2010

ANNUAL REPORT

CPP
INVESTMENT
BOARD

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 October 2009, 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 2021, providing an 11-year period before a portion of the investment income from the CPP Investment Board (CPPIB) is needed to help pay pensions. As a result, the CPP Fund will grow significantly between now and 2021. Beyond 2021 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 results 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 $54.9 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.

With a mandate from the federal and provincial governments, the CPP Investment Board is a Crown corporation 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

($ BILLIONS)	**2010**	2009
TOTAL CPP FUND	127.6	105.5
TOTAL CPP FUND INCREASE	22.1	(17.2)
INVESTMENT INCOME (NET OF OPERATING EXPENSES)	16.0	(23.8)
CPP NET CONTRIBUTIONS	6.1	6.6

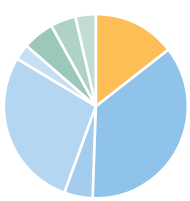
CPP FUND

$127.6 BILLION TOTAL CPP FUND

$22.1 BILLION TOTAL CPP FUND INCREASE

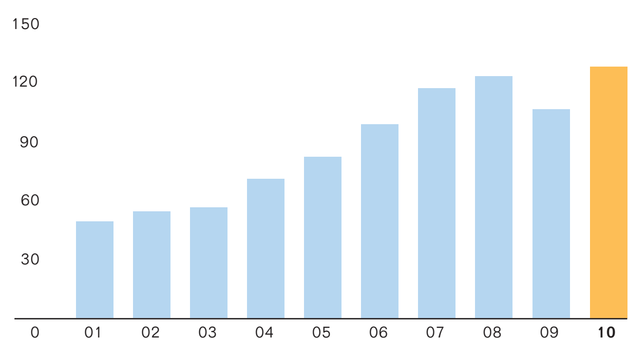
14.9% ONE-YEAR RATE OF RETURN

CPP FUND ASSET MIX
AS AT MARCH 31, 2010



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

CPP FUND $127.6 BILLION
AS AT MARCH 31 ($ BILLIONS)



CHAIR'S REPORT

ROBERT M. ASTLEY
CHAIR

The Canada Pension Plan is one of our nation's most important social programs and the cornerstone of retirement security for 17 million Canadians.

This past year, Canada's Chief Actuary reaffirmed his view that Canada's national pension plan remains sustainable with a 9.9% contribution rate over the 75-year period covered by his most recent report.

The health of the CPP is a source of strength for Canada. Since the creation of the CPP Investment Board (CPPIB) following the successful 1997 CPP reforms, the CPPIB is regarded as a model for sound management of other large pension plans around the world,

At the CPPIB, our job is to help sustain the health of the CPP for the benefit of future generations. We do that by investing CPP assets not needed to pay current benefits with a mandate to maximize investment returns without undue risk of loss.

Achieving that mission seemed relatively straightforward in 2005, 2006 and 2007. While investing is never easy and the challenges of building a global investment firm are significant, during these years the global economy was humming along, asset values were rising and the future looked bright. But as everyone knows, the mood turned considerably darker in 2008 and early 2009 when credit markets seized, asset values plunged and the global financial system seemed to be on the verge of collapse.

These were very uncertain times and investors were under enormous pressure to cut their losses, even if that meant abandoning carefully conceived strategies that were designed to perform over much longer periods of time. In this context, and faced with steep quarterly declines in the value of the CPP Fund and significant uncertainty about what lay ahead, the CPPIB's board of directors and management chose to ask some very tough questions about our strategy and the best way forward.

I am very proud of the way those discussions took place. They were open, honest, fact-based, far-reaching and collaborative, both within the board of directors and across the organization. The fundamental question we asked was: What is the best way to achieve our mission of helping to sustain the Canada Pension Plan for future generations?

After extensive analysis, discussions and debate, we concluded – with conviction – that our underlying principles and investment strategy are sound, our comparative advantages versus other funds are real, and our people and practices are world class. Rather than yield to the market pressure, the CPPIB crystallized its beliefs in our long-term strategy and emerged a stronger organization.

While we fully expect there will be other times down the road when investment performance will be negative, the Fund benefited from this focus and conviction in the second half of the calendar year when global public equity values rebounded and the Fund increased by $22.1 billion to finish the fiscal year at $127.6 billion.

"Our underlying principles and investment strategy are sound, our comparative advantages versus other funds are real, and our people and practices are world class."

The CPPIB did more than just weather the storm during fiscal 2010. We emerged as one of the few large investment organizations able to capitalize on opportunities in the current environment to make investments that we believe will generate significant income for the Fund for years to come. David Denison speaks more about this in his accompanying letter.

GOVERNANCE

The CPPIB was established with a unique governance structure designed to strike a balance between independence and accountability. This structure was tested during the past few years. At a time when governments around the world were bailing out banks and taking other extraordinary actions (including actions involving their national pension plans), Canada was fortunate. Our financial system performed better than most. Further, CPPIB's governance model, which was designed to ensure that the CPPIB could operate at arm's length from governments and free of political interference, held firm.

The CPPIB also received strong validation this past year for the quality of its operations and infrastructure. Under the *Canada Pension Plan Investment Board Act*, the CPPIB is required to submit to an independent Special Examination every six years. The purpose of this examination is to provide reasonable assurance that:

- The assets of the CPP Investment Board and those of its subsidiaries are safeguarded and controlled;
- The financial, human and physical resources of the CPP Investment Board and those of its subsidiaries are managed economically and efficiently; and
- The operations of the CPP Investment Board and those of its subsidiaries are carried out effectively.

This examination took place during fiscal 2010 and I am pleased to report that the CPPIB satisfied its requirements in all respects. A copy of the special examiner's report was provided to the federal and provincial ministers of finance who serve as stewards of the CPPIB.

Within the board of directors itself, we focused on four main priorities during the past year. I have already discussed the first, which was to reevaluate and, ultimately, to reaffirm our strategy.

The second was ongoing oversight of the organization's investment and enterprise risk management policies and practices. The CPPIB board sets policies and parameters that allow investment teams to pursue attractive returns within the Fund's long-term objectives and risk profile. Specifically, each year, the board of directors approves an active risk limit which restricts how much the CPP Fund's aggregate risk exposure can vary from the risk embodied in its benchmark, the CPP Reference Portfolio. This limit caps how much added risk our investment groups can take to earn additional returns. This is an area of significant board focus. We are confident in management's ability to generate sufficient returns over time to help sustain the CPP and to continue to earn a reputation for the CPPIB as a world-class investment organization.

The third area of focus was the integration of several new board members into an effective and cohesive group. The CPPIB has always had an active and involved board. Given that six out of 12 directors have served less than two and a half years, we wanted to find the right balance between continuity and fresh thinking. In a way, the financial crisis may have done us a favour in this regard. We came together frequently to debate big questions and wrestle with tough decisions. The result is a board characterized by a strong degree of trust and collegiality where we have good, open debates and trust each others' views. This, in and of itself, is a significant source of strength for the organization.

Finally, we gave due and careful consideration to management compensation. The CPPIB has developed a compensation framework that meets and in many cases exceeds the best-practice principles set out by the G20 nations. This includes a pay-for-performance formula within a risk framework approved by the board of directors. In 2010, the board of directors further strengthened the link between long-term, value-added investment performance through changes which are described in detail in the accompanying Compensation Discussion and Analysis.

For the current four-year period ended March 31, 2010, executive compensation will reflect the Fund's relative performance against the CPP Reference Portfolio, the CPPIB's market-based benchmark as well as against specific asset class benchmarks that are approved by the Human Resources and Compensation Committee of the board. The board of directors strongly believes this approach is appropriate, well-aligned to our mission, mandate and the long-term interests of CPP contributors and beneficiaries, and a key strategy for ensuring the Fund's continued sound performance.

OUTLOOK

Looking ahead, we are focused on ensuring that the board of directors is fulfilling its oversight role to the fullest, and adding the greatest value possible to the strategic direction and performance of the organization.

We will continue to provide active oversight and direction to management. And we will ensure the organization remains firmly accountable to its stewards and to the CPP Fund's 17 million contributors and beneficiaries through the bi-annual public meetings to be held in 2010.

On behalf of the board, I want to pay tribute to Germaine Gibara who sadly passed away on April 21, 2010. Germaine, who was appointed to our board in November 2002, was a highly respected member of the CPPIB board. Her valued counsel and wisdom helped guide the CPPIB as it developed from a relatively small organization to its current state. She will be greatly missed and warmly remembered.

Last year, we welcomed Douglas W. Mahaffy to the board; Douglas brings deep investment experience to the CPPIB. We also thanked Helen Sinclair for her many years of service as a director and her valuable contributions to the CPPIB, including chairing the Governance Committee for several years. Helen joined our board in March 2001 and completed her maximum term of board service in October 2009. We are grateful to our stewards for their support of the organization and its mission. We congratulate our management team and all of the CPPIB's employees for their professionalism and performance during a very difficult but ultimately successful year. And we will continue working to earn the trust and confidence of the CPP contributors and beneficiaries.

ROBERT M. ASTLEY

CHAIR

PRESIDENT'S MESSAGE

DAVID F. DENISON
PRESIDENT AND CHIEF EXECUTIVE OFFICER

The CPP Investment Board's mandate is to help sustain the Canada Pension Plan for future generations. Accordingly, we need to incorporate a long-term perspective within our mission and investment strategy – never was maintaining this perspective more important than during the past two years.

The CPP Fund had one of its highest-ever annual returns in fiscal 2010 at 14.9%, producing investment income of $16.2 billion. These results were driven in large part by strong public equity returns as the broader economy responded to global stimulus efforts. Together with CPP contributions of $6.1 billion, the Fund increased in value after costs by $22.1 billion in fiscal 2010 to end the year at $127.6 billion.

This marked a sharp turnaround from fiscal 2009 when global equity markets plunged and credit markets – the lifeblood of the global economy – seized up almost entirely following the bankruptcy of Lehman Brothers in the fall of 2008.

Faced with these unprecedented market conditions and the CPP Fund's negative returns in fiscal 2009, at the outset of this past year CPPIB's board and management challenged our assumptions about long-term capital market returns and the composition of the CPP Fund. As our Chair Bob Astley recounts in his letter, this resulted in the reaffirmation of our convictions and our strategy, and maintaining our strategic asset weightings, including our 65% weighting to equities.

As the 14.9% return indicates, this reaffirmation of our strategic asset weightings served the CPP Fund well in fiscal 2010. However, our decision was certainly not based upon any expectation that markets would rise so dramatically in the short term. Rather, it reflected a renewed commitment to a very clear long-term strategy from which we haven't altered course. That strategy is rooted in the multi-generational nature of our mandate and our comparative advantages as an investor.

These comparative advantages include our ability to act as a long-term investor, the relative certainty of both our asset base and the amount and timing of the future cash inflows to the Fund, and the size of our portfolio. In this latter case, the relatively large size of the Fund provides the scale to build sophisticated investment capabilities together with the financial resources needed to capitalize on investment opportunities that are beyond the reach of many other investment organizations.

These structural advantages are augmented by what we call our Total Portfolio Approach to making investment decisions. We describe this in greater detail in the Management's Discussion and Analysis section of this report, but in essence it enables us to look through an asset's label (e.g. real estate or private equity) and focus instead on its fundamental underlying risk and return attributes.

In the aggregate, these are a powerful set of advantages that give us confidence that our active management strategy which incorporates them will benefit the CPP Fund over the long term. They also allow us to look beyond short-term market cycles, deal with market volatility better than the vast majority of market participants, stay focused on our long-term investment objectives, and take advantage of opportunities as they arise.

CAPITALIZING ON OPPORTUNITIES

This ability to capitalize on opportunities because of our comparative advantages was one of the defining themes of fiscal 2010 for the CPPIB. At a time when many investors altered their investment strategies or were forced to the sidelines due to capital or liquidity constraints, our deep and experienced investment teams were hard at work completing a number of significant transactions, among them:

- Acquiring Macquarie Communications Infrastructure Group, a $2.1 billion transaction involving a diversified portfolio of infrastructure assets in Australia and the U.K. with very stable cash flows;
- Partnering with TPG Capital to acquire IMS Health, the world's largest provider of market intelligence to the pharmaceutical and health care industries, for $5.2 billion; and
- Joining with Silver Lake Partners and other investors to acquire a majority stake in Skype in a transaction that valued the company at $2.8 billion.

These three investments were among the five largest private investment transactions completed across the globe in calendar 2009.

Other investments of note completed during fiscal 2010 were:

- Our first real estate investment in Brazil, a joint venture with Cyrela Commercial Properties to develop, acquire and manage commercial real estate properties primarily in São Paolo and Rio de Janeiro;
- Our first Canadian co-sponsored private equity transaction alongside Sterling Capital Partners to acquire Livingston International Income Fund, a Canadian market leader in cross-border logistics; and
- Our first public market Relationship Investments transaction entailing a $350 million private placement in Progress Energy Resources, a leading natural gas exploration and development company based in Calgary.

In all cases we believe these investments will generate attractive investment returns for the CPP Fund over the span of many years.

PERFORMANCE

As noted previously, the CPP Fund's return of 14.9% for fiscal 2010 represents one of the highest levels of performance in the Fund's history and we provide a breakdown of this result later in this report. However, while we measure and report annual returns, what is of most importance to a multi-generational plan such as the CPP is performance over longer periods of time. In that regard, the CPP Fund has earned annualized investment returns of 4.0% and 5.5% for the five- and 10-year periods ended March 31, 2010. In dollar terms, cumulative investment returns amounted to $18.5 billion and $39.3 billion over these same periods.

These five- and 10-year returns are disappointing in that they both lag the estimated nominal 6.2% rate (or annualized 4.2% return after inflation that is assumed by the Chief Actuary in his valuation of the CPP). Our five- and 10-year returns of course span the decade of the 2000s, which unfortunately represents the worst calendar decade of performance for equity markets in the nearly 200 years of recorded stock market history. If we look back over the past 25 years, for example, a fund identical in composition to the CPP Reference Portfolio would have produced returns in excess of the 4.2% target in every trailing 10-year period prior to 2008. Consequently, as we look ahead, while we do not by any means assume repeated annual investment returns of 14.9% such as in fiscal 2010, we do believe that with the Fund's current composition and reasonable capital market returns, we will be able to generate the average 4.2% return after inflation that is required to sustain the CPP at its current contribution rate over longer periods of time.

Another important element of performance is how our value-added investment strategy has performed relative to the CPP Reference Portfolio, which serves as our key total Fund performance benchmark. Once again, while we measure and report results annually, our key accountability time frame incorporates cumulative performance over trailing four-year periods; it is these four-year results that are incorporated into CPPIB's incentive compensation programs. For fiscal 2010, our actual returns underperformed the CPP Reference Portfolio by 587 basis points (5.87%). Cumulative four-year value-added returns for the period ending March 31, 2010, underperformed the CPP Reference Portfolio by 34 basis points (0.34%). This is also a disappointing result because the key objective of our active management strategy is to produce value-added returns relative to the CPP Reference Portfolio over longer periods of time.

One key factor influencing both overall Fund returns for fiscal 2010 and the calculation of the value-added return over that same time period is an inherent valuation lag between our public and private market holdings. We now have over 25% of the CPP Fund's holdings invested in private assets including private equity, real estate, infrastructure and private debt. In contrast to public market holdings, which are of course valued in accordance with daily observable market prices, our private holdings are typically valued comprehensively only once a year using independently verified appraisal practices.

In our experience, especially during a period where public equity markets have increased as rapidly as they have over these past 12 months, it takes additional time for appraised values to catch up to these public market levels. We recognize that investing in private market assets has had a negative near-term impact on value-add returns, but believe without qualification that this is the right strategy for delivering the kinds of returns needed to help sustain the plan over the longer term. We are confident that our private holdings will perform very well over the coming years and provide considerable value to the CPP Fund consistent with our long investment horizon.

OPERATIONAL HIGHLIGHTS

Over the past five years we have been systematically building an organization with deep investment experience, superior technology and operational capabilities, an international presence and a high-performance culture.

During fiscal 2010, we strengthened our leadership team with a number of internal appointments and key hires across the organization. Notably, the appointments of Mark Wiseman as Executive Vice-President, Investments, Don Raymond as Senior Vice-President and Chief Investment Strategist, and André Bourbonnais as Senior Vice-President, Private Investments reflect the ongoing evolution of the CPP Investment Board's organizational structure as well as the depth of talent we have within the organization. This talent was further augmented by the 76 outstanding new employees who joined the CPPIB during 2010. At year end, the CPPIB had a complement of 566 employees, including 21 and 11 in our London and Hong Kong offices respectively.

A key goal for fiscal 2010 was to complete our multi-year initiative to insource our critical portfolio accounting, performance-measurement and analytics technologies and to assume primary responsibility for all our investment operations activities. This was an extremely complex undertaking, and I am very pleased to confirm that it was completed as planned by March 31, 2010, for full cutover and implementation at the start of our fiscal 2011 year. We will continue to enhance these systems and processes as we work through fiscal 2011, but we are now well positioned to fully control our end-to-end investment processes, enhance our analytical and decision-making capabilities and handle the increasing size and complexity of the CPP Fund.

OUTLOOK

Our priorities for the year ahead will be to continue building the strength of our organization and taking advantage of investment opportunities to create long-term value for the CPP Fund. We will also continue to provide our perspectives on important public policy discussions underway in Canada and globally with respect to retirement savings systems, corporate governance and responsible investing, as well as pension plan governance and operating models.

I want to thank the CPP Investment Board's board of directors, employees and external partners for your invaluable contributions over the past year and in the months and years to come. I would especially like to thank John Ilkiw who retired from the CPP Investment Board effective March 31, 2010, after leading our Portfolio Design and Investment Research area for almost five years. We have all benefited greatly from John's vast experience, insights and passion for the CPP Investment Board's mission and we wish him well in his retirement years.

The recent passing of Germaine Gibara is a very sad occurrence for all of us at the CPP Investment Board. We have lost a very valued board member who was a great contributor to the development of our organization.

In closing, I can affirm that all of us within the CPP Investment Board are proud of the work we are doing to help sustain the CPP for future generations, and we remain very confident in the Fund's success.

D F Denison

DAVID F. DENISON
PRESIDENT AND CHIEF EXECUTIVE OFFICER

KEY CORPORATE OBJECTIVES FOR FISCAL 2010

OBJECTIVES

BROADEN DIVERSIFICATION OF CPP FUND

Utilize the ability of an experienced team to capitalize on significant investment opportunities to diversify the Fund and generate attractive returns over the long term.

HIGHLIGHTS

- Completed $2.1 billion acquisition of Macquarie Communications Infrastructure Group, a diversified portfolio of assets in Australia and the U.K. with very stable cash flows.
- Partnered with TPG Capital to acquire IMS Health, the world's largest provider of market intelligence to the pharmaceutical and health care industries.
- Joined Silver Lake Partners and other investors to acquire a majority stake in Skype.
- Completed first real estate investment in Brazil, a commercial property ownership and management joint venture with Cyrela Commercial Properties.
- Executed first Canadian co-sponsored private equity transaction with Sterling Capital Partners to acquire cross-border logistics leader Livingston International Income Fund.
- Carried out first public market Relationship Investments transaction through $350 million private placement in Calgary-based natural gas exploration and development firm Progress Energy Resources.

BUILD INTERNAL CAPABILITIES

Continue to strengthen our leadership team through internal appointments and the hiring of key staff across the organization.

- Key senior-level management team members were given new and increased areas of responsibility, reflecting the ongoing evolution of our organizational structure and the depth of our talent.
- Added to our strong team with 76 new employees – 34 in our investment teams and the remainder largely in information technology, investment finance and operations. At year end, had 566 employees: 534 in our Toronto office, 21 in London and 11 in Hong Kong.

ADVANCE TECHNOLOGY AND BUSINESS PROCESSES

Execute on multi-year plan to establish in-house capabilities allowing us to fully control our end-to-end investment processes, and to take advantage of a platform able to handle the CPP Fund's increasing size and complexity.

- Completed an extremely complex initiative on schedule, allowing us to in-source our critical portfolio accounting, performance and analytics technologies.
- Assumed primary responsibility for all our investment operations activities.

GENERATE VALUE-ADDED RETURNS

Generate returns over rolling four-year periods that outperform the CPP Reference Portfolio which represents a strategic alternative and benchmark for the CPP Fund.

- Value-added returns underperformed the CPP Reference Portfolio by 587 basis points, or 5.87%, in fiscal 2010.
- Cumulative four-year value-added returns were -34 basis points.
- Recovery in the value of private market holdings lagged behind those in the public equity markets, which rebounded dramatically in fiscal 2010.
- CPPIB's strong portfolio of private assets is expected to perform very well over the coming years and provide considerable value to the CPP Fund.

SUSTAINABILITY AND ACCOUNTABILITY

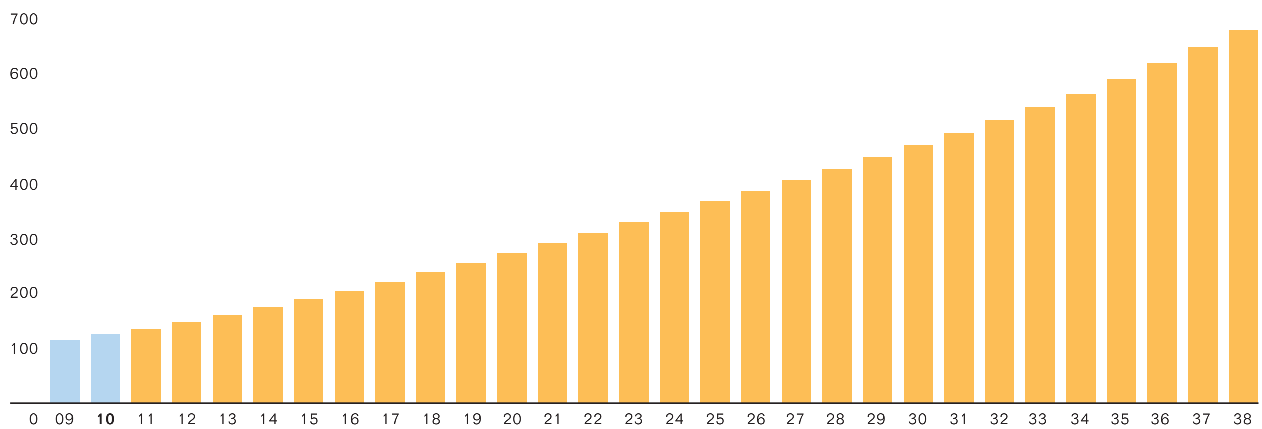
The Canada Pension Plan Investment Board is a professional investment management organization that invests the assets of the Canada Pension Plan (CPP) not required to pay current benefits. Created by an Act of Parliament in December 1997 as part of the successful CPP reforms, the organization's mandate is to help sustain the pensions of 17 million CPP contributors and beneficiaries by maximizing returns without undue risk of loss. The CPPIB is accountable to the 10 federal and provincial finance ministers who act as the stewards of the CPP. According to the latest report by the Chief Actuary of Canada, released in October 2009, 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 2021, providing an 11-year period before a portion of the investment income from the CPP Investment Board is needed to help pay pensions.

75 + YEARS
DURATION OF CPP SUSTAINABILITY

11 YEARS
BEFORE INVESTMENT INCOME NEEDED TO HELP PAY PENSIONS

17 MILLION
NUMBER OF CANADIANS WHO PARTICIPATE IN THE CPP

PROJECTED ASSETS OF THE CPP FUND
AS AT DECEMBER 31 ($ BILLIONS)



The Chief Actuary of Canada has projected that CPP contributions will exceed annual benefits paid until 2021, providing 11 more years in which excess CPP contributions will be available for investment. CPPIB's sole focus is investing the assets of the CPP and we have built an organization to handle the tremendous growth of the Fund as it increases in the next decade. Starting in 2021, the CPP is expected to begin using a small portion of CPPIB investment earnings to supplement the contributions that constitute the primary means of funding benefits.

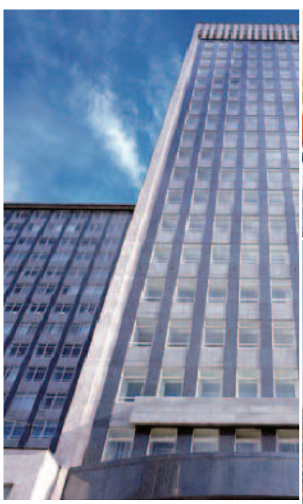
INVESTMENT EXPERTISE

Attracting and retaining top talent continues to be a key priority for CPPIB. Over the past five years we have added a significant number of skilled employees to our team to help manage our rapid growth and enable the execution of our active management strategy. Our reputation as a global investor allows us to attract leading professionals in their fields from Canada and around the world. We are seeking those who share our guiding principles of integrity, partnership and high performance, fit well into our culture and are committed to a long-term employment relationship.

566 CPPIB EMPLOYEES IN THREE GLOBAL OFFICES

$7 BILLION IN INVESTMENTS IN PRIVATE ASSETS IN FISCAL 2010

$671 BILLION FISCAL 2010 TRADING VOLUME IN PUBLIC MARKETS



7–33 CAVENDISH SQUARE
LONDON, ENGLAND

15/F YORK HOUSE, CENTRAL, HONG KONG

1 QUEEN STREET EAST
TORONTO, ONTARIO, CANADA

MAINTAINING A LONG-TERM PERSPECTIVE

As a long-term investor, the CPP Investment Board focuses on delivering superior risk-adjusted returns over the span of decades and generations. The 75-year time period over which investment returns are amortized, 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, means we can take a longer view in our investment approach. As a result, we are able to capitalize on opportunities to purchase assets that are out of reach for the majority of market participants, and we do not suffer the same liquidity constraints as many other investors.

