

British Columbia Investment Management Corp.

September 19, 2024

This report does not constitute a rating action.

Outlook

The stable outlook indicates our expectation that British Columbia Investment Management Corp. (BCI; AAA/Stable) will continue to have 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 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 a stand-alone credit profile (SACP) of 'aaa'. The SACP indicates the fund's operational independence from the British Columbia government, high operational effectiveness, well-diversified portfolio, strong liquidity position, management and governance, and low leverage.

We think difficult demographic and economic trends--like geopolitical instability, high inflation, slower economic growth, and increasing longevity--will be challenging for BCI, like those faced by other pensions and pension investment managers in Canada. Nevertheless, we believe 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 more than 30 public-sector clients, including 10 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

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pension obligations of its pension clients or to fund the financial obligations of its non-pension clients.

We think 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 not 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.

BCI's risk management is strong with 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, like 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, 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 7.5% as of March 31, 2024, lower than its benchmark of 11.6%, but higher than the 3.5% return recorded a year earlier. This reflects the investments of BCI's six largest pension clients (representing 77.6% of total net AUM) and is its main indicator of operating effectively. The best performing asset classes were global public equities and Canadian public equities, with returns of 26.5% and 14.6%, respectively. Real estate equity generated a negative return of 5%, mainly owing to low occupancies and high interest rates which have an impact on valuations and the cost of debt. The five- and 10-year net annualized returns were 7.5% and 7.8%, respectively, which also exceeded their benchmarks.

The combined pension net AUM increased 6.8% to C\$178.2 billion in fiscal 2024 from C\$166.8 billion in fiscal 2023. BCI's total net AUM increased 6.7% to C\$229.5 billion from C\$215 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, 2023, 86% of total net AUM was held in pooled funds: 16% managed by BCI's owned real estate company, QuadReal, and 70% that serve as recourse to BCI's unsecured debt issuances (recourse pooled funds). Recourse pooled funds' net AUM increased 7.7% to C\$156.8 billion as of Dec. 31, 2023, from C\$145.5 billion the prior year.

British Columbia Investment Management Corp.

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, in our view. Its total liabilities represented 10.1% of total assets as of Dec. 31, 2023, lower than the 10.4% posted the year before. Debt totaled C\$3.4 billion, or 1.6% of net assets, higher than the 0.8% posted the year before, as the fund issued its first senior unsecured bond with a principal amount of C\$1.25 billion in October 2023. In January 2024, BCI reopened the issuance and raised an additional C\$1 billion. In August 2024, it issued C\$1.5 billion of senior unsecured notes.

British Columbia Investment Management Corp. -- Leverage

(%)	2023	2022	2021	2020
Total liabilities/total assets	10.1	10.4	8.7	8.5
Secured funding*/total assets	7.9	9.0	7.9	7.3
Unsecured debt/net assets	1.6	0.8	0.7	0.6

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

The recourse pooled funds' total liabilities increased to 12.3% of total assets as of Dec. 31, 2023, from 11.4% the year before. Debt increased to 0.9% of net assets as of Dec. 31, 2023. There was no debt previously associated with these funds. BCI estimates unsecured debt could total C\$7.5 billion by 2027.

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

(%)	2023	2022	2021	2020
Total liabilities/total assets	12.3	11.4	9.5	9.7
Secured funding*/total assets	10.8	10.6	9.3	8.8
Unsecured debt/net assets	0.9	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 think BCI has an important role to the government as it invests on behalf of more than 30 public-sector clients, including 10 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 record of not interfering in its 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 also think that 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, 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 redemption risk management, large pool of liquid assets, and low debt. The fund monitors liquidity through 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 in 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 to meet its funding requirements.

As of Dec. 31, 2023, BCI had C\$517 million in cash, which covered 15% of total borrowings outstanding of C\$3.6 billion. In addition, C\$111.9 billion, or 46% 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\$25.2 billion.

The recourse pooled funds had C\$118 million in cash, which covered 9% of total borrowings outstanding of C\$1.4 billion. C\$111.4 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\$21.9 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 Detail (as of September 19, 2024)*

British Columbia Investment Management Corporation

Issuer Credit Rating	AAA/Stable/--
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Senior Unsecured	AAA
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Issuer Credit Ratings History

10-Oct-2023	AAA/Stable/--
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Ratings Detail (as of September 19, 2024)*

*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.

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