S&P Global
Ratings

RatingsDirect®

Public Sector Pension Investment Board

January 18, 2022

PRIMARY CONTACT

Hamzah Saeed
Toronto
1-416-507-2527
hamzah.saeed
@spglobal.com

SECONDARY CONTACT

Stephen Ogilvie
Toronto
1-416-507-2524
stephen.ogilvie
@spglobal.com

This report does not constitute a rating action.

Credit Highlights

Overview

Key strengths	Key risks
Robust returns, growing asset base, stable depositor base, and prudent risk management policies continue to support the Public Sector Pension Investment Board's (PSPIB) stand-alone credit profile (SACP).	Similar to peers, a competitive investment environment will continue to challenge the fund as it strives to generate strong returns without undue risk of loss.
The fund's credit profile is further supported by its low leverage, a well-diversified portfolio, very strong liquidity, and strong governance.	
Although 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.	

Recovery in economic growth and rebound in corporate profits have led to strong returns and increase in assets. Despite the ongoing uncertainties due to the global COVID-19 pandemic, PSPIB was able to exceed its annual and 10-year benchmark returns as global public equities delivered solid returns. Furthermore, the fund continues to increase the size of its assets under management and diversify into private markets to move closer to its target allocation.

In addition, the fund continues to maintain strong governance and liquidity, which helps keep debt low. PSPIB has a sizable pool of liquid assets; positive cash flows; and a low level of borrowings, which as a percentage of total net assets is 8.2%. Strong management ensures the fund is well diversified and operates in the best interests of its contributors.

Investment landscape remains competitive despite the impacts of the global pandemic. Investment returns are vulnerable to uncertainties around a global recovery while portfolio volatility remains high compared with the previous fiscal year.

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 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 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.

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 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 in fiscal 2021 to C$204.5 billion from C$169.8 billion in fiscal 2020, owing to an increase in net income of C$31.6 billion and C$3 billion in net contributions. Given the recovery in growth and rebound in corporate profits, the fund’s assets generated an annualized return of 18.4% compared with the benchmark return of 16.5% for fiscal 2021. The fund continues to steadily invest in private markets as it nears its target allocations.

The SACP also reflects our view of the fund's operational independence from the Government of Canada, well-diversified portfolio, strong liquidity position, management and governance, and low leverage. We believe the competitive investment environment will continue to challenge PSPIB, along with peers, as the fund strives to create value through its asset allocation and active management decisions without undue risk of loss.

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. 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 is 8.9% as of March 31, 2021, compared with the benchmark return of 7.8% 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 23.6% of total investments, slightly above from about 23% in fiscal 2020, and they remain concentrated in high-quality government bonds that support the fund's liquidity. As of the 2021 fiscal year, the fund's long-term real rate-of-return objective was replaced by a communication of a reference portfolio that highlights the government's funding risk levels by investment types.

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 12.2% of total assets as of March 31, 2021, less than the previous year, and at a level we consider low.

Public Sector Pension Investment Board -- Leverage

Leverage ratios	2021	2020	2019	2018	2017
Total liabilities/total assets	12.2%	18.3%	15.7%	14.6%	15.7%
Secured funding*/total assets	4.9%	10.4%	8.5%	7.6%	7.8%
Capital market debt/total net assets	8.2%	9.3%	8.4%	8.0%	8.0%

* 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 the CPPIB'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. As part of our liquidity analysis, we assess the fund's expected cash flows as well as its ability to sell assets to meet payment obligations when cash shortfalls exist. Our leverage analysis considers various metrics, including the ratio of liabilities to assets.

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 billion in net plan contributions in fiscal 2021. 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, 2021, it held C$7.8 billion of cash and money market securities, C$14.2 billion of inflation-linked bonds, C$26 billion of government and corporate fixed-income securities, and C$44.1 billion of publicly traded equities. These well exceed PSPIB's commercial paper and medium-term note programs, which totaled C$16.7 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 were undrawn at March 31, 2021.

Related Criteria

- General Criteria: Environmental Social And Governance Principles In Credit Ratings, Published Oct. 10, 2021
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, Published April 7, 2017

- General Criteria: Guarantee Criteria, Published Oct. 21, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, Published March 25, 2015
- General Criteria: Principles Of Credit Ratings, Published Feb. 16, 2011
- Criteria | Government| U.S. Public Finance: Public Pension Funds, Published June 27, 2007

Ratings Detail (as of January 18, 2022)*

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.