20 YEARS THE AVERAGE HOLD PERIOD FOR INVESTMENTS IN REAL ESTATE AND INFRASTRUCTURE

23 NUMBER OF YEARS IN THE LAST 25 YEARS THAT THE CPP REFERENCE PORTFOLIO OUTPERFORMED THE 4.2% REAL RETURN THRESHOLD ON A ROLLING 10-YEAR BASIS

OUR COMPARATIVE ADVANTAGES

LONG-TERM VIEW	CERTAINTY OF ASSETS	SIZE AND SCALE
The 75-year scope of the Chief Actuary's CPP projection enables us to acquire assets that offer substantial added value over time.	The CPP will collect excess contributions until 2021, providing incoming cash for new investments and allowing us to prudently build our portfolio.	The CPP Fund has scale. We invest in private markets that are larger than public markets and offer greater returns over time.

CANADIAN ASSETS

43% TOTALLING **$54.9 BILLION**

FOREIGN ASSETS

57% TOTALLING **$72.8 BILLION**

GLOBAL INFRASTRUCTURE INVESTOR

MACQUARIE COMMUNICATIONS INFRASTRUCTURE GROUP (MCG)

The CAD$2.1 billion acquisition of MCG involved three major communications infrastructure assets in Australia and the U.K. It is an important accomplishment in CPPIB's infrastructure investing strategy which was launched just four years ago. This transaction was completed at the height of the worst financial crisis in decades and it represented one of the largest mergers and acquisitions transactions globally in 2009 at a proportionate enterprise value of A$7.5 billion.

TEAM MEMBERS (from left to right)
JEFF DEBLOCK, LILIANA MOLINA, DAN FETTER, ROBERT WALL

REAL ESTATE INVESTMENT IN EMERGING MARKETS

CYRELA COMMERCIAL PROPERTIES

We capitalized on the economic downturn by joining forces with another large global institution and together secured a joint venture that saw each of us commit up to US$250 million with Cyrela Commercial Properties, a leading developer in Brazil. The size and terms of our commitment will allow the venture to acquire and develop core office, industrial and retail properties, and benefit from the long-term economic potential of Brazil. This was our first real estate investment in South America.

TEAM MEMBERS (from left to right)
MARCO DING, PETER BALLON, CHRISTOPHER MOAD, KRYSTAL MOORE, MING ZHU

SENIOR MANAGEMENT TEAM

LEFT TO RIGHT

IAN M.C. DALE, Senior Vice-President, Communications and Stakeholder Relations
JOHN H. ILKIW, Senior Vice-President, Portfolio Design and Investment Research (retired March 31, 2010)
JOHN H. BUTLER, Senior Vice-President, General Counsel and Corporate Secretary
NICHOLAS ZELENCZUK, Senior Vice-President and Chief Financial Officer
DAVID F. DENISON, President and Chief Executive Officer
BENITA M. WARMBOLD, Senior Vice-President and Chief Operations Officer
GRAEME M. EADIE, Senior Vice-President, Real Estate Investments
DONALD M. RAYMOND, Senior Vice-President and Chief Investment Strategist (effective April 1, 2010)
MARK D. WISEMAN, Executive Vice-President, Investments (effective April 1, 2010)
ANDRÉ BOURBONNAIS, Senior Vice-President, Private Investments (effective April 1, 2010)
SAYLOR MILLITZ-LEE, Senior Vice-President, Human Resources

FINANCIAL REVIEW

This annual report contains forward-looking statements reflecting management's objectives, outlook and expectations as at May 14, 2010. 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, 2010. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Canada Pension Plan is a cornerstone of retirement security for millions of Canadians. The CPP Investment Board remains committed to our mission to generate the investment returns required to help keep the plan sustainable for generations to come. Operating at arm's length from governments, we have developed the capabilities to handle the most complex transactions. The CPP Fund is the largest single-purpose pool of capital in Canada, one of the fastest-growing funds of its kind in the world, and a successful example of a national pension system that has received global acclaim.

TOTAL FUND

$127.6 BILLION

NET CONTRIBUTIONS

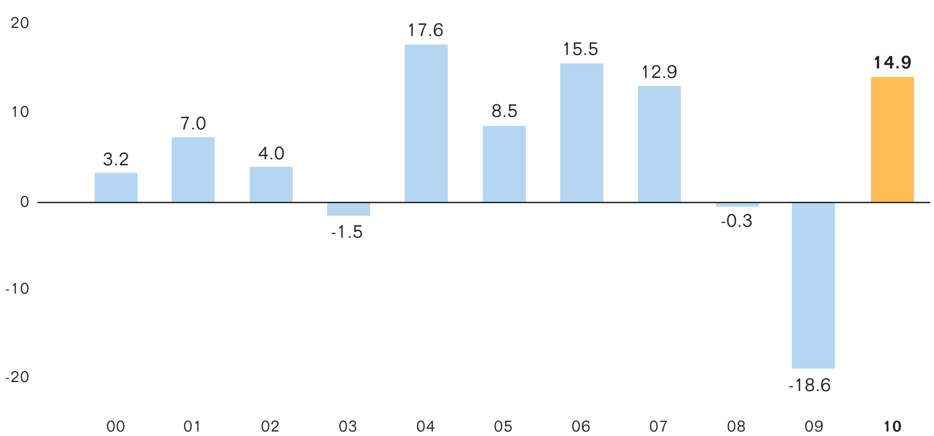
$6.1 BILLION

TOTAL FUND INCREASE

$22.1 BILLION

RATE OF RETURN

FOR THE YEAR ENDED MARCH 31 (%)



CPP FUND[1] FINANCIAL OVERVIEW

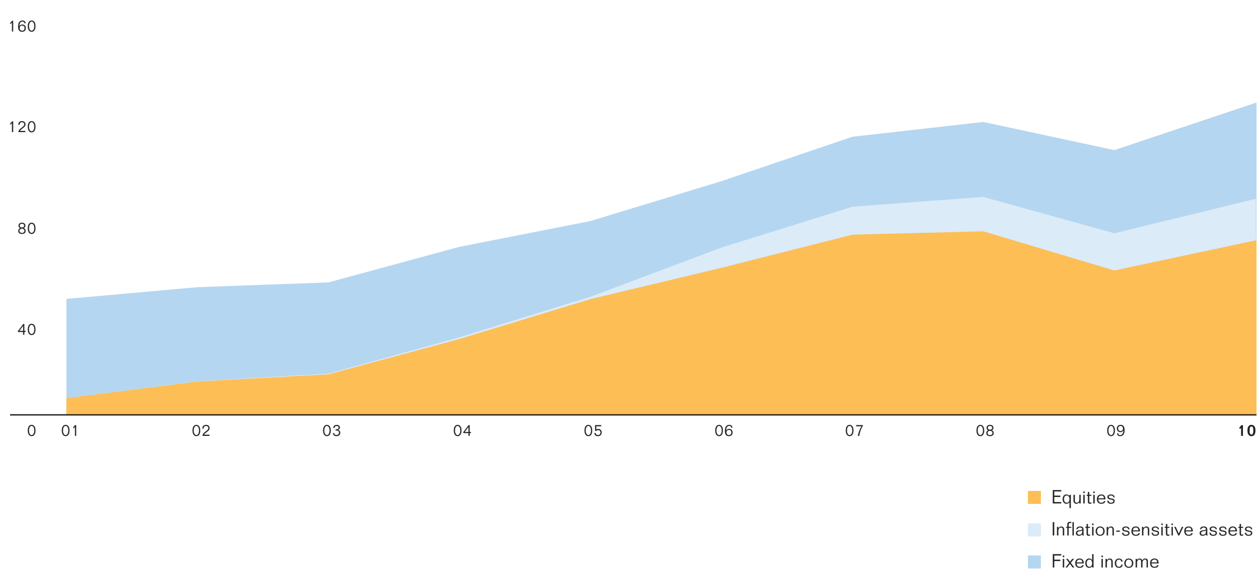
FOR THE YEAR ENDED MARCH 31

	2010		2009	
INVESTMENT PORTFOLIO	**($ billions)**	**(% of total)**	($ billions)	(% of total)
EQUITIES				
Canadian equities	**$ 18.5**	**14.5%**	$ 15.6	14.7%
Foreign developed markets	**46.2**	**36.2**	40.4	38.3
Emerging markets	**6.5**	**5.0**	4.6	4.4
FIXED INCOME				
Bonds	**36.8**	**28.8**	28.4	26.9
Other debt	**3.5**	**2.8**	1.8	1.7
Money market securities	**0.3**	**0.2**	(0.8)	(0.7)
Debt financing liabilities	**(1.3)**	**(1.0)**	–	–
INFLATION-SENSITIVE ASSETS				
Real estate	**7.0**	**5.5**	6.9	6.5
Infrastructure	**5.8**	**4.6**	4.6	4.3
Inflation-linked bonds	**4.4**	**3.4**	4.1	3.9
	$ 127.7	**100.0%**	$ 105.6	100.0%

[1] The CPP Fund includes the investment portfolio, non-investment assets such as premises and equipment, and non-investment liabilities.

INVESTMENT PORTFOLIO

AS AT MARCH 31 ($ BILLIONS)



MANAGEMENT'S DISCUSSION AND ANALYSIS

All generations – young and old alike – deserve to have confidence that the CPP can be sustained and will be there for them when they need it.

Consultation paper for 1996–97 CPP reforms

Next to universal health care, the Canada Pension Plan (CPP) is arguably Canada's most important social program. It's the foundation of retirement security for 17 million Canadians.

The Canada Pension Plan Investment Board (CPPIB) helps ensure the CPP pension promise can be met over the long term at an affordable cost. The following Management's Discussion and Analysis explains our mandate and investment approach. We then review our performance in the year just ended and look ahead to fiscal 2011.

OUR MISSION

The Canada Pension Plan Investment Board is an independent, professional investment management organization. Our primary mission is to generate the investment returns needed to help keep the CPP sustainable over many generations. We also invest the short-term assets held to pay current CPP benefits.

What does sustainability mean? First, it means Canadians will be able to enjoy the lifetime, inflation-indexed CPP benefits they count on. Second, it means our children, grandchildren and future generations will not have to pay excessive contributions. Without the 1996–97 CPP reforms, by 2030, Canadians and their employers would be expected to pay over 40% more for coverage than they do today.

The reform legislation enacted in 1997 provided for the creation of CPPIB to invest reserve assets that are essential to the CPP's long-term funding strategy. These assets belong not to government, but to the 17 million Canadians who are contributors and beneficiaries of the CPP. We manage this money on their behalf knowing that the CPP Fund is a cornerstone of their retirement security.

CPPIB began investment operations in March 1999. Before our formation, the CPP Fund held only non-marketable federal, provincial and territorial bonds. The federal and provincial finance ministers who reformed the CPP decided to greatly expand this pool, valued at $36.5 billion at the time. The intent was to harness the power of capital markets by creating a diversified portfolio like those of other large pension plans. But unlike those plans, the CPP Fund was not meant to fully fund benefits. Employee and employer contributions would still provide most of the funding. The expanded Fund would supplement this cash flow as baby boomers retired and the ratio of pensioners to workers grew. The goal was to be able to pay benefits at current levels, adjusted for inflation, well into the future with a stable employee-employer contribution rate – now 9.9% of earned income. Ultimately, under the CPP's funding strategy, the Fund is expected to cover approximately 25% of the projected value of accrued benefits for current contributors and beneficiaries. The remaining 75% will be covered by future contributions.

The CPP reforms have succeeded admirably to date. Today the fully diversified CPP Fund is more than three times larger than the original portfolio of non-marketable bonds. It's the largest single-purpose pool of capital in Canada and one of the fastest-growing such funds in the world, and the CPP Investment Board has developed capabilities to handle the most complex transactions. Canadians can take assurance that the Canada Pension Plan is sustainable over the long term, according to a 75-year projection by the Chief Actuary of Canada (24th Actuarial Report, October 19, 2009). The stability of our national pension plan puts Canada in a very strong position relative to other countries around the world.

INDEPENDENT DECISION-MAKING

Canadians made it clear during public consultations in 1996–97 that while they were willing to pay more to strengthen the CPP, they were wary of leaving their pension fund under political control. The federal and provincial finance ministers took this to heart and responded with carefully written legislation – the *Canada Pension Plan Investment Board Act* (the Act).

This legislation balances the need for independence in decision-making and public accountability. As already noted, the CPP Fund does not belong to government, but rather to the CPP's 17 million members. Under the Act, CPPIB operates independently of the Canada Pension Plan and at arm's length from governments. We are able to fully compete with the world's top private-sector investment managers. At the same time, we are required to maintain a high degree of transparency and accountability. We meet this requirement by disclosing more information more often than any other public pension fund in Canada.

The Act directs us to achieve "a maximum rate of return without undue risk of loss." Notably, our mandate sets no geographic, economic development or similar investment requirements. As fiduciaries, we are required to serve the best interests of CPP contributors and beneficiaries. We are driven solely by risk/return considerations.

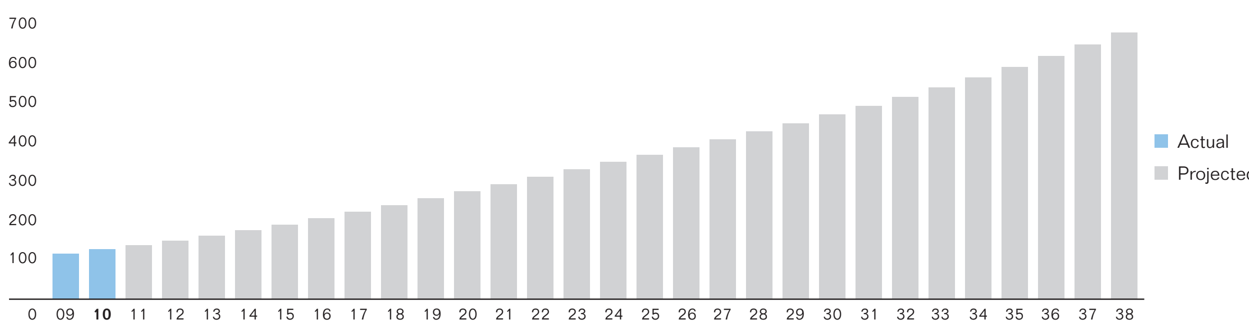
How strong is the arm's length safeguard? CPP members can take comfort that the 1997 reforms made our governing legislation more difficult to change than the Canadian Constitution. Amendments require agreement by the federal government plus two-thirds of the provinces representing two-thirds of the population. These legislative safeguards also stipulate that the CPP Fund cannot be used for any purpose other than paying CPP benefits and investing the Fund. This means that CPPIB's arm's length governance model is protected from political interference, as envisioned by the CPP reformers. The governance system created under this Act is widely considered a best practice and ideal model for national pension plans.

Though established as a federal Crown corporation, the CPP Investment Board is not a sovereign wealth fund. A sovereign wealth fund is a government-owned capital pool that, in addition to achieving investment returns, may be deployed for political, economic development or strategic objectives. Unlike these funds, CPP assets belong to the plan members, not government. They are strictly segregated from government revenues and the national accounts. As noted above, our investment decision-making is insulated by law from government involvement. We deploy capital based solely on investment considerations. And our disclosure standards are on par with those of public companies.

OUR INVESTMENT STRATEGY

The CPP Investment Board is an active manager with an investment horizon that literally spans generations. This horizon is far longer than that of most professional investors. Also, unlike most professional investors, we have the relative certainty of the asset base as well as amount and timing of future cash flows. This is because the Canada Pension Plan is not expected to use any investment income to help pay benefits until 2021.

PROJECTED ASSETS OF THE CPP FUND
AS AT DECEMBER 31 ($ BILLIONS)

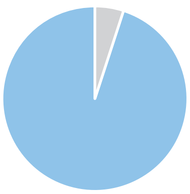


The Chief Actuary of Canada has projected that CPP contributions will exceed annual benefits paid until 2021, providing 11 more years in which excess CPP contributions will be available for investment. CPPIB's sole focus is investing the assets of the CPP and we have built an organization to handle the tremendous growth of the Fund in the next decade. Starting in 2021, the CPP is expected to begin using a small portion of CPPIB investment earnings to supplement the contributions that constitute the primary means of funding benefits.

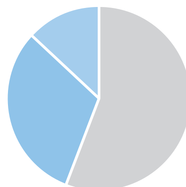
When we began receiving cash flows from the CPP in 1999, the existing portfolio was entirely in non-marketable government bonds. According to expert analysis, bonds alone were not likely to produce the returns needed to help sustain the CPP over the long term. As a result, new money was invested in public equities. Under a regulation that has since been repealed, the Canadian equities allocation was passively indexed. The foreign allocation was also a passive portfolio spanning all developed equity markets. Responsibility for managing the passive portfolio was internalized in 2003, and CPPIB also began to diversify into private equity in 2001 and into real estate in 2003.

HISTORICAL INVESTMENT PORTFOLIO COMPARISON

2000: $44.5 billion



2010: $127.7 billion



In fiscal 2006, we launched a new active investment strategy. The intent was, over the long term, to use the comparative advantages cited below to exceed the returns available from passive investing. If we generate sustained added returns over a long period, actuarial projections turn out as anticipated and the finance ministers who act as CPP stewards will be able to reduce contribution rates or increase benefits. For example, if current actuarial assumptions do not change and if, after costs, we deliver additional average annual returns of 50 basis points (0.50%), the ministers could choose to reduce the current 9.9% contribution rate to 9.65%, which would save employees and employers more than $800 million a year at current earnings levels.

The decision to pursue active investing was not made lightly. Many investors seek above-market returns, but relatively few consistently achieve them. Our board of directors had to be assured that we could generate sufficient returns over time to justify the added costs and complexity. They had to feel confident that the governance system was strong enough to insulate decision-making from political or government influence. Active investing required much greater internal expertise and systems capability. So, management had to present a credible plan for building the highly skilled team required for extremely competitive markets. And we had to show that there were structural and operational advantages which, if employed with discipline, would enable us to succeed.

The CPP Investment Board now invests globally across a wide range of asset classes using active and passive strategies. We report on overall Fund performance and value-added returns – the degree to which our returns exceed those available from passive investing – as measured by the CPP Reference Portfolio on page 21. Value-added returns determine the performance-based component of CPP Investment Board's compensation system.

OUR COMPARATIVE ADVANTAGES

Our active investing program seeks to produce added value by optimizing the use of three structural advantages and three operational advantages.

THE STRUCTURAL ADVANTAGES

- Our investment horizon is exceptionally long given the 75-year period of the Chief Actuary's CPP projection. We're able to evaluate decisions over a much longer time frame than most other investors and invest in assets that could offer substantial added value over time. We have the ability to exercise the patience required to act as a true long-term investor.
- There is a high degree of certainty and stability to the Fund's asset base as it is not subject to redemption requests, nor is there currently any need to liquidate investments for benefit payments. The Chief Actuary's latest report in October 2009 projects that the CPP will collect excess contributions until 2021, which provides a relatively predictable source of funds for new investments.

- The CPP Fund has scale advantages. Its current size and future growth allow us to invest in private markets around the world that are more difficult to access than public markets but are expected to offer greater returns over time. We are also able to pursue large individual transactions where there is less competition and still achieve a high degree of diversification within the Fund. Scale also makes it economically possible to develop sophisticated investment technology and operational capabilities.

  Scale does have a flip side. Some attractive investment opportunities must be rejected because they are too small to make an appreciable contribution to overall returns relative to the resources required. And our public market trading activities are large enough to adversely affect the market if we are not careful.

THE OPERATIONAL ADVANTAGES

- The Total Portfolio Approach, discussed more fully on page 25, enables us to better manage risk and diversification. For example, this year we were able to take advantage of a buyer's market for illiquid private assets and still maintain the CPP Fund's economic exposures.
- Over the past five years we have developed a world-class investment team with expertise that is both broad and deep. We have been able to attract and retain high-calibre professionals from around the world in part because our corporate culture is deeply rooted in ethical conduct, teamwork and high performance standards. While many organizations have responded to the financial crisis by downsizing, we have maintained our focus on the long term and have added some exceptional talent.
- We benefit from partnering with top-tier external managers. Scale and internal capabilities have enabled us to go beyond the typical manager-client relationship. In many cases, our relationships are more akin to alliances. In fiscal 2010 our partners brought us a large number of attractive opportunities for which we were uniquely equipped to act as both a skilled investment partner and liquidity provider.

In the aggregate, these advantages provide us with a different perspective than many other investors and allow us to invest differently than others. We are not forced to seek the short-term returns that many other market participants must achieve due to their investment objectives, yield requirements or business models, nor are we driven by short-horizon market dynamics.

During 2010, we continued our efforts to construct a broadly diversified global portfolio by adding additional investments in various private markets; currently, approximately 25% of the portfolio is invested in private assets such as real estate, private equity, infrastructure and private debt. While the valuations of these assets do not change as quickly as they do in the public markets, we can afford to be patient and wait for the returns that these investments are expected to generate over longer periods of time. Given our advantages, the portfolio is primarily designed to deliver returns over a period of decades, rather than over six-,12- or 24-month periods.

THE CPP REFERENCE PORTFOLIO

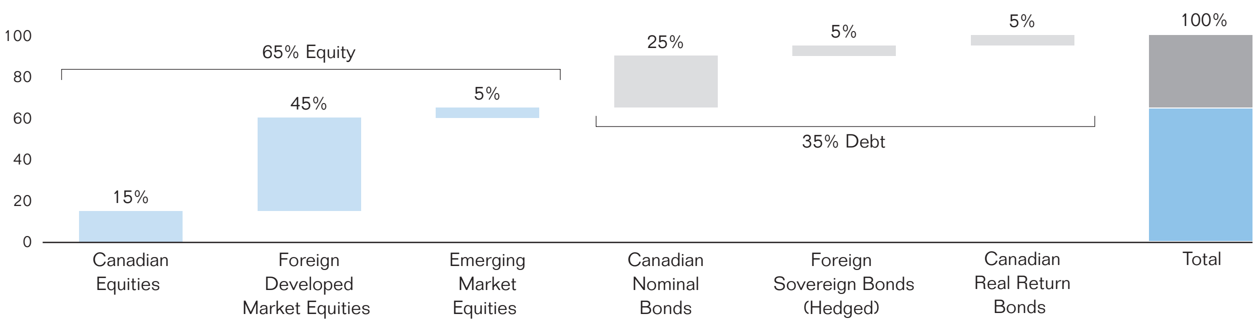
The CPP Reference Portfolio provides a yardstick for measuring performance for the overall CPP Fund. It's not our actual portfolio, but a model that reflects the vision and implied risk tolerance of the Canada Pension Plan reforms of the mid-1990s. The current overall asset mix of the CPP Reference Portfolio is equivalent to 65% equities and 35% debt.

The CPP Reference Portfolio incorporates a set of stock and bond market indices that are available for passive investing. As such, it's highly transparent. It presents a fair challenge to our active investing strategy because it's a passive alternative that, according to our research, could reasonably be expected to produce the long-term average annual return needed to help sustain the CPP at its current 9.9% contribution rate. This return, based on projections by the Chief Actuary of Canada, is 4.2 percentage points above inflation; in other words, an annualized 4.2% "real return." Canada's Chief Actuary makes a new projection every three years which we then use to do a thorough review of the Reference Portfolio. Our next review will occur after the Chief Actuary's new CPP projection is completed in calendar 2010.

There are two important aspects to the 4.2% real return threshold:

- It's an annual average over 75 years. The actual return for any one year, or even any five or 10 years, will likely be higher or lower; and
- The CPP Fund's performance is only one factor in keeping the CPP contribution rate stable. Other factors such as inflation, wage growth, immigration and demographic shifts have even more of an impact. We have developed a dynamic model that tests portfolio designs in various economic and capital market conditions. The current CPP Reference Portfolio design is the one most likely to minimize the risk of unwanted CPP adjustments if current assumptions prove to be too optimistic.

CPP REFERENCE PORTFOLIO
AS AT MARCH 31, 2010



ASSET CLASS	**BENCHMARK**	**2010 Return**	2009 Return
Canadian equities	S&P Canada Broad Market Index	**44.0%**	-33.1%
Foreign developed market equities	S&P Developed Ex-Canada LargeMidCap Index[1]	**23.9%**	-29.1%
Emerging market equities	S&P Emerging LargeMidCap Equity Index[1]	**44.8%**	14.2%
Canadian nominal bonds	Custom-blended benchmark of actual CPP bonds and DEX All Government Bond Index	**4.3%**	7.8%
Foreign sovereign bonds[2]	Citigroup World Government G7 Bond Index[2]	**2.0%**	–[3]
Canadian real return bonds	DEX Real Return Canada Bond Index	**9.5%**	-0.5%
Total CPP Reference Portfolio		**20.8%**	-18.6%

[1]Net of tax, unhedged
[2]Hedged to Canadian dollars
[3]Asset class added in fiscal 2010

The 15% Canadian equities allocation helps protect the CPP's funding plan from real interest rate declines. When real interest rates fall, the projected cost of benefits goes up. Normally, so does the value of Canadian stocks. So increased Canadian equity values help offset the higher funding requirement.

