

Research Update:

# British Columbia Investment Management Corp. Assigned 'AAA' Long-Term Issuer Credit Rating; Outlook Stable

October 10, 2023

## Overview

- British Columbia Investment Management Corp. (BCI) has high operational effectiveness, low leverage, and strong liquidity, in our view.
- S&P Global Ratings assigned its 'AAA' long-term issuer credit rating to BCI.
- The stable outlook reflects our expectation that, in the next two years, BCI will meet its long-term return objectives, liquidity levels will not materially weaken, and leverage will remain low and manageable.

## Rating Action

On Oct. 10, 2023, S&P Global Ratings assigned its 'AAA' long-term issuer credit rating to the British Columbia Investment Management Corp. The outlook is stable.

## Outlook

The stable outlook indicates our expectation that BCI will continue to realize good medium-term investment returns, liquidity levels will not materially weaken, leverage will remain low and manageable, and risk management practices will remain sound in the next two years. In addition, we do not anticipate any change to our assessment that the likelihood of the provincial government providing extraordinary support to the fund--in the event of financial distress--is moderate.

## Downside scenario

We could lower the rating if liabilities increased substantially, such that total liabilities exceeded 40% of total assets in the next two years. We could also lower the rating in the event of a large

### PRIMARY CREDIT ANALYST

**Hector Cedano, CFA**  
Toronto  
+ 1 (416) 507 2536  
hector.cedano  
@spglobal.com

### SECONDARY CONTACT

**Jennifer Love, CFA**  
Toronto  
+ 1 (416) 507 3285  
jennifer.love  
@spglobal.com

investment loss, a substantial drop in liquidity, or what we consider a significant deterioration in the quality of management (including risk management).

## **Rationale**

The rating on BCI, an investment manager that invests on behalf of pension plans and insurance funds among other clients in the Province of British Columbia in Canada, is based on its stand-alone credit profile (SACP) of 'aaa'. The SACP reflects our view of the fund's operational independence from the Government of British Columbia, high operational effectiveness, well-diversified portfolio, strong liquidity position, management and governance, and low leverage.

We believe the difficult demographic and economic trends--such as geopolitical instability, high inflation, slower economic growth, and increasing longevity--will present challenges to BCI, similar to those faced by other pensions and pension investment managers in Canada. Nevertheless, we believe that the fund will continue to realize good medium-term investment returns and that it has sufficient liquidity to meet existing and planned debt obligations.

The rating also reflects our opinion of a moderate likelihood that the provincial government would provide extraordinary support in the event of financial distress.

BCI is a well-established organization that invests on behalf of over 30 public-sector clients, including 11 pension plans and three insurance funds that provide coverage for British Columbia workers and auto insurance policy holders. BCI also manages the funds of public trusts, endowments, and government bodies. It has no direct financial responsibility to fund the pension obligations of its pension clients or to fund the financial obligations of its non-pension clients.

We believe the fund is operationally and financially independent of the provincial government of British Columbia. While an agent of the province, the fund is a legally separate and autonomous entity with natural person powers and a largely independent board. BCI does not receive any financial support from the province. Legislation precludes the province from being involved in BCI's investment decisions and business operations. We believe the fund would be financially resilient to political intervention. BCI has never made any payments or paid dividends to the province.

We expect no significant changes to BCI's governance framework over the next few years. BCI's assets under management (AUM) can be used only for investment purposes. Other than as a client of BCI, the province has no claim on the AUM, and the assets cannot be used for any other purpose.

We believe BCI has strong management and a comprehensive risk management framework. Management maintains a clear and comprehensive set of operating principles, objectives, and strategies.

The fund's risk management is strong. BCI has formal enterprise risk management policies in place. It has two risk committees: the enterprise risk management committee and the investment risk committee. The investment risk management framework covers several risks, such as concentration, counterparty, credit, environmental, social and governance, funding and contribution, leverage, liquidity, and market risk. As part of the fund's risk management practices, BCI diversifies its investment portfolio geographically, and by asset class, credit quality, and sector.

BCI's goal is to generate long-term returns that meet its clients' actuarial return objectives, which are currently 4.7%-7.0%, and that exceed appropriate benchmarks. It also aims to provide

cost-efficient investment management services.

BCI has high operational effectiveness. The fund's annual combined pension net return was 3.5% as of March 31, 2023, higher than its benchmark of 0.3%. This reflects the investments of BCI's six largest pension clients (representing 77.6% of total net AUM) and is its main indicator of operational effectiveness. The best performing asset classes were infrastructure and renewable resources as well as real estate equity, with returns of 9.2% and 7.2%, respectively. Canadian public equity and nominal bonds generated negative returns of 3.1% and 2.1%, mainly owing to the sharp increase in rates during the year. The five- and 10-year net annualized returns were 7.2% and 8.5%, respectively, which also exceeded their benchmarks.

