A summary of the notable changes are provided below.

- PSPP Corporation became a provincial corporation and subject to Government direction set out in various Alberta public sector legislation.
- The Auditor General of Alberta was named the auditor of the Corporation and the Plan — The Corporation no longer has the ability to appoint an external auditor.
- AIMCo and APS, both Crown corporations, became permanent service providers to PSPP Corporation — the Corporation no longer has the ability to select its own service providers.
- Method of calculating commuted values and excess contributions, changed, effective April 1, 2020.
- Directors must be appointed by Order in Council, based on nominations from sponsor organizations.
- The three-year restriction on participating employers regarding a change in their participation policies for permanent part time employees became applicable to only participation policies governing permanent part time employees that are in a bargaining unit.
- Repeal of the provision that automatically designates a successor employer as a participating employer in the Plan.

Plan and Corporate Governance

As part of the transition to a jointly sponsored governance structure, two distinct boards were established to make decisions about the Plan and oversee the business and affairs of PSPP Corporation. PSPP has comprehensive governance and compliance frameworks in place, including codes of conduct for the Board of Directors and PSPP Corporation employees. Governance policies and documents are available at **www.pspp.ca** under "Governance Publications" and "Sponsor Board Rules & Policies".

PSPP Sponsor Board

The PSPP Sponsor Board is comprised of eight representatives appointed by specified employer and employee sponsor organizations:

Four employer representatives

- Three appointed by the Government of Alberta (GOA)
- One appointed by the University of Alberta (U of A) or the University of Calgary (U of C) based on a three-year rotation

Four employee representatives

- Three appointed by the Alberta Union of Provincial Employees (AUPE)
- One appointed by the University of Alberta Non-Academic Staff Association (NASA)

2019 Sponsor Board members

- Susan Slade, Chair
- Dan Stadlwieser, Vice-Chair
- Mike Dempsey
- Tom Fuller
- Jason Heistad
- Gitta Kulczycki
- Shannon Marchand
- Lana Lougheed *(resigned March 18, 2019)*
- Gene Williams *(resigned October 8, 2019)*

The Sponsor Board's roles and responsibilities are set out in the Joint Governance Act and include:

- Making and amending Plan rules
- Setting contribution rates
- Establishing a funding policy
- Reviewing the Corporation's annual budget
- Establishing a code of conduct and conflict of interest policy governing its members
- Determining how much the Corporation's directors are paid

PSPP Corporation Board of Directors

The employer and employee sponsor organizations responsible for appointing members to the PSPP Sponsor Board are also responsible for nominating the same number of individuals to the PSPP Corporation Board of Directors (the Board). Directors are appointed by the Lieutenant Governor through an Order in Council. Prior to the legislative amendments imposed by Bill 22, the *Reform of Agencies, Boards and Commissions and Government Enterprises Act, 2019*, sponsor organizations appointed directors to the Board by giving notice to PSPP Corporation.

Four directors nominated by employer sponsor organizations

- Three nominated by the Government of Alberta (GOA)
- One nominated by the University of Alberta (U of A) or the University of Calgary (U of C) based on a three-year rotation opposite of the PSPP Sponsor Board

Four directors nominated by employee sponsor organizations

- Three nominated by the Alberta Union of Provincial Employees (AUPE)
- One nominated by the University of Alberta Non-Academic Staff Association (NASA)

2019 Board of Directors

Linda Dalgetty, Chair

Elizabeth Johannson, Vice-Chair

Terry Agoto

Liliana Cordeiro

Emilian Groch

Lauren Montgomery

Elaine Noel-Bentley

Lowell Epp *(resigned August 9, 2019)*

Larry Murray *(resigned April 4, 2019)*

Sophie Parsons *(resigned March 27, 2019)*

Investment Committee

The Investment Committee (IC) assists the Board with fulfilling its obligations and oversight responsibilities relating to the Plan's investments, including:

- Investment and performance of the PSPP fund
- Investment risks
- The performance of AIMCo as investment manager and external investment advisors
- Compliance with the Board's investment policy and applicable laws and regulations
- Undertaking special studies as authorized by the Board, including periodic asset-liability studies

The IC is comprised of up to five members of the Board and three external investment or finance professionals chosen for their expertise in investment management.

Finance & Audit Committee

The Finance & Audit Committee (FAC) assists the Board in fulfilling its obligations and oversight responsibilities relating to:

- Financial planning and reporting
- Risk management
- Financial signing authority and internal controls
- Audits of the Corporation and the Plan
- Quality and integrity of financial statements
- The Corporation's capital and operating budgets

The FAC is comprised of four members of the Board.

Governance & Human Resources Committee

The Governance & Human Resources Committee (GHRC) ensures policies and processes are in place to support good governance and operational efficiency of the Board, its committees and PSPP Corporation. The GHRC also assists the Board with its oversight responsibilities regarding human resources processes for the CEO and the Corporation.

Responsibilities include:

- Reviewing Board governance policies and procedures, skills matrix, and bylaws of the Corporation
- Processes to assess the effectiveness of the Board and its committees

- Monitoring best practices and developments in corporate and pension governance, and human resources management
- CEO performance evaluations
- Reviewing the position description, recruitment strategy, compensation and succession plan for the CEO and other key positions

Appeal Tribunal

After completing right to recourse actions with APS, Plan members may further escalate a dispute with the Corporation's pension administration service provider to the Appeal Tribunal. The Appeal Tribunal hears and makes final decisions on requests from Plan members to review administrative decisions made by APS. The purpose of the Appeal Tribunal is to determine whether the Plan provisions were correctly applied.

The Appeal Tribunal is comprised of any three members of the Board. Tribunal members are appointed based on availability and objectivity. Board members who have pre-existing knowledge about a specific Plan member's dispute or may have or appear to have biases are automatically excluded from being appointed to the Appeal Tribunal for that specific hearing.

2019 Board and Committee Membership

There was one vacancy on the Board, a GOA nominee, as at the end of 2019.

Board Members	Board	IC	FAC	GHRC	Appeal Tribunal
Linda Dalgetty	Chair	Vice Chair		✓	✓
Elizabeth Johannson	Vice Chair	✓	Chair[1]		✓
Terry Agoto[2]	✓	✓		✓[3]	✓
Liliana Cordeiro[4]	✓		✓	✓	✓
Emilian Groch	✓	Chair	✓[5]		✓
Lauren Montgomery	✓		✓[6]	Chair	✓
Elaine Noel-Bentley	✓		✓	✓	✓
Past Members					
Lowell Epp[7]	Chair	✓	✓		
Larry Murray[8]	✓				
Sophie Parson[9]	✓				

[1]Appointed FAC Chair on October 29, 2019. A FAC Chair had not been appointed prior to this date.

[2]T. Agoto was appointed to the Board effective March 28, 2019.

[3]T. Agoto was a member of the GHRC from April 9 to October 29, 2019.

[4]L. Cordeiro was appointed to the Board effective August 21, 2019.

[5]E. Groch was appointed to the FAC effective October 29, 2019.

[6]L. Montgomery was a member of the FAC from April 9 to October 29, 2019.

[7]L. Epp was a member of the Board from January 1 to August 9, 2019.

[8]L. Murray was a member of the Board from January 1 to April 4, 2019.

[9]S. Parsons was a member of the Board from January 1 to March 27, 2019.

Board Attendance and Remuneration

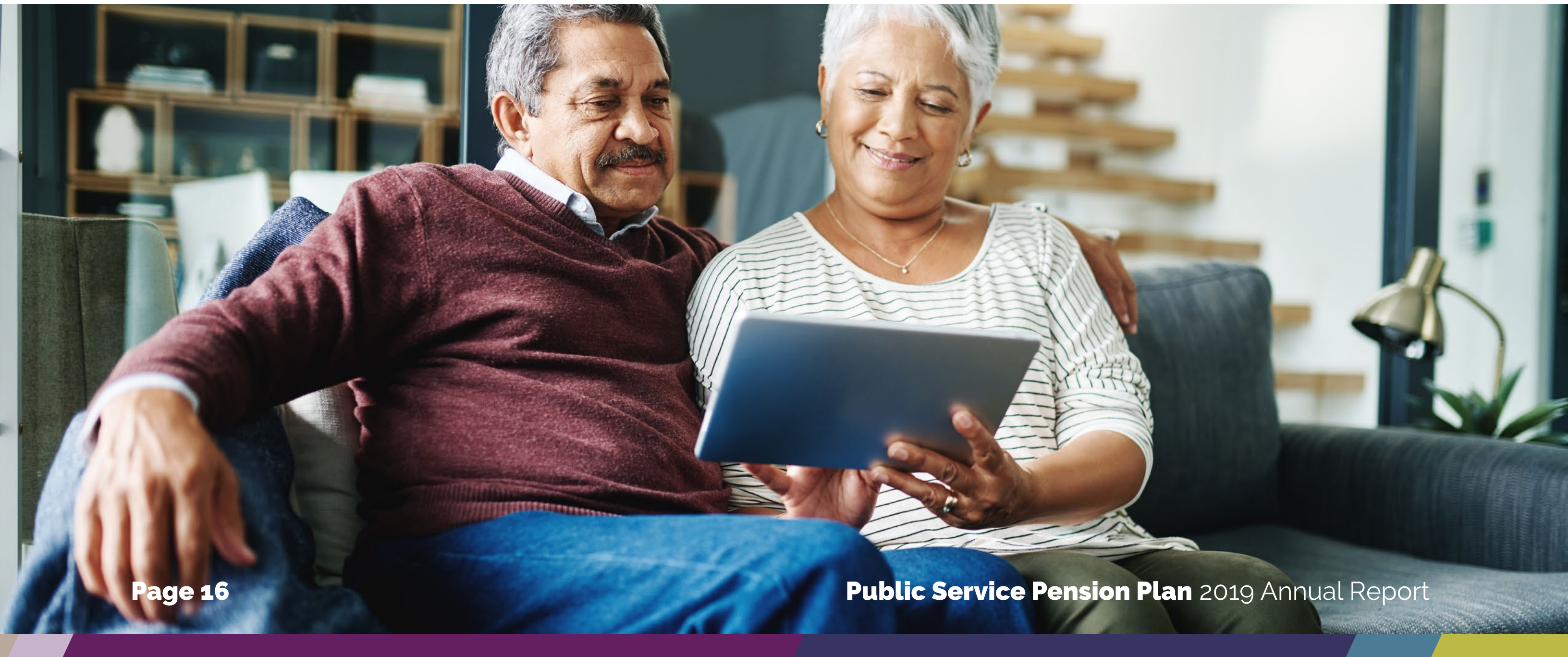
The *Joint Governance of Public Sector Pension Plans Act* authorizes the PSPP Sponsor Board to make rules respecting the remuneration paid to directors of PSPP Corporation. The Sponsor Board set a two-tier remuneration system based on a four-hour threshold. Directors received remuneration according to this threshold for time spent, where applicable, travelling to, preparing for and attending Board, committee and other qualifying meetings. In addition to per meeting remuneration, the Board Chair and committee chairs receive a flat monthly remuneration fee of $600 and $300, respectively, to account for the additional time and duties required as a chair. The Sponsor Board's complete policy is publicly available at www.pspp.ca under "Sponsor Board Rules & Policies".

Directors are also reimbursed for any reasonable expenses incurred while carrying out their duties as a director of PSPP Corporation. Expenses are reimbursed in accordance with Board policy.

In 2019, four directors received remuneration in accordance with the remuneration policy approved by the Sponsor Board. The remaining directors, at their request, were not paid remuneration as these directors served on the Board as part of their employment duties with their sponsor organization. The Director Remuneration policy allows for any amounts that would have been payable to the applicable directors to instead be paid to the sponsor organization that appointed or nominated the applicable director. There was no remuneration paid to sponsor organizations in 2019.

