



PUBLIC SERVICE PENSION PLAN

2020 Annual Report

Table of Contents

01 Message from the Chair

03 Message from the CEO

05 Plan Overview

08 Plan Governance

17 Management Discussion & Analysis

17 Plan Funding

21 Pension Administration

26 Investment Performance

38 Plan Financial Highlights

40 Plan Financial Statements and Auditor's Report

63 PSPP Corporation Financial Statements
and Auditor's Report



Message from the Chair

Looking back at 2020 — a year of resilience

There is no denying that 2020 was a challenging year. The global pandemic touched every part of our lives. Despite the change to working remotely, business continuity processes worked effectively for the continued operation and oversight of fund investments and pension administration. Retired members received their monthly pensions without interruption.

The spread of the COVID-19 virus led to turbulence and uncertainty in the global market during 2020. PSPP's investment portfolio ended the year with an annual return of 1.6%, 6.4% below its benchmark. The disappointing performance was driven primarily by large losses in AIMCo's (Alberta Investment Management Corporation) Volatility Trading Strategy and write downs in Real Estate and Infrastructure holdings. It is important to remember that the Plan's investment portfolio is diversified and well-positioned to withstand short-term volatility and to meet long-term funding objectives.

Whether you are currently contributing to the Plan, retired and receiving a monthly pension, or left your benefit parked in the Plan, your PSPP pension is secure. Market volatility does not impact the pension you receive. Your pension is determined based on a formula that considers your salary and years of service in the Plan. That is the benefit of a defined benefit pension plan.

In the 2019 PSPP Annual Report, I highlighted legislated changes to the governance and independence of the Plan and to Plan provisions, including the calculation method for commuted value and excess contributions. The Board spent the start of 2020 overseeing the implementation of these changes in accordance with legislation. In the latter half of the year, the Board turned its attention to strategic planning and the renegotiation of service agreements between the Corporation and legislated service providers, Alberta Pensions Services Corporation (APS) and AIMCo.



Linda Dalgetty,
Chair, Board of Directors
PSPP Corporation

Other notable activities in 2020 include:

- **Asset Liability Study:** At least every five years, the Plan's liabilities and required cash flows are modelled to determine whether adjustments to the Plan's long-term investment strategy and asset mix are required to optimize expected returns and reduce unnecessary risk exposure. The Investment Committee of the Board led the Asset Liability Study which concluded with the adoption of a new asset mix in April 2021.
- **Mortality and Retirement Experience Study:** With the help of the Plan actuary, the Board looked at actual mortality and retirement rates to ensure we are using appropriate assumptions in the actuarial valuations of the Plan.
- **Strategic Plan:** The Board adopted a three-year strategic plan for PSPP Corporation.
- **Competency Guideline:** The Board developed a competency guideline of important skills and experience that the Board as a whole should possess. The guideline is provided to sponsor organizations for consideration when making nominations to the Board.

Looking ahead

The Board remains committed to acting in the best interest of the Plan and its members. The Board adopted the following priorities in the 2021-2023 Strategic Plan to position the Plan for long-term success.

- Enhancing relationships and alignment between the Corporation and the legislated service providers.
- Improving the member experience.
- Building the PSPP and PSPP Corporation brand and identity.
- Advancing our corporate and board governance framework.

As the Plan fund is transitioned toward a new asset mix, the Board and the Corporation will continue to work closely with AIMCo to ensure there is alignment on the risk management approach for the Plan's assets. We will also be reviewing principles for responsible investing and the application of environmental, social and governance factors in investment decisions.

On behalf of the Board, I would like to thank corporate staff and our service providers for their efforts and dedication to ensure your PSPP pension remains secure and sustainable for the long-term.

Message from the CEO

2020 was the Corporation's second year of operation under the jointly sponsored governance structure that was established in late 2018. As a new organization, we embraced the challenges that came with the COVID-19 pandemic to develop resilient processes and controls. Despite the unprecedented uncertainty, 2020 was a year of progress and accomplishment. I would like to thank the Board of Directors for their commitment and guidance as we refined our corporate strategy and enhanced our resources this past year.

As the Corporation transitioned quickly to video conferencing and working remotely, we maintained effective governance and oversight of the Plan investments and pension administration on behalf of Plan members. I am proud of the proactivity and agility our small and highly effective team displayed in adapting to our changing environment.

PSPP Corporation worked on the development of a new Plan Text which was adopted by the PSPP Sponsor Board at the end of 2020 and became effective January 1, 2021. The PSPP Plan Text brought forward plan provisions that were previously set out in legislation while simplifying language and streamlining administrative processes. The Plan Text also incorporated changes to the form of pension options and other changes required to bring the Plan into compliance with the *Employment Pension Plans Act*. Thank you to the PSPP Sponsor Board for their thoughtfulness as we worked through the revisions. The Plan Text is available on [PSPP.ca](https://pspp.ca).

I would also like to thank our service providers for their flexibility and endurance as they maintained service levels throughout the pandemic. As Administrator and Trustee of the Plan, PSPP Corporation is accountable to Plan members for Plan investments and pension administration. However, the day-to-day responsibilities are contracted to legislated service providers, Alberta Investment Management Corporation (AIMCo) and Alberta Pensions Services Corporation (APS).

As a result of legislation changes made in late 2019, the service agreements that were in place between PSPP Corporation and each of AIMCo and APS needed to be replaced by December 31, 2020. The Corporation worked throughout 2020 to negotiate new agreements but was unable to finalize new agreements with either AIMCo or APS by the end of 2020.



Lynette Martin,
Chief Executive Officer,
PSPP Corporation

As we substantially agreed on key service terms with APS, the prior agreement was amended and extended to June 30, 2021 to provide additional time to finalize the new pension services agreement. A Ministerial Order was issued by the Government of Alberta at the end of 2020, as a temporary measure to set out the investment services relationship until PSPP Corporation and AIMCo finalize a new agreement. PSPP Corporation hopes to resume negotiations with AIMCo in late 2021. These agreements do not affect your PSPP pension benefits. The PSPP's \$15.6 billion fund continues to be held in trust solely for the benefit of PSPP members.

Another of PSPP Corporation's initiatives in 2020 was the enhancement of online member information. PSPP members now have access to view their personal account information, integrated with the Plan website and Plan benefit information, by logging into their *Your Pension Profile* account. No matter what stage you are at in your career or retirement path, now is the time to learn about the value of your pension benefit. Visit [PSPP.ca](https://pspp.ca) and sign up today!

Actuarial valuations, which compare Plan assets with expected liabilities, are an important tool for measuring the financial health and long-term sustainability of the Plan. An actuarial valuation completed in 2020 as at December 31, 2019, reported that the Plan was fully funded with a funded ratio of 105%. This means that the Plan has about \$1.05 in assets for every dollar of pension benefits that have been earned and are payable at a future date. As a result of the strong funded position of the Plan, contribution rates for 2021 remained unchanged since they were last reduced in 2018.

Looking ahead

The Corporation is in the process of conducting an actuarial valuation as at December 31, 2020. This actuarial valuation will take into consideration the results of an experience study conducted in late 2020 to ensure actuarial assumptions reflect the actual experience and demographics of the Plan. The PSPP Sponsor Board will use the results of the December 31, 2020 actuarial valuation to assess contribution rates effective January 1, 2022.

As the uncertainty and volatility caused by the global pandemic calms, the Plan remains in a strong position. Following a comprehensive asset-liability study conducted in 2020, the Board of Directors adopted a new asset mix for the Plan fund in April 2021. The new asset mix strengthens the expected risk adjusted return for the Plan fund, aimed at improving Plan sustainability and contribution rate stability.

I remain confident in the security of your PSPP benefit. Your pension is likely one of your most valuable assets and I am honoured to serve Plan members in protecting and managing that asset. PSPP Corporation's mission is: ***Your earned pension is there for you when you retire.***

Plan Overview

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, and its agencies, boards, and commissions. PSPP is a registered retirement savings plan under the Alberta *Employment Pension Plans Act* and the Canadian *Income Tax Act*.

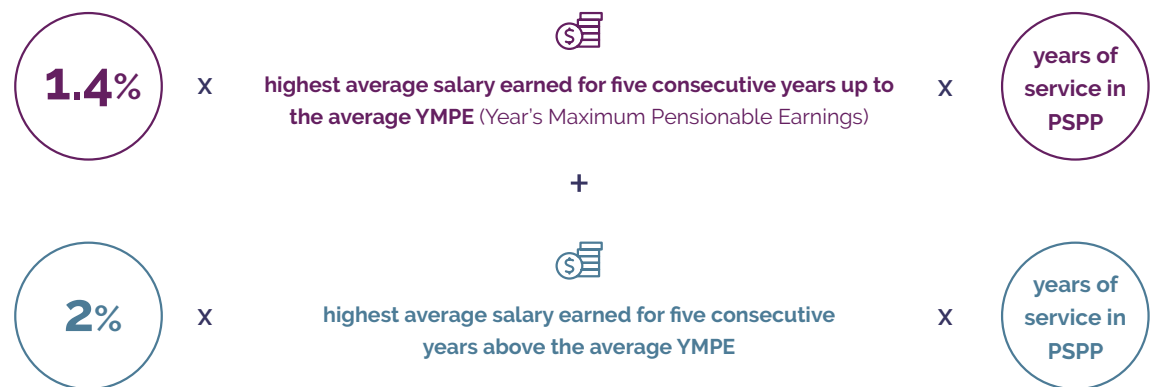
The Plan is jointly governed by those who contribute to it — employers and employees. Employers are represented by the Government of Alberta, as the largest participating employer, and the University of Alberta and the University of Calgary. Employees are represented by the Alberta Union of Provincial Employees and the University of Alberta Non-Academic Staff Association.

The Plan is funded by investment earnings as well as equal contributions from active Plan members and participating employers. The joint governance structure allows Plan members and employers to share the risks and rewards of plan sponsorship.

PSPP provides its members with a lifetime pension that is not affected by market conditions or life expectancy. The PSPP pension is calculated based on a formula that considers salary and years of PSPP service.

As of December 31, 2020, the Plan had almost 90,000 members and 28 participating employers. The Plan benefits and provisions are set out in a Plan Text which is available on [PSPP.ca](https://pspp.ca).

Plan Formula





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

PSPP is an excellent Defined Benefit Pension Plan. It is a pension for life for our employees and a very valuable component of their compensation. Contributions are matched by the employer to assist employees in being **comfortable in their retirement.**



Heather Fitch,
Norquest college



Plan Governance

PSPP has a comprehensive governance framework in place to oversee, manage and administer the Plan. Governance policies and documents are available at [PSPP.ca](https://pspp.ca) under “Governance Publications” and “Sponsor Board Rules & Policies.”

Legislation

The *Joint Governance of Public Sector Pension Plans Act* (Joint Governance Act) came into force on March 1, 2019, and the Plan transitioned to a jointly sponsored governance structure. The Joint Governance Act established and authorized 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, is a registered pension plan under the *Employment Pension Plans Act* (EPPA) and the *Canadian Income Tax Act*.

The Auditor General of Alberta is the auditor of PSPP and PSPP Corporation.



PSPP Sponsor Board

The PSPP Sponsor Board is a representative body comprised of eight members appointed by the largest Plan participating employers and employee organizations. These sponsor organizations are specified within the Joint Governance Act. Sponsor organizations appoint representatives to the Sponsor Board by providing notice to PSPP Corporation. Sponsor Board members act in the interest of the sponsor organization that appointed them.

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)

2020 Sponsor Board members

- Susan Slade, Chair
- Dan Stadlwieser, Vice-Chair
- Mike Dempsey
- Todd Gilchrist
- Jason Heistad
- Alex Long
- Shannon Marchand
- Tom Fuller
(resigned March 31, 2020)
- Gitta Kulczycki
(resigned October 25, 2020)
- Gerald Lamoureux
(resigned November 12, 2020)
- Nancy Furlong
(resigned November 18, 2020)

Note: As of December 31, 2020, there was one GOA appointment outstanding on the Sponsor Board.

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 the remuneration of the Corporation's directors

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 managing and investing the Plan fund and for carrying out all of the functions and responsibilities of a plan administrator as prescribed under the EPPA, except to the extent the responsibility has been expressly assigned to the PSPP Sponsor Board by the Joint Governance Act. The Corporation has a legal duty to act in the best interest of Plan members and others entitled to benefits.

The Corporation, as required by 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 management have been contracted to APS and AIMCo, PSPP Corporation continues to be responsible for the services provided.

PSPP Corporation operates on a cost recovery basis, with all expenses incurred being recovered from the Plan fund.

