CPP
INVESTMENT
BOARD

2009 Annual Report

Corporate Profile

The Canada Pension Plan Investment Board is a professional investment management organization that invests the assets of the Canada Pension Plan (CPP) not required to pay current benefits. Created by an Act of Parliament in December 1997 as part of the successful CPP reforms, the organization's mandate is to help sustain the pensions of 17 million CPP contributors and beneficiaries by maximizing returns without undue risk of loss.

According to the latest report by the Chief Actuary of Canada, released in 2007, the CPP, as constituted, is sustainable throughout the report's 75-year projection period. The report indicates that CPP contributions are expected to exceed annual benefits paid until 2020, providing an 11-year period before a portion of the investment income from the CPP Investment Board is needed to help pay pensions. As a result, the CPP Fund will grow significantly between now and 2020. Beyond 2020 it will continue to grow, but at a slower rate, as a small portion of the investment income will be needed to help pay pensions. 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.

Our Disclosure Policy states: "*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.*" This annual report, together with our website and quarterly financial result disclosures, help to make this information available to Canadians.

In order to continue diversifying the portfolio of CPP assets, the CPP Investment Board invests in public equities, private equities, real estate, inflation-linked bonds, infrastructure and fixed income instruments. Approximately $48.0 billion is invested in Canada through a broadly diversified portfolio, while the rest is invested globally so that income from foreign investments flows back to Canada to help pay future pensions.

The CPP Investment Board is a Crown corporation that was specifically designed by the federal and provincial finance ministers to operate at arm's length from governments in the private-sector world of financial markets but with significant public accountability.

The organization is accountable to Parliament and to the federal and provincial finance ministers who serve as the stewards of the CPP. As an investment management organization operating in the private sector investing non-government assets, it is not a sovereign wealth fund. Several key attributes, including an arm's length governance model, independent board and investment-only mandate, distinguish the CPP Investment Board from the large pools of government assets under government direction generally identified as "sovereign".

Headquartered in Toronto, with offices in London and Hong Kong, 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

CPP FUND FINANCIAL OVERVIEW

FOR THE YEAR ENDED MARCH 31 ($ billions)	2009	2008
Net assets[1]	$ 105.5	$ 122.7
Net contributions	6.6	6.5
Investment income net of operating expenses	(23.8)	(0.4)

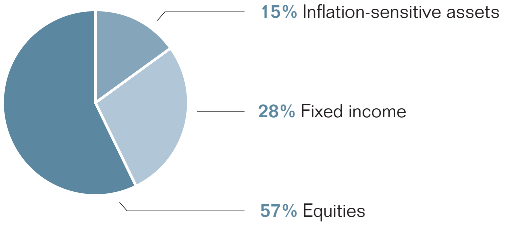
INVESTMENT PERFORMANCE (%)		
Annual	(18.6)	(0.3)
Four-year annualized rate of return	1.4	9.0
Ten-year annualized rate of return	4.3	7.2

INVESTMENT PORTFOLIO	($ billions)	(% of total)	($ billions)	(% of total)
Public equities	$ 46.5	44.0%	$ 63.7	51.8%
Private equities	14.1	13.4	13.4	10.9
Bonds	28.4	26.9	30.2	24.6
Other debt	1.8	1.7	1.1	1.0
Money market securities[2]	(0.8)	(0.7)	–	–
Real estate[3]	6.9	6.5	6.9	5.6
Inflation-linked bonds	4.1	3.9	4.7	3.9
Infrastructure	4.6	4.3	2.8	2.2
	$ 105.6	100%	$ 122.8	100%

[1] Includes non-investment assets such as premises and equipment and non-investment liabilities.
[2] Includes amounts receivable/payable from pending trades, dividends receivable, accrued interest and absolute return strategies.
[3] Net of debt on real estate properties.

CPP FUND ASSET MIX

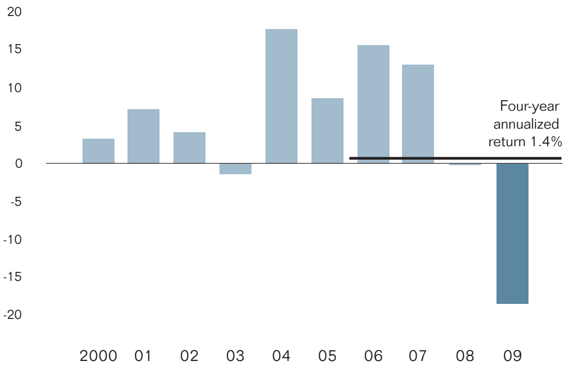
As at March 31, 2009



Equities include public equities and private equities. Fixed income assets include government bonds, money market securities and other debt. Inflation-sensitive assets include real estate, inflation-linked bonds and infrastructure.

RATE OF RETURN (%)

For the year ended March 31



FOUR-YEAR ANNUALIZED RETURN 1.4 PER CENT

Income earned on investments was 15.5 per cent in 2006, 12.9 per cent in 2007, negative 0.3 per cent in 2008 and negative 18.6 per cent in 2009, for an annualized return of 1.4 per cent over the past four years.

Chair's Report

ROBERT M. ASTLEY
Chair

Fiscal 2009 saw the first substantial year-over-year decline in the value of the CPP Fund since the CPP Investment Board's inception. The board of directors and management understand that a negative return for the CPP Fund will be unsettling news for many Canadians. However, the CPP was built to withstand difficult markets such as this, and the plan remains sustainable, as constituted, for decades and generations ahead. Over the last 10 years, since the CPP Investment Board began investing, the 10-year annualized rate of return was 4.3 per cent or $24.2 billion of investment income.

While steep declines in global equity markets significantly impacted this year's investment returns, the CPP Investment Board continued to execute on its long-term investment strategy and build its organizational capabilities. Moreover, despite its negative short-term impact on the Fund, the current environment is creating significant opportunities to acquire exceptional assets that have the potential to deliver strong cash flow to the Fund in the years ahead.

The CPP Investment Board was established to invest CPP assets not needed to pay current benefits with the purpose of helping to sustain the Canada Pension Plan for the benefit of its 17 million contributors and beneficiaries. This is a great responsibility and a significant challenge in the best of times. It is ever more challenging in times like these when our financial markets are in crisis and global asset values are dropping.

The board of directors' principal duties are to provide oversight of the organization's long-term investment strategy and risk parameters, assess management's performance and determine an appropriate compensation philosophy and framework.

We approach these duties with a clear recognition of the long-term nature of our mandate and a deep sense of responsibility to the Canadians who currently participate in the CPP, as well as to the future generations who will rely on it in the years ahead.

In fiscal 2009, we remained disciplined in our processes, rigorous in our analysis of risks and opportunities and committed to a long-term portfolio diversification strategy. The board of directors has been impressed by the discipline management demonstrated on each of these points throughout fiscal 2009.

As David Denison discusses in his accompanying letter, the CPP Investment Board is well positioned to capitalize on opportunities in the current environment. With the advantages of scale, a long time horizon and the relative certainty of cash inflows, the CPP Investment Board has the financial capacity to undertake transactions in constrained markets. Putting these advantages to their best use requires diligence, rigorous risk management and a willingness to walk away from potential investments where the price exceeds management's assessment of value.

> "The CPP was built to withstand difficult markets such as this, and the plan remains sustainable, as constituted, for decades and generations ahead."

Oversight

Risk management is central to the operations of the CPP Investment Board. Directors and management operate with a shared ethic that the organization will only launch investment programs when we can first identify, understand, measure and monitor investment risks and where those risks fall within limits set by the board of directors. We take a similar approach to operational risk by ensuring we have the trading, reporting and operational capabilities to effectively safeguard, transact, analyze, record, report and track the elements of any investment program.

As an example, we implemented rigorous credit risk management controls and board reporting protocols before commencing our credit market investment program in fiscal 2009. This illustrates the approach that the board and management have worked hard to instill in the culture of our organization. It can be tempting to seize what may appear to be time-limited market opportunities without completing the requisite due diligence. Our investment teams did not trade off rigour for speed or expediency. Rather, by insisting upon having proper due diligence and effective systems and controls in place up front, the board has been satisfied that management's investment recommendations reflect thorough analysis and a sound balance between agility and rigour.

Investment risk management is just one of five risk areas that the board of directors oversees. The others are strategic risk, legislative and regulatory risk, operational risk and reputation risk. The board reviewed each of these areas with management during the year in the context of an integrated enterprise-wide risk management framework. This framework is further supported by the organization's Code of Conduct and Guiding Principles of integrity, partnership and high performance.

In addition to risk oversight, the board approves the organization's investment strategy, which is explicitly designed to help sustain the CPP by maximizing investment returns without undue risk of loss.

Consistent with this mandate, we pursue a value-added strategy that seeks to deliver returns over and above a market-based benchmark over the long term. As explained more fully elsewhere in this report, we call that benchmark the CPP Reference Portfolio; it is the foundation of the CPP Investment Board's Risk/Return Accountability Framework. As we indicated in last year's annual report, management and the board undertook a comprehensive review in fiscal 2009 to ensure that the composition of the CPP Reference Portfolio is explicitly linked to the liabilities and return objectives of the CPP. The product of this effort was the board's adoption of a more broadly diversified composition for the CPP Reference Portfolio. This change, which took effect over the final quarter of fiscal 2009, is discussed further in the President's Message on page 8, and in the Management's Discussion and Analysis (MD&A) on page 17.

Management Compensation

In December 2005, the board of directors approved a strategy designed to fulfill our long-term mandate by capitalizing on the CPP Investment Board's structural advantages to achieve value-added returns over and above the CPP Reference Portfolio over rolling four-year periods.

Central to this approach is a diversified investment portfolio that takes advantage of opportunities across an array of strategies, asset classes and geographies. Doing this successfully requires that we compete with other investment firms to recruit and retain the most talented investment professionals available.

The board has established two key principles that underlie our approach to management compensation:

1. To attract and retain talented and experienced people for investment and core services roles across the organization; and
2. To align the organization's incentives to our mandate to help sustain the CPP over decades and generations.

Guided by these principles, the CPP Investment Board's compensation philosophy is pay-for-performance over long periods of time. More specifically, we have an incentive compensation structure for management that is calculated on a rolling four-year basis and that links a significant portion of compensation both to returns above market-based benchmarks generated by our investment teams, as well as to absolute performance by the Fund. We believe that this longer time frame aligns compensation with the CPP Investment Board's investment mission, encouraging management to pursue sustainable long-term returns rather than focusing on the short term.

The CPP Reference Portfolio serves as a relevant and well-calibrated benchmark to measure management's success in generating value-added returns through its active management programs. Actual returns for the CPP Fund are compared to those of the CPP Reference Portfolio and added value is attributed to management only after first recovering all costs associated with investment programs and the full costs of operating the CPP Investment Board.

In fiscal 2009, the Fund's return essentially matched the CPP Reference Portfolio by adding one basis point above the benchmark return of negative 18.63 per cent. As a long-term investor, the CPP Investment Board focuses on value-added returns over rolling four-year periods rather than value-added returns for any one single year. Since embarking on this strategy three years ago, we have delivered approximately $5.3 billion of added value to the Fund.

We believe that the compensation framework we have adopted for the CPP Investment Board is appropriate, is functioning as intended and has enabled us to attract, motivate and retain an experienced leadership team whose goals are aligned with the organization's long-term investment mission. Given the performance of the portfolio and consistent with our philosophy to pay for performance over long time periods, compensation for the top four investment officers has declined by more than 31 per cent compared to last year. A more detailed discussion of compensation can be found on page 54 of this report.

External Accountability and Transparency

One of the bedrock principles of the CPP Investment Board's governance model is our ability to operate at arm's length from governments, while remaining accountable to the federal and provincial finance ministers who serve as stewards of the CPP.

One aspect of that public accountability is exemplified by the biennial public meetings that we held across Canada during fiscal 2009. Over the course of a month, former Chair Gail Cook-Bennett and CEO David Denison met with Canadians in St. John's, Charlottetown, Halifax, Saint John, Mississauga, Winnipeg, Regina, Calgary and Vancouver to provide an update on the Fund's activities and answer questions.

Another key part of our accountability framework is a commitment to transparency. The CPP Investment Board adheres to a Disclosure Policy which 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." In keeping with this policy, the CPP Investment Board reports quarterly on its financial results. While we do not manage the portfolio for quarterly returns, we believe this practice helps us maintain the trust and confidence of our many stakeholders, especially in challenging times such as these.

Continuity

Fiscal 2009 was a milestone year for the board as Gail Cook-Bennett stepped down following 10 remarkable years as the organization's founding Chair. There was a time, very early in our history, when Gail Cook-Bennett essentially *was* the CPP Investment Board. Armed with a legislated mandate and a clear vision for the future, she guided the organization from inception to a full-fledged and highly regarded investment organization. Above all, she and the original directors understood that the CPP Investment Board needed to exhibit the highest standards of transparency and integrity if it was to maintain the trust and confidence of Canadians and safeguard the organization's mandate. Our board, management team and indeed, all Canadians, are grateful for her leadership.

Since joining the board in 2006, I have been deeply impressed by the quality of board members and management, and been mindful of the heavy responsibility vested in the board for oversight of the CPP Investment Board. Accordingly, I was honoured to be appointed as chair in October 2008.

To aid the transition, current board members spent time capturing insights from Gail and other founding board members; their institutional memory was very instructive. Directors were also able to gain a deeper understanding of the CPP reforms that created the organization through the 2008 publication of a CPP Investment Board-sponsored book called *Fixing the Future: How Canada's Usually Fractious Governments Worked Together to Rescue the Canada Pension Plan* by Bruce Little.

Risk management, vigilance with respect to the CPP Investment Board's governance model, and continued transparency are the board's watchwords for the year ahead. The successful integration of our newest directors will help facilitate these goals. This year we were very pleased to welcome Nancy Hopkins, Robert Brooks, and Elaine McKinnon, whose expert qualifications will enhance our strong board.

In addition to the retirement of founding Chair Gail Cook-Bennett, we said farewell to two other directors, David Walker, who was also a founding board member, and Phil MacDougall. We are grateful to these three colleagues for their service, and for helping to build an organization with the people, strategy and culture of performance necessary to achieve our mission of helping to sustain the Canada Pension Plan for the benefit of 17 million Canadians.

Looking Ahead

As we look ahead, my fellow directors and I have every confidence the CPP Investment Board will continue to fulfill its mandate expertly and with integrity under the strategic direction of David Denison and his management team.

ROBERT M. ASTLEY
Chair

Key Corporate Objectives for Fiscal 2009

Objectives	
CPP Fund Diversification	Broaden the diversification of the investment portfolio through different geographies and asset classes and through alpha-based strategies.
Capabilities	Deepen our internal investment and support capabilities and processes.
Technology and Business Processes	Execute our multi-year plan to establish the management, technology and operational capabilities that will allow us to meet our long-term investment mandate.
Value-Added Returns	Management seeks to cost effectively and risk efficiently outperform the CPP Reference Portfolio over the long term. Accordingly, it focuses on value-added returns over four-year periods rather than a single year.

We publish a statement in the annual report of our objectives for the past year and the extent to which they have been met. We also publish our objectives for the coming year and the foreseeable future. You will find the corporate objectives for fiscal 2010 on page 48.

Highlights

- Committed €250 million ($430 million) to retail shopping centres in 21 locations across Turkey.
- Completed an analysis of the real estate market in Brazil and the private equity market in India.
- Launched a program in Japanese equities as well as an emerging markets currency program.
- Added a multi-faceted private debt program targeting the full range of opportunities from senior secured loans to mezzanine financing.
- Introduced a new global corporate bond program.
- Implemented a stock-bond-cash tactical asset allocation program.
- Announced a formal offer to acquire 100 per cent of Macquarie Communications Infrastructure Group for $1.7 billion.

- Added 122 people to the CPP Investment Board including 63 investment professionals and three new senior leaders in Finance, Operations and Human Resources.
- Fully operationalized the Hong Kong and London offices which opened in fiscal 2008. The international real estate team relocated to the London office in early April.

- Implemented a derivatives trading system and new investment risk measurement system.
- Launched projects to implement new portfolio accounting and investment performance systems, which will be completed in fiscal 2010.

- The return of the CPP Fund essentially matched the CPP Reference Portfolio adding one basis point above the benchmark return of negative 18.63 per cent.
- Over the past three years, since the CPP Reference Portfolio was introduced, the CPP Investment Board has generated cumulative value-added returns of 487 basis points representing approximately $5.3 billion in additional investment income.

President's Message

DAVID F. DENISON
President and Chief Executive Officer

The CPP Investment Board, like all other investment organizations, contended with a sustained global financial crisis in fiscal 2009 as credit markets seized, the global economy contracted and major equity markets suffered one of their most severe sell-offs in history.

The magnitude of these challenges is reflected in the decline in the value of the CPP Fund, which stood at $105.5 billion at fiscal year end March 31, 2009, a decline of $17.2 billion after operating expenses from $122.7 billion at the previous year end. This decline consisted primarily of an investment return of negative 18.62 per cent or negative $23.6 billion, offset by CPP contributions of $6.6 billion.

The primary factor affecting performance in fiscal 2009 was the sharp decline in the global public equity markets in the latter half of the year. In fact, the first three months of calendar 2009 saw the S&P 500 decline to levels not seen since the 1990s. By the time our fiscal year closed on March 31, 2009, the Canadian public equity market had lost 34.7 per cent of its value over the 12-month period and global public equity markets had also registered steep losses, with the S&P 500 down 39.7 per cent, the FTSE lower by 31.1 per cent, the DAX declining 37.5 per cent and the Nikkei 225 dropping 35.3 per cent from their levels a year earlier.

The negative economic fundamentals that prevailed throughout fiscal 2009 adversely impacted the overall investment portfolio and resulted in lower valuations across several of the CPP Fund's asset classes. The steep declines in the global public equity markets are mirrored in the performance of the Fund's equity portfolio which experienced sharply negative returns. The Fund's private equity holdings, which are correlated with public markets, also experienced significant declines but performed better overall than public equities. Prices for commercial real estate were also impacted by the global economic recession and our portfolio of real estate assets reported negative returns for the year. Even infrastructure assets were not immune from market forces although their stable income returns were a strong counterbalance resulting in only a modest overall decline in value.

The magnitude of the negative investment returns we are reporting this year is indeed discomforting. On a relative basis, the Fund essentially matched the returns of the CPP Reference Portfolio benchmark in fiscal 2009 adding one basis point above the benchmark. As described more fully on page 17 of the MD&A, the CPP Reference Portfolio represents a low-cost, low-complexity portfolio that embodies the investment objectives and level of risk envisioned by the CPP stewards at the time of the CPP reforms in 1997. The CPP Reference Portfolio was created as a diversified and investable passive benchmark that could reasonably be expected to generate the long-term average annual real return assumed in the Chief Actuary of Canada's 75-year projection of CPP cash flows. In simple terms, the CPP Reference Portfolio is a market-based benchmark that the CPP Investment Board uses to measure our success in generating value-added returns over time.

In fiscal 2009, the CPP Reference Portfolio declined by 18.63 per cent, as compared to a decline of 18.62 per cent for the CPP Fund. In the three years since we established the CPP Reference Portfolio, our active management programs have cumulatively added 487 basis points or approximately $5.3 billion above this market-based benchmark.

> "Our strategy is to capitalize upon our structural advantages of scale, a long investment horizon and stability of cash inflows within the framework of a rigorous investment process and active risk management."

As a long-term investor, the CPP Investment Board primarily focuses on value-added returns over four-year periods, recognizing that there may be certain years where actual returns underperform the CPP Reference Portfolio; fiscal 2010 will complete the first full four-year period of comparability to the CPP Reference Portfolio.

For the four years ended March 31, 2009, our annualized investment rate of return was 1.4 per cent, which added $2.3 billion of investment earnings to the Fund. This result is below the 4.2 per cent average real rate of return that Canada's Chief Actuary has determined is required to sustain the plan at its current contribution rate over the 75-year period of his report. However, as anticipated by the Chief Actuary, it is expected that over this 75-year period there will be times, such as these, when the Fund's returns lag this threshold and other times, such as the previous four-year period, when they exceed it. Taking an even longer view, since the CPP Investment Board began investing a decade ago, returns for the CPP Fund in all four-year periods prior to fiscal 2009 exceeded the 4.2 per cent real rate of return. In this same 10-year period, $24.2 billion in investment income has been added to the CPP Fund which represents a 4.3 per cent annualized investment rate of return.

A Long-Term View

While it is certainly uncomfortable to live through this period of portfolio declines, we believe that this current market environment also presents long-term investment opportunities. Since our mandate is to invest to help sustain the Canada Pension Plan across multiple generations of contributors and beneficiaries, we do need to maintain our focus on the long term.

Even though we report quarterly and annual results as part of our commitment to transparency, we design our investment strategy to deliver superior risk-adjusted returns over the span of decades and generations.

Indeed this long investment horizon is one of the CPP Investment Board's most significant advantages. By design, the CPP is funded on a steady-state rather than a fully funded basis. This means that investment earnings play a smaller role in funding CPP benefits than is the case with more common fully funded plans, and allows for a much longer time frame – a 75-year period in our case – over which to amortize investment returns. This time frame, combined with the fact that we have additional inflows to the Fund over the next 11 years and that the existing assets are not subject to withdrawals or redemptions as is the case with most investment managers, means we can take a longer view in our investment approach. As a result, we can capitalize on opportunities to buy assets when other market participants are constrained or may be forced to sell to meet their own liquidity demands, as has been the case in recent months. In this environment, we believe that adhering to a very disciplined investment process is especially critical. While we have evaluated many investment opportunities over the course of fiscal 2009, we have not felt compelled to complete transactions. We have maintained our rigorous risk and return analysis and acted only when we were satisfied that projected risk-adjusted returns met our thresholds.

Investment Strategy

Since its inception, the CPP Investment Board has set about building a diversified investment portfolio well suited to its long-term investment goals. Our strategy is to capitalize upon our structural advantages of scale, a long investment horizon and stability of cash inflows within the framework of a rigorous investment process and active risk management.

During the course of fiscal 2009, management and our board re-examined our long-term strategy in light of the extraordinary market conditions of this past year. In some cases, this has led us to modify our investment programs in light of the decreased amount of intermediation, the decline in securitization, the lower availability and higher cost of debt financing and other factors that we believe will persist for a period of time. We have also adjusted our short-term activities to address daily market circumstances such as levels of market volatility and credit spreads. Fundamentally, however, we have concluded that the main foundations of our strategy remain valid and prudent given the time horizon and nature of the CPP Fund. We have also reaffirmed the key economic exposures for our portfolio in the context of our Total Portfolio Approach that we believe will yield sufficient long-term returns at an appropriate level of systematic risk. At fiscal 2009 year end, those weightings entailed $33.5 billion in fixed income assets, which included inflation-linked bonds, $11.5 billion in real estate and infrastructure assets, $14.1 billion of private equity and $46.5 billion of public equity assets.

CPP Reference Portfolio Transition

Based upon extensive asset/liability modelling that we conducted this year, we have changed the composition of the CPP Reference Portfolio by reducing the Canadian equity and Canadian real return bond weightings, increasing the foreign developed market equity weighting, and adding emerging market equity and foreign sovereign bond components. Our work has led us to conclude that this is a more robust design for the CPP Fund's key benchmark and we transitioned the portfolio accordingly during the last quarter of fiscal 2009. Going forward, we will continue to monitor the CPP Reference Portfolio annually and do a more extensive review every three years to correspond with the release of the Chief Actuary's triennial report. A more detailed discussion of the CPP Reference Portfolio transition can be found on page 17.

Performance Against Objectives

Each year management establishes a set of corporate objectives for the year ahead. In fiscal 2009 our key objectives were: further diversify the CPP Fund, continue building our internal capabilities and progress our multi-year plan to enhance our operational processes and technologies. I am pleased to report that we achieved our targets or milestones for these objectives.

DIVERSIFY THE CPP FUND

Our first objective was to broaden the diversification of the investment portfolio by geography and active strategies. In terms of geography, we committed €250 million ($430 million) to retail shopping centres in 21 locations across Turkey, completed our analysis of the real estate market in Brazil and the private equity market in India, and launched a program in Japanese equities as well as an emerging markets currency program. In terms of active strategies, we have added a multi-faceted private debt program targeting the full range of opportunities from senior secured loans to mezzanine financing, introduced a new global corporate bond program, and implemented a stock-bond-cash tactical asset allocation program among others.

BUILD CAPABILITY

Our second objective was to continue building the capabilities of the CPP Investment Board to effectively manage the expansion and execution of our investment programs. To this end, we added 122 people to the organization in 2009. This included 63 investment professionals, as well as three talented new senior leaders, Nicholas Zelenczuk, Benita Warmbold and Saylor Millitz-Lee in the capacities of Chief Financial Officer, Chief Operations Officer and Senior Vice-President of Human Resources, respectively. These important additions have deepened our capabilities and broadened our expertise to ensure that we have the resources to fulfill our mandate successfully and responsibly.

Our offices in London and Hong Kong are now fully operational and integrated within our investment processes. Just after the close of the fiscal year, our international real estate group relocated from Toronto to our London office consistent with our geographic approach to real estate investing.

PROGRESS ON OPERATIONAL PROCESSES AND TECHNOLOGIES

Our third objective was to continue to build out our multi-year plan to enhance key management capabilities, operational processes and our technology infrastructure. This objective is fundamental to our ability to support and scale our investment programs and monitor and manage their attendant risk attributes. Among the technology systems implemented during the year were a derivatives trading system and a new investment risk measurement system. We also launched projects to implement new portfolio accounting and investment performance systems which will be completed in fiscal 2010.

Objectives for Fiscal 2010

Looking ahead to 2010, we will maintain those same key corporate objectives as they continue to be relevant for our strategy and evolution as an organization, namely: broaden the diversification of the CPP Fund, continue to build our internal capabilities, advance our multi-year plan to enhance operational processes and technologies, and generate value-added returns net of all costs over rolling four-year periods. With respect to diversification, we will have a particular focus on private debt, infrastructure and real estate throughout fiscal 2010 and will be prepared to commit considerable investment capital when our analysis of valuation and risk proves compelling.

I would like to thank my colleagues at the CPP Investment Board, our board of directors and our external partners for their insights, commitment and resilience in the face of very difficult markets during the past year. In particular, I would like to recognize our now-retired founding chair Gail Cook-Bennett, who has had a profound influence on the organization. From the outset, Gail championed the principles of integrity, accountability and transparency for our organization, oversaw the development of the CPP Investment Board from concept to a sophisticated global investor, and established an accountability framework that is greatly admired around the world. We will continue to benefit for many years to come from Gail's strong legacy. We are also very fortunate to have continuity of direction and strong leadership through the appointment of Bob Astley as current chair of the board of directors.

Although the economic outlook remains uncertain, we believe market downturns present opportunities for patient, long-term investors like the CPP Investment Board. We remain confident in our ability to execute our strategy which will help to ensure the sustainability of the CPP for decades and generations to come.

DF Denison

DAVID F. DENISON
President and Chief Executive Officer

Senior Management Team

Left to Right

John H. Butler, Senior Vice-President, General Counsel and Corporate Secretary;
Nicholas Zelenczuk, Senior Vice-President and Chief Financial Officer;
Saylor Millitz-Lee, Senior Vice-President, Human Resources;
Graeme M. Eadie, Senior Vice-President, Real Estate Investments;
David F. Denison, President and Chief Executive Officer;
Donald M. Raymond, Senior Vice-President, Public Market Investments;
Mark D. Wiseman, Senior Vice-President, Private Investments;
Ian M.C. Dale, Senior Vice-President, Communications and Stakeholder Relations;
Benita M. Warmbold, Senior Vice-President and Chief Operations Officer;
John H. Ilkiw, Senior Vice-President, Portfolio Design and Investment Research

Financial Review

This annual report contains forward-looking statements reflecting management's objectives, outlook and expectations as at May 14, 2009. These statements involve risks and uncertainties. Therefore, our investment activities may vary from those outlined in these forward-looking statements.

The following information provides analysis of the operations and financial position of the Canada Pension Plan Investment Board and should be read in conjunction with the Consolidated Financial Statements and accompanying notes for the year ending March 31, 2009. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Management's Discussion and Analysis

Management's Discussion and Analysis (MD&A) provides an overview of the Canada Pension Plan Investment Board's (CPP Investment Board) legislated mandate, the investment strategy employed to support the long-term sustainability of the Canada Pension Plan (CPP), our risk management strategies and the overall benchmark that provides context for our investing decisions. Following this overview, we identify our key performance drivers and review the performance of the CPP Fund (the Fund).

Performance Summary

The CPP Investment Board invests CPP assets that are not required to pay current benefits. Operating independently of the CPP and at arm's length from governments, our mission is to help keep the CPP sustainable over the long term by maximizing investment returns without undue risk of loss.

To deliver those returns, our investment strategy is to operate as a long-term active investor. Performance is measured against the CPP Reference Portfolio, a low-cost, low-complexity portfolio that could reasonably be expected to meet the needs of the CPP as described in the *23rd Actuarial Report on the Canada Pension Plan* released by the Chief Actuary of Canada in October 2007.

PERFORMANCE OVERVIEW

The worst global financial crisis since the Great Depression negatively impacted the CPP Fund in its 2009 fiscal year. The Fund ended its fiscal year on March 31, 2009, with net assets of $105.5 billion, a decline of $17.2 billion from the prior year end. The Fund's negative 18.62 per cent investment return represents the first substantial decline for the CPP Fund since the CPP Investment Board began investing in 1999.

Amidst this difficult environment, the return of the CPP Fund in fiscal 2009 essentially matched the CPP Reference Portfolio adding one basis point above the benchmark return of negative 18.63 per cent. As a long-term investor, we believe that value-added performance is best measured over rolling four-year periods. In the three years since we have adopted the CPP Reference Portfolio as our key total fund benchmark (the CPP Reference Portfolio is described in more detail on page 17), we have generated cumulative value-added returns of 487 basis points representing approximately $5.3 billion in additional investment income; this equates to an average annual value-added return of 162 basis points over this period. Fiscal 2010 will provide a fourth year of comparative results and, for that year and thereafter, we will report our performance over rolling four-year periods.

The primary factor affecting this year's performance was the steep decline in global equity markets as the global credit crisis combined with a spreading and deepening global economic recession created extraordinary volatility and downward pressure on stock markets worldwide. These severe declines in equity markets were reflected in the performance of the Fund's equity portfolio, which experienced sharply negative returns. Conversely, the Fund benefited from its public market fixed income portfolio as an investor flight to safety helped to increase the value of that portfolio.

Worsening global economic fundamentals also resulted in lower valuations across the CPP Fund's private market asset classes. The Fund's private equity holdings, which are correlated with public equity markets, experienced significant declines but still outperformed the Fund's public equity holdings. Our real estate holdings also declined in value in line with commercial real estate performance in developed markets. Our infrastructure assets, which tend to be less correlated to public markets, experienced modestly negative returns as stable revenue from these assets largely offset lower valuations.

The impact of foreign equity declines on our results was partially offset by the effect of a declining Canadian dollar over the course of the year. As described more fully on page 19, our policy is to leave the foreign equity allocation within our portfolio unhedged.

Consistent with our view on measuring value-added performance, we also report on overall fund performance over rolling four-year periods. For the four years ended March 31, 2009, the CPP Fund's annual return was 1.4 per cent. This is less than the 4.2 per cent average real rate of return that the Chief Actuary of Canada estimates is required to help sustain the Canada Pension Plan over a 75-year period. Over this long time frame we expect that there will be four-year periods where returns are above or below this threshold. In the 10 years since the CPP Investment Board began investing, returns for the CPP Fund in all four-year periods prior to fiscal 2009 exceeded the 4.2 per cent real rate of return. Based upon historical experience and reasonable future return expectations, we believe that the actual returns for the CPP Reference Portfolio and the CPP Fund will exceed the 4.2 per cent real return assumed by the Chief Actuary over the long investment horizon for the CPP Fund.

When looking at the overall Fund performance over a longer time period, the 10-year annualized rate of return was 4.3 per cent or $24.2 billion of investment income.

INVESTMENT OVERVIEW

With capital markets in flux, we believe that adherence to a very disciplined investment process is especially critical. While we reviewed many investment opportunities during the course of fiscal 2009, we did not feel compelled to transact, only doing so when our risk and return analysis projected strong risk-adjusted returns. We continued to avoid investing in complex structures with serious hidden credit exposures such as non bank-sponsored asset-backed commercial paper, collateralized debt obligations and other opaque instruments. We decided to suspend our securities lending program during this past year when we concluded that heightened credit and counterparty risk significantly altered the risk-return equation of this program. As is our common practice, we also overlaid judgment on our quantitative risk models to reflect our view that there was more underlying volatility than those models actually reflected and hence reduced position sizes in a number of our internal active programs.

Our public markets managers used a variety of short-term strategies to capitalize on the extreme volatility that prevailed throughout fiscal 2009. Our private equity and real estate managers made fewer new commitments than in fiscal 2008 due to a shortage of opportunities stemming from the global financial crisis. That said, we were also able to acquire some high-quality assets within infrastructure and real estate, some of which are rarely available for sale. We remain well positioned to capitalize on investment opportunities at advantageous prices as we are among a select number of institutional investors with capital to invest and with certainty of cash inflows at a time when the availability of credit remains limited.

During the course of fiscal 2009, management and the board re-examined the CPP Investment Board's strategy in light of the extraordinary market conditions we faced. We concluded that our long-term strategy remains sound and that the strategic asset weightings for the CPP Fund remain appropriate given its long investment horizon. We have, however, modified a number of investment programs to take into account the cyclical and structural changes we see in the markets such as increased credit spreads, heightened volatility, the lower availability and higher cost of debt financing, and decreased levels of intermediation activities provided by banks and other financial institutions.

Organizationally, we continued to build both human resources and technology capabilities consistent with our multi-year plan. Regular full-time employees increased by 122 to 490. This includes staff for our expanded investment programs in our Toronto office as well as the London and Hong Kong offices that we opened last year, and completion of senior management recruiting. We also focused on enhancing our risk management capabilities with new investment risk management systems and a comprehensive review of our Enterprise Risk Management (ERM) framework. In addition, we completed the reorganization of the Finance and Operations department by creating two separate departments – Finance as well as Treasury, Risk, Operations and Technology – to provide better focus for these critical core services.

