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Public Sector Pension Investment Board

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Public Sector Pension Investment Board

Major Rating Factors

Issuer Credit Rating
AAA/Stable/A-1+

Strengths	Weaknesses
• Large and growing net assets, robust long-term net returns, stable depositor base, and prudent risk management policies and practices are the foundation of the Public Sector Pension Investment Board's (PSPIB's or the fund's) stand-alone credit profile (SACP). • The fund's SACP is also bolstered by its low leverage, well-diversified portfolio and strong liquidity position, as well as strong management and governance. • Although the PSPIB is operationally independent from its owner, the federal government, we believe there is a moderately high likelihood of the fund receiving extraordinary government support from it, if necessary.	• Like its peers, a competitive investment environment will continue to challenge the fund as it strives to meet its long-term return objective without undue risk of loss.

Outlook

The stable outlook reflects our expectation that the fund will retain its strong institutional and financial position in the next two years, and that it will continue to build out investment capabilities and risk management systems in line with its expected growth. In addition, we expect the PSPIB will maintain its strong liquidity, management, and risk management systems. We further expect the fund's leverage will remain relatively low. We do not expect any significant changes to the PSPIB's mandate and legislative framework. In addition, we do not anticipate any change to our assessment of a moderately high likelihood that the Canadian government would provide extraordinary support to the fund in the event of financial distress.

We could lower the ratings if we saw evidence of a material increase in risk appetite or erosion in the performance of risk management systems. This could include an increase in the PSPIB's total liabilities above 40% of total assets, a relatively large investment loss, or a marked decline in liquid unencumbered assets relative to liabilities. We consider these scenarios unlikely over our two-year outlook horizon.

Rationale

The ratings on PSPIB and subsidiary PSP Capital Inc. reflect the fund's SACP, which S&P Global Ratings assesses at 'aaa'. We also believe there is a moderately high likelihood that the Canadian government would provide extraordinary support in the event of financial distress.

We consider PSPIB to be a sophisticated pension investment manager. The fund's net asset position increased only modestly in fiscal 2020 to C$169.7 billion from C$167.9 billion in fiscal 2019, owing to the sell-off in equity markets late in the first quarter of 2020. As a result of the sell-off, PSPIB, whose financial year ends March 31, recorded an overall net return of negative 0.6%, which was down considerably from 7.1% in fiscal 2019 but better than its benchmark of negative 1.6%. Markets began to rebound in the second quarter of 2020 and we expect the fund's overall return and net assets will strengthen considerably in fiscal 2021.

The SACP also reflects our view of the fund's operational independence from the Government of Canada, well-diversified portfolio, strong liquidity position and management and governance, and low leverage. We believe the competitive investment environment will continue to challenge PSPIB, along with its peers, as the fund strives to meet its long-term return objective without undue risk of loss, as required under its mandate.

We believe that PSPIB enjoys a strong institutional position because of its statutory role as the pension investment manager for four of the Government of Canada's pension funds. While it invests the funds of four pension plans, PSPIB is a pension investment manager with no legal responsibility for the plans' underlying funding liabilities. PSPIB has grown rapidly since its inception and is now one of Canada's largest pension asset managers.

We consider PSPIB operationally independent from the Government of Canada. The government has established a governance framework that supports the fund's independent functioning, while establishing a clear framework for transparency and accountability. PSPIB operates at arm's length from the Government of Canada, and we expect this will continue. Moreover, we believe the fund would be financially resilient to political intervention, given its legal ownership of the investment assets and independent and highly qualified board of directors. Furthermore, we expect no significant changes to the governance framework over the next few years.

In our opinion, PSPIB benefits from strong management and a comprehensive risk management framework. We believe management maintains a clear and comprehensive set of operating principles, objectives, and strategies. The fund has performed well against its targets: Its 10-year net annualized return is 8.5% as of March 31, 2020, compared with a return objective of 5.7% for the same period. The fund's risk management is strong, with extensive and improving audit and control systems. The board has formal enterprise risk management policies in place. As part of the fund's risk management practices, PSPIB diversifies its investment portfolio geographically, and by asset class, credit quality, and sector. Its top 10 investments account for about 23% of total investments, down from about 27% in fiscal 2019, and they remain concentrated in high-quality government bonds that support the fund's liquidity.

PSPIB also has low leverage, in our opinion. The board of directors has established a limit for capital markets debt, equal to 10% of adjusted net assets. Total leverage was 18.3% of total assets as of March 31, 2020, up somewhat from the previous year, but still at a level we consider low.

Public Sector Pension Investment Board -- Leverage

Leverage ratios	2020	2019	2018	2017	2016
Total liabilities/total assets	18.3%	15.7%	14.6%	14.7%	11.3%
Secured funding*/total assets	10.4%	8.5%	7.6%	7.8%	4.5%
Capital market debt/total net assets	9.3%	8.4%	8.0%	8.0%	7.6%

* Investment-related liabilities

PSPIB issues debt through PSP Capital, its wholly owned, fully guaranteed subsidiary. PSP Capital was set up to issue debt in response to the fund's borrowing needs and desire to leverage its private markets portfolio. The guarantee conforms to our guarantee criteria and PSP Capital debt issues take the same ratings as those on PSPIB accordingly.

In accordance with our government-related entities criteria, we view the likelihood of PSPIB receiving extraordinary government support as moderately high, based on our assessment of the fund's important role. PSPIB plays an important public policy role by investing the pension assets of four federally sponsored pension plans. We believe the federal government has a strong link with the fund, as evidenced by its direct relationship as sponsor. Moreover, the federal government, via the Treasury Board and Department of Finance, has formal ongoing interactions with the fund through their participation on an asset liability committee. This committee recommends the funding risk targets, including the reference portfolio, indicating the government's risk appetite, but is not involved in day-to-day investment decisions. A clear corporate governance setup with independent management guides the fund, which continues to make its own business decisions.

We have used our "Principles Of Credit Ratings" in conjunction with "U.S. Public Finance: Public Pension Funds," and "Rating Government-Related Entities: Methodology And Assumptions," as our criteria foundation for our analysis of PSPIB's creditworthiness. We also use our "Methodology For Linking Long-Term And Short-Term Ratings" criteria as a basis to assign short-term ratings as well as our "Guarantee Criteria" as the basis for the ratings on the debt of PSP Capital. In our view, the fund's qualitative credit factors, such as management (including operational effectiveness and financial risk management) and independence, are similar to those of rated pension funds and pension fund investment boards.

Liquidity

We believe the fund has strong liquidity owing to its positive contribution cash flows, lack of redemption risk, large pool of liquid assets, and low level of debt. Contributions to the fund are required by federal statute, and we believe its funding profile is very predictable. The fund received C$2.9 billion in net plan contributions in fiscal 2020. We expect net plan contributions will remain positive until approximately 2030. The fund maintains a sizable pool of liquid assets with which to meet its funding requirements. As of March 31, 2020, it held C$4.8 billion of cash and money market securities, as well as C$48.0 billion of inflation-linked fixed-income securities, and C$32.4 billion of publicly traded equities. These well exceed PSPIB's commercial paper and medium-term note programs, which totaled C$15.8 billion at that time. PSPIB maintains a revolving C$2 billion credit facility and a C$1 billion demand line of credit, both of which remained undrawn at March 31, 2020.

Related Criteria

- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- Criteria | Governments | U.S. Public Finance: Public Pension Funds, June 27, 2007

Ratings Detail (As Of January 25, 2021)*	
Public Sector Pension Investment Board	
Issuer Credit Rating	AAA/Stable/A-1+
Issuer Credit Ratings History	
10-Nov-2006	AAA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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