

## Morningstar DBRS Confirms CPP Investments at AAA and CPPIB Capital Inc. at AAA and R-1 (high)

### PENSION FUNDS

DBRS Limited (Morningstar DBRS) confirmed the Issuer Rating of Canada Pension Plan Investment Board (CPP Investments or the Fund) at AAA. CPP Investments is the federal nonagent Crown corporation responsible for managing the assets of the Canada Pension Plan (CPP or the Plan). Morningstar DBRS also confirmed CPPIB Capital Inc.'s Canadian Short-Term Promissory Notes, U.S. Commercial Paper Notes, and Euro Commercial Paper Notes at R-1 (high) and CPPIB Capital Inc.'s Medium-Term Notes at AAA. All trends are Stable. Morningstar DBRS notes that the ratings on the short-term note and long-term notes are predicated on the unconditional guarantees provided by CPP Investments on issuances. Furthermore, the strong ratings primarily reflect CPP Investments' exclusive legislated mandate to manage CPP assets (including the legislative protection entitling CPP Investments to retain at all times assets that have a fair market value not less than its liabilities, including the liabilities under the guarantees in respect of debt issued by CPPIB Capital Inc., its robust liquidity position, its low recourse debt burden, and the strong fundamentals of the Plan.

In December 2016, the Canada Pension Plan Act, the Canada Pension Plan Investment Board Act, and the Income Tax Act were amended to increase the amount of retirement pensions and benefits that will be paid from contributions made after 2018. Starting in January 2019, CPP Investments received and invested its first transfer of funds for the additional CPP. Although all assets are held by the Fund, contributions, benefits, and assets for the additional CPP will be accounted for separately from the base CPP. Investment returns and benefits from the contributions made at the rates established before 2018 are managed through the base CPP account, while investment returns and benefits stemming from the increased contributions are managed through the additional CPP account.

The base CPP account and the additional CPP account delivered net returns in F2024 of 8.1% and 5.7%, respectively. On an aggregated basis, the total Fund earned a net return of 8.0%, underperforming the aggregated Reference Portfolio's return of 19.9% by 11.9%. The Fund's lower net return in comparison to the Reference Portfolio was largely driven by the aggregated Reference Portfolio's higher asset allocation to global equities, which returned 23.9% and outperformed most of the Fund's diversified asset classes. The more diversified portfolio is expected to produce more stable returns, mitigating the impact of severe equity market downturns. The Fund generated net income of \$46.4 billion, which, combined with the \$15.9 billion in net contributions received, increased the Fund's net assets to \$632.3 billion, corresponding to approximately \$593.8 billion in net assets for the base CPP and \$38.5 billion in net assets for the additional CPP.

Recourse debt, consisting of commercial paper (CP) outstanding and long-term debt, ended F2024 at \$67.9 billion, or 9.7% of adjusted net assets, up from 8.6% as at F2023. There was no CP outstanding as at F2024. The authorized limit on unsecured debt to an aggregate principal amount is \$100 billion outstanding and the limit on outstanding unsecured debt with a remaining term of less than one year is \$20 billion. Morningstar DBRS expects that recourse leverage may continue to increase over the near term; however, overall recourse debt is expected to remain low, providing considerable room for cyclical fluctuations in asset values.

Morningstar DBRS notes that the Fund meets the Morningstar DBRS criteria for CP liquidity support outlined in the Appendix section

in the "Rating Canadian Public Pension Funds & Related Exclusive Asset Managers" methodology. The Fund's liquidity position remains sound, with sufficient same-day available funds equal to at least five business days of upcoming liabilities and discounted assets equal to the remaining maximum authorized CP program limit. It is also consistent with Morningstar DBRS's policy on backup liquidity support for pension plans, and it provides considerable short-term financial flexibility.

CPP Investments re-organized components of its leadership to better manage the size, complexity, and growth of the Fund. The role of Chief Investment Officer (CIO) and Head of Total Fund Management, previously held by Edwin Cass, was separated to allow for more dynamic management of the portfolio. Manroop Jhooty was appointed as Senior Managing Director, Head of Total Fund Management.

Dean Connor was appointed as Chairperson of the Board of Directors, succeeding Dr. Heather Munroe-Blum whose final term ended in October 2023. Dean Connor has served on the Board since August 2021.

In February 2022, CPP Investments announced its investment approach to reaching net zero of greenhouse gas emissions across all scopes by 2050. The initiative entered its second year in F2024. CPP Investments achieved net zero in their operations in F2023. CPP Investments believes that directing the portfolio to net zero is in the best interest of contributors and beneficiaries of the CPP and is in line with its mandate of maximizing returns without undue risk of loss.

#### ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

There were no Environmental/Social/Governance factor(s) that had a significant or relevant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (January 23, 2024), <http://dbrs.morningstar.com/research/427030>.

#### Notes:

The principal methodology applicable to the credit rating are Rating Canadian Public Pension Funds & Related Exclusive Asset Managers (April 16, 2024; <https://dbrs.morningstar.com/research/431261>) and North American Structured Finance Flow-Through Ratings (June 28, 2024; <https://dbrs.morningstar.com/research/435296>).

Other methodologies referenced in this transaction are listed at the end of this press release.

The credit rating was initiated at the request of the rated entity.

The rated entity or its related entities did participate in the credit rating process for this credit rating action.

Morningstar DBRS had access to the accounts, management, and other relevant internal documents of the rated entity or its related entities in connection with this credit rating action.

This is a solicited credit rating.

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The credit rating methodologies used in the analysis of this transaction can be found at: <https://dbrs.morningstar.com/about/>

methodologies.

A description of how Morningstar DBRS analyzes structured finance transactions and how the methodologies are collectively applied can be found at: <https://dbrs.morningstar.com/research/410863>.

For more information on this credit or on this industry, visit [dbrs.morningstar.com](https://dbrs.morningstar.com) or contact us at [info-DBRS@morningstar.com](mailto:info-DBRS@morningstar.com).

## Ratings

### CPPIB Capital Inc.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
04-Jul-24	Canadian Short-Term Promissory Notes	Confirmed	R-1 (high)	Stb	CA
04-Jul-24	Euro Commercial Paper Notes	Confirmed	R-1 (high)	Stb	CA
04-Jul-24	U.S. Commercial Paper Notes	Confirmed	R-1 (high)	Stb	CA
04-Jul-24	Medium-Term Notes	Confirmed	AAA	Stb	CA

### Canada Pension Plan Investment Board

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
04-Jul-24	Issuer Rating	Confirmed	AAA	Stb	CA

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