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. The Board is comprised of:

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)

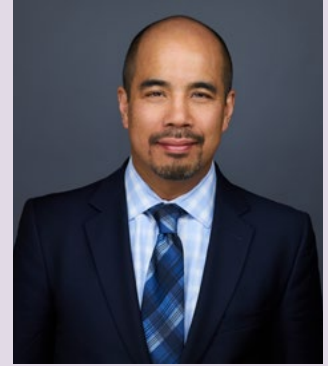
2020 Board of Directors



Linda Dalgetty, Chair



Elizabeth Johansson,
Vice-Chair



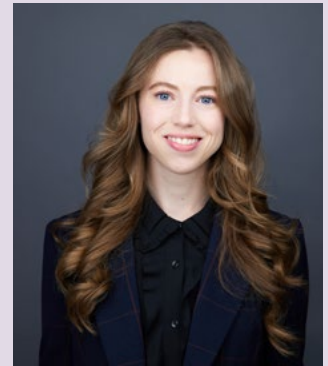
Terry Agoto



Liliana Cordeiro



Emilian Groch



Lauren Montgomery



Elaine Noel-Bentley

Graham Statt

(resigned December 1, 2020)

Note: As of December 31, 2020, there was one
GOA appointment outstanding on the Board of Directors.

The Board governs PSPP Corporation and oversees the activities of PSPP Corporation including Plan management. To assist with fulfilling its responsibilities, the Board has established the following standing committees:

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 four members of the Board and three external investment or finance professionals chosen for their expertise in investment management.



External IC members



Janet Julé, CPA, CMA, CFA, ICD.D

J. Julé is the Chief Investment Officer for Saskatchewan Healthcare Employees' Pension Plan. She brings 30 years of investment experience to the IC, including over 20 years in investment consulting.

J. Julé has served on the IC since December 2016, prior to the Plan's transition to a jointly sponsored pension plan in March 2019.



Wes Peters, CFA

W. Peters is the Vice President of Investments at Wawanesa Mutual Insurance Company. He has extensive experience in pensions and pension investment management.

W. Peters has served on the IC since 2018, prior to the Plan's transition to a jointly sponsored pension plan in March 2019.



Louise Poirier-Landry, ICD.D

L. Poirier-Landry is a professional director with over 35 years of experience in finance, investment/portfolio management, pension, risk management and governance.

She has served on the IC since May 2018, prior to the Plan's transition to a jointly sponsored pension plan in March 2019.

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

The GHRC is comprised of four members of the Board.

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.

2020 Board and Committee Membership

There was one vacancy on the Board, a GOA nominee, as at the end of 2020.

| Board Members | Board | FAC | GHRC | IC | Appeal Tribunal |
|---------------------|----------------|----------------|-------|------------|-----------------|
| Linda Dalgetty | Chair | | ✓ | Vice Chair | ✓ |
| Elizabeth Johansson | Vice Chair | Chair | | ✓ | ✓ |
| Terry Agoto | ✓ | | | ✓ | ✓ |
| Liliana Cordeiro | ✓ | ✓ | ✓ | | ✓ |
| Emilian Groch | ✓ | ✓ ¹ | | Chair | ✓ |
| Lauren Montgomery | ✓ | | Chair | | |
| Elaine Noel-Bentley | ✓ | ✓ | ✓ | | |
| Past Members | | | | | |
| Graham Statt | ✓ ² | ✓ ³ | | | |

¹E. Groch was a member of the FAC from January 1 to October 15; and reappointed effective December 10, 2020.

²G. Statt was a member of the Board from May 13 to December 1, 2020.

³G. Statt was a member of the FAC from October 15 to December 1, 2020.

Board Attendance and Remuneration

The Joint Governance 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 meeting length 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 [PSPP.ca](https://www.pspp.ca) under "Sponsor Board Rules & Policies."

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

In 2020, 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 2020.

2020 Meeting Attendance

| Board Member | Board | FAC | GHRC | IC | Appeal Tribunal | 2020 Total Remuneration Paid (\$) |
|---------------------------|------------------|-----|------|-----|-----------------|-----------------------------------|
| Linda Dalgetty | 8/8 | | 5/5 | 4/4 | 2/2 | 30,300 |
| Elizabeth Johannson | 8/8 | 6/6 | | 4/4 | 2/2 | 25,200 |
| Terry Agoto | 8/8 | | | 4/4 | 1/1 | 0 |
| Liliana Cordeiro | 8/8 | 6/6 | 5/5 | | 1/1 | 0 |
| Emilian Groch | 8/8 | 5/5 | | 4/4 | 3/3 | 26,800 |
| Lauren Montgomery | 8/8 | | 5/5 | | | 0 |
| Elaine Noel-Bentley | 8/8 | 6/6 | 5/5 | | | 17,100 |
| Past Board members | | | | | | |
| Graham Statt | 1/4 ¹ | 0/1 | | | | 0 |
| Total | | | | | | 99,400 |

¹G. Statt was also briefly present at two other Board meetings which have not been accounted for above.

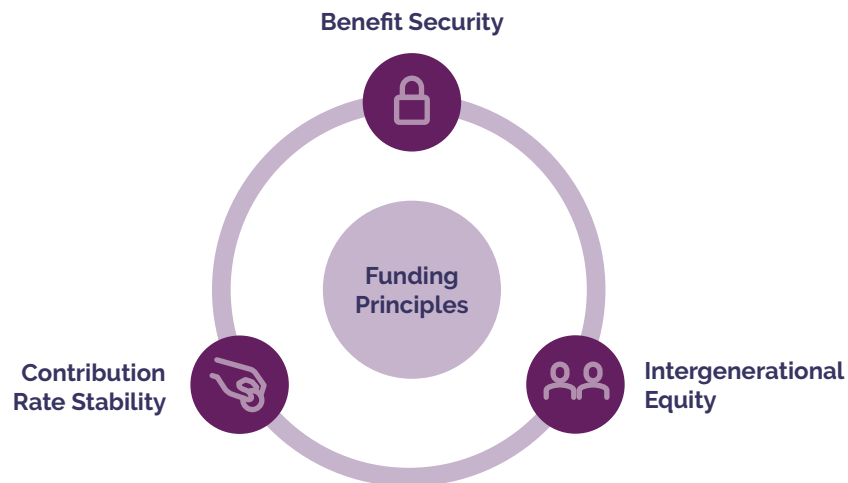


Plan Funding

The Plan's funded status is an indicator of its long-term financial health. Based on its actuarial funding valuation as at December 31, 2019, PSPP is 105% funded on a going-concern basis.

The PSPP Sponsor Board has established a funding policy statement which provides a framework to ensure that sufficient assets are accumulated to meet the cost of accrued benefits and guide decisions about the funding of the Plan. The Funding Policy Statement establishes the frequency of actuarial valuations of the Plan and documents funding controls and risks to the Plan's financial health.

Plan funding balances the following three Principles:



- **Benefit Security:** The Plan's funding level is a measure of how much money is available to pay current and expected pensions for all Plan members. A higher funding level generally means a higher level of benefit security.
- **Contribution Rate Stability:** While contribution rates have to vary over the long term given different economic environments, any volatility can hurt the Plan's sustainability, so an important goal is to ensure that the contribution rates remain as stable as possible.
- **Intergenerational Equity:** The Plan's funding should be managed so as to ensure a reasonably consistent level of cost is experienced across different generations of contributors.

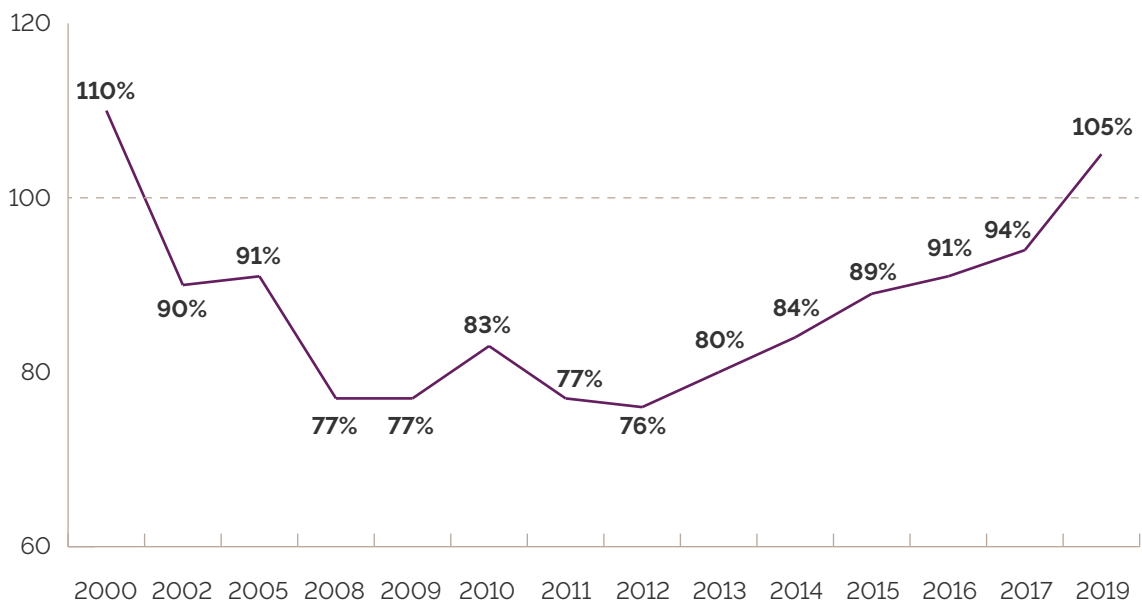
Not all three Principles can have equal weighting and instead the PSPP Sponsor Board must find an appropriate balance.

Funding Valuation

Although PSPP conducts an actuarial funding valuation every year to assess the financial health of the Plan, it is only required to be filed with the regulators once every three years. The last valuation to be filed was for 2019. An actuarial valuation as at December 31, 2020 is currently underway.

| Going Concern Funded Status | December 31, 2019 |
|-----------------------------|-------------------|
| Total Actuarial Assets | \$14.9 Billion |
| Total Actuarial Liabilities | \$14.2 Billion |
| Funded Ratio | 105% |

Funded Ratio over the years



Contribution Rates

Employers and employees contribute to the PSPP at the same rates. These contributions, when combined with other investment income, are expected to provide for the benefits members earn while they participate in the PSPP.

During 2020, the PSPP Sponsor Board assessed the sufficiency of the contribution rates based on the funded status reported in the Actuarial Valuation as at December 31, 2019. Although the Plan had a small funding surplus, the PSPP Sponsor Board decided to leave contribution rates unchanged to promote benefit security. This decision allowed the surplus at the last valuation to help offset potential 2020 market impacts given the uncertainty and volatility caused by the global pandemic. The PSPP Sponsor Board will continue to monitor contribution rates on an annual basis.

Current contribution rates are listed in the chart below.

Current Contribution Rates (% of pensionable earnings)

| | |
|-------------------------|--------|
| Up to YMPE ¹ | 10.47% |
| Above YMPE | 14.95% |

¹YMPE: Year's Maximum Pensionable Earnings on which CPP contributions are made (\$58,700 in 2020).

Plan Funding Considerations

There are many risks that the PSPP Sponsor Board must take into consideration when promoting the sustainability of the Plan. Among them are the demographic risks. Demographic risks include changes to the life expectancy of members, the age that members are retiring, as well as the age of the active membership.

To check that the Plan continues to use reasonable assumptions, experience studies are conducted every five years.

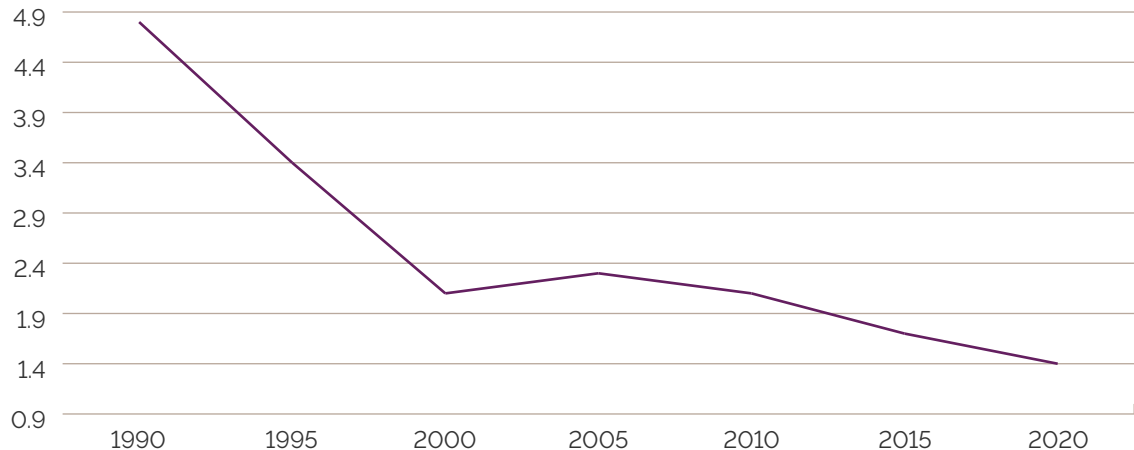
An experience study was conducted in 2020. The Plan's actuary concluded that the current assumptions being used were reasonable. There were some minor refinements to the assumptions, but they were not material to the valuation results.