Looking ahead to fiscal 2010, we expect the markets to remain volatile. However, with a long investment horizon, steady cash inflows and a broadly diversified portfolio, we remain confident in the CPP Investment Board's ability to generate the longer-term results required to help sustain the Canada Pension Plan for decades and generations.

Mandate

The CPP Investment Board is an independent, professional investment management organization that was created in 1997 to invest the assets of the CPP that are not required to pay current benefits. In 2004, the CPP Investment Board also assumed responsibility for investing the short-term assets held to pay current CPP benefits.

The federal and provincial finance ministers who reformed the CPP in 1997 envisaged the creation of a diversified portfolio to grow beyond the $35 billion legacy portfolio of non-marketable federal, provincial and territorial government bonds in place at that time. They incorporated investment objectives into the CPP reforms that included a level of risk similar to other large Canadian pension plans at that time.

The fully diversified CPP Fund is now the largest single-purpose pool of capital in Canada and one of the fastest-growing such funds in the world. The CPP Investment Board administers the Fund under a legislated mandate that directs us to achieve "a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan and the ability of the Canada Pension Plan to meet its financial obligations on any business day". We have interpreted this to mean that our mission is to generate the returns required to help keep the CPP sustainable over the long term. In defining sustainability, the federal and provincial finance ministers who served as the CPP stewards expressed a desire that, insofar as it is possible, the CPP be able to pay benefits at current levels, adjusted for inflation, with a stable employee-employer contribution rate (currently 9.9 per cent) across multiple generations. In practical terms, our mission is to generate investment returns that will help support this goal of contribution rate stability. However, investment return is just one of the factors that the Chief Actuary of Canada considers in judging sustainability. He also evaluates a wide range of other factors that by nature have a greater influence on rate stability, such as inflation, wage growth, immigration and demographic shifts.

Our investment mandate is clear and singular; to meet that mandate, as fiduciaries our investing strategy is driven solely by risk/return considerations in order to serve the best interests of contributors and beneficiaries.

ENSHRINED INDEPENDENCE

The CPP Investment Board operates independently of the CPP and at arm's length from governments. The governance system created under our legislated mandate was carefully designed so that we would be able to compete with the very best global professional investors in the private sector while maintaining a high degree of public accountability.

Though established as a federal Crown corporation, the CPP Investment Board is *not* a sovereign wealth fund, a term used to describe a government-owned capital pool that may be deployed for political, economic development or strategic objectives in addition to achieving investment returns. Unlike sovereign wealth funds:

- The CPP Investment Board does not manage government assets or revenues. CPP assets belong to the 17 million contributors and beneficiaries, and are strictly segregated from government revenues and the national accounts;
- The CPP Investment Board operates with disclosure standards that are on par with those of public companies;
- As fiduciaries, our investment mandate is to maximize returns without undue risk of loss and our decisions are driven solely by investment considerations; and
- The legislation under which the CPP Investment Board was created contains safeguards to insulate investment decision-making from government and political involvement. Amending this legislation requires agreement by the federal government plus two-thirds of the provinces representing two-thirds of the population – a more stringent test than the requirement for amending the Canadian Constitution.

VALUE-ADDED FOCUS

The CPP Investment Board is an active investor focusing on value-added returns over the long term. Accordingly, the CPP Investment Board focuses on value-added returns over four-year periods rather than a single year. This emphasis on the long term means that there may be certain years where actual returns may underperform the CPP Reference Portfolio.

When we began receiving cash flows from the CPP in March 1999, the money was initially invested in public equities and, to comply with a regulation that has since been repealed, the portion of the Fund invested in Canadian equities was passively indexed. In its early years, the organization built a large internally managed passive equity portfolio spanning all global developed markets.

In late 2005, management and the board of directors agreed to expand the range of investment programs to include additional asset class diversification, global diversification and a variety of active investment programs, all with a view to exceeding the returns otherwise available from a low-cost, low-complexity passive investment portfolio. The CPP Investment Board now operates as a multi-faceted investment organization with the knowledge and expertise required to execute investment programs across a diverse range of asset classes, geographies and active and passive strategies. Our performance and compensation accountability is based on the level of returns we generate over those available from passive investing, as measured by the CPP Reference Portfolio.

CPP Reference Portfolio

The CPP Investment Board's performance in generating value-added returns is measured in relation to the CPP Reference Portfolio. Introduced in fiscal 2007 and revised in fiscal 2009, the CPP Reference Portfolio represents a low-cost, low-complexity portfolio that embodies the long-term investment objectives and associated risk that was envisioned by the CPP stewards at the time of the CPP reforms in 1997. This model portfolio is approved by the board of directors for accountability and measurement purposes only and does not act as a target portfolio for the actual CPP Fund. The key metrics for the design of the investment portfolio are the economic exposure weights as discussed on page 20 in the Total Portfolio Approach and Benchmarks section.

The CPP Reference Portfolio is a key element of our investment strategy. Under reasonable long-term capital market assumptions, the CPP Reference Portfolio would be expected to generate the long-term average annual real return (after inflation) required to support the Chief Actuary of Canada's 75-year projection of CPP cash flows. It can be implemented and easily measured using widely accepted market indices created and maintained by independent financial information providers.

According to the latest report released by the Chief Actuary in 2007, the estimated average real investment return required is 4.2 per cent per annum over the life of the 75-year projection. Over this long time frame, we expect that there will be four-year periods where returns are above or below this threshold. Neither the assumed real return nor the composition of the CPP Reference Portfolio is static. The Chief Actuary updates the CPP projection every three years. We use these updated projections to conduct an extensive review of the CPP Reference Portfolio that also incorporates our own ongoing research into the linkages between capital market behaviour and the factors that affect the CPP's cash flows.

This extensive asset liability modelling resulted in an adjustment to the composition of the CPP Reference Portfolio that we phased in during fiscal 2009. We believe that this new composition will help to further reduce plan adjustment risk – that is, the risk of unwanted changes in the CPP contribution rate – because it is more broadly diversified, has increased foreign exposure to reduce reliance on the Canadian economy, and recognizes domestic capital market capacity constraints that could impede the CPP Fund as it grows larger.

The chart on the following page details the CPP Reference Portfolio components and its benchmarks as at April 1, 2008, the start of fiscal 2009.

The first phase of the revision to the CPP Reference Portfolio was implemented early in fiscal 2009 and involved changing the equity component weights to 20 per cent Canadian equities and 45 per cent foreign developed market equities.

The second phase, implemented over our fourth quarter, further diversifies the benchmark and also reflects more sophisticated analysis of plan adjustment risk. We further reduced the Canadian equities weighting – from 20 per cent to 15 per cent – reduced the Canadian real return bond weighting from 10 per cent to five per cent, and added five per cent allocations to each of emerging market equities and foreign sovereign bonds. The research methodology and framing of the asset-liability consideration were validated by two independent experts and used an asset-liability model that we developed over several years in discussion with the Chief Actuary of Canada. This multi-dimensional model projects the behaviour of different portfolio designs in varying capital market conditions and relates those results to the CPP's cash flow needs under different economic and demographic scenarios.
We concluded that the asset mix detailed in the chart below would perform best across a wide range of possible capital market, economic and demographic outcomes. The overall 65/35 equity-debt exposure is unchanged, so we expect the new portfolio to earn long-term returns comparable to those of its predecessor portfolio while providing additional diversification.

CPP REFERENCE PORTFOLIO BENCHMARK AT THE BEGINNING OF FISCAL 2009

Asset Class	Benchmark	Weight
Canadian equities	S&P Canada Broad Market Index	25%
Foreign equities	S&P Developed Ex-Canada Large Market Index (net of tax), unhedged	40%
Nominal fixed income	Custom-blended benchmark of actual CPP bonds and DEX All Government Bond Index	25%
Canadian real return bonds	DEX Real Return Canada Bond Index	10%
		100%

CPP REFERENCE PORTFOLIO BENCHMARK RETURNS AT THE END OF FISCAL 2009

Asset Class	Benchmark	Weight	**2009 Return**	2008 Return
Canadian equities	S&P Canada Broad Market Index	15%	**-33.1%**	2.6%
Foreign developed market equities	S&P Developed Ex-Canada LargeMidCap Index (net of tax), unhedged	45%	**-29.1%**	-13.8%
Emerging market equities[1]	S&P Emerging LargeMidCap Equity Index (net of tax), unhedged	5%	**14.2%**	N/A
Canadian nominal fixed income	Custom-blended benchmark of actual CPP bonds and DEX All Government Bond Index	25%	**7.8%**	6.8%
Foreign sovereign bonds (hedged)[1]	Citigroup World Government G7 Bond Index hedged to Canadian dollars	5%	**–**	N/A
Canadian real return bonds	DEX Real Return Canada Bond Index	5%	**-0.5%**	6.7%
		100%	**-18.63%**	-2.7%

[1] Investments were included in the CPP Reference Portfolio at the end of the year. Returns are reported only for the period during which actual investments were held.

The 10 per cent reallocation from Canadian equities brings the total foreign equities components to 50 per cent of the CPP Reference Portfolio. The emerging markets allocation was created based on the recognition these offer the greatest growth potential for years to come. In addition to providing a relatively high expected real return, the combined 50 per cent Non-Canadian equity weighting mitigates the risk of lower-than-expected wage growth in Canada that would be mirrored in lower Canadian equity returns. When wage growth slows, so will growth in the contributions that primarily fund CPP benefits – placing more reliance on the CPP Fund's earnings to meet payments to beneficiaries. Consequently, in periods when foreign economies grow faster than Canada's, their better-performing equity markets can be used to help strengthen the CPP Fund. The remaining 15 per cent Canadian equity allocation partially mitigates the risk of decreases in Canadian interest rates as Canadian equities are more sensitive than foreign equities to Canadian interest rates. With this 15 per cent weighting to Canadian equities, we remain a significant investor of Canadian equities owning roughly two per cent of 700 Canadian companies on average.

In order to capitalize on the long-term risk mitigation features of investing in foreign markets, the foreign and emerging markets' equity allocations are not hedged back to Canadian dollars in periods when Canadian equities underperform relative to other equity markets; we expect that the underperformance will also be reflected in the decline of the Canadian dollar. Hedging the exposure will partially negate one of the key reasons for having the strategic exposure to foreign markets. An unhedged foreign exposure also helps to offset increases in CPP liabilities due to inflation. A decline in the value of the Canadian dollar is expected to produce an increase in Canadian price levels due to our high dependence on foreign goods, and therefore lead to higher CPP benefit payments which are indexed to the Consumer Price Index. An unhedged exposure to foreign assets ensures that CPP assets benefit from the rise in the value of foreign currencies which would offset, to some extent, the potential increase in CPP payments due to the falling Canadian dollar. However, this currency effect works both ways; when growth in CPP payments is reduced because an increase in the Canadian dollar lowers inflation, there will be a corresponding currency-driven decline in the value of foreign assets.

In addition, investment theory, historical results and our research indicate that hedged and unhedged equity portfolios have the same expected returns over the long term, except for the costs and fees of maintaining the currency hedge. We estimate that the cost of maintaining a passive 100 per cent currency hedge is roughly five basis points[1], which would translate into a reduction of two basis points in the long-term performance of the CPP Reference Portfolio. Maintaining an unhedged equity exposure in the CPP Reference Portfolio does not preclude management from implementing active currency hedging strategies in the actual CPP Fund to generate additional returns by exploiting the short- and medium-term behaviour of the international currency markets.

The 25 per cent allocation to Canadian nominal fixed income recognizes the inclusion in the CPP Fund of a portfolio of non-marketable federal, provincial and territorial bonds (CPP bonds) that was established before the creation of the CPP Investment Board. This fixed income component also mitigates deflation risk. Nominal bonds are expected to earn marginally higher returns than real return bonds because they attract an inflation risk premium. We use a weighted average of the actual return on the non-marketable CPP bonds and the return of the DEX All Government Bond Index as the measurement benchmark for this allocation. The weighted representation of the return to non-marketable CPP bonds will reduce in tandem with their declining presence in the portfolio over time.

A five per cent allocation to foreign sovereign bonds has been added because the Canadian fixed income market is small relative to our desired fixed income exposure. This bond allocation is hedged to neutralize the impact of changes in currency values.

[1] A basis point is 1⁄100th of one per cent. Five basis points equals 0.05 per cent.

While we do not hedge the currency exposure of foreign equities for the reasons explained above, we do hedge foreign sovereign bonds so that they can serve as a reasonable long-term substitute for Canadian bonds. This is the only portion of the CPP Reference Portfolio that is hedged. The remaining five per cent allocation to Canadian real return bonds mitigates the risks of unexpected inflation and decreases in real interest rates.

Going forward, we will continue to monitor the CPP Reference Portfolio and perform an extensive review at least every three years to correspond with the timing of the Office of the Chief Actuary's triennial reports, the next of which will be released in 2010.

GENERATING VALUE-ADDED RETURNS

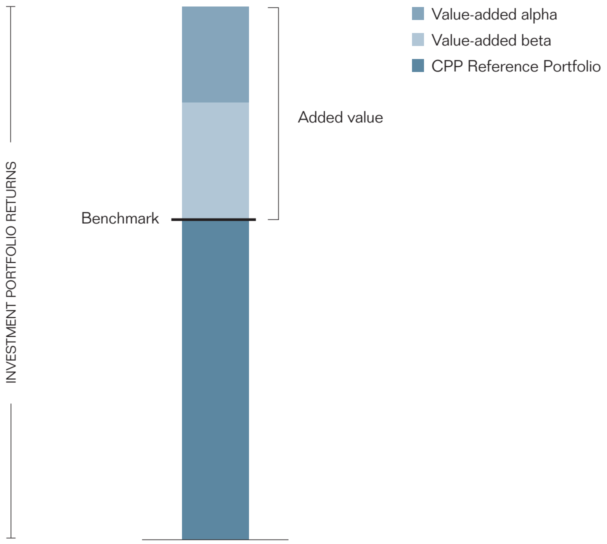
Management seeks to cost effectively and risk efficiently outperform the CPP Reference Portfolio's returns in two broad ways.

The first approach is what we refer to as "better beta", which is a strategy to access sources of market-based returns that cannot be captured through low-cost, low-complexity broad market indexed exposure via the CPP Reference Portfolio. Beta is the return one can obtain by investing in a given asset class on a passive basis. In general, this return and its associated level of risk reflect market performance rather than manager skill. The CPP Reference Portfolio reflects the returns and risk of efficient markets for public equities, bonds (including the legacy CPP bonds), and inflation-linked bonds. We seek to generate better beta returns by expanding into other asset classes that offer additional sources of returns such as real estate, infrastructure, private equity and private debt. Since public markets provide limited access to these asset types, exposure can only be gained through skill-based programs.

The second approach is to selectively earn above-market returns, commonly known as "alpha". These returns are generated by manager skill, not broad market exposure, and are particularly valuable since they do not add materially to systematic risk. In other words, they tend not to be influenced by whether broad market returns are positive or negative. While beta is more readily available and can be more easily harvested, alpha must be actively earned through the use of various skill-based programs across the entire portfolio. Most better beta contains some alpha because skill and experience are required to successfully earn returns in those asset classes.

Cost minimization is also a priority in our value-added performance, as every dollar saved in transaction costs and external investment management fees is equivalent to one dollar of additional income, or alpha, with no increase in risk.

ALPHA AND BETA VALUE-ADDED RETURNS



TOTAL PORTFOLIO APPROACH AND BENCHMARKS

In order to meet our value-added investment objectives, we focus not only on the performance of the total portfolio but also on the performance of individual investment departments and component asset classes. We strive to manage the total portfolio as effectively as possible by considering each proposed investment in terms of its marginal contribution to improving the reward/risk profile of the total portfolio. Under this approach, we do not target specific dollar or percentage allocations for individual asset classes. Rather, we make active investments across public markets, real estate, infrastructure, private equity and private debt, when we believe that their risk-adjusted returns will outperform the assets that must be sold to fund these investments. This approach means that we make all decisions within the context of the total fund.

The investment objective for our active investment programs is to outperform the relevant passive public market alternatives over rolling four-year periods. Actual returns are compared to benchmarks which are established according to the following principles:

- Benchmarks are determined before we commence an investment program and are recommended by a unit within CPP Investment Board that is independent of the investment departments.
- Benchmarks recognize the specific risk characteristics of our investments, notably the amount of leverage utilized.
- Benchmarks for private investments incorporate a premium for illiquidity where appropriate.
- Benchmarks must be approved by the human resources and compensation committee of the board of directors which is advised by an external consulting firm engaged by the board.
- The calculation of value-added returns is the difference between actual performance results and benchmark returns which are audited by Deloitte & Touche LLP, the external auditors for the CPP Investment Board.

For active public market investments, such as long/short strategies, tactical asset allocation, hedge funds, and liquidity provision, that do not have systematic market exposure, the most appropriate benchmarks are cash returns such as LIBOR rates.

In the case of private equity investments, we select a benchmark that matches as closely as possible the geography and industry sector of the underlying investments. Accordingly, an investment in a private energy company operating in the United Kingdom would be benchmarked against the U.K. energy sector with an adjustment for the increased leverage inherent in many private equity structures.

These same principles are applied in benchmarking other types of active investment strategies, such as infrastructure and real estate. In the case of infrastructure, we use three distinct risk classifications and three corresponding benchmarks. We classify each infrastructure investment based upon both quantitative and qualitative assessment of its risks, adjusting for the degree of leverage used. Accordingly, mature infrastructure assets with relatively low leverage and low earnings volatility, such as water distribution networks and toll roads, are benchmarked to a relatively large portion of government bonds and a correspondingly smaller portion of public equities, whereas infrastructure assets with development or adoption risks or greater leverage would be benchmarked against a relatively higher proportion of equities.

The following table shows an example of how we translate actual and benchmark returns into our incentive compensation system for private equity. When calculating value-added returns, the following two principles are applied:

- Our actual operating costs and all fees and incentive payments to external managers must first be recovered before attributing any value-added.
- All performance is measured over rolling four-year periods to align with the long investment horizon of the CPP Fund and provide for more accurate performance assessment of less liquid assets.

	Match Public Market Equivalent	Earn Leverage Adjustment	Achieve Top Quartile Performance Which Includes a Liquidity Premium	Achieve Exceptional Performance
Private equity value-added	0%	+1%	+4%	+8%
Effect on incentive compensation	Negative	Zero	Base Level	Maximum

The effect of this is to ensure that actual performance is risk adjusted when incorporated into our compensation system and that long-term, sustainable performance is rewarded. The Compensation Discussion & Analysis section on page 54 provides a more detailed description of our Management Compensation Framework.

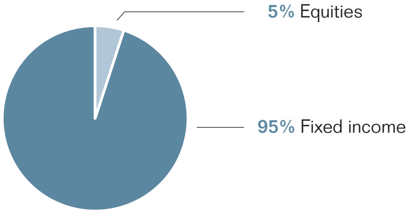
Investment Strategy

The CPP Investment Board's investment strategy is designed to support the long-term sustainability of the Canada Pension Plan. As previously noted, the CPP Reference Portfolio that serves as our benchmark was constructed to reflect the investment objectives and risk preferences expressed by the federal and provincial finance ministers at the time of the CPP reforms.

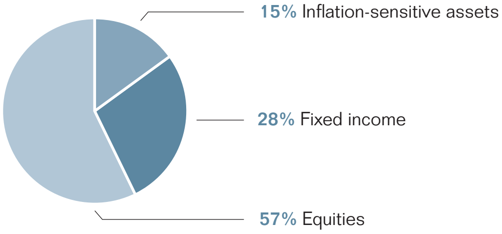
We have adopted an active management approach that, with a prescribed amount of risk, is intended to deliver value-added returns above the systematic market returns that passive management would earn, thereby improving the long-term performance of the CPP Fund. We recognize that active investing entails additional costs over passive indexed investing; accordingly, external investment management fees and internal costs are subtracted from the returns we generate before any value-added is attributed.

Generating value-added returns on a sustained basis will help offset the potential negative impact on the CPP's contribution rate if capital market returns, wage growth, inflation, immigration, mortality and other economic and demographic assumptions in the Chief Actuary's 75-year projection turn out to be less favourable than projected. Alternatively, these additional returns could give leeway for the federal and provincial finance ministers to reduce contribution rates or increase benefits. For example, a sustained additional return of 50 basis points net of fees and costs over a long period would represent a 25 basis point favourable experience for the CPP. The benefits of value-added performance are therefore material for the 17 million CPP participants and their employers, especially when these benefits are applied over multiple decades, and provide a compelling reason to pursue an active management approach.

TOTAL INVESTMENT PORTFOLIO VIEW



2000
$44.5 billion



2009
$105.6 billion

The decision in late 2005, to pursue active investment management and therefore expand our internal capabilities, was not taken lightly. The directors of the CPP Investment Board at the time wanted adequate assurance that the organization would be able to generate sufficient investment returns to justify the incremental costs and complexity of active management. Importantly, they were satisfied that the governance system of the CPP Investment Board was strong enough to allow the creation of a highly skilled investment management organization capable of succeeding in extremely competitive capital markets and whose investment decisions would be free from political or government influence. As well, they ratified an investment strategy that identifies a series of structural and operational advantages. The board had confidence that these advantages, if executed in a systematic and disciplined manner, would enable our investment professionals to succeed in an arena where many participants pursue above-market returns but relatively few achieve them on a consistent basis.

The CPP Investment Board's structural advantages include:

- An exceptionally long investment horizon, given that we manage assets within the 75-year period of the Chief Actuary's CPP projection. This horizon provides the opportunity to evaluate investment decisions and programs over a much longer time frame than other market participants;
- The relative certainty of the amount and timing of future cash flows for investing activities. According to the Chief Actuary's 2007 report, the CPP is projected to collect excess contributions through to the end of 2019, providing us with additional funds for investment. As well, given the nature of the Fund, we do not have to manage the fund to take into consideration the prospect of redemptions or unanticipated cash outflows; and
- A portfolio size that provides sufficient scale to build sophisticated internal investment technology and operational capabilities to pursue opportunities, not only in the public markets, but also in the vastly larger private markets. The CPP Fund can also make comparatively large individual investments that would be beyond the reach of many other organizations. Conversely, we also recognize that the portfolio's size can at times be limiting as some attractive investments may lack sufficient scale to make an appreciable contribution to overall returns, and the Fund's significant investments in public markets could potentially affect pricing through our trading activity.

In addition to these structural advantages, the CPP Investment Board has developed operational advantages, which include:

- Use of the Total Portfolio Approach that looks through conventional asset class labels to analyze investments according to their underlying risk/return attributes. This was described earlier and, although complex to administer, in our view promotes better investment decision-making and a more efficient design for the overall portfolio;
- A strong commitment to develop partnering relationships with top-tier investment organizations. In this regard, our clear investment-only mandate and transparent investment processes create a distinct advantage over a number of other organizations including many of the sovereign wealth funds; and
- The creation of a culture deeply rooted in ethical conduct, teamwork and high performance standards that enable the CPP Investment Board to attract and retain high-calibre professionals from around the world.

Risk Management

Risk management is central to the CPP Investment Board's operations. In fiscal 2007, we implemented a Risk/Return Accountability Framework as the operational platform for allocating and managing investment risk. This past year we took a number of steps to clarify risk management responsibilities, expand capabilities, improve measurement and reporting, identify emerging issues earlier and be more proactive. The risks we face as a business organization are addressed through an Enterprise Risk Management (ERM) framework that underwent a comprehensive review during fiscal 2009. The accountability and disclosure policies and measures discussed on page 52 also support risk management across the entire organization.

RISK/RETURN ACCOUNTABILITY FRAMEWORK

The active management strategies of the CPP Investment Board seek to maximize returns without undue risk of loss. This duality of risk and return is managed through the Risk/Return Accountability Framework that is detailed in the *Statement of Investment Objectives, Policies, Return Expectations and Risk Management* that is available on our website at www.cppib.ca.

The CPP Reference Portfolio is the cornerstone of this framework. Each year, the board of directors approves an active risk limit which restricts management's discretion to vary its aggregate risk exposure from the CPP Reference Portfolio. This active risk limit is expressed in terms of a value-at-risk measure and is based on a board-approved risk estimation methodology. In essence, it represents a limit on the amount of risk that management can use relative to the risk in the CPP Reference Portfolio in its efforts to earn additional returns.

The investment planning committee, comprised of the CEO and senior management team members, is accountable for managing an active risk budget for the entire portfolio within the active risk limit approved by the board of directors. The committee then allocates active risk to the investment departments to divide among various categories of actively managed investments. Active and total portfolio risk is measured daily and reported to the investment planning committee weekly and to the board of directors at least quarterly. Investment departments report their activities and performance to the investment planning committee monthly and to the board of directors at least quarterly.

In its business plan for each fiscal year, management indicates to the board of directors how it intends to allocate the active risk budget and the level of returns it expects to earn for these risk allocations. Management also provides the board with an estimate of the range within which the one-year active returns could exceed or fall short of the expected amounts. With this information, the board is able to measure, monitor and evaluate management's use of risk over the fiscal year relative to the business plan.

Although the new CPP Reference Portfolio has been developed using a broad range of long-term economic and market scenarios, it is fair to say that the degree of volatility in fiscal 2009 exceeded most organizations' risk parameters, including our own long-term risk parameters.

EXPANSION OF RISK MANAGEMENT CAPABILITIES

We continued to evolve our capabilities to measure, manage and report risk during fiscal 2009 and further clarified the accountabilities between those allocating risk and those monitoring it.

- The Portfolio Design and Investment Research (PDIR) department had previously provided the investment planning committee with guidance on risk management issues as well as independent oversight of the risk measurement and reporting function. As part of a larger organizational restructuring, the oversight responsibilities were transferred to the Investment Risk Management (IRM) group within the Treasury, Risk, Operations and Technology (TROT) department, creating clear separation between the allocation of risk and its monitoring. Where TROT is focused on the performance and risk of the CPP Fund's current holdings, PDIR is focused on medium- and long-term portfolio planning and the implications on portfolio design.
- The position of Vice-President, Portfolio Strategies was created within PDIR to work with the CPP Investment Board's investment professionals to identify emerging risk factors that should be integrated into our portfolio design.
- The position of Vice-President and Head of Investment Risk Management was created to consolidate risk measurement, monitoring and control functions within a dedicated team that has extensive knowledge of market and credit risk including counterparty risk. This group is part of TROT, ensuring that risk measurement, control and reporting are independent of the investment departments.

- To ensure appropriate oversight of the increased credit exposure being added to the portfolio, a Credit Committee chaired by the Chief Operations Officer was established with representation from all investment departments. Planning for this began some time ago, coincident with management's decision to broaden the CPP Fund's credit exposures. The Credit Committee advises the investment planning committee on the state of the credit markets, the total portfolio exposure to credit risk, and whether changes are warranted in our allocation of credit risk within the overall limits established by the board of directors. The committee is also responsible for reviewing new products and strategies that create credit risk. The committee approves the internal risk rating methodology that is applied to non-rated credit exposure and that is also used to augment the work of external rating agencies.
- We implemented new risk measurement software in fiscal 2009 that is more flexible and reliable than our previous application. This new system offers a wide range of statistics which provides a comprehensive view of market and credit risk measures and valuable insights into our risk management activities.

ENTERPRISE RISK MANAGEMENT

The CPP Investment Board's investment activities and business transactions expose the organization to a broad range of risks across the organization. The board of directors is responsible for ensuring that management has identified the principal risks and established the appropriate control environment to manage them. Internal and external auditors, in the course of executing their audit plans, provide input on the effectiveness of the organization's risk management practices.

Management has determined that the CPP Investment Board faces five principal risks. Comprehensive risk reviews for each of these were conducted during the year; results of these reviews were presented to the board of directors. We regularly monitor both internal and external events that could potentially create risks for the organization and continually modify our processes and practices to ensure that we operate in a well-controlled and risk-conscious manner.

Building on the risk reviews, we are now developing an integrated Enterprise Risk Management framework that will incorporate current risk management practices embedded throughout the organization.

Our framework will enable us to create a common terminology to discuss and mitigate our key risks. By continuing to embed and enhance risk management principles into the appropriate areas of the organization, we seek to avoid the practice of continually layering on new procedures. We believe our streamlined approach will facilitate consistency and promote communication across various departments and further integrate a risk management mindset within our culture.

STRATEGIC RISK

Strategic risk is the risk that an enterprise or particular business area will make inappropriate strategic choices or be unable to successfully implement selected strategies. At the CPP Investment Board, we employ a process involving all parts of the organization. Our strategy provides us with a three-year road map which is approved and reaffirmed by the board of directors annually.

We manage this risk by communicating our approved strategy to all employees and developing aligned business plans that are monitored on a regular basis by our senior management team. In addition, information on progress against the business plans is provided quarterly to our board of directors.

INVESTMENT RISK

Investment risk is the risk of loss inherent in achieving investment objectives, including market, credit, counterparty and liquidity risks that the CPP Investment Board encounters in its internally and externally managed portfolios.

Managing investment risk is a firm-wide, collaborative effort: PDIR provides thoughtful design of our investment portfolio; the investment departments select appropriate investments aligned with our strategy; IRM measures and monitors market and credit risk in our investments regularly for compliance to limits, and works proactively with the investment departments and PDIR to identify emerging investment risks. Our Risk/Return Accountability Framework requires our board of directors to approve an active risk limit, and management to work to maximize our active returns within this limit. Separation of duties further enhances the system of checks and balances. We have rigorous cross-functional processes to ensure investment decisions are appropriate and that they are monitored and measured independently using established benchmarks and practices. For example, PDIR is responsible for recommending investment departments' risk budgets to the Investment Planning Committee (IPC); the investment departments for executing appropriate transactions within those risk budgets; and Investment Risk Management group within TROT for monitoring and reporting results versus the departments' risk budgets to the investment planning committee.

LEGISLATIVE AND REGULATORY RISK

Legislative and regulatory risk is the risk of loss due to non-compliance with applicable law including regulations, rules and mandatory industry practices. As we increasingly become a global investor, it is important that we adhere not only to laws and regulations within Canada but also in all other jurisdictions in which we transact.

We manage this risk by employing a rigorous compliance management framework. The framework has been designed to promote accountability and proactivity in managing legislative and regulatory risk throughout the organization including our international offices. We have robust practices in place which include oversight by our Legal department and input from external legal counsel to ensure completeness and accuracy in complying with all relevant law.

OPERATIONAL RISK

Operational risk is the risk of loss from inadequate or failed internal processes, people or systems, or from external factors. Over the past few years, the organization has experienced significant growth in the number of employees and the number and complexity of investment programs and securities which in turn have influenced the technology solutions we employ.

Fundamental to managing operational risk is ensuring that we hire the right resources to meet our business requirements. It is also important that we foster a culture consistent with our risk management mindset and that we align our compensation framework such that we promote behaviour consistent with our mandate. We foster accountability and effective decision-making through our various management and board committees. In addition, we manage operational risk through various activities focused on internal control that include internal audit reviews and the attestation work performed as part of our CEO/CFO certification of internal control over financial reporting.

The CPP Investment Board employs a disciplined and rigorous approach when implementing new technologies and our operational risk activities also include a business continuity program that defines responses to any business interruptions at the CPP Investment Board.

REPUTATION RISK

Reputation risk is the risk of loss of reputation, credibility or image due to internal or external factors. Reputation risk can arise from a number of events and is often related to the management of other risks, such as operational, investment and legislative and regulatory risks.

The CPP Investment Board has established a culture based on strong ethics which guides all of our decisions and activities. Our guiding principles clearly communicate the standards of conduct with which our employees must abide. We have adopted a comprehensive code of conduct which, as an example, requires all employees and directors to disclose any personal trading or business interests that might lead to a real, potential or perceived conflict of interest or result in personal benefit. We require all employees and directors to certify semi-annually their awareness and acknowledgement of the code and ongoing compliance with it. Furthermore we mandate that all employees complete an online training module semi-annually to confirm their understanding of our code and ability to apply it in their day-to-day activities.

Key Performance Drivers

The previous discussion of mandate, investment context and strategy can be summarized in terms of four critical factors that drive the activities and performance of the CPP Investment Board:

Focused Mandate: Our sole mission is to contribute to the long-term sustainability of the CPP by investing its assets globally with a view to earning a maximum rate of return without undue risk of loss.

Governance: We are publicly accountable to the federal and provincial finance ministers who act as stewards of the CPP, while operating as an independent professional investment manager in the private sector and at arm's length from governments. Our governance platform has been praised as a model by, among others: the International Monetary Fund as a best practices model for professional investment organizations and the World Bank and the Organization for Economic Co-operation and Development.

Long-Term, Total Portfolio Risk/Return Management: The CPP Fund is managed as one cohesive portfolio to create investment value above a clear benchmark that directly reflects our mission. The Fund's size and multi-generational mandate allow us to function as a long-term strategic investor.

People and Culture: We have recruited talented and experienced individuals from around the world who are committed to building an investment organization that is internationally respected for its performance, capabilities and ethical conduct. We strive to ensure that our people understand and act in accordance with our mission to help secure the pension benefits of generations of Canadians.

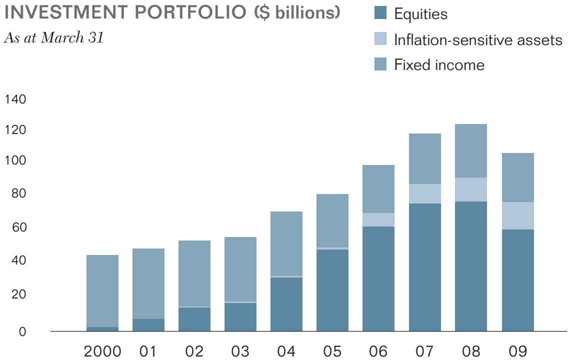
Performance

THE CPP FUND

The CPP Fund totalled $105.5 billion at March 31, 2009, versus $122.7 billion at March 31, 2008. The year-over-year decline of $17.2 billion includes operating expenses of $0.2 billion. Inflows consisted of $6.6 billion in CPP contributions and $20 million earned by the Cash for Benefits portfolio which provides a cash management program for the CPP.