The 50% foreign equities exposure provides diversification. Canada's stock market is small by world standards and heavily concentrated in natural resources and financial services. Foreign markets offer more choice. Also, a number of foreign economies – mainly the emerging markets – are expected to grow faster than Canada's. This would provide additional income to help pay CPP benefits. As well, if Canadian wages grow less than expected, so will CPP contributions. Investment income from foreign assets would help cover this shortfall.

The 25% allocation to Canadian bonds includes the legacy non-marketable bond portfolio created before the 1997 CPP reforms. Nominal bonds mitigate the risk of deflation. They are also expected to earn slightly more than real return bonds because they reflect an inflation risk premium. The 5% allocation to foreign sovereign bonds is included because the Canadian fixed income market is too small to fully meet the needs of the CPP. The 5% allocation to real return bonds is to mitigate the risks of unexpected inflation and lower real interest rates.

Foreign sovereign bonds are the only CPP Reference Portfolio element that is explicitly hedged to neutralize the impact of changes in currency values. This allows foreign bonds to serve as a substitute for Canadian bonds.

CURRENCY HEDGING

Most countries or regions have adopted a floating regime for their currencies which means that, over time, the value of those currencies will appreciate or depreciate. At times, currencies can move dramatically in a single direction over the course of a fiscal year. This causes many investors to implement currency hedging programs in order to protect themselves against such moves. Hedging, however, comes with a financial cost.

Over longer periods of time, as demonstrated by investment theory, historical data and our own economic research, short-term currency fluctuations tend to even out. This indicates that currency movements have no appreciable impact on the assets of the CPP Fund over long periods of time, and so, the cost of a currency hedging program would simply not pay off.

We do take currency views into account within a number of our internally and externally managed active investment programs, which are designed to earn returns by exploiting short- and medium-term behaviour of the international currency markets.

Accordingly, aside from foreign sovereign bonds, which are used as a substitute for Canadian bonds, we do not hedge the foreign investment components of the CPP Fund that are embodied in the CPP Reference Portfolio.

RISK/RETURN ACCOUNTABILITY FRAMEWORK

The Risk/Return Accountability Framework is built on two cornerstones: the CPP Reference Portfolio and the Total Fund Active Risk Limit. This framework is detailed in the *Statement of Investment Objectives, Policies, Return Expectations and Risk Management* that is available on our website.

Each year, the board of directors approves an active risk limit which restricts how much the CPP Fund's aggregate risk exposure can vary from the risk embodied in the CPP Reference Portfolio. This limit caps how much added risk our investment groups can take to earn additional returns. As discussed on page 41, management's Investment Planning Committee allocates the active risk limit among the investment groups. Results relative to these active risk allocations are monitored regularly by the Investment Planning Committee and reported to the board of directors.

Management's annual business plan specifies the allocation of active risk and the level of expected returns. The board of directors is also given an estimate of the range in which one-year active returns could vary from expectations. Directors are then subsequently able to evaluate management's actual use of risk relative to the fiscal year's business plan.

As previously reported, our Risk/Return Accountability Framework was substantially strengthened in fiscal 2009 by separating the allocation of risk and the monitoring of risk into two separate groups: Portfolio Design and Investment Research, and Investment Risk Management.

This year, we continued to strengthen our risk measurement, monitoring and control capabilities. An Investment Risk Management Policy Framework was completed to support the Risk/Return Accountability Framework, defining standards of practice for market risk management, credit and counterparty risk management as well as model validation. The implementation of a new system to measure market risk was completed early in fiscal 2010 and expanded later in the year to include counterparty risk measurement. A stress-testing framework was also developed to provide an indication of the possible impacts to the Fund of adverse events.

Late in fiscal 2009, Standard & Poor's assigned CPPIB its highest credit rating, AAA, and in doing so stated our risk management framework was thorough and well-organized, with comprehensive investment risk monitoring.

GENERATING VALUE-ADDED RETURNS

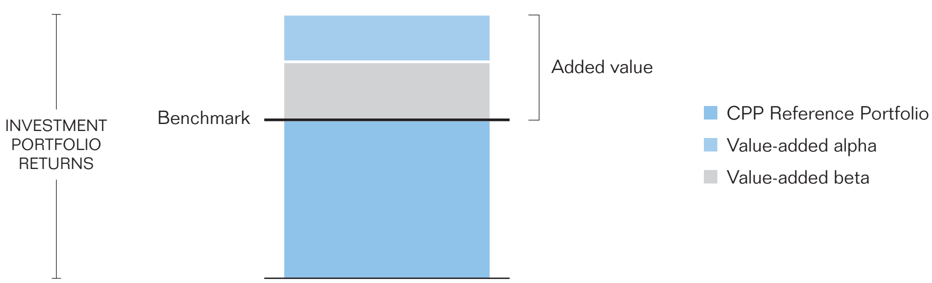
In essence, our investment strategy is to diversify the CPP Fund beyond the core equity and debt public market elements of the CPP Reference Portfolio. We seek to generate value-added returns above this benchmark over the long term through two elements of diversification: "better beta" and "alpha."

Our efforts are coordinated through our Total Portfolio Approach, which focuses on underlying risk/return attributes versus a combination of asset classes, which is often referred to as a Policy Portfolio Approach.

BETTER BETA AND ALPHA

Beta is the return available from passively investing in a given asset class. In general, this return and its related level of risk reflect market performance rather than manager skill.

ILLUSTRATIVE EXAMPLE OF ALPHA AND BETA VALUE-ADDED RETURNS



The CPP Reference Portfolio reflects the returns and risk of generally efficient markets for public equities and bonds. Its return is entirely beta. We seek what we call "better beta" that over time should exceed the returns from these public markets. This involves expanding the CPP Fund into additional markets such as real estate and infrastructure, for example.

The six public market indices on which the CPP Reference Portfolio is based offer little or no access to these markets. And the CPP Reference Portfolio itself makes no attempt to capitalize on our comparative advantages. It reflects only broad market exposure to the six markets, while better beta for the CPP Fund reflects broader market exposure plus the manager skill required to invest in private markets.

Alpha is the above-market return generated entirely by manager skill manifested in selecting securities or investments in amounts that differ from those prescribed by the overall market index. Alpha returns are available only through active investing. They are particularly valuable because they do not add materially to systematic risk. In other words, they are generally not influenced by whether broad market returns are positive or negative. Holdings with alpha exposure might move in the opposite direction to the market, or in the same direction but with higher gains and lower declines.

CPPIB's alpha activities extend beyond investment and strategy selection. Cost minimization also gets high priority. Every dollar saved on transaction costs and external management fees is equivalent to one dollar of additional income, or alpha, with no increase in risk.

OUR TOTAL PORTFOLIO APPROACH

We have adopted an investment approach that's fundamentally different from the majority of other investors. Called the Total Portfolio Approach, we view the CPP Fund as a set of coordinated risk/return elements. We deconstruct each asset into its equity/debt attributes when making initial investment decisions and in subsequent rebalancing decisions within the portfolio. We do this by:

- Assessing each investment according to its underlying risk/return attributes, or "economic exposures," within the portfolio rather than its traditional asset class label;
- Making all investment decisions by incorporating the related impact on the risk and return of the overall portfolio; and
- Focusing on risk allocation within the total portfolio rather than targeting fixed allocations to specific asset classes under traditional divisions.

The Total Portfolio Approach enables us to make better investment decisions by ensuring that unrecognized equity risk does not inadvertently creep into the portfolio through its presence in virtually all private asset classes – not just in public equities. While it is a relatively simple concept, the Total Portfolio Approach can be complex to implement because it requires complementary technology, risk management, analysis and decision-making frameworks to be effective. It also requires a high degree of collaboration and coordination across all investment departments.

DIVERSIFICATION UNDER THE TOTAL PORTFOLIO APPROACH

Under this approach, we broadly diversify the investment portfolio beyond the CPP Reference Portfolio yet still achieve the critical 65% equity/35% debt balance. As part of this diversification strategy, approximately 25% of the total portfolio is represented by private investments across private equity, real estate, infrastructure and credit-related areas. These are all investment categories in which the CPP Fund has advantages due to its scale and long horizon. These are also areas in which a manager's skill can add materially to returns over a longer time horizon while prudently controlling risks.

To meet our objective of adding value versus the CPP Reference Portfolio, we use a portfolio management approach designed to ensure that each major investment decision is evaluated in terms of its contribution to improving the risk/reward profile of the total portfolio rather than only in the context of its specific asset category. To apply this approach we:

- Estimate the changes in total portfolio returns, total portfolio risk and active management risk prior to each proposed investment (e.g. a major infrastructure purchase) or adoption of a new active strategy (e.g. a specific long/short investment program); and
- Match, as closely as possible, the fundamental characteristics of what is sold out of the CPP Reference Portfolio to fund the investment with what is acquired in the active management investment or program.

ECONOMIC EXPOSURES

We look beyond asset class labels and view each investment by its economic exposure mix. A key result is that all investments are first characterized in terms of their funding assets, which is the specific mix of CPP Reference Portfolio components that best matches the risk/return attributes of the investment. For example, where real estate may be 6% of the total portfolio, we recognize that the underlying economic characteristics are effectively 4% equity and 2% debt. Taking this example further, a "core" non-Canadian real estate investment is characterized as comparable to 40% global developed market equity, 50% hedged foreign sovereign bonds and 10% Canadian real return bonds. If the property is mortgaged, and hence riskier, then the percentage in bonds is reduced and the equity component increased. This provides a "look-through" of all public and private assets into their fundamental underlying economic exposures across:

- Equity markets volatility;
- Movements in government bond yields;
- Geographic and industry sectors; and
- Currency exchange rates.

The diversity of CPP Fund holdings is thus aggregated into the effective overall economic exposures relative to the CPP Reference Portfolio. This approach allows us to manage the major long-term influences on total portfolio risks and prospective returns, and to avoid unintended exposures that may not be clearly visible using conventional asset class labels.

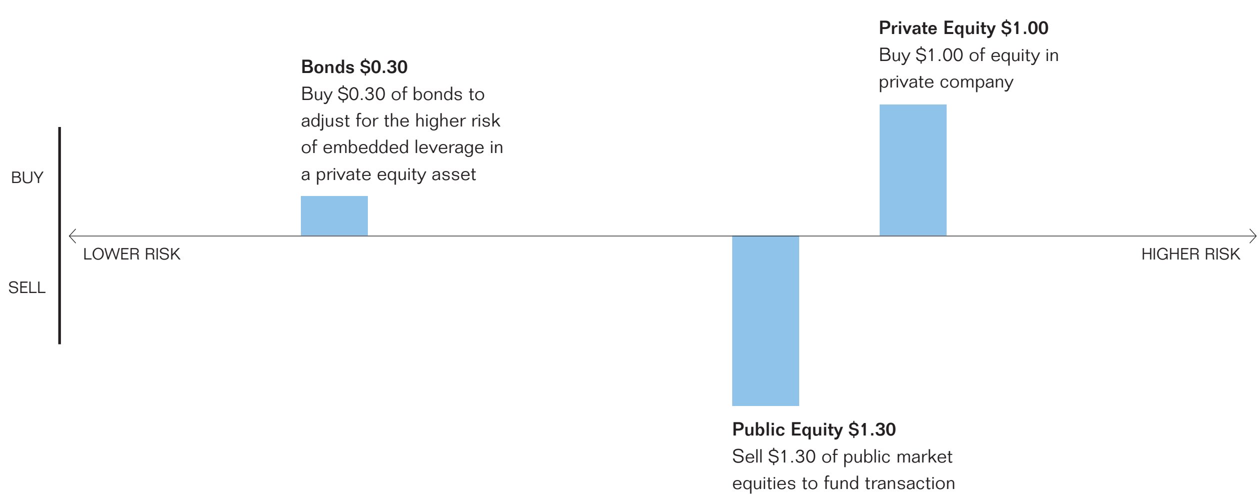
The chart below shows another view of how the Total Portfolio Approach maintains the risk/return balance of the CPP Fund. By recognizing the underlying debt and equity exposures in each private investment, we are able to maintain an effective 65% equity/35% debt balance in the portfolio. Under this method, we adjust for unwanted exposures hidden by traditional asset class labels.

CPP REFERENCE PORTFOLIO	ECONOMIC EXPOSURES	
Canadian Equities Foreign Developed Market Equities Emerging Equities	All passive public equity exposure **plus** private equity **plus** underlying equity exposures inherent in real estate, infrastructure, credit and private debt	65%
Canadian Nominal Bonds Canadian Real Return Bonds Foreign Sovereign Bonds	All passive fixed income exposure **plus** underlying debt exposures inherent in real estate, infrastructure and private debt	35%

Examples of the Total Portfolio Approach at Work

We provide two investment examples to better illustrate how we use the Total Portfolio Approach. The private equity example shows how we adjust for the higher debt levels typically present in private equity investments versus public companies. The real estate example shows how we analyze the equity/debt split and therefore recognize the underlying economic exposures that are inherent in an unlevered core real estate asset.

EXAMPLE: FUNDING A PRIVATE EQUITY TRANSACTION USING THE TOTAL PORTFOLIO APPROACH



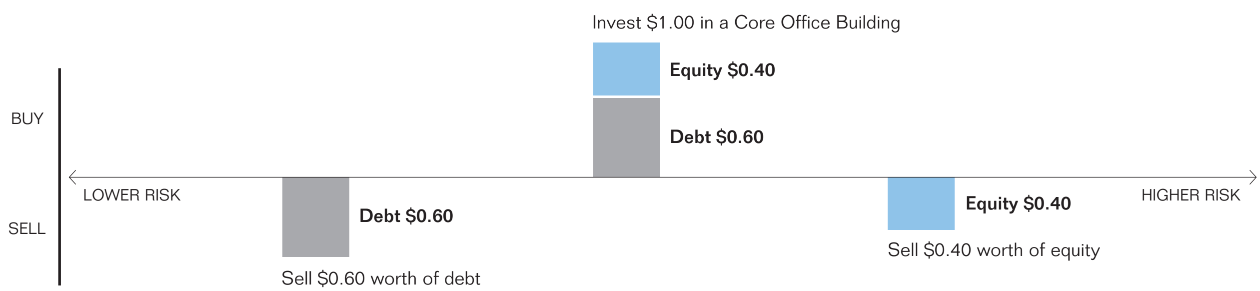
To maintain total portfolio risk/return balance, we take two actions:

- Match the sector and geographic regions of the public equities that are sold against the private equity that is bought; and
- Fund a $1.00 private equity purchase by selling $1.30 of public equity and buying $0.30 of bonds as well as the new private equity investment. The resulting higher bond content in the total portfolio offsets the higher risk inherent in private versus public equity.

Real estate entails elements of both equity- and debt-like returns and risk characteristics. Accordingly, we:

- Assign each real estate investment to a risk category – low, core or high;
- Fund new purchases by selling a mix of passive fixed income and equity holdings designed to match the risk category; and
- If the property is mortgaged, our net investment is correspondingly riskier; the equity funding component is therefore raised, and the debt component lowered, to maintain the total portfolio risk.

EXAMPLE: FUNDING A REAL ESTATE TRANSACTION USING THE TOTAL PORTFOLIO APPROACH



BENCHMARKING UNDER THE TOTAL PORTFOLIO APPROACH

Benchmarking is very important because it's how CPPIB and its board of directors track the effectiveness of our investment operations over the long term.

Total Fund Benchmark

Our objective is for the CPP Fund to outperform over rolling four-year periods and after all costs, the returns that could have been achieved by investing according to the CPP Reference Portfolio and its six public market benchmark indices. The pursuit of this objective is also governed by the active risk limit established by the board.

Funding Benchmarks

Our primary objective for each active investment is to outperform the passive investments from the CPP Reference Portfolio that were sold to fund it – the "funding benchmark." These funding benchmarks are established and applied under the following principles:

- Funding benchmarks are determined before any investment program is approved by the Investment Planning Committee, based upon a recommendation from the Portfolio Design and Investment Research department that is independent of the investment departments;
- Each funding benchmark takes into account the basic risk characteristics of the specific investment, as well as the amount of leverage incorporated;
- Benchmarks are reviewed at least annually to ensure they are still appropriate; and
- External investment costs are deducted from actual returns before attributing any value-added.

Public Markets – Passive: These are the same six public market indices used for the CPP Reference Portfolio.

Public Markets – Active: These are typically long/short positions for which outperformance is measured relative to the cost of any cash required to sustain the program.

Private Equity: This benchmark is the return that would have resulted if the private equity investment had remained invested in public equities within the same sector and region, adjusted for higher private equity leverage relative to public markets (see diagram on page 26).

Private Debt: The funding mix/benchmark is a blend of CPP Reference Portfolio debt and equity components that reflects the geography and risk rating of each investment.

Infrastructure: The funding mix/benchmark is a blend of debt and equity components that reflects geography and a quantitative and qualitative risk assessment, recognizing leverage, resulting in a low, medium or high classification.

Real Estate Equity: Similar to infrastructure, the funding mix/benchmark reflects geography and a risk assessment as low, core or high which is then adjusted for any mortgage financing used.

In the case of private investments made through funds rather than through direct investments, they are similarly benchmarked by "looking through" to the underlying holdings wherever possible.

Compensation Benchmarks

Compensation benchmarks at the investment department level are established and approved under the following principles:

- The Portfolio Design and Investment Research department, operating independently of the investment departments, researches and identifies a compensation benchmark that is most relevant to each investment program's strategy;
- The benchmark and the target for value-added performance reflect:
  - The degree of risk inherent in the program (additional compensation should not be achievable simply by taking on more risk), and
  - The range of skill-based results exhibited by external managers in the same field;
- We aim to have comparable degrees of achievability from one department to another;
- Target value-added is assigned a multiplier of 1. An additional range of over-performance and underperformance multipliers relative to the target is also developed for each investment program;
- External investment costs and internal operating costs are deducted from actual returns before attributing any value-added;
- All compensation benchmarks and ranges are reviewed and approved by the Human Resources and Compensation Committee (HRCC) of the board;
- Methods and results for actual returns are examined by CPP Investment Board's external auditors, Deloitte & Touche LLP, who issue a report in this regard to the HRCC; and
- Actual payments are based on four-year rolling averages of these multipliers; this horizon is the norm for organizations similar to the CPP Investment Board, encourages a focus on longer-term rather than single-year results, and is recommended by industry best practice.

Public Markets: The active mandate for the department is to generate "pure" alpha, independent of market movements. Thus, active risk targets are established for the degree of active management risk, in dollars, expected to be employed by the department. A targeted absolute dollar amount of added value is determined by assigning a desired ratio of added value per unit of active risk.

Private Equity: The starting point is the public market equivalent return. However, to compensate for the greater leverage and therefore risks in private markets, the achievement of an additional threshold is required before a multiplier greater than one is earned.

Infrastructure: The funding benchmark is used, but with the required return on the equity portion scaled in the same manner as it is for private equity.

Private Debt: Benchmark compensation is set at the returns generated by equivalent credit quality investments. Higher (or lower) multipliers result if the realized return is the equivalent of a significantly higher (or lower) credit quality than the specific investment category.

Real Estate Equity: Surveys of property-level performance maintained by the Investment Property Databank (IPD) represent well-recognized standards for comparable private real estate investments by institutions. Index returns in the relevant surveys are therefore used as benchmarks for the regional components of our equity real estate program, adjusted for certain expenses, notably land transfer and other taxes, and acquisition costs.

Overall, our approach to both funding and compensation benchmarking results in many more investment-specific benchmarks than we believe is typically the case for other investment organizations. However, we believe that the benefits of having closer alignment of our benchmarks with risk characteristics and value-added contributions outweigh the additional complexity involved.

PERFORMANCE

The CPP Fund delivered one of its highest-ever annual returns in fiscal 2010. This was driven in large part by strong public equity returns as the broader economy responded to global stimulus efforts. During a period of dramatic market volatility, our value-added returns underperformed the CPP Reference Portfolio. We remain confident in our investment model and that the significant embedded value of our asset portfolio will be realized over time.

TOTAL FUND

$127.6 BILLION

TOTAL FUND INCREASE

$22.1 BILLION

$16.2 BILLION

INVESTMENT INCOME IN FISCAL 2010

$18.5 BILLION

CUMULATIVE INVESTMENT INCOME FOR FIVE-YEAR PERIOD ENDING MARCH 31, 2010

$39.3 BILLION

CUMULATIVE INVESTMENT INCOME FOR 10-YEAR PERIOD ENDING MARCH 31, 2010

14.9% FISCAL 2010 RATE OF RETURN INCREASE

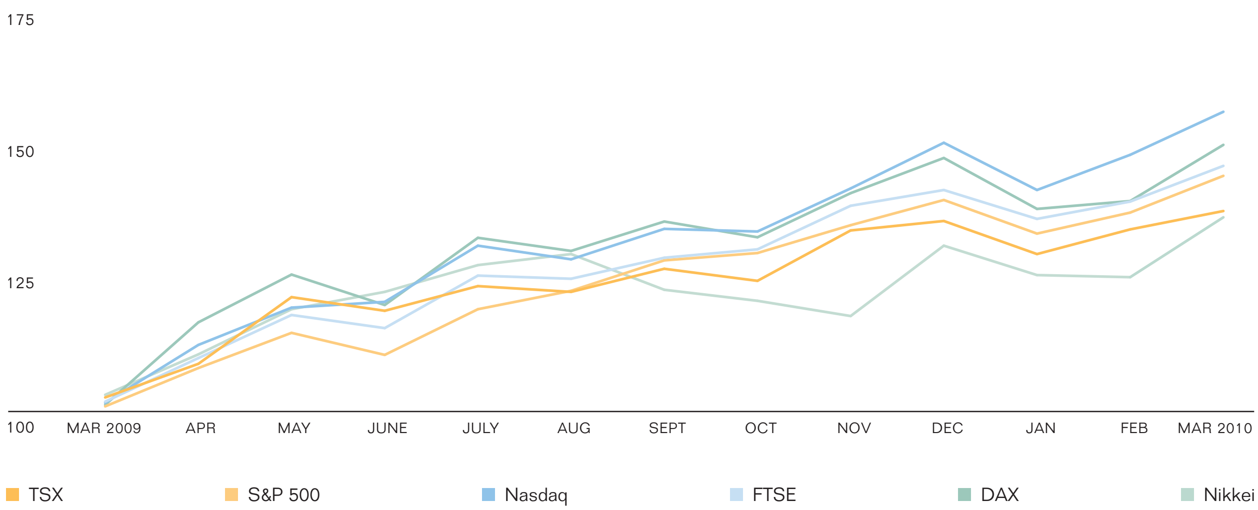
4.0% FIVE-YEAR ANNUALIZED RATE OF RETURN

5.5% TEN-YEAR ANNUALIZED RATE OF RETURN

-0.34% CUMULATIVE VALUE-ADDED RETURN OVER PAST FOUR YEARS

PERFORMANCE OF GLOBAL MARKET INDICES

FOR THE YEAR ENDED MARCH 31 (%)



FINANCIAL PERFORMANCE

This section details the CPP Fund's asset mix at year end, financial performance and highlights the activities of our investment departments.

ASSET MIX

Consistent with our investment strategy, we continued to diversify the portfolio by risk/return characteristics and geography during fiscal 2010. The chart below provides a more detailed view of the CPP Fund's asset weightings, both by asset category and by economic exposures, as discussed in the Total Portfolio Approach section on page 25.

INVESTMENT PORTFOLIO AS AT MARCH 31, 2010

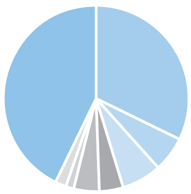
	Asset Mix		Exposure Mix	
ASSET CLASS[1]	($ billions)	(%)	($ billions)	(%)
CANADIAN EQUITIES	**18.5**	**14.5%**	**19.5**	**15.3%**
Public	17.5	13.7%		
Private	1.0	0.8%		
FOREIGN DEVELOPED MARKET EQUITIES	**46.2**	**36.2%**	**57.3**	**44.9%**
Public	31.6	24.8%		
Private	14.6	11.4%		
EMERGING MARKET EQUITIES	**6.5**	**5.0%**	**6.5**	**5.0%**
Public	6.0	4.6%		
Private	0.5	0.4%		
FIXED INCOME	**35.9**	**28.1%**	**31.9**	**25.0%**
Non-marketable bonds	22.7	17.7%		
Money markets and debt financing	(0.6)	-0.5%		
Marketable bonds	9.3	7.3%		
Absolute return strategies	(0.4)	-0.3%		
Other debt[2]	4.9	3.9%		
FOREIGN SOVEREIGN BONDS	**3.4**	**2.7%**	**6.2**	**4.9%**
INFLATION-SENSITIVE ASSETS	**17.2**	**13.5%**	**6.3**	**4.9%**
Real estate	7.0	5.5%		
Infrastructure	5.8	4.6%		
Inflation-linked bonds	4.4	3.4%		
INVESTMENT PORTFOLIO	**127.7**	**100.0%**	**127.7**	**100.0%**

[1] Asset classes in all capitals have an explicit CPP Reference Portfolio allocation.

[2] Includes other credit products.

This chart shows the global diversification of the CPP Fund. At the end of fiscal 2010, Canadian assets represented 43.0% of the investment portfolio and totalled $54.9 billion. Foreign assets represented 57.0% of the portfolio and totalled $72.8 billion.