Plan Maturity

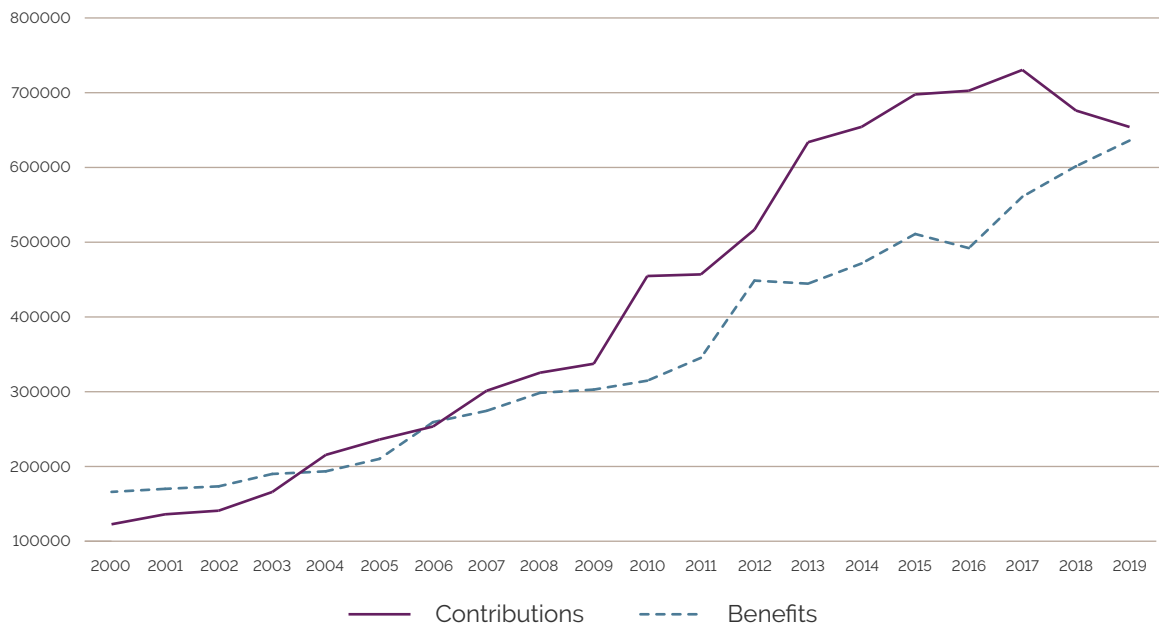
The ratio of active members to retired members is a common measure of Plan maturity. PSPP has an aging population with more members retiring than new members joining. A mature plan, which has a relatively smaller group of active members, has less capacity to bear plan funding risk as funding risk is borne by active members and their employers. Plan maturity is monitored through Plan experience studies and reflected in the Plan funding requirements.

As shown below, this ratio has declined from 4.7 in 1990 to 1.3 at the end of 2020. This table portrays the gradual maturing of the Plan through time.

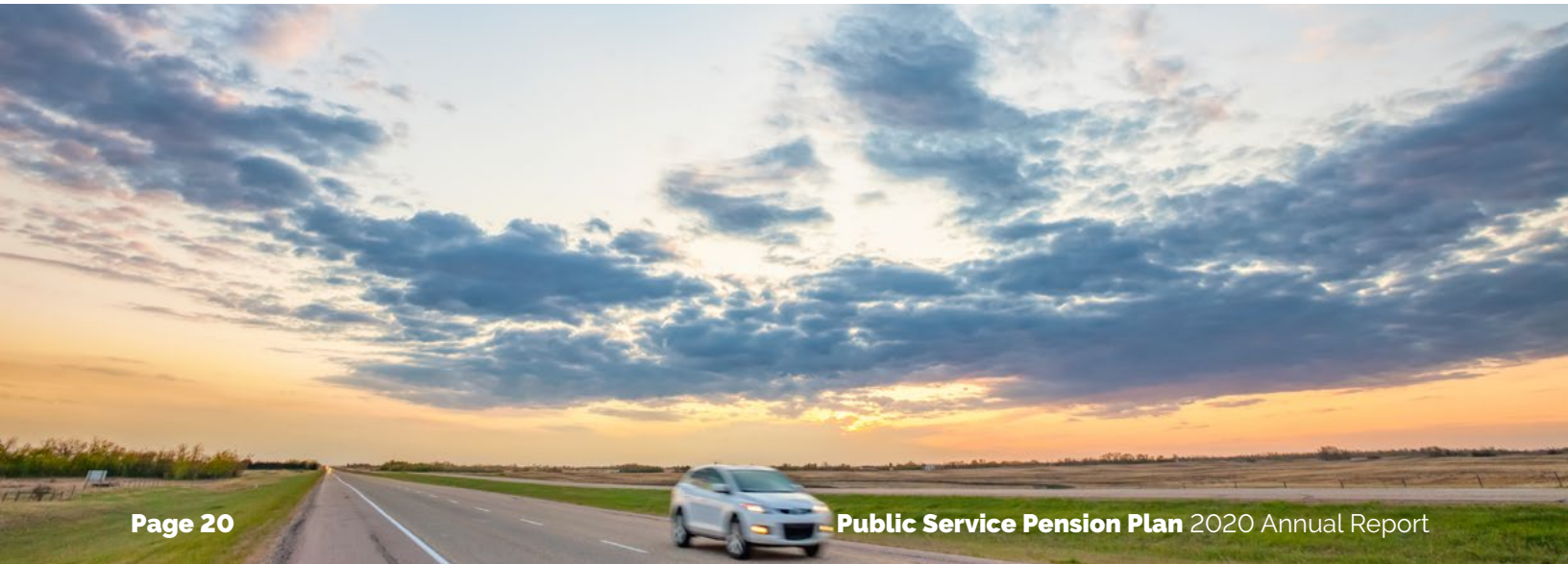
Active to Retired Member Ratio



Another measure of the relative maturity of a plan is the difference between contributions received and pension benefits paid. When a plan matures, it usually pays more to retired members than the contributions received by active members and their employers. The balance must be paid out of either investment returns or assets. A more mature plan must incorporate liquidity into the fund asset mix to ensure sufficient cash is available. As well, maturing plans become increasingly dependent on investment returns to fund benefits and thus, further exposed to capital market volatility. While PSPP contributions are currently greater than benefits paid, liquidity and investment risk continue to be monitored through asset liability modelling.



PSPP benefits are pre-funded which means that each generation pays in advance for its own basic lifetime pension benefits. The PSPP funding policy statement and actuarial methods strive to maintain stable contribution rates so that each generation receives similar value.



Pension Administration

PSPP Corporation's vision for PSPP is: A well-managed Plan. Well-served members.

Improvements were made in 2020 to increase the ability for members to self-serve directly through the [PSPP.ca](#). Our Go Green campaign in April 2020 offered members the opportunity to see important documents, such as annual statements and tax slips, online instead of waiting for them to be mailed.

In November 2020, the *mypensionplan* online tool was modernized and rebranded as *Your Pension Profile* (YPP). The YPP tool is completely integrated with the [PSPP.ca](#) eliminating the need for members to navigate between two separate sites and sources of information. This change also brought many updates and enhanced the information available to members. Members now have access to their information right at their fingertips. Members are able to update personal data, such as address or beneficiaries, at their leisure directly through the YPP tool, reducing the need to call in for assistance. We have also increased the ability to start certain transactions, such as purchasing previous service, directly through the YPP tool.

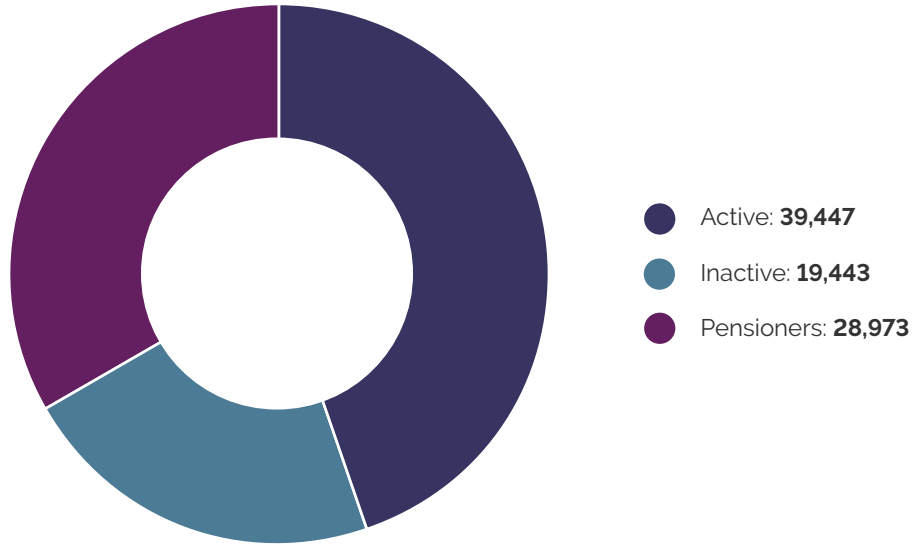
Almost 9,000 members took advantage of the online tools to update their personal information in 2020.

With in-person services being unavailable throughout much of 2020 as a result of the COVID-19 pandemic, we saw a gravitation towards the use of online tools. There was an increase of almost 25% in registration to the online tools in 2020. Members took greater advantage of the online [pension estimator](#) and the [buyback calculator](#) tools.

Retiring members used the *PensionEase* tool 83% more often as compared to 2019. *PensionEase* is an online tool within YPP that allows members to complete retirement applications online rather than mailing in forms and information. Secure messaging was an important tool for uploading forms.

As a result of the positive response to the self-serve tools and online services, there were 32% less calls to the Member Services Centre in 2020 as opposed to 2019. While we are excited by the efficiencies and convenience of online services, we will continue to provide in-person service to those who need it. We understand that technology is a complement to and not a replacement for in-person service.

Plan Membership



Average Age of Active Members

44.9

Active Members Average Years of Pensionable Service

10.3

Average Pensionable Earnings

\$73,857

Average Age of New Retired Members

63.6

Average Age of Pensioners

73.8

Average Gross Yearly Pension Amount

\$18,025



Members Age Distribution



* Beneficiaries include spousal benefits and other beneficiaries

Fun facts



Oldest Plan member is **106 years of age**
and has been collecting a pension for almost **41 years**



Longest
pension in pay is
almost **52 years**



There are **25** retired
Plan members
over the age
of **100**

Service Levels

PSPP Corporation is responsible for the administration of PSPP in the best interest of Plan members. However, PSPP Corporation is required by legislation to contract day-to-day pension administration services to Alberta Pensions Services Corporation (APS). APS also manages the Member Services Centre on our behalf.

APS is a provincial corporation incorporated in 1995 with the Government of Alberta as its sole Shareholder. APS provides administration services for nine public sector pension plans, including two supplementary retirement plans. APS operates on a non-profit cost recovery basis with all costs being paid for by the pension plans served by APS.

The services provided to PSPP by APS are outlined in a pension services agreement between APS and PSPP Corporation. The agreement also sets out benchmarks for specified services to ensure that APS provides timely and accurate services to PSPP members.

Ensuring that pensioners receive timely and reliable payments is critical. During the challenging times of 2020, APS met this important obligation with no disturbance to PSPP pensioners.