The CPP Fund has grown by $60.8 billion since fiscal 1999, when we began our investing operations. This cumulative growth consists of $23.8 billion of investment income net of operating expenses and $37.0 billion of excess CPP contributions.

INVESTMENT PORTFOLIO ($ billions)
As at March 31



Despite the steepest decline of the Fund since inception, the Fund's long investment horizon, steady cash inflows and broadly diversified portfolio position it well to generate the longer-term results necessary to deliver on our mandate of helping to pay pensions for decades and generations. At the same time, because the portfolio is not being used to help pay pensions today, it will be another 11 years before a small portion of the CPP Fund's investment income will be required for this purpose. Beyond that time, the CPP Fund will continue to grow for decades to come and according to the latest report of the Chief Actuary of Canada, released in 2007, payouts from the CPP Fund are then projected to amount to less than two per cent of the Fund's total assets until 2030 and remain at just over two per cent for the rest of the report's 75-year projection period. The Chief Actuary has reaffirmed the conclusion in his 2007 report that the CPP is sustainable throughout the 75-year time frame of that report; the Chief Actuary will publish a new projection for the CPP in 2010.

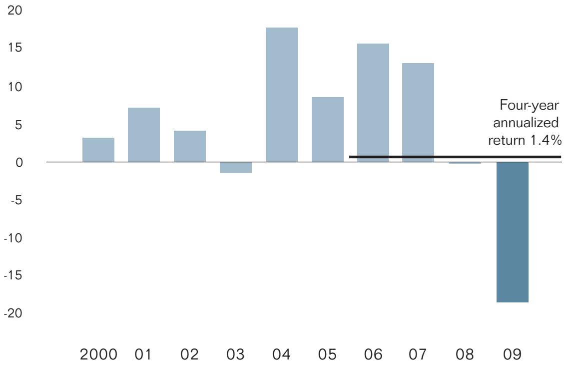
PERFORMANCE OF THE INVESTMENT PORTFOLIO OF THE CPP FUND

This section reports on the performance of the investment portfolio of the CPP Fund which consists of the assets within the Canada Pension Plan not needed to pay current CPP benefits. Later, on page 48, we report on the short-term Cash for Benefits portfolio.

Amid what is commonly described as the worst global financial crisis since the Great Depression, in fiscal 2009 the CPP Investment Board experienced the first substantial decline since it began its investing operations 10 years ago. The aforementioned $17.2 billion decline in the value of the CPP Fund represents primarily a return of negative 18.62 per cent, compared with a return of negative 0.29 per cent for fiscal 2008.

RATE OF RETURN (%)

For the year ended March 31



The primary factor affecting performance in fiscal 2009 was the sharp decline in the global equity markets that began in late 2008 and continued into the last quarter of our fiscal year. By the time our fiscal year closed on March 31, 2009, the S&P/TSX Composite Index had lost 34.7 per cent of its value over the 12-month period and, globally, public equity markets had also registered historic losses with the S&P 500 down 39.7 per cent, the FTSE down 31.1 per cent, the DAX declining 37.5 per cent and the Nikkei 225 dropping 35.3 per cent from their levels a year earlier. Some of the most significant declines occurred in the first three months of calendar 2009 (the last quarter of our fiscal year) which saw the S&P 500 decline to lows not seen since the 1990s. The weakness in the public equity markets impacted the CPP Fund, which held 44.0 per cent of its assets in public equities at fiscal year end.

As a global recession set in, weak economic fundamentals negatively affected the overall investment portfolio and resulted in lower valuations across several of the CPP Fund's asset classes at fiscal year end. The Fund's public equity portfolio reflected the performance of the global public equity markets and experienced the sharpest negative returns during the fiscal year at negative 31.0 per cent. Private equity holdings, which are highly correlated with public markets, also experienced significant declines but at negative 17.2 per cent performed better overall than public equities. In the real estate portfolio, the impact of the recession was seen in lower prices for commercial real estate which consequently led to a negative return of

14.0 per cent. Our infrastructure assets tend to be less affected by market forces and generated relatively stable revenues to offset lower valuations. However, in fiscal 2009, even this asset class reported a modest negative return of 5.0 per cent.

The Fund benefited from its fixed income allocation as an investor flight to safety increased the price of government bonds. Non-marketable government bonds comprise most of our fixed income holdings which we carry at market value. Fixed income assets (excluding other debt) earned a return of 5.4 per cent for the year.

Tracking the 12 months of the CPP Fund's fiscal year against the cascading economic events is helpful in understanding fund performance. Although our first fiscal quarter was positive, the credit crisis, which began in 2007, gained momentum by the summer of 2008, following the failure of Lehman Brothers and the near-failure of other financial institutions in the United States and globally. By our second quarter, those stresses had spread to the stock markets and, in the period from September to November, world stock and commodities markets experienced their sharpest declines in decades. During our third quarter, from October to December 2008, Canada's S&P/TSX Composite Index dropped 23.5 per cent while, globally, the S&P 500 declined 22.5 per cent, the FTSE was down 9.6 per cent and the DAX and Nikkei dropped 17.5 per cent and 21.3 per cent, respectively.

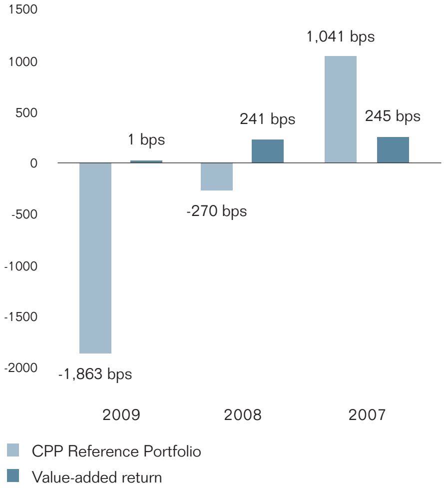
Our fourth quarter – the first three months of calendar 2009 – brought no relief as stock markets remained under strong downward pressure from the deepening worldwide recession and continuation of the global credit crisis despite a modest rally in the latter half of March 2009.

The impact of foreign public equity declines on the portfolio was partially offset by the currency effect of a declining Canadian dollar, which ended fiscal 2009 at US$0.79 – down 18.4 per cent over the 12-month period. As part of our long-term strategy, we maintain a strategic, unhedged exposure to foreign currencies through our 50 per cent allocation to public and private foreign equities. The dollar's decline increased the return on these foreign holdings when those returns were expressed in Canadian currency. This favourable result contrasts with fiscal 2008, when the Canadian dollar increased sharply in value and our policy of not hedging our foreign equity holdings had a negative impact. As noted on page 19, our investment strategy is based on a long-term horizon and our belief that over the long term, the cost of currency hedging outweighs the potential benefits.

The CPP Fund returns chart identifies the performance of key CPP Fund asset classes in fiscal 2009 as compared to 2008. Further explanation is provided in the investment department sections.

CPP FUND VALUE-ADDED RETURNS

For the year ended March 31



LONG-TERM PERFORMANCE

While each individual fiscal year's results are important, the CPP Investment Board focuses on longer-term performance, which corresponds with its mandate to help pay pensions for decades and generations. The board-approved compensation framework underscores the importance of longer-term assessment by incorporating performance over rolling four-year periods. We therefore report our four-year results together with returns in any given one-year period. For our last four fiscal years, the return earned on investments was 15.5 per cent in fiscal 2006, 12.9 per cent in 2007, negative 0.29 per cent in 2008, and negative 18.62 per cent in 2009 for an annualized return of 1.4 per cent over that period and an aggregate $2.3 billion of investment income. The 10-year annualized investment return since the CPP Investment Board began investing operations is 4.3 per cent or $24.2 billion of investment income.

An average 4.2 per cent real (after inflation) return is required over the long term to help support the Chief Actuary's 75-year projection of CPP cash flows. Given that this is a long-term average return, it is expected that in some years, the investment return will be above 4.2 per cent and in some years below. For example, during the period 2004 through 2006 the investment earnings of the CPP Fund were almost twice the amount anticipated in the preceding actuarial report. In the 10 years since the CPP Investment Board began investing, returns for the CPP Fund in all four-year periods prior to fiscal 2009 exceeded the 4.2 per cent real rate of return. Such periods of over performance provide the CPP with an increased pool of assets and the capacity to absorb future periods of underperformance such as we have recently experienced.

The CPP Fund differs substantially from employer and public pension plans that are fully funded. By design, the CPP Investment Portfolio is not intended to fully finance CPP benefits; instead, incoming contributions from employees and employers are the main source of funds to pay benefits. Representing no more than 25 per cent of net liabilities, the investment portfolio only partially pre-funds future benefits, providing a buffer against unwanted changes in the event that economic and demographic assumptions in the 75-year CPP actuarial projection do not prove to be as favourable as projected.

According to the latest report by the Chief Actuary, in 2007, CPP contributions are projected to exceed the amount required to pay benefits for 11 more years, meaning that the Fund will continue to receive net cash inflows for many years. In addition, the assets are not subject to investor withdrawals or redemptions. Unlike many other investors who have had to liquidate assets at distressed prices, we have not been forced to sell assets. The long investment horizon of the CPP Fund and the relative certainty of positive cash inflows from the CPP over the next decade mean the CPP Investment Board is very well positioned to acquire attractive assets across all asset classes at advantageous prices that can generate significant long-term value in the future. We have the investment capital and capabilities, internally and through our external partners, to act swiftly if necessary. However, we expect markets to remain difficult for some time and will continue to be diligent, disciplined and thorough in our analysis of risk and return for every investment opportunity we assess.

VALUE-ADDED RETURN

In fiscal 2009, the return of the CPP Fund essentially matched the CPP Reference Portfolio benchmark adding one basis point above the benchmark which is a passive portfolio comprised of established broad market indices. The CPP Fund's actual return was negative 18.62 per cent or negative $23.6 billion.

The value-added performance was below our fiscal 2009 cost of managing the entire portfolio which totalled $189 million or 16.1 basis points. Over the three years since the CPP Reference Portfolio was established as our key total fund benchmark, we have generated 487 basis points in cumulative value-added returns representing approximately $5.3 billion in additional investment income. This equates to an average annual value-added return of 162 basis points over this period. As previously mentioned, the CPP Investment Board is a long-term investor and focuses on value-added returns over four-year periods rather than a one-year period.

Fiscal 2010 will provide a fourth year of comparative results and for that year and thereafter, we will report our performance over rolling four-year periods. This emphasis on the long term means that there may be certain years where value-added returns may underperform the CPP Reference Portfolio.

CPP FUND RETURNS[1]

Asset Class	**Fiscal 09**	Fiscal 08
Canadian public equities	**-32.3%**	3.2%
Canadian private equities	**-7.8%**	2.2%
Foreign public developed market equities	**-29.7%**	-13.9%
Foreign private developed market equities	**-17.8%**	8.5%
Public emerging market equities	**-32.6%**	N/A[2]
Private emerging market equities	**-13.7%**	N/A[3]
Bonds and money market securities	**5.4%**	6.9%
Other debt	**-30.3%**	0.3%
Public real estate	**-43.7%**	-24.2%
Private real estate	**-14.0%**	8.2%
Inflation-linked bonds	**-0.6%**	9.3%
Infrastructure	**-5.0%**	23.6%
Total CPP Fund	**-18.62%**	-0.29%

[1] Investment results by asset class are reported on an unhedged Canadian dollar basis, since any hedging takes place at the total CPP Fund level. Results are reported on a time-weighted basis.

[2] Included within foreign public developed market equities.

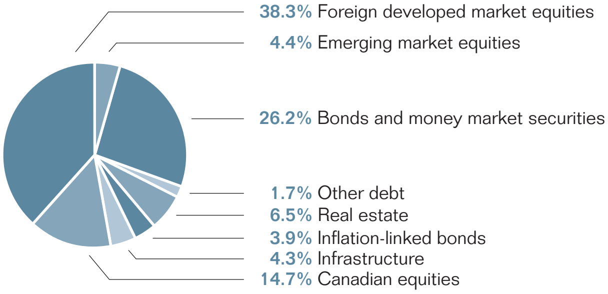
[3] Included within foreign private developed market equities.

Management compensation operates on a pay-for-performance approach that links a significant portion of compensation to the value-added return above the CPP Reference Portfolio benchmark, as well as to absolute fund returns. The calculations take into account performance over rolling four-year cycles, so that, for example, fiscal 2009's negative total fund returns will have an impact on compensation through the end of fiscal 2012. Incentive compensation is based on the incremental value-added after recovering the organization's costs. A more detailed discussion of management compensation can be found on page 54 in the Compensation Discussion and Analysis section.

ASSET MIX

ASSET MIX

As at March 31, 2009



Consistent with our investment strategy, we have continued to diversify the portfolio by risk/return characteristics, asset class and geography. While Canadian assets remain a significant part of the portfolio, as the CPP Fund grows, an increasing portion will be invested internationally and the Canadian portion of the Fund will decrease over time. At fiscal 2009 year end, Canadian assets totalled $48 billion or 45.5 per cent of the portfolio.

In aggregate, equities totalled $60.6 billion or 57.4 per cent of the portfolio, versus 65 per cent in the CPP Reference Portfolio. This consisted of public equities valued at $46.5 billion or 44.0 per cent of the total portfolio plus private equities valued at $14.1 billion or 13.4 per cent. Public equities decreased by $17.2 billion in fiscal 2009 from $63.7 billion in fiscal 2008 due to global market declines. Private equities grew by $0.7 billion from the previous year including both drawdowns from fund investments and new principal investments of $4.4 billion.

Canadian equities accounted for $15.6 billion or 14.7 per cent of the portfolio versus a 15 per cent Canadian equities weighting in the CPP Reference Portfolio. This consisted of Canadian public equities, which accounted for $14.8 billion or 14.0 per cent, and Canadian private equities accounting for $0.8 billion or 0.7 per cent.

Foreign equities accounted for $45.0 billion or 42.7 per cent of the portfolio, versus a 50 per cent weighting in the CPP Reference Portfolio. Foreign equities consisted primarily of foreign developed market public equities valued at $27.3 billion or 25.9 per cent, foreign developed market private equities valued at $13.1 billion or 12.4 per cent, as well as emerging market public equities valued at $4.4 billion or 4.2 per cent. We continued to increase the CPP Fund's global exposure measured in both absolute dollars and as a portfolio percentage.

Fixed income totalled $29.4 billion or 27.9 per cent of the portfolio, versus 30 per cent in the CPP Reference Portfolio. The Fund's fixed income holdings were comprised primarily of non-marketable government bonds and money market securities, but also included $6.1 billion or 5.8 per cent in marketable nominal government bonds, corporate bonds and other debt.

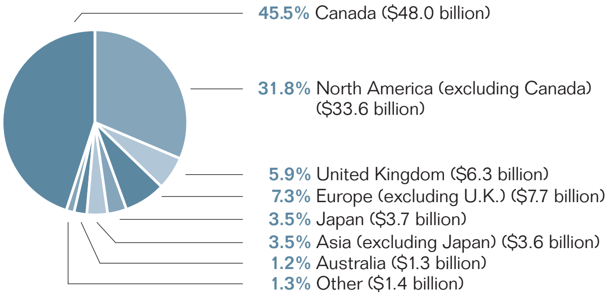
The non-marketable Canadian government bonds are carried at fair value and their total value at March 31, 2009 was $22.7 billion or 21.5 per cent of the portfolio. The geographic and maturity distributions are shown on our website. These bonds constitute the legacy assets of the CPP that existed at the time of the creation of the CPP Investment Board, or the rollover of such legacy bonds. Provincial bonds issued prior to 1998 have rights which allow them to be rolled over for another 20 years at then-current market interest rates. In lieu of these statutory rollover rights, the provinces may issue replacement bonds containing rollover provisions for terms of between five and 30 years. All bonds held are redeemable at the option of the issuer.

Absolute return strategies, commonly known as hedge funds, represented $1.8 billion or 1.7 per cent of the portfolio.

Inflation-sensitive assets represented $15.6 billion or 14.7 per cent of the portfolio, versus five per cent of the CPP Reference Portfolio. The Fund's inflation-sensitive assets were comprised of real estate valued at $6.9 billion or 6.5 per cent of the total portfolio, inflation-linked bonds valued at $4.1 billion or 3.9 per cent of the Fund, and infrastructure investments valued at $4.6 billion or 4.3 per cent of the total portfolio. Real estate and infrastructure assets are important for the CPP Fund because returns tend to be correlated with inflation over time. This characteristic makes them a good match for long-term CPP net liabilities, given that CPP benefits are indexed to inflation. These assets also tend to be a strong source of value-added returns above those of the CPP Reference Portfolio.

GLOBAL DIVERSIFICATION

As at March 31, 2009



CAPITALIZING ON OPPORTUNITIES

The CPP Investment Board's steady positive cash inflows for 11 more years and its long investment horizon enable it to capitalize on the current financial crisis by making both short- and long-term acquisitions at advantageous prices aimed at generating value over time. For example:

- Before the federal government announced its own mortgage purchase program in November, we purchased $4 billion of three-year mortgages from a major Canadian financial institution. The Canadian residential mortgages acquired by the CPP Fund essentially have Government of Canada credit risk because they are all insured by the federal Canada Mortgage and Housing Corporation (CMHC). Further, they carry no interest rate risk because they are floating rate mortgages. These mortgages will provide us with a substantially higher yield over a longer period of time than money market instruments. It was financed in part by redeploying capital from our short-term bank-sponsored asset-backed commercial paper (ABCP) program, which we entered opportunistically in 2007 to take advantage of dislocation in the markets. This program delivered significant added value without compromising security. Shifting money from bank-sponsored ABCP to CMHC-insured mortgages will enable the Fund to benefit from much wider spreads for a longer period at less risk. At year end we held $2.2 billion in bank-sponsored ABCP, down from $6 billion in December 2007. The CPP Investment Board has never held any non bank-sponsored ABCP.

- On November 19, 2008, we acted as the lead purchaser in a US$250 million ($310 million) private placement offering for Agnico-Eagle Mines Limited units. As the lead purchaser, we agreed to purchase any units not purchased by the other buyers. As consideration for this commitment, we were awarded lead purchaser warrants entitling us to the purchase of four million common shares of the company at a price of US$47.25 per share, at any time during the five-year term of the warrant. This commitment allowed Agnico-Eagle to successfully access the equity markets, which had been largely closed to mining companies since May 2008. This Agnico-Eagle transaction is an example of an opportunity resulting from reduced liquidity and risk capital in the market. Our size, scale and stable liquidity profile allowed us to step into what is traditionally a market intermediary service function and thereby capitalize on an attractive investment opportunity.
- We completed two notable principal secondaries transactions during the past year. Through a consortium led by Goldman Sachs Asset Management, we acquired an interest in a portfolio of 30 European buyout investments that will continue to be managed by Amsterdam-based AAC Capital Partners. We also acquired a portfolio of companies managed by CIVC, a Chicago-based fund which focuses on middle-market buyout, recapitalization and growth equity capital investments in North America.
- In late fiscal 2009, we initiated a debt issuance program that is meant to provide a cost-effective funding alternative for the CPP Investment Board. As the next logical step in the development of the portfolio, the debt program will assist in short-term cash management and create additional flexibility in funding long-term investments. Our initial plan is to issue $2 billion to $5 billion of short- to medium-term debt over a two-year period, subject to market conditions.
- On March 30, 2009, we announced an offer to acquire all of the stapled securities of Australian-based Macquarie Communications Infrastructure Group (MCG). In total, this offer and a related transaction to acquire the external management contract for MCG represent an investment by the CPP Investment Board of $1.7 billion. This transaction enables us to acquire a diversified portfolio of high-quality communication infrastructure assets in Australia and the U.K. with stable cash flows at an attractive valuation.

DISCIPLINED INVESTOR

As disciplined investors, our success is determined as much by the transactions we choose not to do as those that we complete. With elevated risks in capital markets, prudence and discipline have become even more important. While we have reviewed many investment opportunities, we have not felt compelled to complete transactions, choosing instead to act only when our analyses projected satisfactory risk-adjusted returns and when our due diligence requirements were met. This is evident in the reduced number of principal and real estate investments in fiscal 2009 compared to the previous year.

Our disciplined risk management program has led us to avoid investing in complex structures with serious hidden credit exposures such as non bank-sponsored ABCP, collateralized debt obligations and other opaque instruments. We also chose to maintain only a relatively low exposure to U.S. real estate in the past two years because we perceived that many properties were overvalued. As well, in September 2008, we decided to suspend our securities lending program. While in normal market conditions this is a low-risk way to add incremental value to a fund, heightened credit and counterparty risk had significantly altered the risk-return equation in our assessment.

As well, we declined multiple requests to participate in the recapitalization of a number of U.S. and European financial institutions, primarily because their balance sheets lacked transparency and their future business prospects were uncertain.

In the belief that markets were much riskier than our quantitative models indicated, we chose to increase our risk estimates for several of our active programs and reduce our position sizes. When we did proceed with a transaction, we were disciplined in all aspects of the investment. For example, in infrastructure, we ensured that we utilized only prudent levels of debts, that the investment was always solidly investment grade and that terms or durations would enable the business to operate without refinancing challenges.

Throughout, we adhered to our requisite due diligence, even though the market conditions presented numerous time-limited opportunities.

FACING CHALLENGES

As investment managers, our role is to take a prudent measure of risk in order to generate a corresponding return. After careful due diligence, we took measured risk on a wide range of active investments in fiscal 2009. While the majority of these investments delivered positive results, some did not. Even with rigorous diligence and risk management, a certain number of investments proved to be disappointing amidst the current global financial crisis. For a number of our private market holdings, our view is that mark-to-market values, which assume disposition now at depressed prices, do not reflect the longer-term value to the CPP Fund because we intend to hold those investments over a long time horizon.

Significant mark-to-market adjustments or write-downs this year include:

- In late fiscal 2008 and in fiscal 2009, we invested in leveraged loan investments through two funds in order to acquire senior secured debt associated with a number of leveraged buyouts at significant discounts to face value. The ongoing credit freeze has essentially made these loans illiquid and the value of our investment in these funds has been reduced significantly. We are able to continue to hold these loans and are confident they will deliver long-term risk-adjusted returns when held to maturity.
- In fiscal 2009, we made commitments to two distressed mortgage funds to take advantage of heavily discounted prices following the credit crisis. The ongoing financial downturn has also negatively impacted these funds with significant mark-to-market adjustments.
- After the credit crisis hit, we invested in a fund of distressed U.S. mortgages that employed a modest amount of leverage in acquiring commercial mortgage-backed securities (CMBS), but even modest leverage proved to be problematic when spreads widened dramatically in December 2008, as a number of large investors liquidated their CMBS positions. This fund has now been wound up and we have reflected a loss for this investment.
- Recent market conditions have adversely affected the current value of some of our real estate holdings, especially in the U.K. An example is our investment in two high-quality office towers in London. While current valuations on these properties have declined significantly, they are fully leased with long-term tenants and continue to generate income. Despite a volatile valuation climate, income generated from these properties remains stable and we fully expect them to deliver attractive returns for the CPP Fund above and beyond market cycles.

In fiscal 2010, we will continue to closely monitor the assets across the portfolio, particularly those assets in which we have invested through third party managers, in order to address issues promptly and minimize potential losses.

Investment Department Activities

The CPP Investment Board's investment departments each operate within an Investment Policy established by management's investment planning committee (IPC). There are three investment departments: Public Market Investments (PMI), Private Investments and Real Estate Investments. A fourth department, called Portfolio Design and Investment Research (PDIR), provides advice to the investment planning committee and helps to coordinate activities of the three investment departments within the context of our Total Portfolio Approach.

Under the Total Portfolio Approach, each investment department applies its specialized expertise to seek value-added returns. Their activities are then integrated to maintain the total portfolio's risk/return profile. Essentially, the CPP Fund's large passive public markets portfolio acts as a liquidity pool for the investment departments. An acquisition by one investment group is accompanied by the sale of an equivalent amount of passively managed securities with similar risk/return and currency attributes. This process enables us to optimize the diversification of the portfolio and increase active management without increasing active portfolio risk beyond acceptable levels.

Investment results by investment department are reported on an unhedged Canadian dollar basis as our currency hedging policies are managed at the total portfolio level.

INVESTMENT PLANNING COMMITTEE

As discussed in the Risk/Return Accountability framework section on page 23, each year the board of directors of the CPP Investment Board approves an active risk limit which restricts the expected degree to which the investment portfolio can vary from the CPP Reference Portfolio. This limit provides management flexibility without exposing assets to undue risk. Within the active risk limit, management's IPC establishes a risk budget for the total portfolio and the corresponding investment departments' active risk allocations.

This committee is chaired by the president and CEO, and includes the COO, the CFO and the senior vice-presidents in charge of Public Market Investments, Private Investments, Real Estate Investments, and PDIR.

As the working arm of the investment planning committee, PDIR is responsible for providing analysis, advice and recommendations on a host of total portfolio and active risk management issues. Under a reorganization that occurred in fiscal 2009, the Treasury, Risk, Operations and Technology (TROT) department, headed by the COO, is responsible for measuring and monitoring the active risk positions implemented by the investment departments and for providing a consolidated view of the total fund.

As discussed on page 23, a stronger emphasis on risk management led to significant strengthening in fiscal 2009 of the IPC's ability to measure, monitor and manage risk. The main drivers were the ability to realize a longstanding intention to create prudent separation between those deploying risk and those monitoring it, and the desire to make the IPC's agenda more forward looking.

In addition to allocating risk within the overall limit set by the board of directors, the IPC makes better beta decisions for the total fund, sets benchmarks designed to remove beta exposures from the investment department portfolios and also determines funding strategies for opportunistic investments. The decision to expand into a wider range of asset classes such as real estate, infrastructure and private equity generated value-added returns this year of 49 basis points or approximately $0.6 billion.

In addition, this committee may also decide to make investments having a significant alpha component, normally when the investment is beyond the mandate of any single investment department. The IPC is accountable for the leveraged loan and distressed mortgage investments made in fiscal 2008 as discussed on page 34. For fiscal 2009, value-added for investments attributable to the IPC were negative 101 basis points representing approximately negative $1.3 billion relative to its benchmark. We intend to continue to hold these investments and are convinced that they will create value over the long term.

In the aggregate, the investment decisions of the IPC realized a net value-added return of negative 52 basis points or approximately negative $0.7 billion.

PUBLIC MARKET INVESTMENTS

The Public Market Investments (PMI) department invests in all publicly-traded asset classes and in derivatives based upon these asset classes. Publicly-traded securities were adversely affected by negative market developments; consequently, this portfolio's return for fiscal 2009 was down considerably from the previous year. Public Market Investments experienced a return of negative 18.2 per cent or negative $17.9 billion compared to a return of negative 2.4 per cent or negative $2.4 billion in fiscal 2008. The annualized return for this portfolio over our four-year accountability period is 0.6 per cent.

For fiscal 2009, Public Market Investments generated value-added returns of 40 basis points representing approximately $0.5 billion relative to its benchmark. Value-added for the three years since we adopted the CPP Reference Portfolio totals 52 basis points representing approximately $0.6 billion of investment income.

Public equities returned negative 31.0 per cent or negative $19.4 billion in fiscal 2009 versus a return of negative 6.8 per cent or negative $4.6 billion for the year before.

The non-marketable legacy Canadian government bonds returned 7.8 per cent or $1.7 billion in fiscal 2009 versus 6.7 per cent or $1.5 billion for fiscal 2008. Marketable government bonds returned 6.6 per cent or $0.3 billion in fiscal 2009 versus 7.1 per cent or $0.5 billion for the prior year. Corporate bonds, introduced just before the year began, returned negative 9.2 per cent or negative $33.7 million.

Public Real Estate Investment Trusts (REITs) returned negative 43.7 per cent or negative $0.2 billion versus negative 24.2 per cent or negative $0.3 billion in fiscal 2008.

Inflation-linked bonds returned negative 0.6 per cent or negative $76 million versus 9.3 per cent or $376 million in fiscal 2008.

The department's most important objective for fiscal 2009 was to put in place the people, processes and capabilities that will enable PMI to significantly increase, broaden and expand its investment programs in fiscal 2010 and beyond. Progress was made on all fronts; notably, staffing of the department's senior management was substantially completed. Total regular full-time employees increased to 86 from 66. The most significant department-wide effort in fiscal 2010 will be ongoing development of a technology platform in which all decision-support tools and analytics are shared by all teams within the department. The intent is to better leverage our research and people and to embed in the organization knowledge that currently resides within individuals.

Our approach to investing in the public markets is to start with a passive exposure that can be managed internally in a very efficient, low-cost manner due to our scale, and then overlay a broad array of active strategies in pursuit of above-market returns, or alpha. This is done through five investment groups:

Global Capital Markets: This group is responsible for trading, liquidity, and index management, as well as event-driven and short-horizon value-added active programs across all publicly-traded products and asset classes. Its responsibilities include investing cash flows from CPP contributions as well as rebalancing the overall risk profile of the total portfolio. Derivatives are used to efficiently manage market exposure and liquidity by replicating the overall risk of the underlying market and to add incremental value to the total portfolio. We have a rigorous risk-based framework to manage our derivative exposure daily and this past year implemented an end-to-end software system that tracks all aspects of every derivative position from the time it is initiated to when it is closed. Further discussion on the use of derivatives is contained in note 2g to the Consolidated Financial Statements.

Global Capital Markets is the only group involved in passive as well as active investment management. The foundation of our public equity program is an investment in more than 2,900 public companies that largely replicates major market indices. While most of the portfolio is managed with a very long-term investment horizon, this group has also been assigned a short-horizon focus to manage liquidity and look for value-added opportunities.

This past year, Global Capital Markets executed the CMHC-backed mortgage purchase and Agnico-Eagle transaction as cited on pages 32 and 33.

Fiscal 2010 plans include continuing to extend equity execution capabilities to emerging markets, improving transaction cost reporting and introducing algorithms to reduce transaction costs and optimize trading.

External Portfolio Management: This team selects and manages our relationships with external managers that generate alpha returns through a variety of active mandates. We do not have an explicit portfolio allocation for hedge funds or absolute return strategies. Rather, we evaluate them on a case-by-case basis using the same risk/return investment criteria as other externally managed active strategies.

This past year we established emerging markets mandates with PanAgora Asset Management with a commitment of US$100 million ($99 million) which supports the CPP Investment Board's expansion into emerging markets.

Following a difficult fiscal 2008, our quantitative equity managers did well, and in some cases extremely well, in fiscal 2009. Such programs tend to perform best when valuation discrepancies are large, as is the case during periods of market dislocation.

Much of the team's effort in fiscal 2009 was devoted to matters adversely affected by the volatile market conditions. As examples, we reduced our exposure to strategies that use leverage and we severed certain partner relationships where we felt there was too much instability to generate strong value-added returns. This team will continue to monitor all external mandates very closely in this period of high market volatility.

At the end of fiscal 2009, investments in external funds from the Relationship Investments group were merged into the External Portfolio Management portfolio.

Global Corporate Securities: This group focuses on adding value through bottom-up security selection strategies in stocks and corporate bonds. The approach complements the work of our external managers as the Global Corporate Securities group focuses on a longer investment horizon. This group combines the best of quantitative and fundamental portfolio management disciplines.

In fiscal 2009, the group capitalized on extreme stock market volatility by implementing daily rebalancing. While index volatility was obvious with daily moves of five percentage points or more, less apparent was the even more extreme volatility among the individual companies that comprised the index. Daily rebalancing enabled us to capitalize on mispricings that occurred in such markets.

This group launched the active Japanese equity program cited in last year's annual report. In fiscal 2010, this group plans to launch an active long-short corporate credit program to complement the long-short equity programs.

Global Tactical Asset Allocation: This group employs top-down forecasting models to predict returns of various asset classes such as relative country returns in stock markets, bond markets and currencies. Similar to the Global Corporate Securities group, the Global Tactical Asset Allocation strategies are designed to complement those of our external partners by focusing on a longer time horizon.

As indicated in the 2008 annual report, this year the group launched an emerging markets currency program, implemented a tactical asset allocation program involving stock-bond-cash timing and developed an equity country selection program for implementation in fiscal 2010.

Relationship Investments: The Relationship Investments group is responsible for directly engaging with public companies with a primary objective of adding incremental value to the Public Market Investments portfolio. In fiscal 2009, their activities included capital deployment to generate value-added returns, as well as implementation of the CPP Investment Board's *Policy on Responsible Investing*, including proxy voting.

As with most other internal investment programs, the investment horizon for Relationship Investments is long term. This approach allows the CPP Investment Board to meaningfully engage companies on issues critical to long-term performance such as capital allocation and structure, strategy, executive compensation, and risk management. It also helps provide the stability that management and boards of public companies need to focus on creating long-term shareholder value.

During fiscal 2009, this group undertook its second co-investment and laid the groundwork for its first direct investment, expected to come to fruition in the new year. It also invested a total of $665 million in two externally managed funds: €300 million ($415 million) in Cevian Capital, a European large cap focused fund based in Sweden, and an incremental US$200 million ($250 million) investment in ValueAct Capital. The CPP Fund now has interests in six relationship investing funds run by external managers.

Late in fiscal 2009, Relationship Investments was re-organized to enable the team to focus on direct investment and to recognize the evolution of the program. The Fund investments will form the cornerstone of the fundamentally oriented external manager program and will be integrated into the overall External Portfolio Management portfolio. The re-organization also established the Responsible Investing program as a separate group within Public Market Investments.

POLICY ON RESPONSIBLE INVESTING

Consistent with our *Policy on Responsible Investing*, the CPP Investment Board believes that responsible behaviour with respect to environmental, social and governance (ESG) factors can generally have a positive influence on long-term corporate financial performance. We are pursuing our goal of encouraging corporate behaviour that enhances long-term financial performance through a policy of engagement. We believe that engagement is an effective strategy to encourage improved performance on and disclosure of ESG issues, particularly for large institutional investors with a long investment horizon like the CPP Investment Board. Given our belief that constraints decrease returns and/or increase risk over time, we do not screen stocks.

Our approach is consistent with the United Nations' *Principles for Responsible Investment* (UN PRI). The CPP Investment Board helped formulate and was one of the original signatories of the UN PRI in 2006. Today, the signatories to the UN PRI represent US$14 trillion in institutional investor assets.

