CREDIT OPINION
20 November 2024

Update

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RATINGS

Public Sector Pension Investment Board

Domicile	Canada
Long Term CRR	Not Assigned
Long Term Issuer Rating	Aaa
Type	LT Issuer Rating - Dom Curr
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Public Sector Pension Investment Board

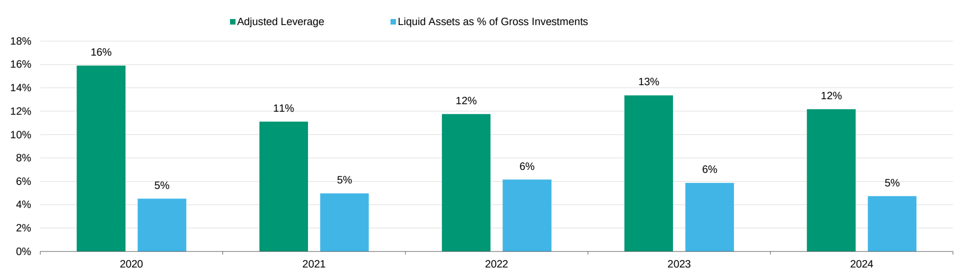
Update to credit analysis following ratings affirmation

Summary

Public Sector Pension Investment Board's (PSPIB) Aaa long-term issuer rating reflects its aa2 Baseline Credit Assessment (BCA), a high assumption of extraordinary support from the Government of Canada (Aaa stable), and our expectation that PSPIB's creditors will have an effective priority of claim over pension obligations in the event of a default, which provides a substantial cushion of assets and increases expected recoveries. PSPIB's BCA of aa2 reflects the pension manager's strong liquidity and predictability of future cash flows as well as its conservative financial policies and low leverage, offset by growth in less liquid investments and a high proportion of high risk assets as defined by Moody's.

PSP Capital Inc., a wholly-owned subsidiary of PSPIB, has a backed senior unsecured rating of Aaa and a backed commercial paper rating of Prime-1, reflecting the unconditional and irrevocable guarantee of its debt obligations by PSPIB. PSPIB Capital Inc. adds a moderate degree of leverage by issuing commercial paper and term debt guaranteed by PSPIB, with the goal of diversifying funding sources and enhancing overall returns of the fund.

Exhibit 1
PSPIB's elevated liquidity levels provide good coverage of its leverage; reducing refinancing risk



Fiscal year ended 31 March. Liquid assets represents cash and money market securities and securities purchased under reverse repurchase agreements.
Source: Moody's Ratings, company financials

Credit strengths

» Governing legislation that mandates PSPIB as exclusive investment manager for certain Canadian government-sponsored pension plans without responsibility for the underlying pension obligations;

» Highly predictable cash flows;

» Strong coverage of obligations by high quality liquid assets;

» A moderate degree of leverage through PSPIB Capital Inc., as its issued instruments are unconditionally and irrevocably guaranteed by PSPIB.

Credit challenges

» Higher allocation of private investments, although these investments are well-suited to PSPIB's long-term investment horizon;

» Private investments weaken portfolio liquidity, and PSPIB has comparably higher levels of less liquid Level 3 assets than other Moody's rated peers;

» Maintaining effective risk management as PSPIB continues to grow.

Outlook

The stable outlook reflects our expectations that PSPIB's credit fundamentals, specifically its strong and stable liquidity and level of high risk assets, will remain unchanged over the next 12 to 18 months. It also reflects the stable outlook of its government support provider, the Government of Canada.

The stable outlook on PSP Capital Inc.'s ratings reflect the outlook of its parent.

Factors that could lead to an upgrade

» Given PSPIB's Aaa long-term issuer rating, an upgrade is not possible.

» An upgrade of its aa2 BCA could be driven by a sustained decrease in PSPIB's high risk assets.

Factors that could lead to a downgrade

PSPIB's BCA could be downgraded if there was:

» A material reduction in PSPIB's liquid assets or if leverage was to increase above 25% for a sustained period of time.

» A change in PSPIB's governing legislation or a legal precedent that casts doubt on the status of PSPIB's obligations as having preference over pension obligations.

However, a downgrade of the BCA would not likely lead to a downgrade of PSPIB's long-term issuer rating because of our expectation of extraordinary support from the Government of Canada as well as asset coverage considerations.