Below are service standards achieved for the listed PSPP transactions:

| Service Provided | Benchmark | Average Elapsed Time in 2020 |
|-------------------------------------|------------------------|------------------------------|
| Retirement estimates | 30 days | 8.2 days |
| Retirement options | 14 days | 7.1 days |
| Retirement finalization | 30 days | 26.2 days |
| Termination options | 14 days | 4.8 days |
| Pre-retirement death | 14 days | 6 days |
| Post-retirement death | 14 days | 4.7 days |
| Written inquiries (Secure messages) | Within 2 business days | 2.2 days |

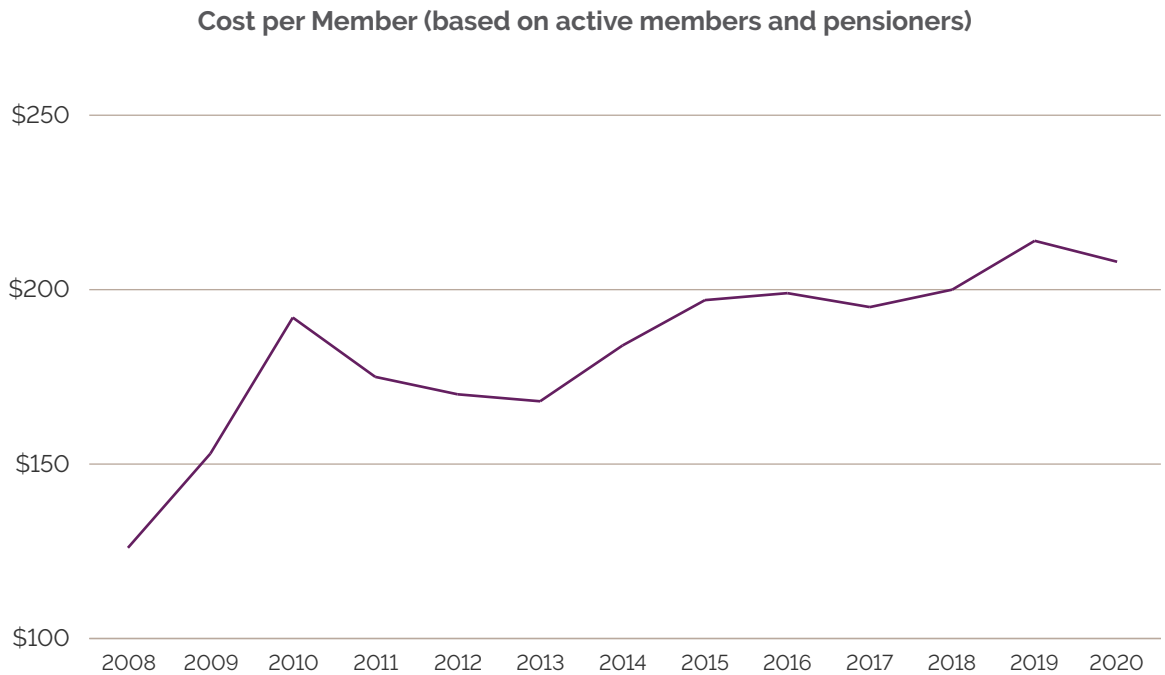
| Service Provided | Benchmark | Average Answer Time |
|---------------------|-------------|---------------------|
| Telephone inquiries | 180 seconds | 191 seconds |

Pension Administration Cost

All of the costs involved in the management and administration of PSPP are paid by Plan members and employers out of the PSPP fund.

Pension administration costs include all expenses incurred by PSPP Corporation as well as fees charged to PSPP by APS for day-to-day administration. APS fees are calculated pursuant to a cost-recovery framework based on PSPP membership, transaction levels and other cost drivers. Administration costs in 2020 were \$14,278,000. See Note 12 of the PSPP financial statements for information about administrative expenses.

Our total administrative cost per member in 2020 was \$208.



Investment Performance

2020 Year in Review



| | 1 Year | 4 Year |
|------------------|--------|--------|
| Portfolio Return | 1.6% | 6.6% |
| Benchmark Return | 8.0% | 8.0% |
| Value Add (Loss) | (6.4%) | (1.4%) |

COVID-19 dominated all aspects of life in 2020, including the financial marketplace. Equity markets around the world suffered significant losses in the first quarter. Markets stabilized following the implementation of measures to slow the spread of the virus and with the establishment of fiscal programs to support businesses and individuals impacted by the measures. Late-year indications of government commitments to ongoing fiscal support and of a near term vaccine roll out led to a market recovery by year end.

The 2020 investment performance by PSPP Corporation's legislated exclusive investment manager, Alberta Investment Management Corporation (AIMCo), was extremely disappointing. The portfolio return of 1.6% was 6.4% below PSPP's Policy Benchmark return of 8.0%. Significant underperformance was experienced in equities and Alternative illiquid asset classes.

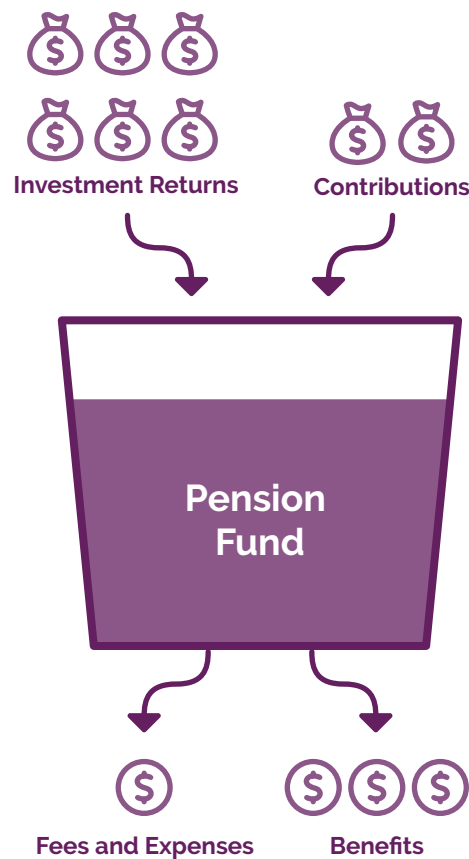
Pandemic related market volatility contributed to a permanent loss of capital in the Public Equity portfolio through exposure to AIMCo's internally managed volatility-based trading strategy (VOLTS). Unsatisfactory risk governance controls within AIMCo surrounding oversight of VOLTS, led to the loss of \$351 Million, representing over 40% of total PSPP portfolio underperformance.

Given the potential negative impact of the pandemic on future earnings in non-publicly traded illiquid asset classes, the Real Estate, Infrastructure and Private Equity portfolios experienced large write-downs in valuations. The combined write-down of \$520 Million represented almost 50% of the total portfolio's underperformance. Canadian Real Estate was the hardest hit segment with a write down of \$279 Million.

Despite the poor performance by AIMCo in 2020, the Plan continues to hold sufficient assets to cover its financial obligations.

Pension Funding Model

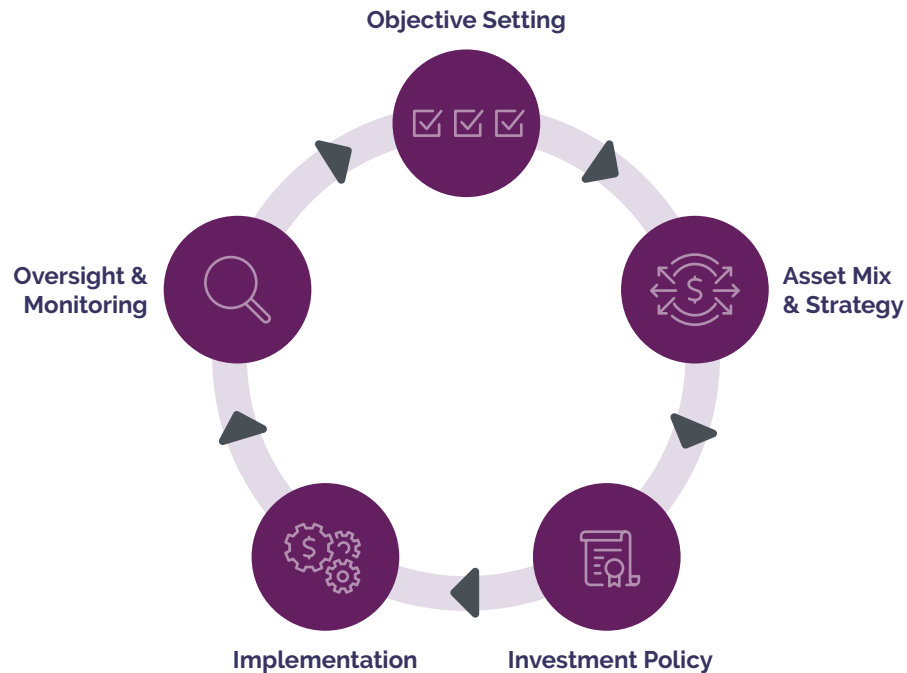
Pension benefits are funded by employer and employee contributions, along with investment returns. Given the very long-term nature of the pension model and the power of compounding investment returns over long periods, the investment program is expected to be the principal source of benefit funding.



As of the end of 2020, it is estimated that since contributions to the Plan began, approximately 60% of cash flows into the funding model have come from investment income.

Investment Decision Framework and Process

Investing in capital markets involves decision making under uncertainty. To manage the risks of seeking returns in the financial marketplace, PSPP Corporation has adopted an industry best practice investment decision framework that features a fiduciary cycle of visiting and revisiting key decisions.



Objectives of the investment program are established by determining the appropriate level of risk to assume in capital markets within the context of the pension funding model. Assuming higher risk increases expected investment returns and reduces expected contribution levels, but increases the expected volatility of contribution rates. The goal is to balance the risk-reward dynamic of capital market participation.

The portfolio construction phase involves building an investment portfolio that is in line with established objectives and risk tolerance. Capital-market risk is managed by targeting a portfolio that is highly diversified across broad asset classes, strategies and geographies and is optimal from a risk-reward perspective.

A formal Statement of Investment Policies and Procedures (SIPP), inclusive of governing principles, a target mix of asset classes and allowable ranges, performance benchmarks and permissible investments, has been established to guide the implementation of the investment portfolio.

PSPP Corporation oversees the implementation of the investment portfolio versus SIPP guidelines and monitors investment results versus expectations. Critical to the process are established reporting channels that deliver timely and accurate information to support the ongoing cycle of investment decision making.

Implementation of the SIPP

Policy Asset Mix

PSPP Corporation's SIPP that was in place as at December 31, 2020 features a policy allocation to the broad asset class categories of Equity, Fixed Income and Alternatives.

| Asset Class | Weight |
|--------------|--------|
| Equities | 55% |
| Alternatives | 24% |
| Fixed Income | 21% |

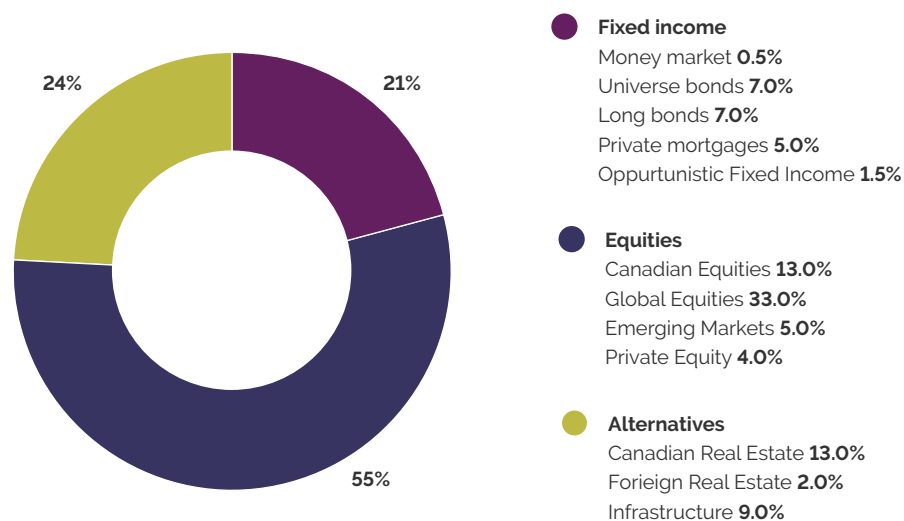
Equity assets are the highest return, and highest risk, category in the portfolio. Also being the largest category of investment, equities are expected to be the return driver within the pension funding model and are critical to meeting long-term objectives.

The Alternatives exposure includes allocations to long-lived Real Estate and Infrastructure assets. Long-lived assets typically provide stable and predictable income while offering the potential for long-run capital appreciation. Along with portfolio diversification, Real Estate and Infrastructure assets are expected to provide the pension funding model with a desired element of long-run inflation protection.

Fixed-Income assets are the least risky assets in the portfolio and relative to equities are expected to deliver lower but more stable returns. Typically having a relatively low correlation to equities, they are expected to provide the portfolio with an important element of downside protection during equity market drawdowns.

PSPP's policy asset mix reflects a target portfolio that is highly diversified across key drivers of investment return.

PSPP Target Asset Mix



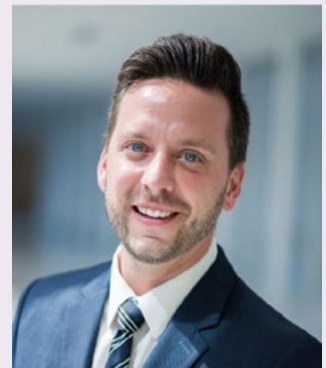
Investment Management

AIMCo is PSPP Corporation's legislated exclusive provider of investment management services. Established as a crown corporation in 2008, AIMCo provides a large-scale multi-client investment platform with a global reach to Alberta based public entities including Pension Plans, Endowments and Government Funds.

The relationship with AIMCo is governed through an agreement whereby AIMCo implements PSPP Corporation's SIPP in the financial marketplace and supports the carrying out of decision making, oversight and monitoring responsibilities.