2019 Meeting Attendance

Board Member	Board	FAC	GHRC	IC	2019 Total Remuneration Paid ($)
Linda Dalgetty	9/9		4/4	4/4	30,241
Elizabeth Johannson	8/9	4/5		3/4	16,697
Terry Agoto	6/6		3/3	3/4	0
Liliana Cordeiro	4/4	2/2	1/1		0
Emilian Groch	9/9	2/2		4/4	19,521
Lauren Montgomery	9/9	3/3	4/4		0
Elaine Noel-Bentley	9/9	5/5	4/4		20,292
Past Board members					
Lowell Epp	5/5			2/2	0
Larry Murray	3/3				0
Sophie Parsons	2/3				0
Total					**$ 86,751**



Pension Administration Report

In 2019

355 plan members
received personal information sessions

almost 11,000 secure messages
were received

54 education group sessions
were held in various locations across Alberta and in the APS office

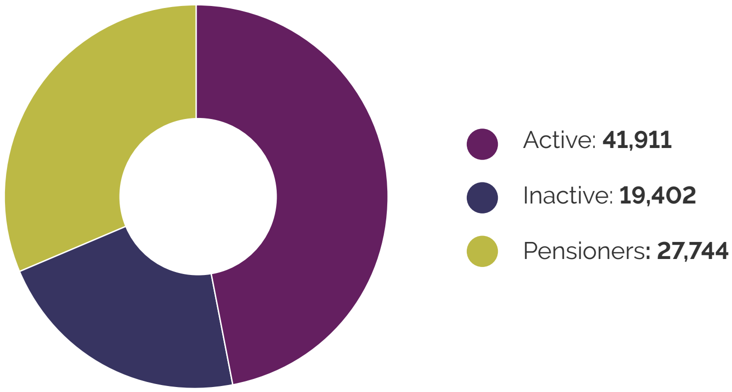
over 20,000 transactions
were processed by member services, including:

- ✓ more than **2,500** service purchase applications
- ✓ **1,477** retirement applications
- ✓ **1,393** pension estimates

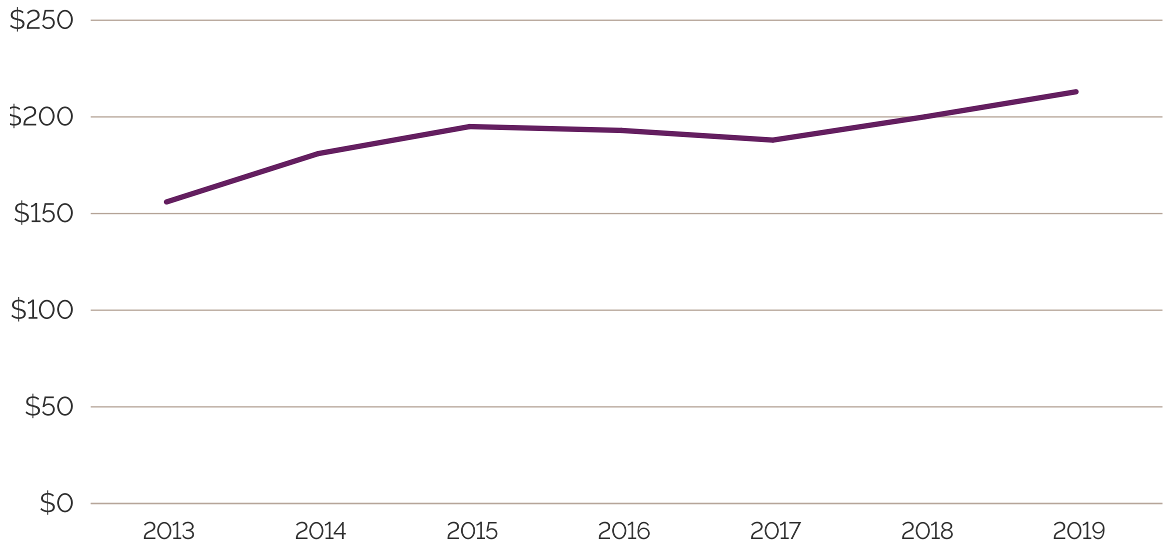
more than
26,000 member phone calls
were received

in addition, more than
48,000 members
completed self-serve pension estimates in *mypensionplan*

PSPP Membership



Cost per member*



*The calculation is based on active and pensioner membership data.

	2019	2018	2017	2016	2015
Average Age of Active Members	44.9	43.8	43.7	44.2	43.6
Average Age of Pensioners	72.8	72.7	72.6	72.9	71.0
Average Age of New Retired Members	63.6	60.4	59.9	61.9	62.0
Average Gross Yearly Pension Amount ($)	$17,840	$16,583	$18,172	$18,168	$15,960

Average pensionable earnings:

$72,022

Active members average years of pensionable service:

9.78

Average pensionable service new retired members:

20.79

Fun facts

Oldest plan member is
105 years of age
and has been collecting
a pension for
39.9 years

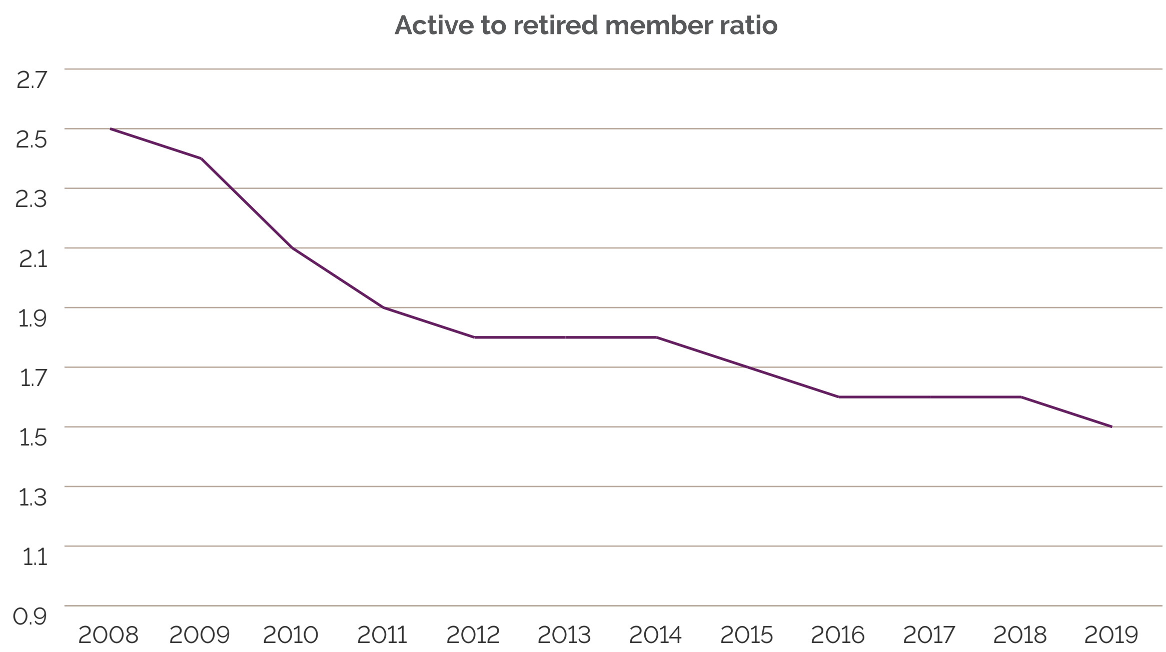
Longest
pension in pay is
over 50 years

There are **27** retired plan members and **40** pension partners and beneficiaries
over the age of 100

PSPP is listed **20th** on the
top 100 Canadian pension funds in 2019

(Benefits Canada 2019
Top 100 Pension Funds Report)

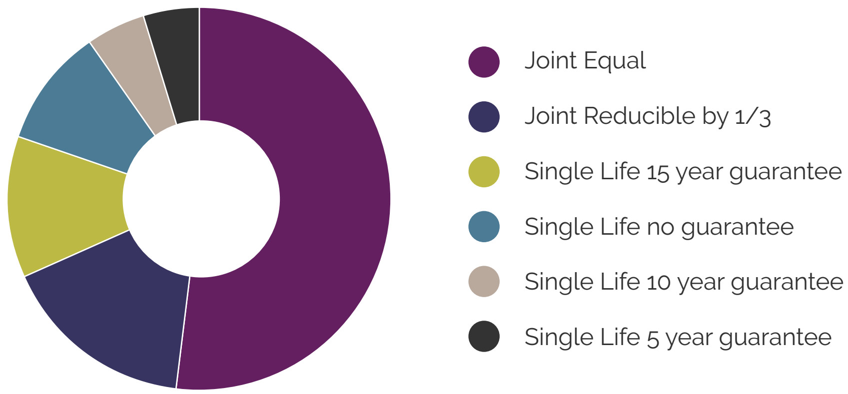
Age distribution of active and retired members



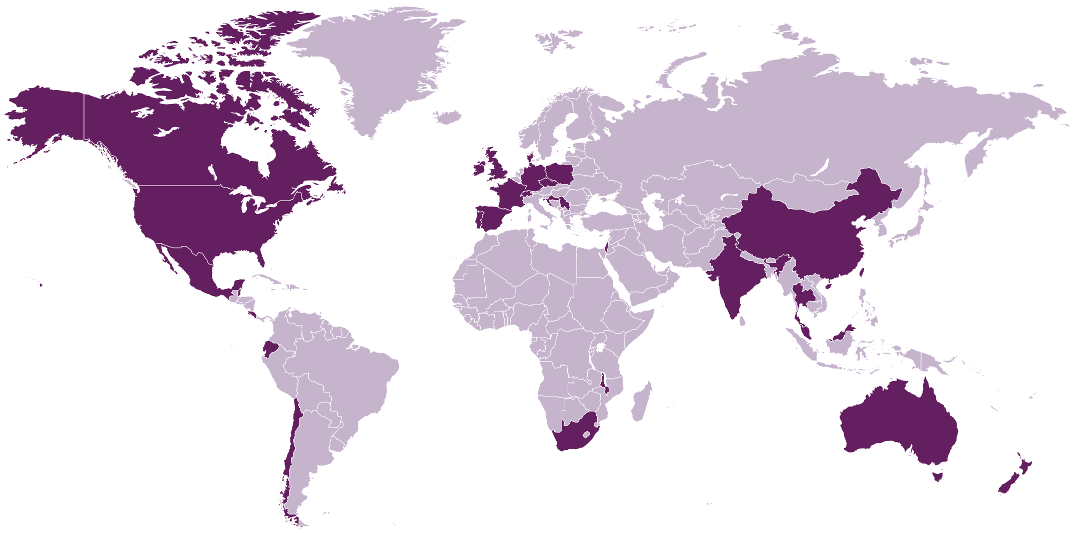
The ratio of active members to retired members is a common measure of Plan maturity. A mature Plan, which has a relatively smaller group of active members, has less capacity to bear Plan funding risk as funding risk is borne by active members and employers. This table portrays the gradual maturing of the Plan through time. As the proportion of active members decreases, annual contributions will become less than annual pension payments and investments will make up the difference. The Plan is currently well positioned with 1.5 active members for each retired member.

There were 1,291 members who retired in 2019. The chart below shows the pension options they selected. This distribution of pension option elections has remained consistent for the past 10 years.

Pension Options 2019



Where our retired members live



Service Levels

PSPP Corporation sets service standards for the Plan's pension administration services provider. Below are the service standards achieved for the Plan transactions.

Service Provided	Benchmark	Average Elapsed Time in 2019	Average Answer Time
Retirement estimates	30 days	4.6 days	
Retirement options	14 days	6.7 days	
Retirement finalization	30 days	21.9 days	
Termination options	14 days	3.9 days	
Pre-retirement death	14 days	5 days	
Post-retirement death	14 days	5 days	
Written inquiries	Within 2 business day	2.18 Days	
Telephone inquiries	180 seconds		245 seconds

Investment Performance

2019 Year in Review

INVESTMENTS

$15.4 billion

INVESTMENT INCOME

$1.8 billion

RETURN ON INVESTMENT

12.3 per cent

INVESTMENT EXPENSE

56 basis points

Following low returns in 2018, markets bounced back for a strong showing in 2019. PSPP's investments gained 12.3 per cent in 2019, net of investment expenses, compared to 1.5 per cent in 2018.

