FitchRatings

Public Sector Pension Investment Board

Key Rating Drivers

Exceptionally Strong Overcollateralization: Public Sector Pension Investment Board's (PSP) ratings reflect its exceptionally strong asset overcollateralization and liquidity levels, the creditor priority of debtholders to amounts coming due under the relevant pension plans, the captive nature of asset inflows, experienced management team, solid long-term investment track record, strong corporate governance, and a supportive regulatory framework.

Competitive Investment Environment: Offsetting factors include investment performance pressures arising from geopolitical tensions, inflation and slower global economic growth, and the utilization of short-term wholesale funding.

Predictable Asset Flows: At March 31, 2022 (fiscal year-end 2022, FYE22), PSP had CAD230.3 billion of net assets, making it the fourth largest Canadian pension manager. PSP's captive contributions are highly predictable over time, allowing for long-term investment horizons. Net annual contributions averaged 1.9% of beginning period net assets from fiscal years 2019–2022, which is strong relative to peers, reflecting the less mature nature of its pension plan. PSP has a strong record of investment performance, outperforming its total fund benchmarks by 1.1% and 1.2% on a five and 10-year basis, respectively, at FYE22.

Modest View of Leverage: Fitch Ratings utilizes gross debt (excluding repurchase agreements and securities sold short) to net assets as its primary leverage ratio for PSP and other pension plan investment managers in its analysis, given Fitch's focus on asset overcollateralization. Based on this measure, leverage was 0.10x, inclusive of an issuance and maturity subsequent to year end, up marginally from historical levels as PSP issued an additional CAD5.8 billion of term debt and CAD2.4 billion of commercial paper (CP) during FY22. Leverage remains in line with Fitch's rating expectations and the quantitative benchmark range of 0.15x and below for investment companies rated 'aa' and higher.

Exceptionally Strong Liquidity: PSP's liquidity is supported by its predictable and reliable contributions, cash on hand, liquid investments and the ability to use net pension contributions to satisfy debt obligations. At FYE22, PSP had CAD13.4 billion in balance sheet cash and money market securities, CAD75.4 billion in marketable equities and fixed-income securities and an aggregate of CAD3 billion of unutilized revolver capacity, split into a CAD2 billion committed revolving credit facility and CAD1 billion in uncommitted demand lines of credit. This compared with CAD23.2 billion of outstanding CP and unsecured term notes, at par.

Rating Sensitivities

Factors that could, individually or collectively, lead to negative rating action/downgrade: A significant reduction in liquid assets, a material increase in leverage relative to historical averages and/or PSP's own stated leverage limits, a material change in risk appetite resulting in higher performance volatility and/or a material increase in proportion of less liquid investments, particularly in an attempt to improve the funded status of the plan, weak investment performance or increased single-name or industry concentrations could yield negative rating action.

Country Ceiling, Legal Status: PSP's ratings are also sensitive to changes in the credit risk profile of Canada, to the extent that any such changes resulted in a reduction in Canada's Country Ceiling to a level below PSP's Issuer Default Rating (IDR), or an actual or reasonably expected change in the rule of law that has the effect of calling into question creditor priority.

Ratings

Foreign Currency

Long-Term IDR	AAA
Short-Term IDR	F1+

Sovereign Risk

Long-Term Foreign-Currency IDR	AA+
Country Ceiling	AAA

Outlooks

Long-Term Foreign-Currency IDR	Stable

Applicable Criteria

Non-Bank Financial Institutions Rating Criteria (January 2022)

Related Research

Fitch Affirms Public Sector Pension Investment Board at 'AAA'/'F1+'; Outlook Stable (July 2022)

Canadian Pensions Can Withstand Higher Inflation, Weaker Growth (May 2022)

Fitch Affirms Canada's Ratings at 'AA+'; Outlook Stable (June 2022)

Fitch Ratings 2022 Outlook: Global Investment Managers (December 2021)

Financial Data

Public Sector Pension Investment Board

	3/31/22	3/31/21
Net Assets (CAD Bil.)	230.3	204.3
One Year Net Return (%)	10.9	18.4
CP + Term Notes/ Net Assets (x)	0.10	0.08
Net Fund Transfers/ Beginning of Period Net Aassets (%)	1.7	1.8

Source: Fitch Ratings, PSP.