In addition to the UN PRI, we participate in a number of organizations and collaborative initiatives to strengthen our voice in regard to responsible investing issues. We have taken a leadership role in several, including the Canadian Coalition for Good Governance and the Carbon Disclosure Project. We also belong to the Council of Institutional Investors, the Extractive Industries Transparency Initiative, the International Corporate Governance Network and the Pension Investment Association of Canada.

Within our *Policy on Responsible Investing*, the CPP Investment Board is guided by three core elements. The first is engagement with companies in the portfolio through proxy voting, working with investor coalitions, and direct communication with managements and boards. Second, we seek improved research into the long-term materiality of ESG factors. Finally, we aim to integrate ESG factors into our investment processes.

As part of our strategy to broadly diversify the portfolio, the CPP Investment Board invests in more than 2,900 public companies around the world, including more than 600 in Canada. At present, the public equity portion of the CPP Fund typically represents ownership of approximately 1.4 per cent of outstanding shares in Canadian and 0.11 per cent of outstanding shares in international public companies.

The CPP Investment Board undertakes an annual portfolio review of the Fund's public equity holdings to identify companies and issues for engagement, using internal analysis and third party research on ESG factors. We engage with companies on issues that we believe have the potential to affect investment risk and return. Currently, our engagement activities focus on three areas: climate change, extractive industries (oil, gas and mining) and executive compensation.

In fiscal 2009 we published our first annual *Report on Responsible Investing*, which features expanded disclosure of our proxy voting and also discusses our corporate engagement activities. This report is available through the Responsible Investing section of our website at www.cppib.ca.

PRIVATE INVESTMENTS

The Private Investments department invests in private equity and infrastructure and, during this past year, began investing in private debt. Having private investment capabilities allows us to access very large markets that are not accessible to public market investors and also enables us to capture the premium for illiquidity that these markets offer to long-term, patient investors.

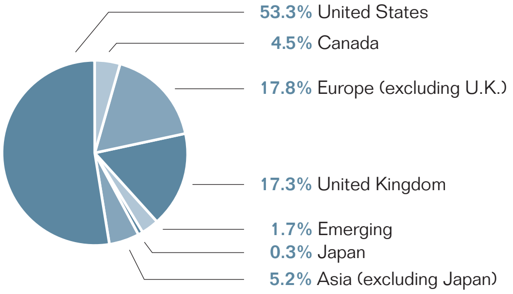
PERFORMANCE

The assets managed by this department are primarily invested in private equities, which had an unhedged, time-weighted return of negative 17.2 per cent representing negative $2.9 billion for fiscal 2009, compared with 8.2 per cent or $1.0 billion in fiscal 2008. Infrastructure investments earned an unhedged, time-weighted return of negative 5.0 per cent or negative $155 million versus 23.6 per cent or $524 million for the prior year. The annualized time-weighted returns over our four-year accountability period were 9.3 per cent for private equities and 8.0 per cent for infrastructure.

For fiscal 2009, the Private Investments department's value-added returns of 88 basis points represented approximately $1.1 billion relative to its benchmark. Value-added for the three years since we adopted the CPP Reference Portfolio totals 415 basis points representing approximately $4.8 billion of investment income.

In total, the Private Investments department invested or committed a total of $9.3 billion in fiscal 2009 versus $9.5 billion the year before.

PRIVATE INVESTMENTS – GEOGRAPHIC DIVERSIFICATION
As at March 31, 2009



OVERVIEW

The global credit crisis and resulting global economic recession had a significant impact on the Private Investments portfolio during fiscal 2009, making it difficult in some cases to execute new transactions and recapitalize existing investments. As a result of the financial crisis, this year we dedicated greater time and effort in portfolio monitoring and oversight.

In fiscal 2009, there was a significant decline in the value of the private equity portfolio, which, although always correlated to public markets, has been more volatile in recent times. This fact is primarily due to the adoption of stricter fair value accounting practices by our private equity fund managers, who often look to public market comparables as an indicator of fair value. For a number of our private market holdings, our view is that mark-to-market values, which assume disposition now at depressed prices, do not reflect the longer-term value to the CPP Fund because we intend to hold those investments over a long time horizon.

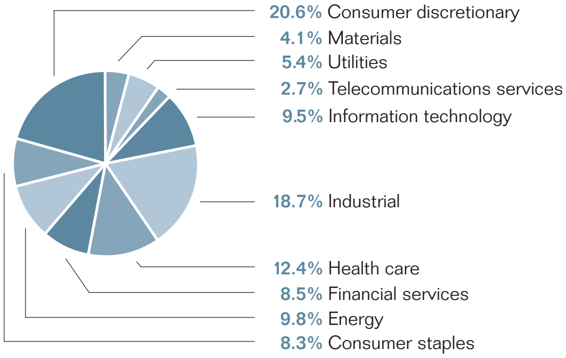
Given their stable return profile, the portfolio's infrastructure asset valuations were much less volatile, experiencing only a modest decline in value relative to the prior year.

Despite challenging market conditions in fiscal 2009, our advantages as a long-term investor with certainty of cash inflows, positioned us well to capitalize on attractive opportunities in the marketplace. We will continue to pursue investment opportunities in fiscal 2010 and will maintain a prudent and disciplined approach as we assess new opportunities.

Finally, we continued to strengthen the capabilities within the department which grew from 55 to 80 regular full-time employees in fiscal 2009. This total includes building the Private Investments teams in our London and Hong Kong offices where we now have eight and two Private Investments regular full-time employees, respectively. Our presence in Europe and Asia has enabled us to strengthen and build long-term relationships with partners in these regions, to gain better access to new investment opportunities and to better manage and monitor our existing assets by having local teams on the ground. We will continue to expand our presence in European and Asian markets in fiscal 2010, and will focus on India as a new target market.

PRIVATE EQUITY INVESTMENTS BY SECTOR

As at March 31, 2009



The Private Investments department operates in four investment groups.

Funds and Secondaries: This is the oldest and largest segment of our private investing activities. This group invests in a variety of private equity funds and is also a principal investor in the secondaries market, which involves acquiring private equity interests from other institutional investors or financial institutions. The Funds and Secondaries portfolio now consists of investments with a combined carrying value of $11.2 billion compared to $10.2 billion at the end of fiscal 2008.

The funds portion of the portfolio increased to $9.7 billion from $9.1 billion in fiscal 2008. This year, we committed a total of $5.8 billion to 15 new funds, down from the $6.7 billion committed in fiscal 2008. The majority of new commitments were made in the first half of the year as fundraising activity declined significantly in the latter half. New commitments included the establishment of six new fund manager relationships: Charterhouse Capital Partners, Hony Capital, MBK Partners, Quantum Energy Partners, Riverstone and Triton. In total, we ended the year with commitments to 114 funds with 61 managers, up from 99 funds with 55 managers at the end of fiscal 2008.

During the year, existing investments returned $0.6 billion through distributions, net of carried-interest incentive payments to our fund managers, a significant decrease compared to last year. These distributions were offset by fund draw downs of $3.1 billion, including the payment of management fees to our fund managers.

The focus of the funds team during the year was on geographic expansion and specialized mid-market funds in North America. Also, as the fundraising market contracted in the latter half of the year, the team devoted more efforts to portfolio monitoring and preserving the value of existing holdings. As one of the largest investors in each of our funds, we continue to work closely with our fund managers to ensure portfolio companies are able to weather the economic downturn and are well positioned for growth as the markets recover.

The secondaries portion of the portfolio was an area of strategic focus and significant expansion during fiscal 2009. We ended the year with four investment professionals dedicated to this strategy and a portfolio carrying value of $1.6 billion compared to $1.2 billion at the end of fiscal 2008 and with new investments of $0.5 billion for the year. We expect considerable secondary market activity in the coming year, as investors seeking liquidity are compelled to sell private equity assets at attractive prices. As a long-term investor with a favourable liquidity position, we intend to take advantage of this market activity, particularly when we see assets that can be purchased below their intrinsic value because of vendors' financial distress or requirement for immediate near-term liquidity.

Among the significant Funds and Secondaries activities this year:

- We committed a total of US$450 million ($564 million) in three Asian funds including a US$200 million ($247 million) commitment to MBK Partners Fund II, L.P. which focuses on investment opportunities in Korea, China and Japan; a US$75 million ($92 million) to Hony Capital Fund 2008, L.P. which focuses on the buyout of state-owned enterprises and growth capital investments in China; and a US$175 million ($225 million) investment in CITIC II.
- We made commitments to several specialized and mid-market funds focused on the energy sector in North America, including a US$200 million ($241 million) commitment to Riverstone/Carlyle Global Energy and Power Fund IV and US$200 million ($247 million) to Quantum Energy Partners V, L.P. We also made a second commitment of US$500 million ($598 million) to First Reserve Fund XII.
- We invested and committed more than $400 million in a number of principal secondary transactions during the year, some of which included a new primary commitment. Two notable secondary transactions include acquiring an interest in a portfolio of European buyout investments and investing in a portfolio of investments managed by Chicago-based CIVC Fund which focuses on middle-market buyout, recapitalization and growth equity capital investments in North America.

Principal Investing: This group invests directly in private companies, generally alongside our external private equity fund partners. At the end of fiscal 2009, we have 33 principal investments valued at $2.9 billion.

While the global financial crisis this year made for a challenging environment to complete transactions, the team closed two material new investments in fiscal 2009. We invested US$200 million ($214 million) to acquire a direct interest in CHC Helicopter Corporation, and we invested US$166 million ($170 million) in Clear Channel.

Despite write-downs for a number of assets during the year, the Principal Investing portfolio is well diversified across geography and industry sectors. Given that under the CPP Investment Board's Total Portfolio Approach we fund our private equity investments by selling public equities, we still performed in line with the public market alternative despite some significant challenges faced in fiscal 2009. Unprecedented declines in the housing, auto, and consumer products sectors have impacted a number of our portfolio companies. However, several companies, such as value retailer Dollar General and the U.K. pharmacy chain Alliance Boots, have delivered strong performance in the current environment, as these types of businesses tend to be more resilient in an economic downturn.

Monitoring of existing portfolio companies alongside our fund partners was a significant focus for the Principal Investing team during the past year, and we expect to be very active on this front again in fiscal 2010. We also maintained a disciplined approach in considering potential investment transactions. During fiscal 2009, we assessed 146 opportunities but chose not to act on them because they did not meet our risk/return criteria. In addition, as companies struggle to raise capital for refinancing or future expansion, we feel that the coming year will provide many attractive opportunities for long-term, well-capitalized investors like the CPP Investment Board.

Infrastructure: Created in late fiscal 2006, the Infrastructure group continues to seek assets that operate in strong regulatory environments and have relatively low technology replacement risk and minimal substitution risk. Examples include utilities, electrical transmission and distribution systems, gas transmission and distribution systems, water and sewage companies, and certain transportation assets, such as toll roads, bridges and tunnels, airports and ports. The infrastructure portfolio now consists of eight direct investments located in six countries and two fund investments. The total carrying value of the portfolio is $4.6 billion, up from $2.8 billion at the end of fiscal 2008.

Two direct investments were added to the portfolio this past year. We acquired a 14.2 per cent ownership of Australia's Transurban Group for AUD$1 billion ($977 million); Transurban builds and operates toll roads in Australia and the United States. We also closed the US$931 million ($1.1 billion) purchase of a 28.1 per cent interest in Puget Energy, Inc. which received regulatory approval in December 2008. Puget Energy is the oldest and largest energy utility company in Washington State.

On March 30, 2009, we announced an offer to acquire all of the stapled securities of Australia-based Macquarie Communications Infrastructure Group (MCG). In total, this offer and a related transaction to acquire the external management contract for MCG represent an investment by the CPP Investment Board of $1.7 billion. This transaction enables us to acquire a diversified portfolio of high-quality communication infrastructure assets in Australia and the U.K. with stable cash flows at an attractive valuation. The offer is subject to approval by MCG's stapled security holders in the first quarter of fiscal 2010.

This transaction is a good example of the types of attractive opportunities arising from the current economic conditions for investors like the CPP Investment Board that have a long investment horizon and strong liquidity position. The Infrastructure team is seeing an increasing number of similar opportunities to acquire high-quality infrastructure assets at advantageous valuations and will pursue these opportunities with a prudent and disciplined approach.

As we continue to expand our infrastructure portfolio, our structural advantages position us well to meet this sector's need for large, long-term capital commitments. With governments in Canada, the U.S. and elsewhere around the world embracing infrastructure projects as a top priority and a key strategy for providing economic stimulus, the CPP Investment Board continues to recognize the potential of infrastructure assets to provide attractive long-term returns to the prudent investor. We will continue to pursue infrastructure investment opportunities globally and in Canada that meet our investment criteria for scale, stable cash flow and a predictable regulatory environment. To the extent that governments embrace public-private funding models and establish a solid and transparent legal, regulatory and policy framework, we believe that we are one of a small number of investors with the capital and capabilities required to participate in potential large-scale opportunities.

Private Debt: During fiscal 2009, we established a multi-faceted private debt program as cited in last year's annual report. This year we successfully built the Private Debt team including the recruitment of a new vice-president along with nine investment professionals. We expect to hire seven additional team members in fiscal 2010, including the establishment of a private debt presence within our London office.

The Private Debt team's objective is to participate in unique event-driven opportunities such as acquisitions, refinancings, restructurings and recapitalizations. The group is focused on making direct corporate investments in leveraged loans, private high-yield bonds, mezzanine and other debt solutions with primary focus on the North American and European markets. We completed our initial investments by this team during fiscal 2009 and anticipate significantly increased activity in the coming year.

REAL ESTATE INVESTMENTS

The objective of the Real Estate Investments department is to build a portfolio that will deliver stable returns and retain its relative value across multiple business cycles. Over the past four years, this department has established a sizable portfolio of high-quality office, retail and industrial properties in North America, Europe and Asia. Holdings are diversified not only by investment style (core, value-add and opportunistic) but also by geography and sector in order to maximize risk-adjusted returns.

Real estate markets suffered heavily this past year due to the financial crisis as lack of capital and lack of economic activity caused both consumers and businesses to retrench. Traditional capital sources have become constrained, especially in the U.S. and the U.K., and pricing and valuations of assets have declined, which have negatively impacted our portfolio. For example, in the U.K. market, we are invested in properties whose values have decreased significantly even though they continue to generate stable income, since they are fully leased over the long term with secure tenants. Thus, while there is a decline in valuation due to current market conditions, we remain confident in the long-term value of these assets.

Amidst this environment of uncertainty, our Real Estate Investments group reviewed and evaluated a significant number of investment opportunities this past year. While our Americas and International teams participated in several attractive investment opportunities arising from the economic downturn, in most instances, we decided not to transact because they did not meet our investment criteria for risk-adjusted returns. This was in large part because of the ongoing volatility in pricing valuations which we believe will eventually stabilize. In fiscal 2010, we expect our pipeline of opportunities to remain full and we will maintain our prudent and disciplined investment approach. Our advantages of a long investment horizon and strong liquidity position mean we can be patient investors. Despite the difficult short-term environment in real estate markets, we believe we are well positioned for the future to capitalize on attractive real estate opportunities at advantageous valuations.

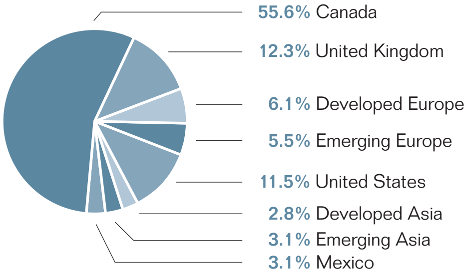
For fiscal 2009, the department had a return of negative 14.0 per cent or negative $1.1 billion, compared to a return of 8.1 per cent or $0.5 billion in fiscal 2008. The four-year annualized return is 9.7 per cent. For fiscal 2009, value-added returns for Real Estate Investments were negative 75 basis points, representing approximately negative $0.9 billion relative to its benchmark. Value-added for the three years since we adopted the CPP Reference Portfolio totals negative 43 basis points, representing approximately negative $0.6 billion of investment income.

Net real estate assets, comprised of the private assets administered by Real Estate Investments and the REIT portfolio administered by Public Market Investments, totalled $6.9 billion at the end of fiscal 2009, unchanged from $6.9 billion at the end of fiscal 2008. The private real estate net assets ended the year at $6.7 billion, up $0.3 billion from $6.4 billion at the end of fiscal 2008, with the remainder being the assets of the REIT program.

Valuations at the end of fiscal 2009 reflected downward pressure from the ongoing financial crisis and economic contraction around the world. Appraisers in the U.K., our biggest foreign exposure, were particularly aggressive in writing down property values. While mark-to-market assessments there and elsewhere might reflect fair value in today's depressed environment, we do not believe they reflect the true intrinsic value we can realize over time as a well-capitalized long-term investor.

New commitments for private real estate totalled $2.6 billion, most of which was intended for deployment in fiscal 2010/2011. We expect to see significant availability of prime assets at attractive prices over the next several years given the large rollover of commercial mortgage-backed securities set for calendar 2010 and 2011.

REAL ESTATE INVESTMENTS – GLOBAL DIVERSIFICATION
As at March 31, 2009



Investing through both externally managed funds and joint ventures, we currently have 22 external partners managing 42 investments on our behalf. At the end of fiscal 2009, Canadian holdings represented 55.6 per cent of the portfolio versus 62.8 per cent the year before, which reflects the CPP Investment Board's emphasis on global diversification as well as the limited size of the Canadian real estate market.

The department has two geographically based investment teams and two support teams. The Americas team covers the western hemisphere and the International team has responsibility for all other markets. In addition, we have a Research support team and another for Investment Structuring and Operations. Total regular full-time employees increased to 32 from 23, primarily reflecting hires for the London and Hong Kong offices. London and Hong Kong recruitment and staff transfers from Toronto will largely be completed in fiscal 2010, and both units will then become fully operational.

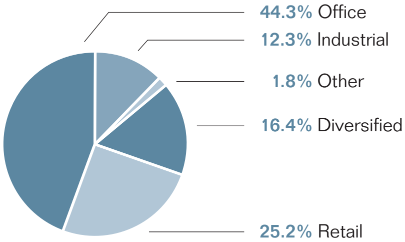
Americas: As mentioned above, the Americas team spent much of its time this year evaluating a significant number of opportunities in major markets. The team decided not to pursue most of these opportunities because we felt that valuations remained too high relative to current market conditions. As a result, we limited our actual investments and remain patient with the ability to enter the market at any time when a sufficiently attractive long-term investment opportunity presents itself. During the past year, this team made two new significant commitments to companies with which we had already established relationships.

- We committed $200 million to partner with RioCan Real Estate Investment Trust in the development of three new power retail centres in Calgary and Toronto over the next three years, as market conditions permit.
- New York-based Brookfield Real Estate Fund II received a commitment of US$250 million ($310 million) for investment in mezzanine debt, primarily in the U.S.

Last year's annual report cited two Canadian projects that had been underway: Ottawa's Constitution Square, which we own with Oxford Properties, and Centre Mall in Hamilton, Ontario, which we own with Osmington Inc. Constitution Square was substantially leased out after its completion. Construction began to replace Centre Mall with a new power centre retail complex.

In fiscal 2010, this team expects to focus on the U.S. as economic distress offers significantly discounted opportunities. We have also been evaluating opportunities in Brazil, which offers a diverse economy with broad trading ties, particularly with Europe and Asia.

REAL ESTATE INVESTMENTS – PRODUCT TYPE DISTRIBUTION
As at March 31, 2009



International: The international real estate market has also been negatively impacted by the uncertainty in asset valuations. As with the Americas region, the International team reviewed a large number of opportunities but only committed to a small number of investments that are well positioned in their respective markets and represent future long-term stable income for the portfolio. As clarity on pricing becomes more apparent, and as valuations stabilize, we can expect a greater number of transactions to be completed in the near future.

This team has extended our geographic reach to Turkey with a €250 million ($430 million) commitment to Multi Retail Turkey Fund which has 21 shopping centres completed, under construction or planned. These centres are built to European standards and leased by brand-name tenants. The program is managed by Multi Corporation, Europe's largest retail developer, and is expected to take three to five years for completion.

We made our second China-focused investment with a US$150 million ($185 million) commitment to the Raffles City China Fund managed by CapitaLand, one of Asia's largest real estate companies. Plans call for the completion by 2012 of four major mixed-use projects in Shanghai, Beijing, Chengdu and Hangzhou.

Other significant commitments include:

- A secondary investment of €65 million ($110 million) to the ProLogis European Properties Fund II, which invests in modern industrial, warehouse and logistics facilities in the U.K. and Europe. This investment is a good example of our ability to acquire assets at attractive prices under the current market conditions.
- US$400 million ($490 million) to Morgan Stanley Real Estate Fund VII, a diversified global mandate and the second Morgan Stanley real estate fund that we've joined.
- A commitment of €200 million ($340 million) to Blackstone Euro Fund III for the acquisition of distressed assets in the U.K. and Continental Europe. This is our third Blackstone fund.
- A commitment of £200 million ($355 million) to the LaSalle U.K. Merlin Fund, which is targeting distressed properties in the U.K. This is our seventh LaSalle fund.

We are focusing our attention on a few select markets in order to gain sufficient knowledge and scale. Our emphasis in fiscal 2010 will be to capitalize on distressed opportunities with a high level of interest in the U.K. and Australia. Our emerging markets activities will be concentrated upon China, Mexico, Brazil and Turkey, where we will consider only those properties that can meet the same standards we apply in developed markets.

REAL ESTATE HOLDINGS

PROPERTY	City	Province/State	Country	Total Gross Leasing Area (sq. ft.)	Ownership Interest (%)
OFFICE PROPERTIES					
Altius Centre	Calgary	AB	Canada	306,000	50
Canterra Tower	Calgary	AB	Canada	818,000	50
Bell Tower	Edmonton	AB	Canada	473,000	50
Canadian Western Bank Place	Edmonton	AB	Canada	407,000	50
Edmonton City Centre (Office)	Edmonton	AB	Canada	998,000	50
Enbridge Tower	Edmonton	AB	Canada	184,000	50
Scotia Place	Edmonton	AB	Canada	560,000	40
Guinness Tower	Vancouver	BC	Canada	256,000	50
Marine Building	Vancouver	BC	Canada	169,000	50
Oceanic Plaza	Vancouver	BC	Canada	349,000	50
Constitution Square	Ottawa	ON	Canada	1,055,000	50
Jean Edmonds Towers	Ottawa	ON	Canada	553,000	50
Place de Ville I	Ottawa	ON	Canada	581,000	50
Place de Ville II	Ottawa	ON	Canada	630,000	50
First Canadian Place	Toronto	ON	Canada	2,420,000	25
2 Queen Street E.	Toronto	ON	Canada	464,000	50
One Financial Place	Toronto	ON	Canada	654,000	50
Royal Bank Plaza	Toronto	ON	Canada	1,474,000	50
Waterpark Place	Toronto	ON	Canada	802,000	50
Yonge/Richmond Centre	Toronto	ON	Canada	299,000	50
Tour KPMG	Montreal	PQ	Canada	491,000	50
Shenandoah Building	McLean	VA	USA	197,000	49
Stoneridge Corporate Plaza	Pleasanton	CA	USA	560,000	49
Tabor Center	Denver	CO	USA	707,000	39
US Bank Tower	Denver	CO	USA	520,000	39
Dominion Plaza	Denver	CO	USA	588,000	39
410 Building	Denver	CO	USA	419,000	39
Civic Center Plaza	Denver	CO	USA	586,000	39
Alhambra	Coral Gables	FL	USA	325,000	49
Datran Center	Kendall	FL	USA	476,000	49
TOTAL OFFICE				**18,321,000**	
RETAIL PROPERTIES					
Edmonton City Centre (Retail)	Edmonton	AB	Canada	812,000	50
Pine Centre Mall	Prince George	BC	Canada	483,000	80
Centre Mall	Hamilton	ON	Canada	339,000	80
Century Centre	London	ON	Canada	98,000	80
White Oaks Mall	London	ON	Canada	691,000	80
Eastgate Square	Stoney Creek	ON	Canada	524,000	80
New Sudbury Centre	Sudbury	ON	Canada	539,000	80
Intercity Shopping Centre	Thunder Bay	ON	Canada	458,000	80
Promenades Cathédrale	Montreal	PQ	Canada	135,000	50
Les Galeries de la Capitale	Quebec City	PQ	Canada	1,454,000	80
Carrefour de l'Estrie	Sherbrooke	PQ	Canada	1,160,000	80
Beacon Hill	Calgary	AB	Canada	528,000	50
Burloak	Burlington	ON	Canada	455,000	50
Rivermeadow	Edmonton	AB	Canada	208,000	50
TOTAL RETAIL				**7,884,000**	
INTERNATIONAL PROPERTIES					
1 Bunhill Row	London	–	U.K.	264,000	80
55 Bishopsgate	London	–	U.K.	193,000	80
Whitefriars Quarter	Canterbury	–	U.K.	600,000	50
TOTAL INTERNATIONAL				**1,057,000**	
PORTFOLIO TOTAL				**27,262,000**	

Economic and Financial Market Outlook

The global economy is in the midst of the most severe financial crisis and economic downturn since the Great Depression. Although financial turmoil began in August of 2007 as a result of losses related to U.S. sub-prime mortgages, conditions deteriorated markedly following the collapse of Lehman Brothers in September of 2008. Corporate credit spreads soared to record levels; interbank and commercial paper markets became illiquid and equity markets plunged.

As credit contracted, so too did economic activity in developed economies. The U.S., Canada, Japan, Germany, Korea and the U.K. all experienced sharp output declines in the final three months of 2008 and in January to March of 2009. Global trade plunged, leading to a dramatic slowing in China and other manufacturing export-dependent emerging markets as well as commodity-producing countries such as Russia and Brazil. Major central banks responded to the crisis by slashing short-term interest rates to record lows and greatly expanding their provision of liquidity to markets. Aggressive monetary easing and a general flight to quality pushed government bond yields to historic lows. Governments in the U.S., U.K. and Euro zone provided funds for bank recapitalization and most G20 nations have implemented substantial fiscal stimulus packages. These efforts are likely to be helpful in mitigating the downturn, but they will result in substantially higher government indebtedness.

The economic fallout from the financial crisis will likely continue to be felt through calendar 2010. We expect all major developed economies will contract in the near term as tight credit conditions for businesses and consumers, as well as the plunge in household net worth, weigh on consumer and business spending. Unemployment rates are likely to rise rapidly through the year and low levels of resource utilization should result in very low rates of inflation and even moderate deflation in some countries. Against a backdrop of high unemployment and low inflation, major central banks will likely hold policy rates at their historic lows for a considerable period. Though the downturn is expected to be severe in all major economies, Canada's recession should be mitigated to some extent by the relatively healthy position of its banking system and by the fact that its housing market was not substantially overvalued.

The gradual improvement in credit market conditions that has been seen since November 2008 is likely to continue in the year ahead as banking systems are recapitalized and risk aversion abates. This easing of credit, in conjunction with sustained low policy rates, substantial fiscal stimulus and considerable economic slack, should result in a meaningful rebound in economic activity beginning sometime in calendar 2010. If governments' efforts to recapitalize their banking systems and restore more normal functioning of credit markets prove ineffective, then economic recovery will be delayed. Although emerging market economies will be hard hit by the crisis, India and China will likely continue to be the growth leaders of the world, both during the downturn and as the global economy recovers.

Equity markets are expected to remain volatile in the near term as uncertainty about the global economy continues. However, the eventual rebound in economic activity and improvement in credit market conditions bodes well for the performance of equities over the medium term (three to five years). After several quarters of sustained economic growth, central banks will likely begin to raise interest rates in late calendar 2010 and 2011, putting upward pressure on bond yields. A rebound in stock market returns and significant increases in interest rates imply a greater-than-normal outperformance of equities over government fixed income over the medium term. The bounce-back in global economic activity is likely to be supportive of commodity prices to the benefit of the Canadian dollar.

Fiscal 2010 Objectives

In fiscal 2009, the CPP Investment Board achieved the targets or milestones established for our four multi-year objectives: broaden the diversification of the investment portfolio; continue building towards a steady-state organizational structure in our three offices to deepen our investment capabilities; continue our multi-year plan to establish the operational processes and technologies to enable us to execute our investment strategy over the long term; and generate value-added returns relative to the CPP Reference Portfolio over rolling four-year periods. Key highlights of these achievements against objectives can be found on page 6.

The corporate objectives for fiscal 2010 represent a continuation of last year's objectives as they continue to be relevant for our long-term strategy and evolution as an organization.

Our ongoing over-arching goal is to generate value-added returns for the CPP Fund net of costs over rolling four-year periods.

We will accomplish this by focusing on three key objectives:

- Broaden the diversification of the CPP Fund by geography and by alpha strategies.
- Continue to build our internal capabilities to implement new investment programs and diversify investments geographically.
- Advance our multi-year plan to enhance operational processes and technologies to enable us to execute our investment strategy over the long term.

Cash for Benefits Portfolio

The CPP Investment Board is responsible for the short-term cash management program designed to facilitate monthly benefit payments by the CPP. The assets required for this purpose are segregated from the investment portfolio and separately managed as the Cash for Benefits portfolio. This portfolio is in liquid money market instruments with the primary objective to ensure the CPP has the necessary liquidity to meet benefit payment obligations on any business day. A secondary objective is to match or exceed the benchmark return of the DEX Capital Markets 91-day T-bill Index. The portfolio earned 1.9 per cent or $20.1 million for fiscal 2009 versus 2.0 per cent for the index. Over the course of the year, this short-term portfolio had average balances of approximately $784 million.

Maintaining an Efficient Organization

The CPP Investment Board continued to advance along its growth trajectory in fiscal 2009 as we expanded our investment activities, strengthened operational and oversight systems, and made progress in developing scalable processes and systems in support of our investment and risk management programs.

With our London and Hong Kong offices now fully operational, these offices will primarily focus on our private equity and debt, infrastructure and real estate programs and will enhance our ability to build and strengthen relationships with new and existing partners in Asia and Europe, increase our local knowledge and understanding of these key regions, and facilitate access to investment opportunities. As noted on page 40, the Hong Kong office has already increased our access to private equity funds in China. We expect the London office to make a significant contribution in fiscal 2010 as the Real Estate Investments team based there seeks to capitalize on distressed property markets in Europe.

OPERATING COSTS

The cost of operating the CPP Investment Board for the year (excluding transaction costs and external investment management fees which are reflected in our investment returns) was $189 million compared with $154 million for fiscal 2008. Expressed another way, total operating expenses were 16.1 cents per $100 of invested assets compared with 12.9 cents for the prior year. This increase is partly due to the fact that the net assets in the Fund declined by $17.2 billion from the previous year. Given our focus on four-year returns, we look at recovering operating costs over four-year periods, not a one-year period. Increased costs are due largely to ongoing implementation of our active investing programs. As we continue to build internal capabilities to support these programs, we incur costs as our investing activities expand in scope, depth, complexity and geographic reach. Fiscal 2009's increased spending also reflects new staffing costs for the London and Hong Kong offices as well as higher occupancy costs for all three offices.

Fiscal 2009 spending also included strengthening of systems to better project, manage and monitor portfolio risk. We are also incurring costs to create, or in some cases insource from external service providers, specific support systems required for active investing. Moving these functions in house enables us to ensure that the associated systems meet our unique needs, are sufficiently scalable, and are more fully integrated within our internal controls framework.

In recognition that the costs entailed by active management should be justifiable by incremental returns, management's compensation is based upon returns over a four-year period only after first recovering all operating expenses including transaction costs and external investment management fees. The value-added performance for compensation purposes is not only net of expenses, but is measured in relation to the CPP Reference Portfolio which makes no provision for investment and operating expenses. So, the value-added return effectively covers the cost of generating passive beta as well as alpha.

For further details on operating expenses, please see note 8 to the Consolidated Financial Statements. External investment management fees are described in note 2b(i).

HUMAN RESOURCES

CPP Investment Board employees are highly engaged and committed to achieving our mission with utmost regard for our guiding principles; they are the most important resource of the organization and are instrumental to our long-term success.

The number of full-time regular employees increased by 122 to 490, in line with our growth projections last year. These numbers include further staffing of the new London and Hong Kong offices, the creation of a Private Debt team and the evolution of the Treasury, Risk, Operations and Technology department. Our employee base grew this year because both investment activities and in-house support systems continue to expand in both scope and complexity. In fiscal 2010, we expect to add approximately 100 new employees. Going forward, our growth rate will decline and we currently expect it to be less than 10 per cent in fiscal 2011.

Senior management staffing is now largely complete with the appointment of 10 people at the vice-president level or above. This senior group, recruited from within Canada as well as a number of other countries, have very extensive experience and expertise in their specific fields.

Our people are our most valuable asset and the need to identify and retain capable leadership is critical to the success and preservation of our organization. Attracting and retaining top talent continues to be a key priority focus. The financial industry upheaval resulting from the global financial crisis has broadened the pool of experienced candidates to fill positions within the organization. In addition to experience, we seek those who share our guiding principles and passion for our mission, fit well into our culture and who are committed to a long-term employment relationship. Establishing the right culture assists in the execution of our strategy and provides the risk mindset that is embedded throughout our organization.

Attrition at the CPP Investment Board remains below the norm for the financial services industry. We attribute this to our compelling employment proposition and strong, positive reputation in the marketplace. Furthermore, the organization has the asset base and resources of one of the world's largest single-purpose capital pools, a disciplined and differentiated approach to investing, a strong commitment to hiring and developing highly talented team players, and a steadfast commitment to the highest standards of ethical conduct. The establishment of offices in Hong Kong and London has enhanced our positioning as a global investment organization.

Given that we have a multi-generational mandate, we are very focused on building an organization that will endure and succeed over a long period of time. Fundamental to this is a commitment to developing a comprehensive leadership succession plan to ensure sufficient depth of leadership in the organization. Management devoted considerable attention to this during fiscal 2009 and it will remain a priority in the years to come.

While we continue to focus on building capabilities, the use of external partners continues to be an important part of how the CPP Investment Board invests and creates value. Page 69 lists our 115 investment partners as at the end of fiscal 2009 – 13 more than in the previous year.