The strong gains were driven mainly by an impressive turnaround in equity markets. PSPP realized a gain of 16.2% on equity investments compared to a loss of 2.9% on the same portfolio in 2018.

Despite the strong returns in the current year, PSPP's investment portfolio underperformed by 1.5% the benchmark policy asset mix return of 13.8%. The underperformance was due to active equity management by PSPP's investment manager, AIMCo, and sub-benchmark performance in the Canadian Equity pool which underperformed by 2.1%, the Global Equity pool which underperformed by 3.3% and the private equity asset pool which underperformed by 8.1%.

In 2019, PSPP earned $1,780 million, before investment expenses, compared to $282 million in 2018. Investment expenses were 56 basis points compared to 53 basis points in 2018. At December 31, 2019, PSPP investments totaled $15.4 billion.

Long-Term Investment Objectives for Funding Purposes

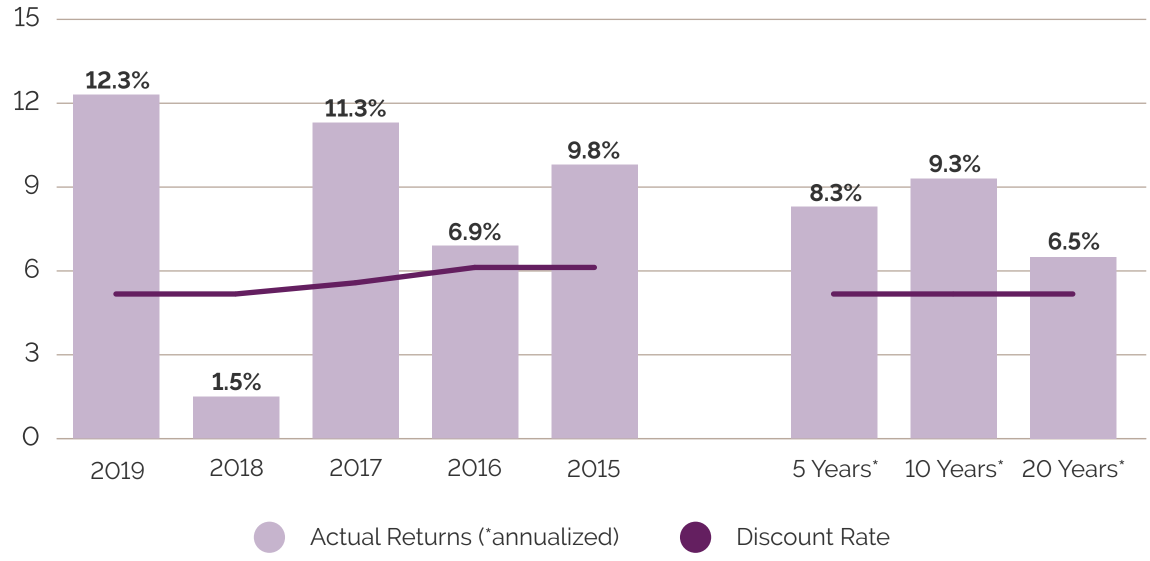
Investment earnings are an important source of funding for the PSPP and the policy asset mix for the PSPP is determined based on the Plan's funding requirements and projected anticipated long-term returns.

A key assumption in meeting the long-term funding needs of the PSPP is the discount rate. The 2017 actuarial valuation used a discount rate of 5.1% per cent, which is comprised of an assumed real rate of return of 3.1 per cent and an inflation rate of 2.0 per cent. The assumed real rate of return includes a 1.0 per cent margin to mitigate the impacts from plan experience that is different from the assumption used in the actuarial funding valuation. The discount rate is redetermined with each actuarial funding valuation. An actuarial funding valuation as at December 31, 2018 was not conducted for PSPP.

Annual Returns by Year

Net of expenses, the Plan's investments generated a return of 12.3 per cent in 2019 and 9.3% per cent per annum over the past ten years, outperforming the long-term funding expectations.

Summary of PSPP Investment Returns



Statement of Investment Policies & Procedures (SIPP)

Investment Management Overview

For the first two months of 2019 the President of Treasury Board, Minister of Finance was the trustee of the PSPP and was responsible in legislation for holding the PSPP's assets and for the investment management of the assets. Effective March 1, 2019, new legislation established PSPP Corporation as the trustee of the PSPP and PSPP Corporation became responsible for setting investment policies and guidelines. AIMCo provides day-to-day investment services for the Plan's investment portfolio pursuant to an investment contract with PSPP Corporation.

PSPP's assets are invested by AIMCo in accordance with the Statement of Investment Policies and Procedures (SIPP) established by PSPP Corporation on September 4, 2019. The SIPP is publicly available on the pspp.ca website. The Plan invests in units of pooled investment funds created and managed by AIMCo. Pooled fund units have a market-based unit value that is used to allocate income to participants in the pool and to value purchases and sales of units.

The SIPP takes into account PSPP's benefit design, demographics, risk tolerance and liabilities. The PSPP Corporation reviews the SIPP at least once a year to ensure that the SIPP establishes appropriate and prudent investment policies and guidelines for AIMCo.

Proxy Voting

Proxy voting is a key element of responsible investing and thoughtful voting is a contributor to optimizing the long-term value of investments. PSPP Corporation delegates the proxy voting function to AIMCo. Certain research and proxy voting assessments have been outsourced by AIMCo to an independent adviser who specializes in providing proxy-related services to institutional investors. While AIMCo may review and utilize the recommendations of the research provider in making proxy voting decisions, AIMCo has processes in place to review voting decisions and is not obligated to follow such recommendations.

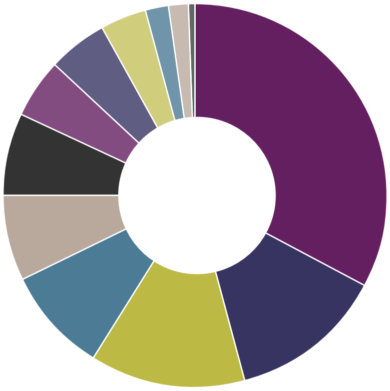
Risk Management System

PSPP investments are diversified in a wide spectrum of asset classes to help improve the likelihood of achieving desired results for a given level of risk. AIMCo seeks to measure and monitor both historic and possible future risks, allocating risk as a scarce resource to the most promising investment opportunities. AIMCo maintains a quantitative investment risk system designed to operate across all asset classes and take into account a variety of risk types such as credit risk, price risk, interest rate risk, currency risk and liquidity risk.

Policy Asset Mix

The asset class structure supports the PSPP investment strategy, which focuses on funding PSPP over the long-term. AIMCo is given broad ranges to invest within each asset class. In addition, AIMCo may invest up to 3 per cent of the Plan's investments in strategic opportunities that are outside the asset classes shown in this chart.

PSPP Target Asset Mix



- Global Equities: **33%**
- Canadian Real Estate: **13.0%**
- Canadian Equities: **13.0%**
- Infrastructure**: 9.0%**
- Long bonds: **7.0%**
- Universe bonds: **7.0%**
- Emerging Markets: **5.0%**
- Private mortgages: **5.0%**
- Private Equity: **4.0%**
- Foreign Real Estate: **2.0%**
- Opportunistic Fixed Income: **1.5%**
- Money market: **0.5%**

The table below shows the long-term policy asset mix for each asset class compared to the actual holdings at December 31, 2019.

Long-Term Policy Asset Mix

(Percentage of Fund)

Asset Class	Target	Min	Max	Actual
Fixed Income Securities	21.0%	11.0%	33.0%	20.5%
Money market	0.5%	0.0%	3.0%	0.6%
Long Bonds	7.0%	4.0%	10.0%	6.4%
Universe bonds	7.0%	4.0%	10.0%	8.3%
Private mortgages	5.0%	3.0%	7.0%	4.3%
Opportunistic Fixed Income	1.5%	0.0%	3.0%	0.9%
Equities	55.0%	37.0%	65.0%	56.3%
Canadian	13.0%	10.0%	18.0%	13.1%
Global				
Traditional	22.0%	19.0%	27.0%	25.0%
Low Volatility	11.0%	8.0%	14.0%	10.6%
Emerging markets	5.0%	0.0%	7.0%	5.1%
Private equity	4.0%	0.0%	6.0%	2.5%
Alternative Investments	24.0%	15.0%	30.0%	22.8%
Canadian real estate	13.0%	10.0%	15.0%	12.2%
Foreign real estate	2.0%	0.0%	3.0%	1.8%
Infrastructure (1)	9.0%	5.0%	12.0%	8.8%
Strategic Opportunities and Currency Hedges	-	-	-	0.4%
Total	**100.0%**			**100.0%**

(1) Includes Timberland

Investment Expenses

Investment expenses are charged by AIMCo on a cost recovery basis. In 2019, investment expenses charged by AIMCo, before GST, increased by 20.2 per cent compared to an increase of 11.6 per cent last year. Average investments under management increased by 7.3 per cent compared to 7.1 per cent last year. Overall investment expenses in 2019 were 56 bps.

PSPP Investment Performance Summary

The PSPP policy benchmark return is based on the policy asset mix weightings set by PSPP Corporation and returns of related market benchmarks. The policy benchmarks are documented in the SIPP for the PSPP. Investment performance is measured against PSPP's policy benchmark to determine the impact of the manager's investment decisions.

AIMCo's one year annual return for 2019 was 1.5% below the total fund policy asset mix benchmark. Over four years, the value-added return by AIMCo was 0.2 per cent per annum.

Table of Investment Returns (A)

December 31, 2019

	Fair Value (in millions)	Asset Mix (%)	Annual Returns % 2019	2018	2017	2016	Compound Annualized Return 4 yr
Total Fund Return	$15,395.1	100.0	12.3	1.5	11.3	6.9	7.9
Policy Benchmark Return (Market Return)			13.8	1.0	9.7	6.6	7.7
Value Added Return			(1.5)	0.5	1.6	0.3	0.2
Consumer Price Index (B)			2.2	1.7	2.1	1.2	1.8
Money Market	95.7	0.6	1.9	1.6	1.0	0.9	1.4
FTSE TMX 91-Day T-Bill Index			1.6	1.4	0.6	0.5	1.0
Universe bonds	1,272.3	8.3	7.8	1.9	3.3	3.3	4.1
Private mortgages	657.2	4.3	6.0	4.7	2.5	2.1	3.8
Private debt	141.0	0.9	4.4	4.0	2.3	4.4	3.8
FTSE TMX Universe Bond Index			6.9	1.4	2.5	1.7	3.1
Long-term Government Bonds	990.6	6.4	12.8	0.9	7.6	2.4	5.8
FTSE TMX Long-term Government Bond Index			12.2	0.5	6.5	1.3	5.0
Equities			16.2	(2.9)	14.8	7.6	8.6
Combined Benchmark			19.4	(1.6)	13.2	7.8	9.4
Canadian Equity	2,013.7	13.1	20.8	(9.8)	10.2	19.9	9.5
S&P/TSX Composite Index			22.9	(8.9)	9.1	21.1	10.3
Global Equity	5,486.8	35.6	16.5	(1.0)	15.8	2.7	8.2
MSCI World Index			19.8	1.0	13.1	2.0	8.7
Emerging Markets	781.7	5.1	10.6	(8.2)	30.4	8.7	9.5
MSCI Emerging Markets Index			12.4	(6.9)	28.3	7.3	9.6
Private Equity	380.2	2.5	0.7	18.9	(1.4)	1.2	4.5
CPI + 7%			8.8	8.6	8.6	8.3	8.6

Alternatives			6.8	12.7	9.5	6.4	8.8
Combined Benchmark			5.8	7.6	6.7	5.8	6.5
Real Estate (C)	2,147.7	13.9	4.8	11.9	8.8	5.0	7.6
Combined Benchmark (C)			5.5	8.5	7.0	5.8	6.7
Canadian Real Estate (C)	1,884.0	12.2	5.5	11.5	8.5	5.4	7.7
IPD Large Institutional Index			6.2	14.0	7.0	5.8	6.7
Foreign Real Estate (C)	263.7	1.7	0.1	14.7	10.9	1.5	6.6
IPD Global Region Property Index (C)			1.1	14.0	7.0	5.8	6.9
Infrastructure	1,146.3	7.4	8.5	13.1	9.2	9.5	10.0
Timberland	215.6	1.4	19.1	17.7	17.5	10.0	16.0
CPI + 4.5%			6.3	6.1	6.1	5.8	6.1
Strategic Opportunities and Currency Hedging			20.3	(2.2)	5.0	(5.1)	4.6
Strategic Opportunities	66.3	0.4	20.3	(2.2)	5.0	(5.1)	4.1

(A) Investment returns provided by AIMCo. Investment returns for assets classified as Level 3 in the financial statements are based on estimates of fair value. Level 3 includes real estate, private equities, infrastructure, timberland, hedge funds and private debt. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns and valuations, resulting from new information received after the cut-off date for preparation of the Plan's financial statements, will be reflected in the next reporting period.

