Canada Pension Plan 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 Canada Pension Plan Investment Board (CPP Investments or the fund; AAA/Stable/A-1+) will continue to realize good medium-term investment returns, liquidity will be more than adequate, and leverage will remain low to moderate in the next two years. We expect that the fund will remain independent of federal and provincial governments. As well, we expect the fund will expand and refine its risk management systems, to ensure that its investments remain diversified; and maintain strong management and governance practices. 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 if liabilities increased substantially, such that total liabilities exceeded 40% of total assets in the next two years. We could also lower the ratings if there were a substantial drop in liquidity or we believed the quality of management (including risk management) had deteriorated significantly and it was therefore unable to evolve in tandem with the increasing size and sophistication of the investment portfolio. We consider these scenarios unlikely during our two-year outlook horizon.

Rationale

The ratings on CPP Investments reflect the fund's stand-alone credit profile (SACP), which S&P Global Ratings assesses at 'aaa'. 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.

CPP Investments was established by federal legislation in 1997 to invest the funds of the Canada Pension Plan (CPP), a national social security program. The CPP, like most national social security programs, requires workers to contribute a portion of their earnings, which employers match, in exchange for retirement, disability, and other benefits. Enrollment is mandatory for workers 18 and older outside of Quebec, including self-employed workers. The CPP has more than 22 million contributors and beneficiaries.

The SACP on CPP Investments reflects our assessment of the fund's low-to-moderate leverage; strong liquidity; history of strong investment returns; independence in day-to-day operations; and strong corporate governance and management, including risk management. The fund's need to appropriately scale up investment strategies and operations as assets increase rapidly in a competitive investment environment somewhat mitigates these strengths. Nevertheless, we believe the fund's medium-term investment returns will continue to exceed the required rate of return and that it has sufficient liquidity to meet near-term debt obligations.

We consider CPP Investments' low-to-moderate leverage a credit strength. Total liabilities were C$182.7 billion at the end of fiscal 2024 (year-end March 31), consisting of investment liabilities, payables, pending trades, and accrued liabilities. The CPP Investments' board has approved a recourse leverage limit of 45% of net assets, starting in fiscal 2023. If total liabilities exhibited a sustained increase such that they approached 40% of total assets, we could lower the ratings. Currently, total liabilities represent 22.4% of total assets, up from 19.3% a year earlier.

Canada Pension Plan Investment Board -- Leverage

(%)	Fiscal 2024	Fiscal 2023	Fiscal 2022	Fiscal 2021	Fiscal 2020
Total liabilities/total assets	22.4	19.3	21.6	17.1	24.6
Secured funding*/total assets	12.5	11.2	11.3	10.0	15.6
Unsecured debt/net assets	11.6	10.4	9.4	8.0	9.4

*Secured funding includes repos, short selling of securities, amounts related to derivatives positions, and short-term secured debt.

CPP Investments issues commercial paper and term debt through its wholly owned subsidiary, CPPIB Capital. The fund has provided a timely, unconditional, and irrevocable guarantee covering all debt it might issue through CPPIB Capital. The guarantee conforms to our guarantee criteria and, accordingly, the debt issues of CPPIB Capital take the same ratings as those on CPP Investments. As of fiscal year-end 2024, CPPIB Capital's debt, which is recourse to CPP Investments because of the guarantee, totaled C$73.1 billion (11.6% of net assets) versus C$59.4 billion (10.4% of net assets) a year earlier.

In fiscal 2024, CPP Investments posted a net return of 8.0%, higher than 1.3% in the previous year. The best performing asset classes were public equities and credit, with returns of 13.8% and 10.8%, respectively. Real estate generated a negative return of 5%, as the office and retail sectors were negatively affected by high interest rates and hybrid-work trends. Long-term returns remained strong. The fund's five- and 10-year annualized net returns were 7.7% and 9.2%, respectively, both of which exceeded the required real return of 3.7%. Net investment income was C$44.5 billion. Net returns were 1.0% in the first quarter of fiscal 2025 and 3.6% in the second quarter. We believe the fund is well positioned to continue to add value over the medium term and that its returns will remain higher than the minimum required.

In 2019, the CPP began gradually enhancing benefits in exchange for higher contributions. The additional CPP funds are being managed in tandem with the base CPP investments but are held in a separate account with C$38.5 billion in assets at the end of fiscal 2024.

We consider CPP Investments independent, both operationally and financially, from the Government of Canada and participating provinces. These governments have established a governance framework that supports the fund's independent functioning, while establishing a clear framework for transparency and accountability, and have maintained a hands-off approach to CPP Investments' day-to-day operations. The fund is a Crown corporation, but it is not an agent of the Crown and its financial assets are not consolidated with those of the government. The fund operates at arm's length from the federal and participating provincial governments. Because the fund is not an agent of the federal government, the debt it issues is not subject to a government guarantee. We expect no changes to the current governance framework for the foreseeable future.

