Public Sector Pension Investment Board

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This report does not constitute a rating action.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that the Public Sector Pension Investment Board (PSPIB or the fund) will continue to realize good medium-term investment returns, liquidity levels will remain strong, leverage will remain relatively low, and management and risk management systems will remain strong in the next two years. 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.

Downside scenario

We could lower the ratings in the next two years 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 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 reflect the fund's stand-alone credit profile (SACP), which S&P Global Ratings assesses at 'aaa'. The SACP reflects our view of the fund's operational independence from the Government of Canada, high operational effectiveness, well-diversified portfolio, strong liquidity position, management and governance, and low leverage. As expected for the overall investment management industry, we believe the uncertain economic conditions will have a negative impact on the fund's fiscal 2023 investment returns. Nevertheless, we believe the fund will continue to realize good medium-term investment returns and that it has sufficient liquidity to meet near-term debt obligations. The ratings also reflect our opinion of a moderately high likelihood that the Canadian government would provide extraordinary support in the event of financial distress.

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 plans. Although 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 was 9.8% as of March 31, 2022, which exceeded its benchmark of 8.6%. 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. The fund does not have a long-term real rate-of-return objective but there is a communication of a reference portfolio that highlights the government's funding risk levels by investment types.

PSPIB has a record of high operational effectiveness. Despite the negative economic effects of the COVID-19 pandemic, the fund generated a net return of 10.9% in fiscal 2022, which exceeded its benchmark of 9.4%. The best performing asset classes were private equity and real estate, with returns of 27.6% and 24.8%, respectively. Fixed income generated a negative return of 1.7%, mainly due to the sharp increase in rates that followed the economic recovery. The five-year net annualized return was 9.0%, which also exceeded its benchmark of 7.9%. Net investment income was C$23.1 billion, lower than C$32.1 billion the previous year. Net assets increased 12.7% to C$230.3 billion in fiscal 2022 from C$204.3 billion in fiscal 2021.

PSPIB also has low leverage, in our opinion. Total liabilities represented 12.8% of total assets as of March 31, 2022, modestly up from the previous year, but still at a level we consider low.

Public Sector Pension Investment Board -- Leverage

(%)	2022	2021	2020	2019	2018
Total liabilities/total assets	12.8	12.2	18.3	15.7	14.6
Secured funding*/total assets	4.0	4.9	10.4	8.5	7.6
Capital market debt/net assets	9.9	8.2	9.3	8.4	8.0

*Investment-related liabilities.

In accordance with our criteria for rating government-related entities, 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.

The fund issues debt through PSP Capital, a wholly owned subsidiary. The fund guarantees the debentures and the guarantee conforms to our guarantee criteria. Accordingly, we equalize the ratings on the debt with those on PSPIB.

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 rating on the debt of the fund's issuing trust. 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$3.5 billion in net plan contributions in fiscal 2022. The fund maintains a sizable pool of liquid assets with which to meet its funding requirements. As of March 31, 2022, it held C$13.4 billion of cash and money market securities, as well as C$13 billion of inflation-linked fixed-income securities, C$19.4 billion of government and corporate fixed-income securities, and C$47 billion of publicly traded equities. These well exceeded PSPIB's commercial paper and medium-term note programs, which totaled C$22.7 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 as of March 31, 2022.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

Related Research

- S&P Global Ratings Definitions, Nov. 10, 2021

Ratings Detail (as of January 11, 2023)*

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.