

The Canada Pension Plan Investment Board is a Crown corporation created by an Act of Parliament in December 1997. Its long-term goal is to contribute to the financial strength of the Canada Pension Plan by investing in the best interests of 16 million CPP contributors and beneficiaries and by maximizing returns without undue risk of loss.

The CPP Investment Board invests the funds not needed by the CPP to pay current benefits. It is not expected to be required to contribute investment earnings to the CPP to help pay pensions until 2022. In order to build a diversified portfolio of CPP assets, the CPP Investment Board is currently investing cash flows in publicly traded stocks, private equities, real estate and infrastructure to balance the cash and bonds owned by the CPP.

Our disclosure policy states that: *“Canadians have the right to know why, how and where we invest their Canada Pension Plan money, who makes the investment decisions, what assets are owned on their behalf and how the investments are performing.”*

By increasing the long-term value of funds available to the CPP, the CPP Investment Board will help the plan to keep its pension promise to Canadians.

With a mandate from the federal and provincial governments, the CPP Investment Board is accountable to Parliament and to the federal and provincial finance ministers who serve as the stewards of the CPP. Based in Toronto, the CPP Investment Board is governed and managed independently of the CPP and at arm’s length from governments.

For more information on the CPP Investment Board, visit our website at www.cppib.ca.

FINANCIAL HIGHLIGHTS//

For the fiscal year ended March 31

CPP RESERVE FUND//

FINANCIAL OVERVIEW (\$ billions)		2005	2004
Assets	\$	81.3	\$ 70.5
Net Contributions		4.5	4.6
Investment Income		6.3	10.3

INVESTMENT PERFORMANCE

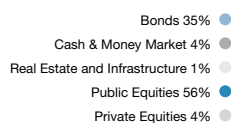
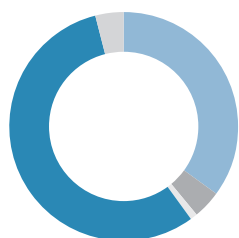
rate of return on investments (%)	2005	2004
Annual	8.5	17.6
5-year average real (inflation-adjusted) rate of return	4.5	3.4

ASSETS	2005		2004	
	(\$ billions)	(% of total)	(\$ billions)	(% of total)
Bonds	\$ 28.6	35.3%	\$ 30.2	42.9%
Publicly traded stocks	45.7	56.2	30.1	42.7
Private equities	2.9	3.6	1.8	2.5
Real estate and infrastructure	1.0	1.2	0.7	1.0
Cash	2.8	3.4	7.5	10.6
Money market securities	0.3	0.3	0.2	0.3
	\$ 81.3	100.0%	\$ 70.5	100.0%

CPP RESERVE FUND

ASSET MIX

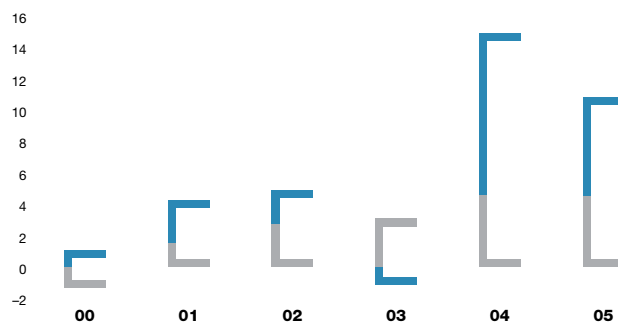
Fiscal year ending March 31, 2005



NET CONTRIBUTIONS AND

INVESTMENT INCOME (\$ billions)

Fiscal year ending March 31



STRIVING FOR EFFECTIVE GOVERNANCE// The *Canada Pension Plan Investment Board Act* defines our governance structure, balancing accountability to stakeholders with the organization's independence to make investment decisions. Internally, the board of directors strives to add value. Working with management this year, directors will focus on strategic positioning and the compensation structure required for effective implementation.



Gail Cook-Bennett, *Chairperson*

Many governments are struggling to ensure the sustainability of their national pension plans and exploring avenues of change. Canada responded to this challenge in the 1990s with a series of reforms, one of which was the creation of the Canada Pension Plan Investment Board. A necessary condition for effective reform was the federal and provincial governments' decision to develop a distinctive governance structure that is appropriate to our mandate to invest significant funds belonging to contributors and beneficiaries.

We are continuing to see progress towards the long-term policy goals envisioned by the stewards of the Canada Pension Plan. The long-term sustainability of the CPP was confirmed again last December by the Chief Actuary of Canada in his 21st Actuarial Report. His conclusions were based on a series of demographic, economic and policy assumptions vetted for their reasonableness by an expert panel of private sector actuaries.