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Issuer Ratings

Entity	Long-term IDR	Short-term IDR	Outlook
Public Sector Pension Investment Board	AAA	F1+	Stable
PSP Capital, Inc.	AAA	F1+	Stable

Source: Fitch Ratings.

The ratings assigned to wholly owned subsidiary PSP Capital Inc. are equalized with those of its parent to reflect the full guaranty provided to PSP Capital Inc. by PSP.

The Short-Term IDR of 'F1+' reflects the strongest intrinsic capacity for timely repayment of financial commitments and maintains the correspondence between Short- and Long-Term IDRs, as the 'F1+' IDR corresponds to a long-term IDR of 'AAA' under Fitch's criteria.

Debt Rating Classes

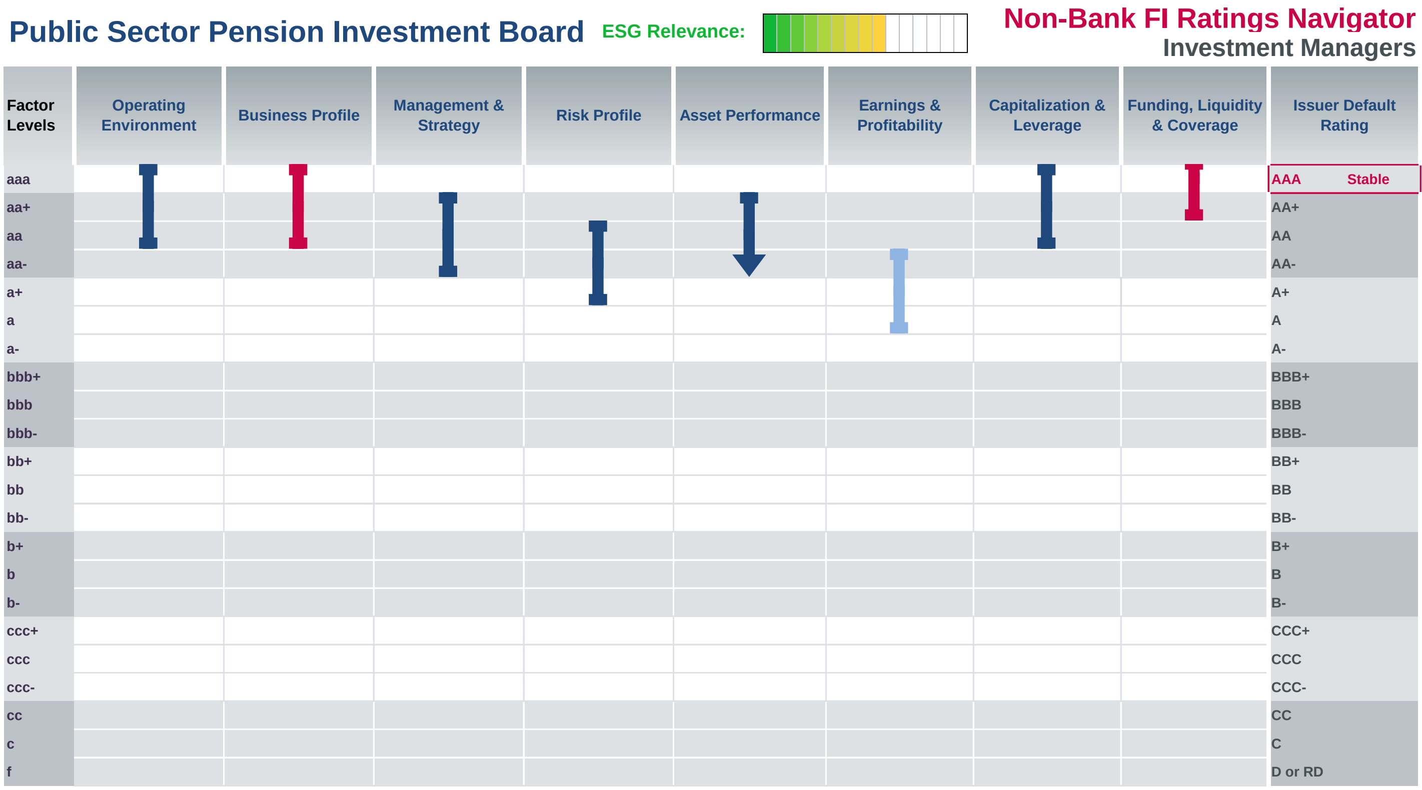
Rating Level	Unsecured Long-term Debt	Commercial Paper
PSP Capital, Inc.	AAA	F1+