Our PSPP pension is a valuable piece of our total rewards program that allows us to **attract and retain top talent.**



Scott W,
Alberta Energy Regulator



Benchmarks and Monitoring of Investment Performance

To allow a comparison of actual investment performance to a relevant target, each asset class in the Policy Asset Mix is assigned an appropriate investment performance benchmark.

| Asset Class | Benchmark |
|----------------------------|--|
| Money Market | FTSE Canada 91-Day T-bill Index |
| Universe Bonds | FTSE Canada Universe Bond Index |
| Long-Term Gov't Bonds | FTSE Canada Long-Term All Gov't Index |
| Private Mortgages | FTSE Canada Universe Bond Index |
| Opportunistic Fixed Income | FTSE Canada Universe Bond Index |
| Canadian Equity | S&P/TSX Composite Index |
| Global Equity | Blend: MSCI World Index / MSCI World Minimum Vol Index |
| Emerging Markets | MSCI Emerging Markets Index |
| Private Equity | CPI + 7% |
| Real Estate – Canadian | MSCI REALpac Canadian All Property Index |
| Real Estate – Foreign | MSCI Global Regional Property Index |
| Infrastructure | CPI + 4.5% |
| Timberlands | CPI + 4.5% |
| Strategic Opportunities | MSCI World Index |

As well, a total portfolio performance benchmark is constructed from underlying asset class performance benchmarks and policy weights.

AIMCo has discretion within its implementation of the Policy Asset Mix to seek investment returns beyond underlying Policy Benchmarks. All strategies implemented within each asset class are defined by AIMCo Product Descriptions, inclusive of investment guidelines along with risk and return targets.

Regular review of investment results versus total performance benchmarks and asset class benchmarks allows PSPP Corporation to monitor the effectiveness of AIMCo's implementation of the SIPP.

Investment Results

2020 was highlighted by strong Fixed-Income returns; 10.4% overall and 0.5% above the underlying performance benchmark. Equity returns were poor overall; 2.6%, and 6.8% below the underlying benchmark. Alternative investment returns were well into negative territory; -9.7%, and 9.5% below the underlying benchmark.

Table of Investment Return

December 31, 2020

| | Fair Value (in millions) | Asset Mix (%) | Annual Returns % | | | | Compound Annualized Return 4 yr |
|-----------------------------------|-----------------------------|---------------------|------------------|-------------|--------------|--------------|---------------------------------------|
| | | | 2020 | 2019 | 2018 | 2017 | |
| Total Fund | \$15,619.2 | 100.0 | 1.6 | 12.3 | 1.5 | 11.3 | 6.6 |
| <i>Policy Benchmark</i> | | | 8.0 | 13.8 | 1.0 | 9.7 | 8.0 |
| <i>Value Add</i> | | | (6.4) | (1.5) | 0.5 | 1.6 | (1.4) |
| Money Market | 98.0 | 0.7 | 0.9 | 1.9 | 1.6 | 1.0 | 1.4 |
| Fixed Income | 3,212.7 | 20.4 | 10.4 | 9.0 | 2.2 | 4.4 | 6.5 |
| <i>Combined Benchmark</i> | | | 9.9 | 8.7 | 1.2 | 3.8 | 5.8 |
| <i>Value Add</i> | | | 0.5 | 0.3 | 1.0 | 0.6 | 0.7 |
| Universe bonds | 1,282.2 | 8.0 | 9.9 | 7.8 | 1.9 | 3.3 | 5.7 |
| Private mortgages | 660.8 | 4.2 | 9.4 | 6.0 | 4.7 | 2.5 | 5.6 |
| Private debt | 246.4 | 1.6 | 5.9 | 4.4 | 4.0 | 2.3 | 4.1 |
| Long-term Government Bonds | 1,023.3 | 6.6 | 13.0 | 12.8 | 0.9 | 7.6 | 8.5 |
| Equities | 8,965.2 | 57.4 | 2.6 | 16.2 | (2.9) | 14.8 | 7.4 |
| <i>Combined Benchmark</i> | | | 9.4 | 19.4 | (1.6) | 13.2 | 9.8 |
| <i>Value Add</i> | | | (6.8) | (3.2) | (1.3) | 1.6 | (2.4) |
| Canadian Equity | 2,101.4 | 13.5 | (2.4) | 20.8 | (9.8) | 10.2 | 4.0 |
| Global Equity | 5,673.0 | 36.3 | 4.3 | 16.5 | (1.0) | 15.8 | 8.6 |
| Emerging Markets | 832.7 | 5.3 | 7.7 | 10.6 | (8.2) | 30.4 | 9.3 |
| Private Equity | 358.1 | 2.3 | (10.0) | 0.7 | 18.9 | (1.4) | 1.5 |
| Alternatives | 5,296.7 | 21.2 | (9.7) | 6.8 | 12.7 | 9.5 | 4.4 |
| <i>Combined Benchmark</i> | | | (0.2) | 5.8 | 7.6 | 6.7 | 4.9 |
| <i>Value Add</i> | | | (9.5) | 1.0 | 5.1 | 2.8 | (0.5) |
| Real Estate | 1,993.2 | 12.8 | (13.7) | 4.8 | 11.9 | 8.8 | 2.5 |
| Canadian Real Estate | 1,700.0 | 10.9 | (14.0) | 5.5 | 11.5 | 8.5 | 2.4 |
| Foreign Real Estate | 293.2 | 1.9 | (11.2) | 0.1 | 14.7 | 10.9 | 3.2 |
| Infrastructure | 1,154.7 | 7.4 | (2.4) | 8.5 | 13.1 | 9.2 | 6.9 |
| Timberland | 155.6 | 1.0 | (8.3) | 19.1 | 17.7 | 17.5 | 10.9 |
| Portfolio Overlays | | | | | | | |
| Strategic Opportunities | 39.8 | 0.3 | (2.0) | 20.3 | (2.2) | 5.0 | 4.9 |

Annualized over the last four years, Fixed-Income returns were strong; 6.5% overall and 0.7% above benchmark. Four-year annualized Equity returns were solid overall at 7.4%, however disappointing given it is 2.4% below benchmark. Alternatives returns over the same period were below expectations; 4.4% overall and 0.5% below benchmark.

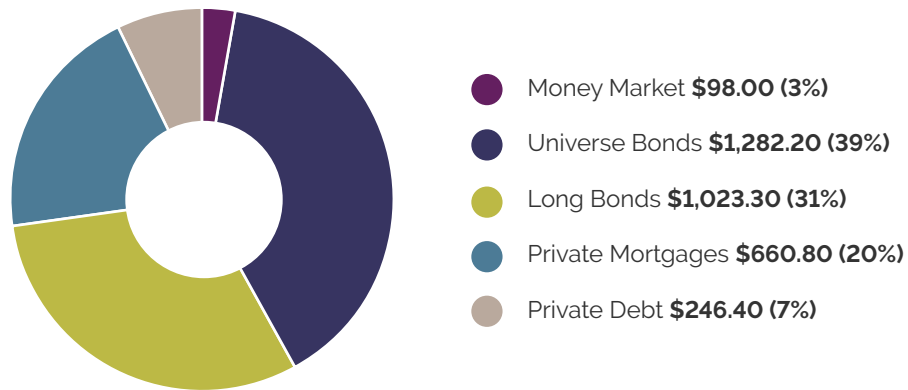
Fixed Income Securities

Actual Allocation by Asset Class

As of year-end 2020, the Fixed-Income allocation within the investment portfolio is 21.1%, in line with the 21% policy target. The market value is \$3.3 billion and is diversified across five asset classes.

Money Market and Fixed Income Securities

December 31, 2020 (in millions)



Investment Performance by Asset Class

| | Actual Return | Benchmark | Value Add |
|-------------------------|---------------|-----------|-----------|
| Money Market | % | % | % |
| One Year | 0.9 | 0.9 | 0.0 |
| Four Years (annualized) | 1.4 | 1.1 | 0.3 |

| | Actual Return | Benchmark | Value Add |
|-------------------------|---------------|-----------|-----------|
| Long bonds | % | % | % |
| One Year | 13.0 | 12.1 | 0.9 |
| Four Years (annualized) | 8.5 | 7.7 | 0.8 |

| | Actual Return | Benchmark | Value Add |
|-------------------------|---------------|-----------|-----------|
| Universe bonds | % | % | % |
| One Year | 9.9 | 8.7 | 1.2 |
| Four Years (annualized) | 5.7 | 4.8 | 0.9 |

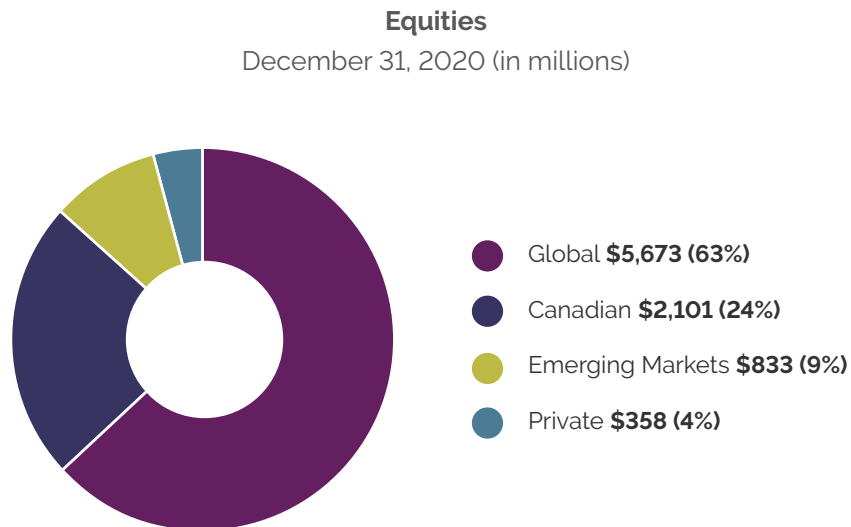
| | Actual Return | Benchmark | Value Add |
|-------------------------|---------------|-----------|-----------|
| Mortgages | % | % | % |
| One Year | 9.4 | 8.7 | 0.7 |
| Four Years (annualized) | 5.6 | 4.8 | 0.8 |

| | Actual Return | Benchmark | Value Add |
|--|---------------|-----------|-----------|
| Opportunistic FI (Private Debt) | % | % | % |
| One Year | 5.9 | 8.7 | -2.8 |
| Four Years (annualized) | 4.1 | 4.8 | -0.7 |

Equities

Actual Allocation by Asset Class

As of year-end 2020, the Equity allocation within the investment portfolio is 57.4%; 2.4% above the policy target of 55%. The market value is \$8.9 billion and is diversified across four asset classes.



Investment Performance by Asset Class

| | Actual Return | Benchmark | Value Add |
|---------------------------------|---------------|-----------|-----------|
| Canadian Public Equities | % | % | % |
| One Year | -2.4 | 5.6 | -8.0 |
| Four Years (annualized) | 4.0 | 6.6 | -2.6 |

| | Actual Return | Benchmark | Value Add |
|-------------------------|---------------|-----------|-----------|
| Global Equities | % | % | % |
| One Year | 4.3 | 9.3 | -5.0 |
| Four Years (annualized) | 8.6 | 10.6 | -2.0 |

| | Actual Return | Benchmark | Value Add |
|-------------------------|---------------|-----------|-----------|
| Emerging Markets | % | % | % |
| One Year | 7.7 | 16.2 | -8.5 |
| Four Years (annualized) | 9.3 | 11.8 | -2.5 |

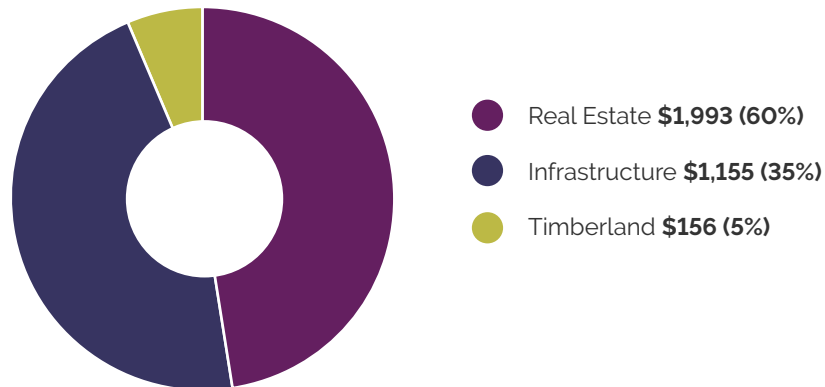
| | Actual Return | Benchmark | Value Add |
|-------------------------|---------------|-----------|-----------|
| Private Equity | % | % | % |
| One Year | -10.0 | 8.7 | -18.7 |
| Four Years (annualized) | 1.5 | 8.7 | -7.2 |

Alternatives

Actual Allocation by Asset Class

As of year-end 2020, the Alternatives allocation within the investment portfolio is 21.2%; 2.8% below the policy target of 24%. The market value is \$3.3 billion and is diversified across three asset classes. The Timberland asset class is currently captured within the Infrastructure policy allocation. Real Estate includes the policy allocations to both Canadian and Foreign Real Estate.