Because expert advice was sought and followed in creating the CPP Investment Board, our founding legislation in 1997 anticipated and responded to concerns about Crown corporation governance raised in 2004 by the Auditor General of Canada and subsequently in a Crown governance review conducted by the Treasury Board of Canada Secretariat.

The governance structure spelled out in the *Canada Pension Plan Investment Board Act* contains such disparate provisions as a unique director-selection process, board responsibility to hire the chief executive officer and clearly specified accountabilities to Canadians. These provisions collectively strike a careful balance that defines our arm's-length status from governments and our accountability to Canadians.

The Treasury Board's review recognized that, although principles of good governance are applicable to all Crown corporations, uniform governance structures for diverse Crown corporations would not be appropriate. The CPP Investment Board, for example, is required to assure CPP contributors that investment professionals, with the oversight of a board of directors, will make investment decisions. This means the organization must operate at arm's length from governments, but with effective accountability.

Consistent with our arm's-length but accountable status, the board of directors, not government, has the responsibility for identifying and appointing the chief executive officer. Accordingly, when John MacNaughton announced his retirement last May, a search committee of the board of directors sought the next CEO with the assistance of a global executive search firm. In December, the board of directors was delighted to announce the selection of David Denison, a talented executive with more than two decades of experience in global financial services companies in Canada, the United States and Europe. In his short tenure as chief executive officer, David has demonstrated his leadership in preparing the organization for the next stage of its rapid growth and the diversification of the portfolio. This continuing diversification is necessary to improve risk-adjusted returns for the long term.

The governance structure spelled out in the *Canada Pension Plan Investment Board Act* contains such disparate provisions as a unique director-selection process, board responsibility to hire the CEO and clearly specified accountabilities to Canadians.

A second distinctive governance feature of our legislation is the requirement that the board of directors establish code of conduct and conflict of interest procedures for officers and employees. The federal and provincial finance ministers who serve as our stewards believed our board of directors would be best able to assess how to achieve the high standards of conduct expected of a Crown corporation competing in financial markets. High standards of conduct depend on the personal integrity of our leaders and their commitment to disseminating appropriate values. Ensuring these personal characteristics in our leaders has been a clear priority in our CEO searches.

The board of directors also created the position of external conduct review advisor. The CPP Investment Board's code of conduct requires officers and employees to act as "whistleblowers" if they become aware of suspected breaches in the code or conflict of interest procedures. While a number of internal people are designated contacts for "whistleblowers," the external conduct review advisor is also available to provide confidential advice to employees and directors on questions relating to conduct or conflict of interest. The organization has been extraordinarily well served by Purdy Crawford, our first external conduct review advisor. His judgment, informed by wide experience as a chief executive officer, corporate director, lawyer and contributor to public policy, has greatly assisted employees and directors.

The expertise and independence of audit committees has been of particular concern in public and private companies. As a result of the CPP Investment Board's external nominating committee process, chaired by Michael Phelps, we are able to include on our audit committee individuals with expertise that is particularly relevant to an investment organization that is part of a large pension plan.

Our arm's-length status is balanced by our accountability through such requirements as mandatory reporting. Again, the organization has enhanced its transparency by going beyond the legislated standard. In addition, the CPP Investment Board's decision to adopt a strong disclosure policy and practices are evident in our extensive and continuous communications program.

Public meetings held in each participating province every other year provide another form of accountability to Canadians. Our meetings last autumn gave us perspectives on issues that are regularly discussed internally, such as diversification of the CPP reserve fund, social investing and our proxy voting guidelines. These public meetings are only one dimension of a much broader program of interaction with our stakeholders.

The CPP Investment Board is created by an Act of Parliament in December. The Crown corporation is at arm's length from government but accountable to Parliament with a mandate to invest the CPP reserve fund in the best interests of 16 million Canadian contributors and beneficiaries.

BEGINNINGS 1997

Other mandated forms of accountability are less noticeable to most Canadians. Our legislation requires that a wide-ranging special examination of the organization's systems and practices be conducted at least once every six years by our external audit firm. The successful results of the special examination were communicated to the federal and provincial finance ministers last June. These systems and practices must be constantly monitored to ensure their adequacy for a growing organization with more diversified and complex assets.

A further form of accountability is provided by the triennial review of the CPP, which examines a wide range of CPP matters including issues pertaining to the CPP Investment Board. The federal and provincial finance ministers who serve as joint stewards of the CPP began the triennial review of the plan this spring.