Source: Fitch Ratings.

The CP rating is equalized with the Short-Term IDR and would be expected to move in tandem.

The unsecured debt rating is equalized with the Long-Term IDR, reflecting PSP's predominantly unsecured funding profile and expectations for average recovery prospects in a stressed scenario.

Ratings Navigator



Key Latest Developments

Inflation Pressures Unrelenting Amid Deteriorating Global Growth Forecasts

Fitch's updated “Global Economic Outlook” (GEO), published June 13, 2022, forecasts global GDP growth of 2.9% in 2022, down 6pp from the March 2022 GEO. Global inflation pressures continue to intensify, with increasingly adverse implications for the growth outlook. Recent Covid-19-related lockdowns in China are adding to global manufacturing supply-chain pressures and energy and food supply disruptions from the Russia-Ukraine war are having a swifter impact on European inflation than expected. Inflation pressures are also building in the services sector, particularly in the U.S. and U.K., where tight labor markets are boosting nominal wage growth. As such, Fitch revised its outlook on PSP's asset performance to negative from stable to reflect the challenging investment environment and likelihood for losses in 2022 across the peer group.

Bar Chart Legend

Vertical bars – VR range of Rating Factor

Bar Colors – Influence on final VR

- Higher influence
- Moderate influence
- Lower influence

Bar Arrows – Rating Factor Outlook

⇧ Positive ⇩ Negative

⇳ Evolving ▫ Stable

Navigator Peer Comparison

Peer Group Summary	Operating Environment	Company Profile	Management & Strategy	Risk Appetite	Asset Performance	Earnings & Profitability	Capitalisation & Leverage	Funding, Liquidity & Coverage	Issuer Default Rating	Outlook/ Watch	Rating Action
Caisse de depot et placement du Quebec	aa+	aa+	aa	aa-	aa ↓	a+	aaa	aaa	AAA	Stable	5-Jul-22
OMERS Administation Corporation	aa+	aa+	aa	aa-	aa ↓	a+	aa+	aaa	AAA	Stable	5-Jul-22
Public Sector Pension Investment Board	aa+	aa+	aa	aa-	aa ↓	a+	aa+	aaa	AAA	Stable	5-Jul-22

Company Summary and Key Qualitative Assessment Factors

Ratings Capped by Canada's Country Ceiling

Fitch does not view PSP's ratings as being directly constrained by Canada's ratings, given the relatively high proportion of PSP's assets invested outside of Canada. That said, PSP's ratings are constrained by Canada's Country Ceiling, which reflects Fitch's assessment of the risk of capital and/or exchange controls being imposed that would prevent or significantly impede PSP's ability to convert local currency into foreign currency and transfer the proceeds to non-resident creditors (also referred to as transfer and convertibility risk). Per Fitch's "Country Ceilings Criteria," dated July 1, 2020, the Country Ceiling of a given country can be as many as three notches above the sovereign's Long-Term Foreign Currency IDR if Fitch believes there are very strong incentives against the imposition of capital controls by the sovereign in question. On June 14, 2022, Fitch affirmed Canada's IDR at 'AA+' and the Country Ceiling was affirmed at 'AAA'.