Effective partnering enables us to access markets and strategies faster and with more diversification than we could achieve on our own. External partners also assist us in building internal capabilities by sharing their keen proprietary insights.

While most institutional investors are relatively passive providers of capital to their external partners, the CPP Investment Board views these relationships as mutually beneficial alliances and has carefully designed our internal investment program to complement, not compete with, our partners' activities.

TREASURY, RISK, OPERATIONS AND TECHNOLOGY

Last year's annual report highlighted the decision to divide the responsibilities of the Finance and Operations department to create two, more focused units and provide for clearer, more effective division of responsibilities. This reorganization was completed during fiscal 2009 with two new senior vice-presidents and three new vice-presidents recruited in this area.

Within the newly formed Treasury, Risk, Operations and Technology (TROT) department, the COO is responsible for a wide range of activities that support our investment activities, including security valuation and risk measurement and reporting, as well as the technology platform for the entire organization. As the name indicates, this department has four distinct elements.

Treasury Services: This group provides a centralized cash management and forecasting function to ensure adequate liquidity is available to meet all the cash needs of the CPP Fund. It will be integral to the planned CPP Investment Board debt issuance program. This group also includes the performance-measurement function; in fiscal 2010, the Total Portfolio Approach will be integrated into our performance-measurement framework. This methodology will result in the explicit identification of the funding source for each investment. Since the CPP Reference Portfolio contains no cash allocation, the CPP Fund's public securities act as a source of funds. The methodology determines the forgone returns on securities sold to fund other investment programs and compares those forgone returns to returns on the holdings acquired. This results in full transparency into an investment's true cost of funding and its value-added contribution.

Risk: This group, Investment Risk Management (IRM), provides comprehensive risk measures that accurately describe the potential financial risks facing the organization. Financial risks include, but are not limited to, market risk, credit risk, counterparty risk and liquidity risk. Measures include Value at Risk (VaR), credit VaR, stress test results and other risk measures as required. Market risk VaR and credit exposures are monitored for compliance with board limits and management risk budgets. The use of risk systems in a pension environment has become more common; systems are typically able to utilize complex models to analyze historical data to assist in measuring and anticipating risk. We continuously monitor the appropriateness of the systems to ensure that the complexity of our programs is supported. In addition, we supplement analytical results with judgment built on experience to avoid undue reliance on the systems themselves.

The information mentioned above is provided by IRM to the investment departments on a daily basis, to the investment planning committee on a monthly basis and to the board on a quarterly basis. IRM also serves as the operational arm of the new credit committee discussed on page 25.

IRM provides input to the trading function to quantify financial risks created by investment transactions, and quantitative support to validate financial models and valuation protocols. The group is also accountable for creating and maintaining a policy framework supporting best practices in risk management and governance.

Operations: This group is responsible for reporting on the securities we hold and their value. Dedicated teams with responsibility for Public Investments, Real Estate and Private Investments ensure appropriate reconciliation, reporting and settling of transactions, as well as fair valuing of our holdings.

Technology: This information services group is responsible for the application and data systems that support our investment operations, as well as the networks and technology infrastructure used throughout the organization's three office locations. Given the complexity of our systems needs, this group is engaged in a significant level of activity to implement and operate our world-class investment analysis and execution systems.

In fiscal 2009, TROT completed the implementation of the end-to-end derivatives system mentioned in last year's annual report. This system tracks all aspects of every derivative position from the time it is initiated to when it is closed. Also implemented this past year was a system that provides a continual view of the public securities available for use in funding acquisitions by other investment areas. As well, we selected the portfolio accounting system to be used when we bring in house all portfolio accounting; full implementation is expected by the end of fiscal 2010. Also slated for implementation by the end of the new fiscal year is an integrated and flexible total portfolio performance measurement, benchmarking and attribution system that will provide the analytical support for our Total Portfolio Approach to managing the CPP Fund and for our Risk/Return Accountability Framework.

CEO/CFO Certification

During the year, we conducted an evaluation of our internal control over financial reporting and disclosure controls and procedures. The evaluation was based on the framework and criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Although the CPP Investment Board is not required by law to comply with National Instrument 52-109 of the Canadian Securities Administrators, we voluntarily launched this evaluation as part of our commitment to strong corporate governance and accountability.

The CEO and CFO are responsible for establishing and maintaining internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

The CEO and CFO are also responsible for the design of disclosure controls and procedures to provide reasonable assurance that all material information is gathered and reported to management on a timely basis.

An evaluation of the design and operational effectiveness of internal control over financial reporting and disclosure controls and procedures was conducted under the supervision of and with the participation of management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that the internal control over financial reporting and the disclosure controls and procedures are properly designed and operated effectively throughout the year. No changes were made in our internal control over financial reporting during the year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Accountability and Disclosure

Accountability and disclosure are hallmarks of the distinct governance model that was carefully designed by the federal and provincial finance ministers to meet our specific investment mission.

ACCOUNTABILITY

The CPP Investment Board is accountable to the stewards of the Canada Pension Plan: the federal finance minister and the finance ministers of the participating provinces. We report to Parliament through the federal finance minister, who tables our annual report in the House of Commons. Quarterly financial statements are filed with the federal and provincial finance ministers and made public. Further, the Chair and the CEO take questions and comments from individual Canadians and stakeholder groups at biennial public meetings in each of the provinces that participate in the Canada Pension Plan. Nine such meetings were held during calendar year 2008.

An external audit firm conducts an audit of the CPP Investment Board's financial statements every year. When the federal and provincial finance ministers conduct their scheduled review of the CPP every three years they may request information from the CPP Investment Board. Every six years, we undergo an external examination of our records, systems and practices, as required for all Crown corporations. Additionally, the federal minister of finance can order a special audit at any time.

Our board of directors and its audit committee have adopted best practices for oversight of financial reporting. Management prepares and is responsible for such reporting and all public reporting, including the financial statements and annual report, is subject to review and approval by the audit committee which then recommends its approval to the full board.

As part of our commitment to ethical conduct, the CPP Investment Board has exceeded legislated requirements as well as industry norms in establishing and maintaining high standards of conduct and business practice. Our comprehensive governance and accountability framework includes a number of measures designed to preserve the public trust. One such measure is our code of conduct for directors and employees. Among other things, this code – which can be read on our website – obligates directors, officers and employees to act as whistle-blowers if they become aware of any suspected breaches. Any such report can be made confidentially to an external conduct review advisor, who is not part of management or the board of directors, and who reports formally to the Chair and the board of directors at least once a year. The Honourable Frank Iacobucci, a former justice of the Supreme Court of Canada, former member of the Ontario Securities Commission and author of five major books on business law, was appointed to this position in fiscal 2006.

We have also adopted internal standards and policies to ensure we always act responsibly as a capital markets participant.

DISCLOSURE

"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."

The CPP Investment Board's Disclosure Policy – from which this quotation was taken – goes well beyond legislated requirements. The CPP Investment Board discloses more information, more often, than any other pension fund in Canada. This includes the quarterly release of investment results and the annual report containing extensive disclosure on the Fund's performance. Our website contains more than 1,200 pages of information about how we operate, a comprehensive list of investment holdings and a list of our investment partners, with links to their websites. As well, interested parties can access the legislation and regulations that govern our activities, and our by-laws, governance manual and policies, including the investment statement, that guide us in managing the CPP Fund and the Cash for Benefits portfolio. The website maintains an archive dating back to fiscal 1999, when we began investing, and contains a page that solicits feedback and questions.

Accounting Policies

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to adopt accounting policies and to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The significant accounting policies adopted by the CPP Investment Board are described in note 1 to the Consolidated Financial Statements. The most critical accounting estimates made by management are in the valuation of investments.

VALUE OF INVESTMENTS

All of our investments are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Quoted market prices are used to represent the fair value for investments traded on an active market, such as publicly-traded stocks.

In the case of investments where quoted market prices are not available such as private equity, infrastructure, private real estate and over-the-counter derivatives, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. These valuation techniques include using recent arm's length market transactions, if available, or current fair value of another investment that is substantially the same, discounted cash flow analysis, option pricing models and other accepted industry valuation methods. Non-marketable Canadian government bonds are valued using discounted cash flows based on current market yields of instruments with similar characteristics and then adjusted for the non-marketability and rollover provisions of the bonds. Significant estimates and judgments are required in determining the estimated fair value of these investments and, therefore, actual results could differ from those estimates.

FUTURE ACCOUNTING POLICY CHANGE

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Accounting Standards Board of the Canadian Institute of Chartered Accountants will at times revise accounting standards and policies which can impact the way we report our financial results. In February 2008, the Accounting Standards Board confirmed Canadian generally accepted accounting principles for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS). CPP Investment Board will adopt IFRS for interim and annual periods commencing April 1, 2011, together with the disclosure of prior years' comparative figures.

CPP Investment Board has developed a conversion plan and is in the process of assessing the impact that IFRS could have on its operations, financial position and results of operations. At this time, it is too early to comment on the anticipated impact on the financial position and the results of operations of the CPP Investment Board.

Compensation Discussion and Analysis

Report on Management Compensation

Overview

PRINCIPLES OF MANAGEMENT COMPENSATION FRAMEWORK AT CPP INVESTMENT BOARD

As a professional investment management organization operating within the private sector, the CPP Investment Board has a governance model that carefully balances public sector accountability with the need to operate at arm's length from governments. This governance model, which includes the Management Compensation Framework, has been hailed by industry experts, foreign governments and national pension funds, and international institutions as a leading model of public pension fund governance.

There are three key principles that serve as the foundation for the CPP Investment Board's Management Compensation Framework:

1. Management compensation is determined by an independent and qualified board of directors.
   - In order for the CPP Investment Board to fulfill its mandate as a global investor, the board of directors believes it is essential to provide a compensation opportunity that will enable the organization to compete with other investors to attract and retain talented investment and management professionals with specialized skills and knowledge in those global markets that are the focus of our investment programs.
2. Management compensation is based on investment performance over four-year periods.
   - The CPP Investment Board has a pay-for-performance approach that measures performance against market-based benchmarks over rolling four-year periods. This longer-term focus is consistent with the nature of the CPP Investment Board's mandate and places the organization at the forefront of current best practices for management compensation.
3. Management compensation is based upon two key performance criteria:
   - Investment income generated above market-based benchmarks
   - Overall total fund returns

FISCAL 2009 MANAGEMENT COMPENSATION

Compensation for fiscal 2009 is based upon the cumulative results for the four-year period ending March 31, 2009.

- In the three years since the CPP Reference Portfolio* was adopted as the organization's key total fund benchmark (fiscal 2010 will complete the first four-year period), we have generated cumulative value-added returns of 487 basis points representing approximately $5.3 billion in additional income.
- The total fund returns for the current four-year period are:

Fiscal Year	CPP Fund Return
2006	15.5%
2007	12.9%
2008	-0.3%
2009	-18.6%

The annualized return for this period is 1.4%.

- Recognizing the current economic environment, the board has decided not to award the CEO and the three investment officers any individual component of the Short-Term Incentive Plan (STIP) which is the portion of STIP that is not tied to four-year returns. In addition, officers will not receive salary increases for fiscal 2010.
- This decision, combined with the impact of the four-year investment performance on incentive compensation, results in a 31.4% year-over-year decline in total compensation for these officers.
- The board considers this decision appropriate but it is not a reflection of the individual performance of these officers in fiscal 2009. The board remains very confident in the abilities of the CEO and the investment officers to lead the investment programs and successfully implement the long-term investment strategy to help sustain the CPP for decades and generations.
- The strong returns of 15.5% in fiscal 2006 and 12.9% in fiscal 2007, as well as $5.3 billion in value-added returns above the market-based benchmark continued to have a positive impact on incentive compensation awards paid this year.
- For fiscal 2010, the 15.5% return will drop away whereas the 12.9%, -0.3% and -18.6% returns will continue to be factored into rolling four-year results for an additional one, two and three years respectively and will affect incentive compensation awards through 2012 accordingly.

*The CPP Reference Portfolio is described in more detail on page 17 of the annual report.

Committee Mandate

The human resources and compensation committee (HRCC) assists the board in fulfilling its obligations relating to compensation of the CEO and his or her senior vice-presidents (collectively the "officers"), as well as compensation and human resources matters relating to all other employees. Specifically, the HRCC:

- Reviews and recommends to the board the framework for the compensation plans, including that of officers;
- Reviews and approves, or recommends for board approval, value-added performance benchmarks applicable to all incentive-based compensation;
- Establishes and oversees the performance evaluation process for the CEO and reviews the CEO's assessment of the individual officer's performance and compensation recommendations;
- Determines and recommends to the board the individual officer's compensation level based on their evaluation;
- Reviews and recommends to the board the aggregate level of incentive compensation for non-officer employees;
- Oversees the disclosure of directors' and officers' compensation in the CPP Investment Board's annual report; and
- Reviews organizational structure, talent management and succession planning, and oversees employee benefits, employee pension plans, and human resources policies.

The HRCC is composed entirely of directors who are independent of management as defined by Canadian regulatory standards, and none of the HRCC's members are sitting CEOs of public companies. The CEO and the senior vice-president of Human Resources of the CPP Investment Board are not members of the HRCC, but attend portions of HRCC meetings at the request of the HRCC. *In camera* sessions are held at the end of each HRCC meeting.

HRCC members during fiscal 2009 were:

- Ronald E. Smith, chair
- Ian A. Bourne
- Pierre Choquette (joined HRCC effective May 13, 2008)
- Germaine Gibara
- Elaine McKinnon (joined HRCC effective February 12, 2009)
- D. Murray Wallace

Committee members for fiscal 2010 are:

- Ronald E. Smith, chair
- Ian A. Bourne (left HRCC effective May 14, 2009)
- Pierre Choquette
- Germaine Gibara
- Elaine McKinnon
- D. Murray Wallace

To ensure that the CPP Investment Board's longer-term compensation programs are effective in delivering on their objectives, prior to adopting or modifying plans, the HRCC reviews modelled compensation scenarios that illustrate the impact of various future performance outcomes on previously awarded and outstanding compensation. The HRCC is satisfied that the intended relationship between pay and performance is appropriate for all of the officers and that, in aggregate, the resulting compensation modelled under various performance scenarios is reasonable and competitive, and delivers the intended differentiation of compensation value based on performance. In administering the plan, the HRCC may use its judgment in varying the amounts payable to officers.

ADVISORS TO THE COMMITTEE

In order to assist in the fulfillment of its obligation to the board and to the stakeholders of the CPP Investment Board, the HRCC directly employs an independent advisor to provide it with advice and guidance on compensation issues. In fiscal 2009, the HRCC employed Hugessen Consulting Inc. (Hugessen) as its primary advisor on the strength of Hugessen's experience providing large financial institutions and public sector pension plans in Canada with advice on executive and board compensation issues.

Hugessen's mandate is to provide advice on the competitiveness and appropriateness of compensation programs for officers, and on related compensation and governance issues. In fiscal 2009, Hugessen was additionally mandated to work with the HRCC to:

- review and provide support in respect of the annual and special activities of the HRCC outlined below,
- review and update the HRCC's Terms of Reference,
- conduct a competitive review of the CPP Investment Board's executive compensation program,
- provide an overview of market trends with respect to executive compensation, and
- review the compensation-related sections of the annual report.

Any services provided by Hugessen, other than in its role as advisor to the HRCC, require pre-approval by the HRCC, outlining the scope of work and related fees. The HRCC will not approve any such work that, in its view, could compromise Hugessen's independence as an advisor to the HRCC. Hugessen provided no other services to the CPP Investment Board in fiscal 2009.

The decisions made by the HRCC are the responsibility of the HRCC, and may reflect factors other than the recommendations and information provided by Hugessen.

During the fiscal year 2009, Hugessen received approximately $290,000 as payment for its services (2008 – $390,000).

HRCC's Key Activities Relating to Fiscal Year 2009 (Summary)

ANNUAL ACTIVITIES

- Reviewed and recommended for board approval the following matters:
  - Overall compensation framework for the CPP Investment Board, including performance targets
  - For the CEO, fiscal 2009 salary adjustment and annual Short-Term Incentive Plan (STIP) award, taking into account the results of the board's evaluation of the CEO's performance
  - For each individual officer, the CEO's proposed fiscal 2009 salary adjustment and annual STIP award, taking into account the CEO's evaluation of the officer's performance
  - For non-officers, merit budget for fiscal 2009 salary adjustments and annual STIP pool
  - Directors' and officers' compensation disclosure in the annual report
- Oversaw benchmarking review of officers' compensation
- Reviewed severance arrangements for officers
- Reviewed and approved asset class performance benchmarks
- Monitored recruitment and talent management programs
- Reviewed management's plans for succession
- Reviewed pension committee's reports and approved minor administrative amendments to pension plan documents
- Reviewed human resources policies
- Provided oversight of benefits changes
- Reviewed and adopted updated HRCC Terms of Reference

SPECIAL ACTIVITIES

- Reviewed and recommended for board approval, the appointment and compensation of officers hired in fiscal 2009
- During the fourth quarter of fiscal 2009, reviewed and reconfirmed the overall compensation framework and recommended board approval of the fiscal 2010 total fund value-added benchmark for incentive compensation

- Reviewed and recommended for board approval, changes to the compensation framework for a few specialized senior core services roles
- Reviewed and approved updates to the Deferred Short-Term Incentive Plan

The HRCC held six meetings in fiscal 2009, four of which were in-person meetings. The HRCC also held a meeting in May 2009 focusing on performance assessment and compensation decisions in respect of fiscal 2009, and will hold at least two further meetings in fiscal 2010.

Compensation Program Overview

STRATEGIC CONTEXT

The CPP Investment Board is managed independently of the Canada Pension Plan by experienced investment and management professionals to help sustain the future pensions of over 17 million contributors and beneficiaries. Its role is to invest the CPP Fund to maximize returns without undue risk of loss. In fulfilling this mission, CPP Investment Board believes that:

a) World-class investment management capability is a cornerstone of its operation;

b) Ongoing talent acquisition, retention, and motivation in the investment management marketplace is essential;

c) Proven investment professionals are recruited from a small, highly sought after talent pool; and therefore

d) Providing a competitive compensation opportunity relative to the investment management industry is essential.

OBJECTIVES OF THE COMPENSATION PROGRAM

The CPP Investment Board's compensation philosophy is founded upon recognition of the importance of an experienced and effective leadership team to the achievement of the organization's long-term goals. Its objectives are therefore:

a) To attract and retain best-in-class leadership talent with a particular focus on investment management leadership, recognizing that this is a global business and that for many roles the CPP Investment Board has to compete in global markets to find the requisite talent;

b) Through a pay-for-performance framework, to reward employees for achieving results that contribute to CPP Investment Board's ability to generate the long-term returns required to sustain the CPP for decades and generations; and

c) To create and sustain partnering throughout the organization, which is aligned to our Total Portfolio Approach, by linking a meaningful proportion of incentives for both investment and core services professionals to CPP Fund performance. A more detailed discussion of the Total Portfolio Approach can be found on page 20 in the Management's Discussion and Analysis section.

The CPP Investment Board's compensation framework is comparable to those at other large public sector pension plans, and is based on and meant to support the CPP Investment Board's guiding principles of integrity, partnership and high performance.

PAY-FOR-PERFORMANCE PHILOSOPHY

The CPP Investment Board is firmly committed to a pay-for-performance approach that directly links compensation to fund and individual performance.

The following elements of our incentive compensation program are designed to reinforce the alignment between the CPP Investment Board's long-term mandate and employees' performance:

- A clear set of objectives that are well understood and consistent with our investment risk limits
- Performance measured against specific, predefined market-based benchmarks over rolling four-year periods that reflect the long-term nature of our investment strategy
- Incentives are only paid once value is created above the market-based benchmark, based on the value-added gains remaining after we have covered our operating costs and factor in the absolute CPP Fund return over the same rolling four-year period
- Incentive compensation is subject to caps, on both the upside and down, to ensure that it remains fair and moderates the impact of any one year's investment performance.

Performance is measured as follows:

- CPP Fund investment performance is measured by comparing overall investment returns to returns posted by the CPP Reference Portfolio
- Asset class investment performance is measured against the returns from market-based benchmark portfolios appropriate to each class
- Individual performance is measured against "S.M.A.R.T." objectives (i.e., objectives that are specific, measurable, achievable, relevant and time based) established at the beginning of each fiscal year

Depending on an individual officer's investment responsibility, the weightings of performance measures will vary, as shown in the following table:

TABLE 1: SHORT-TERM INCENTIVE AND LONG-TERM INCENTIVE WEIGHTINGS[1]

	Short-Term Incentives			**Long-Term Incentives**	
	Investment Performance			**Investment Performance**	
	CPP Fund	Asset Class	Individual Performance	CPP Fund	Asset Class
CEO	High	None	High	All	None
Officers – investment	Med	Med	Med	Med–High	Med
Officers – core services[2]	Med–High	None	High	All	None

[1] The compensation framework was established in fiscal 2006 with a four-year transition to a steady-state mix of weightings. During this transition period, the percentage of the short-term incentive payout based on the performance of the CPP Fund has increased and the percentage based on individual performance has simultaneously decreased; the performance-measurement baselines for the short- and long-term incentive plans have also extended from one year to four years, reflecting the CPP Investment Board's view that performance should be achieved on a sustained basis. This transition was completed in fiscal 2009 and the tables reflect this mix.

[2] Includes CFO.

MARKET POSITIONING

The competitiveness of the CPP Investment Board's compensation framework is assessed relative to a peer group consisting of organizations employing investment management and other talent similar to that employed by the CPP Investment Board and weighed against criteria such as assets under management, functional scope and complexity. Such organizations include other major Canadian pension funds and large investment management firms. Also used are various independent surveys of compensation in the investment management industry, including data on corporate and public pension funds, insurance companies, controlled and independent investment managers, and private equity firms.

As part of the fiscal 2009 officers' compensation review undertaken by Hugessen at the request of the HRCC, the committee reviewed publicly disclosed information gathered from public pension funds including Ontario Teachers' Pension Plan, OMERS, Caisse de dépôt et placement du Québec, British Columbia Investment Management Corporation and Public Sector Pension Investment Board, as well as from the Mercer Canadian Investment Management Survey (i.e., pension funds and public investment management organizations with assets under management in excess of $20 billion). The committee also considered data from additional survey sources such as the McLagan Investment Management Survey.

COMPENSATION FRAMEWORK

The CPP Investment Board's current incentive compensation framework was formally adopted in June 2005, and was substantially updated in May 2007 to reflect changes in the CPP Investment Board's investment program and the growing sophistication of the organization and its capabilities. As the CPP Investment Board increasingly adopts an active management style with regard to investments, the need for investment professionals with the requisite active management skills and experience has increased markedly. The CPP Investment Board competes in a global market for the specialized investment talent that it needs to accomplish its goals.

The May 2007 revisions to the compensation framework apply to the CEO and to qualifying senior investment professionals. For fiscal 2008 and onwards, the Short-Term Incentive Plan's (STIP) percentage of base salary at target was increased, and an additional long-term compensation and retention program has been introduced using "Restricted Fund Units" (RFUs), a notional investment in the CPP Fund that fluctuates in value according to CPP Fund performance and pays out over three years. To address attraction, retention, and transition issues, the Board also approved the use of special LTIPs and RFUs with shorter vesting periods. In fiscal 2009, the board approved the granting of RFUs to a few highly specialized senior core services roles.

The board has adopted a policy regarding repayment and adjustment of incentive compensation where there is a restatement of the financial results. The policy applies to officers and employees at the vice-president level and above and to incentive compensation payments made or awarded during or after fiscal 2010. In the event of restated financial results, the board may, at its discretion, require repayment of incentive compensation deemed to be excess or forfeiture of unvested incentive compensation awards.

Compensation Components and Mix

Commensurate with the CPP Investment Board's compensation philosophy, the majority of total pay is incentive-based, as shown in the following table:

TABLE 2: TOTAL DIRECT COMPENSATION FISCAL 2009[1]

Mix of total direct compensation based on target awards and at maximum (in brackets)	Salary	STIP (four-year results)	LTIP (four-year results)	RFUs (three-year results)	Total Direct Compensation
CEO	22% (13%)	34% (37%)	22% (37%)	22% (13%)	100%
CFO [2]	38% (20%)	31% (32%)	31% (48%)	N/A	100%
Officers – investment	22% (13%)	34% (37%)	22% (37%)	22% (13%)	100%
Officers – core services [3]	46% (26%)	36% (42%)	18% (32%)	N/A	100%

[1] For all compensation elements except salary, percentages shown reflect payouts based on target awards and at maximum, and before adjusting LTIP and RFUs for CPP Fund performance. Unlike STIP and LTIP, RFUs have no maximum payout, and therefore their weighting in the table above reflects only grant date value.

[2] Compensation mix based on full-year participation in each compensation element.

[3] The compensation program for a few highly specialized core services roles includes RFUs. Based on a target award, the compensation mix for these roles is equally weighted on all four components of the program (i.e., 25 per cent); at maximum, the weightings for salary, STIP, LTIP and RFUs are 14 per cent, 29 per cent, 43 per cent and 14 per cent, respectively.

BASE SALARY

Base salaries are intended to provide market-competitive compensation to employees for fulfilling their basic job responsibilities and reflect the employee's level of skills, capabilities and performance. Salaries are reviewed annually after the end of each fiscal year, and increases to officers' salaries, if any, are approved by the board.

SHORT-TERM INCENTIVE PLAN (STIP)

The Short-Term Incentive Plan is designed to incent and reward investment performance at CPP Fund and/or asset class levels, over rolling four-year periods, along with individual performance over the course of the year.

Target STIP awards are set as a percentage of salary, to which a multiplier is applied. The multiplier is based both on actual fund performance (CPP Fund and asset class) after taking into account all fees paid to external managers and operating expenses and on individual performance, and cannot result in a payout more than two times the target award. The investment performance-measurement time frame is based on a four-year trailing historical span.

The CPP Investment Board provides a deferral option for STIP which allows employees to defer some or all of their STIP award for up to two years. Deferred STIP awards are notionally invested in the CPP Investment Board total portfolio or, if the employee so elects, up to 50 per cent in the CPP Investment Board Private Investment portfolio; the deferred awards increase or decrease in value over the deferral period. This serves as another means of aligning employee interests with the performance of the Fund.

LONG-TERM INCENTIVE PLAN (LTIP)

The Long-Term Incentive Plan is designed to incent and reward investment performance over a four-year span, which supports the CPP Investment Board's overall goal of contributing to the long-term strength of the Canada Pension Plan.

Target LTIP awards, set as a percentage of salary, are granted at the outset of each year and paid out at the end of a four-year cycle. As with STIP, a multiplier is applied to the target LTIP award, based on the investment performance of the CPP Fund and its asset classes after taking into account all fees paid to external managers and operating expenses as compared with specified benchmarks; by the end of the four-year period this multiplier cannot exceed three times the value of the target award. The final payout is further increased (or decreased) based on the CPP Fund's four-year compounded rate of return. As noted earlier, to address attraction and retention issues and to facilitate the transitioning of new hires into the regular LTIP program, the plan also includes the ability to award LTIP with three-year vesting periods.

RESTRICTED FUND UNITS (RFUs)

Restricted Fund Units are designed to retain senior investment professionals and a few specialized senior core services roles and to moderate somewhat the volatility of overall pay while maintaining a direct link between the value of the units and the performance of the CPP Fund. A notional three-year investment in the CPP Fund, RFUs fluctuate in value according to fund performance, and vest and are paid out in cash at a rate of one-third at the end of each year. As with LTIP, the plan also includes the ability to award RFUs with two-year vesting periods to address attraction, retention and transitioning issues.

BENEFITS AND OTHER COMPENSATION

Non-pension benefits offered by CPP Investment Board are competitive with the industry, and include life insurance, disability benefits, health and dental benefits, time-off policies, fitness reimbursement and an Employee Assistance Program (EAP). The CPP Investment Board's pension benefits, comprised of contributions to a defined contribution registered pension plan and a defined contribution supplementary pension plan, and its perquisites, including paid parking or transit passes, are all conservative relative to comparables.

Summary Performance Table

As described in more detail on page 30 in this report, the CPP Fund's value-added investment performance exceeded its market-based benchmark over the past three years since the CPP Reference Portfolio was established. Over this period, as shown in the following table, the CPP Fund outperformed this market-based benchmark and has generated 487 basis points in cumulative value-added returns representing $5.3 billion in additional investment income. After accounting for the organization's total operating costs, the CPP Fund has returned $4.8 billion in value-added returns during this same period.

TABLE 3: CPP FUND PERFORMANCE, FISCAL 2006 TO 2009 AND CUMULATIVE RESULTS

			Target Value-Added (basis points)				
	Reference Portfolio Return	CPP Fund Return	Threshold[1]	Target	Maximum	Actual Value-Added (bps)	Actual Value-Added ($ billions)
Fiscal 2009	-18.6%	-18.6%	16.2	56.2	216.2	1.0	0.0
Fiscal 2008	-2.7%	-0.3%	13.7	53.7	213.7	241.0	2.9
Fiscal 2007	10.4%	12.9%	-5.0	35.0	195.0	245.0	2.4
Fiscal 2006[2]	N/A	15.5%	N/A	N/A	N/A	N/A	N/A
Cumulative	N/A	5.8%[3]	N/A	N/A	N/A	487.0	5.3

[1] For fiscal 2008 and fiscal 2009, represents the value-added return that must be generated to cover all of the CPP Investment Board's operating expenses before a positive investment performance multiplier is assigned for incentive compensation purposes in respect of the total fund investment performance for the fiscal year.

[2] The CPP Reference Portfolio was first implemented in fiscal year 2007.

[3] Return for the four-year performance period was 5.8 per cent, which is an annualized return of 1.4 per cent over the four years.

Investment department performance since the adoption of the CPP Reference Portfolio in fiscal year 2007 is summarized below:

TABLE 4: INVESTMENT DEPARTMENT PERFORMANCE

Department	Public Market Investments	Private Investments	Real Estate
Fiscal 2009	Did not meet target	Exceeded target	Did not meet target
Fiscal 2008	Did not fully meet target	Significantly exceeded target	Exceeded target
Fiscal 2007	Did not fully meet target	Significantly exceeded target	Significantly exceeded target

The incentive compensation plans reward investment performance over four-year rolling average periods. The investment performance during the four-year period from fiscal 2006 to 2009 resulted in a STIP investment component multiplier of 1.54 to 2.0 times the value of the target award for the officers this year. For fiscal year 2009 LTIP payments, LTIP investment component multipliers ranged between 1.54 to 3.0 times the value of the target award for the officers, while for the CEO, the LTIP investment component multiplier was 2.6; the CPP Fund's return for the four-year performance period is 5.8 per cent, which is an annualized return of 1.4 per cent over the four years. Further information on the investment performance of each department is contained in the Management's Discussion and Analysis.

CPP Investment Board also established a series of non-financial goals for fiscal 2009, as outlined in the 2008 annual report.

Underlying these goals were a series of specific and measurable objectives. Progress against these objectives was reviewed with the board on a quarterly basis, and at year end, the overall status of the CPP Investment Board's primary goals was as follows:

TABLE 5: STATUS OF NON-FINANCIAL GOALS

OBJECTIVES	Status at Year End
Continue to broaden the diversification of the investment portfolio further through different geographies and asset classes and through alpha-based strategies	Achieved
Continue to build our capabilities to effectively manage the expansion and execution of our investment programs	Achieved
Continue executing our multi-year plan to establish the management and operational processes and technologies to enable us to execute our investment strategy over the long term	Achieved

Compensation of the CEO

As with other officers, Mr. Denison's total compensation is closely linked to a combination of individual and CPP Fund performance measures. At the beginning of each fiscal year, the board and the CEO agree on key objectives aligned with the non-financial goals outlined above, and Mr. Denison's performance in achieving these objectives is evaluated by the HRCC at the end of the fiscal year and approved by the board; this evaluation is then used in determining the individual component of his short-term incentive payout for the current fiscal year and his base salary for the upcoming year. The CPP Fund's investment performance during the four-year performance period determines the balance of his short-term incentive payout and all long-term incentive payouts. For fiscal 2009, Mr. Denison's compensation consisted of base salary, awards under the STIP, LTIP, and RFU programs, as well as pension and other benefits.

As summarized above and discussed elsewhere in the annual report, under Mr. Denison's leadership, the CPP Fund has generated 487 basis points in cumulative value-added returns representing $5.3 billion in additional investment income.

Mr. Denison's personal objectives for 2009 were aligned with the non-financial goals summarized above, including the following:

- Continuing to champion and foster a culture defined by our guiding principles,
- Ensuring the successful integration of our Toronto, London and Hong Kong offices,
- Operationalizing a comprehensive Enterprise Risk Management framework that enables management to identify, manage and mitigate key risks,
- Building credit capabilities across the organization, and
- Furthering our succession planning initiatives in support of a self-regenerating organization.

All of these key goals were achieved. In evaluating the CEO's overall performance, the board took particular note of the CEO's strong leadership in implementing a demanding business strategy, the increased size and complexity of the corporation including new locations outside of Canada, the maintenance of a disciplined approach to long-term investment decisions during a time of extraordinary turbulence in the financial markets, and the CEO's influence in embedding a high-performance culture across the CPP Investment Board.

However, recognizing the current economic environment, the board has decided not to award any individual component of STIP, nor will the CEO receive a base salary increase in fiscal 2010.

Compensation of the Other Named Executive Officers

As with the CEO, with respect to the three investment officers, the board has decided not to award any individual component of STIP, nor will the officers receive base salary increases in fiscal 2010.

While the board considers this decision appropriate given current economic circumstances, its decision is not a reflection of the individual performance of these officers in fiscal 2009. The board remains very confident in the abilities of the CEO and the investment officers to lead the investment programs and successfully implement the long-term investment strategy designed to help sustain the CPP for decades and generations.

Summary Compensation Table

Compensation paid in respect of fiscal 2009 to the CEO, the CFO, and the CPP Investment Board's three most highly compensated officers (collectively, the named executive officers, or NEOs) is shown below. For the named executive officers excluding the CFO, total compensation is $8,519,560, down 31.4 per cent from $12,413,310 in the year prior, primarily reflecting the negative impact of this year's investment performance and the decision not to award any individual component of STIP. Based on our pay-for-performance approach which measures performance over rolling four-year periods, this year's investment performance will continue to impact incentive compensation payouts for the next three years.

