
CPP Fund ends third quarter at \$108.9 billion

The CPP Fund ended the third quarter of fiscal 2009 on December 31, 2008 with assets of \$108.9 billion, compared to \$117.4 billion at the end of the second quarter of fiscal 2009. The Fund's decline for the quarter reflects an investment return of negative 6.7 per cent or negative \$7.9 billion.

Summary

- **Sharp declines in global equity markets, especially in October and November, negatively impacted our results for the quarter.**
 - At December 31, 2008 the CPP Fund had assets of \$108.9 billion. This reflects investment returns of negative 6.7 per cent for the quarter or negative \$7.9 billion.
 - For the nine-month period ended December 31, 2008, the CPP Fund declined by \$13.8 billion after operating expenses. The decline consisted primarily of an investment return of negative 13.7 per cent or negative \$17.4 billion, offset by CPP contributions of \$3.7 billion.
- **Looking beyond these short-term results, the CPP Investment Board remains confident that its long investment horizon, steady cash inflows and a broadly diversified portfolio will generate the longer-term results required to help sustain the CPP for decades and generations.**
 - The CPP Investment Board has generated \$10.2 billion in investment income for the fund over the four-year period ended December 31, 2008.
 - Since inception, the Fund has delivered \$30.1 billion in investment income net of operating expenses, for a 5.1 per cent annualized investment rate of return since April 1, 1999.
- **Canadians should not be concerned about their CPP pensions and should put these results in context.**
 - The funding structure of the CPP means that it is able to weather an extended market downturn.
 - The assets that the CPP Investment Board is managing today are not required to help pay pensions for another 11 years.
 - According to Canada's Chief Actuary's 2007 report, the CPP is sustainable as currently constituted throughout the 75-year period covered by the report.
- **While current market conditions are creating near-term portfolio declines, they are also providing the organization with long-term investment opportunities.**
 - Since the CPP Investment Board is not forced to sell assets to pay current benefits, the CPP Fund is well-positioned to weather the current storm and take advantage of opportunities to acquire assets at attractive prices that will benefit the Fund over the long term.
 - As the organization assesses potential new investments in this market, it is continuing to make decisions based upon a disciplined risk/return analytical framework.

Context for CPP Fund Performance

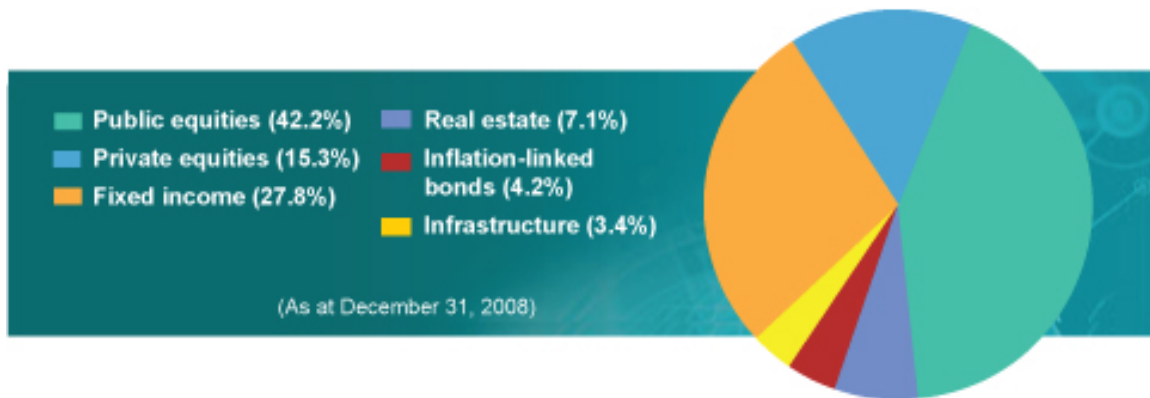
The CPP Investment Board reflects its long investment horizon by regularly reporting rolling four-year performance. For the four-year period ended December 31, 2008, the CPP Fund has generated an annualized investment rate of return of 3.5 per cent which has resulted in \$10.2 billion of investment income for the Fund over the four years. For the same period the total value of the Fund (including CPP contributions) has increased by \$31.7 billion.

Since inception the Fund has delivered \$30.1 billion in investment income net of operating expenses, for a 5.1 per cent annualized investment rate of return since April 1, 1999.

Sharp declines in global equity markets negatively impacted the CPP Fund. Examples include:

- The S&P/TSX declined 23.5 per cent
- The FTSE 100 declined by 9.6 per cent
- The S&P 500 declined by 22.5 per cent
- The DAX declined by 17.5 per cent
- The Nikkei declined by 21.3 per cent.

CPP Fund Asset Mix for Q3 Fiscal 2009



Consistent with the CPP Fund's long-term strategic portfolio design, at December 31, 2008, equities represented 57.5 per cent (\$62.7 billion) of the investment portfolio. This consisted of 42.2 per cent (\$46.0 billion) public equities, and 15.3 per cent (\$16.7 billion) private equities. Fixed income, including bonds, money market securities, and other debt represented 27.8 per cent (\$30.3 billion) of the portfolio. Inflation-sensitive assets represented 14.7 per cent (\$15.9 billion). Of those assets, 7.1 per cent (\$7.7 billion) consisted of real estate, 4.2 per cent (\$4.6 billion) was inflation-linked bonds, and 3.4 per cent (\$3.6 billion) was infrastructure.

At December 31, 48.7 per cent (\$53.1 billion) of the fund was invested in Canada, while 51.3 per cent (\$55.8 billion) was invested globally.

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 investment horizon and its view that equities will earn a risk premium over longer time periods.

Sustainability and 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. The organization possesses certain key structural advantages:

- The size and scale of the Fund, the largest pension fund 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. That means it will be another 11 years before a small portion of the CPP Fund's investment income will be needed to help pay benefits.
- 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.

It is also worth noting that as a result of the successful reforms of the CPP more than 10 years ago, the CPP Investment Board 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 the organization begins to use a portion of its investment income to help fund CPP pensions. According to the Chief Actuary of Canada's 2007 report, the CPP is sustainable for the 75-year period of his report.

Opportunity in Current Challenging Markets

The current market environment offers the CPP Fund, with its steady cash inflows and very long investment horizon, opportunities to buy quality assets at attractive valuations across all asset classes.

In assessing potential new investments in this market the CPP Investment Board continues to exercise a disciplined and prudent approach. It subjects potential investments to diligent and comprehensive risk management, market and credit analysis, which can be characterized by:

- A high degree of discipline in the analysis of investment opportunities before the organization commits and in monitoring during the life of the investment.
- A willingness to be opportunistic when discipline and process uncover opportunities that fit within the context of the CPP Investment Board's long investment horizon.

Although the CPP Investment Board was approached to participate in the recapitalization of U.S. financial institutions in the last year, it chose not to participate because it believed it was impossible 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 concerns about valuations in that market in recent years.

Outlook

Looking ahead, the CPP Investment Board, with its long investment horizon and steady cash flows, is 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, it remains focused on its mission to manage the CPP Fund for the long term.