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Research Update:

Public Sector Pension Investment Board 'AAA' Rating Affirmed On Reliable, Positive Contributions

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Overview

- We are affirming our 'AAA' long-term issuer credit and 'A-1+' short-term ratings on the Public Sector Pension Investment Board (PSPIB).
- We are also affirming our 'AAA' senior unsecured debt, 'A-1+' global scale, and 'A-1+' (High)' Canada scale commercial paper ratings on subsidiary PSP Capital Inc.
- The ratings primarily reflect the board's highly reliable net contributions being positive for at least the next 15 years.
- The stable outlook reflects our expectation that PSPIB will maintain a very large net asset position and conservative risk-management framework.

Rating Action

On Jan. 16, 2013, Standard & Poor's Ratings Services affirmed its ratings, including its 'AAA' long-term issuer credit rating, on Public Sector Pension Investment Board (PSPIB or the fund) and subsidiary PSP Capital Inc. The outlook is stable.

Rationale

The ratings on PSPIB reflect Standard & Poor's opinion of the fund's credit strengths. First among these is that net fund contributions from its four federally sponsored pension plans (the Public Service, Canadian Forces, Royal Canadian Mounted Police, and Reserve Force; collectively, the plans) will be positive for at least 15 years, contributing to what we believe to be PSPIB's very strong net asset and liquidity position. We believe these contributions are highly reliable because they are required by law and Standard & Poor's expects no changes to the applicable legislation. Although a Crown corporation with federal sponsors, PSPIB does not receive any form of guarantee from its sponsors. We believe the fund benefits from a strong corporate governance framework that ensures its management operates at arm's length from the federal government and acts in the best interest of its contributors and beneficiaries. We also believe that PSPIB benefits from its mandate of focusing on managing transferred assets without the distraction of direct responsibility for dealing with changes in the actuarial funding status of the underlying pension plans. Further supporting the ratings is a legal opinion the fund received, saying its debt obligations are senior to and rank ahead of amounts that become payable to the plans.

We believe these strengths outweigh PSPIB's weaknesses, which partially emanate from its relatively short operating history since its inception in 2000 and its rapid growth. Both factors could make it difficult for the fund to appropriately scale its operational practices and investment strategy. While we consider the stable positive net contributions generally to be beneficial, we note that the rapid increase in fund size (66% in five years) introduces investment challenges as PSPIB strives to meet its required real rate of return of 4.1% in an intensely competitive environment. In our view, it is crucial for the fund to maintain the same pace of evolution for risk management and investment activities to ensure that all risks are understood, managed, and monitored. PSPIB's risk-management systems appear to be developing in tandem with the complexities of the underlying business.

In fiscal 2012 (year ended March 31), PSPIB net assets rose to C$64.5 billion, up from $58.0 billion in 2011. The growth in net assets reflected net contributions of C$4.7 and investment returns of C$1.7 billion (3%). Investment results were above the 1.6% returns of its benchmark, but below its required real rate of return of 4.1%. These investment results reflected challenging conditions in the capital markets, which continued into fiscal 2013. For the first half of the year, the fund's investment returns were 2.1%.

PSPIB issues debt through PSP Capital, a wholly owned and fully guaranteed subsidiary, to leverage its real estate, renewable resources and infrastructure portfolios. As of Dec. 11, 2012, PSP Capital had about C$4.3 billion outstanding in commercial paper (CP) and medium-term note programs. In February 2013, PSPIB plans to launch a U.S. CP program to optimize cost of debt and reduce the use of forward contracts for currency hedging.

Outlook

The stable outlook reflects Standard & Poor's expectations that during our two-year outlook horizon, PSPIB will continue to benefit from a large net asset position and very strong liquidity position, and that the fund will continue to manage its risks conservatively. Any major deviations from these expectations could put downward pressure on the ratings.

Related Criteria And Research

Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010

Ratings List

Ratings Affirmed

Public Sector Pension Investment Board

Issuer credit rating	AAA/Stable/A-1+
PSP Capital Inc.	
Senior unsecured debt	AAA
Commercial paper	
Global scale	A-1+
Canada scale	A-1(High)

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.