TABLE 6: SUMMARY COMPENSATION TABLE[1]

NAME AND PRINCIPAL POSITION	Year	Salary	Non-Equity Incentive Plan Compensation			Pension Value		All Other Compensation[5]	Total Compensation
			Annual[2]	Long-Term[3]					
			STIP	LTIP	RFU	Pension Contributions[4]	SPP Contributions[4]		
David F. Denison PRESIDENT AND CEO	2009	$490,000	$ 735,000	$1,236,145	$389,877	$14,242	$44,781	$ 9,571	**$2,919,616**
	2008	$475,000	$1,246,875	$1,902,343	$473,623	$13,568	$43,762	$ 8,795	**$4,163,966**
	2007	$460,000	$1,840,000	–	–	$12,765	$51,334	$ 10,013	**$2,374,112**
Nicholas Zelenczuk SVP AND CFO[6]	2009	$ 60,000	$ 100,000	–	–	$ 3,600	–	$ 1,823	**$ 165,423**
Myra Libenson CFO[7]	2009	$174,423	–	–	–	$ 9,673	$11,185	$603,174	**$ 798,455**
	2008	$273,077	$ 300,000	–	–	$13,290	$17,004	$ 7,698	**$ 611,069**
	2007	$223,269	$ 320,000	–	–	$13,529	–	$ 4,367	**$ 561,165**
Mark D. Wiseman SVP PRIVATE INVESTMENTS	2009	$335,000	$ 735,000	$1,110,429	$266,686	$14,162	$23,979	$ 7,574	**$2,492,830**
	2008	$325,000	$1,050,000	$1,364,499	$324,058	$13,568	$23,512	$ 7,203	**$3,107,840**
	2007	$310,000	$1,360,000	–	–	$12,784	$23,334	$ 6,426	**$1,712,544**
Donald M. Raymond SVP PUBLIC MARKET INVESTMENTS	2009	$335,000	$ 541,695	$ 488,192	$266,686	$14,162	$23,979	$ 8,192	**$1,677,906**
	2008	$325,000	$ 828,750	$1,103,738	$324,058	$13,568	$23,512	$ 7,447	**$2,626,073**
	2007	$310,000	$1,177,000	$ 240,438	–	$12,777	$34,423	$ 6,580	**$1,781,218**
Graeme M. Eadie SVP REAL ESTATE INVESTMENTS	2009	$310,000	$ 435,356	$ 395,502	$246,381	$14,162	$20,604	$ 7,203	**$1,429,208**
	2008	$300,000	$ 765,000	$1,111,092	$299,130	$13,568	$20,137	$ 6,504	**$2,515,431**
	2007	$285,000	$1,077,000	–	–	$12,828	$19,884	$ 6,243	**$1,400,955**

[1] All amounts shown in the Summary Compensation Table above reflect compensation paid to named executive officers in (or in respect to) the current fiscal year only. Amounts shown under Long-term incentive plan compensation (LTIP and RFU), therefore, do not depict grant date values. Incentive plan compensation is paid in cash in the year following the year in which they are earned; amounts shown above were paid to the NEOs in early fiscal 2010 in respect of fiscal 2009.

[2] STIP: Target STIP awards are set as a percentage of salary, to which a multiplier is applied. The multiplier is based both on actual fund performance (CPP Fund and asset class) over the previous four fiscal years (transitioned to four years in fiscal 2009 from three years in fiscal 2008), and on individual performance, and cannot result in a payout more than two times the target award.

[3] LTIP and RFUs: Long-term incentive plan compensation reflects amounts payable for the current year. Starting in fiscal 2006, target LTIP awards are set as a percentage of salary at the outset of each year, and are typically paid out at the end of a four-year cycle. As with STIP, a multiplier is applied to the target LTIP award based on the investment performance of the CPP Fund and its asset classes as compared with specified benchmarks; by the end of the performance period this multiplier cannot exceed three times the value of the target award. The final LTIP payout is increased (or decreased) based on the Fund's compounded rate of return over the performance period. RFUs are a notional investment in the Fund that fluctuate in value according to fund performance; awards are set as a percentage of salary at the outset of each year, and typically vest and are paid out in cash at a rate of ⅓ per year.

[4] CPP Investment Board makes contributions to the defined contribution pension plan and notional contributions to the supplementary pension plan. Under the defined contribution registered pension plan, employees contribute three per cent of annual eligible earnings and the CPP Investment Board contributes six per cent to the maximum allowed under the *Income Tax Act (Canada)*. Eligible earnings include salary plus annual STIP award to a maximum of 50 per cent of base salary. Under the defined contribution supplementary pension plan, which is unfunded, employees earn contribution credits equal to nine per cent of their eligible earnings in excess of the maximum eligible earnings under the defined contribution registered pension plan. The total unfunded liability for the NEOs as at March 31, 2009 is $352,507 (2008 – $337,093).

[5] Benefits include life insurance, disability benefits, health and dental benefits, fitness reimbursement and vacation. Perquisites include paid parking or transit passes. This column does not include pension contributions.

[6] Mr. Zelenczuk joined the CPP Investment Board on January 15, 2009. Fiscal 2009 STIP award as per employment agreement.

[7] Ms. Libenson, former CFO, ceased employment with the CPP Investment Board effective November 14, 2008, and received $598,129 to discharge obligations outlined in her employment agreement, including the settlement of vacation owing.

Long-Term Incentive Awards Granted in Respect of Fiscal Year 2009

The following table shows the range of future payouts, calculated before CPP Fund investment returns[1], generated by LTIP and RFU awards granted in respect of fiscal 2009:

TABLE 7: LONG-TERM INCENTIVE AWARDS GRANTED IN RESPECT OF FISCAL YEAR 2009

NAME AND POSITION	Type of Award	Fiscal 2009 Grant	Vesting Period	Estimated Future Payouts[1]		
				Threshold[2]	Target	Maximum
David F. Denison PRESIDENT AND CEO	LTIP	$490,000	4 yrs.	$0	$490,000	$1,470,000
	RFU	$490,000	3 yrs.	N/A	$490,000	$ 490,000
Nicholas Zelenczuk SVP AND CFO	LTIP	$240,000	4 yrs.	$0	$240,000	$ 720,000
	RFU	–	–	–	–	–
Mark D. Wiseman SVP PRIVATE INVESTMENTS	LTIP	$350,000	4 yrs.	$0	$350,000	$1,050,000
	RFU	$335,000	3 yrs.	N/A	$335,000	$ 335,000
Donald M. Raymond SVP PUBLIC MARKET INVESTMENTS	LTIP	$335,000	4 yrs.	$0	$335,000	$1,005,000
	RFU	$335,000	3 yrs.	N/A	$335,000	$ 335,000
Graeme M. Eadie SVP REAL ESTATE INVESTMENTS	LTIP	$310,000	4 yrs.	$0	$310,000	$ 930,000
	RFU	$310,000	3 yrs.	N/A	$310,000	$ 310,000

[1] Actual future payout values will be modified by the CPP Fund's compound rate of return (not included in the above table) over the appropriate vesting periods. See LTIP and RFU sections (page 60) for discussion. Based on their vesting schedules, portions of RFU grants awarded in fiscal 2009 have been paid out as of the end of fiscal 2009, and these amounts are included in the Summary Compensation Table (Table 6); these same amounts are also included in the Estimated Future Payouts columns in Table 7, but have not been adjusted for CPP Fund returns.

[2] "Threshold" refers to the minimum amount payable for a certain level of performance under the plan, below which level no award is payable.

Long-Term Incentive Awards, Accumulated Value

The total accumulated value as of March 31, 2009 of all long-term incentive awards granted but not yet vested or paid, by officer and by payment year, is shown in the following table. For greater clarity, payouts earned in respect to fiscal 2009, even if actually disbursed in early fiscal 2010, are shown in the Summary Compensation Table and are not repeated herein. Table 8 illustrates the intended impact of the compensation plan design, specifically the rolling four-year average investment performance, on the potential long-term incentive compensation payouts. The total accumulated value as of March 31, 2009 for the four named executive officers also included in the fiscal 2008 annual report is $7,236,779, down 43.3 per cent from $12,755,461.

TABLE 8: LONG-TERM INCENTIVE AWARDS, ACCUMULATED VALUE[1]

Awards paying out at the end of fiscal year:		2010	2011	2012	Total
David F. Denison PRESIDENT AND CEO	LTIP	$1,118,258	$ 637,893	$ 261,189	$2,017,340
	RFU	$ 261,398	$ 132,921	–	$ 394,319
Nicholas Zelenczuk SVP AND CFO	LTIP	–	–	$ 127,929	$ 127,929
	RFU	$ 240,000	$ 240,000	–	$ 480,000
Mark D. Wiseman SVP PRIVATE INVESTMENTS	LTIP	$ 961,468	$ 787,812	$ 505,219	$2,254,499
	RFU	$ 178,780	$ 90,874	–	$ 269,654
Donald M. Raymond SVP PUBLIC MARKET INVESTMENTS	LTIP	$ 453,088	$ 301,298	$ 191,177	$ 945,563
	RFU	$ 178,780	$ 90,874	–	$ 269,654
Graeme M. Eadie SVP REAL ESTATE INVESTMENTS	LTIP	$ 521,974	$ 243,493	$ 70,953	$ 836,420
	RFU	$ 165,237	$ 84,093	–	$ 249,330
Total		$4,078,983	$2,609,258	$1,156,467	$7,844,708

[1] For LTIP, accumulated values are estimated by using actual fund and/or asset class performance multipliers for those years where performance is known (i.e., 2007, 2008, and 2009), and a multiplier of one (1.0x) for future years; and applying the CPP Fund's rates of return for 2007, 2008, and 2009. RFU accumulated values reflect the CPP Fund's rates of return for fiscal 2008 and 2009, but no returns for future years.

Pension Plans

All employees are eligible, based on compensation, to participate in two pension plans: a defined contribution plan, and a defined contribution supplementary plan.

Under the defined contribution registered pension plan, employees contribute three per cent of annual eligible earnings and the CPP Investment Board contributes six per cent to the maximum allowed under the *Income Tax Act (Canada)*.

Under the defined contribution supplementary pension plan, which is unfunded, employees earn contribution credits equal to nine per cent of their eligible earnings in excess of the maximum eligible earnings under the defined contribution registered pension plan.

Eligible earnings under both pension plans include salary plus the annual STIP award to a maximum of 50 per cent of salary.

The total unfunded liability for the NEOs as at March 31, 2009 is $352,507 (2008 – $337,093).

TABLE 9: PENSION PLAN CONTRIBUTIONS

NAME AND POSITION	Plan Type	Accumulated Value at Start of Year	Compensatory[1]	Non-Compensatory[2]	Accumulated Value at End of Year
David F. Denison	Registered	$ 75,391	$14,242	$(12,062)	$ 77,571
PRESIDENT AND CEO	Supplementary	$118,423	$11,638	–	$130,061
Nicholas Zelenczuk	Registered	–	$ 3,600	$ 1,920	$ 5,520
SVP AND CFO	Supplementary	–	–	–	–
Mark D. Wiseman	Registered	$ 62,070	$14,162	$(18,469)	$ 57,763
SVP PRIVATE INVESTMENTS	Supplementary	$ 42,578	$ 7,163	–	$ 49,741
Donald M. Raymond	Registered	$139,494	$14,162	$(42,129)	$111,527
SVP PUBLIC MARKET INVESTMENTS	Supplementary	$120,295	$ (9,844)	–	$110,451
Graeme M. Eadie	Registered	$ 60,914	$14,162	$(11,182)	$ 63,894
SVP REAL ESTATE INVESTMENTS	Supplementary	$ 40,887	$21,367	–	$ 62,254

[1] Includes employer contributions and regular investment earnings on contributions in the supplementary pension plan.

[2] Includes employee contributions and regular investment earnings on employer and employee contributions in the registered pension plan.

Post-Employment Policies

For the five NEOs, severance pay is generally set at 12 months of base salary and target STIP award, plus one month of salary and target STIP award (one-twelfth of the full-year target STIP award) for every year of service, up to a cap. Any LTIP or RFU awards not vested as of the date of termination are forfeited. Insured benefits such as health, dental and life insurance, are continued during the severance period.

The CPP Investment Board has no "change of control" policies or payments in its employment arrangements. There are no supplementary payouts under the retirement arrangements.

The following table describes the potential payments that would be made upon termination (for other than cause) for the CPP Investment Board's NEOs:

TABLE 10: POTENTIAL POST-EMPLOYMENT PAYMENTS[1]

NAME AND POSITION	Completed Years of Service[2]	Severance[3]	Resignation	Retirement[4]
David F. Denison, PRESIDENT AND CEO	4	$1,633,333	$0	$1,222,937
Nicholas Zelenczuk, SVP AND CFO	–	$ 540,000	$0	$ 0
Mark D. Wiseman, SVP PRIVATE INVESTMENTS	3	$1,075,000	$0	$ 0
Donald M. Raymond, SVP PUBLIC MARKET INVESTMENTS	7	$1,256,250	$0	$ 0
Graeme M. Eadie, SVP REAL ESTATE INVESTMENTS	3	$1,356,250	$0	$ 530,964

[1] Excludes incentive compensation amounts payable for the current year which are included in the Summary Compensation Table (Table 6).

[2] Assumes a notional termination date of March 31, 2009.

[3] Severance is generally equal to 12 months of base salary plus target Short-Term Incentive Plan award, plus one month of salary and target Short-Term Incentive Plan award (i.e., full-year target STIP divided by 12) per year of service. Any unvested LTIP or RFUs are forfeited. Insured benefits, such as health, dental and life insurance, are continued during the severance period.

[4] This shows amounts only for those individuals who are retirement eligible. Eligible retirement payments are for LTIP and RFUs, subject to the following criteria:
- Individual is at least 55 years of age, consistent with the early retirement provisions of the registered pension plan,
- Individual employed during a minimum of 12 months of the performance period,
- Performance measured at end of the performance period,
- Payout is prorated based on length of service within performance period, and
- Payment is made at the end of the performance period.

Summary

The HRCC is satisfied that the CPP Investment Board's current compensation policies and levels of compensation are aligned with the CPP Investment Board's performance. The HRCC will continue to assess the competitiveness and effectiveness of CPP Investment Board's approach to compensation, and adjustments will be made as necessary.

Directors' Compensation

Directors' compensation is overseen by the governance committee. It is reviewed at least every two years, and changes are recommended to the board. The last such review occurred in fiscal 2009 with the assistance of Mercer Human Resource Consulting. Although the review suggested a moderate increase in directors' compensation was warranted, the board, on the recommendation of the governance committee, determined that no change would be made at that time.

For fiscal 2009, directors' compensation included an annual retainer for each director of $25,000; each committee chair received an additional annual retainer of $7,500, and board and committee meeting fees of $1,500 and $1,250 per meeting respectively (including meetings attended by invitation), or $750 if the meeting was held by teleconference. Separate fees were not paid for investment committee meetings if held the same day as board meetings, which is the custom. The chair of the board of directors received $120,000 in annual compensation, but is not eligible to receive annual or committee chair retainers or meeting fees, unless the fees relate to biennial public meetings. Directors also receive a travel time allowance for attending meetings in person, which ranges from $250 to $1,000 depending on distance travelled.

Based on the attendance schedule (see Table 12), individual compensation for each of the Directors consisted of the following:

TABLE 11: DIRECTORS' REMUNERATION

Director	Annual Retainer	Board and Committee Meeting Fees	Public Meeting Fees	Travel Fees	Total Remuneration
Robert M. Astley, CHAIR[1]	$ 69,610	$ 11,500	–	–	$ 81,110
Gail Cook-Bennett[2]	$ 68,387	N/A	$10,000	–	$ 78,387
Ian Bourne, CHAIR OF AUDIT COMMITTEE[3]	$ 28,750	$ 19,500	$ 1,000	$ 5,000	$ 54,250
Robert Brooks[4]	$ 4,839	$ 3,500	–	–	$ 8,339
Pierre Choquette[5]	$ 25,000	$ 26,250	–	$ 6,000	$ 57,250
Germaine Gibara	$ 25,000	$ 25,500	–	$ 1,500	$ 52,000
Michael Goldberg[5]	$ 25,000	$ 19,250	–	$ 7,000	$ 51,250
Peter K. Hendrick	$ 25,000	$ 15,750	–	–	$ 40,750
Nancy Hopkins[5,6]	$ 14,583	$ 11,250	–	$ 3,000	$ 28,833
Philip MacDougall[7]	$ 8,333	$ 5,750	$ 1,000	$ 1,000	$ 16,083
Elaine McKinnon[4]	$ 4,839	$ 1,500	–	–	$ 6,339
Helen Sinclair, CHAIR OF GOVERNANCE COMMITTEE	$ 32,500	$ 21,000	–	–	$ 53,500
Ronald E. Smith, CHAIR OF HRCC	$ 32,500	$ 20,000	$ 1,000	$ 3,000	$ 56,500
David Walker[8]	$ 2,708	$ 750	–	–	$ 3,458
Murray Wallace	$ 25,000	$ 23,750	–	–	$ 48,750
Total	**$392,049**	**$205,250**	**$13,000**	**$26,500**	**$636,799**

[1] Became Chair effective October 27, 2008.

[2] Left the board effective October 26, 2008, after her term expired.

[3] Became chair of audit committee effective October 1, 2008.

[4] Joined the board January 22, 2009.

[5] Meeting fees include attendance at orientation session.

[6] Joined the board September 5, 2008.

[7] Left the board effective July 31, 2008, after his term expired.

[8] Left the board effective April 30, 2008, after his term expired.

TABLE 12: BOARD ATTENDANCE

The board held 12 meetings in fiscal 2009, of which six were regularly scheduled meetings. The investment committee is a committee composed of the full board. The table below reflects the number of meetings attended by each director relative to the total number of meetings that director could have attended. Committee meetings in which the director was invited prior to the appointment to the committee are not reflected.

Director	Board and/or Investment Committee[1]	Audit Committee[2]	Governance Committee[3]	Human Resources and Compensation Committee (HRCC)[4]
Robert M. Astley, CHAIR[5]	12/12	2/2	2/2	–
Gail Cook-Bennett[6]	8/8	–	5/5	–
Ian Bourne, CHAIR OF AUDIT COMMITTEE[7]	9/12	3/4	–	5/6
Robert Brooks[8]	2/2	–	–	–
Pierre Choquette[9]	11/12	–	5/6	4/4
Germaine Gibara	11/12	–	6/7	5/6
Michael Goldberg[10]	11/12	3/3	–	–
Peter K. Hendrick	11/12	3/4	–	–
Nancy Hopkins[11]	5/5	–	2/2	–
Philip MacDougall[12]	4/5	1/1	–	–
Elaine McKinnon[13]	2/2	–	–	–
Helen Sinclair, CHAIR OF GOVERNANCE COMMITTEE	11/12	–	7/7	–
Ronald E. Smith, CHAIR OF HRCC	12/12	–	–	6/6
David Walker[14]	1/1	–	–	–
Murray Wallace[15]	12/12	2/3	–	6/6

[1] Six in-person meetings and six teleconference meetings.

[2] Four in-person meetings.

[3] Six in-person meetings and one teleconference meeting.

[4] Four in-person meetings and two teleconference meetings.

[5] Became Chair of board and investment committee October 27, 2008 and, as Chair, attends all committee meetings; ceased to be audit committee chair September 30, 2008.

[6] Left the board effective October 26, 2008, after her term expired.

[7] Became audit committee chair effective October 1, 2008.

[8] Joined the board January 22, 2009; joined the audit committee February 12, 2009.

[9] Joined the governance and human resources and compensation committees May 13, 2008.

[10] Joined the audit committee May 13, 2008.

[11] Joined the board September 5, 2008; joined the governance committee October 1, 2008.

[12] Left the board effective July 31, 2008, after his term expired.

[13] Joined the board January 22, 2009; joined the human resources and compensation committee February 12, 2009.

[14] Left the board effective April 30, 2008, after his term expired.

[15] Joined the audit committee May 13, 2008.

Investment Partners

Private Equity

Actera Group
Advent International
AlpInvest Partners
Apax Partners
Apollo Management
Ares Management
Birch Hill Equity Partners
Bridgepoint Capital
Brookfield Asset Management
Candover
CCMP (formerly JP Morgan Partners)
Celtic House Venture Partners
Charterhouse Capital Partners
Cinven
CITIC Capital Partners
Clairvest Group
Coller Capital
Credit Suisse First Boston
CIVC Capital Partners
CVC Capital Partners
Diamond Castle
Edgestone Capital Partners
First Reserve
FountainVest
Friedman Fleischer & Lowe Capital Partners
Goldman Sachs Vintage
Heartland Industrial Partners
Hellman & Friedman
Hony Capital Fund
Kensington Capital Partners
Kohlberg Kravis Roberts & Co.
KRG Capital Management
KSL Capital Partners
Lehman Brothers
Lexington Partners
Lightyear Capital
Lindsay, Goldberg & Bessemer
Lone Star Funds
Lumira Capital
Magnum Industrial Partners
Matlin Patterson
MBK Partners
MidOcean Partners
MPM Capital
New Mountain Capital
Onex Partners
PAI Partners
Partners Group
Paul Capital Partners
Performance Equity Management
Permira
Providence Equity Partners
Quantum Energy Partners
Riverstone/Carlyle
Silver Lake Partners
Skypoint Capital
Standard Life
SV Life Sciences
TD Capital
Terra Firma Capital Partners
Texas Pacific Group
The Blackstone Group
The Carlyle Group
The Jordan Company
Thomas H. Lee Partners
Thomas Weisel Partners
Triton
Ventures West
Veronis Suhler Stevenson
Welsh, Carson, Anderson & Stowe

Public Market Investments

AQR Capital Management
Arrowstreet Capital
Barclays Global Investors
BlackRock Credit Investors
Bridgewater Associates
Capital Fund Management
CBRE Global Real Estate Securities
Cevian Capital
Concepts Multi-Strategy Institutional
Connor Clark & Lunn Investment
Enterprise Capital
ESL Partners
First Quadrant
Goldman Sachs Asset Management
ING Clarion Real Estate Securities
Knight Vinke Asset Management
Pacific Investment Management Company
PanAgora Asset Management
Relational Investors LLC
Smith Breeden Associates
Treesdale Partners
ValueAct Capital

Real Estate Investments

Bentall Capital
Brookfield Properties Corporation
Callahan Capital Partners
CapitaLand Group
DEXUS Wholesale Property Limited
Hawkeye Partners
Henderson Global Investors
ING Real Estate Investment Management Limited
LaSalle Investment Management
Liquid Realty Partners
Macquarie Global Property Advisors
Morgan Stanley Real Estate
Morguard Real Estate Investment Trust
Multi Corporation
Osmington Inc.
Oxford Properties Group
ProLogis
RioCan Real Estate Investment Trust
The Blackstone Group
The Westfield Group
TIAA-CREF Asset Management
USAA Real Estate Company

Infrastructure

Macquarie Bank Limited

Management's Responsibility for Financial Reporting

The Consolidated Financial Statements of the Canada Pension Plan Investment Board (the "CPP Investment Board") have been prepared by management and approved by the board of directors. Management is responsible for the integrity and reliability of the Consolidated Financial Statements and the financial information contained within the annual report.

The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles. The Consolidated Financial Statements include certain amounts based on management's judgments and best estimates where deemed appropriate. The significant accounting policies used are disclosed in note 1 to the Consolidated Financial Statements. The financial information presented throughout the annual report is consistent with the Consolidated Financial Statements.

The CPP Investment Board develops and maintains systems of internal control and supporting procedures. The systems of internal control are designed to provide reasonable assurance that assets are safeguarded; that transactions are properly recorded, authorized and are in accordance with the *Canada Pension Plan Investment Board Act*, the accompanying regulations, the by-laws and investment policies of the CPP Investment Board; and that there are no material misstatements in the Consolidated Financial Statements or the financial information contained within the annual report. The internal control over financial reporting and disclosure controls and procedures are tested for both design and operational effectiveness as part of our CEO/CFO certification process as described on page 51 in the MD&A.

The internal control framework includes a strong corporate governance structure, an enterprise-wide risk management framework that identifies, monitors and reports on key risks facing the organization, code of conduct and conflict of interest procedures, and other policies and guidelines that guide decision-making. The controls also include the establishment of an organization structure that provides a well-defined division of responsibilities and accountability, the selection and training of qualified staff, and the communication of policies and guidelines throughout the organization. The systems of internal control are further supported by a compliance management system to monitor the CPP Investment Board's compliance with legislation and policies and by internal and external auditors who review and evaluate internal controls in accordance with their respective annual audit plans approved by the audit committee.

The audit committee assists the board of directors in discharging its responsibility to approve the annual Consolidated Financial Statements. The audit committee, consisting of five independent directors, meets regularly with management and the internal and external auditors to discuss the scope and findings of audits and other work they may be requested to perform from time to time, to review financial information and to discuss the adequacy of internal controls. The audit committee reviews and approves the annual financial statements and recommends them to the board of directors for approval.

The CPP Investment Board's external auditors, Deloitte & Touche LLP, have conducted an independent examination of the Consolidated Financial Statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion in their Auditors' Report. The external auditors have full and unrestricted access to management and the audit committee to discuss any findings related to the integrity and reliability of the CPP Investment Board's financial reporting and the adequacy of internal control systems.

DF Denison

DAVID F. DENISON
President and Chief Executive Officer

NICHOLAS ZELENCZUK
Senior Vice-President and Chief Financial Officer

Toronto, Ontario
May 1, 2009

Investment Certificate

The *Canada Pension Plan Investment Board Act* (the "Act") requires that a certificate be signed by a director on behalf of the board of directors, stating that the investments of the CPP Investment Board held during the year were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures. Accordingly, the Investment Certificate follows.

The investments of the CPP Investment Board, held during the year ended March 31, 2009, were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures.

IAN A. BOURNE
Chair of the audit committee on behalf of the board of directors
Toronto, Ontario
May 14, 2009

Auditors' Report

TO THE BOARD OF DIRECTORS
Canada Pension Plan Investment Board

We have audited the consolidated balance sheet and the consolidated statements of investment portfolio and investment asset mix of the Canada Pension Plan Investment Board (the "CPP Investment Board") as at March 31, 2009 and the consolidated statements of net loss and accumulated net income from operations and of changes in net assets for the year then ended. These consolidated financial statements are the responsibility of the CPP Investment Board's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the CPP Investment Board and the investments held as at March 31, 2009 and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles, which were applied on a basis consistent with that of the preceding year except for the changes in accounting policies as described in note 1b.

Further, in our opinion, the transactions of the CPP Investment Board and those of its subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with the *Canada Pension Plan Investment Board Act* (the "Act") and the by-laws and the by-laws of the subsidiaries, as the case may be.

Further, in our opinion, the record of investments kept by the CPP Investment Board's management pursuant to paragraph 39(1)(c) of the Act fairly presents, in all material respects, the information required by the Act.

Deloitte & Touche LLP

CHARTERED ACCOUNTANTS
Licensed Public Accountants
Toronto, Ontario
May 1, 2009

Consolidated Balance Sheet

AS AT MARCH 31 ($ millions)	**2009**	2008
ASSETS		
Investments (note 2)	**$ 109,198**	$ 126,207
Amounts receivable from pending trades	**3,245**	4,471
Premises and equipment (note 3)	**29**	18
Other assets	**14**	11
TOTAL ASSETS	**112,486**	130,707
LIABILITIES		
Investment liabilities (note 2)	**2,149**	1,478
Amounts payable from pending trades	**4,733**	6,423
Accounts payable and accrued liabilities	**103**	103
TOTAL LIABILITIES	**6,985**	8,004
NET ASSETS	**$ 105,501**	$ 122,703
NET ASSETS, REPRESENTED BY		
Share capital (note 5)	**$ –**	$ –
Accumulated net income from operations	**8,579**	32,344
Accumulated net transfers from the Canada Pension Plan (note 6)	**96,922**	90,359
NET ASSETS	**$ 105,501**	$ 122,703

The accompanying notes are an integral part of these Consolidated Financial Statements.

On behalf of the board of directors

ROBERT M. ASTLEY
Chair

IAN A. BOURNE
Chair of the audit committee

Consolidated Statement of Net Loss and Accumulated Net Income from Operations

FOR THE YEAR ENDED MARCH 31 ($ millions)		2009		2008
NET INVESTMENT LOSS (note 7)	$	**(23,576)**	$	(268)
OPERATING EXPENSES				
Personnel costs		**111**		101
General operating expenses (note 8a)		**59**		37
Professional services (note 8b)		**19**		16
		189		154
NET LOSS FROM OPERATIONS		**(23,765)**		(422)
ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF YEAR		**32,344**		32,766
ACCUMULATED NET INCOME FROM OPERATIONS, END OF YEAR	$	**8,579**	$	32,344

Consolidated Statement of Changes in Net Assets

FOR THE YEAR ENDED MARCH 31 ($ millions)		2009		2008
NET ASSETS, BEGINNING OF YEAR	$	**122,703**	$	115,935
CHANGES IN NET ASSETS				
Canada Pension Plan transfers (note 6)				
Transfers from the Canada Pension Plan		**29,131**		27,784
Transfers to the Canada Pension Plan		**(22,568)**		(20,594)
Net loss from operations		**(23,765)**		(422)
INCREASE (DECREASE) IN NET ASSETS FOR THE YEAR		**(17,202)**		6,768
NET ASSETS, END OF YEAR	$	**105,501**	$	122,703

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Investment Portfolio

The CPP Investment Board's investments are grouped by asset class based on the intent of the investment strategies of the underlying portfolios. The investments, before allocating the market exposure of derivative contracts, associated money market securities and other investment receivables and liabilities to the asset classes to which they relate, are as follows:

AS AT MARCH 31 ($ millions)	**Fair Value 2009**	Fair Value 2008
EQUITIES (note 2b)		
Canada		
Public equities	**$ 8,058**	$ 17,276
Private equities	**775**	644
	8,833	17,920
Foreign developed markets		
Public equities	**19,057**	30,395
Private equities	**13,100**	12,693
	32,157	43,088
Emerging markets		
Public equities	**3,866**	571
Private equities	**240**	127
	4,106	698
TOTAL EQUITIES	**45,096**	61,706
FIXED INCOME (note 2c)		
Bonds	**26,915**	27,192
Other debt	**1,828**	1,144
Money market securities	**14,569**	18,798
TOTAL FIXED INCOME	**43,312**	47,134
ABSOLUTE RETURN STRATEGIES (note 2d)	**1,830**	1,547
INFLATION-SENSITIVE ASSETS (note 2e)		
Public real estate	**255**	488
Private real estate	**7,610**	7,421
Inflation-linked bonds	**775**	3,962
Infrastructure	**4,584**	2,776
TOTAL INFLATION-SENSITIVE ASSETS	**13,224**	14,647
INVESTMENT RECEIVABLES		
Securities purchased under reverse repurchase agreements (note 2f)	**4,000**	–
Accrued interest	**558**	660
Derivative receivables (note 2g)	**1,042**	344
Dividends receivable	**136**	169
TOTAL INVESTMENT RECEIVABLES	**5,736**	1,173
TOTAL INVESTMENTS	**$ 109,198**	$ 126,207
INVESTMENT LIABILITIES		
Securities sold under repurchase agreements (note 2f)	**(99)**	–
Debt on private real estate properties (note 2e)	**(930)**	(980)
Derivative liabilities (note 2g)	**(1,120)**	(498)
TOTAL INVESTMENT LIABILITIES	**(2,149)**	(1,478)
Amounts receivable from pending trades	**3,245**	4,471
Amounts payable from pending trades	**(4,733)**	(6,423)
NET INVESTMENTS	**$ 105,561**	$ 122,777

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Investment Asset Mix

This Consolidated Statement of Investment Asset Mix illustrates the full market exposure and is grouped by asset class based on the intent of the investment strategies of the underlying portfolios. The investments, after allocating the market exposure of derivative contracts, associated money market securities and other investment receivables and liabilities to the asset classes to which they relate, are as follows:

AS AT MARCH 31 ($ millions)	2009		2008	
	Fair Value	**(%)**	Fair Value	(%)
EQUITIES[1]				
Canada	$ 15,561	14.7%	$ 28,891	23.5%
Foreign developed markets	40,437	38.3	47,461	38.7
Emerging markets	4,591	4.4	698	0.5
	60,589	57.4	77,050	62.7
FIXED INCOME				
Bonds[1,2]	28,366	26.9	30,215	24.6
Other debt[1]	1,833	1.7	1,142	1.0
Money market securities[3]	(768)	(0.7)	17	–
	29,431	27.9	31,374	25.6
INFLATION-SENSITIVE ASSETS				
Real estate[1,4]	6,912	6.5	6,877	5.6
Inflation-linked bonds[1,2]	4,080	3.9	4,739	3.9
Infrastructure[1]	4,549	4.3	2,737	2.2
	15,541	14.7	14,353	11.7
NET INVESTMENTS	$ 105,561	100%	$ 122,777	100%

[1] Includes derivative receivables, derivative liabilities and associated money market securities.

[2] Includes accrued interest.

[3] Includes amounts receivable/payable from pending trades, dividends receivable, accrued interest and absolute return strategies.

[4] Net of debt on private real estate properties, as described more fully in note 2e.

The accompanying notes are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED MARCH 31, 2009

Organization

The Canada Pension Plan Investment Board (the "CPP Investment Board") was established in December 1997 pursuant to the *Canada Pension Plan Investment Board Act* (the "Act"). The CPP Investment Board is a federal Crown corporation, all of the shares of which are owned by Her Majesty the Queen in right of Canada. The CPP Investment Board is responsible for assisting the Canada Pension Plan (the "CPP") in meeting its obligations to contributors and beneficiaries under the Canada Pension Plan. It is responsible for managing amounts that are transferred to it under Section 108.1 of the Canada Pension Plan in the best interests of the beneficiaries and contributors. The CPP Investment Board received its first funds for investing purposes from the CPP in March 1999. The CPP Investment Board's assets are to be invested in accordance with the Act, regulations and the investment policies with a view to achieving a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day. The CPP Investment Board's legislated mandate, the overall benchmark that provides context for investing decisions and the investment strategy employed to support the long-term sustainability of the Canada Pension Plan are fully described in Management's Discussion and Analysis on pages 16 to 23 of the 2009 Annual Report.

