

Adjusting the focal range on Canada's vibrant PSE sector

By Warren Lovely & Alpa Atha

Last week we penned a detailed note on select Canadian public sector entities (PSEs). That *Market View* note (Vol. V, No. 70) is available [here](#). At that time, we trained a spotlight on three names: CPP Investments, PSP Investments and CDPQ... and their respective issuing entities (CPPIB Capital, PSP Capital, CDP Financial). For context, we included brief references to two other important Canadian PSE issuers: Ontario Teachers' Finance Trust and OMERS Finance Trust. This *Addendum* provides additional background information on Ontario Teachers' and OMERS. To be clear, there are still other important PSEs on our radar and this won't be the last you hear from us on the sector, where spreads have enjoyed performance in absolute and relative terms (vs. sovereigns, crowns, provis), and where issuance activity/liquidity is picking up.

Consistent with the earlier/related report, this *Addendum* touches on key elements: performance, asset growth (and funded status), diversification, ESG priorities and debt programs. Commentary is limited to core takeaways, with additional background on official websites:

Ontario Teachers' Pension Plan

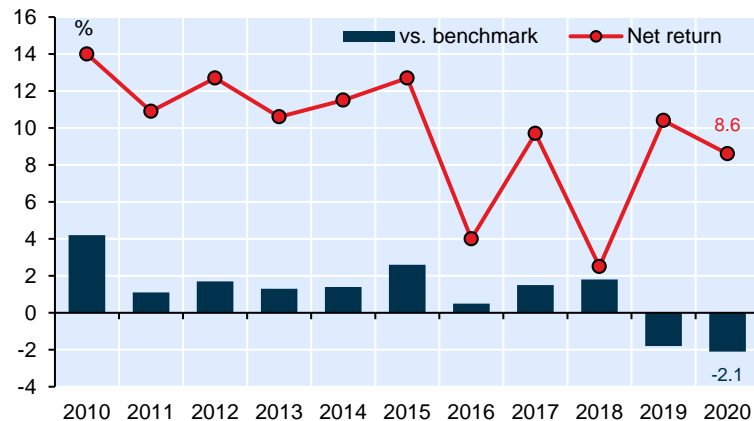


Ontario Teachers' Finance Trust

Ticker: ONTTFT | Explicitly guaranteed by Ontario Teachers' Pension Plan
S&P: AA+, Stable | Moody's: Aa1, Stable | DBRS: AAA, Stable

Chart 1: Looking back at 2020 performance...

Ontario Teachers' annual total fund net return vs. benchmark

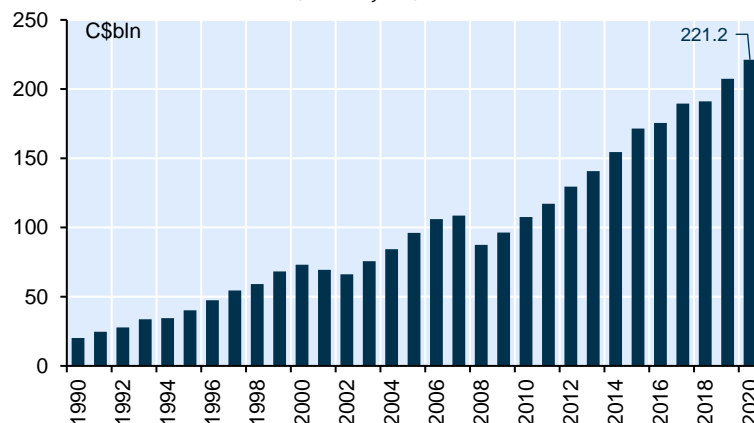


Source: NBF, OTPP

Teachers' returned 8.6% last year, falling 2.1-pts short of the benchmark as the real assets segment was hard hit. The 5Y return matched the benchmark, the 10Y return topping the benchmark by 0.8%-pts/year. Look for a mid-year update this summer (August).

Chart 3: OTPP net assets north of C\$220bln at end of 2020

Ontario Teachers' net assets (end of year)



Source: NBF, OTPP

Teachers' net assets topped C\$220bln at the end of 2020. Contributions account for 21% of funding since inception. Investment costs were down to 70 cents per \$100 of net assets (2019: 76 cents). The plan was fully funded for an 8th straight year (103%) at a 4.5% discount rate.

