Public Sector Pension Investment Board

January 22, 2025

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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; AAA/Stable/A-1+) will continue to have 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 there was 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.

Rationale

The ratings on PSPIB, an investment manager that invests on behalf of the public sector pension plans of the federal Public Service, the Canadian Forces, the Royal Canadian Mounted Police, and the Reserve Force, 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. We believe the difficult demographic and economic trends like geopolitical instability, slower economic growth, and increasing longevity, offset some of these strengths. However, we believe the fund will continue to realize good medium-term investment returns and 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 think PSPIB benefits from 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 operate s 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. We also do not expect 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’s risk management is strong, with extensive and improving audit and control systems. The fund has formal enterprise risk management policies in place. As part of its risk management practices, PSPIB diversifies its investment portfolio geographically, by asset class, credit quality, and sector. It does not have a long-term real rate-of-return objective, but a reference portfolio that highlights the government’s funding risk tolerance is communicated to it annually.

PSPIB has a record of high operational effectiveness. It generated a net return of 7.2% in fiscal 2024, which exceeded its benchmark of 6.4%. The best performing large asset class was public market equities with a return of 17.5%. Conversely, real estate generated a negative return of 15.9%, mainly due to higher interest rates that have resulted in higher borrowing costs, negatively affecting valuations. The fund's five- and 10-year net annualized returns remained strong at 7.9% and 8.3%, respectively, and exceeded their benchmarks. Net investment income was C$18.5 billion, higher than C$10.9 billion the previous year. Net assets increased 8.8% to C$264.6 billion in fiscal 2024 from C$243.3 billion in fiscal 2023.

PSPIB also has low leverage, in our opinion. Total liabilities represented 12.7% of total assets as of March 31, 2024, down from 14.2% the year before.

Public Sector Pension Investment Board – Leverage

(%)	2024	2023	2022	2021	2020
Total liabilities/total assets	12.7	14.2	12.8	12.2	18.3
Secured funding*/total assets	3.6	5.5	4.0	4.9	10.4
Unsecured debt/net assets	10.2	9.9	9.9	8.2	9.3

*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 a major public policy role by investing the pension assets of four federally sponsored pension plans. We think the federal government has a strong link with the fund, evident by its direct relationship as sponsor. Moreover, the federal government, through the Treasury Board Secretariat and Department of Finance, has formal ongoing interactions with the fund through 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, and guarantees the debentures which conform to our guarantee criteria. Accordingly, we equalize the ratings on the debt with those on PSPIB.

We apply a ratings to principles approach, using 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, like 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 think the fund has strong liquidity owing to its positive contribution cash flows, lack of redemption risk, large pool of liquid assets, and low debt level. 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 2024. It holds a sizable pool of liquid assets to meet its funding requirements. As of March 31, 2024, it held C$12.0 billion of cash and money market securities, as well as C$18.0 billion of inflation-linked fixed-income securities, C$27.0 billion of government and corporate fixed-income securities, and C$44.8 billion of publicly traded equities. These well exceeded PSPIB's commercial paper and medium-term note programs, which totaled C$27.0 billion at that time. PSPIB has 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, 2024.

The federal government will withdraw about C$1.9 billion from PSPIB in the near term related to a non-permitted surplus in the federal Public Service plan as of March 31, 2024. We believe this will not have a material impact on PSPIB’s financial flexibility or strength. This withdrawal is related to legislation that contemplates limiting the funded status of the managed plans to no more than 125%, which the federal Public Service plan currently exceeds. This exceptionally strong funded position, together with the fund’s strong liquidity position, as well as the size of the withdrawal relative to the fund’s net assets will limit the financial impact on PSPIB, in our view. At the same time, the withdrawal is not associated with any fiscal or external stress of the sponsor, which is rated AAA/Stable. This is the first instance in which the government will withdraw funds from PSPIB because of a non-permitted surplus. Funds can also be withdrawn from PSPIB if they are required to pay benefits, but we do not expect this will occur in the short term as we expect net contributions will remain positive until approximately 2030.

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

Related Research

- S&P Global Ratings Definitions, Dec. 2, 2024

Ratings Detail (as of January 22, 2025)*	
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.