

CPP Fund Performance in the Context of Record Market Volatility

At September 30, 2008 the CPP Fund had assets of \$117.4 billion. This reflects investment returns of negative 7.5 per cent on a year-to-date basis and negative 8.5 per cent for the second quarter. The Fund declined \$5.3 billion in the first six months of the fiscal year to September 30 including a decline of \$10.3 billion in the latest quarter mainly due to a broad decline in global equity markets.

Summary

- The CPP Fund is invested for the long term, has a broadly diversified portfolio and steady cash inflows, and is structured to withstand stock market cycles in order to help secure CPP pensions for decades and generations.
- The four-year annualized investment rate of return through September 30, 2008 was 6.6 per cent, which has resulted in \$22 billion in investment income for the CPP Fund over the four-year period.
- While the Fund was adversely impacted by broad declines in public equity markets, it had virtually no losses due to credit or counterparty exposures during this period.
- Although the turmoil in financial markets has impacted short-term investors who have had to sell assets at distressed prices, the CPP Investment Board is well positioned to acquire attractive assets at advantageous prices across all asset classes that will generate significant long-term value for the Fund.
- According to the latest report by the Chief Actuary of Canada released in 2007, the CPP Fund is projected to reach \$310 billion by the end of 2019, and the CPP is sustainable as currently constituted throughout the 75-year period covered by his report.

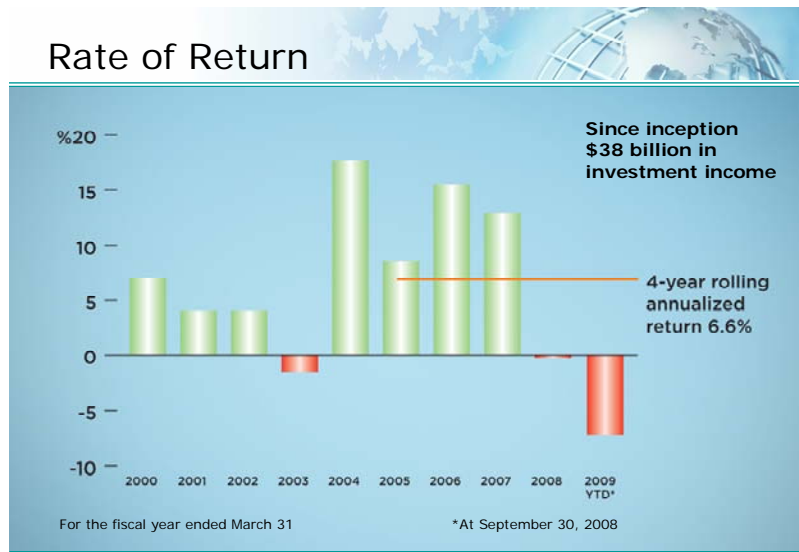
What this Means for Canadians

Canadians receiving their CPP benefits have no cause for concern because the \$117.4 billion portfolio that we manage is not being used to help pay pensions today. It will be another 11-12 years before a small portion of the CPP Fund's investment income will be needed to help pay pensions.

Context for Performance

The CPP Fund's negative investment performance for fiscal 2009 year-to-date comes after strong performance in four of the last five years. For the four-year period ended

September 30, 2008, the CPP Investment Board has delivered an annualized investment rate of return of 6.6 per cent. To go back even further, since the launch of our investment programs in 1999 and despite difficult years like 2003 when the “dotcom” bust precipitated a severe market downturn, our investment programs have generated \$38 billion of investment income for the CPP Fund.



Copyright © 2008, Canada Pension Plan Investment Board. All rights reserved.



The CPP Investment Board focuses on investment returns over longer periods to align with its long-term investment mission.

Broad declines in global public equity markets during the second quarter of fiscal 2009 adversely impacted the CPP Fund. Canadian equities declined 19.3% in the quarter according to the S&P/Citigroup Broad Market Index Canada, while global equities decreased 10.3% in the quarter according to the S&P/Citigroup Primary Market Index World (excluding Canada), with a drop of 12.9 per cent in the FTSE 100 and a 9.0 per cent drop in the S&P 500.