Fourth Largest Defined Benefit Plan in Canada

With CAD230.3 billion in net assets under management at March 31, 2022, PSP ranks as the fourth largest defined pension benefit plan in Canada. Under its mandate, PSP has invested the assets for retirement benefits earned from April 1, 2000 for more than 900,000 current and retired members of the (Canadian) federal Public Service, the Canadian Forces (Regular Force), the Royal Canadian Mounted Police and the Canadian Forces (Reserve Force).

PSP's is incorporated as a non-agent crown corporation, fully owned by the Government of Canada. PSP serves as an investment manager and is not directly responsible for the payment of pension obligations, which are ultimately the liability of the Government of Canada. Fitch believes this profile is incrementally favorable relative to peers that are pension funds.

Highly Diverse Investment Portfolio

PSP's assets are well-diversified by asset class, geography and industry, which mitigates the risks related to the lower relative liquidity of its private investments and the potential adverse correlation risk with developments in the Canadian economy, such as lower contributions during periods of high unemployment. Fitch estimates direct exposure to Canada to be 7.8% of net assets, excluding public equities, fixed income, cash and money market investments (for which geographic information is not publicly available) as of March 31, 2022, which is low relative to peer pension plans. Fitch expects Canadian exposure to remain low as PSP increases investments in Asia-Pacific as part of its strategic plan. PSP has formal geographic, investment type and sector concentration limits.

Strong Corporate Governance Framework

Fitch views PSP's corporate governance framework as very strong. The board of directors, whose members are appointed by the Governor in Council on the recommendation of the President of the Treasury Board (of Canada), can be composed of up to 11 members, all of whom must be independent from PSP, the Government of Canada and should not be PSP's beneficiaries. Members are appointed for a four-year term but can be re-appointed. In FY22, three new directors were appointed, returning the total to a full 11.

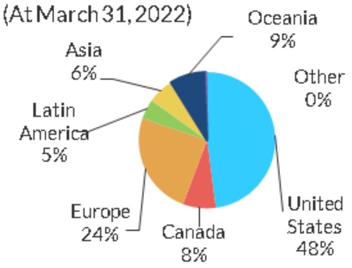
Market Risk Well Managed

PSP changed its primary measure of total portfolio market risk in FY22 from absolute annualized volatility to absolute annualized value at risk (VaR) to standardize the measure across asset classes. This is complemented by stress testing and a set of trading risk sub-limits. PSP uses 10 years' worth of market returns scaled to a 12-month holding period and a 95% confidence level to calculate the VaR. The absolute volatility measure increased meaningfully in fiscal years 2020-2021 but remained within PSP's internal board limits, despite the outsized pandemic-driven asset price swings.

PSP uses equity and commodity derivatives to manage the asset exposure profile, including over-the-counter swaps, which is less common among Canadian pension funds. Still, Fitch does not believe PSP's synthetic exposures alter the risk profile of the portfolio as these are referencing the most commonly used interest rate benchmarks and equity indices. Fitch does not expect PSP to expand its trading activities into more complex derivative structures, but any alteration of PSP's currently low risk appetite would be viewed negatively by Fitch.

Geographic Portfolio Composition (ex. Public Markets)

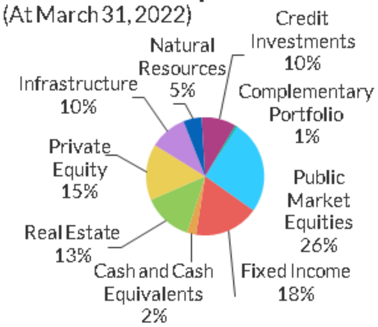
(At March 31, 2022)



Source: Fitch Ratings, PSP.