This year has been one of transition and change. The board of directors thanks John MacNaughton for his professionalism during the transition period to the new CEO, in addition to his contributions outlined in last year's report. We also extend our sincere thanks to the senior management team, who are most affected by leadership change, for their professionalism and flexibility during this period.

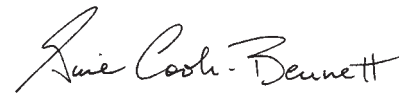
The 12-member board of directors, including the chairperson, Gail Cook-Bennett, is appointed to oversee the operations of the CPP Investment Board. Seven of the original members remain on the board today.

ON BOARD 1998

This year, we welcomed Peter Hendrick and Phil MacDougall as directors and said goodbye to Gilbert Gill. We thank him for his contribution and his willingness to serve longer than contemplated.

An independent board of directors is crucial to effective oversight. Our stakeholders have directors with a wide range of expertise and experience who are independently minded and behave collegially in the interest of the organization. We strive to challenge ourselves to continuously improve the board's oversight process.

I express my deep gratitude to the directors for their commitment, insights and support.



Gail Cook-Bennett

Chairperson

EVOLVING OUR STRATEGY// During our first six years, the CPP Investment Board diversified the CPP reserve fund away from a reliance on fixed income securities to a balanced portfolio of debt and equities. In the next stage of our evolution, we will further diversify the portfolio, building holdings in real return assets that will help support the sustainability of the CPP.



David F. Denison, *President and Chief Executive Officer*

This annual report is an important opportunity for the Canada Pension Plan Investment Board to communicate with its wide range of stakeholders – from the finance ministers of the provinces and federal government who serve as Canada Pension Plan stewards to the 16 million Canadians who either contribute to or benefit from the CPP.

The CPP Investment Board invests \$10 million in the Canadian public equity market. This and other early equity investments are made through index funds. Today we have \$45.7 billion in a primarily passively managed portfolio of publicly traded equities.

INITIAL INVESTMENT **1999**

The CPP Investment Board introduces a formal annual process evaluating the effectiveness of its board of directors and the performance of its management. The code of conduct and conflict of interest procedures and governance policies are posted on our website. Policies and guidelines are reviewed and updated each year.

STRONGER GOVERNANCE **2000**

It is, first and foremost, a review of our operations over the last fiscal year as well as a financial snapshot of where the organization stood at March 31, 2005. The investment performance of the CPP reserve fund is detailed elsewhere in this annual report, but in summary, the fund earned an 8.5 per cent rate of return, thereby generating \$6.3 billion in investment income for the year ended March 31, 2005, compared with a 17.6 per cent return and \$10.3 billion of investment income the previous year. Including \$4.5 billion of contributions not required to pay CPP benefits, the reserve fund grew by \$10.8 billion this past year.

As a result of excess contributions and investment gains during the first six years of the CPP Investment Board's investment program, the reserve fund has grown from \$44 billion at the end of the first year to \$81.3 billion at the end of fiscal 2005. And there is much more growth still to come. The Chief Actuary of Canada has estimated the CPP reserve fund will amount to approximately \$147 billion by 2010. In keeping with the theme of this report, *Forward Thinking*, I would like to let you know what we are doing today to manage the CPP reserve fund's existing assets and how we are evolving the organization for future growth.

When I joined the CPP Investment Board as chief executive officer in January, the first element of the diversification program had been completed. The focus of the early years of the CPP Investment Board was to diversify the CPP reserve fund from its initial 100 per cent concentration in government fixed income securities to a more balanced portfolio including equities and other assets. By adding the required professional expertise, we have diversified the reserve fund so that at March 31, 2005 government fixed income securities were 39 per cent of assets, with the remaining 61 per cent invested in public equities, private equities and, to a smaller extent, in real estate and infrastructure investments.

We will continue to build this foundation to create more capabilities to further develop the total portfolio. The results of the past year reflect a number of factors including the current composition and stage of development of the portfolio, the fact that we are still only partway through our diversification program and the fact that to date we have relatively few real return assets, an investment class that performed strongly last year.

The first public meetings are held in each of the nine participating provinces. The meetings, which are held once every two years in accordance with the *Canada Pension Plan Investment Board Act*, serve as an important commitment to public accountability.

**PUBLIC
ACCOUNTABILITY** **2001**

**WORLD
RECOGNITION**

2002

The World Bank recognizes the CPP Investment Board as a model of fund governance for national pension plans.

As we look forward to fiscal 2006 and beyond, one key priority is to further diversify the reserve fund by increasing our holdings in real estate, infrastructure and other real return assets. To enable this, we will add the professional experience we require as well as the technology and operational capabilities to support additional investment activities. This clearly means our operating budget will grow, but it will do so only in proportion to the size of the investment-management task at hand.

