S&P Global
Ratings

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Caisse de depot et placement du Quebec

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This report does not constitute a rating action.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that Caisse de depot et placement du Quebec (CDPQ or the fund) will continue to realize good medium-term investment returns and its liquidity levels will not materially weaken, leverage will remain low and manageable, and risk management practices will remain sound in the next two years. It also reflects our belief that CDPQ will remain independent of the provincial government.

Downside scenario

We could lower the ratings if there were a substantial increase in liabilities, such that total liabilities exceeded 40% of total assets in the next two years. We could also lower our ratings if there were a dramatic drop in liquidity levels or we believed the quality of management (including risk management) deteriorated significantly. Although unlikely, we could also lower the ratings if we came to expect the Province of Quebec to deviate from its hands-off approach through legislative changes that undermined CDPQ's operational or financial independence. In this instance, we could revise our assessment of the likelihood of extraordinary support of the fund, which could lead us to lower the ratings.

Rationale

The long- and short-term issuer credit ratings on CDPQ are 'AAA' and 'A-1+', respectively. The ratings on CDPQ, an investment manager that invests on behalf of pension plans and insurance funds among other clients in the Province of Quebec in Canada, reflect the fund's stand-alone credit profile (SACP), which S&P Global Ratings assesses at 'aaa'. The SACP on CDPQ reflects our assessment of the fund's independence from Quebec, comprehensive risk management policies, high operational effectiveness, and low leverage. We believe the difficult demographic and economic trends such as geopolitical instability, high inflation, slower economic growth, and increasing longevity, offset some of these strengths. Nevertheless, we believe the fund's medium-term investment returns will remain higher than its depositors' needs and that CDPQ has sufficient liquidity to meet near-term debt obligations. The ratings also reflect our opinion of a moderate likelihood that Quebec would provide extraordinary support in the event of financial distress.

CDPQ is a well-established and venerable organization, and we view it as operationally and financially independent of Quebec. While an agent of the province, the fund is a legally separate and autonomous entity with natural person powers, including legal ownership of its assets. It also possesses strong governance standards, including a largely independent board with a strong fiduciary spirit. We believe it would be financially resilient to political intervention, given ownership of its assets, large net asset position, and ability to limit withdrawals to C$50 million per month per depositor if required. Moreover, Quebec has long taken a hands-off approach in its dealings with the fund and has not been involved in investment strategy development or day-to-day operations.

We believe the fund has very sound management. The board of directors, whose members are prominent professionals with complementary skill sets, is responsible for developing and reviewing CDPQ's guiding policies and strategic orientation. The senior management team, led by the president and CEO, implements the fund's investment strategies and runs the day-to-day operations.

Risk management policies and practices are comprehensive. The fund has a very strong risk management culture focused on integrating risk and investment functions throughout the organization, and a thorough understanding of its operational and investment risks. The risk organization is involved at multiple points during the investment process. At the heart of its risk framework is the integrated risk management policy, which defines CDPQ's risk governance and sets limits for risk tolerance, transaction authorizations, and overall concentrations. We expect the fund will continue enhancing its risk systems and procedures in tandem with its evolving market, credit, and liquidity exposures.

As part of its risk management practices, CDPQ diversifies its investment portfolio by geography, credit quality (fixed income), sector, and single-name concentration. Because the fund is domiciled in Quebec, it has significant exposure to Quebec-based investments in several sectors given its extensive knowledge of the local market and its dual mandate to contribute to Quebec’s economy while generating optimal returns. At the end of 2022, its Quebec-based assets totaled C$78.4 billion or 17% of total investments. However, about C$15.5 billion or about 3.3% of total investments of that exposure is to provincial and agency bonds, which are held as part of liquidity risk management. As well, significant investments in certain large Quebec companies with extensive global operations mitigate the exposure somewhat.

CDPQ has a record of high operational effectiveness. Its 2022 performance was negatively affected by the unfavorable market conditions. In that year, the fund generated a net nominal return of negative 5.6%, which exceeded its benchmark of negative 8.3%. The best performing asset classes were real estate and infrastructure, with returns of 12.4% and 11.5%, respectively. On the other hand, emerging markets equity generated a negative return of 18.1%. Nevertheless, the five-year annualized net nominal rate of return was 5.8%, which exceeded its benchmark of 4.9% and is in line with its depositors’ needs. Net investment income was C$7.7 billion in 2022, lower than C$12.3 billion in the previous year. Net assets decreased by about 4% to C$401.9 billion in 2022 from C$419.8 billion in 2021.