Alternative investments
December 31, 2020 (in millions)



Investment Performance by Asset Class

| | Actual Return | Benchmark | Value Add |
|-------------------------------|---------------|-----------|-----------|
| Real Estate (combined) | % | % | % |
| One Year | -13.7 | -4.1 | -9.6 |
| Four Years (annualized) | 2.5 | 4.1 | -1.6 |

| | Actual Return | Benchmark | Value Add |
|-----------------------------|---------------|-----------|-----------|
| Canadian Real Estate | % | % | % |
| One Year | -14.0 | -5.2 | -8.8 |
| Four Years (annualized) | 2.4 | 3.8 | -1.4 |

| | Actual Return | Benchmark | Value Add |
|----------------------------|---------------|-----------|-----------|
| Foreign Real Estate | % | % | % |
| One Year | -11.2 | 3.8 | -15.0 |
| Four Years (annualized) | 3.2 | 6.4 | -3.2 |

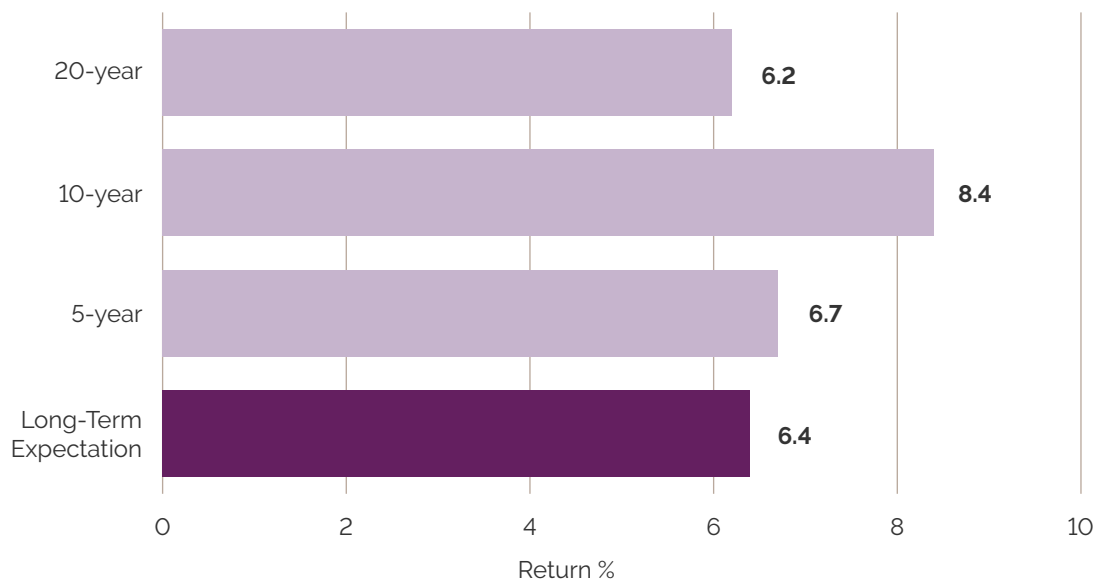
| | Actual Return | Benchmark | Value Add |
|-------------------------|---------------|-----------|-----------|
| Infrastructure | % | % | % |
| One Year | -2.4 | 6.2 | -8.6 |
| Four Years (annualized) | 6.9 | 6.2 | 0.7 |

| Timberland | Actual Return | Benchmark | Value Add |
|-------------------------|----------------------|------------------|------------------|
| | % | % | % |
| One Year | -8.3 | 6.2 | -14.5 |
| Four Years (annualized) | 10.9 | 6.2 | 4.7 |

Investment Performance vs. Long-Term Funding Objectives

The ongoing sustainability of the pension funding model is monitored through the regular completion of actuarial valuations. Given investment returns are the primary source of benefit funding, a key element of the actuarial valuation process is to establish an assumption related to the long-term expected return from the investment portfolio.

Long-Term Investment Returns vs. Long-Term Funding Objectives



Over the last 20 years, the actuarial assumptions for expected annual portfolio returns, including a margin for conservatism, have decreased and have averaged 6.4%. As highlighted by the Plan's historical investment performance, portfolio returns have been in line with the long-term objectives of the pension funding model.

Plan Financial Highlights

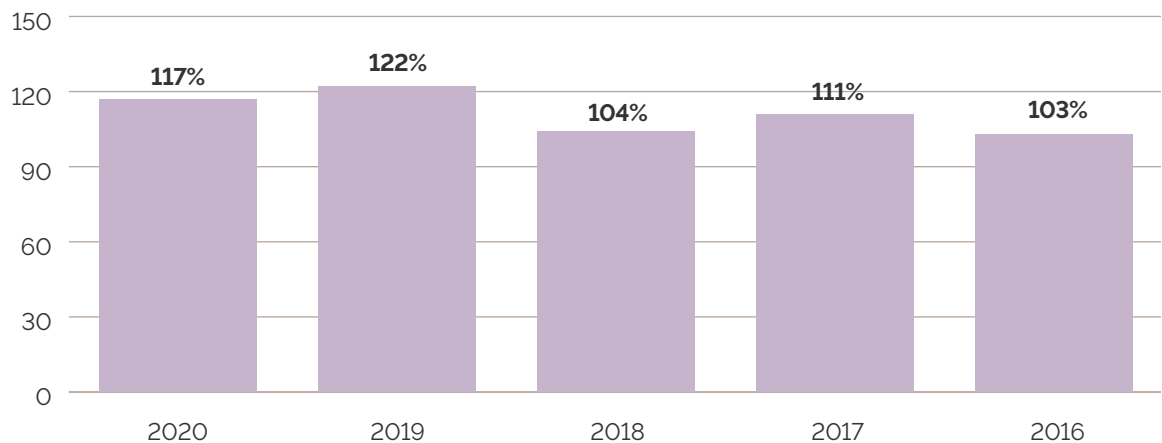
This report highlights the results of the PSPP Financial Statements as at December 31, 2020. The financial statements report the Plan's financial position and surplus on an accounting basis; however, it is important to note that the accounting financial position is not the same as the Plan's funded status determined by an actuarial funding valuation. Contribution rates are set based on the funded status and funding requirements set out in the actuarial funding valuation.

The actuarial funding valuation differs from the financial statements as the actuarial funding valuation incorporates a margin 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 funding 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.

At December 31, 2020, the financial position of the Plan shows that 117 per cent of the total pension obligation was supported by net assets.

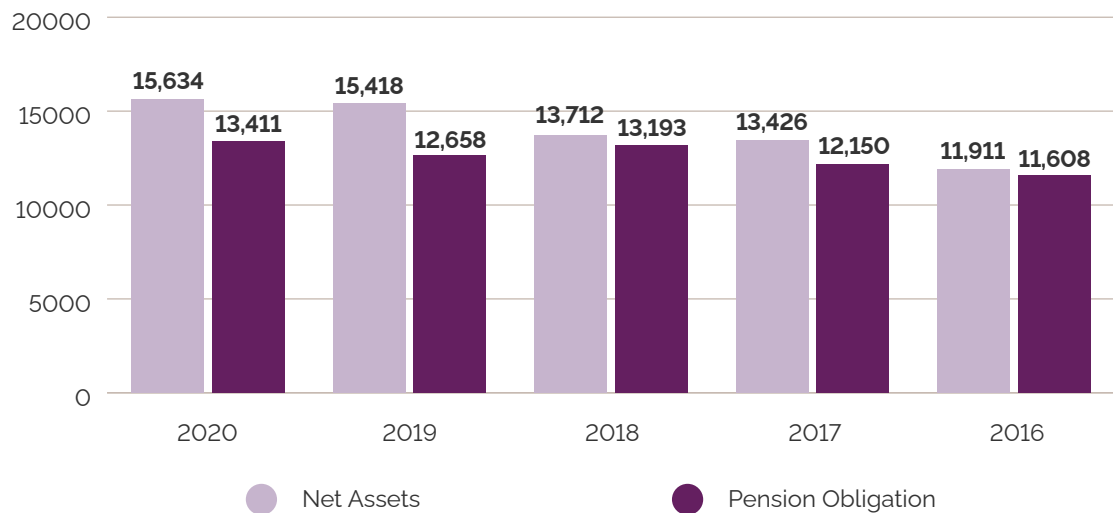
Per cent of Pension Obligation Supported by Net Assets
(per audited financial statements)



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.

At December 31, 2020, the fair value of the Plan's net assets totaling \$15.634 billion was higher than the estimated pension obligation of \$13.411 billion resulting in a surplus of \$2.223 billion. The discount rate for accounting purposes decreased from 6.0% to 5.6%. Other major assumptions for accounting purposes were unchanged from 2019.

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



Public Service Pension Plan
Financial Statements
Year Ended December 31, 2020

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, 2020, 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, 2020, 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]
Auditor General

May 21, 2021
Edmonton, Alberta

Statement of Financial Position

As at December 31, 2020

(in thousands)

| | 2020 | 2019 |
|--|----------------------|----------------------|
| Net assets available for benefits | | |
| Assets | | |
| Investments (Note 3) | \$ 15,619,243 | \$ 15,395,069 |
| Contributions receivable | | |
| Employers | 6,367 | 10,615 |
| Employees | 4,979 | 10,703 |
| Accounts receivable | 9,825 | 10,354 |
| Total Assets | 15,640,414 | 15,426,741 |
| Liabilities | | |
| Accounts payable | 6,230 | 8,931 |
| Total Liabilities | 6,230 | 8,931 |
| Net assets available for benefits | \$ 15,634,184 | \$ 15,417,810 |
| Pension obligation and surplus | | |
| Pension obligation (Note 5) | \$ 13,410,602 | \$ 12,658,490 |
| Surplus (Note 6) | 2,223,582 | 2,759,320 |
| Pension obligation and surplus | \$ 15,634,184 | \$ 15,417,810 |

The accompanying notes are part of these financial statements.

Approved by the Board:

Approved by the Board:

[Original signed by]
Linda Dalgetty
Chair, Board of Directors

[Original signed by]
Elizabeth Johansson
Chair, Finance and Audit Committee

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2020

(in thousands)

| | 2020 | 2019 |
|---|---------------|---------------|
| Increase in assets | | |
| Contributions (Note 7) | \$ 647,329 | \$ 654,151 |
| Investment income (Note 8) | 319,930 | 1,779,779 |
| Transfers from other plans | 11,093 | 8,840 |
| | 978,352 | 2,442,770 |
| Decrease in assets | | |
| Benefit payments (Note 10) | 658,956 | 621,441 |
| Transfers to other plans | 17,422 | 14,529 |
| Investment expenses (Note 11) | 71,322 | 86,651 |
| Administrative expenses (Note 12) | 14,278 | 14,898 |
| | 761,978 | 737,519 |
| Increase in net assets | 216,374 | 1,705,251 |
| Net assets available for benefits at beginning of year | 15,417,810 | 13,712,559 |
| Net assets available for benefits at end of year | \$ 15,634,184 | \$ 15,417,810 |

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2020

(in thousands)

| | 2020 | 2019 |
|--|---------------|---------------|
| Increase in pension obligation | | |
| Interest accrued on opening pension obligation | \$ 751,716 | \$ 748,350 |
| Benefits earned | 416,602 | 507,168 |
| Net loss due to actuarial assumption changes (Note 5a) | 643,068 | - |
| | 1,811,386 | 1,255,518 |
| Decrease in pension obligation | | |
| Benefits payments and transfers to other plans | 676,378 | 635,970 |
| Experience gains (Note 5b) | 382,896 | 6,125 |
| Net gain due to plan provision changes (Note 5c) | - | 655,609 |
| Net gain due to actuarial assumption changes (Note 5a) | - | 492,665 |
| | 1,059,274 | 1,790,369 |
| Net increase (decrease) in pension obligation | 752,112 | (534,851) |
| Pension obligation at beginning of year | 12,658,490 | 13,193,341 |
| Pension obligation at end of year (Note 5) | \$ 13,410,602 | \$ 12,658,490 |

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2020

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

NOTE 1. SUMMARY DESCRIPTION OF THE PLAN

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 applicable legislation shall apply.

a. GENERAL

The Plan is a 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 (registration number 0208769) as defined in the Income Tax Act. As of March 31, 2019, the Plan is also registered under the *Employment Pension Plans Act* (Alberta) (EPPA). Other provincial legislation having application to the Plan includes the *Exemption (Public Sector Pension) Regulation AR 3/2019* and the *Employment Pensions Plans Regulation AR 154/2014* (EPPR).

The Plan is governed by the PSPP Sponsor Board and PSPP Corporation. The PSPP 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. As of March 1, 2019, PSPP Corporation is the administrator of the Plan for all purposes of the EPPA, legal trustee of the Plan fund, and management for the purpose of these financial statements. Prior to March 1, 2019, the President of Treasury Board and Minister of Finance was the administrator and legal trustee of the Plan.

b. PLAN FUNDING

The Plan is subject to the jointly sponsored plan funding rules of the EPPA and is exempted from the EPPA's solvency funding requirements. 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, 2020 were 10.47% (2019: 10.47%) of pensionable earnings up to Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 14.95% (2019: 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 2020, the YMPE was \$58,700 (2019: \$57,400) and the salary cap was \$172,221 (2019: \$168,498).

The contribution rates were reviewed in 2020 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary. Contribution rates remain unchanged for 2020.