GLOBAL DIVERSIFICATION
AS AT MARCH 31, 2010



- 43.0% Canada ($54.9 billion)
- 32.1% North America (excluding Canada) ($41.0 billion)
- 6.1% United Kingdom ($7.8 billion)
- 7.0% Europe (excluding U.K.) ($8.5 billion)
- 4.0% Japan ($5.2 billion)
- 4.5% Asia (excluding Japan) ($5.6 billion)
- 1.4% Australia ($1.8 billion)
- 1.9% Other ($2.9 billion)

CPP FUND RETURNS[1]

ASSET CLASS	**Fiscal 2010**	Fiscal 2009
Canadian public equities	**43.7%**	-32.3%
Canadian private equities	**13.1%**	-7.8%
Public foreign developed market equities	**24.7%**	-29.7%
Private foreign developed market equities	**-9.4%**	-17.8%
Public emerging market equities	**45.9%**	-32.6%
Private emerging market equities	**-4.3%**	-13.7%
Bonds and money market securities	**6.1%**	5.4%
Other debt	**63.0%**	-30.3%
Foreign sovereign bonds[2]	**2.1%**	–
Public real estate	**19.3%**	-43.7%
Private real estate	**-11.8%**	-14.0%
Infrastructure	**-6.5%**	-5.0%
Inflation-linked bonds	**11.3%**	-0.6%
Total CPP Fund[3]	**14.9%**	-18.6%

[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] New to the CPP Reference Portfolio in fiscal 2010.

[3] Total CPP Fund return in fiscal 2010 includes a $180 million gain from hedging activities and $58 million gain from other external active programs.

	Fiscal 2010		Fiscal 2009	
	%	$ billions	%	$ billions
TOTAL FUND RETURNS				
1-year return	**14.9**	**16.2**	-18.6	-23.6
5-year annualized return	**4.0**	**18.5**[3]	2.8	8.6[3]
10-year annualized return	**5.5**	**39.3**[3]	4.3	24.2[3]
VALUE-ADDED[1]				
1-year value-added	**-587 bps**	**-6.3**	1 bps	0.0
Cumulative 4-year value-added	**-34 bps**[2]	**-1.1**	487 bps[2]	5.3

[1] Relative to CPP Reference Portfolio introduced April 1, 2006.

[2] Cumulative value-added is shown as the difference between actual and benchmark cumulative returns since April 1, 2006.

[3] Cumulative for period.

TOTAL FUND PERFORMANCE

The CPP Fund ended its fiscal year on March 31, 2010, with net assets of $127.6 billion, an increase of $22.1 billion from the prior year end. This increase consisted of $16.2 billion in investment income, $236 million in operating costs and $6.1 billion in CPP net contributions.

The portfolio returned 14.9% for fiscal 2010 compared with a prior-year loss of 18.6%. The Fund, through a combination of contributions and investment returns, has now grown to essentially match its highest previous level reported on June 30, 2008, before the onset of the global financial crisis.

Consistent with our long investment horizon, we also report five- and 10-year results for the CPP Fund. For the five-year period ending March 31, 2010, the CPP Fund generated an annualized rate of return of 4.0% or $18.5 billion of investment income. For the 10-year period, the Fund had an annualized rate of return of 5.5% or $39.3 billion of investment income.

These five- and 10-year returns are disappointing as they are both below the estimated 6.2% nominal rate (or annualized 4.2% real rate) of return required to sustain the CPP at its current contribution rate, as estimated by Canada's Chief Actuary. However, these results for the CPP Fund should be viewed in context of the performance of major global financial markets over the same period. The CPPIB began investing in March 1999. With two bear markets since then, this has been a lost decade for equities. Therefore virtually all of our investment performance was generated in what was the worst decade (2000–2009) for equity returns in over 200 years of recorded capital markets history. None of the major broad stock market indices produced a 4.2% average annual real return when expressed in Canadian dollars. We remain confident that with the Fund's current portfolio construction and reasonable levels of capital market returns we will be able to deliver the average 4.2% real return over longer periods of time.

Fiscal 2010 was a very strong year in terms of absolute performance for the Fund. This is in sharp contrast to results last year, when we saw poor absolute returns reflecting the prevalence of the global financial crisis. Over the course of fiscal 2010, there were marked improvements across virtually all financial markets. Stock and commodities markets rallied significantly during the first half of the fiscal year and then maintained slower rates of growth in the second half.

Corporate bonds, which suffered heavily through the 2007–08 credit crisis, also rallied strongly as wide spreads over government issues narrowed considerably. Government bond yields were volatile but ended the year little changed overall.

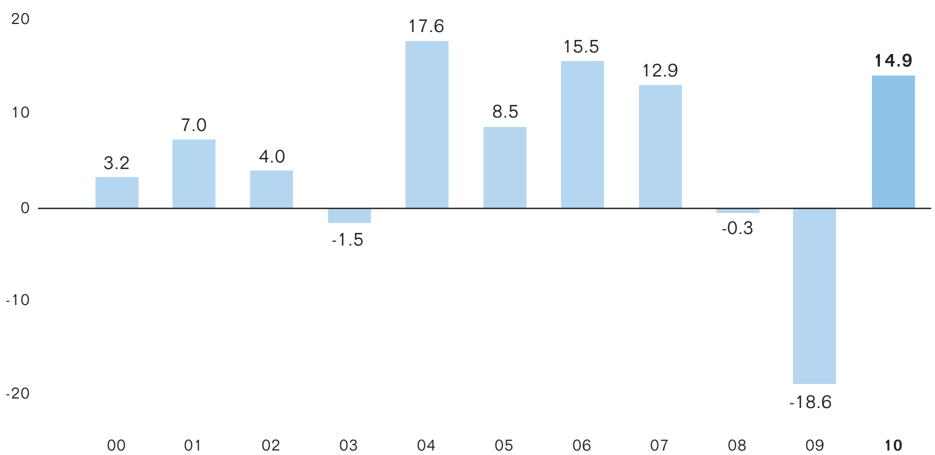
The global equity rally was especially notable last year. Many world markets gained more than 50% from March 2009 lows to March 31, 2010. In the United States, the S&P 500 Index posted its strongest recovery since the Great Depression. Canada's S&P/TSX Composite Index gained more than 55% from early March and ended 2009 up 38.0% for its best year since 1979. With a large exposure to global public equities, the CPP Fund benefited from this rebound, having stayed the course with our long-term strategy during the 2007–08 decline.

While public market investments were lifted by the dramatic recovery in equities and fixed income, private investment returns have not rebounded as quickly. It takes additional time for appraised values of private assets to catch up to these public market levels, particularly after the significant rally experienced in global public equity markets in the past 12 months.

Performance was also impacted by the Canadian dollar's gain in value relative to all major currencies over the past 12 months. It rose 24% against the U.S. dollar and significantly against other major world currencies. This reduced our performance by $10.1 billion when returns on our large foreign exposure were converted to Canadian dollars. This contrasts with a gain of $6.8 billion for the Fund last year when the Canadian dollar weakened.

As noted in the currency hedging section on page 23, we do expect that there may be sharp movements in currency values in any 12-month period as the last two years demonstrate. However, historical data and our own economic research indicate that currency movements balance out over longer periods of time and therefore the costs inherent in currency hedging are not justified for the CPP Fund given its very long horizon. Accordingly, we do not hedge the strategic currency exposures within the Fund.

RATE OF RETURN
FOR THE YEAR ENDED MARCH 31 (%)



PERFORMANCE AGAINST BENCHMARKS

While fiscal 2010 performance was positive, this was the first time we did not exceed our total Fund benchmark since its adoption four years ago, as the annual total portfolio return was 587 basis points[1] below that of the CPP Reference Portfolio.

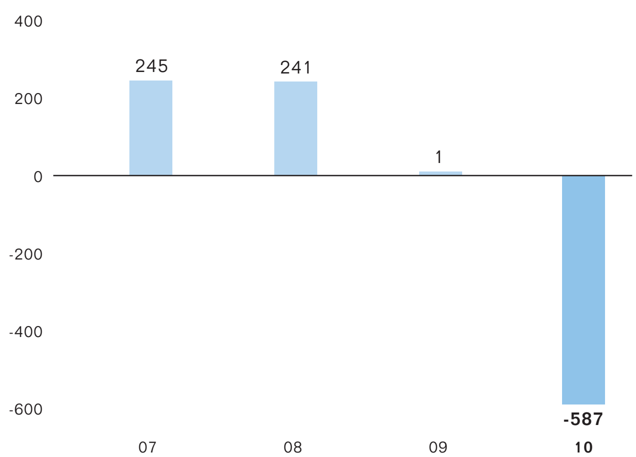
The major reason for this underperformance was that the returns of the majority of our private market assets – real estate, infrastructure and private equity – lagged well behind their funding benchmarks last year. In other words, even though we had positive results from many of our private market holdings excluding currency effects, they significantly underperformed, over a one-year period, the public market securities that we sold to purchase these assets.

In the case of both real estate and infrastructure, the equity components of their funding benchmarks had very high returns given the strong increases in global stock markets previously described. Performance of real estate and infrastructure tends to be more stable and simply won't be able to match the kind of rapid increases in equity valuations we saw over this last 12-month period. We remain confident that, given the quality of our infrastructure and real estate assets, they will generate value-added returns relative to their funding benchmarks in the years ahead.

In the case of our private equity holdings, we believe that there is an inevitable valuation lag, both on the upside and on the downside, compared to their public market funding benchmarks; these lags are especially pronounced in periods of large movements in the public markets. The independent valuations of our private equity investments reflect appropriately conservative current market assumptions given that there is not an observable market price as there is for public markets. We believe that this valuation differential will be eliminated over time as we realize dispositions of our private equity investments and as public market returns are averaged over more than a one-year time horizon.

For accountability purposes, we track value-added performance over rolling four-year periods. While four years doesn't represent a full market cycle, it is consistent with periods used by organizations similar to the CPP Investment Board and provides a reasonable basis for assessing longer-term performance. The following chart shows, in basis points, CPPIB's value-added returns in each of the four years since the adoption of the CPP Reference Portfolio.

CPPIB FOUR-YEAR VALUE-ADDED RETURNS
FOR THE YEAR ENDED MARCH 31 (bps)



[1] A basis point is 1/100th of 1%. Five basis points equal 0.05%.

The negative value-added for fiscal 2010 has offset the positive results from the previous three years, resulting in a cumulative -34 basis points for the four years. While we are clearly disappointed in this result, as noted previously, we believe that there is significant embedded value-added within our private market holdings that will materialize in the years ahead.

We also note that, given our rolling four-year measurement periods, fiscal 2010's negative result will continue to impact our value-added return calculations for an additional three years.

CASH FOR BENEFITS PORTFOLIO

Since 2004 we have been responsible for the short-term cash management program that supports monthly benefit payments made by the CPP. This Cash for Benefits portfolio is segregated from the long-term investment portfolio and invested only in liquid money market instruments. The primary objective of the portfolio is to ensure the CPP can 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 0.2% or $3 million for fiscal 2010 versus 0.3% for the index. Over the course of the year, this short-term portfolio had average balances of approximately $1.1 billion.

INVESTMENTS

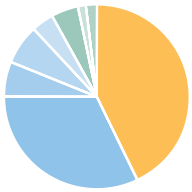
The ability to capitalize on a number of significant investment opportunities was a defining theme for CPPIB this year. Our long time horizon, distinct investment approach, available capital and specialized investment expertise allowed us to capitalize on significant investment opportunities that we believe will benefit the Fund for the long term. In 2009 we participated in three of the world's largest private investment transactions: IMS Health, Skype Technologies and Macquarie Communications Infrastructure Group.

14 TOTAL NUMBER OF COUNTRIES IN WHICH WE HAVE PRIVATE HOLDINGS

3 PARTICIPATED IN THREE OF THE FIVE LARGEST PRIVATE INVESTMENT TRANSACTIONS IN 2009

123 INVESTMENT PARTNERS

GLOBAL DIVERSIFICATION
AS AT MARCH 31, 2010



- 43.0% Canada ($54.9 billion)
- 32.1% North America (excluding Canada) ($41.0 billion)
- 6.1% United Kingdom ($7.8 billion)
- 7.0% Europe (excluding U.K.) ($8.5 billion)
- 4.0% Japan ($5.2 billion)
- 4.5% Asia (excluding Japan) ($5.6 billion)
- 1.4% Australia ($1.8 billion)
- 1.9% Other ($2.9 billion)

SIGNIFICANT TRANSACTIONS IN FISCAL 2010

PARTICIPATED IN LARGEST PRIVATE EQUITY TRANSACTION IN CALENDAR 2009
IMS Health Inc.

OUR FIRST REAL ESTATE INVESTMENT IN BRAZIL
Cyrela Commercial Properties

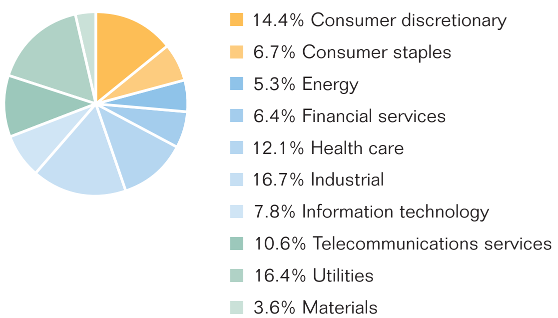
OUR FIRST CANADIAN PRIVATE EQUITY PUBLIC-TO-PRIVATE TRANSACTION
Livingston International Income Fund

OUR FIRST DIRECT INVESTMENT THROUGH RELATIONSHIP INVESTMENTS
Progress Energy Resources Corp.

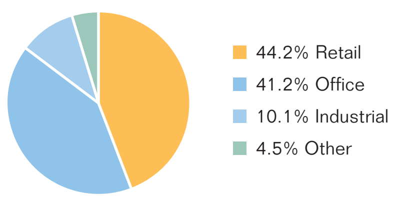
OUR FIRST LARGE-SCALE INVESTMENT AS A SOLE INVESTOR
Macquarie Communications Infrastructure Group

OUR FIRST PRIVATE INVESTMENT IN INDIA
Multiples International Fund (closed April 2010)

PRIVATE INVESTMENTS BY SECTOR
AS AT MARCH 31, 2010



REAL ESTATE INVESTMENTS BY PRODUCT TYPE
AS AT MARCH 31, 2010



INVESTMENT DEPARTMENT REVIEW

This section details the performance of our three investment departments and highlights our notable investment activities.

The ability to capitalize on a number of significant investment opportunities and the flexibility to maintain our strategic asset weightings were defining themes for CPPIB in fiscal 2010.

Our long time horizon, liquidity, scale and internal investment capability enabled us to acquire sizeable, quality assets at attractive valuations; these assets are expected to benefit the Fund over long periods of time. Guided by our experienced investment teams, we participated in three of the five largest private investment transactions completed globally during calendar year 2009: IMS Health, Skype Technologies and Macquarie Communications Infrastructure Group.

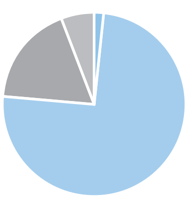
Our flexibility also allowed us to maintain our strategic asset weightings and to dynamically rebalance the portfolio, thereby continuing to purchase public equities as the markets declined and gradually selling these equities to purchase additional fixed income instruments as the equity markets rebounded.

This disciplined approach to rebalancing is a key element of our investment strategy. Individual markets and currencies provide differing returns day by day and month by month. If left alone, the Fund's exposure to each market, geography and currency would drift away from our strategic asset weightings of 65% equity and 35% fixed income. Rebalancing is the process of selling assets which have appreciated, and buying when the price is reduced, in order to maintain strategic asset weights. Even more important than this automatic "buy low, sell high" feature, rebalancing ensures that the main drivers of risk within the portfolio are continuously monitored and adjusted back to target.

Continuous rebalancing can only be done if liquid assets are available at all times to execute the necessary transactions. This also ensures that we can maintain our strategic asset weightings and meet all funding requirements for active investment programs without any forced selling of illiquid assets at potentially sub-optimal valuations.

INVESTMENT ACTIVITIES BY DEPARTMENT

INVESTMENT ACTIVITIES BY DEPARTMENT
AS AT MARCH 31, 2010 ($)



Investment Portfolio: $127.7 billion

- $2.2 billion — Investment Planning Committee
- $95.4 billion — Public Market Investments
- $22.8 billion — Private Investments
- $7.3 billion — Real Estate Investments

INVESTMENT DEPARTMENTS

Our investment departments each operate within an investment framework established by Management's Investment Planning Committee (IPC). There are three investment departments: Public Market Investments, Private Investments and Real Estate Investments. A fourth department, Portfolio Design and Investment Research (PDIR), provides advice to the IPC and helps to coordinate the activities of the three investment departments within the context of our Total Portfolio Approach, discussed on page 25.

We realigned the senior management of our investment departments effective April 1, 2010, as the next step in CPPIB's evolution, with the intent to further strengthen collaboration and consistency across the investment departments.

- Mark Wiseman was appointed to the position of Executive Vice-President, Investments, a newly created position to oversee all of the investment departments. Formerly Senior Vice-President, Private Investments, Mark has overseen the growth of our Private Investments area from $3.2 billion at the end of fiscal 2005, shortly before he joined us, to $22.8 billion at the end of fiscal 2010.
- Don Raymond was appointed Senior Vice-President and Chief Investment Strategist following the retirement at year end of John Ilkiw, the founding head of our Portfolio Design and Investment Research department. Don's priority is to extend our use of the Total Portfolio Approach to continuously enhance its benefit to the CPPIB. Prior to taking on this new role, Don played a key role in developing the Total Portfolio Approach as Senior Vice-President, Public Market Investments, and is our longest-serving officer.

These appointments also triggered a series of internal promotions which reflect the depth of talent we have within our organization.

INVESTMENT PLANNING COMMITTEE

	Fiscal 2010		Fiscal 2009	
INVESTMENT PLANNING COMMITTEE	**%**	**$ billions**	%	$ billions
DIRECT INVESTMENTS				
1-year return	**–**	**1.8**	–	-1.6
1-year benchmark return[1]	**–**	**0.4**	–	-0.3
BETTER BETA DECISIONS				
1-year return	**18.0**	**19.0**	-18.1	-23.0
1-year benchmark return[1]	**20.8**	**22.5**	-18.6	-23.6
COMBINED INVESTMENT PLANNING COMMITTEE DECISIONS				
1-year contribution to investment portfolio value-added	**–**	**-2.1**	–	-0.7
4-year contribution to investment portfolio value-added	**–**	**-1.7**	–	0.4[2]

[1] Return on blend of custom public market indices relevant to each strategy.

[2] Contribution to investment portfolio value-added is cumulative since April 1, 2006.

All investment groups work within the Investment Policy established by our board of directors; the Investment Planning Committee oversees and administers this policy.

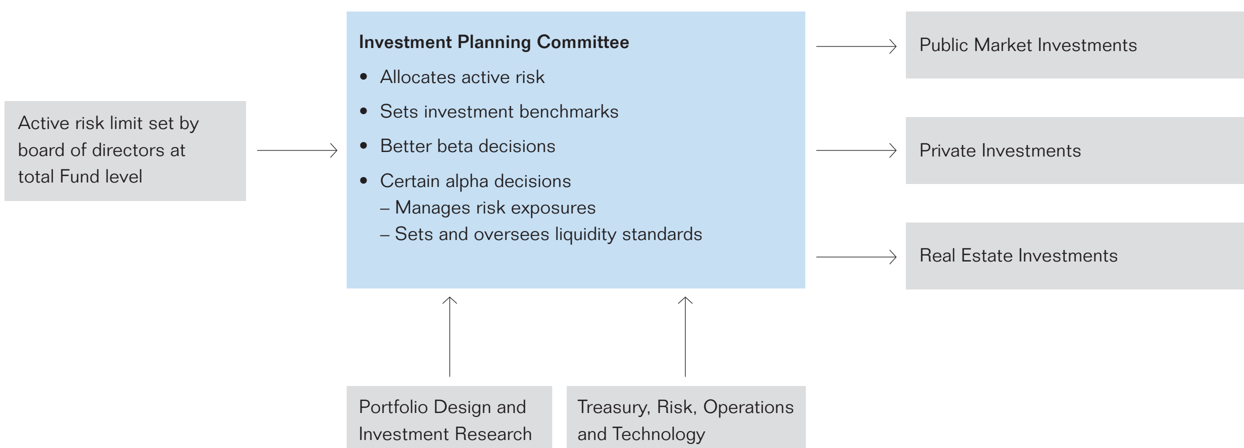
The Investment Planning Committee, defined on page 42, is chaired by the Chief Investment Strategist (effective April 1, 2010; previously chaired by the Chief Executive Officer) and includes the Chief Executive Officer; the Executive Vice-President, Investments; the Chief Financial Officer; the Chief Operations Officer; and the Senior Vice-Presidents of the three investment departments. Each year, the committee establishes an active risk budget for the entire portfolio within the limit set by the board of directors and approves allocations of active risk to the investment departments in accordance with their business plans.

In addition to allocating risk, the IPC sets benchmarks designed to remove beta exposures from the investment department portfolios and determines funding strategies for active investment decisions. Its objective is to maintain the total portfolio's risk/return balance of 65% equity and 35% fixed income by looking through conventional asset class labels to identify the underlying economic exposures of each active investment that we make.

The committee also makes investment decisions. These include better beta decisions for the total Fund as well as investments with a significant alpha component that are beyond the mandate of any single investment department. The alpha holdings of the IPC portfolio are purposely few in number. Each is implemented and managed by the most appropriate investment department with oversight by the IPC. This year, no new investment transactions were undertaken by the IPC. Valuations of the distressed mortgages and loans that funded leveraged buyouts that were acquired during the global financial crisis rebounded sharply this year. These were originally acquired at significant discounts to face value, but still had large write-downs last year. Unlike many other investors, we were not forced to sell them at distressed prices and benefited accordingly. We remain confident about their quality and believe these positions will deliver appropriate risk-adjusted returns through to their maturity dates.

For fiscal 2010, in aggregate, investment decisions attributed to the IPC reduced total value-added by approximately $2.1 billion. This includes -$3.5 billion from the better beta decisions to expand into asset classes beyond those of the CPP Reference Portfolio.

ROLE OF IPC



One of the roles of the IPC is to manage the overall currency exposures of the Fund to the strategic weights embedded within the CPP Reference Portfolio (see page 23 for a discussion on currency hedging). We believe this approach is far preferable to having currency managed within each investment department. Accordingly, we show results for each investment department net of currency impact in the following sections.

CPPIB became a debt issuer to benefit from market turmoil and the soaring price of liquidity, issuing approximately $1.3 billion in commercial paper. Led by the Global Capital Markets and Treasury groups, the issue was very well received in the market and obtained top credit ratings from Standard & Poor's, Moody's and DBRS. As a debt issuer, we also gain additional flexibility in funding future investments.

The IPC's main focus this year was to ensure that each investment department's effective equity exposure was accurately analyzed and reflected within the total portfolio. The committee also analyzed current and projected levels of portfolio liquidity under various market conditions.

The IPC's fiscal 2011 agenda centres on capitalizing on the information available from our new portfolio accounting system to build more robust forward-looking portfolio management tools, especially for private markets.

PUBLIC MARKET INVESTMENTS

The Public Market Investments (PMI) department invests in all publicly-traded asset classes and in derivatives based upon these asset classes. Investments in public markets are a significant component of our portfolio, with assets valued at $95.4 billion at the end of fiscal 2010. The portfolio is managed through a combination of passive and active programs by investment groups: Global Capital Markets, External Portfolio Management, Global Corporate Securities, Global Tactical Asset Allocation, and Relationship Investments. Our public markets investment approach begins with a passive exposure that we are able to manage internally, both efficiently and at low cost. This passive portfolio management is augmented by a diverse array of active strategies aimed at seeking above-market returns.

Following lows reached in early March 2009, global equity market valuations rebounded dramatically in large part due to unprecedented global government economic intervention. During the equity market sell-off, as a result of our Total Portfolio Approach, the CPP Fund had the flexibility to rebalance the portfolio and continue to move out of fixed income and into equities. This put us in a strong position to take advantage of the subsequent rally.

As a result, Public Market Investments experienced a one-year return of 20.9% or $16.6 billion, compared to a return of -18.2% or -$17.9 billion in fiscal 2009.

For fiscal 2010, Public Market Investments generated value-added performance of approximately $0.5 billion relative to its benchmark. Cumulative value-added for PMI for the four years since we adopted the CPP Reference Portfolio is approximately $1.1 billion.

Please see the chart below for a more detailed review of Public Market Investments' performance for fiscal 2010. Returns are reported on an unhedged, time-weighted basis.

	Fiscal 2010		Fiscal 2009	
PUBLIC MARKET INVESTMENTS	%	**$ billions**	%	$ billions
1-year return excluding foreign currency impact	**29.7**	**22.9**	-22.9	-22.4
1-year return in Canadian dollars	**20.9**	**16.6**	-18.2	-17.9
1-year benchmark return in Canadian dollars[1]	**20.3**	**16.2**	-18.7	-18.4
1-year contribution to investment portfolio value-added	**–**	**0.5**	–	0.5
4-year contribution to investment portfolio value-added	**–**	**1.1**	–	0.6[2]

[1] Return on blend of custom public market indices relevant to each strategy.