(B) The Consumer Price Index (CPI) is calculated and reported on a one-month lagged basis due to a timing difference in reporting with Statistics Canada.

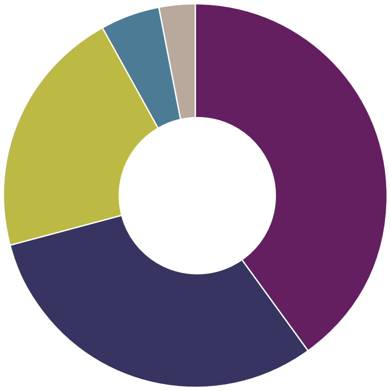
(C) The asset mix, in accordance with the 2019 SIPP, separates real estate between Canadian and foreign allocations. Prior to January 9, 2018, allocations to Canadian and foreign real estate were combined and benchmarked against the IPD Large Institutional All Property Index.

Money Market and Fixed Income Securities

The Plan's money market and fixed-income portfolio consists of money-market securities, long and universe bonds, private mortgages and private debt totaling 20.5 per cent, or $3.157 billion, of total investments at December 31, 2019, compared to 21.7 per cent, or $2.975 billion the previous year.

Money Market and Fixed Income Securities

December 31, 2019 (in millions)



Money Market

At December 31, 2019, money-market securities comprised 0.6 per cent of PSPP total investments or $96 million, up from 0.7 per cent or $94 million the previous year.

Money-market securities primarily include deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is a portfolio of investments, which includes short-term and mid-term fixed income securities issued by banks, various levels of government and major corporations with a maximum term-to-maturity of three years.

Money market	Actual Return %	Benchmark FTSE TMX 91-Day T-Bill Index %	Value Added %
One Year	1.9	1.6	0.3
Four Years (annualized)	1.4	1.0	0.4

Long bonds

Long bonds totaled 6.4 per cent of the total portfolio or $991 million at December 31, 2019 compared to 6.4 per cent or $879 million the previous year.

Long bonds	Actual Return %	Benchmark FTSE TMX LT Government Bond Index %	Value Added %
One Year	12.8	12.2	0.6
Four Years (annualized)	5.8	5.0	0.8

Universe bonds

Universe bonds totaled 8.3 per cent of the total portfolio or $1,272 million at December 31, 2019, compared to 9.2 per cent or $1,261 million the previous year.

Universe bonds	Actual Return %	Benchmark FTSE TMX Universe Bond Index %	Value Added %
One Year	7.8	6.9	0.9
Four Years (annualized)	4.1	3.1	1.0

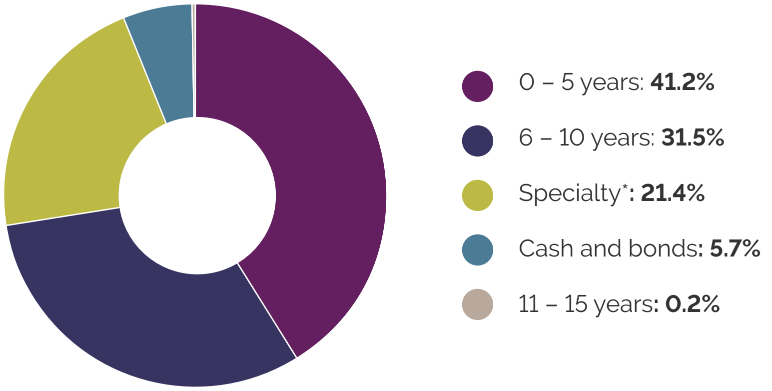
Private mortgages and private debt

The Plan also invests in private mortgages and private-debt securities. The private mortgage portfolio is managed over a longer-term investment horizon providing stable cash flows. Private mortgages accounts for 4.3 per cent of the Plan's investments, or $657 million, at December 31, 2019, compared to 4.4 per cent, or $606 million, in the previous year.

The private-debt portfolio generates high current income and preservation of capital through diversification. Private debt accounts for 0.9 per cent of the Plan's investments, or $141 million, at December 31, 2019, compared to 1.0 per cent, or $134 million, in the previous year.

Private Mortgage Investments by Maturity Term

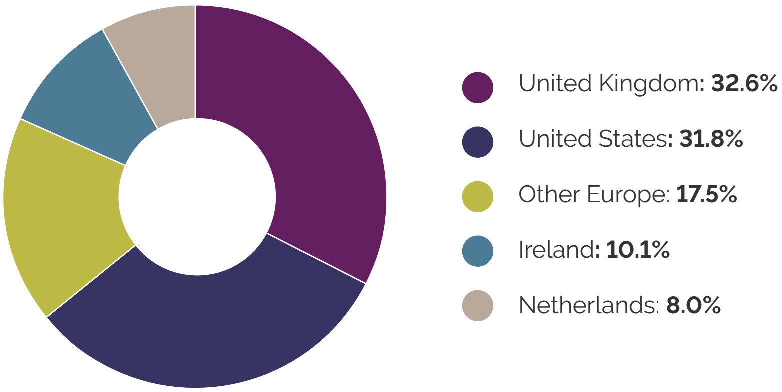
December 31, 2019



*Specialty investments are generally securities with a maturity of less than five years.

Private Debt Investments by Country

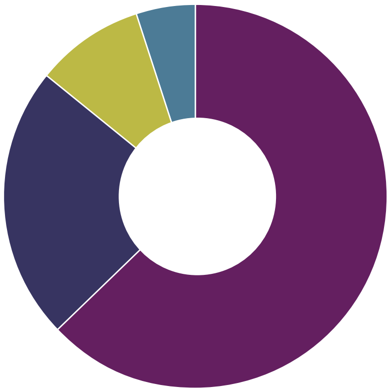
December 31, 2019



Equities

At December 31, 2019, equities comprised 56.3 per cent of the total investments or $8.663 billion, up from 53.9 per cent, or $7.368 billion, the previous year. The Plan's equity portfolio includes investments in AIMCo's Canadian, global, emerging markets and private equity pools.

Equities
December 31, 2019 (in millions)



Canadian Public Equities

At December 31, 2019, Canadian equities comprised 13.1 per cent of the PSPP's total investments or $2,014 million, up from 12.3 per cent or $1,687 million the previous year. The Plan's Canadian equity investment is held in AIMCo's Canadian Equities Master Pool, which in turn invests in the Global Alpha Strategy (GLAS) and structured equity products that replicate Canadian public equities.

The purpose of GLAS is to gain access to more markets than would be available if the pool were locked to specific countries or industry sectors, potentially enhancing opportunities for value-add return (alpha). GLAS is actively managed by AIMCo and includes directly held investments in public companies in the U.S., and Europe, Australasia and Far East (EAFE) with smaller allocations to emerging markets and Canada. Non-Canadian exposure is swapped out to provide exposure to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) while still maintaining the alpha earned in GLAS.

Canadian Public Equities	Actual Return %	Benchmark S&P/TSX Composite Total Return Index %	Value Added (lost) %
One Year	20.8	22.9	(2.1)
Four Years (annualized)	9.5	10.3	(0.8)

Global Equities

At December 31, 2019, global equities comprised 35.6 per cent of the PSPP's total investments or $5.487 billion, up from 33.9 per cent, or $4.633 billion, the previous year. PSPP invests in units of AIMCo's Global Equities Master Pool which makes up 69 per cent of the Plan's global equity investment. The Pool's investment within GLAS provides exposure to a diverse market and replicates exposure to foreign equity markets by investing in structured equity products using index swaps and futures contracts. PSPP also invests in units of AIMCo's Global Minimum Variance Pool, which makes up 30 per cent of the Plan's global equities. The pool aims to have lower realized volatility than capitalization-weighted indices while aiming to provide similar or better returns. The remaining 1 per cent of global equities is held in the Life Settlement Holdings (LSH) Pool. The LSH Pool invests in discounted life insurance policies.

Global Equities	Actual Return %	Benchmark MSCI World Index %	Value Added (lost) %
One Year	16.5	19.8	(3.3)
Four Years (annualized)	8.2	8.7	(0.5)

Emerging Market Equities

At December 31, 2019, investments in emerging market equities comprised 5.1 per cent of the PSPP's total investments or $782 million, up from 5.0 per cent, or $681 million, the previous year. PSPP invests in units of AIMCo's Emerging Markets Pool, which holds an investment in GLAS with the non-emerging market exposure being swapped out to the MSCI Emerging Markets index.

Emerging Markets	Actual Return %	Benchmark MSCI Emerging Index %	Value Added (lost) %
One Year	10.6	12.4	(1.9)
Four Years (annualized)	9.5	9.6	(0.1)

Private Equities

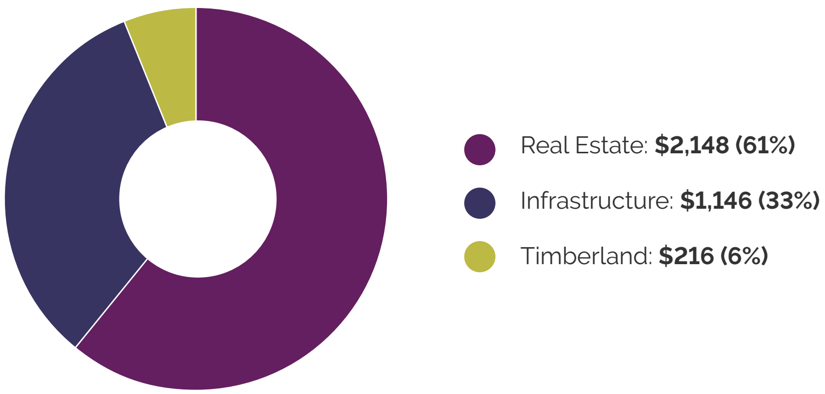
At December 31, 2019, private equities comprised 2.5 per cent of total PSPP investments or $380 million, compared to 2.7 per cent or $367 million at the end of the previous year. Private equity investments primarily include buyout investments.

Private Equities	Actual Return %	CPI + 7% %	Value Added (lost) %
One Year	0.7	8.8	(8.1)
Four Years (annualized)	4.5	8.6	(4.1)

Alternative Investments

At December 31, 2019, alternative investments comprised 22.8 per cent of total PSPP investments, or $3,510 million, compared to 23.8 per cent, or $3,258 million, at the end of the previous year. Alternative investments include real estate, infrastructure and timberland investments.