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 monthly pension or lump-sum benefit payable to the surviving beneficiary(ies) based on any remaining guaranteed period.

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 the EPPA's "locking-in provisions". Any service purchased by the member on an elective basis that was wholly funded by the member is not included in the commuted value and is instead refunded as contributions with interest.

For benefits calculated with a calculation date of prior to April 1, 2020, if the member's contributions with interest exceeded more than 50% of the commuted value, the excess contributions with interest were refunded as taxable cash. For benefits calculated with a calculation date on or after April 1, 2020, if the member's contributions with interest exceed more than 100% of the commuted value, the excess contributions with interest are refunded as taxable cash. Alternatively, the vested member may elect to receive a deferred pension which is also subject to the applicable excess rule. Members who are not vested when they terminate receive a refund of the employee paid portion of their contributions with interest. These payments are included 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 various transfer agreements with other pension plans. 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 (COLA)

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* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26 .5, Section 15 and 20. 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

- i. Investment income is recorded on an accrual basis.
- ii. 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.
- iii. the current economic environment has significant market volatility stemming from the global pandemic COVID-19 virus. Given the extent of the crisis, and varying levels of response and recovery of countries across the globe, additional uncertainty remains and will continue to exist with regards to fair value measurement of the Fund's 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

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 and updated on September 17, 2020. 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) | | | | |
|--|--------------------------|--------------|---------------|---------------|
| Asset class | Fair Value Hierarchy (a) | | 2020 | 2019 |
| | Level 2 | Level 3 | Fair Value | Fair Value |
| Fixed income | | | | |
| Money market | \$ 97,983 | \$ - | \$ 97,983 | \$ 95,698 |
| Bonds, mortgages and private debt | 2,305,510 | 907,218 | 3,212,728 | 3,061,114 |
| | 2,403,493 | 907,218 | 3,310,711 | 3,156,812 |
| Equities | | | | |
| Canadian | 2,101,382 | - | 2,101,382 | 2,013,686 |
| Global developed | 5,611,992 | 61,037 | 5,673,029 | 5,486,879 |
| Emerging market | 832,701 | - | 832,701 | 781,699 |
| Private | 2 | 358,054 | 358,056 | 380,183 |
| | 8,546,077 | 419,091 | 8,965,168 | 8,662,447 |
| Alternatives | | | | |
| Real estate | - | 1,993,223 | 1,993,223 | 2,147,609 |
| Infrastructure | - | 1,154,716 | 1,154,716 | 1,146,225 |
| Timberland | - | 155,615 | 155,615 | 215,641 |
| | - | 3,303,554 | 3,303,554 | 3,509,475 |
| Strategic and currency investments* | - | 39,810 | 39,810 | 66,335 |
| Total Investments | \$ 10,949,570 | \$ 4,669,673 | \$ 15,619,243 | \$ 15,395,069 |

* 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 \$10,949,570 (2019: \$10,574,423).

- **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, real estate, infrastructure, and timberland investments totaling \$4,669,673 (2019: \$4,820,646).

Reconciliation of Level 3 Fair Value Measurement

(in thousands)

| | 2020 | 2019 |
|--|---------------------|---------------------|
| Balance, beginning of year | \$ 4,820,646 | \$ 4,526,202 |
| Investment (loss) income * | (305,004) | 313,217 |
| Purchases of Level 3 pooled fund units | 561,184 | 548,423 |
| Sale of Level 3 pooled fund units | (407,153) | (567,196) |
| Balance, end of year | \$ 4,669,673 | \$ 4,820,646 |

* Investment income includes unrealized (losses) of (\$552,715) (2019: (\$5,727)).

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:** 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. Forward foreign exchange contracts are valued based on difference between contractual foreign exchange rates and foreign exchange forward rate. Future 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

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 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. To earn the best possible return at an acceptable level of risk, the following target policy asset mix has been established for 2019 and 2020. A new asset mix was approved by the Board of Directors of PSPP Corporation in April 2021.

| Asset Class | Target Asset Policy Mix (a) | Actual Asset Mix | | | |
|------------------------------------|-----------------------------|------------------|-------|----------------|-------|
| | | 2020 | | 2019 | |
| | | (\$ thousands) | % | (\$ thousands) | % |
| Fixed income | 21% | \$ 3,310,711 | 21.2 | \$ 3,156,812 | 20.5 |
| Equities | 55% | 8,965,168 | 57.4 | 8,662,447 | 56.3 |
| Alternatives | 24% | 3,303,554 | 21.1 | 3,509,475 | 22.8 |
| Strategic and currency investments | (b) | 39,810 | 0.3 | 66,335 | 0.4 |
| | | \$ 15,619,243 | 100.0 | \$ 15,395,069 | 100.0 |

(a) Actual investments are within the ranges for each Asset Class outlined in the SIPP.

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

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, 2020:

| Credit Rating | 2020 | 2019 |
|----------------------------------|---------------|---------------|
| Investment Grade (AAA to BBB-) | 68.3% | 76.4% |
| Speculative Grade (BB+ or lower) | 2.8% | 0.5% |
| Unrated | 28.9% | 23.1% |
| | 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 (\$ thousands)

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, 2020, the Plan's share of securities loaned under this program is \$392,403 (2019: \$480,364) and collateral held totals \$417,317 (2019: \$510,653). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash or other investments. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b. FOREIGN CURRENCY RISK (\$ thousands)

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% (2019: 42%) of the Plan's investments, or \$6,586,690 (2019: \$6,442,039), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 24% (2019: 23%) and the Euro, 4% (2019: 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 (2019: 4.2%).

The following table summarized the Plan's exposure to foreign currency investments held in the pools at December 31, 2020:

| Currency * | (\$ thousands) | | | |
|---|---------------------|---------------------|---------------------|---------------------|
| | 2020 | | 2019 | |
| | Fair Value | Sensitivity | Fair Value | Sensitivity |
| U.S. dollar | \$ 3,689,808 | \$ (368,981) | \$ 3,466,108 | \$ (346,611) |
| Euro | 664,644 | (66,464) | 632,984 | (63,298) |
| Japanese yen | 479,735 | (47,974) | 488,680 | (48,868) |
| British pound | 351,774 | (35,177) | 369,390 | (36,939) |
| Hong Kong dollar | 219,665 | (21,967) | 194,473 | (19,447) |
| Chinese yuan | 172,480 | (17,248) | 192,988 | (19,299) |
| Swiss franc | 162,399 | (16,240) | 161,015 | (16,102) |
| Other foreign currency | 846,185 | (84,619) | 936,401 | (93,640) |
| Total foreign currency investments | \$ 6,586,690 | \$ (658,670) | \$ 6,442,039 | \$ (644,204) |

* 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 1.7% of total investments (2019:1.8%).

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 5.1% of total investments (2019: 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.

| By counterparty | Number of counterparties | Plan's Indirect Share (\$ thousands) | |
|---|--------------------------|---|------------------|
| | | 2020 | 2019 |
| Contracts in net favourable position (current credit exposure) | 139 | \$ 235,513 | \$ 573,590 |
| Contracts in net unfavourable position | 11 | (88,119) | (515,310) |
| Net fair value of derivative contracts | 150 | \$ 147,394 | \$ 58,280 |

- 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 \$235,513 (2019: \$573,590) 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

| Types of derivatives used in pools | Plan's Indirect Share (\$ thousands) | |
|---|---|------------------|
| | 2020 | 2019 |
| Equity-based derivatives | \$ 101,445 | \$ 35,748 |
| Foreign currency derivatives | 42,119 | 30,315 |
| Interest rate derivatives | 856 | (10,233) |
| Credit risk derivatives | 2,974 | 2,450 |
| Net fair value of derivative contracts | \$ 147,394 | \$ 58,280 |

- 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, 2020, deposits in futures contracts margin accounts totaled \$55,826 (2019: \$24,970). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled \$123,025 (2019: \$72,255) and \$nil (2019: \$nil).

NOTE 5. PENSION OBLIGATION (\$ thousands)

a. ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out at December 31, 2019 by George and Bell Consulting and results were then extrapolated to December 31, 2020.

The actuarial assumptions used in determining the value of the pension obligation of \$13,410,602 (2019: \$12,658,490) 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:

| | 2020 % | 2019 % |
|-------------------------|--|-----------|
| Discount rate | 5.6 | 6.0 |
| Inflation rate | 2.0 | 2.0 |
| Salary escalation rate* | 0.0 to 3.0** | 3.0 |
| Mortality Rate | <u>2014 Canadian Pension Mortality Private Table</u> | |

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

** Rate is 0.0% until March 31, 2021 and 3.0% thereafter.

Net loss due to actuarial assumption changes of \$643,068 (2019: net gain of \$492,665) primarily resulted from changes in the discount rate.

The next actuarial valuation of the Plan will be completed no later than December 31, 2022.

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. EXPERIENCE GAINS

Experience gains include \$351,993 (2019: \$0) that reflect the results of the valuation as at December 31, 2019 and extrapolated to December 31, 2020 and \$30,903 (2019: \$6,125) from cost of living adjustments lower than expected.

c. PLAN PROVISION CHANGES

There were no plan provision changes in 2020. Net gain of \$655,609 in 2019 are due to changes in plan provisions that resulted from legislation changes during the prior 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, 2020:

(\$ thousands)

| | Changes in Assumptions % | Increase in Plan Deficiency \$ | Increase in Current Service Cost as a % of Pensionable Earnings ⁽¹⁾ |
|--|--------------------------------|---|--|
| Inflation rate increase holding discount rate and salary escalation assumptions constant | 1.0 | 916,996 | 1.1 |
| Salary escalation/YMPE/Maximum pension limit rate increase holding inflation rate and discount rate assumptions constant | 1.0 | 378,854 | 1.3 |
| Discount rate decrease holding inflation rate and salary escalation assumptions constant | 1.0 | 1,971,969 | 3.4 |

(1) The current service cost as a percentage of pensionable earnings is 15.8% at December 31, 2020.

NOTE 6. SURPLUS

(\$ thousands)

| | 2020 | 2019 |
|---|--------------|--------------|
| Surplus at beginning of year | \$ 2,759,320 | \$ 519,218 |
| Increase in net assets available for benefits | 216,374 | 1,705,251 |
| Net (increase) decrease in pension obligation | (752,112) | 534,851 |
| Surplus at end of year | \$ 2,223,582 | \$ 2,759,320 |

NOTE 7. CONTRIBUTIONS

| | | (\$ thousands) | |
|------------------------|--|-------------------|-------------------|
| | | 2020 | 2019 |
| Current service | | | |
| Employers | | \$ 321,690 | \$ 321,306 |
| Employees | | 319,986 | 324,311 |
| Past service | | | |
| Employers | | 1,807 | 2,588 |
| Employees | | 3,846 | 5,946 |
| | | \$ 647,329 | \$ 654,151 |

NOTE 8. INVESTMENT INCOME

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

| | | (\$ thousands) | | | |
|---|--|-------------------|----------------------|-------------------|---------------------|
| | | Income | Change in Fair Value | 2020 Total | 2019 Total |
| Fixed Income | | \$ 240,169 | 71,549 | \$ 311,718 | \$ 260,770 |
| Equities | | | | | |
| Canadian | | (1,968) | 49,408 | 47,440 | 361,963 |
| Foreign | | 337,586 | (10,892) | 326,694 | 875,897 |
| Private | | 27,851 | (61,292) | (33,441) | 13,059 |
| | | 363,469 | (22,776) | 340,693 | 1,250,919 |
| Alternatives | | | | | |
| Real Estate | | 51,587 | (342,917) | (291,330) | 112,584 |
| Infrastructure | | 43,606 | (67,901) | (24,295) | 104,959 |
| Timberland | | 17,533 | (30,519) | (12,986) | 36,594 |
| | | 112,726 | (441,337) | (328,611) | 254,137 |
| Strategic and currency investments | | 17,999 | (21,869) | (3,870) | 13,953 |
| | | \$ 734,363 | \$ (414,433) | \$ 319,930 | \$ 1,779,779 |

The change in fair value includes realized and unrealized gains and losses on pool units. Realized and unrealized gains and losses on pool units total \$53,215 and (\$467,647) respectively (2019: \$56,416 and \$696,801 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. Interest income earned on Consolidated Cash Investment Trust Fund (CCITF) balance is included in income.

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:

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|--------------------|--------------|------------|-------------|------------|
| | <i>in per cent</i> | | | | |
| Increase (decrease) in net assets attributed to: | | | | | |
| Investment income | | | | | |
| Policy benchmark return on investments | 8.0 | 13.8 | 1.0 | 9.7 | 6.6 |
| Value added (lost) by AIMCo | (6.4) | (1.5) | 0.5 | 1.6 | 0.3 |
| Time weighted rate of return, at fair value ^(a) | 1.6 | 12.3 | 1.5 | 11.3 | 6.9 |
| Other sources ^(b) | (0.2) | 0.1 | 0.6 | 1.4 | 2.0 |
| Per cent change in net assets ^(c) | 1.4 | 12.4 | 2.1 | 12.7 | 8.9 |
| Per cent change in pension obligation ^(c) | 5.9 | (4.1) | 8.6 | 4.7 | 4.9 |
| Per cent of pension obligation supported by net assets | 117 | 122 | 104 | 111 | 103 |

(a) All investment returns are provided by AIMCo and are net of investment expenses.