[2] Contribution to investment portfolio value-added is cumulative since April 1, 2006.

Foreign currency fluctuations have no impact on departmental value-added (see page 42).

FISCAL 2010 ACTIVITIES

The most significant department-wide objectives in fiscal 2010 addressed the future growth of the portfolio by putting the people and systems in place to enable the expansion of our PMI investment programs. In particular this entailed the recruitment of professionals with specialized investment expertise and the implementation of a common technology platform to support investment decisions and portfolio analysis across our five investment groups.

Passive and Active Management Programs – Global Capital Markets

As the only group involved in passive as well as active investment management, Global Capital Markets (GCM) is responsible for trading, liquidity and index management. GCM also manages 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, as well as to add incremental value to the total portfolio. We have a rigorous risk-based framework to manage our derivative exposures daily.

One foundational element of our PMI program is an investment in more than 2,900 public companies that largely replicate major market indices; in fiscal 2010 we added emerging market indices into the portfolio. Another key element is our investment across a variety of fixed income instruments, including government, corporate and real return bonds. The breadth of the Fund's fixed income investments was also enhanced this year by adding G7 global sovereign bonds in addition to Canadian federal and provincial government bonds.

While most of the portfolio is managed with a very long investment horizon, this group has also been assigned a short-horizon focus to manage liquidity and look for near-term value-added opportunities. GCM also manages the funding of private investment transactions by selling assets in the passive portfolio.

Other Active Management Programs

PMI executes a number of additional active management programs to add incremental value to the total portfolio within its Global Corporate Securities (GCS), Global Tactical Asset Allocation (GTAA), Relationship Investments (RI) and External Portfolio Management (EPM) groups, ranging from bottom-up security selection to top-down asset allocation.

In fiscal 2010, we significantly broadened and strengthened our internal capabilities by adding 21 colleagues to end the year with a complement of 106. One key area of expansion in fiscal 2010 was the fundamental research team within GCS. As a complement to the strong quantitative research team already in place, we doubled our fundamental research staffing to 11 professionals. This included recruitment of six senior portfolio managers who are widely recognized for their deep knowledge of specific sectors such as credit, consumer goods, energy, financials, industrials and materials. This team will continue to expand in the coming fiscal year.

Fiscal 2010 hiring also included appointment of a vice-president to head the EPM group. EPM is responsible for selecting and overseeing the performance of external managers in order to complement PMI's internal capabilities.

This Year's Activities

- The Relationship Investments group completed its first direct investment transaction, acquiring approximately 13% of TSX-listed Progress Energy Resources Corp. through a $350 million private placement. Calgary-based Progress is a low-cost producer and an emerging industry leader engaged in natural gas exploration and development. In fiscal 2011 we anticipate making our first direct relationship investment outside of Canada.
- The GTAA group in PMI initiated an active Fixed Income Country Selection program. This program analyzes a variety of macro-economic factors to determine the relative attractiveness of different countries' fixed income markets. The implementation of the program further diversifies the pool of assets currently traded by GTAA, with the goal of increasing the group's risk/reward profile through the benefits of diversification. In fiscal 2011, we will expand the portfolio of programs to include emerging market equities, credit, inflation-linked bonds and commodities.
- PMI bought $1 billion of credit default swaps to provide default protection for some of its corporate bond holdings. The combination of owning interest rate-hedged corporate bonds and credit default protection on the bonds provides the profile of a money market instrument, but with higher yields. Our counterparty risk is mitigated by requiring them to provide collateral when CPPIB is owed money above a certain threshold.

PMI also continued to build systems and processes to allow its active programs to be scalable as the Fund grows. A key underpinning of this goal is a multi-year project (called Shared Analytics) that ensures our information systems are flexible enough to allow for subsequent scaling to larger investment program sizes. One of the primary initiatives in this respect was the standardization of a technology platform that will ultimately allow all PMI investment groups to share analytical and decision-support tools. The foundation was set this year by embedding information systems developers within the various investment teams in order to promote strong collaboration with our investment professionals. Our multiple goals for this initiative include better leverage of our research and people, reduced operational risk and institutionalizing knowledge. This project will continue to be a major focus of PMI in fiscal 2011.

As the size of our investment programs increases, the minimization of transaction costs becomes more critical. The ability to trade more frequently, but in smaller size, reduces the market impact of our transactions and therefore allows us to trade more cost effectively. So, in fiscal 2011, the implementation of daily rebalancing for the GCS and GTAA investment groups will be a priority.

Policy on Responsible Investing

In addition to its other activities, the PMI department manages and implements our *Policy on Responsible Investing*. The CPP Investment Board believes responsible corporate behaviour with respect to environmental, social and governance (ESG) factors can generally enhance long-term financial performance. This belief is the cornerstone of our *Policy on Responsible Investing,* which has three components. First, we engage with companies in our portfolio through proxy voting, communicating directly with managements and boards, and working with investor coalitions. Second, we encourage improved research into the long-term materiality of ESG factors. Finally, we consider ESG factors in our investment due diligence and monitoring. We only look at these factors as they affect risk-adjusted returns.

Engagement activities, including proxy voting, are detailed in our *Report on Responsible Investing*. This report, published annually, is available in the Responsible Investing section of our website.

We believe engagement with corporate management is an effective strategy for large institutional investors with a long investment horizon. Every year we review the portfolio to identify companies and issues for engagement. Currently, our engagement activities focus on three areas: climate change, extractive industries (oil and gas, and mining) and executive compensation.

Our approach is consistent with the United Nations' *Principles for Responsible Investment* (UN PRI). We helped formulate these principles and were among the original signatories in 2006. Today, UN PRI signatories represent US$18 trillion in institutional investor assets.

PRIVATE INVESTMENTS

This department invests in private equity, infrastructure and, as of fiscal 2009, private debt. These are very large markets that are not available to public market investors. They are appealing because long-term, patient investors receive a premium for illiquidity and there is, through active management, an ability to make better investment returns due to enhanced information and better governance than is available in public markets.

Our private investment assets are primarily invested in private equities, that currently represent 70.4% of the $22.8 billion private investments portfolio. Infrastructure represents 25.5% and the new category of private debt represents 4.1%.

This table summarizes results for fiscal 2010 and our four-year accountability measure. All returns are unhedged and time-weighted.

	Fiscal 2010		Fiscal 2009	
PRIVATE INVESTMENTS	**%**	**$ billions**	%	$ billions
1-year return excluding foreign currency impact	**9.3**	**2.2**	-23.2	-5.3
1-year return in Canadian dollars	**-7.6**	**-1.4**	-14.4	-3.1
1-year benchmark return in Canadian dollars[1]	**19.9**	**3.7**	-21.5	-4.2
1-year contribution to investment portfolio value-added	**–**	**-5.1**	–	1.1
4-year contribution to investment portfolio value-added	**–**	**-0.3**	–	4.8[2]

[1] Return on blend of equivalent investments made in public market indices in the same sectors and geographic regions.

[2] Contribution to investment portfolio value-added is cumulative since April 1, 2006.

Foreign currency fluctuations have no impact on departmental value-added (see page 42).

FISCAL 2010 ACTIVITIES

While public markets rebounded sharply, private markets were relatively quiet as debt availability remained in short supply. Market activity began to pick up somewhat in the fall as credit markets slowly revived, but many private investors were still constrained.

Transaction volume recovery was also hampered as soaring public company valuations created undue expectations among private equity vendors.

We were among a very small number of investors who were active in the market and took part in three of the largest private investment transactions in 2009. This success was due to our capability to execute complex transactions, CPPIB's structural advantages (see page 20), and our ability to finance investments with equity when leverage was not available.

We continue to operate in a challenging private market environment which is characterized by high volatility. The credit environment is changing rapidly and there is significant capital over-hang by traditional private equity providers who have been relatively inactive in the past 18–24 months. Transactions were completed at significant discounts to fair market value in the first half of fiscal 2010, with prices rising to 2007–08 levels towards the end of the year. We continue to take a disciplined approach in looking for the best risk-adjusted investments across the spectrum of investment opportunities within the Private Investments department.

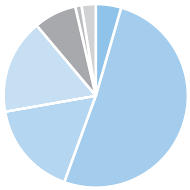
In effect, fiscal 2010 was about positioning for the future, as past efforts to build expertise and the CPP Fund's strong financial position enabled us to make substantial investments in attractively priced assets that we believe will deliver significant added value over the long term.

At the same time, we devoted substantial effort to managing and monitoring the existing portfolio as our assets began recovering from the global financial crisis and recession. The speedier recovery in public markets in relation to private markets as well as some mark-to-market write-downs impacted our results. But we view this as a short-term issue that will be resolved over time as true underlying value is recognized. Simply put, we are long-term investors and believe that value creation plays out over years, not quarters. The recovery in the economy and a better credit market have allowed most of the companies within our portfolio to restructure their balance sheets by issuing new debt instruments in order to repay earlier maturing existing debt. Also, to the extent allowable by their credit documentation, some companies have repurchased some of their debt at significant discounts, thereby strengthening their overall capital structure. Nevertheless, some of our companies do remain under stress, and a continued recovery in the economy will be required for us to realize value from these investments.

In spite of moderately positive investment returns before translation to Canadian dollars, and good performance in comparison to other private investment portfolios, particularly in the Infrastructure portfolio, we did not deliver value-added to the Fund this year. The primary reason for this outcome is that the public companies against which our private holdings are compared soared in the powerful rebound in stock markets over the past 12 months. Private equity is highly correlated to public markets over time, but lags in the short run. With valuations based on appraisals, private equity typically trails a strong bull market and holds up better in a sharp decline.

The Private Investments team increased by 11 to 92 at year end. This was in line with the development plan adopted in fiscal 2006 when CPPIB made a major commitment to private investing. Further hiring is planned in fiscal 2011, particularly in our Private Debt group.

PRIVATE INVESTMENTS – GEOGRAPHIC DIVERSIFICATION
AS AT MARCH 31, 2010



PRIVATE INVESTMENTS BY SECTOR
AS AT MARCH 31, 2010

The Private Investments group has four specialized teams.

Funds and Secondaries: This is the oldest and largest segment of our private investing activities. This team invests in a variety of private equity funds and is also a principal investor in the secondaries market. Secondaries are interests in private equity funds acquired from other institutional investors or financial institutions. The Funds and Secondaries portfolio now consists of investments with a combined carrying value of $12.1 billion, compared to $11.2 billion at the end of fiscal 2009.

The funds portion of the portfolio increased to $10.5 billion from $9.7 billion last year. We ended fiscal 2010 with commitments to 118 funds with 75 managers, up from 114 funds with 61 managers at the end of fiscal 2009. This includes commitments totalling $0.8 billion to five new funds. These include:

- We committed US$600 million (CAD$719.5 million) to Hellman & Friedman (H&F) Capital Partners VII. The fund will target the U.S. and Western Europe. We've invested in H&F funds since 2004. The company has a 21-year record of leading performance across economic cycles.
- We committed an additional $400 million to the Canadian private equity and venture capital market through Canadian Fund of Funds Private Equity Holdings II. This fund is managed by Northleaf Capital Partners. This fund-of-funds structure offers very effective access to small- and mid-market transactions and top Canadian venture capital managers. Northleaf is Canada's largest fund-of-funds manager. We first partnered with them in 2005 and also committed $400 million to this fund's predecessor. CPPIB is now one of Canada's largest private equity and venture capital investors with more than $3 billion in fund commitments and direct investments in Canada.
- Investments in China increased with a US$150 million (CAD$153 million) commitment to CDH Fund IV. It's managed by Beijing-based CDH Investments which is one of China's top private equity managers. Our emerging markets private equity strategy now has over $1.8 billion committed to nine funds investing in China, Korea, Japan and India.
- In mid-April 2010, we made a commitment of up to US$100 million (CAD$100 million) in Multiples Alternate Asset Management's International Fund. This is our first investment in an India-focused private equity fund. The Multiples fund will make long-term growth investments across industry sectors in mid-sized Indian companies, management-led buyouts and spin-offs of divisions from large Indian groups.

During the year, existing investments returned $1.0 billion through distributions, net of carried-interest incentive payments to fund managers. These distributions were offset by fund draw downs of $2.5 billion, including the payment of management fees to fund managers. This compares to distributions of $0.6 billion and draw downs of $3.1 billion last year.

We made two significant secondaries investments during the year which included US$222 million (CAD$258 million) in a portfolio of 23 funds and co-investment interests. As well, for €78 million (CAD$126 million) we acquired interests in an additional four funds. Both of these transactions were purchased from levered fund vehicles at attractive valuations with proceeds required to service immediate and future liquidity requirements of the sellers. The Secondaries portfolio carrying value totalled $1.5 billion at year end, compared with $1.6 billion the year before.

Fiscal 2010 activities also included CPPIB playing a leading role as the Institutional Limited Partners Association developed our industry's first set of Private Equity Principles. These principles aim to strengthen private equity fund governance, increase transparency and better align the interests of partnership managers with those of the institutional investors. We were among the first of more than 50 institutional investors to endorse these principles.

Principal Investing: This team invests directly in private companies. Fiscal 2010 was a very busy year as we were among a small number of investors able to transact due to the CPP Fund's strong capital position, long investment horizon and the capabilities we've established in recent years. At year end we had 37 investments valued at $4.0 billion compared with 33 valued at $2.9 billion the year before. The new investments are:

- **IMS Health Inc.** This acquisition represented the largest buyout in 2009 and was valued at approximately US$5.2 billion (CAD$5.5 billion) including debt assumption. Based in Norwalk, Connecticut, IMS is the world's leading provider of market intelligence to pharmaceutical and health care companies. It has strong cash flow, strong customer relationships, and a reputation for leadership and innovation. We co-sponsored this transaction with TPG Capital, Inc., a global buyout firm and one of our longstanding private equity partners. We invested US$0.7 billion (CAD$0.8 billion) for a significant minority interest.
- **Skype Technologies S.A.** Valued at approximately US$2.8 billion (CAD$3.0 billion), this was one of the largest technology buyouts in history. Skype provides free voice and video calls between Skype users while its strong financial performance is driven by low-cost calling services to landline and mobile phones around the world. Over the last six years, Skype has become the world's leading Internet-based communications company and the single largest provider of international long distance minutes in the world. In the fall of 2009, eBay Inc. sold approximately 70% of the business to an investor group led by Silver Lake Partners, a technology-focused private equity investor and longstanding partner of ours. We co-sponsored this transaction alongside Silver Lake Partners and invested US$300 million (CAD$329 million) for a significant minority interest. Other consortium investors in the transaction include Andreessen Horowitz, a technology-focused venture capital firm, and Joltid Limited, which is owned by Skype's original founders.
- **Livingston International Income Fund.** This is our first direct private equity investment in Canada. Toronto-based Livingston International is a customs brokerage and freight forwarding company. It's the Canadian market leader in a complex essential business that generates revenue every time goods cross the border. While Livingston's market value fell sharply during the recession, we believe it is well-positioned for the global economic recovery. We joined with Sterling Partners, a U.S.-based private equity firm with deep experience in the U.S. supply chain sector. Our investment is about $120 million for an approximate 45% ownership interest.

IMS Health, Skype and Livingston are examples of our progress from syndicated co-investors to co-sponsors of private equity transactions. Plans for fiscal 2011 include continuing to take larger positions in transactions and to be more integrally involved in due diligence, negotiation of transaction terms and asset management.

Other transactions this year are:

- **Bank of America Merchant Services.** This Atlanta-based company was formed this year by Bank of America N.A. and First Data Corp. It provides next-generation payment systems to small, mid-sized and large merchants in North America. These include credit, debt and prepaid card processing as well as eCommerce solutions. We acquired a minority interest through holding company Rockmount Investments, LLC.

- **Aricent Inc.** In a transaction valued at US$255 million (CAD$273 million), we joined with Kohlberg Kravis Roberts & Co. (KKR), a longstanding partner, to acquire the interest in Aricent held by Flextronics International Ltd. Based in India, Aricent does telecommunications research and development for many of the world's leading equipment manufacturers and mobile network operators. KKR knows Aricent well, having held an ownership interest since 2006. We invested US$80 million (CAD$85.5 million) for a minority common equity interest and an interest in a preferred equity tranche.

This year we established the capability to make private equity investments in extractive industries, mainly in the mining and oil and gas sectors – our first investment is expected in fiscal 2011. Extractive industries are not suitable for most private equity investors because their shorter horizons cannot accommodate the volatility of commodity prices that are beyond the producer's control. Also, these investments require highly specialized technical expertise. The CPP Fund's long horizon accommodates short-term volatility, and our scale justifies acquiring the required expertise.

Infrastructure: This team invests in well-established infrastructure assets. The portfolio includes gas and electric transmission systems, water utilities, toll roads and communications facilities. The objective is strong long-term income. We seek assets with monopolistic characteristics that operate in strong regulatory environments. They should have relatively low technology replacement risk and minimal substitution risk.

Created four years ago, the portfolio now consists of 10 direct investments located in six countries and two fund investments. The total carrying value is $5.8 billion, up from $4.6 billion at the end of fiscal 2009.

The CPP Fund's size and long investment horizon are ideally suited to meet this sector's need for large long-term capital commitments. We have built a team capable of handling large complex transactions around the world.

This year, we closed the $2.1 billion acquisition of Macquarie Communications Infrastructure Group (MCG). This involved three major communications infrastructure assets in Australia and the U.K. At an enterprise value of A$7.5 billion, the transaction represented one of the largest financial sponsor-backed mergers and acquisitions transactions globally in 2009 and was completed at the height of the financial crisis. CPPIB was the sole investor and our deep internal expertise enabled us to complete full onsite due diligence on three assets in two countries in just over six weeks. These assets offer the CPP Fund strong, predictable cash flow for many years.

Private Debt: This team, created in late fiscal 2009, invests across the capital structure, including term loans, private high-yield bonds, mezzanine and other debt solutions. The primary focus is on credit opportunities in North America and Europe.

The team has completed 14 transactions totalling approximately $1 billion. Among them, this year we helped finance, as a primary capital provider, the leveraged buyout of Northrop Grumman Corporation's TASC division by General Atlantic LLC and Kohlberg Kravis Roberts & Co. With nearly 5,000 employees, TASC provides engineering and consulting services to the U.S. military and state governments. The leveraged buyout, announced in November, was hailed as a sign that the acquisitions market was again open to buyout firms after a two-year hiatus during the credit crisis and an example of the type of creative financing solutions CPPIB can provide for users of debt capital.

We also provided a $150 million financing for publicly listed Osisko Mining Corporation. This completed the funding requirements to proceed with the Canadian Malartic project in Quebec, Osisko's flagship program.

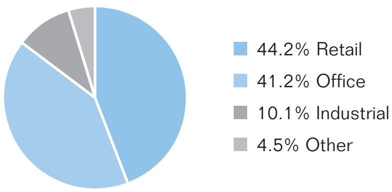
The portfolio is comprised of institutional notes, loans and junior notes diversified across the energy, power, chemical, industrials, health care and aerospace/defence sectors.

Fiscal 2011 plans include a higher profile in Europe following the recruitment this year of a senior investment professional for our London office. Additionally, we will begin development of an intellectual property investment platform to expand the scope of risk-adjusted opportunities for CPPIB's investment portfolio.

REAL ESTATE INVESTMENTS

This group manages a portfolio of premier office, retail and industrial properties in North and South America, Europe and Asia. Holdings are diversified by investment style (core, value-add and opportunistic) and also by geography and sector. The objective is to invest in properties that will deliver stable returns and retain their relative value across multiple business cycles. Acquisitions are typically made with a 10-year or longer view.

REAL ESTATE INVESTMENTS BY PRODUCT TYPE
AS AT MARCH 31, 2010



We act as an investor and portfolio manager – not as a real estate operator. Properties are managed by strong partners with deep local expertise. Investing through both joint ventures and externally managed funds, we currently have 29 external partners managing 52 investments on our behalf.

Net real estate assets, comprised of the private assets administered by Real Estate Investments, totalled $7.3 billion at the end of fiscal 2010. This was up from $6.9 billion at the end of fiscal 2009.

	Fiscal 2010		Fiscal 2009	
REAL ESTATE INVESTMENTS	%	**$ billions**	%	$ billions
1-year return excluding foreign currency impact	**-4.1**	**-0.3**	-19.0	-1.2
1-year return in Canadian dollars	**-11.9**	**-0.9**	-14.0	-1.1
1-year benchmark return in Canadian dollars[1]	**-17.6**	**-1.3**	-3.9	-0.1
1-year contribution to investment portfolio value-added	**–**	**0.4**	–	-0.9
4-year contribution to investment portfolio value-added	**–**	**-0.2**	–	-0.6[2]

[1] Return on blend of Investment Property Databank indices for the relevant countries/regions and sectors, and commencing in fiscal 2010, adjusted for expenses.
[2] Contribution to investment portfolio value-added is cumulative since April 1, 2006.
Foreign currency fluctuations have no impact on departmental value-added (see page 42).

The table above summarizes results for fiscal 2010 and our four-year accountability period. Returns are reported on an unhedged, time-weighted basis. The results reflect valuations under downward pressure from the global financial crisis and subsequent recession. Valuations might reflect fair value in today's uncertain economy, but we do not believe they reflect the true intrinsic value we can realize over time. The program is meeting its objective of generating steady cash flow for the CPP Fund. Due to long-term leases and high-quality tenants, we have not seen significant movement in occupancy rates for core assets. Net income for the year, including operating income, valuation adjustments, foreign exchange losses and transaction and other costs, was -$854 million compared with -$1.1 billion for fiscal 2009. Real Estate Investments is benchmarked against the real estate industry performance as represented by the Investment Property Databank indices for the relevant country/region and sector. Contribution to value-added returns from Real Estate Investments was approximately $398 million relative to its benchmark.

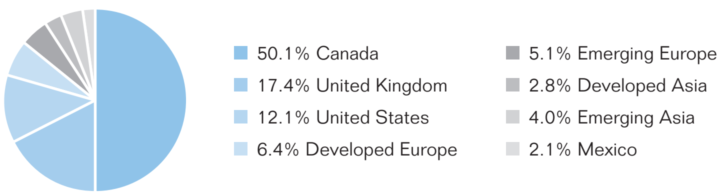
GLOBAL REAL ESTATE INVESTING

2008 and 2009 marked the most challenging real estate markets in recent history. Value declines of up to 50% were evident in certain markets and transaction volumes fell by up to 80% from previous levels. The crisis in the capital markets and the issues faced by the major lenders combined to create paralysis in the mortgage market. Real estate values were initially hit by the withdrawal of capital and, secondly, by the recession reducing demand. The U.K. market dropped first and is now recovering, while the U.S. market started to show declines later and is only now reaching the trough. The economies with stronger financial systems and shallower recessions such as Canada and Australia have fared better. The capital markets are recovering and this has increased prices somewhat; however, the fundamental demand remains weak in many areas and is expected to take some time to recover.

In fiscal 2010 our investment in a Turkey shopping centre venture was particularly challenged. Like most of the Eastern European markets, Turkey suffered from a sharp recession and significantly tighter credit markets last year. The retail market was further hurt by a decline in the Turkish lira relative to the euro, impacting tenants' ability to pay euro-denominated rents. As a result some projects have been delayed or dropped from the program, meaning it will be a smaller portfolio that will take longer to build out than anticipated. Despite the short-term challenges, however, we still believe in the long-term potential of this investment. There are signs of a strengthening in Turkey's economy, accompanied by a return of shoppers and significant overall customer traffic in recent months.

REAL ESTATE INVESTMENTS – GLOBAL DIVERSIFICATION

AS AT MARCH 31, 2010



Approximately 90% or $6.6 billion of our real estate portfolio is located in developed countries. Our real estate investing activities in developed economies are focused on the world's most transparent markets: Canada, the United States, the United Kingdom, Western Europe and Australia. At the end of fiscal 2010, Canadian holdings represented 50.1% or $3.6 billion of the real estate portfolio versus 55.6% the year before. This reflects the CPP Investment Board's emphasis on global diversification as well as the limited size of the Canadian market.

EMERGING MARKETS

Our emerging markets strategy was launched in 2008 and we are focusing on four countries: China, Mexico, Turkey and Brazil. Within these markets, we believe there are attractive investment opportunities given their rapid economic growth and developing middle class which in turn are driving the need for modern, high-quality development. The need to work with strong local partners who have aligned interests and shared principles is even more important than in developed markets given the lack of transparency within some of these markets. Our approach is a measured one, concentrating on properties with long-term growth potential.

China remains an area of focus; however, we recognize the level of government economic stimulus and its recent impact on asset pricing and, therefore, remain disciplined and selective in our approach. With strong trading ties, Mexico has been struggling alongside the U.S. and, therefore, we expect attractive new opportunities to be limited until a broad economic recovery takes hold. As noted previously, Turkey was hit hard early in the year and is now recovering, but more slowly than the other emerging markets in our focus group.

This year, we made our first real estate investment in Brazil. We committed US$150 million (CAD$152 million) to a joint venture with Cyrela Commercial Properties, a leading commercial property developer in Brazil. The joint venture will build and manage premier office buildings, shopping centres and distribution facilities. It will also explore the highly selective acquisition of existing properties. When the financial crisis occurred, many potential foreign investors retrenched from Brazil. However, as a provider of long-term and patient capital, we saw this as an opportunity to act, as we believed the country's property fundamentals remained intact and its long-term outlook continues to be very positive.