OMERS Administration Corporation

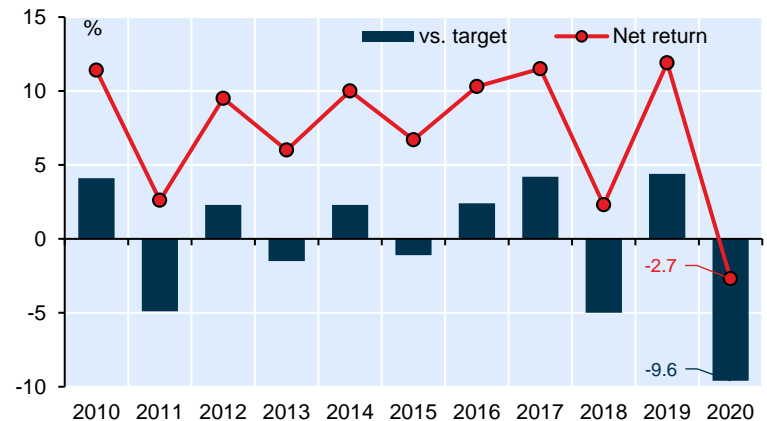


OMERS Finance Trust

Ticker: OMERTF | Explicitly guaranteed by OMERS Administrative Corporation
S&P: AA+, Stable | Moody's: Aa1, **Negative** | Fitch: AAA, Stable | DBRS: AAA, Stable

Chart 2: ... it was a tough(er) year vs. benchmark/target

OMERS annual primary plan net return vs. absolute return target

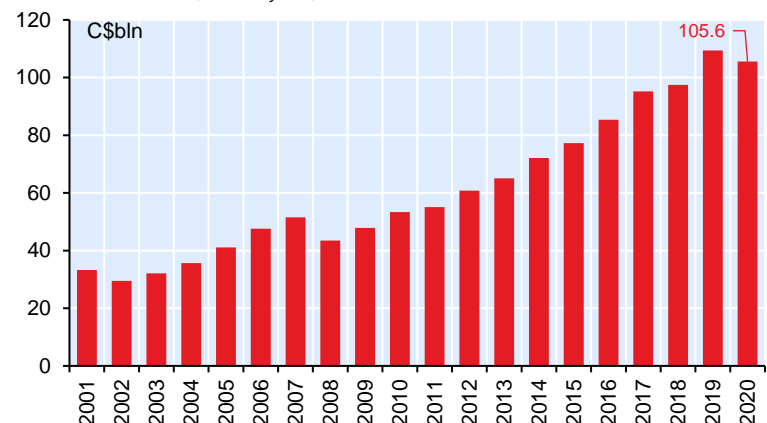


Source: NBF, OMERS

OMERS recorded a net loss of 2.7% in 2020, falling well shy of target. COVID pressured select holdings, while sector allocation and FX hedging adjustments contributed to underperformance. The 10Y rate of return (6.7%) was above the discount rate but shy of the 7% Board target.

Chart 4: Despite setback, OMERS assets ~2X the 2010 level

OMERS net assets (end of year)

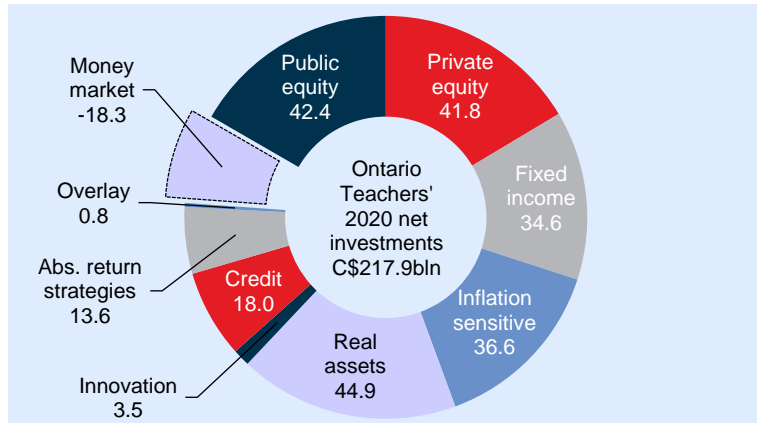


Source: NBF, OMERS

Net assets at OMERS ended 2020 at ~C\$105bln. Last year's negative investment return lowered the unsmoothed funded ratio to 93% (2019: 101%). On a smoothed basis, OMERS was 97% funded. The discount rate has been progressively lowered (latest 5.85% nominal).