PSP Capital Inc.'s supported ratings could be downgraded if PSPIB's rating was downgraded or if we believe that PSPIB would not honour its unconditional and irrevocable guarantee of PSP Capital Inc.'s debt obligations.

Key indicators

Exhibit 2

Statistics for Public Sector Pension Investment Board	2024	2023	2022	2021	2020	2019
Total Assets (C$ millions)	302,868	283,595	264,044	232,793	207,603	199,215
Net Assets (C$ millions)	264,551	243,315	230,273	204,299	169,682	167,853
Government Fixed Income % Net Investments	24%	21%	20%	21%	19%	21%
Public Equities % Net Investments	21%	22%	26%	29%	29%	30%
Private & Real Assets % Net Investments	55%	57%	54%	50%	52%	49%
Liabilities C$ millions	38,317	40,280	33,771	28,494	37,921	31,362
Liabilites % Gross Assets	13%	14%	13%	12%	18%	16%
Unsecured Debt (C$ millions)	27,175	24,158	22,791	16,802	15,902	14,188
Unsecured Debt % Gross Assets	9%	9%	9%	7%	8%	7%
Secured Funding (C$ millions)	10,102	14,520	9,484	9,730	20,563	15,899
Secured Funding % Gross Assets	3%	5%	4%	4%	10%	8%
Other Liabilities % Gross Assets	0%	1%	1%	1%	1%	1%
Derivative Notionals (C$ millions)	384,122	469,509	372,714	355,320	357,047	371,355
Annual Reported Return (%)	7.2%	4.4%	10.9%	18.4%	-0.6%	7.1%
Benchmark Return (%)	6.4%	-2.8%	9.4%	16.5%	-1.6%	7.2%

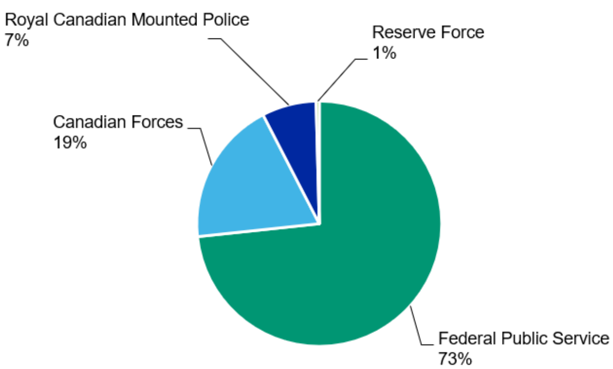
Information based on IFRS financial statements for fiscal years ended 31 March.
Source: Moody's Ratings, company financials

Profile

PSPIB was established by the Public Sector Pension Investment Board Act (PSPIB Act) in 1999 to invest the pension contributions (net of benefit payments) of Canada's national public service, its military (Canadian Forces and Reserve Force), and the national police service, the Royal Canadian Mounted Police (RCMP). The funds for which amounts are currently transferred to PSPIB by the Government of Canada relate to pension obligations under the Plans for service on or after 1 April 2000, and in the case of the Reserve Force Plan, for service on or after March 1, 2007. As such, PSPIB is responsible for managing assets only related to those pension obligations.

At 73% (Exhibit 3), the majority of PSPIB's net assets are managed for benefits related to the federal public service.

Exhibit 3
Majority of PSPIB's net assets are related to Canada's federal public service
PSPIB's net assets per pension plan account as of 31 March 2024



Source: Moody's Ratings, Company financials

Detailed credit considerations

Funded Status - PSPIB does not have responsibility for the obligation of the underlying pension liability

As a pension reserve fund, PSPIB is not responsible for the administration of benefits, nor in setting actuarial assumptions of the underlying obligations, both of which are the responsibility of the sponsoring government. In contrast to a pension fund, the sponsor is the beneficiary of the net assets. As such, for analytical purposes, we consider PSPIB to be fully funded and therefore assign a Funding Ratio score of aaa.

Liquidity - Benefits of liquid fixed income portfolio offset by funding sources that encumber assets

PSPIB has strong coverage of obligations by high quality liquid assets. At 31 March 2024, the ratio of discounted liquid asset inflows to recognized obligation outflows was 359%, which is supported by high levels of sovereign debt securities and publicly traded equity. This level is up from 307% last year. Overall, PSPIB's liquidity position remains strong while its asset encumbrance from short-sold securities is modest relative to many of its Canadian pension fund peers.