We view CPP Investments' corporate governance and management as strong. We consider the board of directors independent and highly qualified. The fund has a clearly articulated risk budgeting process and formal enterprise risk management policies in place. We believe management maintains a clear and comprehensive set of operating principles, objectives, and strategies; and that it performs well against its targets. Audit and control systems are extensive.

CPP Investments has what we consider a strong risk management framework. The board of directors approves the reference portfolio, which expresses the investment portfolio's long-term total risk appetite. In turn, the most senior management committee determines each investment unit's active risk budget based on current and planned investments. The fund also adheres to what we view as a straightforward, prescriptive decision-making process that requires management to evaluate investment opportunities according to individual risks and how these fit within the portfolio's risk profile. A centralized risk management function complements CPP Investments' strong investment decision-making procedures. The fund's risk management framework looks at five principal categories of risk: market and credit, liquidity and leverage, operational, regulatory and legal, and strategic. In addition, CPP Investments has an investment risk department to monitor and measure all facets of investment risk across the organization. We believe the fund's risk management framework, although thorough and well organized, should continue evolving in line with the portfolio.

In keeping with its investment risk management practices, the fund diversifies its investment portfolio broadly by geography, asset class, credit risk, and single-name exposure. Liquidity risk management practices have a strong influence on diversification, because CPP Investments maintains holdings of highly rated and highly liquid government securities. CPP Investments invests in public and private equities; government bonds; credit investments; and real assets, such as real estate and infrastructure.

CPP Investments is the largest investment pool in Canada, with net assets of C$632.3 billion as of fiscal year-end 2024. Owing to continuing good investment returns and positive net contributions, the fund's assets have increased rapidly in the past 10 years. We believe that rapid growth can introduce investment and operational risks as investment operations scale up. At the same time, for plan sustainability, CPP Investments must maintain annual real rates of return on investments of 3.7% for base CPP and 3.3% for the additional CPP over the next 75 years from 2021 as assumed in the 31st actuarial report. In our view, it is crucial that risk management policies and practices increase at the same pace as investment activities to ensure that all risks are understood, managed, and monitored. This is especially important because the fund's total assets are expected to increase to approximately C$1 trillion in 2030 and reach C$3.6 trillion in 2050.

In accordance with our criteria for rating government-related entities, we view the likelihood of CPP Investments receiving extraordinary government support as moderately high. We base this on our assessment of CPP Investments' critical role and limited link with the federal government. CPP Investments has a critical role in investing the assets of the CPP. The plan is an essential component of Canada's social safety net because of the pension, disability, and other programs it delivers. The plan has more than 22 million participants for whom benefit payments will represent a significant proportion of their retirement income. The fund has a limited link with the federal government, as evidenced by the government's hands-off approach. Linkages with the federal government are minor: CPP Investments reports its financial results to Parliament. The provinces are also important stakeholders in the CPP; the federal government has a duty to consult with the provinces in certain circumstances, such as the appointment of a director. Accordingly, the federal government must be careful to limit any unilateral influence on the fund if it is to maintain harmonious relations with provincial stakeholders. For this reason, we do not expect the federal government will intervene negatively in the fund.

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 CPP Investment'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 that CPP Investments has more than adequate liquidity, owing to its net cash inflows from net contributions and investment income and the strength of its considerable and largely liquid balance sheet. For fiscal 2024, net contributions amounted to C$15.9 billion and total expenses were C$8.4 billion. We expect the fund will remain cash-flow positive for fiscal 2025, as it has for many years.

CPP Investments held C$76.0 billion in government bonds in addition to C$176.7 in public equities as of fiscal year-end 2024. These well exceed CPP Investments' debt financing liabilities, which totaled C$73.1 billion. Total liabilities (including debt) were C$182.7 billion. The fund also maintains segregated securities in its short-term cash management program to meet CPP benefit payment obligations as they arise.

In general, we consider withdrawal risk remote in the next two years because of the impediments that a withdrawing province would face in establishing an organization that could invest its share of CPP assets. However, in 2023, the government of Alberta signaled its intention to explore the establishment of a provincial pension plan and withdraw from CPP. Although there have been no material updates, we believe that, if this happens, in addition to its share of the assets, Alberta would assume a portion of the fund's liabilities, and the transition would be orderly and lengthy. Furthermore, we believe that the organization without Alberta would remain largely unchanged. Contributors and beneficiaries cannot opt out of the CPP.

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 20, 2025)*

Canada Pension Plan Investment Board		
Issuer Credit Rating		AAA/Stable/A-1+
Issuer Credit Ratings History		
04-Dec-2012	*Foreign Currency*	AAA/Stable/A-1+
26-Mar-2009	*Local Currency*	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.