Chart 5: Broadly diversified portfolio at Ontario Teachers'

Ontario Teachers' asset mix (as at 31-Dec-2020)

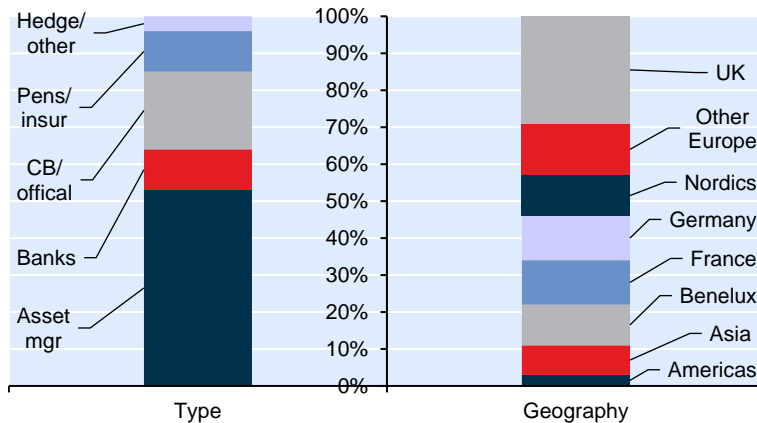


Source: NBF, OTPP | Note: Negative value for money market captures net implicit funding

Teachers' growing portfolio is truly global, with holdings in over 50 countries. Nearly 40% was in equity (evenly split btw public and private). The fixed income allocation was cut significantly in the second half of 2020, a move which was also reflected in money market (i.e., net implicit funding).

Chart 7: Ontario Teachers' issued 1st Green Bond Nov-2020

Distribution of ONTFTT EUR750mln 0.05% Nov-2030 (inaugural Green Bond)

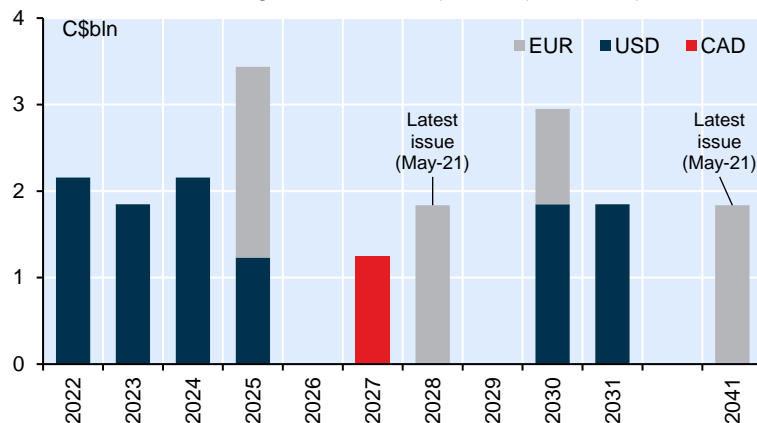


Source: NBF, OTPP

There's a demonstrable focus on ESG at Teachers', where investing practices are highly regarded. Teachers' is also a Green Bond issuer, its framework aligned with ICMA's GBP and ranked 'Dark Green' by CICERO. The inaugural EUR750mln issue attracted significant demand.

Chart 9: Teachers' latest offering a EUR 2-tranche [7Y + 20Y]