As the Plan's actuarial profile matures, net contributions (transfers from the government) to PSPIB will gradually represent a decreasing proportion of PSPIB's net assets. As of 31 March 2024, PSPIB's net assets increased by 1.4% year over year, before investment returns. Including investment returns, net assets for fiscal 2024 grew 8.7% year over year, reflecting a net annual return of 7.2%. PSPIB is also not subject to plan redemptions or loss of mandate, except in the unlikely event of a change in legislation. These characteristics allow PSPIB to adopt a long-term investment horizon.

As such, we make no adjustments to PSPIB's initial Liquidity score, resulting in an assigned Liquidity score of aaa.

Asset Risk - high levels of less liquid assets, although broadly diversified by geography and sector

PSPIB's high risk asset ratio of 79.2% as of 31 March 2024 is broadly in line with its peers. These assets are largely invested outside Canada and are broadly diversified across several asset classes and sectors. Moody's definition of high risk assets broadly comprises all investments other than investment-grade bonds and mortgage loans, including below investment-grade and unrated bonds/loans, common and preferred stock equities, alternative investments such as private equity and hedge fund holdings, real estate assets, and other investments that are not classified on a pension manager's balance sheet.

PSPIB's allocation to private equity and real assets as of 31 March 2024 was 44% of net investments, which is in line with its long-term target weight. We view PSPIB as well positioned to execute this type of investment strategy given its long-term investment horizon, and liquidity profile, which reflects the expected positive net transfers over the next five years. PSPIB's investment risks are well managed, although this capability will need to continue to keep pace with asset growth and rising complexity of its investment strategy.

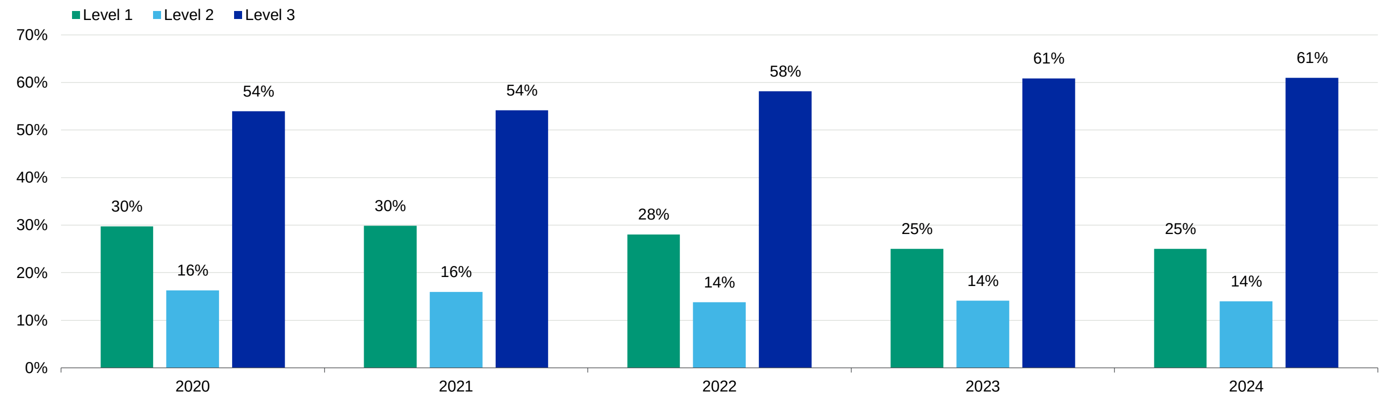
PSPIB's investment approach is designed to achieve a return greater than the reference portfolio over a 10-year period with a lower or equal level of pension funding risk. The reference portfolio is currently comprised of 59% equities and 41% fixed income. In addition, PSPIB seeks to generate an additional return through active management within defined risk limits. For example, PSPIB may vary the allocation to a particular sector compared to the policy portfolio. For example, starting in 2016, PSPIB changed its policy portfolio whereby it reduced its target allocations to public equity in favor of more private and real assets, including adding a new asset class, Private Debt. The pension manager generated a 10-year annualized return (as of 31 March 2024) of 8.3%, which compares favorably to 10-year reference portfolio return of 7.2%.