In fiscal 2006, we will continue to evolve the global sector approach and active management we have developed for equities in order to make our total portfolio more efficient. We will further expand our private equity program by increasing commitments with our existing partnerships and developing additional relationships with more leading private equity managers around the world. Next year, we will also focus particularly on assets that, over the long term, are a good match for the inflation-indexed benefits provided by the CPP.

The goal of this diversification is to enhance the risk-adjusted returns generated by the reserve fund. By using a wider range of investment opportunities – while understanding both the risks and the potential returns they represent – we will help to ensure that we continue to generate the long-term investment returns that contribute to the sustainability of the CPP.

Diversification applies to the geographical scope of CPP reserve fund investments as well as their composition. Last year, the CPP Investment Board announced its intention to increase the size of international holdings of the CPP reserve fund, which now stand at 25.9 per cent. With regard to the CPP Investment Board's directly managed assets, which will continue to be a subset of the total CPP reserve fund until the completion of the fixed income transfer from the federal Department of Finance in 2007, we comply with the foreign property rule in a similar manner to many other public pension funds in Canada. In its recent budget, the federal government announced plans to eliminate the foreign property rule. Currently, pension funds and individual Canadian investors have to restrict their foreign holdings to 30 per cent of their registered retirement portfolios at cost. Once enabling legislation is passed, this restriction will be lifted.

In January, the Private Market Investments group makes its first investment in real estate. In December, they announce their first commitment to an infrastructure fund. As well, the CPP Investment Board releases its *Proxy Voting Principles and Guidelines* to encourage good corporate governance among publicly traded companies.

PROXY
GUIDELINES

2003

Following a rigorous selection process, four external active overlay fund managers are appointed.

ACTIVE
MANAGEMENT

2004

The CPP Investment Board welcomes this policy change because we believe that the broadening of available investment opportunities will benefit CPP stakeholders. With more international investments, we can further diversify the CPP reserve fund, thereby reducing concentration risk and improving our ability to increase our long-term rate of return.

Canadians can take pride in the fact that the CPP is recognized as a world leader among national pension plans. Its solid foundation for good governance and sustainability is well recognized by pension experts around the world. Canadians can also be confident that the CPP Investment Board is continuing its evolution as a leading professional investment organization that has the capability to effectively manage the CPP reserve fund for present and future generations.



David F. Denison

President and Chief Executive Officer

Mary C. Arnold

Fellow, Institute of Chartered Accountants

President of Richford Holdings Ltd. of Alberta. Director of EPCOR Utilities, Alberta Credit Union Deposit Guarantee Corporation and Industrial Alliance Ltd. Governor of Royal Bank Mutual Funds. Member of CICA Accounting Standards Oversight Council.

Investment and audit (chair) committees.

Helen Sinclair

Financial executive

Founding CEO of BankWorks Trading Inc. Former president of Canadian Bankers Association and senior vice-president of Scotiabank. Director of TD Bank Financial Group, McCain Capital Corporation and Davis + Henderson Income Fund.

Investment, governance and human resources and compensation committees.

Gail Cook-Bennett

Economist

Previous academic positions at University of Toronto and senior executive positions at Bennecon Ltd. and C.D. Howe Institute, Montreal. Director of Manulife Financial Corporation, Petro-Canada and Emera Inc.

Investment (chair) and governance committees.

Peter K. Hendrick

Chartered Accountant, Chartered Financial Analyst

Former executive vice-president of investments and CIO at Mackenzie Financial Corporation and vice-president and director of CIBC Wood Gundy Securities Inc. (CIBC World Markets). Former lecturer at Harvard University.

Investment and audit committees.

Jacob Levi

Actuary

Partner in Eckler Partners, actuarial consultants. External actuary to public sector pension plans and Workers' Compensation Board of British Columbia. Former chairman of the workers' compensation committee of the Canadian Institute of Actuaries.

Investment, audit and human resources and compensation committees.

Ronald E. Smith

Fellow, Institute of Chartered Accountants

Retired senior vice-president and CFO of Emera Inc. Former CFO of Aliant Telecom Inc., director of Bangor Hydro Electric Company and CrossOff Inc. Chair of the board of governors of Acadia University.

Investment and audit committees.

Helen M. Meyer

Financial executive

President of Meyer Corporate Valuations Ltd. Served in senior positions with Merrill Lynch Canada, Morgan Bank of Canada and Dominion Securities Limited. Former commissioner with Ontario Securities Commission.