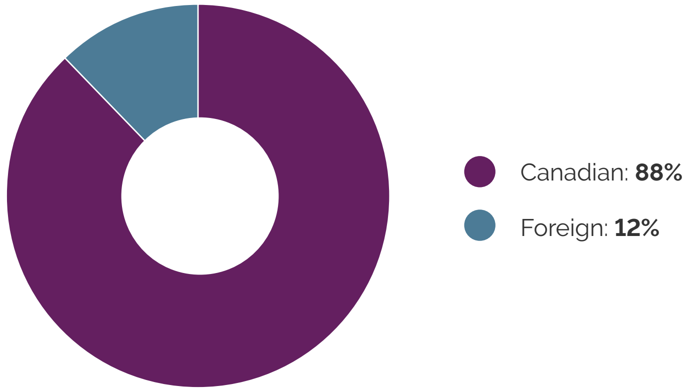
Alternative Investments
December 31, 2019 (in millions)



Real Estate

At December 31, 2019, real estate comprised 14.0 per cent of the PSPP's total investments or $2,148 million, compared to 15.4 per cent or $2,115 million at the end of the previous year. Real estate investments are held primarily in the AIMCo's Canadian Private Real Estate Pool ($1,884 million) and in the Foreign Private Real Estate Pool ($264 million).

Combined Real Estate Investments
December 31, 2019



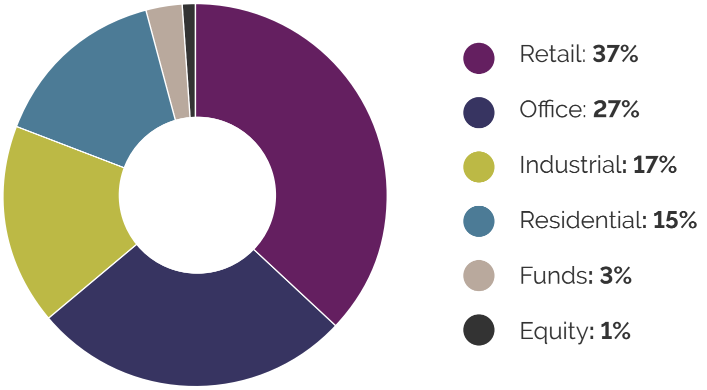
Canadian Real Estate	Actual Return %	Benchmark IPD Large Institutional All Property Index %	Value Added (lost) %
One Year	5.5	6.2	(0.7)
Four Years (annualized)	7.7	6.7	1.0

Foreign Real Estate	Actual Return %	Benchmark IPD Global Region Property Index %	Value Added (lost) %
One Year	0.1	1.1	(1.0)
Four Years (annualized)	6.6	6.9	(0.3)

The Canadian real estate portfolio includes office, retail, industrial and residential properties located in major urban centers in Ontario, Alberta, Quebec and British Columbia. The focus is on quality properties with strong locations and tenants.

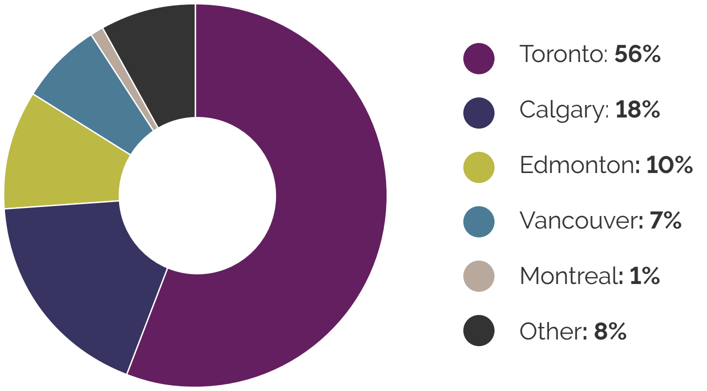
Canadian Private Real Estate Pool (by sector)

December 31, 2019



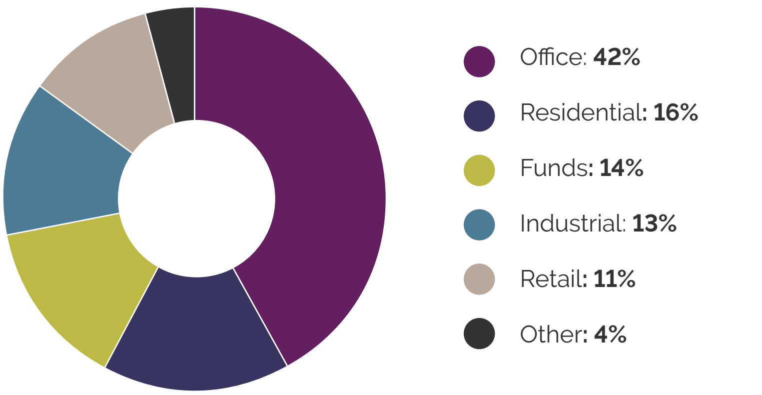
wCanadian Private Real Estate Pool (by city)

December 31, 2019

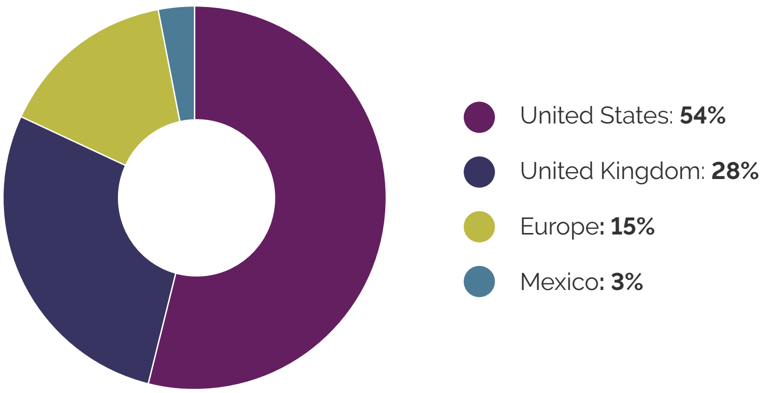


The foreign real estate investment is in AIMCo's Foreign Private Real Estate Pool. Investments held in this pool are primarily a mix of office, retail, industrial and residential properties in developed global centres in Europe and North America.

Foreign Private Real Estate Pool (by sector)
December 31, 2019



Foreign Private Real Estate Pool (by country)
December 31, 2019



Infrastructure

At December 31, 2019, investments in AIMCo's infrastructure pools comprised 7.5 per cent of the total PSPP investments or $1,146 million, up from 6.9 per cent or $943 million at the end of the previous year. The Infrastructure Pools include investments in projects that provide attractive returns plus inflation sensitivity with a long investment horizon. Infrastructure projects include transportation/logistics (e.g. toll roads, airports, ports, and rail), power/energy (e.g. contracted power generation, power transmission pipelines) and utilities (e.g. water, wastewater, natural gas networks).

	Actual Return	CPI + 4.5%	Value Added
Infrastructure	%	%	%
One Year	8.5	6.3	2.2
Four Year (annualized)	10.0	6.1	4.0

Timberland

At December 31, 2019, the Plan's investment in units of AIMCo's Timberland Pool comprised 1.4 per cent of the total PSPP investments or $216 million, compared to 1.5 per cent or $200 million the previous year. Timberland investments include funds holding timber and forestry property as well as agricultural and farmland in Canada, United States, Australia, New Zealand and Latin America.

	Actual Return	CPI + 4.5%	Value Added
Timberland	%	%	%
One Year	19.1	6.3	12.9
Four Years (annualized)	16.0	6.1	10.0

Strategic Opportunities and Currency Hedges

At December 31, 2019, the Plan's investment in AIMCo's Strategic Opportunities Pool and currency hedges comprised 0.4 per cent of total investments or $66 million, down from 0.6 per cent or $78 million the previous year. The Strategic Opportunities Pool consists of investments in infrastructure and hydropower in emerging market countries in Brazil and Columbia. In 2019, the Strategic Opportunities Pool gained 20.3 per cent (2018: lost 2.2 per cent).

Financial Highlights

The financial statements report the Plan's financial position and surplus on an accounting basis; however, it is important to note that the accounting financial position is not the same as the Plan's funded status determined by an actuarial valuation. Contribution rates are set based on the funded status and funding requirements set out in the actuarial valuation.

The actuarial valuation differs from the financial statements as the actuarial valuation incorporates margins to buffer against unfavorable results in the rate of return or other factors affecting the Plan. The margin is one of the tools to help achieve the funding objectives of contribution stability and benefits being fully funded.

The actuarial valuation also uses an actuarially accepted practice of smoothing fund returns over a five-year period to even out the impact from the volatility of market returns on the Plan's funded status and contribution rates. This practice produces a funding value of assets that can be higher or lower than the market value in any given year.

Fair Value of Net Assets versus Pension Obligation on an accounting basis

FAIR VALUE OF NET ASSETS

$15.418 Billion

SURPLUS

$2.760 Billion

PENSION OBLIGATION

$12.658 Billion

INCOME AND CONTRIBUTIONS

$2.443 Billion

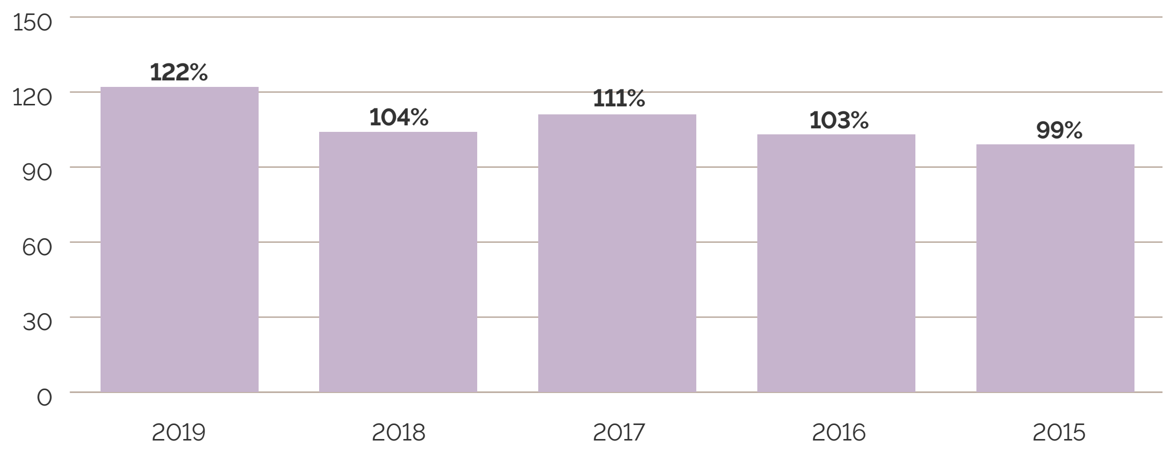
BENEFITS AND EXPENSES

$737 Million

The financial position of the PSPP improved in 2019. At December 31, 2019, the fair value of the Plan's net assets increased by 12.4 per cent (or $1,706 million) to $15.4 billion. The increase in net assets was more than the estimated pension obligation which decreased by 4.1 per cent (or $535 million) to $12.7 billion. As a result, the Plan's funded status for accounting purposes increased, with the surplus increasing by $2,241 million to $2,760 million.

At December 31, 2019, the financial position of the Plan shows that 122 per cent of the total pension obligation was supported by net assets.