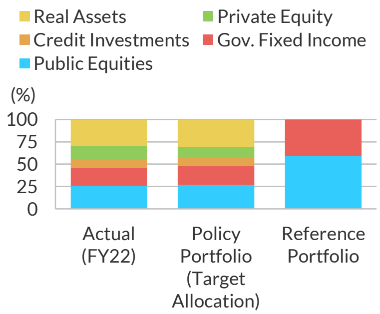
Asset Class Composition

(At March 31, 2022)



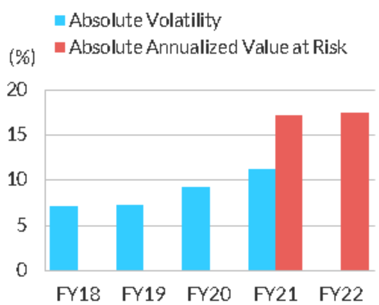
Source: Fitch Ratings, PSP.

Composition Relative to Targets



Source: Fitch Ratings, PSP.

Market Risk Measure



Source: Fitch Ratings, PSP.

Key Financial Metrics — Latest Developments

Predictable Asset Flows

The predictability of PSP's captive cash inflows and outflows favorably influences Fitch's assessment of its asset performance. Net annual contributions averaged 1.9% of beginning of period net assets from fiscal years 2019–2022, which is strong relative to peers and in line with Fitch's 'bbb' category quantitative benchmark for investment managers. Transfers are expected to remain positive until approximately 2030. The benchmark implied score is adjusted up to 'aa' given the captive nature of the flows and the predictability of inflows and outflows over an extended period.

Strong Investment Performance

PSP has a strong track record of investment performance, outperforming its total fund benchmarks by 1.1% and 1.2% on a five and 10-year basis, respectively, at FYE22. Despite rising interest rates and a volatile global equity environment, strong private asset performance helped PSP generate a solid 10.9% one-year absolute return during FY22, outperforming its benchmark and reference portfolios meaningfully. The reference portfolio is the basis PSP's investment framework and is used by the Government of Canada to communicate its funding risk tolerance to PSP. The reference portfolio is a passively managed portfolio, which was composed of 59% equity and 41% government fixed income as of March 31, 2022. The reference portfolio was re-balanced from its previous 68% equity/32% government fixed income split, following the March 2020 asset price volatility.

Fitch expects PSP's investment portfolio to suffer from market volatility and valuation declines observed in calendar year 2022; however, exceptionally strong liquidity provides a sufficient cushion to absorb investment losses and the fund's long-term investment horizon allows it to endure shorter-term market swings. That said, a prolonged period of slow or no growth, coupled with rising inflation, would be more challenging, given the fund's long-only investment strategies and vulnerability to economic and market downturns. Still, benefit payments to members are highly predictable over time and remain largely funded by contributions from members and employers.

Leverage Remains Modest

Fitch utilizes gross debt (excluding repurchase agreements and securities sold short) to net assets as its primary leverage ratio for PSP and other pension plan investment managers in its rating analysis, given Fitch's focus on asset overcollateralization, while liabilities from securities financing transactions could be satisfied via associated collateral. Based on this measure, leverage was 0.10x, inclusive of an issuance and maturity subsequent to year end, up marginally from historical levels but remaining within Fitch's 'aa and above' benchmark range of 0.15x or lower for investment companies.

Leverage was also below PSP's internal limit for recourse debt. Fitch does not expect PSP's leverage to materially exceed historical averages absent a substantial deterioration in asset prices. As a complementary leverage metric, Fitch also considers debt, including repurchase agreements and securities sold short to net assets, which was a relatively low 0.13x at FYE22.