As of 31 March 2024, PSPIB's investment portfolio was comprised of 24% fixed income[1], 21% public equity, and 44% private equity and real investments. PSPIB's investment portfolio has shifted in recent years, similar to its peers, toward less liquid Level 3 assets such as real estate, infrastructure and private equity (Exhibit 4). While these asset classes align to the pension manager's mandate to invest over a longer time horizon and offer attractive returns from a liquidity premium, they also add incremental liquidity and operational risks to the fund. That said, PSPIB's investment portfolio is diversified globally and across many sectors. In our view, the benefits of this diversification strategy mitigates the higher liquidity and operational risks associated with its reliance on Level 3 assets. This diversification also reduces common credit risks related to the Canadian economy, providing diversification away from the geographic location of its underlying pension obligation and related contribution cash inflows.

Exhibit 4

PSPIB's less liquid Level 3 assets have remained stable over recent years, aligning with PSPIB's long-term horizon

Real estate, infrastructure and private equity allocation



Fiscal year end 31 March. Level 1 and Level 2 assets have been adjusted for cash and money market securities. Fixed income includes Cash and Cash Equivalents.
Source: Moody's Ratings, company financials

The pension manager generated another strong return during its fiscal year ending 31 March 2024, with a one-year overall portfolio return of 7.2%, which compares with a return of 4.4% in fiscal 2023. This strong performance reflects positive contributions across almost all asset classes, with real estate experiencing a negative one-year return of 15.9%. The largest contributors were public market equities (+17.5%), infrastructure (+14.3%) and credit investments (+14.2%).

PSPIB's initial Asset Risk score is ba3, to which we make an upward adjustment of three notches to account for its geographic and sector diversification. This results in an assigned Asset Risk score of baa3.

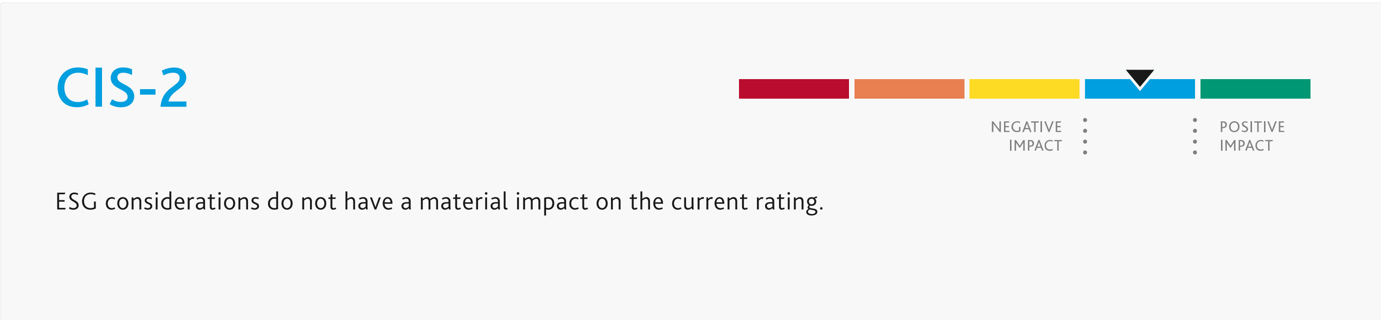
Financial Policy - conservative financial policies and investment profile provides natural hedge to creditor obligations

PSPIB's financial policies are broadly conservative as expressed in our aa-score for Financial Policy. The pension manager has good liquidity and risk management practices that mitigate a modest level of leverage that creates refinancing and counterparty risks. In addition, PSPIB hedges certain currency risks within its portfolios and has natural currency matches between its investments and funding. A large portion of PSPIB's investment portfolio is invested in USD or CAD assets, which aligns with its creditor obligations, much of which are denominated in USD.

ESG considerations

Public Sector Pension Investment Board's ESG credit impact score is CIS-2

Exhibit 5
ESG credit impact score



Source: Moody's Ratings

PSPIB's ESG **CIS-2** score reflects the limited impact of environmental, social and governance considerations on the current rating.

Exhibit 6
ESG issuer profile scores

Source: Moody's Ratings

Environmental
PSPIB faces moderate exposure to environmental risks related to carbon-intensive investments in its portfolio, such as oil & gas, transportation and financial services (insurance) holdings. As well, the fund's real estate and infrastructure portfolios are exposed to physical climate risk where assets could be damaged by extreme weather or rising sea levels. In addition, natural capital assets, such as agriculture, are used a hedge against inflation.