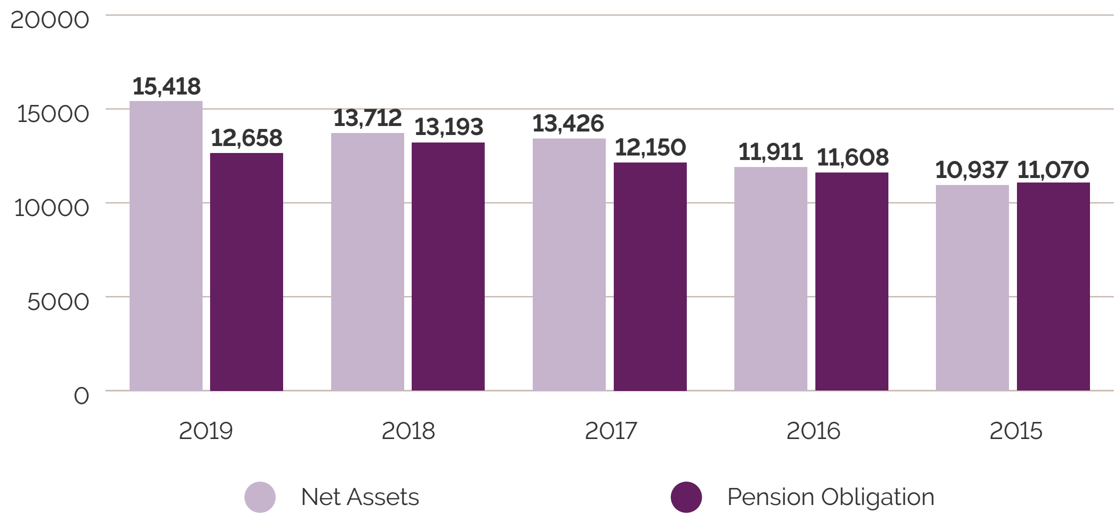
Per cent of Pension Obligation Supported by Net Assets
(per audited financial statements)



The total pension obligation is based on the estimated net present value of future pension benefits paid to plan members. Retirement benefits earned by employees provide a lifetime pension for each year of pensionable service based on a specified percentage applied to the average salary for the five highest consecutive years, subject to the maximum benefit limit allowed under the Canadian *Income Tax Act*. The estimated pension obligation increases annually for each additional year of pensionable service earned by employees. The pension obligation is an estimate because it is based on various assumptions used by the Plan's actuary. For example, an estimated discount rate is used to determine the present value of future retirement payments. A lower estimated discount rate will increase the total pension obligation. Similarly, a higher estimated life expectancy will also increase the pension obligation. Net assets increase when there are positive overall investment returns and when employee and employer contributions exceed pension benefits paid. Net assets decrease when there are investment losses.

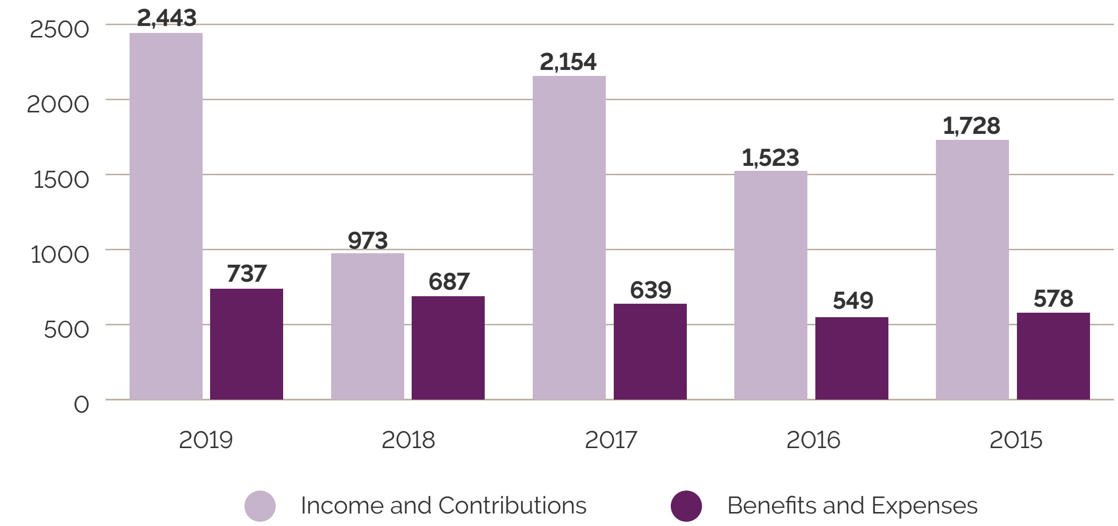
At December 31, 2019, the fair value of the Plan's net assets totaling $15.418 billion was higher than the estimated pension obligation of $12.658 billion resulting in a surplus of $2.760 billion. The discount rate for accounting purposes increased from 5.7% to 6.0%. Other major assumptions for accounting purposes were unchanged from 2018.

Net Assets Compared to Total Pension Obligation (in millions)
(per audited financial statements)



In 2019, inflows from investment income and contributions totaling $2,443 million were more than triple the outflows for benefit payments and expenses of $737 million.

PSPP Inflows and Outflows (in millions)
(per audited financial statements)



PUBLIC SERVICE PENSION PLAN

Financial Statements

Year Ended December 31, 2019

Independent Auditor's Report

To the PSPP Corporation Board of Directors

Report on the Financial Statements

Opinion

I have audited the financial statements of the Public Service Pension Plan, which comprise the statement of financial position as at December 31, 2019, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Public Service Pension Plan as at December 31, 2019, and the changes in net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Public Service Pension Plan, in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and my auditor's report thereon. The Annual Report is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Public Service Pension Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Public Service Pension Plan's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Public Service Pension Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Public Service Pension Plan's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Public Service Pension Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

May 22, 2020
Edmonton, Alberta

Statement of Financial Position

As at December 31, 2019

	($ thousands) 2019	2018
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 15,395,069	$ 13,678,535
Contributions receivable		
Employers	10,615	18,650
Employees	10,703	18,174
Accounts receivable	10,354	10,196
Total Assets	15,426,741	13,725,555
Liabilities		
Accounts payable	8,931	12,996
Total Liabilities	8,931	12,996
Net assets available for benefits	$ 15,417,810	$ 13,712,559
Pension obligation and surplus		
Pension obligation (Note 5)	$ 12,658,490	$ 13,193,341
Surplus (Note 6)	2,759,320	519,218
Pension obligation and surplus	$ 15,417,810	$ 13,712,559

The accompanying notes are part of these financial statements.

Approved by the Board:

Original signed by
Linda Dalgetty
Chair of the Corporate Board

Approved by the Board:

Original signed by
Elizabeth Johannson
Chair of Finance Audit Committee

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2019

	($ thousands)	
	2019	**2018**
Increase in assets		
Contributions (Note 7)	$ 654,151	$ 676,132
Investment income (Note 8)	1,779,779	281,997
Transfers from other plans	8,840	15,507
	2,442,770	973,636
Decrease in assets		
Benefit payments (Note 10)	621,441	583,258
Transfers to other plans	14,529	18,378
Investment expenses (Note 11)	86,651	72,089
Administrative expenses (Note 12)	14,898	13,661
	737,519	687,386
Increase in net assets	1,705,251	286,250
Net assets available for benefits at beginning of year	13,712,559	13,426,309
Net assets available for benefits at end of year	$ 15,417,810	$ 13,712,559

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2019

	($ thousands) 2019	2018
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 748,350	$ 738,169
Benefits earned	507,168	502,981
Net loss due to actuarial assumption changes (Note 5a)	-	633,308
	1,255,518	1,874,458
Decrease in pension obligation		
Benefits, transfers and interest	635,970	601,636
Net experience gains (Note 5b)	6,125	229,947
Net gain due to plan provision changes (Note 5c)	655,609	-
Net gain due to actuarial assumption changes (Note 5a)	492,665	-
	1,790,369	831,583
Net (decrease) increase in pension obligation	(534,851)	1,042,875
Pension obligation at beginning of year	13,193,341	12,150,466
Pension obligation at end of year (Note 5)	$ 12,658,490	$ 13,193,341

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2019

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN (in thousands)

The following description of the Public Service Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Joint Governance of Public Sector Pension Plans Act* (Alberta) (Joint Governance Act) and the *Public Sector Pension Plans Act* (Alberta) (PSPPA), as amended, and Public Service Pension Plan Alberta Regulation 368/93, in effect prior to being repealed on March 1, 2019. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the plan rules and applicable legislation, those plan rules and legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies, public bodies and other entities.

The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0208769. As of March 1, 2019, the Plan is also registered under the *Employment Pension Plans Act* (Alberta) (EPPA). Prior to March 1, 2019, the President of Treasury Board and Minister of Finance was the legal trustee for the Plan. As of March 1, 2019, the PSPP Corporation is the legal trustee of the Plan and is management for the purpose of these financial statements.

The Plan is governed by the PSPP Sponsor Board and PSPP Corporation. The Sponsor Board has certain statutory functions with respect to the Plan under the Joint Governance Act, including making and amending plan text, setting contribution rates, and establishing a funding policy. PSPP Corporation is the administrator of the Plan for all purposes of the EPPA.

b) PLAN FUNDING

Current service costs and any actuarial deficiency (see Note 14) are funded equally by employers and employees at contribution rates, which together with investment earnings, are expected to provide the payment of all benefits payable under the Plan. The contribution rates in effect at December 31, 2019 were 10.47% (2018: 10.47%) of pensionable earnings up to Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 14.95% (2018: 14.95%) of pensionable earnings over the YMPE, with matching contributions by employers.

Pensionable earnings are subject to an upper limit (the salary cap) to ensure the pension accrual is not greater than the maximum pension benefit limit allowed under the Income Tax Act. In 2019, the YMPE was $57,400 (2018: $55,900) and the salary cap was $168,498 (2018: $163,992).

The contribution rates were reviewed in 2018 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary. Contributions rates remained unchanged in 2019.

c) RETIREMENT BENEFITS

A member is vested for a retirement benefit when they have at least two years of combined pensionable service, or immediately if they are a participant in the Plan on or after attaining age 65.

The Plan provides for a pension based on a formula that considers a vested member's pensionable salary and years of pensionable service. The pensionable salary used is referred to as the member's highest average salary and is calculated by taking the average of the five consecutive years where the member's pensionable salary was the highest. The years of pensionable service used include the total years of pensionable service a member has accumulated in PSPP up to a maximum of 35 years. The member's highest average salary up to the average YMPE over the same period (matching average YMPE) is multiplied by of 1.4% for each year of pensionable service. The member's highest average salary above the matching average YMPE is multiplied by 2.0% for each year of pensionable service. The two amounts are added together to calculate the member's annual unreduced pension. Unreduced pensions are payable to members who have attained age 65 or have attained age 55 and the sum of their age and years of combined pensionable service equals 85. Vested members may retire and collect a pension as early as age 55 with their pensions being reduced if the sum of their age and years of combined pensionable service is less than 85.

d) DISABILITY PENSIONS

Unreduced pensions may be payable to vested members who become totally disabled and retire early. Reduced pensions may be payable to vested members who become partially disabled and retire early.

Individuals who became members after June 30, 2007 and have no combined pensionable service prior to July 1, 2007 are not entitled to disability pensions.

e) DEATH BENEFITS

Death benefits are payable on the death of a member.

If the member is vested, dies prior to commencing to receive a pension, and has a surviving pension partner, the surviving pension partner may choose to receive either a survivor pension or a lump sum payment. For a beneficiary other than a pension partner or where the member is not vested, a lump sum payment must be chosen.