PRIVATE REAL ESTATE DEBT PROGRAM

The financial crisis has resulted in a number of major lenders retreating from the mortgage market and the virtual shutdown of the Canadian Mortgage Backed Securities market. With over $1.4 trillion of mortgages expiring in the next three years in the United States, we expect there to be an imbalance in the supply/demand equation for real estate financing and, therefore, attractive spreads will be available. In response we have started a Private Real Estate Debt program initially focusing on the U.S. We are working with two joint venture partners, TIAA-CREF and Cornerstone, to invest in first mortgages on prime assets. The Private Real Estate Debt program was initiated at the end of the year and has committed to $1 billion of first mortgages in three transactions in the U.S.

THIS YEAR'S ACTIVITIES

Notwithstanding a very quiet market with limited opportunities, we were able to make commitments of $1.8 billion this fiscal year, including:

- A 50/50 joint venture with Hammerson plc to acquire Silverburn Shopping Centre, the largest shopping centre in Scotland. CPPIB and Hammerson each committed £148.5 million (CAD$257 million). Silverburn is almost fully occupied under long-term leases. This investment represented a rare opportunity to acquire a property of this calibre in the U.K. market and enabled us to partner with one of the top U.K. property managers.
- A US$132 million (CAD$142 million) joint venture with Australia's Goodman Group REIT to develop warehouse and distribution facilities in China. We invested $94 million for an 80% interest. Goodman put in four properties and an option on their land bank of over 300,000 square metres. This was our first transaction with Goodman.
- A £100 million (CAD$179 million) convertible loan to Hercules Unit Trust, the U.K.'s largest retail warehouse operator. We have a longstanding relationship with Hercules Unit Trust's property managers. Our notes are well secured and convertible to trust units at any time at an attractive return.
- A joint venture with U.S. shopping centre developer Donahue Schriber in which we acquired a 49% interest in San Diego's Del Mar Highlands Town Center. We invested US$25 million (CAD$26 million). This was our first investment alongside Donahue Schriber and we look forward to growing this relationship.
- A 50-50 joint venture with RioCan Real Estate Investment Trust to acquire Grandview Corners in South Surrey, British Columbia whereby we invested $95 million. At 700,000 square feet, Grandview is unusually large for a power centre and less than two years old. This is our seventh joint venture with RioCan.
- An announcement in early May 2010 of our first real estate investments in Manhattan for prime properties valued at over US$1.45 billion (CAD$1.48 billion). We acquired a 45% ownership stake in 1221 Avenue of the Americas for approximately US$576 million (CAD$590 million) from SL Green Realty Corp., and formed a joint venture with SL Green to acquire a 45% ownership stake in 600 Lexington Avenue for a total consideration of approximately US$87 million (CAD$89 million).

REAL ESTATE INVESTMENTS TEAM

Our staff complement increased slightly in fiscal 2010 to 34 at year end. Additional hiring is planned for next year in response to an expected increase in transaction volume and to meet the increasing monitoring requirements as our portfolio grows. Our focus in the coming year will be on larger transactions in which the CPP Fund's size and lack of financing requirements provide an advantage. We will also continue to build out our Private Real Estate Debt team.

As we look ahead, we anticipate numerous opportunities to acquire prime real estate assets at attractive prices, especially in the U.S., U.K. and Australia. The time delay between the onset of the economic downturn and its impact on tenant demand is just now becoming evident. The considerable refinancing risk in the next 18–24 months will force owners in highly levered structures to put prize properties on the market. And any increase in short-term interest rates as the economy comes out of recession will further exacerbate the refinancing dilemma for many levered real estate holders.

REAL ESTATE HOLDINGS AS AT MARCH 31, 2010

PROPERTY	City	Province/State	Country	Total Gross Leasing Area (sq. ft.)	Ownership Interest (%)
AMERICAS PROPERTIES					
OFFICE PROPERTIES					
Canterra Tower	Calgary	AB	Canada	817,000	50
Altius Centre	Calgary	AB	Canada	306,000	50
Edmonton City Centre (Office)	Edmonton	AB	Canada	998,000	50
Scotia Place	Edmonton	AB	Canada	560,000	40
Bell Tower	Edmonton	AB	Canada	507,000	50
Canadian Western Bank Place	Edmonton	AB	Canada	407,000	50
Enbridge Tower	Edmonton	AB	Canada	184,000	50
Oceanic Plaza	Vancouver	BC	Canada	351,000	50
Guinness Tower	Vancouver	BC	Canada	269,000	50
Marine Building	Vancouver	BC	Canada	174,000	50
Constitution Square	Ottawa	ON	Canada	1,054,000	50
Place de Ville II	Ottawa	ON	Canada	630,000	50
Place de Ville I	Ottawa	ON	Canada	581,000	50
Jean Edmonds Towers	Ottawa	ON	Canada	553,000	50
First Canadian Place	Toronto	ON	Canada	2,680,000	25
Royal Bank Plaza	Toronto	ON	Canada	1,478,000	50
Waterpark Place	Toronto	ON	Canada	801,000	50
One Financial Place	Toronto	ON	Canada	657,000	50
2 Queen Street E.	Toronto	ON	Canada	464,000	50
Yonge/Richmond Centre	Toronto	ON	Canada	299,000	50
Tour KPMG	Montreal	PQ	Canada	493,000	50
Stoneridge Corporate Plaza	Pleasanton	CA	USA	560,000	49
Tabor Center	Denver	CO	USA	707,000	39
Dominion Plaza	Denver	CO	USA	589,000	39
Civic Center Plaza	Denver	CO	USA	586,000	39
US Bank Tower	Denver	CO	USA	520,000	39
410 Building	Denver	CO	USA	419,000	39
Alhambra	Coral Gables	FL	USA	323,000	49
Datran Center	Kendall	FL	USA	471,000	49
Shenandoah Building	McLean	VA	USA	197,000	49
Total office				**18,635,000**	
RETAIL PROPERTIES					
Beacon Hill	Calgary	AB	Canada	528,000	50
Edmonton City Centre (Retail)	Edmonton	AB	Canada	814,000	50
Rivermeadow	Edmonton	AB	Canada	211,000	50
Pine Centre Mall	Prince George	BC	Canada	483,000	80
Grandview Corners	Surrey	BC	Canada	530,000	50
Burloak	Burlington	ON	Canada	455,000	50
Centre Mall	Hamilton	ON	Canada	381,000	80
White Oaks Mall	London	ON	Canada	691,000	80
Century Centre	London	ON	Canada	98,000	80
Eastgate Square	Stoney Creek	ON	Canada	541,000	80
New Sudbury Centre	Sudbury	ON	Canada	539,000	80
Intercity Shopping Centre	Thunder Bay	ON	Canada	460,000	80
Promenades Cathédrale	Montreal	PQ	Canada	137,000	50
Les Galeries de la Capitale	Quebec City	PQ	Canada	1,451,000	80
Carrefour de l'Estrie	Sherbrooke	PQ	Canada	1,147,000	80
Hasley Canyon Village	Los Angeles	CA	USA	69,800	40
Del Mar Town Center	San Diego	CA	USA	273,300	49
Blossom Valley	San Jose	CA	USA	93,300	40
Willa Springs Shopping Center	Orlando	FL	USA	89,900	40
Dunwoody Hall	Atlanta	GA	USA	89,500	40
Maynard Crossing	Raleigh	NC	USA	123,000	40
Shiloh Springs	Dallas	TX	USA	110,000	40
Bethany Park Place	Dallas	TX	USA	98,900	40
Alden Bridge Village	Houston	TX	USA	139,000	40
Total retail				**9,552,700**	
Total Americas				**28,187,700**	
INTERNATIONAL PROPERTIES					
Fengxian International Logistic Park	Shanghai		China	1,440,400	80
Kangqiao Distribution Centre	Shanghai		China	588,300	80
Fengxian Distribution Centre	Shanghai		China	520,000	80
Taopu Industrial Estate	Shanghai		China	488,200	80
Le Bleriot Office Building	Suresnes		France	231,400	94
Amulfpark MK II / Metris	Munich		Germany	368,100	43
Parkstadt Schwabing - MK 12	Munich		Germany	284,500	43
Parkstadt Schwabing - MK 10	Munich		Germany	151,400	43
Forum Ankara	Ankara		Turkey	868,700	26
Forum Aydin	Aydin		Turkey	315,800	26
Forum Camlik	Denizli		Turkey	345,400	26
Forum Istanbul	Istanbul		Turkey	1,851,400	26
Forum Kapadokya	Kapadokya		Turkey	258,300	26
Bexleyheath Shopping Centre	Bexleyheath		UK	210,000	93
Borehamwood Retail Shopping Park	Borehamwood		UK	550,000	93
Whitefriars Quarter	Canterbury		UK	600,000	50
Silverburn Shopping Centre	Glasgow		UK	1,000,000	50
1 Bunhill Row	London		UK	264,000	80
55 Bishopsgate	London		UK	193,000	80
Michael House	London		UK	17,100	80
Eagles Meadow Shopping Centre	Wrexham		UK	400,000	93
Total international				**10,946,000**	
Total portfolio				**39,133,700**	

INVESTMENT PARTNERS

Private Investments

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)
CDH Investments
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
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
Northleaf
Onex Partners
PAI Partners
Partners Group
Paul Capital Partners
Performance Equity Management
Permira
Providence Equity Partners
Quantum Energy Partners
Riverstone/Carlyle
Schroders Ventures
Silver Lake Partners
Skypoint Capital
Standard Life
Tenaya Capital
Terra Firma Capital Partners
Texas Pacific Group
The Blackstone Group
The Carlyle Group
The Jordan Company
The Sterling Group
Thomas H. Lee Partners
Thomas Weisel Partners
Triton
Ventures West
Veronis Suhler Stevenson
Welsh, Carson, Anderson & Stowe

Infrastructure

Macquarie Bank Limited

Public Market Investments

AQR Capital Management LLC
Arrowstreet Capital
BlackRock, Inc.
Brevan Howard Asset Management LLP
Bridgewater Associates Inc.
Capital Fund Management
Cevian Capital Limited
Connor Clark & Lunn Investment Management Ltd.
Credit Suisse Asset Management LLC
Elliott International Capital Advisors Inc.
ESL Partners L.P.
FX Concepts (Bermuda) Limited
Goldman Sachs Asset Management L.P.
Knight Vinke Asset Management
Pacific Investment Management Company
Pershing Square Capital Management L.P.
Relational Investors LLC
Treesdale Partners LLC
Two Sigma Investments LLC
Universa Investments L.P.
ValueAct Capital

Real Estate Investments

AvalonBay Communities, Inc.
Bentall Capital
Brookfield Properties Corporation
Callahan Capital Partners
CapitaLand Group
Cornerstone Real Estate Advisors
Cyrela Commercial Properties
DEXUS Wholesale Property Limited
Donahue Schriber Realty Group
Goodman China Logistics Holdings Ltd.
Hawkeye Partners
Hammerson (Silverburn) Ltd.
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
Schroder Property Investment Management
The Blackstone Group
The Westfield Group
TIAA-CREF Asset Management
USAA Real Estate Company

OPERATIONAL HIGHLIGHTS

As noted previously, CPPIB was created for the sole purpose of managing the CPP Fund. As such, we have the dual advantages of knowing that the CPPIB will operate for a very long time and possessing good insights into the growth pattern of the Fund itself; while the Fund has assets of $127.6 billion today, we know that it will very likely grow to approximately $275 billion over the next decade. These advantages allow us to build the organization's capabilities not just to meet today's investment challenge but with a view to how they can be scaled in order to meet the considerable future growth of the Fund.

INTERNAL CAPABILITIES

Over the past five years we have added a significant number of people to our organization to enable the execution of our active management strategy. We now have in place multiple investment teams within each of our three investment departments (Public Market Investments, Real Estate Investments, Private Investments) pursuing internal active programs or selecting and overseeing external managers to invest on our behalf. We have also added the complementary capabilities we require in risk management, investment finance, treasury services, operations, information technology, corporate finance, communications and legal services to support these investment activities.

At the end of fiscal 2010, we had 566 employees, which is an increase of 76 or 16% over the course of the year. Of this increase, 34 represent expansion of our investment teams and the balance of 42 was largely in our information technology, investment finance and operations areas. At year end, we had 534 employees located in our Toronto office, 21 in London and 11 in Hong Kong.

We are constantly evaluating which capabilities we think we should have within CPPIB and those where we are better served by accessing them through external partners and providers. Before making a decision to build internal capabilities, we want to make sure that they meet some or all of the following criteria:

- Are critical to the successful implementation of our strategy;
- Provide economies of scale advantages that reduce CPPIB's costs compared to other alternatives;
- Provide experience and information that have ancillary benefits to CPPIB; and
- Allow us to exploit our comparative advantages.

A major undertaking in fiscal 2010 was the launch of a new portfolio recordkeeping, accounting and performance-measurement system which was completed just prior to year end. This new system means that functions that had previously been outsourced have now been moved in house. We made the decision to internalize these responsibilities because this will significantly improve our ability to support and grow our active investment programs, enhance our analytical and risk management capabilities, and, over time, reduce costs compared to external alternatives.

Notwithstanding our decision in this instance to insource these responsibilities, we continue to think that CPPIB is best served by having services provided by external parties across a wide range of areas, including data centre management, internal audit and real estate property management to cite just a few examples.

As we look ahead to fiscal 2011 and beyond, we will continue to add to our internal complement of people, but at a slower rate of growth. As was the case throughout this past year, we believe we are well positioned to attract top talent to the CPPIB, not just from here in Canada, but globally as well. Our existing employee base is critical in this regard – in essence, talent attracts talent. Nearly half of this year's new hires came to us through networking or referral by CPPIB employees. Arguably, the best measure of our human resources strategy and organizational development program is that so many employees recommend us to professional colleagues.

Employee retention is equally important. Hiring takes a great amount of time and effort, as we require more than just expertise and reputation. Applicants must also share our guiding principles and passion for our mission, fit well into our culture and be committed to a long-term employment relationship. Our cultural values – centred on integrity, partnership and high performance – are key to the execution of our strategy and the risk management mindset that is embedded throughout the organization.

We seek to retain our talent by keeping our employees engaged and challenged. This year we implemented an organization-wide review system to identify people with high potential. Department managers and our Human Resources colleagues then determine how best to engage and develop these individuals and how to provide advancement opportunities that will serve both them and the CPP Investment Board.

INSTITUTIONALIZING CAPABILITIES

Because we know that CPPIB is intended to endure for a long period of time and we have a good estimate of the future growth of the Fund, we have a special onus of responsibility to ensure that the decisions we make today will remain beneficial to the CPPIB over long periods of time.

The primary focus of our goal of institutionalizing capabilities is to ensure that:

- We capture the intellectual property inherent in our investment programs for the long-term benefit of CPPIB; and
- Our systems and processes can scale to meet the anticipated growth of the CPP Fund.

For example, we insist upon the use of common technology and rigorous standards of documentation for any new models we create, either in our investment programs or for risk management. This ensures that the value inherent in those models is preserved for CPPIB rather than simply resident within individuals. In a similar vein, we also require investment professionals to record contacts with our external partners within a relationship management system to emphasize that those contacts and relationships are truly the property of CPPIB.

With respect to scalability, the decision to internalize responsibility for the portfolio recordkeeping, accounting and performance-measurement system described earlier was expressly taken to position CPPIB to handle not just the current but future size and complexity of the Fund as well.

This emphasis on institutionalizing capabilities may entail, in some instances, that we take additional time and incur additional cost today, but with the expectation that this will be more than offset by future benefits to and savings for the CPP Fund.

OPERATING COSTS

There are three categories of costs entailed in managing the CPP Fund:

- External management fees;
- Transaction costs; and
- CPPIB's operating expenses.

As noted previously, we partner with external asset managers in areas that complement our own internal programs. Wherever possible, we structure the fee arrangements with these managers to be highly performance based; in fact, we have developed a proprietary performance fee model for public markets mandates which we encourage our managers to adopt. This ensures our interests are aligned with theirs and the fees we pay are proportional to the benefits derived by the Fund. During the year our external management fees totalled $466 million as compared to $383 million in 2009. We follow the customary practice of similar organizations and report investment returns net of these fees paid.

Our acquisition of assets in the private markets, especially infrastructure, real estate and private equity, often entails one-time transaction costs. These costs can include investment banking advisory fees in public company bid situations, due diligence consulting fees, taxes incurred upon the transfer of ownership for real estate assets, and a variety of other non-recurring expenses. In any given year, these costs will vary according to the number, size and complexity of our private market investing activity. In public markets, we pay commissions when trading securities and these costs vary depending on volumes and markets in which we trade. For fiscal 2010, transaction costs were $148 million compared to $93 million in the previous year, and these are also netted against reported investment returns.

CPPIB's operating expenses represent all other costs incurred to manage the Fund, with the exception of the external management fees and transaction costs noted above. Operating costs were $236 million this year, compared to $189 million for fiscal 2009. Expressed another way, total operating costs were 19.8 basis points or 19.8 cents for every $100 of invested assets compared to 16.1 cents for the prior year.

The increase in operating costs largely reflects the growth described previously in our internal complement of people, both within our investment departments and across our core services departments, including internalization of our portfolio recordkeeping, accounting and performance systems. Some costs such as custody charges reflect the Fund's 21% growth in assets during the year and higher costs associated with the Fund's larger holdings of emerging markets assets.

We continue to believe that building internal investment capabilities in areas where CPPIB has comparative advantages makes compelling sense from a cost perspective. In the case of infrastructure investing for instance where we have developed internal capabilities, we conservatively estimate that external management costs for a $10 billion portfolio would amount to between $200 million and $250 million per year. By contrast, our fully costed internal program, including all allocations and incentive compensation, amounts to approximately $16 million.

Operating costs are detailed more fully in note 9a and note 9b to the Consolidated Financial Statements.

ENTERPRISE RISK MANAGEMENT

The CPP Investment Board's investment activities and business transactions expose us to a broad range of risks. The board of directors is responsible for ensuring that management has identified the principal risks and established appropriate plans to address them. Management has identified five principal categories of risk:

Strategic risk: This is the risk that our enterprise or a business unit will make inappropriate strategic choices or be unable to implement selected strategies. Our business planning follows a three-year road map that is approved by the board of directors and reaffirmed annually. Management reports to the directors quarterly on progress against plan.

Investment risk: This is the risk of loss inherent in achieving investment objectives. It includes market, credit, counterparty and liquidity risks. Managing investment risk is a firm-wide, collaborative effort. We have rigorous investment decision-making protocols and independent measurement based on established benchmarks and practices. The ability to take additional risk to earn value-added returns is governed by an active risk limit approved annually by the board of directors. As well, compensation benchmarks for various investment programs adjust according to the degree of risk taken so there is no undue incentive to add risk.

Legislative and regulatory risk: This is the risk of loss due to non-compliance with laws, regulations and mandatory industry practices. Our Legal and Finance groups maintain oversight to ensure full compliance. There is a rigorous compliance framework in place and input is regularly sought from external counsel to ensure that changes in laws and regulations are incorporated.

Operational risk: This is the risk of loss from inadequate or failed internal processes, people and systems. This risk is increasing as we internalize recordkeeping and portfolio support services that had previously been outsourced. We manage operational risk through a system of internal controls. These controls are subject to internal audit reviews and extensive analysis in connection with the CEO/CFO certification of internal control over financial reporting. There are also rigorous protocols for implementing new technologies, and continuity plans for potential business interruptions.

Reputation risk: This is the risk of loss of credibility or image due to internal or external factors. Reputation risk is often related to the risks cited above. The CPP Investment Board has established a culture based on strong ethics which guides our decisions and activities. There is 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.

We have developed a comprehensive Enterprise Risk Management (ERM) framework which will be put into effect over the coming year to address each of these categories of risk.

PARTNERING WITH EXTERNAL MANAGERS

Longstanding partnerships with top-tier external managers have been instrumental in supplementing the activities of all three investment departments – and continue to be an important part of our strategy execution. We do direct investing through internal capabilities in those areas where we have a comparative advantage. We rely on select external managers to complement those capabilities in areas where they have skill and expertise. The ideal partner has access to investment opportunities and regional or sector expertise that we cannot, or choose not to, develop.

While many institutional investors are relatively passive providers of capital to their external partners, we try to structure our relationships as mutually beneficial alliances. At year end, we had a total of 123 investment partners – 9 new partners since last year. Our partners are listed on page 54.

LOOKING AHEAD

ECONOMIC AND FINANCIAL MARKET OUTLOOK

Following the most severe financial crisis and recession of the post-World War II period, global financial conditions have improved markedly and this has brought with it encouraging signs of economic recovery. The market improvement has been reflected in the substantial returns on assets with relatively more risk and enhanced financial market functionality. Major stock market indices have risen 50–70% since March 2009, interbank spreads have returned to more normal levels and credit spreads have posted their largest declines since 1933. The unwinding of flight-to-safety capital flows and a more positive economic outlook have put upward pressure on government bond yields.

Amid the improved financial market environment and massive fiscal stimulus, the world's major economies began to stabilize by mid-2009 and economic growth moved into positive territory in the second half of the year. Asia has seen the most robust recovery as a strong rebound in China helped bolster activity in Korea, Australia, Japan and Southeast Asia. Brazil and India have also rebounded quickly while growth in Eastern European countries has been weaker, owing largely to the sub-par performance of their major trading partners in the euro zone. Bolstered by inventory re-stocking, U.S. growth has greatly exceeded expectations of a year ago. Manufacturing activity has rebounded strongly, albeit from depressed levels, and the housing market is showing tentative signs of stabilizing. Canada also saw a healthy rebound at the end of 2009, led by strength in domestic demand. Though activity has stabilized in the U.K. and euro zone, the recovery in the advanced economies of Western Europe has thus far been weak.

The recent sovereign debt crisis in Greece has roiled financial markets, eroding gains in equity markets and putting downward pressure on government bond yields in safe haven countries like the U.S. and Germany. While the financing agreed to by the E.U. should avert a full scale liquidity crisis in Greece and other heavily indebted countries in the near term, aggressive fiscal action is required to ensure fiscal stability over the medium term. These recent developments notwithstanding, the global economic recovery is expected to gather steam through calendar 2010 and into 2011 as the effects of improved financial market functionality and easy monetary policy continue to support activity. U.S. growth is expected to remain strong in the first half of 2010, supported by a rebound in business equipment spending and an ongoing boost from inventory investment. Higher levels of production will lead to positive employment growth that, in turn, will support a rebound in consumer spending and further gains in capital investment. Although the recovery will be more tepid than those following similarly severe recessions, growth will nevertheless remain above-trend during the 2010 to 2012 period. A similar pattern will be seen across the developed economies, all of which should experience above-potential growth by late 2010 and early 2011, while emerging market economies will continue to grow at a solid pace.

Reflecting substantially less excess capacity, the major emerging market economies of China, India and Brazil will likely tighten monetary conditions appreciably in 2010 and 2011. In the developed economies, high excess capacity will keep underlying inflation pressures well-contained, which, in turn, will allow policymakers to keep interest rates low for an extended period. Major central banks are likely to wait until there has been a meaningful decline in unemployment before raising policy rates. Among developed economies, the U.S., Canada, the U.K. and Australia will grow more quickly over the medium term, while growth in Japan and the euro zone will be somewhat slower. Over the medium term, growth in emerging markets will exceed that in advanced economies, with developing Asia continuing to set the pace.

Equity markets are expected to perform well over the medium term, supported by a strong rebound in corporate profitability and an extended period of low interest rates in developed countries. Returns on government fixed income assets will be constrained by strengthening economic growth and policy rate increases. Though both emerging market and developed market equities are expected to greatly outperform government fixed income assets, the current high valuations in some emerging markets will result in a moderate underperformance relative to developed market equities. The U.S. dollar is expected to depreciate only modestly over the forecast period, declining against the Chinese yuan and pound sterling and rising against the yen. The Canadian dollar is greatly influenced by commodity prices and the maintenance of the currency near its current level will require continued high real prices for energy and base metals.

While the prospects for the global economy look far brighter than even six months ago, the outlook is not without risk. On the downside, the main concern is continued financial market turmoil related to the impairment of sovereign debt in the euro zone peripheral countries. The risk of default remains a serious concern and has the potential to erode the capital of vulnerable financial institutions which could, in turn, disrupt the flow of credit and weaken economic growth. The principal upside risk to the outlook is that the recovery turns out to be much more like those following past severe recessions. This would imply stronger growth in the near-term, a substantially faster pace of interest rates hikes and higher commodity prices.

FISCAL 2011 CORPORATE OBJECTIVES

The principal corporate objectives for fiscal 2011 build upon those pursued in 2010:

- Completing our goal to internalize responsibility for investment operations, portfolio accounting and performance measurement;
- Building upon our technology and operations platforms;
- Executing our investment program strategies; and
- Increasing our focus on developing and managing talent.

ORGANIZATIONAL ACCOUNTABILITY

SPECIAL EXAMINATION

In fiscal 2010 a Special Examination of CPPIB's financial and management control and information systems and management practices was successfully completed. Our governing legislation requires this examination at least every six years. The examination was conducted over an eight-month period by our external auditors, Deloitte & Touche LLP, who were appointed by the federal finance minister. They examined whether CPPIB's assets are safeguarded and controlled, if the organization is managed economically and efficiently, and whether operations are carried out effectively. The findings of the Special Examination in each of these areas were very positive and were presented directly to the board of directors. In the formal report to the 10 federal and provincial finance ministers to whom CPPIB is accountable, Deloitte & Touche concluded that "there is reasonable assurance that there are no significant deficiencies in the systems and practices"; this is the best possible rating for a Special Examination report. The full Deloitte & Touche report can be found on our website.