Distribution of outstanding ONTFTT bonds by maturity & currency of issue

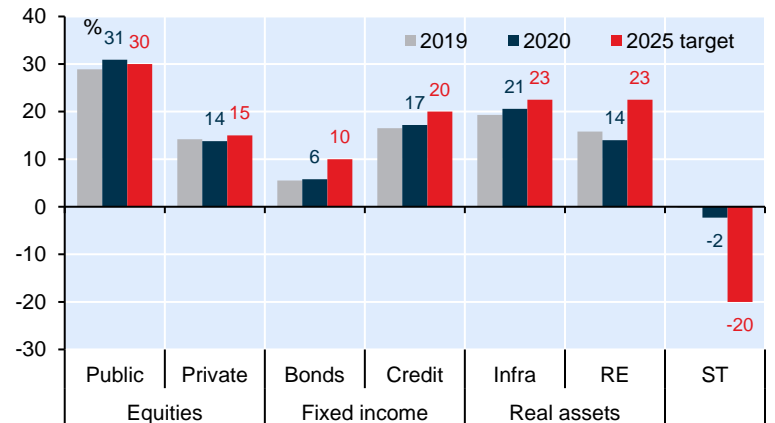


Source: NBF, Bloomberg

Teachers', with the equivalent of nearly C\$20bln in bonds outstanding, is an active/established SSA issuer. In addition to the above-noted Green Bond from Nov-2020, Teachers' placed a large dual-tranche EUR offering in May. There's been at least one USD benchmark/year since 2017.

Chart 6: Where is OMERS asset mix headed?

OMERS year-end asset mix vs. 2025 Board-approved target

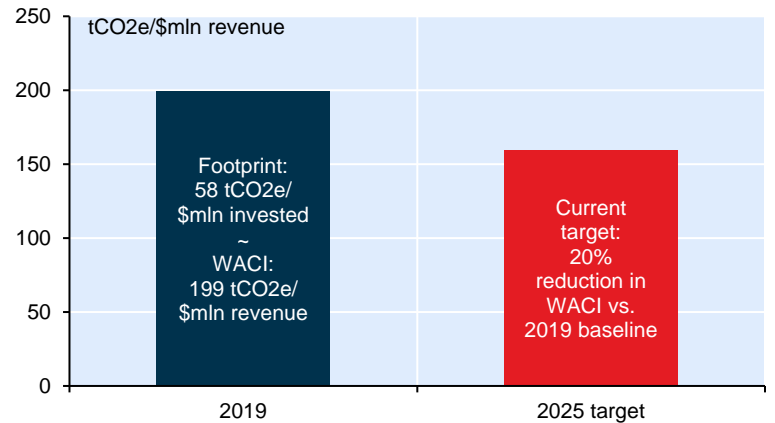


Source: NBF, OMERS | Note: RE refer to real estate; ST refers to short-term (incl. leverage)

OMERS' ended 2020 with a roughly 45% equity weight. The FI portfolio (23%) was three-quarters credit. Real assets accounted for ~35%, shy of the Board-approved 2025 target, which also allows for 20% economic leverage. Canada accounted for 31% of total fund exposures, the U.S. 40%.

Chart 8: OMERS aims to cut carbon intensity of portfolio 20%

OMERS Weighted Average Carbon Intensity (WACI): 2019 baseline & target

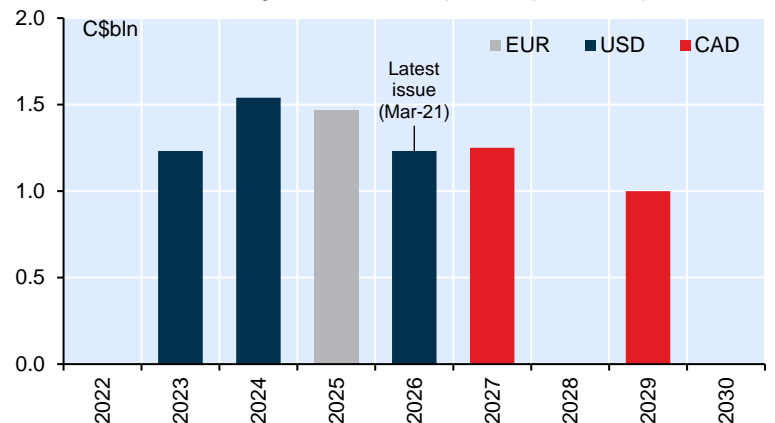


Source: NBF, OMERS

OMERS continues to shift assets to clean energy, while a Board-approved target calls for a 20% reduction in the weighted average carbon intensity over five years (by 2025). Carbon footprint metrics are subject to third party review. OMERS has yet to issue in Green Bond format.

Chart 10: OMERS last issued in March [USD1bln 1.1% Mar-2026]

Distribution of outstanding OMERTT bonds by maturity & currency of issue



Source: NBF, Bloomberg

OMERS has the equivalent of C\$7.7bln outstanding, its deals having been broadly placed. OMERTT and ONTFTT offer yield enhancement to CPPIBC, PSPCAP, CADEPO, the incremental rolldown appearing attractive in the current low yield/tight spread environment.

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