(b) Other sources include employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) 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) | |
|----------------------|-------------------|-------------------|
| | 2020 | 2019 |
| Retirement benefits | \$ 491,781 | \$ 461,896 |
| Disability pensions | 1,796 | 1,725 |
| Termination benefits | 137,513 | 125,962 |
| Death benefits | 27,866 | 31,858 |
| | \$ 658,956 | \$ 621,441 |

NOTE 11. INVESTMENT EXPENSES

| | (\$ thousands) | |
|---|------------------|------------------|
| | 2020 | 2019 |
| Amounts charged by AIMCo for: | | |
| Investment costs ^(a) | \$ 52,774 | \$ 53,264 |
| Performance-based fees ^(a) | 16,066 | 30,531 |
| GST | 2,482 | 2,843 |
| | 71,322 | 86,638 |
| Amounts charged by Treasury Board and Finance for: | | |
| Investment accounting and Plan reporting | - | 13 |
| Total investment expenses | \$ 71,322 | \$ 86,651 |
| (Decrease) increase in expenses ^(a) | (17.7%) | 20.2% |
| Increase in average investments under management | 6.7% | 7.3% |
| Decrease in value of investments attributed to AIMCo | (6.4%) | (1.5%) |
| Investment expenses | 46 bps | 56 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.

NOTE 12. ADMINISTRATIVE EXPENSES

| | (\$ thousands) | |
|--|----------------|---------------|
| | 2020 | 2019 |
| Pension administration costs and process improvement costs | | |
| Alberta Pensions Services Corporation (APS) | \$ 11,539 | \$ 13,023 |
| PSPP Corporation | 2,279 | 1,471 |
| Goods and services tax | 460 | 404 |
| | \$ 14,278 | \$ 14,898 |
| Member service expenses per member in dollars (based on total membership) | \$ 169 | \$ 174 |

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 Pension 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 (\$ 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 \$15,768,000 at December 31, 2020 (2019: \$14,855,000).

NOTE 14. RESPONSIBILITY OF FINANCIAL STATEMENTS

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

PSPP CORPORATION
Financial Statements
December 31, 2020

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, 2020, 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, 2020, 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 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 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]
Auditor General

May 21, 2021
Edmonton, Alberta

PSPP CORPORATION
STATEMENT OF FINANCIAL POSITION
Year ended December 31, 2020

(in thousands)

| | <u>2020</u> | <u>2019</u> |
|---|--------------|-------------|
| Financial assets | | |
| Cash | \$ 580 | \$ 67 |
| Accounts receivable | 29 | - |
| Due from Public Service Pension Plan (Note 5) | - | 144 |
| | <u>609</u> | <u>211</u> |
| Liabilities | | |
| Due to Public Service Pension Plan (Note 5) | 654 | - |
| Due to Alberta Pensions Services Corporation (Note 6) | 8 | 145 |
| Accounts payable and accrued liabilities | 130 | 104 |
| Accrued salaries and benefits | 82 | 46 |
| Deferred lease inducement (Note 8) | 252 | - |
| | <u>1,126</u> | <u>295</u> |
| Net debt (Note 3) | <u>(517)</u> | <u>(84)</u> |
| Non-financial assets | | |
| Tangible capital assets (Note 7) | 392 | - |
| Prepaid expenses | 294 | 84 |
| | <u>686</u> | <u>84</u> |
| Net assets before spent deferred capital contributions | <u>169</u> | <u>-</u> |
| Spent deferred capital contributions (Note 7) | 169 | - |
| Net assets | <u>\$ -</u> | <u>\$ -</u> |

Contractual obligations (Note 8)

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

Approved by the Board:

Approved by the Board:

Original signed by
 Linda Dalgetty
 Chair of the Corporate Board

Original signed by
 Elizabeth Johannson
 Chair of Finance Audit Committee

PSPP CORPORATION
STATEMENT OF OPERATIONS
Year ended December 31, 2020

| | 2020 | | 2019 |
|---|---------------|---------------|-----------|
| <i>(in thousands)</i> | Budget | Actual | |
| Expenses | | | |
| Salaries and benefits | \$ 1,403 | \$ 1,045 | \$ 617 |
| Contract services | 575 | 578 | 205 |
| General and administrative | 577 | 375 | 335 |
| Amortization (Note 7) | - | 5 | - |
| Corporate Board (Board fees and administrative) | 347 | 122 | 155 |
| Sponsor Board (administrative) | 228 | 154 | 159 |
| Total operating costs | 3,130 | 2,279 | 1,471 |
| Recovery of costs from the PSPP (Note 5) | 3,130 | 2,279 | 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, 2020

(in thousands)

| | 2020 | | 2019 |
|--|-----------------|-----------------|----------------|
| | Budget | Actual | Actual |
| Annual surplus (deficit) | \$ - | \$ - | \$ - |
| Acquisition of tangible capital assets (Note 7) | (155) | (397) | - |
| Amortization of tangible capital assets (Note 7) | - | 5 | - |
| Change in spent deferred capital contributions | - | 169 | - |
| Change in prepaid expenses | - | (210) | (84) |
| Increase in net debt | (155) | (433) | (84) |
| Net debt at beginning of year | - | (84) | - |
| Net debt at end of year | <u>\$ (155)</u> | <u>\$ (517)</u> | <u>\$ (84)</u> |

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

PSPP CORPORATION
STATEMENT OF CASH FLOWS
Year ended December 31, 2020

(in thousands)

| | 2020 | 2019 |
|---|---------------|--------------|
| Operating transactions | | |
| Annual surplus (deficit) | \$ - | - |
| Non-cash items included in annual surplus (deficit) | | |
| Increase in deferred lease inducement (Note 8) | 254 | - |
| Acquisition of leasehold improvements as a deferred lease inducement (Note 7) | (225) | - |
| Amortization of tangible capital assets (Note 7) | 5 | - |
| Amortization of spent deferred capital contributions | (2) | - |
| | <u>32</u> | <u>-</u> |
| Increase in accounts receivable | (29) | - |
| Increase in prepaid expenses | (210) | (84) |
| Decrease (increase) in due from Public Service Pension Plan (Note 5) | 144 | (144) |
| Increase in due to Public Service Pension Plan (Note 5) | 654 | - |
| Increase in accounts payable and accrued liabilities | 26 | 104 |
| (Decrease) Increase in due to Alberta Pensions Service Corporation (Note 6) | (137) | 145 |
| Increase in accrued salaries and benefits | 36 | 46 |
| Cash provided by operating transactions | <u>484</u> | <u>67</u> |
| Capital transactions | | |
| Acquisition of tangible capital assets (Note 7) | (172) | - |
| Cash applied to capital transactions | <u>(172)</u> | <u>-</u> |
| Financing transactions | | |
| Increase in spent deferred capital contributions (Note 7) | 169 | - |
| Cash provided by financing transactions | <u>169</u> | <u>-</u> |
| Increase in cash | 513 | 67 |
| Cash at beginning of year | <u>67</u> | <u>-</u> |
| Cash at end of year | <u>\$ 580</u> | <u>\$ 67</u> |

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

PSPP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2020

1. Authority

PSPP Corporation (Corporation) was established on December 11, 2018 by the *Joint Governance of Public Sector Pension Plans Act* (Alberta) (Joint Governance Act). The Corporation is a “Provincial Corporation” for the purposes of the *Financial Administration Act* (Alberta), and a “public agency” for the purposes of the *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 or Plan). 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.

The Corporation and the PSPP Sponsor Board were established prior to the Corporation becoming the trustee of the PSPP on March 1, 2019. There were no financial transactions or management related expenses prior to this date.

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:

| <u>Financial statement component</u> | <u>Measurement</u> |
|--|--|
| 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 to/from pension plan

Amounts due to/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.

Net debt

Net debt reflects the difference between the Corporation's non-financial assets, and financial assets and liabilities. The net debt will be recovered from the Public Service Pension Plan, as authorized by the Joint Governance Act, in a future period when the Corporation realizes the benefits associated with the non-financial assets.

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 2020 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, 2020, \$654 is payable to (2019 - \$144 receivable from) the Public Service Pension Plan. The balance 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 December 31, 2020 was \$8 (2019 - \$145).

7. Tangible capital assets (in thousands)

| | | | 2020 | 2019 |
|--|-----------------------|------------------------|--------|-------|
| | Furniture & equipment | Leasehold improvements | Total | Total |
| Estimated useful life | 5 years | Lease term | | |
| Historical Cost | | | | |
| Beginning of year | \$ - | \$ - | \$ - | \$ - |
| Additions | 141 | 256 | 397 | - |
| Disposals, including write-downs | - | - | - | - |
| | 141 | 256 | 397 | - |
| Accumulated Amortization | | | | |
| Beginning of year | - | - | - | - |
| Amortization expense | 3 | 2 | 5 | - |
| Effect of disposals, including write-downs | - | - | - | - |
| | 3 | 2 | 5 | - |
| Net Book Value | \$ 138 | \$ 254 | \$ 392 | \$ - |

Additions include \$225 of leasehold improvements received during the year as part of the Corporation's office lease agreement.

Financing obtained from PSPP to acquire tangible capital assets is recognized as spent deferred capital contributions. The recovery of costs is recognized on the same basis as the tangible capital assets are amortized.

8. Contractual obligations (in thousands)

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.

In 2020, the Corporation entered into a 10-year lease agreement for office space and services. The minimum annual commitments are as follows:

| <u>Year</u> | <u>Operating</u> |
|-------------|------------------|
| 2021 | \$163 |
| 2022 | \$163 |
| 2023 | \$171 |
| 2024 | \$171 |
| 2025 | \$175 |
| Thereafter | <u>\$874</u> |
| | <u>\$1,717</u> |

As part of the lease agreement, the Corporation received a Deferred Lease Inducement of \$254 comprising of \$225 of leasehold improvements and cash to be received in 2021 of \$29. The Deferred Lease Inducement is recognized as a reduction in lease expense over the 10-year lease term.

9. 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, 2020, trust funds under administration by the Corporation were \$15,634,184 (2019 - \$15,417,810).

10. 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 the 12 months ended December 31, 2020 to senior management and the Board of Directors.

| POSITION | BASE SALARY ¹ | OTHER CASH BENEFITS ² | OTHER NON-CASH BENEFITS ³ | 2020 TOTAL | 2019 TOTAL |
|--|--------------------------|----------------------------------|--------------------------------------|------------|------------|
| Chief Executive Officer ⁴ | 300 | 10 | 77 | 387 | 276 |
| Director Pension Policy ⁵ | 130 | - | 31 | 161 | 17 |
| Director Finance and Risk ⁶ | 133 | - | 30 | 163 | - |

(1) Base salary includes regular base pay.

(2) Other cash benefits include prior year personal leave payout.

(3) Other non-cash benefits include: Corporation's share of contributions to the pension plans based on each individual's pensionable earnings. Also included are payments made on employees' behalf including health care and dental coverage, group life insurance, long-term disability insurance, workers compensation premiums, professional memberships and education expenses.

(4) Chief Executive Officer compensation commenced March 1, 2019.

(5) Director Pension Policy compensation commenced November 25, 2019.

(6) Director Finance and Risk compensation commenced January 21, 2020.

Board remuneration (in thousands)

The Board Chair received remuneration of \$30 (2019 - \$30). Three board members received a combined total remuneration of \$69 (2019 - \$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 Shareholder and is subject to applicable withholdings.

11. Defined benefit plans (in thousands)

The Corporation participates in two multi-employer defined benefit public sector pension plans, the Management Employees Pension Plan (MEPP) and the Public Service Pension Plan (PSPP). The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers (SRP). The expense for these pension plans is equivalent to the contributions of \$116 (2019 \$73) for the year ended December 31, 2020. 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, 2019, PSPP reported a surplus of \$2,759,320 (2018 - surplus of \$519,218), MEPP reported a surplus of \$1,008,135 (2018 - surplus of \$670,700) and SRP had a deficiency of \$44,698 (2018 - deficiency of \$70,310).

12. 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 are amounts charged to the Public Service Pension Plan (Note 5).

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

13. Related party transactions (in thousands)

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.

Related party transactions also include the purchase of risk management insurance from the Government of Alberta of which \$15 (2019 - \$nil) is included in Prepaid expenses and \$47 (2019 - \$nil) in General and administrative expenses.

14. Comparative figures

Certain comparative figures for Contract services have been reclassified as General and administrative expenses on the Statement of Operations to be consistent with the current period presentation.

15. Approval of financial statements

The Corporation’s Board of Directors approved the financial statements on May 21, 2021.