Investment, audit and human resources and compensation committees.

David Walker

Business executive

President of West-Can Consultants Ltd. Former professor at the University of Winnipeg, Member of Parliament for Winnipeg North-Centre and parliamentary secretary to the Minister of Finance. Chief federal representative for consultations on the Canada Pension Plan.

Investment, human resources and compensation and governance committees.

Dale G. Parker

Corporate director

Former CEO of the British Columbia Financial Institutions Commission, Bank of British Columbia and Workers' Compensation Board of British Columbia. Director of Talisman Energy, Industrial Alliance Pacific Insurance and Financial Services and Growth Works Ltd.

Investment and governance (chair) committees.

William "Philip" MacDougall

Fellow, Institute of Chartered Accountants

President of MacDougall Consulting. Served as deputy minister in several departments in P.E.I. including Finance, Industry and Commerce, Health and Social Services and was a member of the Deputy Ministers Committee on the CPP.

Investment and governance committees.

Germaine Gibara

Chartered Financial Analyst

President and CEO of Avvio Management Inc. Served in senior positions with Caisse de dépôt et placement du Québec, TAL Global Asset Management Inc. and Alcan Aluminum Ltd. Director of Sun Life Financial, Cogeco Cable Inc. and Agrium Inc.

Investment and governance committees.

M. Joseph Regan

Bank executive (retired)

Former senior executive vice-president of Royal Bank of Canada. Former chair of Pension Commission of Ontario, former director of the Canada Pension Plan Advisory Board and Ontario Pension Board. Director of the Bank of Tokyo – Mitsubishi (Canada).

Investment and human resources and compensation (chair) committees.

KNOWLEDGEABLE, EXPERIENCED OVERSIGHT// The CPP Investment Board is governed by a board of 12 directors including a chairperson. Our legislation requires us to have sufficient directors representing the various regions of Canada, with expertise in investment, business, economics and financial management.



VISION.

To be respected by Canadians for delivering superior investment performance and effective stakeholder communications through an organization built on shared values, sound governance and management excellence.

MISSION.

To manage the assets entrusted to the Canada Pension Plan Investment Board in the best interests of Canada Pension Plan contributors and beneficiaries.

To invest in ways that over the long term will maximize returns without undue risk while having regard to factors that may affect the CPP's funding and its ability to meet its obligations.

To help Canadians understand what we are doing with their money through communications and stakeholder relations that exceed statutory reporting obligations.

VALUES.

ETHICAL CONDUCT. We will exemplify the highest standards of ethical conduct in all that we do. We will comply with all applicable laws and the CPP Investment Board's policies, guidelines and procedures. We will behave in accordance with the codes of conduct and standards of our professions and industry associations.

EXCELLENCE. We will strive for excellence in all of our endeavours. This will include both our performance outcomes and the processes that we use to achieve them.

ACCOUNTABILITY. Accountability is critical to achieving our mission. We will delegate clear and appropriate accountability and authority to individuals throughout the organization and ensure that it is coupled with commensurate authority. We will provide the appropriate resources and ensure the necessary support, feedback and reward in support of that delegation.

TEAMWORK. Within the context of clear individual accountability and authority, we value effective teamwork. Optimal solutions to complex issues often require the blending of individuals and groups with different skills and capabilities who can work effectively across the organization as well as within their area of accountability and authority. We focus on optimization of the whole as well as its constituent parts.

ALIGNMENT OF INTERESTS. We believe that optimal outcomes are achieved when interests are aligned. Specifically, interests are aligned when there is agreement on values, objectives, performance measurements and the basis of sharing risks and rewards. The result of alignment is that checks and balances are strengthened and the prospects of synergy and win-win outcomes are increased.

INNOVATION. We will not be satisfied with the status quo or even current "best" practices, but will continually seek to find new and innovative ways to strengthen our competitive position and improve our performance. While we will not seek innovation for its own sake, we do expect to be on the leading edge of developing and introducing new ways of adapting to an ever-changing environment.

RESPECT. We will treat people inside and outside our organization with the consideration and courtesy that we would expect to receive. This includes providing accurate, timely and comprehensible information to our stakeholders so that they can know what we are doing.

OFFICERS.

David F. Denison

President and Chief Executive Officer

John Butler

Vice-President – General Counsel and Corporate Secretary

Ian M.C. Dale

Vice-President – Communications and Stakeholder Relations

Jane Nyman

Vice-President – Finance and Operations

Donald M. Raymond

Vice-President – Public Market Investments

Valter Viola

Vice-President – Research and Risk Management