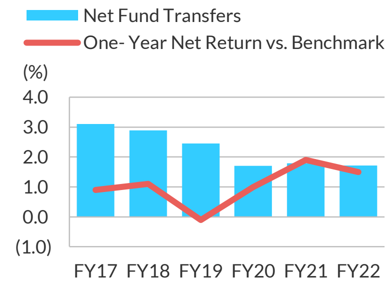
Demonstrated Unsecured Funding Access

PSP has proven access to long-term unsecured capital markets funding. During FY22, PSP placed five medium term note issuances, including its first green bond, for an aggregate of about CAD5.8 billion, with proceeds partially deployed to repay notes that matured in August 2021. In June 2022, PSP issued a five-year, $1 billion note due in 2027. Fitch expects PSP to continue to opportunistically access the unsecured debt market to extend its funding duration.

Exceptionally Strong Liquidity Profile

Liquidity is exceptionally strong given predicable and reliable contributions, cash on hand, liquid investments, and the ability to use net pension contributions to satisfy debt obligations. At FYE22, PSP had CAD13.4 billion in balance sheet cash and money market securities, CAD75.4 billion in marketable equities and fixed-income securities and an aggregate of CAD3 billion of unutilized revolver capacity, split into a CAD2 billion committed revolving credit facility and

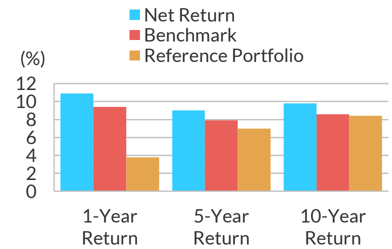
Annual Fund Flows and Return



Source: Fitch Ratings, PSP.

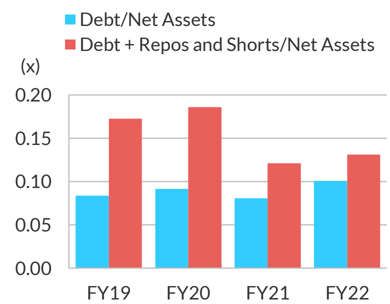
Performance Against Benchmarks

(As of Fisal Year-end 2022)



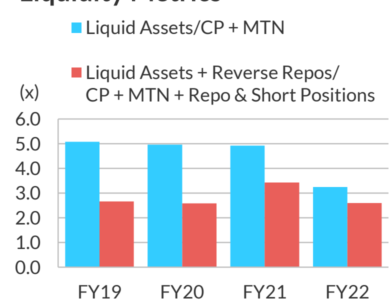
Source: Fitch Ratings, PSP

Leverage Metrics



Source: Fitch Ratings, PSP.

Liquidity Metrics



Source: Fitch Ratings.

CAD1 billion in uncommitted demand lines of credit. This compared with CAD23.2 billion of outstanding CP and unsecured term notes, at par.

Fitch views PSP's very strong liquidity as a mitigating factor to the potential for less than 100% committed third-party backup liquidity support for CP outstanding. While exposure to illiquid investments is material, Fitch believes PSP’s liquid assets will remain significant, particularly relative to outstanding indebtedness.

Environmental, Social and Governance Considerations

FitchRatings **Public Sector Pension Investment Board** **Non-Bank FI Ratings Navigator** **Investment Managers**

Credit-Relevant ESG Derivation

Public Sector Pension Investment Board has 5 ESG potential rating drivers

- Public Sector Pension Investment Board has exposure to shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core activities but this has very low impact on the rating.
- Governance is minimally relevant to the rating and is not currently a driver.

			Overall ESG Scale
key driver	0	issues	5
driver	0	issues	4
potential driver	5	issues	3
not a rating driver	3	issues	2
	6	issues	1

Environmental (E)

General Issues	E Score	Sector-Specific Issues	Reference	E Scale
GHG Emissions & Air Quality	1	Regulatory risks, emissions fines or compliance costs related to owned equipment, which could impact asset demand, profitability, etc.	Operating Environment	5
Energy Management	1	Investments in or ownership of assets with below-average energy/fuel efficiency which could impact future valuation of these assets	Risk Profile	4
Water & Wastewater Management	1	n.a.	n.a.	3
Waste & Hazardous Materials Management; Ecological Impacts	1	n.a.	n.a.	2
Exposure to Environmental Impacts	2	Impact of extreme weather events on assets and/or operations and corresponding risk profile & management; catastrophe risk; credit concentrations	Business Profile; Asset Performance	1