The CPP Investment Board and its wholly-owned subsidiaries are exempt from Part I tax under paragraphs 149(1)(d) and 149(1)(d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of the CPP Investment Board and its subsidiaries are owned by Her Majesty the Queen in right of Canada or by a corporation whose shares are owned by Her Majesty the Queen in right of Canada, respectively.

The Consolidated Financial Statements provide information on the net assets managed by the CPP Investment Board and do not include the pension liabilities of the CPP. The CPP Investment Board has a fiscal year end of March 31.

1. Summary of Significant Accounting Policies

(A) BASIS OF PRESENTATION

The Consolidated Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles and the requirements of the Act and the accompanying regulations.

These Consolidated Financial Statements present the consolidated financial position and results of operations of the CPP Investment Board, its wholly-owned subsidiaries and the proportionate share of the fair value of assets, liabilities and operations of privately held real estate investments in joint ventures. Inter-company transactions and balances have been eliminated in preparing these Consolidated Financial Statements.

Certain comparative figures have been reclassified to conform with the current-year financial statement presentation.

(B) CHANGES IN ACCOUNTING POLICIES

FINANCIAL INSTRUMENTS

On April 1, 2008, the CPP Investment Board adopted Canadian Institute of Chartered Accountants ("CICA") section 3862, Financial Instruments – Disclosures, and section 3863, Financial Instruments – Presentation. These two new sections have replaced the disclosure and presentation requirements of section 3861, Financial Instruments – Disclosure and Presentation, and enhance disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks (see note 2a).

CAPITAL DISCLOSURES

On April 1, 2008, the CPP Investment Board adopted CICA section 1535, Capital Disclosures. Section 1535 requires an entity to disclose its objectives, policies and processes for managing capital, which for the CPP Investment Board, is its net investments. The adoption of section 1535 did not have a material impact on the CPP Investment Board's financial statement disclosure.

(C) VALUATION OF INVESTMENTS, INVESTMENT RECEIVABLES AND INVESTMENT LIABILITIES

Investments, investment receivables and investment liabilities are recorded on a trade date basis and are stated at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

In an active market, fair value is best evidenced by an independent quoted market price. In the absence of an active market, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. These valuation techniques include using recent arm's length market transactions, if available, or current fair value of another investment that is substantially the same, discounted cash flow analysis, option pricing models and other accepted industry valuation methods.

Fair value is determined as follows:

(i) Fair value for publicly-traded equities is based on quoted market prices. Where the market price is not available or reliable, such as those for securities that are not sufficiently liquid to be used as a basis for fair value, fair value is determined using accepted industry valuation methods.

(ii) Fair value for fund investments is generally based on the net asset value as reported by the external managers of the funds or other accepted industry valuation methods.

(iii) Private equity and infrastructure investments are either held directly or through ownership in limited partnership arrangements. The fair value for investments held directly is determined using accepted industry valuation methods. These methods include considerations such as earnings multiples of comparable publicly-traded companies, discounted cash flows using current market yields of instruments with similar characteristics and third party transactions, or other events which would suggest a change in the value of the investment. In the case of investments held through a limited partnership, fair value is generally determined based on relevant information reported by the General Partner using similar accepted industry valuation methods.

(iv) Fair value for marketable bonds is based on quoted market prices. Where the market price is not available, fair value is calculated using discounted cash flows based on current market yields of instruments with similar characteristics.

(v) Fair value for non-marketable Canadian government bonds is calculated using discounted cash flows based on current market yields of instruments with similar characteristics, adjusted for the non-marketability and rollover provisions of the bonds.

(vi) Money market securities are recorded at cost, which, together with accrued interest income, approximates fair value due to the short-term nature of these securities.

(vii) Fair value for public real estate investments is based on quoted market prices.

(viii) Fair value for private real estate investments is determined using accepted industry valuation methods, such as discounted cash flows and comparable purchase and sales transactions. Debt on private real estate investments is valued using discounted cash flows based on current market yields for instruments with similar characteristics.

(ix) Fair value for inflation-linked bonds is based on quoted market prices.

(x) Fair value for exchange-traded derivatives, which includes futures, is based on quoted market prices. Fair value for over-the-counter derivatives, which include swaps, options, forward contracts and warrants, is determined based on the quoted market prices of the underlying instruments where available. Otherwise, fair value is based on other accepted industry valuation methods using inputs such as equity prices and indices, broker quotations, market volatilities, currency exchange rates, current market interest rate yields, credit spreads and other market-based pricing factors. In determining fair value, consideration is also given to liquidity risk and the credit risk of the counterparty.

Direct investments in private equities, infrastructure and private real estate have fair values derived primarily from assumptions based on non-observable market data. The fair value of these direct investments is based on accepted industry valuation methods that may include the use of estimates made by management, appraisers or both where significant judgment is required. By using valuation methods based on reasonable alternative assumptions, different fair values at March 31, 2009 could result. Management has determined that the potential impact on fair values using these reasonable alternative assumptions would not be significant.

(D) INCOME RECOGNITION

Income from investments is recognized on an accrual basis and includes realized gains and losses from investments, unrealized gains and losses on investments held at the end of the year, dividend income (recognized on ex-dividend date), interest income and net operating income from private real estate investments. Distributions received from limited partnerships and funds are recognized as interest income, dividend income, realized gains and losses from investments or return of capital, as appropriate.

(E) TRANSACTION COSTS

Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment. Transaction costs are expensed as incurred and recorded as a component of net investment income.

(F) TRANSLATION OF FOREIGN CURRENCIES

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the transaction date. Investments and other monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the year-end date with any resulting foreign exchange gain or loss included in net gain (loss) on investments (see note 7).

(G) CANADA PENSION PLAN TRANSFERS

Amounts from the CPP are recorded as received.

(H) USE OF ESTIMATES

The preparation of Consolidated Financial Statements in accordance with Canadian generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported values of assets and liabilities as at the date of the financial statements and income and expenses during the reporting period. Significant estimates and judgments are required principally in determining the reported estimated fair values of investments since these determinations include estimates of expected future cash flows, rates of return and the impact of future events. Actual results could differ from those estimates.

(I) PREMISES AND EQUIPMENT

Premises and equipment are recorded at cost and amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment and software	3 years
Office furniture and equipment	5 years
Leasehold improvements	over the term of the leases

(J) FUTURE ACCOUNTING POLICY CHANGE

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board confirmed that publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS"). The CPP Investment Board will adopt IFRS for interim and annual periods commencing April 1, 2011, together with the disclosure of prior years' comparative figures.

The CPP Investment Board has developed a conversion plan and is in the process of assessing the impact that IFRS could have on its operations, financial position and results of operations.

2. Investments and Investment Liabilities

(A) FINANCIAL RISK MANAGEMENT

The CPP Investment Board is exposed to a variety of financial risks as a result of its investment activities. These risks include market risk, credit risk and liquidity risk. The CPP Investment Board manages and mitigates financial risks through the Risk/Return Accountability Framework that is contained within the investment policies approved by the board of directors at least once every fiscal year. This framework contains risk limits and risk management provisions that govern investment decisions and has been designed to achieve the mandate of the CPP Investment Board which is to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any business day.

Included within the Risk/Return Accountability Framework is an active risk limit which represents a limit on the amount of investment risk that the CPP Investment Board can take relative to the CPP Reference Portfolio. The CPP Reference Portfolio is approved by the board of directors and serves as a performance benchmark against which the CPP Investment Board's value-added activities are measured. It represents a low-cost strategic alternative to the CPP Investment Portfolio. The objective of the CPP Investment Board is to create value-added investment returns greater than the returns that would be generated by the CPP Reference Portfolio. The CPP Investment Board monitors the active risk in the CPP Investment Portfolio daily and reports active risk exposures to the board of directors on at least a quarterly basis. Financial risk management is discussed in greater detail on pages 23 to 25 in the Risk Management section of Management's Discussion and Analysis in the 2009 Annual Report.

(i) *Market Risk:* Market risk (including currency risk, interest rate risk and equity price risk) is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices and rates. As discussed above, the CPP Investment Board manages market risk through the Risk/Return Accountability Framework. This includes investing across a wide spectrum of asset classes and investment strategies to earn a diversified risk premium at the total fund level, based on risk limits established in the investment policies. In addition, derivatives are used, where appropriate, to manage certain market risk exposures (see note 2g). Market risk is comprised of the following:

Currency Risk: The CPP Investment Board is exposed to currency risk through holdings of investments in various currencies. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value and future cash flows of these investments.

In Canadian dollars, the net underlying currency exposures, after allocating foreign currency derivatives, as at March 31 are as follows:

($ millions)	**2009**		2008	
CURRENCY	**Net Exposure**	**% of Total**	Net Exposure	% of Total
United States Dollar	**$ 25,698**	**57%**	$ 23,586	49%
Euro	**7,988**	**18**	10,813	23
Japanese Yen	**3,907**	**9**	4,910	10
British Pound Sterling	**2,436**	**5**	3,593	8
Hong Kong Dollar	**1,363**	**3**	467	1
Australian Dollar	**875**	**2**	1,243	3
Other	**2,604**	**6**	2,961	6
Total	**$ 44,871**	**100%**	$ 47,573	100%

Interest Rate Risk: Interest rate risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market interest rates. The CPP Investment Board's interest-bearing investments are exposed to interest rate risk.

Equity Price Risk: Equity price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market.

In addition to the above, the CPP Investment Board is indirectly exposed to market risk on the underlying securities of fund investments.

VALUE AT RISK

CPP Investment Board uses Value at Risk ("VaR") methodology to monitor market risk exposure in the CPP Investment Portfolio. VaR is a statistical technique that is used to estimate the potential loss in value of an investment as a result of movements in market rates and prices over a specified time period and for a specified confidence level. The VaR calculated by the CPP Investment Board is estimated using a historical simulation method, incorporating the most recent 10 years of weekly market returns, evaluated at a 90 per cent confidence level and scaled to a one-year holding period.

VaR is valid under normal market conditions and does not specifically consider losses arising from severe market events. It also assumes that historical market data is a sound basis for estimating potential future losses. If future market conditions and interrelationships of interest rates, foreign exchange rates and market prices differ significantly from those of the past, then the actual losses could materially differ from those estimated. The VaR measure provides an estimate of a single value in a distribution of potential losses that the CPP Investment Portfolio could experience. It is not an estimate of the worst-case scenario.

Other assumptions under the historical simulation method for estimating VaR include:

- An estimate for VaR at a one-year holding period can be derived from a simulation based on weekly market returns by using a time-based scaling factor;
- Incorporating the most recent 10 years of market data is sufficient to reasonably estimate the potential loss in value at a 90 per cent confidence level; and
- The public market proxies used to represent private market investment returns (e.g. those for private real estate and private equities) are reasonable for estimating their contribution to the VaR.

The CPP Investment Board monitors the active risk of the CPP Investment Portfolio relative to the CPP Reference Portfolio. Changes in active risk are largely independent of changes in VaR in the CPP Reference Portfolio and CPP Investment Portfolio.

As at March 31, 2009, VaR at a 90 per cent confidence level, indicates that one year in 10, the portfolio can be expected to lose at least the following amounts:

($ millions)		**VaR**	**% of CPP Investment Portfolio**[1]
CPP Reference Portfolio	$	**10,370**	**9.7%**
CPP Investment Portfolio Active Risk	$	**1,720**	**1.6%**
CPP Investment Portfolio[2]	$	**11,351**	**10.6%**

[1] Excludes certain assets where the market risk exposure is not monitored using VaR, such as the assets of the Cash for Benefits portfolio which is a separately managed short-term cash management program designed to facilitate monthly benefit payments by the CPP.

[2] CPP Investment Portfolio VaR is less than the sum of the CPP Reference Portfolio VaR and CPP Investment Portfolio Active Risk due to the beneficial impact of risk diversification.

(ii) ***Credit Risk:*** Credit risk is the risk of financial loss due to a counterparty failing to meet its contractual obligations, or a reduction in the value of the assets due to a decline in the credit quality of the borrower, counterparty, guarantor or the assets (collateral) supporting the credit exposure. The CPP Investment Board's most significant exposure to credit risk is its investment in debt securities and over-the-counter derivatives (as discussed in note 2g). The carrying amounts of these investments as presented in the Consolidated Statement of Investment Portfolio represent the maximum credit risk exposure at the balance sheet date.

Oversight for credit risk resides with the Credit Committee, a sub-committee of the investment planning committee ("IPC"), and chaired by the Chief Operations Officer. The IPC, chaired by the President and Chief Executive Officer, is accountable for monitoring and managing the total portfolio strategic risk exposures and providing strategic direction to the investment departments. The Credit Committee advises the IPC on the total portfolio exposure to credit risk and whether changes are warranted in the allocation of credit risk within the overall limits established by the board of directors. The Credit Committee ensures that credit risks are identified, measured and monitored regularly and communicated at least monthly to the IPC and at least quarterly to the board of directors.

Credit risk measurement and reporting are performed by professional risk managers within the Investment Risk Management group ("IRM"). IRM provides qualitative and quantitative analysis and oversight of credit risk, monitoring exposure limits, augmented by detailed analysis of single-name and sector exposures. Credit VaR is the common measure of credit risk across all investment strategies. IRM works closely with the investment departments to provide an evaluation of the credit risk created by significant transactions. Detailed reports of credit risk and counterparty exposures are provided weekly to management and at least monthly to the Credit Committee and the IPC.

The CPP Investment Board manages credit risk by setting overall credit exposure limits by credit rating category. The board of directors approves the credit exposure limits at least once every fiscal year. Counterparties are assigned a credit rating as determined by a recognized credit rating agency, where available, or as determined through an internal credit rating process. Where the internal credit rating is lower than the rating determined by a recognized credit rating agency, the internal credit rating will prevail. Credit exposure to any single counterparty is limited to maximum amounts as specified in the investment policies. The Credit Committee has also established single-name sub-limits within the credit exposure limits to mitigate risks arising from concentrated exposures to certain counterparties. IRM measures and monitors sub-limits and credit exposure limits daily for compliance and reports to the Credit Committee and IPC at least monthly, or more frequently as necessary.

The fair value of debt securities and over-the-counter derivatives exposed to credit risk, by credit rating category and without taking account of any collateral held or other credit enhancements, are as follows:

AS AT MARCH 31, 2009 ($ millions)

Credit Rating	Bonds[1,2]	Money Market Securities[1]	Reverse Repurchase Agreements[1,3]	Over-the-Counter Derivatives	Total	% of Total
AAA/R-1 (high)	$ 8,257	$ 11,634	$ –	$ 598	$ 20,489	44%
AA/R-1 (mid)	15,627	2,286	–	172	18,085	39
A/R-1 (low)	4,127	–	4,003	31	8,161	17
BBB/R-2 (low)	229	–	–	–	229	–
Total	$ 28,240	$ 13,920	$ 4,003	$ 801	$ 46,964	100%

[1] Includes accrued interest.

[2] Includes inflation-linked bonds.

[3] As at March 31, 2009, fixed income securities with a fair value of $4,084 million and a AAA credit rating was received as collateral which mitigates the credit risk exposure on the reverse repurchase agreements (see note 2f).

Credit risk exposure on over-the-counter derivatives is mitigated through the use of master netting arrangements and collateral. Master netting arrangements are entered into with all counterparties so that, if an event of default occurs, all amounts with the counterparty are terminated and settled on a net basis. Credit support annexes are negotiated with certain counterparties and require that collateral, in the form of cash or fixed income securities, be provided to the CPP Investment Board when the positive fair value of the derivative contract exceeds certain threshold amounts. As at March 31, 2009, master netting arrangements and collateral held reduced the credit risk exposure to over-the-counter derivatives from $801 million to $432 million.

In addition to the above, the CPP Investment Board is indirectly exposed to credit risk on the underlying securities of fund investments.

(iii) ***Liquidity Risk:*** Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost-effective manner to meet investment commitments as they come due. The CPP Investment Board mitigates liquidity risk through its unsecured credit facilities (see note 4) available in the amount of $1.5 billion (2008 – $1.5 billion) and the ability to readily dispose of certain investments that are traded in an active market. These include a liquid portfolio of publicly-traded equities, money market securities, marketable bonds and inflation-linked bonds.

The CPP Investment Board is also exposed to liquidity risk through its responsibility for providing cash management services to the CPP (see note 6). In order to manage liquidity risk associated with this short-term cash management program, the assets required for this purpose are segregated from the investment portfolio and separately managed as the Cash for Benefits portfolio. Liquidity risk is also managed by investing these assets in liquid money market instruments with the primary objective to ensure the CPP has the necessary liquidity to meet benefit payment obligations on any business day.

(B) EQUITIES

(i) Public equity investments are made directly or through funds. Investment management fees are paid to investment managers for externally managed investments and include an incentive portion that fluctuates with investment performance. As at March 31, 2009, public equities include fund investments with a fair value of $1,730 million (2008 – $1,202 million).

(ii) Private equity investments are generally made directly or through ownership in limited partnership arrangements which have a typical term of 10 years. The private equity investments represent equity ownerships or investments with the risk and return characteristics of equity. As at March 31, 2009, private equities include direct investments with a fair value of $2,906 million (2008 – $3,219 million).

With respect to limited partnership arrangements, the CPP Investment Board advances capital to the limited partnerships, a portion of which, commonly referred to as management fees, is used by the General Partners to select and provide ongoing management support to the underlying companies. Management fees generally vary between one per cent and two per cent of the total amount committed to the limited partnerships and are expensed as incurred.

(C) FIXED INCOME

(i) Bonds consist of marketable and Canadian government non-marketable bonds.

The non-marketable bonds issued by the provinces prior to 1998 have rollover provisions attached to them by the Act which permit each issuer, at its option, to roll over the bonds on maturity for a further 20-year term at a rate based on capital markets borrowing rates for that province existing at the time of rollover. The non-marketable bonds are also redeemable before maturity at the option of the issuers.

In lieu of exercising its statutory rollover right described in the preceding paragraph, agreements between the CPP Investment Board and the provinces permit each province to repay the bond and concurrently cause the CPP Investment Board to purchase a replacement bond or bonds in a total principal amount not exceeding the principal amount of the maturing security for a term of not less than five years and not greater than 30 years. Such replacement bonds contain rollover provisions that permit the issuer, at its option, to roll over the bond for successive terms of not less than five years and subject in all cases to the maximum 30 years outside maturity date. The replacement bonds are also redeemable before maturity at the option of the issuers.

The terms to maturity of the marketable and non-marketable bonds, not including any rollover options or accrued interest, as at March 31 are as follows:

	2009						2008	
	Terms to Maturity							
($ millions)	**Within 1 Year**	**1 to 5 Years**	**6 to 10 Years**	**Over 10 Years**	**Total**	**Average Effective Yield**	Total	Average Effective Yield
MARKETABLE BONDS								
Government of Canada	**$ 1**	**$ 262**	**$ 302**	**$ 304**	**$ 869**	**2.9%**	$ 911	3.6%
Canadian provincial government	**1**	**229**	**243**	**482**	**955**	**4.6**	1,626	4.4
Canadian government corporations	**111**	**1,367**	**214**	**279**	**1,971**	**3.3**	1,405	4.1
Corporate bonds	**6**	**246**	**134**	**69**	**455**	**7.8**	–	–
NON-MARKETABLE BONDS								
Government of Canada	**73**	**511**	**–**	**–**	**584**	**0.9**	1,140	2.7
Canadian provincial government	**2,228**	**6,474**	**638**	**12,741**	**22,081**	**4.6**	22,110	4.6
TOTAL	**$ 2,420**	**$ 9,089**	**$ 1,531**	**$ 13,875**	**$ 26,915**	**4.5%**	$ 27,192	4.5%

(ii) Other debt consists of investments in distressed mortgage and private debt funds.

(D) ABSOLUTE RETURN STRATEGIES

Absolute return strategies consist of investments in funds whose objective is to generate positive returns regardless of market conditions, that is, returns with a low correlation to broad market indices. The underlying securities of the funds could include, but are not limited to, equities, fixed income securities and derivatives.

(E) INFLATION-SENSITIVE ASSETS

(i) The CPP Investment Board obtains exposure to real estate through investments in publicly-traded securities, funds and privately held real estate.

Private real estate investments are held by wholly-owned subsidiaries and are managed on behalf of the CPP Investment Board by investment managers through co-ownership arrangements. As at March 31, 2009, the subsidiary's share of these investments includes assets of $7,610 million (2008 – $7,421 million) and $930 million of secured debt (2008 – $980 million), with a weighted average fixed interest rate of 6.6 per cent and terms to maturity of one to 19 years.

Included in private real estate are investments in joint ventures. The CPP Investment Board's proportionate interest in joint ventures is summarized as follows:

PROPORTIONATE SHARE OF NET ASSETS AS AT MARCH 31 ($ millions)		**2009**		2008
Assets	**$**	**4,860**	$	5,173
Liabilities		**(930)**		(980)
	$	**3,930**	$	4,193

PROPORTIONATE SHARE OF NET INCOME FOR THE YEAR ENDED MARCH 31 ($ millions)		**2009**		2008
Revenue	**$**	**567**	$	531
Expenses		**(363)**		(328)
	$	**204**	$	203

(ii) The terms to maturity of the inflation-linked bonds as at March 31 are as follows:

	2009						2008	
	Terms to Maturity							
($ millions)	**Within 1 Year**	**1 to 5 Years**	**6 to 10 Years**	**Over 10 Years**	**Total**	**Average Effective Yield**	Total	Average Effective Yield
Inflation-linked bonds	**$ –**	**$ 107**	**$ 140**	**$ 528**	**$ 775**	**2.8%**	$ 3,962	3.9%

(iii) Infrastructure investments are generally made directly, but can also occur through limited partnership arrangements that have a typical term of 10 years. As at March 31, 2009, infrastructure includes direct investments with a fair value of $3,154 million (2008 – $1,913 million). Direct investments do not have management fees, while management fees for limited partnership infrastructure investments are treated similarly to private equity management fees as discussed in note 2b.

(F) SECURITIES SOLD UNDER REPURCHASE AGREEMENTS AND PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS

Securities sold under repurchase agreements are accounted for as collateralized borrowing as they represent the sale of securities effected with a simultaneous agreement to buy them back at a specified price at a specified future date. The securities sold continue to be recognized as an investment of the CPP Investment Board with any changes in fair value recorded as net gain (loss) on investments (see note 7). Securities purchased under reverse repurchase agreements are not recognized as an investment of the CPP Investment Board and are accounted for as collateralized lending as they represent the purchase of securities effected with a simultaneous agreement to sell them back at a specified price at a specified future date. The fair value of securities to be resold under these reverse repurchase agreements is monitored and additional collateral is obtained when appropriate to protect against credit exposure. In the event of counterparty default, the CPP Investment Board has the right to liquidate the collateral held. Repurchase and reverse repurchase agreements are carried on the Consolidated Statement of Investment Portfolio at the amounts at which the securities were initially acquired or sold. Interest incurred on repurchase agreements and interest earned on reverse repurchase agreements are included in investment income (see note 7).

As at March 31, 2009, the securities sold under repurchase agreements of $99 million (2008 – $nil) have terms to maturity of less than one year and a weighted average fixed interest rate of 0.8 per cent. As at March 31, 2009, the securities purchased under reverse repurchase agreements of $4,000 million (2008 – $nil) have terms to maturity of one to three years and an average effective yield of 2.1 per cent.

As at March 31, 2009, fixed income securities with a fair value of $4,084 million (2008 – $nil) were held as collateral on reverse repurchase agreements of which $3,923 million (2008 – $nil) may be sold or repledged. The fair value of securities collateral sold or repledged as at March 31, 2009 is $nil (2008 – $nil). As at March 31, 2009, fixed income securities with a fair value of $100 million (2008 – $nil) were pledged as collateral on repurchase agreements. These transactions are conducted under terms and conditions that are common and customary to collateral arrangements.

(G) DERIVATIVE CONTRACTS

A derivative is a financial contract, the value of which is derived from the value of underlying assets, indices, interest rates or currency exchange rates. The fair value of these contracts is reported as derivative receivables and derivative liabilities on the Consolidated Statement of Investment Portfolio. In the Consolidated Statement of Investment Asset Mix, the derivative exposure is allocated to the asset class to which each contract relates. Derivative exposure generally includes the fair value plus the notional amount of the contract.

The CPP Investment Board uses the following types of derivative instruments as described below:

SWAPS

Swaps include equity, variance, inflation-linked bond, cross-currency interest rate, bond, interest rate and credit default swaps which are over-the-counter contractual agreements generally between two counterparties to exchange a series of cash flows with predetermined conditions based on notional amounts. Swaps are used for yield-enhancement purposes or to adjust exposures to certain equities, bonds, currencies, inflation-linked bonds or interest rates without directly purchasing or selling the underlying asset. Swap contracts create credit risk exposure due to the possible inability of counterparties to meet the terms of the contract. There is also risk arising from exposure to movements in equity values, credit ratings, interest rates and foreign exchange rates, as applicable.

FUTURES

Futures include equity and bond futures which are standardized contracts transacted on an exchange to purchase or sell a specified quantity of equities or bonds at a predetermined price and date in the future. Futures are used to adjust exposures to certain equities and bonds without directly purchasing or selling the underlying asset. The primary risks associated with futures contracts are related to the exposure to movements in equity values, interest rates and foreign exchange rates, as applicable. Credit risk on exchange-traded futures is limited, as these transactions are executed on regulated exchanges, each of which is associated with a well-capitalized clearing house that assumes the obligations of both counterparties.

OPTIONS

Equity options written, which are transacted over-the-counter, are contractual agreements where the seller (writer) gives the purchaser the right, but not the obligation, to buy a specified quantity of a particular stock at or before a specified future date at a predetermined price. The seller receives a premium from the purchaser for this right. Equity options are used for yield-enhancement purposes or to adjust exposures to certain equities without directly purchasing or selling the underlying asset. The primary risks associated with equity options are exposure to movements in equity values and foreign exchange rates as applicable. Credit risk exposure on over-the-counter options arises due to the possible inability of counterparties to meet the terms of the contract.

FORWARDS

Forward contracts include foreign exchange and interest rate forwards which are over-the-counter contractual agreements negotiated between two counterparties to either purchase or sell a specified amount of foreign currencies or interest rate sensitive financial instruments at a predetermined price and date in the future. Forward contracts are used for yield-enhancement purposes or to manage exposures to currencies and interest rates. The primary risks associated with forward contracts arise from exposure to movements in foreign exchange and interest rates, as applicable, and from the possible inability of counterparties to meet the terms of the contract.

WARRANTS

Warrants are transacted both over-the-counter and through exchanges where the issuer gives the purchaser the right, but not the obligation, to buy a specified quantity of stock of the issuer at or before a specified future date at a predetermined price. Warrants are used for yield-enhancement purposes. The primary risks associated with warrants are exposure to movements in equity values and foreign exchange rates as applicable.

NOTIONAL AMOUNTS AND FAIR VALUE OF DERIVATIVE CONTRACTS

Notional amounts of derivative contracts represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged. The notional amounts are used to determine the gains/losses and fair value of the contracts and are generally a measure of the exposure to the asset class to which the contract relates. They are not recorded as assets or liabilities on the balance sheet. Notional amounts do not represent the potential gain or loss associated with the market risk or credit risk associated with a derivative contract.

The fair value of derivative contracts held is as follows:

	As at March 31, 2009			For the Year Ended March 31, 2009	
($ millions)	Positive Fair Value	Negative Fair Value	Net Fair Value	Average Positive Fair Value[1]	Average Negative Fair Value[1]
EQUITY CONTRACTS					
Equity swaps	$ 470	$ (273)	$ 197	$ 363	$ (425)
Variance swaps	6	(138)	(132)	4	(84)
Equity futures	51	(1)	50	36	(34)
Warrants	190	–	190	172	–
Written options	–	(128)	(128)	–	(99)
TOTAL EQUITY CONTRACTS	717	(540)	177	575	(642)
FOREIGN EXCHANGE CONTRACTS					
Forwards	122	(165)	(43)	153	(212)
TOTAL FOREIGN EXCHANGE CONTRACTS	122	(165)	(43)	153	(212)
INTEREST RATE CONTRACTS					
Bond swaps	6	–	6	7	(8)
Cross-currency interest rate swaps	–	(412)	(412)	–	(238)
Inflation-linked bond swaps	193	–	193	31	(45)
Interest rate forwards	–	–	–	–	–
Bond futures	1	–	1	–	–
Interest rate swaps	3	(2)	1	3	–
TOTAL INTEREST RATE CONTRACTS	203	(414)	(211)	41	(291)
CREDIT CONTRACTS					
Credit default swaps	–	(1)	(1)	–	(1)
TOTAL CREDIT CONTRACTS	–	(1)	(1)	–	(1)
TOTAL	$ 1,042	$ (1,120)	$ (78)	$ 769	$ (1,146)

[1] Determined using month-end values.

	As at March 31, 2008			For the Year Ended March 31, 2008	
($ millions)	Positive Fair Value	Negative Fair Value	Net Fair Value	Average Positive Fair Value[1]	Average Negative Fair Value[1]
EQUITY CONTRACTS					
Equity swaps	$ 227	$ (198)	$ 29	$ 288	$ (237)
Variance swaps	–	(1)	(1)	–	–
Equity futures	16	(5)	11	12	(12)
Warrants	–	–	–	–	–
Written options	–	–	–	–	–
TOTAL EQUITY CONTRACTS	243	(204)	39	300	(249)
FOREIGN EXCHANGE CONTRACTS					
Forwards	79	(224)	(145)	186	(150)
TOTAL FOREIGN EXCHANGE CONTRACTS	79	(224)	(145)	186	(150)
INTEREST RATE CONTRACTS					
Bond swaps	13	(8)	5	9	(3)
Cross-currency interest rate swaps	–	(62)	(62)	–	(5)
Inflation-linked bond swaps	9	–	9	1	–
Interest rate forwards	–	–	–	–	–
Bond futures	–	–	–	–	–
Interest rate swaps	–	–	–	–	–
TOTAL INTEREST RATE CONTRACTS	22	(70)	(48)	10	(8)
CREDIT CONTRACTS					
Credit default swaps	–	–	–	–	–
TOTAL CREDIT CONTRACTS	–	–	–	–	–
TOTAL	$ 344	$ (498)	$ (154)	$ 496	$ (407)

[1] Determined using month-end values.

The terms to maturity of the notional amounts for derivative contracts held as at March 31 are as follows:

	2009				2008			
($ millions)	**Within 1 year**	**1 to 5 years**	**6 to10 years**	**Total**	Within 1 year	1 to 5 years	6 to 10 years	Total
EQUITY CONTRACTS								
Equity swaps	**$ 14,363**	**$ 1,296**	**$ –**	**$ 15,659**	$ 10,796	$ 1,500	$ –	$ 12,296
Variance swaps	**3**	**110**	**4,877**	**4,990**	–	–	597	597
Equity futures	**3,781**	**–**	**–**	**3,781**	2,969	–	–	2,969
Warrants	**59**	**377**	**8**	**444**	–	–	–	–
Written options	**–**	**265**	**–**	**265**	–	–	–	–
TOTAL EQUITY CONTRACTS	**18,206**	**2,048**	**4,885**	**25,139**	13,765	1,500	597	15,862
FOREIGN EXCHANGE CONTRACTS								
Forwards	**16,597**	**–**	**–**	**16,597**	14,899	–	–	14,899
TOTAL FOREIGN EXCHANGE CONTRACTS	**16,597**	**–**	**–**	**16,597**	14,899	–	–	14,899
INTEREST RATE CONTRACTS								
Bond swaps	**1,469**	**–**	**–**	**1,469**	2,401	–	–	2,401
Cross-currency interest rate swaps	**1,477**	**–**	**–**	**1,477**	–	1,477	–	1,477
Inflation-linked bond swaps	**3,099**	**–**	**–**	**3,099**	762	–	–	762
Interest rate forwards	**–**	**–**	**–**	**–**	276	–	–	276
Bond futures	**379**	**–**	**–**	**379**	–	–	–	–
Interest rate swaps	**–**	**546**	**46**	**592**	–	–	–	–
TOTAL INTEREST RATE CONTRACTS	**6,424**	**546**	**46**	**7,016**	3,439	1,477	–	4,916
CREDIT CONTRACTS								
Credit default swaps	**–**	**74**	**25**	**99**	–	–	–	–
TOTAL CREDIT CONTRACTS	**–**	**74**	**25**	**99**	–	–	–	–
TOTAL	**$ 41,227**	**$ 2,668**	**$ 4,956**	**$ 48,851**	$ 32,103	$ 2,977	$ 597	$ 35,677

(H) SECURITIES LENDING

In September 2008, the CPP Investment Board suspended its securities lending program. In normal market conditions, securities lending is a low-risk way to add incremental value to the portfolio. Credit risk associated with securities lending was mitigated by requiring the borrower to provide daily collateral in the form of readily marketable investments of greater market value than the securities loaned. However, heightened credit and counterparty risk have significantly altered the risk-return equation. As at March 31, 2009, the CPP Investment Board's investments include securities loaned with a fair value of $nil (2008 – $2,480 million). The fair value of collateral received in respect of the securities loaned is $nil (2008 – $2,606 million).

3. Premises and Equipment

($ millions)	**2009** **Cost**	 **Accumulated Amortization**	 **Net Carrying Amount**	2008 Cost	 Accumulated Amortization	 Net Carrying Amount
Computer equipment and software	**$ 21.7**	**$ 9.0**	**$ 12.7**	$ 9.8	$ 4.5	$ 5.3
Leasehold improvements	**17.1**	**5.3**	**11.8**	12.7	3.3	9.4
Office furniture and equipment	**7.7**	**3.3**	**4.4**	5.5	2.0	3.5
Total	**$ 46.5**	**$ 17.6**	**$ 28.9**	$ 28.0	$ 9.8	$ 18.2

4. Credit Facilities

The CPP Investment Board maintains $1.5 billion (2008 – $1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2009, the total amount drawn on the credit facilities is $nil (2008 – $nil).