For the first six months of 2023, CDPQ posted a net nominal return of 4.2%, in line with its benchmark of 4.1%. Net assets increased to C$424 billion. The fund's five- and 10-year annualized net nominal rates of return remained strong at 6.0% and 7.9%, respectively, and also exceeded their benchmarks. We expect the fund's medium-term investment returns will remain higher than depositors' needs.

The fund's financial leverage is low and manageable. Total liabilities represented 15.2% of total assets at the end of 2022, up from 11.1% in 2021. Debt (commercial paper [CP], loans, and term debt) totaled C$34.8 billion or about 8.7% of net assets in 2022, up from 6.1% the year before. CP outstanding was C$13.1 billion (C$9.7 billion in 2021) and term debt was C$19.7 billion (C$15.6

billion in 2021). We do not expect any significant increase in debt or total liabilities in the next two years.

Caisse de depot et placement du Quebec -- Leverage

(%)	2022	2021	2020	2019	2018
Total liabilities/total assets	15.2	11.1	11.3	13.4	11.6
Secured funding*/total assets	7.1	4.6	4.6	7.2	6.4
Unsecured debt/net assets	8.7	6.1	6.3	6.3	5.1

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

In accordance with our criteria for rating government-related entities, we view the likelihood of CDPQ receiving extraordinary government support as moderate. We base this on our assessment of the fund's important role and limited link with Quebec. The fund manages the assets of most public-sector pension and insurance plans in the province, including those covering the government's own employees. Contributing to Quebec's economic development is part of CDPQ's legislated mandate. Our assessment of a limited link reflects Quebec's long track record of non-interference in the fund's operations and independent governance.

We continue to rate CDPQ 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 Quebec's willingness and ability to materially impair CDPQ's credit standing in periods of stress are limited and, ultimately, if the province were to default, there is a measurable likelihood that the fund would not. Moreover, unlike pension funds, CDPQ does not administer, nor is it liable for, its depositors' diverse array of pension benefit obligations.

Because CDPQ unconditionally and irrevocably guarantees CDP Financial’s senior unsecured debt and CP programs, we equalize the ratings on the debt and the programs with those on CDPQ. Since the beginning of 2023, CDP Financial has issued US$5.05 billion, C$2 billion, Norwegian krone 600 million, and A$300 million of senior unsecured notes.

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 CDPQ'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

In our view, CDPQ has a considerable liquidity cushion that is robust under a variety of stress scenarios. Cash investment income usually exceeds net withdrawals by depositors, operating expenses, and annual debt service costs (including full repayment of loans and CP). Furthermore, the fund has a liquidity risk management policy that requires it to hold highly liquid securities that can be sold very quickly to meet cash calls rapidly. In keeping with policy, CDPQ held highly liquid and highly rated government bonds totaling close to C$46 billion as of the end of 2022 (C$50 billion as of 2021), as well as a committed credit facility totaling US$4 billion to meet its contractual commitments and financial obligations. These holdings are composed of the debt of the federal governments of Canada and the U.S., provincial governments and their agencies, and a minor amount of cash and other liquid assets. In addition, the fund held C$25 billion of somewhat less-liquid government and corporate bonds and C$131 billion of publicly traded domestic and international equities, compared with capital market debt of about C$34.8 billion. The fund can also resort to CP issuance. It monitors its liquidity position daily.

CDPQ's depositor funding profile is very predictable. Depositors generally have long-term investment horizons and legislative requirements to invest their money with the fund that would preclude them from withdrawing even for poor investment performance. CDPQ also has procedures that we believe mitigate the potential effect of unexpected depositor withdrawals on its liquidity and investment strategies. Of note, it generally permits depositors to withdraw or deposit funds once per month, with longer lock-up periods for its less-liquid investment portfolios, such as real estate. It has the ability, if required, to limit withdrawals to C$50 million per month. Furthermore, the fund has been adding depositors over the long term.

Related Criteria

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

Ratings Detail (as of September 20, 2023)*

Caisse de depot et placement du Quebec		
Issuer Credit Rating		AAA/Stable/A-1+
Issuer Credit Ratings History		
30-Jul-2009	*Foreign Currency*	AAA/Stable/A-1+
26-Feb-2009		AAA/Watch Neg/A-1+
29-Jul-2002		AAA/Stable/A-1+
30-Jul-2009	*Local Currency*	AAA/Stable/A-1+
26-Feb-2009		AAA/Watch Neg/A-1+
14-May-2002		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.

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