Social (S)

General Issues	S Score	Sector-Specific Issues	Reference	S Scale
Human Rights, Community Relations, Access & Affordability	1	n.a.	n.a.	5
Customer Welfare - Fair Messaging, Privacy & Data Security	2	Fair lending practices; pricing transparency; repossession/foreclosure/collection practices; consumer data protection; legal/regulatory fines stemming from any of the above	Operating Environment; Risk Profile; Asset Performance	4
Labor Relations & Practices	2	Impact of labor negotiations, including board/employee compensation and composition	Business Profile; Management & Strategy; Earnings & Profitability; Capitalization & Leverage; Funding, Liquidity & Coverage	3
Employee Wellbeing	1	n.a.	n.a.	2
Exposure to Social Impacts	3	Shift in social or consumer preferences as a result of an institution's social positions, or social and/or political disapproval of core activities	Business Profile; Earnings & Profitability	1

Governance (G)

General Issues	G Score	Sector-Specific Issues	Reference	G Scale
Management Strategy	3	Operational implementation of strategy	Management & Strategy	5
Governance Structure	3	Board independence and effectiveness; ownership concentration; protection of creditor/stakeholder rights; legal /compliance risks; business continuity; key person risk; related party transactions	Management & Strategy	4
Group Structure	3	Organizational structure; appropriateness relative to business model; opacity; intra-group dynamics; ownership	Business Profile	3
Financial Transparency	3	Quality and timing of financial reporting and auditing processes	Management & Strategy	2
				1

How to Read This Page
ESG scores range from 1 to 5 based on a 15-level color gradation. Red (5) is most relevant and green (1) is least relevant.

The Environmental (E), Social (S) and Governance (G) tables break out the individual components of the scale. The right-hand box shows the aggregate E, S, or G score. General Issues are relevant across all markets with Sector-Specific Issues unique to a particular industry group. Scores are assigned to each sector-specific issue. These scores signify the credit-relevance of the sector-specific issues to the issuing entity's overall credit rating. The Reference box highlights the factor(s) within which the corresponding ESG issues are captured in Fitch's credit analysis.

The Credit-Relevant ESG Derivation table shows the overall ESG score. This score signifies the credit relevance of combined E, S and G issues to the entity's credit rating. The three columns to the left of the overall ESG score summarize the issuing entity's sub-component ESG scores. The box on the far left identifies some of the main ESG issues that are drivers or potential drivers of the issuing entity's credit rating (corresponding with scores of 3, 4 or 5) and provides a brief explanation for the score.

Classification of ESG issues has been developed from Fitch's sector ratings criteria. The General Issues and Sector-Specific Issues draw on the classification standards published by the United Nations Principles for Responsible Investing (PRI) and the Sustainability Accounting Standards Board (SASB).

Sector references in the scale definitions below refer to Sector as displayed in the Sector Details box on page 1 of the navigator.

CREDIT-RELEVANT ESG SCALE

How relevant are E, S and G issues to the overall credit rating?

5	Highly relevant, a key rating driver that has a significant impact on the rating on an individual basis. Equivalent to "higher" relative importance within Navigator.
4	Relevant to rating, not a key rating driver but has an impact on the rating in combination with other factors. Equivalent to "moderate" relative importance within Navigator.
3	Minimally relevant to rating, either very low impact or actively managed in a way that results in no impact on the entity rating. Equivalent to "lower" relative importance within Navigator.
2	Irrelevant to the entity rating but relevant to the sector.
1	Irrelevant to the entity rating and irrelevant to the sector.

Comprehensive Income

(CAD Mil., as of March 31)	2019	2020	2021	2022
Investment Income	12,195	203	32,588	23,562
Investment-related expenses	(579)	(703)	(497)	(502)
Net Investment Income	11,616	(500)	32,091	23,060
Operating Expenses	(503)	(551)	(510)	(588)
Net Income	11,113	(1,051)	31,581	22,742

Source: Fitch Ratings, PSP.