5. Share Capital

The issued and authorized share capital of the CPP Investment Board is $100 divided into 10 shares having a par value of $10 each. The shares are owned by Her Majesty the Queen in right of Canada.

6. Canada Pension Plan Transfers

Pursuant to Section 108.1 of the Canada Pension Plan, the Act and an administrative agreement between Her Majesty the Queen in right of Canada and the CPP Investment Board, amounts not required to meet specified obligations of the CPP are transferred weekly to the CPP Investment Board. The funds originate from employer and employee contributions to the CPP.

The CPP Investment Board is also responsible for providing cash management services to the CPP, including the periodic return, on at least a monthly basis, of funds required to meet CPP benefits and expenses.

The accumulated transfers from the CPP since inception as at March 31 are as follows:

($ millions)	**2009**	2008
Accumulated transfers from the Canada Pension Plan	**$ 182,204**	$ 153,073
Accumulated transfers to the Canada Pension Plan	**(85,282)**	(62,714)
Accumulated net transfers from the Canada Pension Plan	**$ 96,922**	$ 90,359

7. Net Investment Loss

Net investment loss is reported net of transaction costs and investment management fees.

Net investment income (loss) by asset class, after giving effect to derivative contracts and investment receivables and liabilities for the year ended March 31 is as follows:

($ millions)			2009			
	Investment Income[1]	Net Gain (Loss) on Investments[2,3,4]	Total Investment Income (Loss)	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
EQUITIES						
Canada						
Public equities	$ 339	$ (9,012)	$ (8,673)	$ (1)	$ (19)	$ (8,693)
Private equities	11	(69)	(58)	(11)	(2)	(71)
	350	(9,081)	(8,731)	(12)	(21)	(8,764)
Foreign developed markets						
Public equities	1,617	(12,154)	(10,537)	(28)	(27)	(10,592)
Private equities	57	(2,665)	(2,608)	(222)	(7)	(2,837)
	1,674	(14,819)	(13,145)	(250)	(34)	(13,429)
Emerging markets						
Public equities	3	(101)	(98)	(1)	(6)	(105)
Private equities	–	(15)	(15)	(25)	–	(40)
	3	(116)	(113)	(26)	(6)	(145)
	2,027	(24,016)	(21,989)	(288)	(61)	(22,338)
FIXED INCOME						
Bonds	1,308	638	1,946	–	–	1,946
Other debt	2	(1,295)	(1,293)	(13)	–	(1,306)
Money market securities	100	(422)	(322)	–	–	(322)
	1,410	(1,079)	331	(13)	–	318
ABSOLUTE RETURN STRATEGIES	–	108	108	(20)	–	88
INFLATION-SENSITIVE ASSETS						
Public real estate	18	(269)	(251)	(8)	(1)	(260)
Private real estate	320	(1,485)	(1,165)	(49)	(11)	(1,225)
Inflation-linked bonds	55	(131)	(76)	–	–	(76)
Infrastructure	237	(295)	(58)	(5)	(20)	(83)
	630	(2,180)	(1,550)	(62)	(32)	(1,644)
TOTAL	$ 4,067	$(27,167)	$(23,100)	$ (383)	$ (93)	$(23,576)

($ millions)			2008			
	Investment Income[1]	Net Gain (Loss) on Investments[2,3]	Total Investment Income (Loss)	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
EQUITIES						
Canada						
Public equities	$ 309	$ 986	$ 1,295	$ (8)	$ (23)	$ 1,264
Private equities	13	21	34	(12)	(7)	15
	322	1,007	1,329	(20)	(30)	1,279
Foreign developed markets						
Public equities	1,881	(7,694)	(5,813)	(8)	(26)	(5,847)
Private equities	105	980	1,085	(128)	(12)	945
	1,986	(6,714)	(4,728)	(136)	(38)	(4,902)
Emerging markets						
Public equities	–	(50)	(50)	–	–	(50)
Private equities	–	8	8	(17)	–	(9)
	–	(42)	(42)	(17)	–	(59)
	2,308	(5,749)	(3,441)	(173)	(68)	(3,682)
FIXED INCOME						
Bonds	1,423	560	1,983	–	–	1,983
Other debt	–	(48)	(48)	(2)	(1)	(51)
Money market securities	67	9	76	–	–	76
	1,490	521	2,011	(2)	(1)	2,008
ABSOLUTE RETURN STRATEGIES	–	106	106	(23)	–	83
INFLATION-SENSITIVE ASSETS						
Public real estate	28	(222)	(194)	(5)	(1)	(200)
Private real estate	259	276	535	(27)	(19)	489
Inflation-linked bonds	89	287	376	–	–	376
Infrastructure	134	551	685	(3)	(24)	658
	510	892	1,402	(35)	(44)	1,323
TOTAL	$ 4,308	$ (4,230)	$ 78	$ (233)	$ (113)	$ (268)

[1] Includes interest income, dividends, securities lending income and private real estate operating income, net of interest expense.

[2] Includes realized gains and losses from investments, unrealized gains and losses on investments held at the end of the period.

[3] Includes foreign exchange gains of $6,789 million (2008 – foreign exchange losses of $1,365 million).

[4] Includes net unrealized losses of $1,209 million which represents the change in fair value estimated on direct investments in private equities, infrastructure and private real estate where the fair value is derived primarily from assumptions based on non-observable market data.

8. Operating Expenses

(A) GENERAL OPERATING EXPENSES

General operating expenses consist of the following:

($ millions)		2009		2008
Operational business services	$	19.7	$	7.3
Premises		12.1		8.4
Custodial fees		10.2		11.6
Amortization of premises and equipment		7.7		4.2
Travel and accommodation		4.3		3.0
Communications		1.8		1.3
Directors' remuneration		0.6		0.7
Other		2.3		0.5
Total	$	58.7	$	37.0

(B) PROFESSIONAL SERVICES

Professional services consist of the following:

($ millions)		2009		2008
Consulting	$	14.0	$	12.5
Legal		3.7		2.0
External audit and audit-related services[1]		1.1		1.2
Tax services		0.5		0.1
Total	$	19.3	$	15.8

[1] Includes fees paid to the external auditors of the CPP Investment Board for audit and audit-related services of $1.0 million (2008 – $1.0 million) and $0.1 million (2008 – $0.2 million), respectively.

9. Commitments

The CPP Investment Board has committed to enter into investment transactions, which will be funded over the next several years in accordance with the agreed terms and conditions. As at March 31, 2009, the commitments total $23.9 billion (2008 – $18.6 billion).

As at March 31, 2009, the CPP Investment Board has made lease and other commitments of $54.7 million (2008 – $59.4 million) over the next nine years.

10. Guarantees and Indemnifications

The CPP Investment Board provides indemnifications to its officers, directors, certain others and, in certain circumstances, to various counterparties. The CPP Investment Board may be required to compensate these parties for costs incurred as a result of various contingencies such as changes in laws and regulations and litigation claims. The contingent nature of the indemnification agreements prevents the CPP Investment Board from making a reasonable estimate of the maximum potential payments the CPP Investment Board could be required to make. To date, the CPP Investment Board has not received any claims nor made any payments pursuant to such indemnifications.

Board of Directors

The board is responsible for the stewardship of the CPP Investment Board, including oversight of management. Each director possesses business and professional credentials that contribute to effective oversight of the organization. Their credentials include expertise and experience in board and board committee work for financial institutions, senior management, investment, actuarial matters, audit, valuation, accounting, cash flow consulting, public policy, investment, due diligence, corporate finance, governance, equities trading, securities regulation, compensation, risk analysis, performance measurement, private equity, technology, infrastructure, real estate, law, Crown corporations and government interface. Together, the board as a whole has the required range of experience and qualifications to fulfill its duties.

ROBERT M. ASTLEY, Chair

Fellow, Canadian Institute of Actuaries
Waterloo, Ontario
Director since September 2006. Appointed Chair effective October 2008.

Former president of Sun Life Financial Canada, former president and CEO of Clarica Life Insurance Company. Director of the Bank of Montreal and chair of its human resources and management compensation committee. Member of the Dean's Advisory Council, Laurier School of Business and Economics. Former chair of Canadian Life and Health Insurance Association and of Wilfrid Laurier University. Qualifications include extensive senior management experience in pension and life and health insurance financial services, including oversight of the successful integration of Clarica with Sun Life Financial.

Investment committee (chair) (Effective October 27, 2008) and governance committee (Effective October 1, 2008). Audit committee (chair) (Until October 1, 2008).

GAIL COOK-BENNETT, C.M.

Economist, Ph.D.
Toronto, Ontario
Director and Chair since October 1998. Left the board effective October 2008, after her term expired.

Previously held academic positions at the University of Toronto and senior executive positions at Bennecon Ltd., a firm specializing in advising corporations on cash flow, and the C.D. Howe Institute, Montreal, a public policy institute. Chair of the board of Manulife Financial Corporation. Director of Petro-Canada and Emera Inc. Fellow of the Institute of Corporate Directors and member of its Advisory Council – Ontario Chapter. Former director of the Bank of Canada, Toronto-Dominion Bank and Ontario Teachers' Pension Plan Board, and former member of the Canadian Group of the Trilateral Commission. Ph.D. (Economics) from the University of Michigan. Qualifications include 30 years of experience as a corporate director chairing audit, pension and governance committees and serving on executive, investment, finance and compensation committees.

Gail Cook-Bennett was the CPP Investment Board's founding Chair and during her decade-long term had a profound influence on the organization. She championed the principles of integrity, accountability and transparency for the organization, oversaw its development from a concept on paper to its current position as a global investor with offices in Toronto, London and Hong Kong, and established a widely admired accountability framework. The CPP Investment Board will continue to benefit for many years to come from Gail's legacy. In recognition of her leadership on the CPP Investment Board and numerous other corporate and private-sector boards in Canada, as well as her support of non-profit organizations over the years, she was appointed a Member of the Order of Canada in 2008.

Investment (chair) and governance committees (Until her term expired in October 2008).

IAN A. BOURNE

Corporate Director
Calgary, Alberta
Director since April 2007

Retired executive vice-president and CFO of TransAlta Corporation, a power generation company, and president of TransAlta Power L.P. Thirty-eight years of experience in senior finance roles at TransAlta, General Electric and Canada Post Corporation. Chair of Ballard Power Systems Inc., serving on the audit, corporate governance and management development, nominating and compensation committees. Director of Canadian Oil Sands Trust, serving on the audit committee and the corporate governance and compensation committee. Director of Wajax Income Fund, chairing the audit committee, and Wajax Limited. Former director of TransAlta Power L.P., TransAlta CoGeneration, L.P. and Purolator Courier Ltd. Qualifications include expertise in finance in major corporations and international experience in Paris and London.

Investment, audit and human resources and compensation committees.
Audit committee (chair) (Effective October 1, 2008).

ROBERT L. BROOKS

Corporate Director
Oakville, Ontario
Director since January 2009

Former vice-chair and group treasurer of the Bank of Nova Scotia, the culmination of a 40-year career with the bank serving in a succession of senior investment banking, finance and treasury roles. Director of Dundee Wealth. Former director of numerous Scotiabank subsidiaries including Scotia Discount Brokerage, Inc., Scotia Life Insurance Company, ScotiaMcLeod, Inc. and Scotia Cassels Investment Counsel Ltd. Qualifications include more than 40 years of financial industry experience as a bank executive dealing with finance, risk management, pension fund asset mix, investment strategies, treasury functions and international operations.

Investment committee (Effective January 22, 2009) and audit committee (Effective February 12, 2009).

PIERRE CHOQUETTE

Corporate Director
Vancouver, British Columbia
Director since February 2008

Chairman of Methanex Corporation since 2003. Former CEO of Methanex, serving for 10 years and credited with globalizing the company's asset base. Former president and COO of Novacorp International and former president of Polysar Inc. Former chair of Gennum Corporation. Former director of Credit Lyonnais (Canada), Echo Bay Mines (U.S.), Stelco, Inc., TELUS Corporation, Terasen Gas, Inc., Terasen Pipelines and Terasen, Inc. Qualifications include 25 years of senior management experience, concentrated in the natural gas and chemical industries, international experience in Belgium and Switzerland, and extensive board experience, including chairing human resources and governance committees and serving on the full range of board committees – notably two acquisition committees for large transactions.

Investment, governance and human resources and compensation committees (Effective May 13, 2008).

GERMAINE GIBARA

Chartered Financial Analyst
Montreal, Quebec
Director since November 2002

President and CEO of Avvio Management Inc., a management consulting firm specializing in strategic planning and the commercialization of technology. 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., Cogeco Inc., Agrium Inc. and Technip. Director of IFPT Management, a private company. Chair of the governance committee of Agrium effective May 2008. Former co-chair of the Institute for Research on Public Policy. Former director of the Economic Council of Canada. Qualifications include expertise in public pension plan investments with responsibility for private equity at Caisse de dépôt, in management of an international organization as former president of Alcan Automotive Structures and in governance as the former chair of the governance committee at Clarica Life Insurance Company.

Investment, governance and human resources and compensation committees.

MICHAEL GOLDBERG

Economist, Ph.D.
Vancouver, British Columbia
Director since February 2008

Former Chief Academic Officer, Universitas 21 Global, an online graduate school initiated by Universitas 21, an international network of 20 research-intensive universities. Professor Emeritus and former Dean of the University of British Columbia's Sauder School of Business, with 37 years on the UBC faculty. Former member of the Deposit Insurance Advisory Committee to the federal Minister of Finance and of the B.C. Workers' Compensation Board Investment Committee. Director of Geovic Mining Corporation and of Lend Lease Global Properties Fund, a Luxembourg-based fund investing in properties in Europe and Asia. Former director of China Enterprises Limited, Redekop Properties Ltd., Vancouver Land Corporation, Catamaran Ferries International Inc. and Imperial Parking Limited. Ph.D. (Economics) from the University of California at Berkeley. Qualifications include expertise in global real estate investments and urban infrastructure and experience on boards as a director serving on audit and compensation committees.

Investment and audit committees (Effective May 13, 2008).

PETER K. HENDRICK

Chartered Accountant, Chartered Financial Analyst
Toronto, Ontario
Director since October 2004

Former executive vice-president of investments and chief investment officer of Mackenzie Financial Corporation. Former vice-president and director of CIBC Wood Gundy Securities Inc. (now CIBC World Markets) in the Corporate Finance, Institutional Equity and Capital Markets divisions. Former lecturer at the Graduate School of Business Administration at Harvard University in the area of management and financial accounting relating to financial controls. Qualifications include experience in equities trading, due diligence reviews, securities regulation, derivatives, hedging, risk analysis and performance measurement from roles at Mackenzie Financial and CIBC World Markets, and audit experience from Ernst & Young.

Investment and audit committees.

NANCY HOPKINS

Lawyer
Saskatoon, Saskatchewan
Director since September 2008

Partner with the law firm McDougall Gauley LLP, specializing in taxation law and corporate governance. Chair of the Saskatoon Airport Authority and vice-chair of the University of Saskatchewan board of governors. Director of Cameco Corporation, chairing the nominating, governance & risk committee. Director of GrowthWorks Canadian Fund and GrowthWorks Opportunity Fund Inc., chairing the audit and independent review committees. Former chair of SGI Canada, a Saskatchewan Crown corporation, and of the Saskatchewan Police Commission. Appointed Queen's Counsel in 1992. Qualifications include 30 years of legal experience with expertise in taxation, governance and information technology, experience in government interface and as a director in multiple stakeholder organizations.

Investment committee (Effective September 4, 2008) and governance committee (Effective October 1, 2008).

PHILIP MacDOUGALL

Fellow, Institute of Chartered Accountants of Prince Edward Island
Charlottetown, Prince Edward Island
Director since October 2004. Left the board effective July 2008, after his term expired.

President of MacDougall Consulting. Served as Deputy Minister in several departments in the government of Prince Edward Island, including Finance, Industry and Commerce, and Health & Social Services. Was a member of the Deputy Ministers' Committee on the Canada Pension Plan. Qualifications include experience in oversight of investment management as Deputy Minister of Finance with responsibility for Sinking Fund assets and for the Master Trust for P.E.I. Public Sector Pensions, and as CEO of the Workers' Compensation Board of P.E.I. Expertise in management in a government context, intergovernmental relations and negotiations, pension plan oversight and in board oversight, primarily for Crown corporations.

Investment and audit committees (Until July 31, 2008).

ELAINE McKINNON

Certified General Accountant
Quispamsis, New Brunswick
Director since January 2009

CFO and COO of Brovada Technologies, a Saint John-based software provider. Served in senior positions with xwave, a division of Bell Aliant, Aliant Inc., Prexar LLC., Bruncor Inc., and as president and CEO of Datacor Atlantic Corp. Director of Efficiency NB, a Crown corporation that promotes energy efficiency in New Brunswick. Qualifications include more than 20 years of IT and telecommunications industry experience in key leadership roles, experience in mergers and acquisitions, corporate finance and human resources, and expertise as a Certified General Accountant.

Investment committee (Effective January 22, 2009) and human resources and compensation committee (Effective February 12, 2009).

HELEN SINCLAIR

Financial Executive
Toronto, Ontario
Director since March 2001

CEO of BankWorks Trading Inc., a business television and webcasting company. Former president of the Canadian Bankers Association, and former senior vice-president of Scotiabank. Director of Epcor Utilities, Inc., TD Bank Financial Group, McCain Capital Corporation and BankWorks Trading Inc. Trustee of Davis + Henderson G.P. Qualifications include extensive experience in senior management roles at financial institutions and on boards of financial institutions.

Investment and governance (chair) committees.

RONALD E. SMITH

Fellow, Institute of Chartered Accountants of Nova Scotia
Dartmouth, Nova Scotia
Director since November 2002

Part-time CFO and director of Immunovaccine Technologies Inc. Former senior vice-president and CFO of Emera, Inc., a Halifax-based energy company. Former CFO of Aliant Telecom Inc. and its predecessor, Maritime Telephone & Telegraph Inc. Chair of Innovative Properties Inc. Former director of Bangor Hydro Electric Company. Member of the Accounting Standards Oversight Council. Chair of the Board of Governors of Acadia University. Former partner Ernst & Young. Qualifications include extensive experience in investment, finance and compensation.

Investment and human resources and compensation (chair) committees.

D. MURRAY WALLACE

Fellow, Institute of Chartered Accountants of Ontario
London, Ontario
Director since April 2007

Chairman and CEO of Park Street Capital Corporation, a personally owned investment and corporate advisory firm. Former president of Axia NetMedia Corporation. Director of Western Surety Ltd., Terravest Income Fund and Critical Outcome Technologies Inc. Former director of Ontario Hydro, London Insurance Group, IPSCO Inc., Crown Life Insurance Co. and Queen's University School of Business (Advisory Committee), among others. Former Deputy Minister of Finance and Deputy Minister to the Premier for the Government of Saskatchewan. Qualifications include expertise as a chartered accountant, senior-level financial experience from five years as President of Avco Financial Services Canada Ltd. and eight years in executive roles with companies in the Trilon Financial Group, experience in public pension plan management and interface with government.

Investment and human resources and compensation committees. Audit committee (Effective May 13, 2008).

Governance Practices of the Board of Directors

This section sets out certain key governance practices of the board of directors. More extensive governance information is posted at www.cppib.ca.

Ensuring Best Practices

PRESERVING A GOVERNANCE MODEL IN WHICH THE CPP INVESTMENT BOARD OPERATES AT ARM'S LENGTH FROM GOVERNMENTS WITH AN INVESTMENT-ONLY MANDATE

DUTIES, OBJECTIVES AND MANDATE OF THE BOARD OF DIRECTORS

The board is responsible for the stewardship of the Canada Pension Plan Investment Board, including oversight of management.

Directors are required to act honestly and in good faith with a view to the best interests of the CPP Investment Board and exercise the care, diligence and skill that a reasonably prudent person would apply in comparable circumstances. Directors must employ any special knowledge or skill they possess in carrying out their duties.

Among other duties, the directors appoint the CEO and annually review his or her performance; determine with management the organization's strategic direction; review and approve investment policies, standards and procedures; review and approve the annual business plan and budget; appoint the external auditor; establish procedures to identify and resolve conflicts of interest; establish a code of conduct for directors and employees; assess the performance of the board itself including an annual chair and peer review; establish disclosure and other policies; and review and approve the stakeholder communications strategy, including material disclosure such as quarterly and annual financial statements and the annual report.

A key part of the carefully designed governance structure that balances independence with accountability is that investment professionals are accountable to an independent board of directors operating at arm's length from governments with an investment-only, purely commercial statutory mandate to be undertaken without regard to political, regional, social or economic development considerations or any other non-investment objectives. Directors, like officers and employees, have a positive duty in accordance with the written code of conduct to report immediately any attempted political interference if they have been subjected to such pressure with respect to investments, procurement, hiring or any other decisions. As intended by the stewards, no such reports of interference have been made.

DIRECTOR APPOINTMENT PROCESS

The CPP Investment Board is governed by an independent board. The director nomination process is designed to ensure that the board has directors with proven financial ability or relevant work experience such that the CPP Investment Board will be able to effectively achieve its objectives. Directors are appointed by the federal Governor in Council on the recommendation of the federal finance minister, following the minister's consultation with the finance ministers of the participating provinces and assisted by an external nominating committee with private-sector involvement. In line with Treasury Board recommendations for Crown corporations, the CPP Investment Board provides assistance in the identification of desirable director competencies and retains and manages an executive search firm to source qualified candidates for consideration.

The names of those candidates are forwarded to the external nominating committee, which considers them and submits names of qualified candidates to the federal finance minister.

COMPOSITION, MANDATES AND ACTIVITIES OF BOARD COMMITTEES

The board has four committees – investment, audit, human resources and compensation, and governance. Membership of the committees is shown in the Board Attendance chart on page 68.

The investment committee oversees the core of the CPP Investment Board's business, which is making investment decisions within the context of a board-supported risk limit. The committee reviews and recommends to the board the CPP Investment Board's investment policies and reviews, approves and monitors the investment program. It also reviews portfolio risk tolerances, approves the engagement of all external investment managers as required by legislation, and approves large investment transactions and all custodians. All members of the board serve on the investment committee.

The audit committee oversees financial reporting – including reviewing the Management's Discussion and Analysis section of the annual report and reviewing and recommending the financial content of the annual report, monitoring the external and internal audit – including appointing the internal auditor and recommending the external auditor for appointment by the board, and reviewing information systems and internal control policies and practices. It also oversees financial aspects of the employee pension plans and advises the board in connection with any statutorily mandated special examinations. Responsibility for enterprise risk management is shared with the board and the investment committee. The audit committee regularly meets separately with each of the external and internal auditors without management present.

The governance committee ensures that appropriate governance best practices for the organization are followed at the CPP Investment Board and is involved in preparing and recommending this governance practices section of the annual report. The committee monitors application of the code of conduct and recommends amendments to it, ensures on an ongoing basis that the board's governance documents reflect governance best practices, makes recommendations to the board to improve the board's effectiveness, oversees the design of director orientation and development programs, reviews criteria and qualifications for new directors, recommends compensation for the Chair and directors, and establishes, recommends and is involved in performance evaluation processes for the Chair, individual directors, board committees and the board.

The human resources and compensation committee (HRCC) administers the performance evaluation process for the CEO, reviews and recommends the compensation framework, reviews organizational structure and ensures proper succession planning. It also oversees employee benefits and human resource policies and the employee pension plans. Further details regarding the role of the HRCC are outlined in the Compensation Discussion and Analysis beginning on page 55 of this annual report.

At every meeting, the board of directors and all committees have *in camera* sessions, meaning that no member of management is in attendance. As noted above, the audit committee also has *in camera* meetings with each of the internal and external auditors. In addition, at every meeting the board has *in camera* meetings with the president and CEO in which no other management team member is present.

DECISIONS REQUIRING PRIOR BOARD APPROVAL

Management's discretion in making operational and investment decisions is described in board- or committee-approved policies including a detailed policy dealing exclusively with authorities. In particular, board approval is required for the strategic direction of the organization and for the annual business plan and budget. Annual and incentive-based compensation, as well as officer appointments, require board approval.

AN INVESTMENT IN ONGOING DEVELOPMENT

PROCEDURES FOR BOARD MEMBER ORIENTATION AND DEVELOPMENT

The board has a process in place for new director orientation. This comprehensive full-day session includes discussion of the background, history and mandate of the CPP Investment Board as well as its strategy, business planning process and current corporate and departmental business plans. It involves intensive interaction between the new directors and management.

In recognition of the evolving nature of a director's responsibilities and the unique nature of the CPP Investment Board, in-house development for all directors is a key focus for the board. Management business presentations are provided on an ongoing basis. Special development seminars outside the regular meeting context are also provided featuring both external and internal experts. In fiscal 2009, these special seminars included sessions on market volatility, the CPP Investment Board investment risk management system, capital markets activities, the debates and events leading to the creation of the CPP Investment Board, infrastructure investment and other relevant issues. The Chief Actuary of Canada also presented a session on the implications of his latest actuarial report for the CPP.

A COMMITMENT TO ACCOUNTABILITY

PROCEDURES FOR THE ASSESSMENT OF BOARD PERFORMANCE

Soon after its inception in October 1998, the board established an annual process for evaluating its own performance and that of its committees, the performance of the Chair, and the performance of each other director. All assessments are conducted through confidential questionnaires. Summaries of the results of the board and committee evaluations are reviewed by the full board and provide a basis for action plans for improvement. The confidential annual Chair review is led by the chair of the governance committee who, subject to the direction of the board, provides feedback to the Chair; the feedback is also relevant to the issue of re-appointment of the Chair when his or her term expires. The confidential annual peer review is led by the Chair, and is designed to assist each director in identifying self-development initiatives and assist in providing the external nominating committee with guidance when it considers individual re-appointments. The Chair places a particular emphasis on discussion following the first steps of the review and meets formally with each director as part of the board and individual director assessment process. As part of a drive for best practices, the board continues to refine and bolster these procedures each year.

BOARD EXPECTATIONS OF MANAGEMENT

Management is expected to comply with the *Canada Pension Plan Investment Board Act* and Regulations as well as all policies approved by the board. Management develops, with involvement from the board, the strategic direction of the organization in response to its growing asset management responsibilities and the outlook for capital markets. The strategy incorporates risk management policies and controls as well as monitoring and reporting mechanisms. Management is also expected to sustain and promote a culture of the highest integrity, free of conflicts of interest, and to adhere to a stringent code of conduct.

Management is charged with developing benchmarks that objectively measure the performance of the markets and asset classes in which CPP assets are invested. Once approved by the board, benchmarks assist the board in evaluating management's investment performance and structuring performance-based compensation incentives.

The implementation of the CPP Reference Portfolio in fiscal 2007 established a relevant benchmark for the CPP Fund, which has enabled management to more precisely measure total CPP Fund value-added returns, enabling the board to tailor compensation more precisely to performance. The CPP Reference Portfolio is reviewed on an ongoing basis to ensure that it continues to reflect the passive low-cost, low-complexity portfolio which would best contribute to the achievement of the CPP Investment Board's mandate. The board approved changes to the CPP Reference Portfolio in fiscal 2009 in this regard, which are described in more detail on page 17.

Management is expected to make full and timely disclosure to the board and the public of all material activities, including new investments, the engagement of operational and investment partners, quarterly and annual financial results, and developments that may affect the CPP Investment Board's reputation.

A COMMITMENT TO TRANSPARENCY AND DISCLOSURE

TOTAL COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The total compensation of directors, including meeting and travel fees, is provided in the Compensation Discussion and Analysis (CD&A) on page 67.

A separate independent compensation consulting firm, Hugessen Consulting Inc., advises the human resources and compensation committee on executive compensation. The total compensation of the CEO, the CFO and the next three most highly compensated officers of the CPP Investment Board is detailed on page 63 of the annual report. Management compensation is predominantly incentive based through calculations that link pay to performance, and is reviewed annually by the board. Incentive compensation is awarded based on the achievement of a combination of investment and personal objectives, takes into account longer-term investment performance (typically a four-year rolling average) and is composed of an annual bonus, a long-term incentive and, for investment professionals, Restricted Fund Units. A focus on total fund performance functions as a check on individual risk-taking in pursuit of value-added results.

The implementation of the CPP Reference Portfolio in fiscal 2007, and the adoption of a more diversified version of this benchmark during fiscal 2009, have enabled the board to tailor management compensation more precisely toward the successful achievement of value-added results as part of a pay-for-performance system. Consistent with the human resources and compensation committee's emphasis on best-practice disclosure, management compensation is detailed at length in our Compensation Discussion and Analysis on page 54.

RESULTS OF SPECIAL AUDIT OR SPECIAL EXAMINATION

At least once every six years, as required under Section 47 of the *Canada Pension Plan Investment Board Act*, the minister of finance is required to order a special examination of the CPP Investment Board's financial and management control and information systems and management practices. The last special examination was conducted in 2004 and its results are available on our website, www.cppib.ca. It is anticipated that another such special examination will be ordered and completed by the end of fiscal 2010.

A CULTURE OF INTEGRITY AND ETHICAL CONDUCT

CONFLICT OF INTEREST PROCEDURES

Conflicts of interest were anticipated in the CPP Investment Board's legislation as a result of the need to recruit directors with financial and investment expertise and to engage employees with financial expertise. The code of conduct has been established to manage and, where possible, eliminate such conflicts. The procedures under the legislation and the code of conduct are designed to ensure that directors and employees do not, and cannot reasonably be perceived to, or have the potential to, profit or otherwise benefit from a transaction by or with the CPP Investment Board. Stringent disclosure of any personal or business interests that might lead to a real, perceived or potential conflict of interest is required and any involvement in relevant decision-making is therefore prohibited. Further, directors are expected to resign from the board if they take on executive responsibilities with an organization whose objectives and mandates may be, or may reasonably be perceived to be, in conflict with the objectives and mandate of the CPP Investment Board.

It is CPP Investment Board policy that non-audit services being provided by either the internal or external auditor must be approved by the audit committee. Firms that perform an internal or external audit function must also provide confirmation that the provision of non-audit services does not impair their independence.

CODE OF CONDUCT

The code of conduct can be found on our website at www.cppib.ca. It is designed to help create a corporate culture of trust, honesty and integrity. It deals with such matters as relations with suppliers, personal investments and confidentiality of proprietary information. For example, the code establishes strict pre-clearance procedures for personal trading in securities. It also sets out strict limits on the acceptance by directors and employees of entertainment, gifts or special treatment that could create or appear to create a favoured position for actual or potential contractors or suppliers.

As part of the hiring process for all employees, new recruits are required to read and agree to comply with the code of conduct and related personal trading guidelines that together set a high standard in the areas of conflict of interest and ethical conduct. They must reconfirm that compliance semi-annually in writing. Beginning in fiscal 2009, employees were also required to complete an online training module to confirm their understanding of the code and their ability to apply it in day-to-day operations. When the board hires or conducts annual performance reviews of the CEO, it takes into consideration the individual's leadership championing and fostering a culture of integrity, partnership and high performance, as well as promoting ethical conduct within the organization.

To augment the code of conduct, the board of directors decided in 2003 to appoint an external conduct review advisor. This individual, currently the Honourable Frank Iacobucci, is available to discuss code of conduct issues with directors, employees and relevant third parties on a confidential basis.

Ten-Year Review

FOR THE YEAR ENDED MARCH 31 ($ billions)	**2009**	2008	2007	2006	2005	2004	2003	2002	2001	2000
CHANGE IN NET ASSETS										
Income[1]										
Investment income	**(23.6)**	(0.3)	13.1	13.1	6.3	10.3	(1.1)	2.3	3.0	1.1
Operating expenses	**(0.2)**	(0.1)	(0.1)	–	–	–	–	–	–	–
Net contributions	**6.6**	6.5	5.6	3.6	4.5	4.6	3.1	2.6	1.2	(1.3)
Increase in net assets	**(17.2)**	6.1	18.6	16.7	10.8	14.9	2.0	4.9	4.2	(0.2)

AS AT MARCH 31 ($ billions)	**2009**	2008	2007	2006	2005	2004	2003	2002	2001	2000
INVESTMENT PORTFOLIO										
Equities										
Canada	**15.6**	28.9	29.2	29.0	27.7	22.6	11.7	10.0	5.0	2.0
Foreign developed markets	**40.4**	47.5	46.1	32.7	20.9	9.3	5.4	4.1	2.1	0.4
Emerging markets	**4.6**	0.7	–	–	–	–	–	–	–	–
Fixed income										
Bonds	**28.4**	30.2	29.2	27.2	28.6	30.2	31.0	32.6	35.3	35.8
Other debt	**1.8**	1.1	–	–	–	–	–	–	–	–
Money market securities[2]	**(0.8)**	–	0.4	0.6	3.1	7.7	7.2	6.8	6.3	6.3
Inflation-sensitive assets										
Real estate[3]	**6.9**	6.9	5.7	4.2	0.8	0.7	0.3	0.1	–	–
Infrastructure	**4.6**	2.8	2.2	0.3	0.2	–	–	–	–	–
Inflation-linked bonds	**4.1**	4.7	3.8	4.0	–	–	–	–	–	–
INVESTMENT PORTFOLIO[4]	**105.6**	122.8	116.6	98.0	81.3	70.5	55.6	53.6	48.7	44.5
PERFORMANCE										
Rate of return (annual)[5]	**-18.6%**	-0.3%	12.9%	15.5%	8.5%	17.6%	-1.5%	4.0%	7.0%	3.2%

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[1] Included in the CPP Fund are certain specified CPP assets which were previously administered by the federal government and transferred to the CPP Investment Board over a period that began on May 1, 2004 and ended on April 1, 2007. Since April 1, 1999, the CPP Fund has earned $23.8 billion in investment income net of operating expenses, which is comprised of $8.6 billion from the CPP Investment Board and $15.2 billion from assets historically administered by the federal government.

[2] Includes amounts receivable/payable from pending trades, dividends receivable, accrued interest and absolute return strategies.

[3] Net of debt on real estate properties.

[4] Excludes non-investment assets such as premises and equipment and non-investment liabilities.

[5] Commencing in fiscal 2007, the rate of return reflects the performance of the investment portfolio which excludes the Cash for Benefits portfolio.

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