Social
PSPIB faces high industry-wide exposure to social risks, primarily from changes in unemployment or immigration rates, which can impact contribution cash flows. However, in contrast to a pension fund, PSPIB does not have direct exposure to an aging population because it is not responsible for making benefit payments nor in managing the pension benefit obligation, both of which are the responsibility of the national government. This also reduces the impact of a privacy or data breach because PSPIB does not warehouse beneficiary data.

Governance
PSPIB faces low governance risks, with governance practices that are in line with most standards within the Canadian financial services sector. This includes a defined risk appetite statement, risk and performance benchmarks and a professional board of directors and standing Board control committees.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Support and structural considerations

High expectation of extraordinary support with a mandate as the exclusive investment manager of national public sector employee pensions

Extraordinary support represents the probability that a government owner of a GRI would provide financial support, or other contractual protections, to a GRI to avoid a default on its debt obligations. The expectation of a continuation of ordinary support does not constitute extraordinary support and is instead considered in our assessment of the GRI's BCA.

As noted, PSPIB has special legal status as the exclusive asset manager for investments related to active and retired members of Canada's civil service. We believe the pension manager is a key element of the national government's compensation program and an important contributor to the Canadian economy. In our view, a default of PSPIB would be politically embarrassing to the Government of Canada and would have implications for the country's own ability to access debt markets. As such, we believe the Government of Canada would provide extraordinary support, financial or otherwise, to PSPIB if necessary.

PSPIB's creditors effectively rank ahead of amounts due to the plans

PSPIB is an exclusive asset manager of the pension plans of the Public Service, the Canadian Armed Forces, the Royal Canadian Mounted Police and the Reserve Force, but does not have legal responsibility for their liabilities, which remains the responsibility of the Government of Canada. We note that the legislative acts constituting PSPIB do not explicitly define the priority of PSPIB's unsecured creditors relative to the amounts due to the Plans. However, it is our view that PSPIB creditors have an effective priority claim on PSPIB's assets because the statutory framework provides that the Government of Canada may only call upon the net assets of PSPIB to pay Plan benefits. In this context, net assets means assets with a fair market value in excess of liabilities, including the unsecured obligations that PSPIB guarantees. As a result, PSPIB's obligations under the PSP Capital Inc. guarantee rank senior to the amounts that become due to the pension Plans and pari passu with PSPIB's other senior unsecured obligations. Similarly the Plans are only entitled to the net returns after PSPIB's operational costs. On a gross asset base of CAD303 billion at 31 March 2024, PSPIB had CAD265 billion in net assets, which we view as a loss absorbing cushion to the benefit of PSPIB's creditors.

As at 31 March 2024, PSPIB's leverage was about 12% after adjusting for nettable repurchase agreements and derivatives that are not offset for accounting purposes.

Rating methodology and scorecard factors

Exhibit 7

	Historical			Assigned		
	Factor Weights	Historic Ratio	Initial Score	Assigned Score	Key driver #1	Key driver #2
Funding Ratio*						
Net Assets / PBO	40%	100.0%	aaa	aaa		
Liquidity						
Liquidity Inflows / Outflows	20%	307.2%	aaa	aaa		
Asset Quality						
High Risk Assets / Gross Assets	20%	79.8%	ba3	baa3	Asset Class Diversification	
Financial Policy						
Financial Policy	20%	aa	aa	aa		
Financial Profile Outcome	**100%**		**aa3**	**aa2**		
Qualitative Notching						
Political Independence				0		
Corporate Behavior				0		
Scorecard-Indicated Outcome Before Constraint				aa2		
Consideration of:					Comment	
Sovereign Constraint (Y/N)				Yes		
Sovereign Rating				Aaa		
Sponsor Constraint (Y/N)				Yes		
Sponsor Rating				Aaa		
Scorecard-Indicated Outcome				aa2		

Source: Moody's Ratings

Ratings

Exhibit 8

Category	Moody's Rating
PUBLIC SECTOR PENSION INVESTMENT BOARD	
Outlook	Stable
Baseline Credit Assessment	aa2
Issuer Rating -Dom Curr	Aaa
PSP CAPITAL INC.	
Outlook	Stable
Bkd Senior Unsecured	Aaa
Bkd Commercial Paper	P-1

Source: Moody's Ratings

Endnotes

1 includes cash and cash equivalents

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