The combined pension net AUM increased 2.6% to C\$166.8 billion in fiscal 2023 from C\$162.6 billion in fiscal 2022. BCI's total net AUM increased 1.8% to C\$215 billion from C\$211.1 billion in the same period.

As part of the fund's operating structure, most AUM are held in pooled investment portfolios (pooled funds) established by BCI, which are similar to mutual funds. BCI legally owns the assets of the pooled funds. As of Dec. 31, 2022, 87% of total net AUM was held in pooled funds: 18% managed by BCI's owned real estate company, QuadReal, and 69% that will serve as recourse to BCI's new unsecured debt issuances (recourse pooled funds). Recourse pooled funds' net AUM decreased 8.2% to C\$145.5 billion as of Dec. 31, 2022, from C\$158.5 billion the year before.

Some investments are held by clients, and managed by BCI, outside of the pooled fund structure because of tax, regulatory, and other structuring considerations. BCI has custody of these funds, which it would not relinquish if a relevant client was not current with all direct and indirect obligations.

BCI has low leverage. Its total liabilities represented 10.4% of total assets as of Dec. 31, 2022, compared with a peer average of 16.8%. This ratio was higher than the 8.7% posted the year before, but still what we consider low. Debt totaled C\$1.7 billion, or 0.8% of net assets, in line with the year before.

Table 1

**British Columbia Investment Management Corp. -- Leverage**

(%)	--Year ended Dec. 31--		
	2022	2021	2020
Total liabilities/total assets	10.4	8.7	8.5
Secured funding*/total assets	9.0	7.9	7.3
Unsecured debt/net assets	0.8	0.7	0.6

\*Secured funding includes repos and amounts related to derivatives positions.

The recourse pooled funds' total liabilities increased to 11.4% of total assets as of Dec. 31, 2022, from 9.5% the year before. There is currently no debt associated with these funds, but BCI plans to issue new unsecured debt later this year to complement the use of secured debt. BCI estimates the new unsecured debt could total about C\$5 billion by 2026.

Table 2

**British Columbia Investment Management Corp. Recourse Pooled Funds -- Leverage**

(%)	--Year ended Dec. 31--		
	2022	2021	2020
Total liabilities/total assets	11.4	9.5	9.7
Secured funding*/total assets	10.6	9.3	8.8
Unsecured debt/net assets	0.0	0.0	0.0

\*Secured funding includes repos and amounts related to derivatives positions.

In accordance with our criteria for rating government-related entities, we view the likelihood of BCI receiving extraordinary government support as moderate. We believe BCI has an important role to the government as it invests on behalf of over 30 public-sector clients, including 11 pension plans and three insurance funds that provide coverage for British Columbia workers and auto insurance policyholders. BCI also manages the funds of public trusts, endowments, and government bodies. We believe BCI's link to the province is limited given the government's track record of not interfering in the fund's operations and independent governance.

We rate BCI above the province, based on our belief that its SACP is stronger than that of the government. We believe the fund has solid governance standards, sizable net assets, low debt levels, and strong liquidity. We believe the province's willingness and ability to materially impair BCI's credit standing in periods of stress are limited. Also, if the province ultimately were to default, there is a measurable likelihood that the fund would not. Moreover, unlike pension funds, BCI does not administer, and is not liable for, its depositors' diverse array of pension benefit obligations.

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 BCI's creditworthiness. 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 the fund has strong liquidity owing to its redemption risk management, large pool of liquid assets, and low debt. The fund monitors liquidity via a liquidity coverage ratio.

Clients are not mandated to use BCI. Nevertheless, it has a funds management agreement with each client that acknowledges that investments cannot always be liquidated quickly and efficiently. As a result, withdrawals are subject to delay on terms over which BCI has broad discretion. Historically, this has been to avoid forced sales of illiquid investments (real estate, private equity, and infrastructure, primarily). However, commitments to debt issuance also apply. The fund maintains a sizable pool of liquid assets with which to meet its funding requirements.

As of Dec. 31, 2022, BCI had C\$1.1 billion in cash, which covered 63% of total borrowings outstanding of C\$1.7 billion. In addition, C\$108.6 billion, or 47% of investments, consisted of fixed-income securities (excluding privately held debt) and public equities, which the fund could sell in public markets. These well exceed BCI's total liabilities of C\$24.5 billion.

The recourse pooled funds had C\$530 million in cash and no borrowings outstanding. C\$103.1

billion, or 64% of the recourse pooled funds' investments, consisted of fixed-income securities (excluding privately held debt) and public equities. These are well in excess of the recourse pooled funds' total liabilities of C\$18.8 billion.

## Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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, June 9, 2023

## Ratings List

### New Rating; CreditWatch/Outlook Action

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#### British Columbia Investment Management Corporation

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Issuer Credit Rating	AAA/Stable/--
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.spglobal.com/ratings](http://www.spglobal.com/ratings) for further information. Complete ratings information is available to RatingsDirect subscribers at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.spglobal.com/ratings](http://www.spglobal.com/ratings).

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