CEO/CFO CERTIFICATION

During the year, we completed an evaluation of our internal control over financial reporting and disclosure controls and procedures using the framework and criteria set out in the *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 or regulation to do so, we voluntarily completed this annual evaluation as part of our commitment to strong corporate governance and accountability.

CPPIB's CEO/CFO certification makes it clear that the CEO and CFO are responsible for establishing and maintaining internal control over financial reporting to provide reasonable assurance that it is reliable and conforms with Canadian generally accepted accounting principles. They 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.

Based upon the results of management's evaluation, the CEO and CFO have concluded that internal control over financial reporting and the disclosure controls and procedures are properly designed and operated effectively throughout the year. Looking forward, they have also concluded that no changes were made that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ACCOUNTING POLICIES AND CRITICAL ESTIMATES

Financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP). This requires management to adopt accounting policies and make certain assumptions and estimates that affect the reported amounts of assets, liabilities, income and expenses. The significant accounting policies adopted by us are described in note 1 to the Consolidated Financial Statements.

Management's most critical accounting estimates are in the valuation of investments. In this respect, our goal is to state investments 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 in an active market, such as publicly listed stocks.

In cases where quoted market prices are not available, such as for our private equity, infrastructure, private real estate and over-the-counter derivatives holdings, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. These valuation techniques include using recent market transactions, discounted cash flow analysis, option pricing models and other accepted industry valuation methods. The non-marketable government bonds within the CPP Fund are valued by discounting cash flows based upon current market yields of instruments with similar characteristics and then adjusting for their non-marketability and rollover provisions. Regardless of the technique used, judgment is required to determine the estimated fair value of these non-listed investments.

FUTURE ACCOUNTING POLICY CHANGE

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS). For the CPP Investment Board, IFRS will be effective for interim and annual periods commencing April 1, 2011, including the disclosure of the prior-year comparative figures.

The CPP Investment Board has developed an IFRS conversion plan and has identified the major differences between existing Canadian GAAP and current IFRS. As IFRS is still not finalized, the CPP Investment Board cannot definitively comment on the impact these differences could have on its financial position and results of operations. We continue to monitor developments and changes to IFRS and are on schedule to meet the timelines established in the IFRS conversion plan.

In a recent development, the AcSB issued an exposure draft in April 2010 for section 4600, *Pension Plans* which proposes to expand its scope to include an entity that is separate from a pension plan and whose sole purpose is to hold and invest assets received from one or more pension plans but does not itself have a pension obligation (such as the CPP Investment Board). Should changes in the exposure draft be approved and the CPP Investment Board choose to adopt section 4600, it would be effective for interim and annual periods commencing April 1, 2011; the associated impact on the CPP Investment Board and its IFRS conversion plan is not yet determinable.

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 also made public. Further, the Chair and the CEO take questions and comments from individual Canadians and stakeholder groups at biennial public meetings in the provinces that participate in the CPP; nine such meetings will be held during calendar 2010.

An external accounting firm audits our financial statements every year. We furnish information to the Office of the Chief Actuary of Canada to facilitate its triennial evaluation of the CPP and also provide requested information to the federal and provincial finance ministers for their periodic reviews of the CPP. Every six years, we undergo an external Special Examination of our records, systems and practices, as required for all Crown corporations. Additionally, the federal minister of finance can require that a special audit be conducted at any time. Both the triennial review and the Special Examination were completed this year with favourable opinions. The results of the 2010 Special Examination are discussed on page 59.

All public reports issued by the CPP Investment Board, including the financial statements and annual report, are subject to review and approval by the Audit Committee which then recommends their approval to the full board.

As part of our commitment to ethical conduct, the CPP Investment Board exceeds both legislated requirements and industry norms in 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 is the code of conduct for directors and employees. Among other things, this code – which can be read on our website – obligates everyone to act as whistle-blowers if they become aware of any suspected breach. This reporting can be done in a confidential manner to an external conduct review advisor who is not part of management or the board of directors. 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. Mr. Iacobucci submits a report and meets in person with the board at least once a year to discuss his activities.

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."

Our 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 this annual report which contains extensive disclosure on the Fund's performance.

Our website contains more than 1,200 pages of information about how we operate. This information includes a comprehensive list of investment holdings as well as a list of investment partners with links to their websites. Our website also offers access to our governing legislation and regulations, our by-laws, governance manual and policies. The policies include the investment statement that guides 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.

REPORT OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

The Human Resources and Compensation Committee (HRCC) assists the board of directors with human resources matters, including talent management and compensation. The committee's mandate is detailed in the Terms of Reference posted on the CPPIB website.

The HRCC is composed entirely of independent directors who are knowledgeable about issues related to human resources and executive compensation. All HRCC members also serve on the Investment Committee and have a strong appreciation of the link between compensation and risk management.

The committee members for fiscal 2010 were:

Ronald E. Smith, chair

Ian A. Bourne (left May 14, 2009)

Pierre Choquette

Germaine Gibara

Douglas W. Mahaffy (joined October 27, 2009)

Elaine McKinnon

D. Murray Wallace

Although the Terms of Reference state that up to one-third of the members may be sitting CEOs, none are currently CEOs of public companies.

In designing the compensation framework for the CPP Investment Board, the HRCC takes into account the relevant marketplace in which CPPIB operates, its mission and the strategy it has chosen to execute.

CPPIB operates broadly within the financial services sector and more specifically within the global investment management component. Most of CPPIB's employees are based in Toronto so the HRCC primarily looks to comparable Canadian organizations and Canadian financial services companies for peer group comparators. In addition, since CPPIB also has offices in both London and Hong Kong, the compensation framework has to afford the organization the ability to offer competitive compensation levels within those markets as well. As an investor with global reach, CPPIB is increasingly looking to hire experienced professionals to relocate to our Toronto office; accordingly, the HRCC does keep abreast of compensation practices and trends in key markets such as the United States. The committee does not believe that CPPIB needs to be positioned as the maximum compensation opportunity for talented investment and other professionals; rather, the goal is to target a competitive level of compensation that, in combination with CPPIB's other attributes, makes the organization an attractive employment option.

The HRCC has designed CPPIB's compensation framework to have strong linkages to the organization's mission and strategy.

With respect to its mission, the committee is mindful that there is an element of public trust involved in managing the retirement assets of 17 million Canadians. The CPPIB is also a relatively young organization but one that is meant to endure for a very long time. A large element of management's focus in the near term is on attracting talent, growing the organization, establishing scalable investment programs and processes, putting in place enabling technology operations and risk management capabilities, and establishing a strong culture with uncompromising standards of integrity as a hallmark. Accordingly, the HRCC wants the compensation framework to take into account this important dimension of management's responsibility and performance; given the public trust dimension, the committee also needs to assess not just what gets accomplished, but also how it is accomplished. The committee believes that the best way to achieve this is to have a meaningful component of management's compensation tied to annual objectives that emanate from the annual business plan approved by the board. For this component of the compensation system, the committee retains full discretion to reward performance within a range of zero to two times target levels; this full discretion allows the committee to not just assess and reward results but also the manner in which they were achieved.

CPPIB's strategy, which is based upon its comparative advantages, is described extensively elsewhere in this annual report. In essence, the strategy incorporates an active management approach whereby the organization executes a wide range of investment programs designed to earn returns above those available from passively investing in public markets. The investment performance component of the compensation system is designed to measure the extent to which management has succeeded in generating value-added returns and to structure compensation amounts accordingly.

The HRCC makes three key decisions with respect to the performance component of CPPIB's compensation framework:

i) **Choice of benchmarks**
The HRCC approves all benchmarks used within the compensation framework. There is an extensive description of compensation benchmarks in the "Benchmarking Under the Total Portfolio Approach" section of the Management's Discussion and Analysis component of this annual report. In approving compensation benchmarks, the HRCC is particularly focused on ensuring that each benchmark is relevant to the activities within the corresponding investment program, and that the benchmarks also take into account the level of risk taken. In the case of infrastructure, for example, the higher the leverage that management uses in the acquisition of an asset, the greater its risk profile and therefore our benchmark return expectations also need to increase. The committee wants to ensure that the compensation system does not reward management for simply taking on more risk.

ii) **Calibration of results**
The HRCC has to use judgment in deciding what level of prospective returns represents good, exceptional or disappointing performance. These determinations take into account factors such as the nature and size of the investment program, relevant metrics such as information ratios or return on risk calculations, and where available, external indicators such as the Investment Property Databank (IPD) that we use for real estate.

The committee has adopted the policy that each investment program should first recover its costs before any value-added performance is attributed. This aligns the interests of management and the CPP Fund beneficiaries by ensuring that management is only incented to incur costs if they are convinced that they will be more than offset by incremental returns. The committee assigns a compensation multiplier of one to a target level of value-added returns after costs that, in our judgment, represents a good level of performance. Beyond that target level, the committee approves a distribution of returns that can range from multipliers of five to negative three, that is plus or minus four around the target of one. The HRCC believes it is prudent to limit the impact of any one investment department or any single year's results so that it cannot have an undue influence on compensation amounts. Consequently, multipliers are capped on the upside at five and have a downside floor of negative three. These caps also allow the HRCC to establish maximum levels of potential compensation within bounds that it considers appropriate.

iii) **Time frame**
The HRCC wants the period over which value-added investment returns are measured to correspond to the long-horizon focus of CPPIB's strategy and the multi-generational nature of the Canada Pension Plan itself. Consequently, investment performance is measured annually, averaged over rolling four-year periods, and then this four-year result is incorporated within the compensation system. Four-year periods are also used by a number of organizations similar to the CPPIB. While this is shorter than the actual duration of many of CPPIB's investment programs, the committee thinks this is a reasonable length of time for accountability and compensation purposes. Importantly, no investment performance compensation is based upon any single year's result.

Having made these three decisions, the investment performance component of CPPIB's compensation framework is then based solely upon actual and benchmark returns with no further input from the HRCC required. The committee fully expects there will be positive and negative value-added results in any given year, and this is precisely what has occurred over the last four years. To date, the investment performance component has operated within the parameters anticipated by the committee. That said, the HRCC reviews these key elements of benchmarks, calibration and time frame on a regular basis and will make any changes it considers appropriate.

In keeping with a performance-based compensation framework, the HRCC believes that benefits and perquisites should be modest. Benefits such as medical, dental and insurance are at comparable levels to similar organizations. CPPIB provides a defined contribution pension plan that is the same for all employees; there is no special plan for executive officers. Perquisites are limited to company paid parking for officers.

The HRCC has engaged Hugessen Consulting Inc. (Hugessen) to provide independent advice, information and guidance; Hugessen cannot provide any services to management without the committee's prior approval. Fees paid to Hugessen for its services to the committee were $260,000 and $290,000 in fiscal 2010 and fiscal 2009 respectively and no additional services were provided to management.

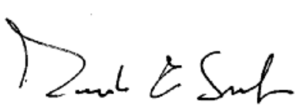
KEY ACTIVITIES FOR FISCAL 2010

The HRCC held six meetings during fiscal 2010 including two in May 2009. Although not a committee member, the Chair of the board of directors attended all meetings. The CEO and the Senior Vice-President, Human Resources, also attended portions of the meetings at the committee's request. A list of the HRCC's activities is included as Table 1 of this report.

In addition to those activities, the committee focused on a number of key topics during fiscal 2010:

- As noted in the Chair's Report, the extreme volatility within the financial markets and the degree of uncertainty about future market directions prompted the board and management to re-examine CPPIB's strategy. In conjunction with this review, the HRCC also re-examined the compensation framework to ensure it was sound and operating as planned; the committee concluded that it was satisfied with its fundamental design.
- However, as a result of this review, the HRCC did decide to eliminate the Restricted Fund Unit (RFU) element of the compensation framework. Our goal in doing so was to make compensation even more sensitive to performance; accordingly, the targeted RFU compensation amounts were redistributed to the annual objectives and investment performance components of the framework. This change is described in greater detail in the accompanying Compensation Discussion and Analysis.
- In the aftermath of the financial crisis, the G20 group of countries issued a set of three principles and nine compensation best practices that it encouraged all global financial services organizations to adopt. The HRCC engaged Hugessen to provide a detailed assessment of CPPIB's compensation framework and practices against these principles and practices. Based upon that assessment, the committee concluded that CPPIB's compensation framework, policies and practices clearly meet and, in many cases, exceed the standards set out in the G20 Principles on Compensation in Financial Services.
- As noted previously, the annual objectives component of management's compensation is awarded entirely at the discretion of the committee. For fiscal 2009, in light of the economic environment prevailing at that time, the committee decided not to award any individual awards to the named executive officers. For fiscal 2010, the committee assessed each officer's performance against objectives established for the year as well as qualitative factors, and has made awards specific to the level of performance achieved.
- The committee also focused on succession planning for key roles across the organization during fiscal 2010 and was satisfied with the progress management has made in this regard. The HRCC also reviewed succession plans for the CEO and the officers with the entire board.

In conclusion, the HRCC is satisfied that the compensation framework for CPPIB is appropriate, that the investment performance compensation results for fiscal 2010 are consistent with the design and intent of the system, and that our decisions with respect to the individual performance components of compensation reflect our assessment of management's performance relative to pre-established objectives for fiscal 2010.



RONALD E. SMITH

CHAIR, HUMAN RESOURCES AND COMPENSATION COMMITTEE

TABLE 1: ACTIVITIES OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

AGENDA ITEMS	May 2009	June 2009	September 2009	December 2009	February 2010
Review, approve and recommend for board approval salary increases and incentive compensation payouts for officers and employees	•				
Review and recommend for board approval the CEO's fiscal 2010 performance objectives	•				
Review and approve various incentive compensation benchmarks for the investment departments for fiscal 2010 and fiscal 2011	•			•	•
Recommend for board approval the incentive compensation clawback policy	•				
Review severance arrangements for the CEO and officers	•				
Review of compensation programs against Financial Stability Board principles and practices		•		•	•
Review and recommend for board approval modifications to the incentive compensation program		•	•	•	•
Review of executive compensation trends as provided by the HRCC's external compensation advisor			•		
Review of officers' compensation, including requesting and reviewing a report from the HRCC's external compensation advisor on the compensation of the officers relative to other large Canadian pension funds and investment management companies			•		
Annual review and approval of HRCC Terms of Reference and performance against Terms of Reference			•		
Review the performance of the external compensation advisors			•		
Receive the annual report of the Pension Committee and annual pension plan document review			•	•	
Annual review of non-material changes to employee benefit plans and Human Resources policies					•
Review and recommend for board approval compensation for officers in accordance with organizational changes					•
Annual review of succession planning and talent management programs					•

COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Discussion and Analysis starts by summarizing the foundational principles of our Management Compensation Framework. We then discuss the elements of our compensation program. Following this, we report on our fiscal 2010 performance results and remuneration of the named executive officers and directors.

PRINCIPLES OF OUR MANAGEMENT COMPENSATION FRAMEWORK

Our Management Compensation Framework rests on three key principles:

- It should enable CPPIB to attract experienced investment and management expertise;
- It should embody a pay-for-performance approach; and
- It should measure performance against objective benchmarks where possible and over longer periods of time.

Our compensation program is a key factor in attracting the talent and investment experience we need to manage a global active portfolio of $127.6 billion. We compete with the largest investment managers, securities dealers and banks, not only in Canada but around the world, in our search for employees. As one of the largest funds of its type globally, we require people with significant experience in investment management, investment research, portfolio design and risk management, investment operations and other skills; a competitive compensation package is essential to attract and retain this talent.

We are committed to a pay-for-performance approach that directly links compensation to investment and individual performance. To ensure compensation reflects our responsibility to the public, we have a clear set of incentives that are consistent with our long-term investment strategy and investment risk limits, measureable against clear benchmarks, understood by management and transparent to stakeholders and employees.

Incentive compensation is based on long-term pay-for-performance principles. Our system primarily rewards success in generating value-added investment performance based on the following criteria:

- Value-added performance is averaged over rolling four-year periods to determine incentive compensation payments. This four-year measurement period for investment performance is consistent with our longer-term investment strategy and represents a reasonable payout period;
- Investment returns are compared against external benchmarks that are considered most relevant to each investment program in order to determine value-added performance. For the overall CPP Fund, this benchmark is the CPP Reference Portfolio (see pages 21, 28 and 29 for a description of the benchmarks used);
- The long-term component of incentive compensation is also modified by the CPP Fund's cumulative four-year return to ensure that incentive compensation is aligned with the absolute return performance of the CPP Fund in addition to its returns relative to benchmarks;
- Investment returns take into account all of our operating costs and external manager fees;
- Annual value-added performance calculations are subject to maximum caps, positive and negative, to ensure that no single-year result has undue impact and that maximum achievement levels are appropriate;
- The only element of compensation shorter than four years, by design, is a discretionary component tied to the achievement of annual individual objectives; and
- The majority of total pay is incentive-based.

We believe that the CPPIB's compensation framework meets and, in some cases, exceeds the Principles for Sound Compensation Practices established by the Financial Stability Board and endorsed by the G20 nations.

GLOBAL POLICIES ON EXECUTIVE COMPENSATION

GUIDELINES	CPPIB FRAMEWORK
Based on long-term performance	Based on investment performance over four-year periods
Discourage short-term risk taking	Four-year results discourage short-term decisions Total amount of risk is governed by board of directors Where appropriate, benchmarks adjust for the degree of risk taken
Increased oversight powers of board compensation committees	The HRCC and the board of directors make all decisions about the compensation framework

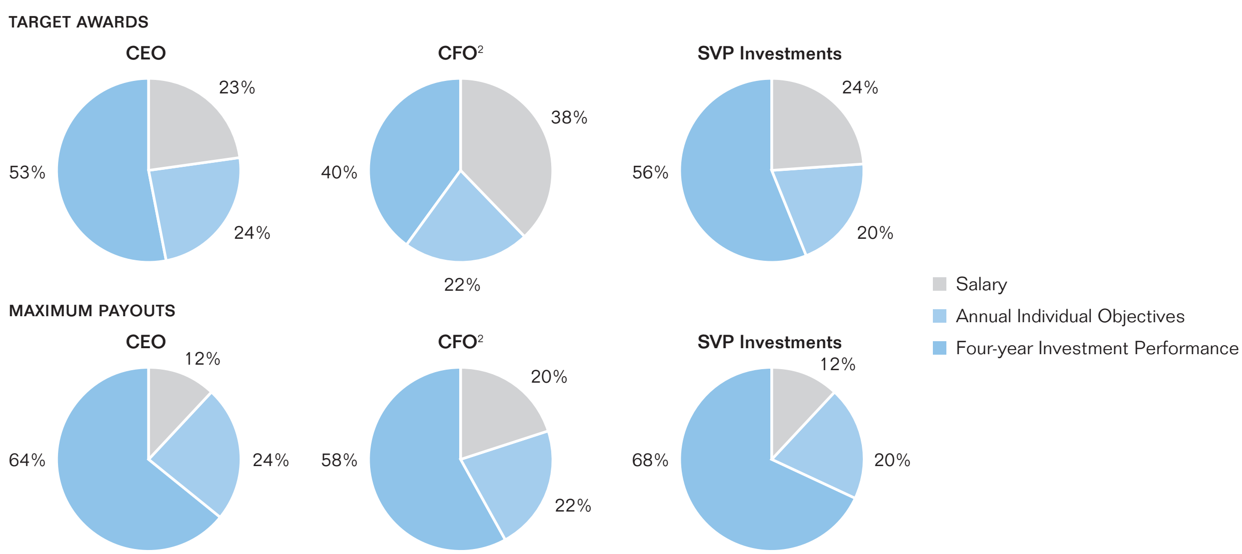
KEY ELEMENTS OF OUR COMPENSATION FRAMEWORK

Our compensation program is driven by four-year investment performance and annual individual objectives. The majority of total pay is incentive-based, consistent with our compensation philosophy.

The mix of compensation elements is specific to each role. Senior investment professionals have a higher percentage of their compensation that is incentive-based and tied to four-year investment performance. Non-investment professionals have a higher percentage of their compensation comprised of base salary and tied to annual individual objectives.

These charts show the compensation mix for the named executive officers.

MIX OF TOTAL DIRECT COMPENSATION FOR FISCAL 2010[1]



[1] Before adjusting for the impact of the CPP Fund performance on the Long-Term Incentive Plan which is a part of the four-year investment performance elements illustrated above.

[2] Reflects compensation mix at "steady state"; excludes Supplemental Restricted Fund Unit award as per employment agreement.

MARKET POSITIONING

The competitiveness of our compensation framework is assessed relative to a peer group consisting of organizations with investment management professionals and other talent similar to that employed by the CPPIB, taking into consideration criteria such as assets under management, functional scope and complexity. These organizations include other major Canadian pension funds, public investment management firms and other financial services firms for relevant positions. The independent compensation surveys that we use include 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 Towers Perrin Canadian Investment Survey, Watson Wyatt's IMPACT compensation survey and the McLagan Investment Management Survey.

As part of the fiscal 2010 officers' compensation review undertaken by Hugessen, the HRCC reviewed publicly disclosed information gathered from the following 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 and investment management companies, as well as data from the Mercer and Towers Perrin surveys referenced above.

COMPENSATION ELEMENTS

BASE SALARY

Base salaries are paid to employees for fulfilling their core job responsibilities. Salaries reflect skill level, ability and performance. We use annual compensation surveys from consulting firms such as Mercer, Towers Watson and McLagan to ensure we remain competitive with peer organizations. Salaries are reviewed annually at the end of each fiscal year; any increase in officers' salaries requires board approval.

SHORT-TERM INCENTIVE PLAN (STIP)

All employees participate in the STIP which has two components. One part is tied to achievement against annual individual objectives; the other is based on value-added investment performance over a four-year period. Target awards under both are set as percentage of salary, to which a multiplier is applied.

Annual Individual Objective Target ($)	x	Individual Performance Multiplier (0 to 2)	+	Four-year Investment Component Target ($)	x	Four-year Investment Performance Multiplier (0 to 2)	=	STIP Payout ($)

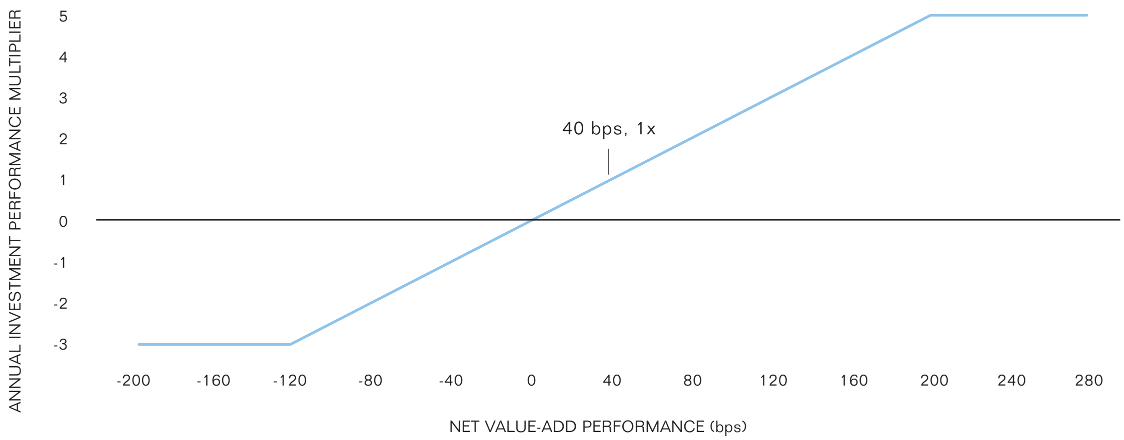
- **Annual individual performance:** This is measured by the employee's overall performance, including achievement of personal objectives set at the start of the fiscal year. The individual performance multiplier ranges from zero to two.
- **Four-year investment performance:** This factor reflects the value-added performance of the CPP Fund over the four-year period ending in the fiscal year. For investment professionals, it also reflects department and asset class performance relative to specified benchmarks. Table 1, on page 70, shows the weighting of the CPP Fund and department performance under STIP for named executive officers (NEOs). Inclusion of CPP Fund performance for all employees is designed to encourage and reinforce the partnering necessary for the success of our Total Portfolio Approach.

  CPP Fund, investment department and asset class performance are measured net of operating expenses and external manager fees. The net CPP Fund return is compared to that of the CPP Reference Portfolio. The return we generate above this benchmark is our value-added performance. Similarly, net investment department and asset class returns are compared to appropriate market-based benchmarks approved by the HRCC. The compensation benchmarks are described on pages 28 and 29 of Management's Discussion and Analysis.

  The annual investment performance multiplier is determined by plotting actual value-added performance on the respective compensation curve. For example, as shown in the following graph, if the net CPP Fund return exceeds the CPP Reference Portfolio return by 40 basis points in any given year, the CPP Fund investment performance multiplier is one.

  The maximum positive and negative annual multipliers are symmetrical around a target of one, with a maximum positive multiplier in any year being five (one plus four) and the maximum negative multiplier being minus three (one minus four). These annual multipliers are then averaged over each four-year period, with the maximum four-year STIP investment performance multiplier capped at two and the minimum value at zero.

