



Web site: www.cppib.ca

Backgrounder Infrastructure Investing

Introduction

This background paper summarizes the CPP Investment Board's approach to investing in this asset class.

Overview: CPP Investment Board Investment Strategy

The CPP Investment Board's mandate is to invest the assets of the Canada Pension Plan in a way that maximizes investment returns without undue risk of loss. The goal of the CPP Investment Board is to help ensure the future CPP benefits of 17 million Canadians.

The CPP Investment Board has adopted a strategy to broadly diversify the portfolio to enhance long-term returns. Within the \$127.6 billion CPP Fund (as at March 31, 2010), which is expected to grow significantly, real estate, infrastructure, and other inflation-sensitive assets play an important role because their underlying value tends to rise along with inflation. This characteristic makes them a good match for the long-term nature of CPP net liabilities given that CPP benefits are indexed to inflation.

Infrastructure Investing

Infrastructure comes in many forms and does not have a uniform definition or understanding.

Overall, we assess infrastructure assets based upon their risk and return profile rather than their simple physical characteristics, since no two infrastructure assets have identical attributes. We generally are interested in infrastructure assets that provide relatively stable long-term returns, operate in strong regulatory environments, have relatively low technology replacement risk, and possess minimal substitution risks. We look for long-term assets that can be held for periods of 20-30 years.

The types of global infrastructure assets that have these characteristics include: electricity transmission and distribution, gas transmission and distribution, water and

sewage companies, and certain transportation assets, such as toll roads, bridges and tunnels, airports, and ports. Regardless of the type of asset, however, we generally seek out investments that operate under long-term contractual agreements, or within transparent and dependable regulatory frameworks that balance the needs of both ratepayers and investors.

In the future, we may also look to invest in certain infrastructure assets that operate in more competitive environments. An example would be electrical power generation, where we might expect to benefit from our complementary focus on regulated power transmission and distribution.

Infrastructure investments benefit the CPP portfolio for the reasons previously noted, and the CPP Investment Board is also well-positioned to be a beneficial owner of these types of assets. In particular, our long-term approach to investing, our willingness to invest additional follow-on capital to foster growth and expansion, and our position as the professional investment organization for a national pension plan can make us preferred owners of privatized infrastructure assets.

Our current target investment size for infrastructure investments is \$300 million to \$1.5 billion, although given the right opportunity, we will make larger investments in a single infrastructure asset.

As a result of these factors, we currently are not seeking investments in social infrastructure, such as schools and hospitals, because they tend to be much smaller projects in equity investment terms.

We are prepared to act as a principal lead investor, typically as part of a larger consortium. In general, we will invest with partners whose interests align with ours and who will provide a competitive advantage to us.

We are certainly open to infrastructure opportunities within Canada if they have the stable financial and regulatory structures that would allow the CPP Fund to make satisfactory long-term, risk-adjusted returns

Global Diversification

Given that we have approximately \$54.9 billion invested in Canada, part of our international diversification strategy is to invest a higher proportion of the CPP Fund in global investments. As such, we are seeking global opportunities for infrastructure. It is also important to note that the Canadian market, by global standards, is relatively small. For these reasons, we anticipate that our primary focus will remain on international markets with particular attention to markets that have regulatory frameworks for infrastructure that are more advanced than in North America and that have a larger range of suitable investments.

Major direct investments comprising the \$5.8 billion, as at March 31, 2010, in infrastructure assets in the CPP Fund include:

- A C\$1.1 billion purchase of a 33 per cent interest in AWG Plc., parent of Anglian Water, a U.K.-based water and sewage company.
 - A 31.6 per cent interest in Puget Energy Inc., Washington State's oldest and largest energy utility.
 - A 27.7 per cent ownership position in Transelec S.A., the largest electricity transmission company in Chile.
 - A 19.6 per cent interest in Wales & West Utilities — a natural gas distribution network that serves Wales and southwest England
 - A 100 per cent interest in Macquarie Communications Infrastructure Group (MCG), a portfolio that includes three infrastructure assets in Australia and the U.K.
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CPP Investment Board Infrastructure Investing Team

Our Infrastructure investment team of 21 professionals operates within the Private Investments department. André Bourbonnais, Senior Vice-President - Private Investments, leads this group and is responsible for all of the CPP Investment Board's private equity and infrastructure investments. Prior to joining the CPP Investment Board in March 2006, André managed a combined private equity portfolio in excess of \$3 billion in financial services, telecommunications, media and entertainment sectors for another Canadian pension plan manager.

Working with André is Graeme Bevans, Vice-President - Head of Infrastructure, in the Private Investments department. Prior to joining CPP Investment Board, Graeme was the head of infrastructure at Industry Funds Management, a funds management company, and Executive Director at Copernican Securities, both located in Melbourne, Australia. Graeme has more than 25 years of international experience in corporate banking and infrastructure investing. Graeme leads a team of highly experienced professionals dedicated to growing our Infrastructure portfolio.