Balance Sheet

	2020		2021		2022	
(CAD Mil., as of March 31)	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**	**Fair Value**	**% of Total**
Assets						
Public Markets						
Canadian equity	3,360	1.6	3,936	1.7	4,926	1.9
Foreign equity	29,073	14.0	40,188	17.3	42,034	15.9
Private Markets						
Real estate	29,763	14.3	32,000	13.7	39,430	14.9
Private equity	22,087	10.6	30,244	13.0	33,341	12.6
Infrastructure	22,428	10.8	22,730	9.8	29,481	11.2
Natural resources	10,443	5.0	12,906	5.5	15,695	5.9
Fixed Income						
Cash and money market securities	4,840	2.3	7,793	3.3	13,367	5.1
Gov't and corporate bonds[a]	31,403	15.1	25,976	11.2	19,410	7.4
Inflation-linked bonds	16,557	8.0	14,218	6.1	13,027	4.9
Private debt securities	17,441	8.4	18,120	7.8	25,616	9.7
Alternative Investments	11,077	5.3	16,243	7.0	21,601	8.2
Total investments	**198,472**	**95.6**	**224,354**	**96.4**	**257,928**	**97.7**
Investment-related assets						
Amounts receivable from pending trades	760	0.4	1,689	0.7	487	0.2
Interest receivable	588	0.3	402	0.2	316	0.1
Dividends receivable	159	0.1	157	0.1	181	0.1
Securities purchased under reverse repurchase agreements	4,516	2.2	3,767	1.6	2,870	1.1
Derivative-related assets	2,784	1.3	2,178	0.9	2,054	0.8
Total investment-related assets	8,807	4.2	8,193	3.5	5,908	2.2
Total investments and investment-related assets	207,279	99.8	232,547	99.9	263,836	99.9
Other assets	324	0.2	246	0.1	208	0.1
Total Assets	**207,603**	**100.0**	**232,793**	**100.0**	**264,044**	**100.0**
Liabilities						
Investment-related liabilities representing financial liabilities at FVTPL	21,673	10.4	11,325	4.9	10,634	4.0
Capital market debt financing	15,808	7.6	16,731	7.2	22,710	8.6
Trade payable and other liabilities	440	0.2	438	0.2	427	0.2
Total Liabilities	**37,921**	**18.3**	**28,494**	**12.2**	**33,771**	**12.8**
Total Equity	**169,682**	**81.7**	**204,299**	**87.8**	**230,273**	**87.2**
Total Liabilities and Equity	**207,603**	**100.0**	**232,793**	**100.0**	**264,044**	**100.0**

Note: Fitch represents balance sheet with an expanded breakdown of financial assets and liabilities

Source: Fitch Ratings, PSP.

Summary Analytics

(As of March 31)	2019	2020	2021	2022
Net Asset Growth	9.7	1.1	20.4	12.7
Net Contributions/Beginning Net Assets	2.5	1.7	1.8	1.7
One-year Return	7.1	(0.6)	18.4	10.9
Five-year Return, Annualized	8.8	5.8	9.3	9.0
Ten-year Return, Annualized	10.7	8.5	8.9	9.8
Operating Expenses/Average Net Assets (bp)	31.4	32.6	27.3	27.1
CP + Term Notes/Net Assets + CP + Term Notes, FV	0.08	0.09	0.08	0.09
CP + Term Notes/Net Assets, at par	0.08	0.09	0.08	0.10
(CP + Term Notes + Repos + Short)/Net Assets, Fair Value (x)	0.17	0.19	0.12	0.13
Liquid assets/CP	10.33	12.27	14.14	9.29
Liquid assets/CP + Term Notes, at par	5.08	4.96	4.92	3.25

Source: Fitch Ratings, PSP.

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

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