If the member is vested and dies after commencing to receive a pension, the death benefit will depend on the pension option selected at retirement and can include a lifetime pension payable to a surviving pension partner, or a pension or lump-sum benefit payable to the surviving beneficiary(ies) based on any remaining guaranteed term.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Vested members who terminate before their 55th birthday may choose to withdraw their funds from the Plan and receive a lump sum payment equal to the commuted value of their pension, with the commuted value being subject to locking-in provisions. Prior to April 1, 2020, if the remaining member contributions fund more than 50% of the commuted value, that excess is paid as a cash refund. After April 1, 2020, if the remaining member contributions fund more than 100% of the commuted value, that excess is paid as a cash refund under the 100% excess rule. Alternatively, they may elect to receive a deferred pension which is also subject to the applicable excess rule. Members who are not vested when they terminate are entitled to receive a refund of their employee contributions with interest. The refunds are accounted for as benefit payments on the statement of changes in net assets available for benefits.

g) PURCHASED SERVICE AND TRANSFERS

The Plan allows for the purchase of certain eligible periods of service and for the transfer of entitlements into the Plan under a transfer agreement. All elective service purchases are to be cost-neutral to the Plan. The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year. The increase is prorated for pensions that became payable within the previous year

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. International Financial Reporting Standards (IFRS) is used for accounting policies that do not relate to the Plan's investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* (Alberta), and the *Alberta Investment Management Corporation Act* (Alberta). Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between Alberta Investment Management Corporation (AIMCo), a Crown corporation within the Ministry of Treasury Board and Finance, and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. AIMCo controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

Investments in pool units are recorded in the Plan's accounts on a trade date basis. All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 8 and includes the following items recorded in the Plan's accounts:

   i. Income distributions from the pools, based on the Plan's pro-rata share of total units issued by the pools; and

   ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 11). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and PSPP Corporation's best estimate, as at the measurement date, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland pools. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and timberland pools may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statements of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

g) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS (in thousands)

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against PSPP Corporation approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Procedures (SIPP) established by PSPP Corporation on September 4, 2019. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund . The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

	($ thousands)			
	Fair Value Hierarchy [(a)]		2019	2018
Asset class	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income				
Money market	$ 95,698	$ -	$ 95,698	$ 94,299
Bonds, mortgages and private debt	2,262,912	798,202	3,061,114	2,880,227
	2,358,610	798,202	3,156,812	2,974,526
Equities				
Canadian	2,013,686	-	2,013,686	1,687,423
Global developed	5,420,426	66,453	5,486,879	4,633,383
Emerging market	781,699	-	781,699	680,732
Private	2	380,181	380,183	366,634
	8,215,813	446,634	8,662,447	7,368,172
Alternatives				
Real estate	-	2,147,609	2,147,609	2,114,796
Infrastructure	-	1,146,225	1,146,225	943,015
Timberland	-	215,641	215,641	200,372
	-	3,509,475	3,509,475	3,258,183
Opportunistic and currency investments *	-	66,335	66,335	77,654
Total investments	$ 10,574,423	$ 4,820,646	$ 15,395,069	$ 13,678,535

* This asset class is not listed separately in the SIPP as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Plan as Level 2 may contain investments that might otherwise be classified as Level 1.

- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totaling $10,574,423 (2018: $9,152,333).
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and alternative investments totaling $4,820,646 (2018: $4,526,202).

Reconciliation of Level 3 Fair Value Measurements

($ thousands)

	2019	2018
Balance, beginning of year	$ 4,526,202	$ 3,764,319
Investment income *	313,217	451,165
Purchases of Level 3 pooled fund units	548,423	667,727
Sale of Level 3 pooled fund units	(567,196)	(357,007)
Transfers out of Level 3	-	(2)
Balance, end of year	$ 4,820,646	$ 4,526,202

* Investment income includes unrealized (losses) gains of ($5,727) (2018: $293,856).

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools are explained in the following paragraphs:

- ***Fixed Income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans are valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

- ***Alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of timberland investments is appraised annually by independent third-party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Strategic and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries are valued similar to private equities. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

The plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.

Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIPP. The SIPP was established by PSPP Corporation on September 4, 2019. The purpose of the SIPP is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Plan's return-risk trade-off is managed through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the following target policy asset mix has been established:

Asset Class	Target Policy Asset Mix	Actual Asset Mix 2019		Actual Asset Mix 2018	
		($ thousands)	*%*	*($ thousands)*	*%*
Fixed income	21%	$ 3,156,812	20.5	$ 2,974,526	21.7
Equities	55%	8,662,447	56.3	7,368,172	53.9
Alternatives	24%	3,509,475	22.8	3,258,183	23.8
Opportunistic and currency investments	(a)	66,335	0.4	77,654	0.6
		$15,395,069	100.0	$13,678,535	100.0

(a) In accordance with the SIPP, AIMCo may invest up to 3% of the fair value of the Plan's investments in opportunistic investments that are outside of the asset classes listed above. AIMCo may, at its discretion, invest the funds in currency overlays. Actual percentages are within the ranges outlined in the SIPP.

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. The credit rating of a debt security may be impacted by the overall credit rating of the counterparty, the seniority of the debt issue, bond covenants, maturity distribution and other factors.

Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities have credit ratings considered to be investment grade.

Unrated debt securities consist primarily of mortgages and private debt placements.

The following table summarizes the Plan's investment in debt securities by credit rating at December 31, 2019:

Credit rating	2019	2018
Investment Grade (AAA to BBB-)	76.4%	77.3%
Speculative Grade (BB+ or lower)	0.5%	0.3%
Unrated	23.1%	22.4%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). AIMCo is responsible for selecting and monitoring derivative counterparties on behalf of the Plan.

AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market gains for the Plan. Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods . At December 31, 2019, the Plan's share of securities loaned under this program is $480,364 (2018: $697,007) and collateral held totals $510,653 (2018: $743,950). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 42% (2018: 40%) of the Plan's investments, or $6,442,039 (2018: $5,509,251), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 23% (2018: 22%) and the Euro, 4% (2018: 4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 4.2% of total investments (2018: 4.0%).

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at December 31, 2019:

	($ thousands)			
	2019		2018	
Currency [(a)]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$3,466,108	(346,611)	$2,997,050	$ (299,705)
Euro	632,984	(63,298)	538,207	(53,821)
Japanese yen	488,680	(48,868)	418,831	(41,883)
British pound	369,390	(36,939)	356,909	(35,691)
Hong Kong dollar	194,473	(19,447)	224,207	(22,421)
Swiss franc	192,988	(19,299)	110,566	(11,056)
Chinese yuan	161,015	(16,102)	22,861	(2,286)
Other foreign currency	936,401	(93,640)	840,620	(84,062)
Total foreign currency investments	$6,442,039	$ (644,204)	$5,509,251	$ (550,925)

(a) Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Plan's net assets.

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 1.8% of total investments (2018: 1.9%).

d) Price Risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 6.4% of total investments (2018: 6.4%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan’s future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f)

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share *($ thousands)*	
By counterparty	Number of counterparties	**2019**	**2018**
Contracts in net favourable position (current credit exposure)	96	$ 573,590	$ 355,544
Contracts in net unfavourable position	10	(515,310)	(499,229)
Net fair value of derivative contracts	106	$ 58,280	$ (143,685)

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a net favourable position totaling $573,590 (2018: $355,544) were to default at once.

ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2019	2018
Structured equity replication derivatives	$ 35,748	$ (74,978)
Foreign currency derivatives	30,315	(71,003)
Interest rate derivatives	(10,233)	1,230
Credit risk derivatives	2,450	1,066
Net fair value of derivative contracts	$ 58,280	$ (143,685)

(i) Equity derivatives are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity derivatives. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) At December 31, 2019, deposits in futures contracts margin accounts totaled $24,970 (2018: $47,214). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $72,255 (2018: $153,440) and $nil (2018: $2,100).

NOTE 5 PENSION OBLIGATION (in thousands)

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2017 by George and Bell Consulting and results were then extrapolated to December 31, 2019.

The actuarial assumptions used in determining the value of the pension obligation of $12,658,490 (2018: $13,193,341) reflect PSPP Corporation's best estimate, as at the measurement date, of future economic events and involve both economic and non- economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The discount rate is determined by taking the plan specific asset allocation and applying the expected long-term asset returns determined by an independently developed investment model. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2019	2018
	%	
Discount rate	6.00	5.70
Inflation rate	2.00	2.00
Salary escalation rate*	3.00	3.00
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

* In addition to age specific merit and promotion increase assumptions.

Net gain due to actuarial assumption changes of $492,665 in 2019 resulted from changes in the discount rate. Net loss due to actuarial assumption changes of $633,308 in 2018 were due to changes in the discount rate ($568,000) and updates to the mortality assumption ($65,000).

The next actuarial valuation of the Plan will be completed no later than as at December 31, 2020.

Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in the year following the next actuarial valuation.

b) NET EXPERIENCE GAINS

Net experience gains of $6,125 (2018: $229,947) reflect the results of the valuation as at December 31, 2017 extrapolated to December 31, 2019.

c) PLAN PROVISION CHANGES

Net gains of $655,609 (2018: $nil) are due to changes in plan provisions that resulted from legislation changes during the year. Effective April 1, 2020, commuted values are calculated using going concern assumptions and excess member contributions are based on a minimum refund rule whereby a member's termination benefits are, at a minimum, equal to a refund of the member's contributions with interest.

d) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2019:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding discount rate and salary escalation assumptions constant	+1%	839,854	0.9%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	+1%	405,086	1.2%
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1)%	1,788,883	3.0%

* The current service cost as a percentage of pensionable earnings is 14.9% at December 31, 2019

NOTE 6 SURPLUS

	($ thousands)	
	2019	**2018**
Surplus at beginning of year	$ 519,218	$ 1,275,843
Increase in net assets available for benefits	1,705,251	286,250
Net decrease (increase) in pension obligation	534,851	(1,042,875)
Surplus at end of year	$2,759,320	$ 519,218

NOTE 7 CONTRIBUTIONS

	($ thousands)	
	2019	**2018**
Current service		
Employers	$321,306	$ 335,420
Employees	324,311	333,857
Past service		
Employers	2,588	1,970
Employees	5,946	4,885
	$654,151	$ 676,132

NOTE 8 INVESTMENT INCOME (in thousands)

The following is a summary of the Plan's investment income (loss) by asset class:

	($ thousands)			
	Income	Change in Fair Value	2019 Total	2018 Total
Fixed income	$ 136,194	$ 124,576	$ 260,770	$ 73,273
Equities				
Canadian	211,771	150,192	361,963	(169,971)
Foreign	429,889	446,008	875,897	(70,429)
Private	34,688	(21,629)	13,059	70,183
	676,348	574,571	1,250,919	(170,217)
Alternatives				
Real estate	108,616	3,968	112,584	233,037
Infrastructure	75,525	29,434	104,959	114,321
Timberland	19,290	17,304	36,594	32,471
	203,431	50,706	254,137	379,829
	10,589	3,364	13,953	(888)
Opportunistic and currency investments	$ 1,026,562	$ 753,217	$ 1,779,779	$ 281,997

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $56,416 and $696,801 respectively (2018: $16,026 and ($412,891) respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, and income and expense on derivative contracts.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2019	2018	2017	2016	2015
			in per cent		
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	13.8	1.0	9.7	6.6	8.0
Value added (lost) by AIMCo	(1.5)	0.5	1.6	0.3	1.8
Time weighted rate of return, at fair value	**12.3**	**1.5**	**11.3**	**6.9**	**9.8**
Other sources [a]	0.1	0.6	1.4	2.0	2.0
Per cent change in net assets [b]	**12.4**	**2.1**	**12.7**	**8.9**	**11.8**
Per cent change in pension obligation [b]	**(4.1)**	**8.6**	**4.7**	**4.9**	**4.5**
Per cent of pension obligation supported by net assets	**122**	**104**	**111**	**103**	**99**

[a] Other sources include employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

[b] The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2019	**2018**
Retirement benefits	$ 461,896	$ 430,707
Disability pensions	1,725	1,747
Termination benefits	125,962	118,364
Death benefits	31,858	32,440
	$ 621,441	$ 583,258

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2019	2018
Amounts charged by AIMCo for:		
Investment costs [a]	$ 53,264	$ 59,732
Performance based fees [a]	30,531	9,979
GST	2,843	2,326
	86,638	72,037
Amounts charged by Treasury Board and Finance for: Investment accounting and Plan reporting	13	52
Total investment expenses	$ 86,651	$ 72,089
Increase in expenses [a]	20.2%	11.6%
Increase in average investments under management	7.3%	7.1%
(Decrease) increase in value of investments attributed to AIMCo	(1.5%)	0.5%
Investment expense	56 bps	53 bps

[a] Investment expenses are charged by AIMCo on a cost recovery basis. Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance-based fees relate to external managers hired by AIMCo.

The per cent increase in investment costs and performance-based fees is 20.2% (2018: 12.5%).

