



CPP
INVESTMENT
BOARD

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Canada Pension Plan Investment Board: Management & Governance

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Canadians' retirement security is based on three key elements: the Old Age Security (OAS) program, the Canada Pension Plan (CPP) or Quebec Pension Plan (QPP), and tax-deferred private savings.

- Old Age Security (including the Guaranteed Income Supplement) provides a minimum income for seniors, regardless of work history. It is publicly funded through taxes.
- The Canada Pension Plan is a defined benefit plan providing pension, disability and survivor benefits. It is funded by mandatory contributions made jointly by working Canadians and their employers. The Canada Pension Plan Investment Board invests contributions not immediately required to pay benefits.
- Employer-sponsored pension plans (where offered) and individual tax-sheltered retirement investment accounts represent two examples of tax-deferred private savings.

The CPP was established in 1966 as a 'pay-as-you-go' plan funded by compulsory contributions made jointly by employees (including the self-employed) and employers, and is administered by the federal government on behalf of the Canadian provinces. The current contribution rate is 9.9% of earnings to a yearly maximum income (C\$47,200 in 2010). Revenues and expenditures for the plan are segregated from general government accounts, and the sponsors of the plan, Canada's federal and provincial governments, have no liability for the plan's funding.

The CPP retirement benefit for retirees at age 65 is modest (maximum available in 2010 is C\$11,210/year) and was designed to be one component of Canadians' retirement income.

In 1996, the CPP paid out more in benefits (C\$17 billion) than it received in contributions (C\$11 billion). An actuarial report projected the plan's small contingency reserve would be exhausted by 2015. A contribution rate of more than 14% would be necessary by 2030, effectively forcing future generations to fund current pension obligations.

Contributing factors driving change:

- Changing demographics (aging of the baby boom generation).
- A succession of benefit enhancements.
- Slow growth of earnings from the CPP Fund.
- Higher benefit payments for disabilities.

In February 1997, the provinces and the federal government reached agreement on major reforms to the CPP, based on three elements:

- A modest reduction in future benefits.
- An accelerated increase in the contribution rates from 5.6% in 1996 to 9.9% in 2003 in order to create a sizeable reserve fund.
- The creation of an organization – the CPP Investment Board – that would operate at arm's length from governments and free from political interference to manage this fund for the benefit of future generations. The CPP Investment Board would be guided by a new investment policy: "*Maximize investment returns without undue risk of loss.*"

The agreement includes an amending formula that requires the federal government and two-thirds of the provinces representing two-thirds of the population to agree on any change to the plan, its contribution rate, benefits or other fundamentals.

IV CPP Sustainability

- In October 2009, the Chief Actuary of Canada reaffirmed that the CPP is sustainable throughout the 75-year timeframe of his 2007 report; the Chief Actuary of Canada will publish a new projection for the CPP in late 2010.
- In May 2009, the federal, provincial and territorial Ministers of Finance, as joint stewards of the CPP, confirmed at the conclusion of the triennial review that the CPP remains on a sound financial footing.
- Contributions are expected to exceed annual benefits paid through to 2021 and there is no need to use current income to pay benefits for another 11 years.
- Beyond 2021 the CPP Fund will continue to grow, but at a slower rate, as a small portion of the investment income will be needed to help pay pensions.

V CPPIB Governance

The distinct governance model of the CPP Investment Board (CPPIB), one that balances its arm's length relationship with governments with strong public accountability, is set out in legislation.

- The investment professionals of the CPP Investment Board report to an independent board of directors.
- Directors are appointed by the federal finance minister in consultation with his counterparts in the participating provinces and assisted by an external nominating committee with private sector involvement. The nomination process is designed to ensure that the board has directors with proven financial ability or relevant work experience so that the CPP Investment Board will be able to effectively achieve its objectives.
- The board of directors hires the CEO, sets investment policies, reviews performance, approves external investment management partners, sets compensation for management linked to long-term performance and appoints independent auditors.
- The composition of the board and the amending formula for the legislation keep the operations of the CPP Investment Board independent from governments.
- A stringent code of conduct compels members of the board of directors and management to report any attempted political influence of investment decisions.

The CPP Investment Board is a professional investment management organization. There are at least four key attributes that distinguish it from Sovereign Wealth Funds and other forms of state-sponsored funds.