Structural, Sustainable Strength

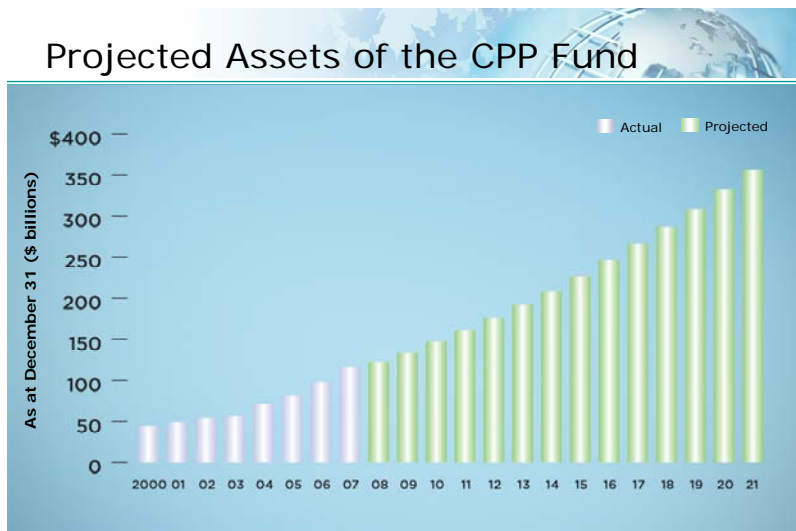
While “long term” can mean different things in the investment industry today, the CPP Investment Board is focused on investing the CPP Fund for the very long term. We possess certain key structural advantages:

- The size and scale of the Fund, the largest in Canada and one of the world’s largest pension funds.
- The certainty of our cash inflows and no requirement to help pay pensions until 2020. In fact, it will be another 11-12 years before a small portion of the CPP Fund’s investment income will be needed to help pay pensions.

- The long-term investment horizon of our mandate that enables the CPP Fund to withstand periods of market stress and capitalize on long-term opportunities.

The CPP Investment Board's investment strategy includes a provision for a strategic weighting of the portfolio in public and private equities. This is designed to enable the fund to benefit from the demonstrated long-term performance of these asset classes. In spite of market volatility in the short term, this portfolio design is consistent with the CPP Investment Board's very long-term investment horizon and its view that equities will deliver higher risk-adjusted returns over longer time periods.

It is also worth noting that as a result of the successful reforms of the CPP 10 years ago, the CPP Fund was created to help partially pre-fund future pension obligations. As the Fund is not required to help pay pensions now, it is expected to grow without any drawdowns for at least another 11 years. At that time, the Fund will continue to grow, but at a slower rate, as we begin to use a portion of our investment income to help fund CPP pensions. According to the Chief Actuary of Canada's 2007 report, the Fund is sustainable for the 75-year period of his report.



Copyright © 2008, Canada Pension Plan Investment Board. All rights reserved.



According to the Chief Actuary of Canada's 2007 report, the projected assets of the CPP Fund should reach \$310 billion by the end of 2019.

Opportunity in Current Markets

The current market environment offers a fund with our size, steady cash inflows, secure asset base and very long investment horizon opportunities to buy quality assets at attractive valuations across all asset classes.

As we review these opportunities, we subject them to diligent and comprehensive risk management, market and credit analysis, which can be characterized by:

- A high degree of discipline in the analysis and monitoring of investment opportunities before we commit and as we manage them.
- Rigorous risk management: if we can't understand, model and quantify the risks of an investment, we simply won't make it.
- A willingness to be opportunistic when our discipline and process uncover opportunities that fit in the context of our long-term investment mandate.

As a result, we have had virtually no losses due to credit or counterparty risk in this period. We have no investments in non bank-sponsored ABCP, CDOs or other opaque structured products where we cannot quantify the risk.

Although we were approached to participate in the recapitalization of U.S. and other global financial institutions in the last year, we chose not to invest in them because we believed it was impossible for us to correctly value the underlying assets on their balance sheet in the time available. The Fund also currently has only a relatively small exposure to the U.S. real estate market because of our concerns about valuations in that market in recent years.

Outlook

Looking ahead, market turmoil ensures that investors such as the CPP Investment Board, with our long investment horizon, ample liquidity and secure asset base, are well positioned to take advantage of current opportunities and will be able to buy quality assets at attractive valuations across all asset classes in the near to longer term.

As an organization, we remain focussed on our mission to manage the CPP Fund for the long term.