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2019	2018
Pension administration and process improvement costs		
Alberta Pensions Services Corporation (APS)	$ 13,023	$ 13,222
PSPP Corporation	1,471	-
Goods and services tax	404	439
	14,898	13,661
Member service expenses per member in dollars (based on total membership)	$ 174	$ 161

Pension administration and process improvement costs were paid to APS and PSPP Corporation on a cost-recovery basis.

The Plan's share of APS's operating and plan specific costs were based on cost allocation methodology included in a Pensions Services Agreement between APS and PSPP Corporation.

Goods and service tax reflects the amount not eligible for rebate under the Excise Tax Act.

NOTE 13 CAPITAL (in thousands)

The Plan defines its capital as the funded status. The actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIPP.

The Plan's asset values are determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $14,855,000 at December 31, 2019 (2018: $13,741,000).

The actuarial deficiency determined by the December 31, 2017 actuarial funding valuation is being funded by a special payment in the amount of 3.42% of pensionable earnings shared between employees and employers until June 30, 2026.

The special payments have been included in the rates shown in Note 1b.

NOTE 14 SUBSEQUENT EVENT

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak. As a result of the COVID-19 outbreak, global financial markets have experienced significant volatility. Given the extent of the crisis, it is difficult to estimate the ultimate impact or duration of the volatility on the investments of the Plan. To the extent that investments of the Plan incur market-related losses, the funded status of the Plan would experience a correlated decline.

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with the current period presentation.

NOTE 16 RESPONSIBILITY OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors of the PSPP Corporation based on information and representations provided by PSPP Corporation, APS, AIMCo and the Plan's actuary.

PSPP CORPORATION

Financial Statements

December 31, 2019

Auditor General OF ALBERTA

Independent Auditor's Report

To the PSPP Corporation Board of Directors

Report on the Financial Statements

Opinion

I have audited the financial statements of PSPP Corporation which comprise the statement of financial position as at December 31, 2019, and the statements of operations, change in net debt, and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of PSPP Corporation as at December 31, 2019, and the results of its operations, its changes in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Basis for opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of PSPP Corporation in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other information

Management is responsible for the other information. The other information comprises the information included in the *Annual Report*, but does not include the financial statements and my auditor's report thereon. The *Annual Report* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the PSPP Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the PSPP Corporation's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of PSPP Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on PSPP Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause PSPP Corporation to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]

W. Doug Wylie FCPA, FCMA, ICD.D
Auditor General

May 22, 2020
Edmonton, Alberta

PSPP CORPORATION
STATEMENT OF FINANCIAL POSITION
As at December 31, 2019

(in thousands)	**2019**
Financial assets	
Cash	$ 67
Due from Public Service Pension Plan (Note 5)	144
	211
Liabilities	
Due to Alberta Pensions Services Corporation (Note 6)	145
Accounts payable and accrued liabilities	104
Accrued salaries and benefits	46
	295
Net debt	(84)
Non-financial assets	
Prepaid expenses	84
Net assets	$ -

Contractual obligations (Note 7)

The accompanying notes are an integral part of these financial statements.

Approved by the Board:

Original signed by
Linda Dalgetty
Chair of the Corporate Board

Approved by the Board:

Original signed by
Elizabeth Johannson
Chair of Finance Audit Committee

PSPP CORPORATION
STATEMENT OF OPERATIONS
Year ended December 31, 2019

(in thousands)	2019 Budget	2019 Actual
Expenses		
Salaries and benefits	$ 963	$ 617
General and administrative	298	227
Contract services	638	313
Corporate Board (Board fees and administrative)	309	155
Sponsor Board (administrative)	341	159
Total operating costs	2,549	1,471
Recovery of costs from the PSPP	2,549	1,471
Annual surplus (deficit)	-	-
Net assets at beginning of year	-	-
Net assets at end of year	$ -	$ -

The accompanying notes are an integral part of these financial statements.

PSPP CORPORATION
STATEMENT OF CHANGE IN NET DEBT
Year ended December 31, 2019

(in thousands)	2019	
	Budget	**Actual**
Annual surplus (deficit)	$ -	$ -
Change in prepaid expenses	-	(84)
Increase/(decrease) in net assets (net debt)	-	(84)
Net assets (Net debt) at beginning of year	-	-
Net assets (Net debt) at end of year	$ -	$ (84)

The accompanying notes are an integral part of these financial statements.

PSPP CORPORATION
STATEMENT OF CASH FLOWS
Year ended December 31, 2019

(in thousands)	**2019**
Operating transactions	
Annual surplus (deficit)	$ -
Increase in prepaid expenses	(84)
Increase in due from Public Service Pension Plan (Note 5)	(144)
Increase in accounts payable and accrued liabilities	104
Increase in due to Alberta Pensions Service Corporation (Note 6)	145
Increase in accrued salaries and benefits	46
Cash provided by operating transactions	67
Increase in cash	67
Cash at beginning of year	-
Cash at end of year	$ 67

The accompanying notes are an integral part of these financial statements.

1. Authority

PSPP Corporation (Corporation) is a “Provincial Corporation” established on December 11, 2018 by the *Joint Governance of Public Sector Pension Plans Act* (Alberta) (Joint Governance Act). The Corporation operates under the authority of the *Financial Administration Act* (Alberta), *Alberta Public Agencies Governance Act*, and the *Reform of Agencies, Boards and Commissions Compensation Act*.

2. Nature of operations

The Corporation is the trustee and administrator of the Public Service Pension Plan (PSPP). PSPP is registered under the *Employment Pension Plans Act* (Alberta) (EPPA). The functions of the Corporation include supporting the PSPP Sponsor Board in performing its statutory functions under the Joint Governance Act.

These financial statements reflect operations from December 11, 2018 (inception) to December 31, 2019. The Corporation and the PSPP Sponsor Board were established prior to the Corporation becoming the trustee of the PSPP on March 1, 2019. From the date of inception December 11, 2018 to March 1, 2019 there were no financial transactions or management related expenses, and as a result no prior year amounts are reported in the financial statements.

3. Summary of significant accounting policies

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards.

Recovery of costs

All recoveries of costs are reported on the accrual basis of accounting. Accruals for recovery of costs are recognized as the related expenses are incurred.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed.

Valuation of financial assets and liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The Corporation's financial assets and liabilities are generally measured as follows:

Financial statement component	Measurement
Cash	Cost
Due to/from pension plan	Lower of cost or net recoverable value
Accounts payable, accrued liabilities, and accrued salaries and benefits	Cost

Financial assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.

Financial assets are the Corporation's financial claims on external organizations and individuals.

Cash and cash equivalents

Cash comprises of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid, investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term commitments rather than for investment purposes.

Due from pension plan

Amounts due from pension plan are recognized at the lower of cost or net recoverable value. A valuation allowance is recognized when recovery is uncertain.

Liabilities

Liabilities are present obligations of the Corporation to external organizations and individuals arising from past transactions or events occurring before the year end, the settlement of which is expected to result in the future sacrifice of economic benefits. They are recognized when there is an appropriate basis of measurement and management can reasonably estimate the amounts.

Non-financial assets

Non-financial assets are acquired, constructed, or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

(a) are normally employed to deliver services;
(b) may be consumed in the normal course of operations; and
(c) are not for sale in the normal course of operations.

Non-financial assets are limited to tangible capital assets and prepaid expenses.

Tangible capital assets

Tangible capital assets are recognized at cost less accumulated amortization, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development.

The cost, less residual value, of the tangible capital assets, excluding land, is amortized on a straight- line basis over their estimated useful lives as follows:

Furniture and equipment	5 years
Computer hardware and software	3 years
Leasehold improvements	Term of lease

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the Statement of Operations.

Prepaid expenses

Prepaid expenses are recognized at cost and amortized based on the terms of the agreement.

Financial instruments

Financial instruments of the Corporation consist of cash, accounts receivable, due from/to pension plan, due from/to Alberta Pensions Services Corporation, accounts payable and accrued liabilities and accrued salaries and benefits. Due to their short-term nature, the carrying value of these instruments approximates their fair value.

As the Corporation does not have any transactions involving financial instruments that are classified in the fair value category, there are no remeasurement gains and losses and therefore, a statement of remeasurement gains and losses has not been presented.

4. **Budget**

The Corporation's 2019 budget was approved by the Corporation's Board of Directors.

5. **Recovery of costs (in thousands)**

The Corporation charges the Public Service Pension Plan for its operating costs, as authorized by the Joint Governance Act.

At December 31, 2019, $144 is receivable from the Public Service Pension Plan. The receivable at year end is directly related to the timing of the receipt and disbursement of funds.

6. **Due to Alberta Pensions Services Corporation (in thousands)**

In addition to plan administration services, Alberta Pensions Services Corporation also provides corporate services to the Corporation. The balance of these services at the end of year was $145.

7. **Contractual obligations**

Contractual obligations are obligations of the Corporation to others that will become liabilities in the future when the terms of those contracts or agreements are met.

The Corporation has services agreements for administration of the Plan benefits, and investment and management of the Plan's assets with Alberta Pensions Services Corporation and Alberta Investment Management Corporation, respectively.

As at December 31, 2019 the Corporation does not have any contractual obligations.

8. **Trust funds under administration (in thousands)**

Effective March 1, 2019, the Corporation administers trust funds in the Public Service Pension Plan on behalf of the beneficiaries in accordance with the EPPA.

These amounts are held on behalf of others with no power of appropriation and therefore are not reported in these financial statements. At December 31, 2019, trust funds under administration by the Corporation were $15,418,810.

9. Salaries and benefits disclosure (in thousands)

The table below provides complete disclosure of salary, variable pay, employer portion of pension contributions and all other compensation paid during 2019 to senior management.

POSITION	BASE SALARY [1]	OTHER CASH BENEFITS [2]	OTHER NON-CASH BENEFITS [3]	2019 TOTAL
($ thousands)				
Chief Executive Officer [4]	214	5	57	276
Director Pension Policy [5]	13	-	4	17

1. Base salary includes regular base pay.
2. Other cash benefits includes one-time prior year vacation payout from role on Public Service Pension Board Staff.
3. Other non-cash benefits includes: Corporation's share of contributions to the pension plans based on each individual's pensionable salary. Also included are payments made on employees behalf including health care and dental coverage, group life insurance, long-term disability insurance, and professional memberships.
4. Chief Executive Officer compensation commenced March 1, 2019.
5. Director Pension Policy compensation commenced November 25, 2019.

Board remuneration (in thousands)

The Board Chair received remuneration of $30. Three Board members received a combined total remuneration of $57. Remuneration was not accepted by the remaining Board members as they each served on the Board as part of their employment duties with the sponsor organization that nominated them to the Board. The remuneration is paid in accordance with the rates approved by the PSPP Sponsor Board and is subject to applicable withholdings.

10. Defined benefit plans (in thousands)

The Corporation participates in two multi-employer defined benefit public sector pension plans, the Management Employees Pension Plan and the Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the contributions of $73 for the year ended December 31, 2019. This amount is included in salaries and benefits.

An actuarial valuation is performed to assess the financial position of the plan and adequacy of the plan funding. At December 31, 2018, PSPP reported a surplus of $519,218 (2017 - surplus of $1,275,843), MEPP reported a surplus of $670,700 (2017 - surplus of $866,006) and SRP had a deficiency of $70,310 (2017 - deficiency of $54,984).

11. Financial instruments

Liquidity risk is the risk of not being able to meet the Corporation’s cash requirements in a timely and cost-effective manner. The Corporation’s only source of liquidity is amounts charged to the PSPP Plan (Note 5).

It is management’s opinion that the Corporation is not exposed to any risk arising from this financial instrument.

12. Related party transactions

Related parties include the Government of Alberta, the Plan and key management personnel, close family members of those individuals, and entities that those individuals or their close family members may have significant control over.

All related party transactions are in the normal course of operations and consist of the recovery of the Corporations operating expenses as disclosed in the financial statements.

13. Approval of financial statements

The Corporation’s Board of Directors approved the financial statements on May 22, 2020.