- **Governance structure.** The CPP Investment Board's governance model was designed to prevent political interference and is enshrined in the *Canada Pension Plan Investment Board Act*.
- **An investment-only mandate.** By design, CPP Investment Board decisions are not influenced by government direction, regional, social or economic development considerations, or any other non-investment objectives.
- **Transparency.** The CPP Investment Board disclosure policy states: "*Canadians have the right to know why, how and where we invest their Canadian Pension Plan money, who makes the investment decisions, what assets are owned on their behalf, and how the investments are performing.*" This belief is demonstrated by more than 1,200 pages of disclosure on the CPP Investment Board website, mandatory quarterly and annual disclosure of financial statements, and the public disclosure of portfolio holdings.
- **Segregated assets.** Unlike sovereign funds, Canada Pension Plan assets are not government assets and are not dependent on tax revenues. The Canadian government is neither a sponsor nor guarantor of the plan.

VI CPPIB Performance

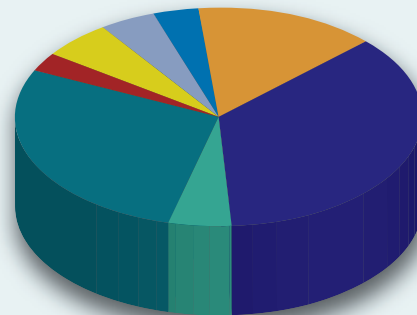
The CPP Investment Board invests the funds not currently needed by the CPP to pay benefits. The organization has built a diversified portfolio of public equities, private equities, real estate, inflation-linked bonds, infrastructure, and fixed income instruments.

Annual Fiscal Year Summaries

CPP Fund	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Total assets (\$billions)	127.6	105.5	122.7	116.6	98.0	81.3	70.5	55.6	53.6	48.7
Asset growth (\$billions)	22.1	-17.2	6.1	18.6	16.7	10.8	14.9	2.0	4.9	4.2
Portfolio returns (%)	14.9	-18.6	-0.3	12.9	15.5	8.5	17.6	-1.5	4.0	7.0
Investment income (\$billions)	16.0	-23.8	-0.4	13.0	13.1	6.3	10.3	-1.1	2.3	3.0
CPP net contributions (\$billions)	6.1	6.6	6.5	5.6	3.6	4.5	4.6	3.1	2.6	1.2

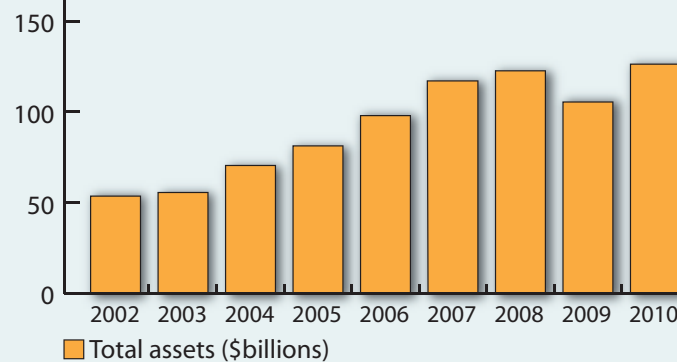
Asset Mix of the CPP Fund
(Market value as at March 31, 2010)

- 14.5% Canadian equities
- 36.2% Foreign developed market equities
- 5.0% Emerging market equities
- 28.0% Bonds and money market securities
- 2.8% Other debt
- 5.5% Real estate
- 4.6% Infrastructure
- 3.4% Inflation-linked bonds



- For the five-year period ending March 31, 2010, the CPP Fund generated an annualized rate of return of 4.0 per cent, or \$18.5 billion of cumulative investment income. For the 10-year period, the Fund had an annualized rate of return of 5.5 per cent, or \$39.3 billion of cumulative investment income.
- Even with the surge in retirements expected in the next decade, CPP Investment Board is the largest single-purpose pension fund in Canada and is one of the largest and fastest-growing single-purpose pools of assets anywhere in the world.

CPP Fund \$127.6 Billion
As at March 31 (\$Billions)



Additional details on the operations of the CPP Investment Board may be found at www.cppib.ca