CPP FUND COMPENSATION CURVE
AS AT MARCH 31, 2010



Effective fiscal 2010, STIP targets for some officers have increased as a result of eliminating Restricted Fund Units. These changes are described in the Restricted Fund Units section that follows and reflected in the Summary Compensation table on page 73.

DEFERRED SHORT-TERM INCENTIVE PLAN (DSTIP)

We offer employees the option to defer some, or all, of their STIP payout for up to two years. Any deferred amounts can be notionally invested either entirely in the CPP Fund, or in the CPP Fund and up to a maximum of 50% in the CPP Fund's Private Investments portfolio as determined by the employee. The deferred amounts thus increase or decrease in value over the two-year deferral period which provides another way to align employee interests with fund performance.

LONG-TERM INCENTIVE PLAN (LTIP)

The Long-Term Incentive Plan supports our overall goal of contributing to the long-term strength of the Canada Pension Plan. The intent is to encourage and reward value-added investment performance over the next four years at the CPP Fund level and, in the case of investment professionals, at department and asset class levels also. These awards also have a retention element as they vest and pay out at the end of the four-year performance period. So, a grant made on April 1, 2010, will vest on March 31, 2014, and be paid out shortly thereafter.

The majority of our investment professionals and senior-level core services professionals receive LTIP awards. The CEO may also approve an LTIP award with three-year vesting to attract new hires and facilitate their transition into the regular LTIP program.

Target LTIP awards are set as a percentage of salary to which a multiplier is applied at the end of the four-year vesting period. The award value is also increased or decreased in accordance with the CPP Fund's compounded rate of return for the period.

Target LTIP Award ($)	x	Four-year Investment Performance Multiplier (0 to 3)	x	CPP Fund Four-year Compounded Rate of Return	=	LTIP Payout ($)

- **Four-year investment performance:** This multiplier is determined in the same way as the STIP four-year investment performance multiplier described previously, with the exception that the maximum possible multiplier is three. Table 1 shows the weighting of the CPP Fund and department performance under LTIP for NEOs.
- **CPP Fund four-year compounded rate of return:** This amount increases or decreases the LTIP award by the CPP Fund's four-year compounded rate of return.

TABLE 1: INVESTMENT PERFORMANCE WEIGHTING UNDER STIP AND LTIP

POSITION	CPP Fund	Department
CEO	100%	N/A
CFO	100%	N/A
SVP Investments	50%	50%

RESTRICTED FUND UNITS (RFUs)

The Restricted Fund Unit plan was introduced in fiscal 2008 as a component of compensation for senior investment professionals. RFUs are a notional investment whose value fluctuates in accordance with CPP Fund performance over a three-year period; one-third of the award vests and is paid each year over this period. The RFUs served to moderate the volatility of overall pay while maintaining a direct link to CPP Fund performance.

After careful consideration, the HRCC and board believe it is preferable to strengthen the link between long-term, value-added investment performance and incentive compensation by eliminating RFUs and adjusting the two performance components of the Short-Term Incentive Plan. Consequently, no RFU awards will be granted after fiscal 2010. In the case of officers, effective for fiscal 2010, all unvested regular RFU awards have been rescinded and replaced with higher individual and four-year investment components of STIP. The impact of these changes is essentially neutral at target levels of compensation, but they have the effect of making overall compensation more dependent on individual performance and value-added investment results.

Unvested RFUs held by other senior investment professionals will continue to vest and be paid over the next two years. Their STIP target award will increase over the next three years as their RFUs are phased out.

The only exception to this phase out is that RFUs with two-year vesting will continue to be awarded, with the CEO's approval, for certain new hires in order to address transitioning issues.

CLAWBACK AND FORFEITURE PROVISION

The board of directors has the authority to interpret, amend and terminate the compensation plans at its discretion. In addition, the board has adopted a clawback and forfeiture policy that specifically addresses the following situations:

- If financial results are restated, the board of directors has discretion to require repayment of incentive compensation deemed to be in excess or forfeiture of unvested incentive compensation awards. This provision applies to all employees at the vice-president level and above.
- Incentive compensation awards may also be reduced and/or forfeited if the payouts determined in accordance with the plan formulas lead to unintended awards.
- In the event of employee misconduct, incentive compensation awards may be required to be repaid or reduced, and/or unvested incentive compensation awards may be forfeited.

PENSION

All employees are eligible to participate in our registered and supplementary defined contribution pension plans. Eligible earnings under both pension plans consist of base salary plus STIP payout to a maximum of 50% of base salary.

For the registered pension plan, employees contribute 3% of annual eligible earnings, and CPPIB contributes 6% to the maximum allowed under the *Income Tax Act (Canada)*. For the supplementary pension plan, employees earn contribution credits equal to 9% of eligible earnings over the maximum for the registered pension plan. The supplementary plan is an unfunded plan notionally invested in the same investment choices available under the registered plan.

Pension benefits are modest relative to those provided by other organizations in the large public pension fund and investment management industry.

BENEFITS AND OTHER COMPENSATION

Our benefits programs are comparable to those provided by similar organizations in our industry. They include life insurance, disability benefits, health and dental benefits, time-off policies, a fitness reimbursement and an Employee-Family Assistance Program. Perquisites for officers are limited to paid parking.

RESULTS: PERFORMANCE OUTCOMES AND COMPENSATION DECISIONS

As described earlier, incentive compensation is based on performance against predetermined individual annual objectives and investment performance relative to market-based benchmarks. This section describes the fiscal 2010 performance measures and results upon which named executive officer compensation is based.

ANNUAL NON-FINANCIAL OBJECTIVES

Management establishes non-financial organizational goals in each fiscal year's business plan which is approved by the board of directors. Annual individual objectives for officers and employees are then aligned with these organizational objectives. Progress against organizational objectives is reviewed with the board on a quarterly basis throughout the year and at year end.

TABLE 2: STATUS OF FISCAL 2010 NON-FINANCIAL ORGANIZATIONAL GOALS

GOALS	Status at Year End
Continue to broaden the diversification of the investment portfolio by geography and active strategies.	Achieved
Continue to build the capabilities of the CPP Investment Board to effectively manage the expansion and execution of our investment programs.	Achieved
Continue to build out the multi-year plan to enhance key management capabilities, operational processes and our technology infrastructure.	Achieved

FOUR-YEAR INVESTMENT PERFORMANCE

Incentive compensation payouts for fiscal 2010 reflect CPP Fund performance over the four fiscal years that began April 1, 2006, and ended March 31, 2010.

Value-added performance over the CPP Reference Portfolio benchmark was positive in two of these years (fiscal 2007 and fiscal 2008) and essentially flat relative to the benchmark for fiscal 2009. However, we underperformed our total Fund benchmark in fiscal 2010 by 587 basis points, resulting in a cumulative underperformance of 34 basis points over the four-year period ending March 31, 2010.

TABLE 3: CPP FUND PERFORMANCE, FISCAL 2007 TO 2010 AND CUMULATIVE RESULTS

			Value-added Range (bps)					
	Reference Portfolio Return	CPP Fund Return	Threshold [1]	Target[2]	Maximum[3]	Actual Value-added (bps)[4]	Actual Value-added ($ billions)	Annual Investment Performance Multiplier
Fiscal 2010	20.8%	14.9%	19.8	40.0	200.0	-587.0	-6.3	-3.00
Fiscal 2009	-18.6%	-18.6%	16.2	40.0	200.0	1.0	0.0	-0.38
Fiscal 2008	-2.7%	-0.3%	13.7	40.0	200.0	241.0	2.9	5.00
Fiscal 2007	10.4%	12.9%	N/A	35.0	195.0	245.0	2.4	5.00
Cumulative	N/A	5.3%	N/A	N/A	N/A	-34.0	-1.1	

[1] The threshold represents CPPIB's actual operating expenses; this is the value-added return that the CPP Fund must generate above the CPP Reference Portfolio before a positive annual investment performance multiplier is assigned for incentive compensation purposes in respect of the CPP Fund performance. As fiscal 2007 was a transition year, there was no operating expense threshold.

[2] Represents the value-added return that the CPP Fund must generate above the threshold for a 1.0 annual investment performance multiplier to be assigned.

[3] Represents the value-added return that the CPP Fund must generate above the threshold for a 5.0 annual investment performance multiplier to be assigned.

[4] The actual value-added return before taking into account operating expenses.

Investment performance at the department and asset class level relative to their specific benchmarks is discussed in detail on pages 40 to 53 of the Management's Discussion and Analysis and summarized below.

TABLE 4: INVESTMENT DEPARTMENT PERFORMANCE, FISCAL 2007 TO 2010

		Department	
FISCAL YEAR	Public Market Investments	Private Investments	Real Estate Investments
2010	Exceeded target	Did not meet target	Exceeded target
2009	Did not meet target	Exceeded target	Did not meet target
2008	Did not fully meet target	Significantly exceeded target	Exceeded target
2007	Did not fully meet target	Significantly exceeded target	Significantly exceeded target

Investment performance over the past four years resulted in STIP investment performance multipliers of 1.66 for the CEO and from 1.27 to 2.00 for the other NEOs. For the fiscal 2007 LTIP grant, which vests and pays out at the end of fiscal 2010, the LTIP investment performance multiplier for the CEO was 1.66 and 1.27 to 2.77 for the other NEOs. The CPP Fund's four-year compounded rate of return was 5.3%, which is an annualized return of 1.3% over four years.

COMPENSATION OF THE CEO

Mr. Denison's total compensation is based on a combination of individual and CPP Fund performance measures, as described previously. At the start of each fiscal year, the board and the CEO agree on key performance objectives aligned with CPPIB's non-financial goals. At year-end, the HRCC evaluates Mr. Denison's performance against those goals and presents its evaluation to the board for review and approval. As well, each director completes an annual evaluation of the CEO's performance with respect to his key areas of responsibility and these evaluations are summarized and also presented to the board of directors. These two sources of evaluation are then used to determine the individual objective component of Mr. Denison's STIP payout for the fiscal year and his base salary for the upcoming fiscal year. The balance of his STIP payout, as well as the LTIP payout, are determined by the four-year investment performance of the CPP Fund.

Mr. Denison's personal objectives for fiscal 2010 included:

- Successful completion of the key objectives outlined in the annual business plan approved by the board;
- In partnership with the Chair, review and confirm CPPIB's strategy and investment risk profile with the board;
- Meet with key stakeholders across the country to ensure that CPPIB is meeting their expectations for performance, communication and information;
- Continue to personally champion and foster the organization's culture defined by its Guiding Principles of Integrity, Partnership and High Performance, and further raise awareness of risk and risk management; and
- Focus on succession planning for critical roles within CPPIB with a particular emphasis on officer positions.

All of these key goals were achieved. In evaluating the CEO's overall performance, the board considered that, under Mr. Denison's steady leadership, the CPP Fund added back $22.1 billion to finish fiscal 2010 at $127.6 billion, and CPP Investment Board was one of the few large investment organizations able to capitalize on investment opportunities that we believe will generate significant income for the CPP Fund for years to come. In addition to realizing these investment opportunities and successfully executing a broad range of investment transactions in fiscal 2010, management also made significant strides in the continued development of the CPPIB as an investment organization.

For these reasons, the board of directors awarded an STIP annual individual objective payout of $612,400 for Mr. Denison for fiscal 2010. The STIP investment component payout reflects the performance of the CPP Fund relative to the CPP Reference Portfolio for the four-year period ending March 31, 2010, as described above. The board has increased Mr. Denison's base salary from $490,000 to $500,000 for fiscal 2011.

COMPENSATION OF THE OTHER NAMED EXECUTIVE OFFICERS

As for the CEO, STIP and LTIP payouts for the other named executive officers reflect performance relative to their annual individual objectives, the four-year investment performance of the CPP Fund relative to the CPP Reference Portfolio and, for the investment officers, investment performance for their departments relative to their specific benchmarks.

The CEO and three of the four other named executive officers have elected to defer their STIP payouts under the Deferred Short-Term Incentive Plan described on page 69, further tying their compensation to the investment performance of the CPP Fund for the next two years.

As detailed in the Summary Compensation table that follows, total remuneration for the named executive officers, excluding the CFO who joined in the last quarter of fiscal 2009, is $9,572,794, up 12% from $8,519,560 last year. While this year's negative value-added investment performance had a negative impact on the investment components of compensation, this year-over-year increase is primarily due to the board's decision to make awards for performance relative to annual individual objectives in contrast to fiscal 2009 when no awards were made in recognition of the economic environment. The portion of incentive compensation tied to investment performance is $6,181,600, down 10% from $6,846,949 last year.

The replacement of Restricted Fund Units for higher four-year investment and individual annual objective targets under STIP increased the named executive officers' compensation payouts by approximately 2%.

Consistent with our compensation framework, which measures investment performance over rolling four-year periods, fiscal 2010's negative value-added will affect short- and long-term incentive compensation for the next three fiscal years as well. This impact is demonstrated in Table 6; the total estimated LTIP payout value as at March 31, 2010, for the named executive officers, excluding the CFO, is $2,360,400. This represents a 61% decline from the value of $6,053,822 as at the end of the previous fiscal year reflecting the impact of the negative value-added investment performance for fiscal 2010.

MANAGEMENT COMPENSATION

SUMMARY COMPENSATION

Table 5 shows remuneration over the past three fiscal years for the CEO, CFO and the three most highly compensated officers.

TABLE 5: SUMMARY COMPENSATION[1]

			Incentive Plan Compensation ($)						
				Four-year Investment Performance					
NAME AND POSITION	Year	Salary ($)	STIP Annual Individual Objectives[2]	STIP Investment Component[2]	LTIP[3]	RFU[4]	Pension Value ($)[5]	All Other Compensation ($)[6]	Total Compensation ($)
David F. Denison	2010	490,000	612,400[7]	1,013,800[7]	801,200	–	59,382	9,785	2,986,567
President and CEO	2009	490,000	–	735,000	1,236,145	389,877	59,023	9,571	2,919,616
	2008	475,000	534,375	712,500	1,902,343	473,623	57,330	8,795	4,163,966
Nicholas Zelenczuk	2010	300,000	184,800[7]	119,200[7]	–	275,900	28,390	8,099	916,389
SVP and CFO[8]	2009	60,000	100,000	–	–	–	3,600	1,823	165,423
	2008	–	–	–	–	–	–	–	–
Mark D. Wiseman	2010	335,000	446,300[7]	980,000[7]	1,021,700	–	38,279	7,739	2,829,018
SVP Private Investments	2009	335,000	–	735,000	1,110,429	266,686	38,141	7,574	2,492,830
	2008	325,000	420,000	630,000	1,364,499	324,058	37,080	7,203	3,107,840
Donald M. Raymond	2010	335,000	341,700[7]	595,600[7]	414,300	–	38,279	8,696	1,733,575
SVP Public Market	2009	335,000	–	541,695	488,192	266,686	38,141	8,192	1,677,906
Investments	2008	325,000	243,750	585,000	1,103,738	324,058	37,080	7,447	2,626,073
Graeme M. Eadie	2010	310,000	316,200	788,800	566,200	–	34,874	7,560	2,023,634
SVP Real Estate	2009	310,000	–	435,356	395,502	246,381	34,766	7,203	1,429,208
Investments	2008	300,000	315,000	450,000	1,111,092	299,130	33,705	6,504	2,515,431

[1] All amounts shown in the Summary Compensation table reflect compensation paid to the NEO in, or in respect of, the current fiscal year only. Amounts shown under the Long-Term Incentive Plan (LTIP) and Restricted Fund Units (RFU), therefore, do not depict grant date values. Incentive compensation is paid in cash in the year following the year in which it is earned; amounts shown above were paid or credited to the NEOs in early fiscal 2011 in respect of fiscal 2010.

[2] STIP Annual Individual Objectives and STIP Investment Component target awards are set as a percentage of salary, to which a multiplier is applied. The multiplier is based on individual performance and actual investment performance (CPP Fund and department) respectively over the previous four fiscal years, and cannot result in a payout more than two times the target award.

[3] LTIP: Long-Term Incentive Plan compensation reflects amounts payable for the current year. 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 department 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.

[4] RFU: Restricted Fund Units 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. In fiscal 2010, RFUs previously awarded to the NEOs were rescinded and replaced with higher STIP individual objectives and investment component targets as described on page 70.

[5] CPPIB makes contributions to the defined contribution pension plan and notional contributions to the supplementary pension plan. Under the registered pension plan, employees contribute 3% of annual eligible earnings and the CPPIB contributes 6% to the maximum allowed under the *Income Tax Act (Canada)*. Eligible earnings include salary plus annual STIP to a maximum of 50% of salary. Under the supplementary pension plan, which is unfunded, employees earn credits equal to 9% of their eligible earnings in excess of the maximum eligible earnings under the registered pension plan. The contributions under both plans are outlined in Table 7: Pension Plan Contributions. The total unfunded liability for the NEOs as at March 31, 2010 is $537,044 (2009 – $352,507).

[6] Benefits include life insurance, disability benefits, health and dental benefits, fitness reimbursement and vacation. Perquisites include paid parking.

[7] No payment received; NEO elected to defer STIP payment for two years under the Deferred Short-Term Incentive Plan.

[8] Mr. Zelenczuk joined the CPPIB on January 15, 2009. Mr. Zelenczuk's RFU payment is the first of two Supplemental RFU payments as per his employment agreement.

LONG-TERM INCENTIVE AWARDS AND ESTIMATED FUTURE PAYOUTS

LTIP awards are granted at the start of a fiscal year and paid out at the end of the four-year vesting period. Supplemental RFU awards are granted to some new hires and vest and pay out over two years. Table 6 shows the LTIP and Supplemental RFU awards and estimated future payouts for each named executive officer. The future value of the awards granted but not yet vested are estimated as at March 31, 2010, based on:

- Actual performance multipliers for fiscal 2008, 2009 and 2010 and pro-forma multipliers of one for future years; and
- Actual CPP Fund rates of return for fiscal 2008, 2009 and 2010 and no assumed growth in future years.

TABLE 6: LONG-TERM INCENTIVE AWARDS AND ESTIMATED FUTURE PAYOUTS

					Estimated Future Payouts at the End of Fiscal Years:[3]			
NAME	Year of Grant	Type of Award	Award (Target Value)[1]	Maximum Value[2]	2011	2012	2013	Total
David F. Denison	2010	LTIP	$490,000	$1,470,000	–	–	$0	$0
President and CEO	2009	LTIP	$490,000	$1,470,000	–	$0	–	$0
	2008	LTIP	$475,000	$1,425,000	$290,200	–	–	$290,200
Nicholas Zelenczuk	2010	LTIP	$240,000	$720,000	–	–	$0	$0
SVP and CFO	2009	LTIP	$240,000	$720,000	–	$0	–	$0
		RFU[4]	$480,000	$480,000	$275,900	–	–	$275,900
	2008	LTIP	–	–	–	–	–	–
Mark D. Wiseman	2010	LTIP	$350,000	$1,050,000	–	–	$0	$0
SVP Private Investments	2009	LTIP	$350,000	$1,050,000	–	$253,300	–	$253,300
	2008	LTIP	$350,000	$1,050,000	$579,100	–	–	$579,100
Donald M. Raymond	2010	LTIP	$335,000	$1,005,000	–	–	$259,400	$259,400
SVP Public Market Investments	2009	LTIP	$335,000	$1,005,000	–	$117,500	–	$117,500
	2008	LTIP	$325,000	$975,000	$247,400	–	–	$247,400
Graeme M. Eadie	2010	LTIP	$310,000	$930,000	–	–	$316,200	$316,200
SVP Real Estate Investments	2009	LTIP	$310,000	$930,000	–	$48,900	–	$48,900
	2008	LTIP	$300,000	$900,000	$248,400	–	–	$248,400

[1] Represents the target value at the time of grant; no award is payable if performance is below a certain level.

[2] For LTIP, represents the maximum value payable at the end of the four-year vesting period, excluding the CPP Fund's compound rate of return over the four-year vesting period. For RFU, represents the maximum value payable during the vesting period, excluding the CPP Fund's rate of return. See the LTIP and RFU sections for details.

[3] Future payouts are estimated by using actual Fund and/or department investment performance multipliers for those years where performance is known (i.e. 2008, 2009, and 2010) and an investment performance multiplier of one for future years, and applying the CPP Fund's rates of return for 2008, 2009, and 2010.

[4] Supplemental RFU award as per employment agreement; first of two payments received in fiscal 2010 as shown in Table 5: Summary Compensation; the estimated future payout is the second and final payment of this Supplemental RFU award.

PENSION PLANS

As described earlier, all employees participate in the regular and supplementary defined contribution pension plans. The table below shows the contributions and investment earnings for the NEOs under both plans. The total unfunded liability for the NEOs as at March 31, 2010, is $537,044 (2009 – $352,507).

TABLE 7: PENSION PLAN CONTRIBUTIONS

NAME	Plan Type	Accumulated Value at Start of Year ($)	Compensatory ($) Employer Contributions	Compensatory ($) Investment Earnings	Non-compensatory ($)[1]	Accumulated Value at End of Year ($)
David F. Denison	Registered	77,571	13,536	–	26,075	117,182
President and CEO	Supplementary	130,061	45,846	37,241	–	213,148
Nicholas Zelenczuk	Registered	5,520	15,221	–	11,695	32,436
SVP and CFO	Supplementary	–	13,169	-4	–	13,165
Mark D. Wiseman	Registered	57,763	13,894	–	25,763	97,420
SVP Private Investments	Supplementary	49,741	24,385	13,730	–	87,856
Donald M. Raymond	Registered	111,527	13,894	–	46,724	172,145
SVP Public Market Investments	Supplementary	110,451	24,385	4,850	–	139,686
Graeme M. Eadie	Registered	63,894	13,951	–	24,831	102,676
SVP Real Estate Investments	Supplementary	62,254	20,923	12	–	83,189

[1] Represents employee contributions and investment earnings in the registered pension plan.

TERMINATION AND RETIREMENT ARRANGEMENTS

In the event of termination without cause, severance pay for the named executive officers is set at 12 months of base salary and the target STIP award, plus an additional month of salary and one-twelfth of the target STIP award for each year of service. Severance pay is capped at 24 months for the CEO and generally 18 months for the other named executive officers. Unvested LTIP awards are forfeited. Insured benefits, such as health, dental and life coverage, are continued during the severance period.

All incentives and benefits are forfeited on resignation and for termination with cause. There are no change of control provisions in the employment arrangements.

On retirement, employees are due a prorated STIP payment based on the time worked during the fiscal year. This is paid on the regular annual payment date. Retirees also receive LTIP payouts prorated for the time worked during the performance period as long as they worked a minimum of 12 months of the four-year performance period; these are paid shortly after the regular vesting dates. All benefits are discontinued as of the effective retirement date.

Table 8 shows the payments that would be made, as of March 31, 2010, to the named executive officers on retirement or termination without cause.

TABLE 8: POTENTIAL TERMINATION AND RETIREMENT PAYMENTS[1]

NAME	Completed Years of Service	Severance ($)[2]	Retirement ($)[3]
David F. Denison President and CEO	5	2,256,042	217,600
Nicholas Zelenczuk SVP and CFO[4]	1	585,000	275,900
Mark D. Wiseman SVP Private Investments	4	1,451,667	N/A
Donald M. Raymond SVP Public Market Investments	8	1,633,125	N/A
Graeme M. Eadie SVP Real Estate Investments	4	1,343,333	289,800

[1] Excludes incentive compensation payouts for the current year which are included in Table 5: Summary Compensation.

[2] Excludes the value of insured benefits, such as health, dental and life insurance, continued during the severance period.

[3] Amounts included for those individuals who are retirement eligible. Eligible retirement payments are for LTIP, 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.

[4] The retirement payment for Mr. Zelenczuk is based on the final Supplemental RFU payout as per his employment agreement.

DIRECTORS' COMPENSATION

The Governance Committee of the board is responsible for determining directors' compensation. Directors' compensation consists of an annual retainer, meeting fees and travel time allowances as shown in Table 9. Historical practice has been that separate fees were not paid for Investment Committee meetings if they were held the same day as board meetings.

The Chair receives $120,000 in annual compensation but does not receive annual or committee chair retainer fees, or per meeting fees, unless the fees relate to the biennial public meetings.

TABLE 9: DIRECTOR COMPENSATION

	Fee
Annual Retainers	
Director	$25,000
Committee chair, additional retainer	$7,500
Board Meeting	$1,500
Committee Meeting	$1,250
Meeting by Teleconference	$750
Travel Time Allowance (based on distance travelled)	$250 to $1,000
Biennial Public Meeting	
Chair	$1,000
Chair, non-meeting day travel	$1,000
Director, attendance	$1,000

Directors' compensation is reviewed at least every two years and changes, if any, are recommended to the board. The last review, conducted in fiscal 2010, determined that an increase in directors' compensation was warranted.

Directors provide the primary oversight for the management of the $127.6 billion CPP Fund that is invested as a global, active portfolio. The responsibility of the directors has grown in proportion to the size, increased complexity of investment programs and the diversification of the portfolio. The corresponding workload for the Investment Committee, in particular, has increased significantly. Accordingly, effective April 1, 2010, directors will receive a meeting fee of $1,500 for attendance at Investment Committee meetings.

Also, to provide more flexibility for the organization and recognize the preparation required to chair the biennial public meetings, the fee for chairing will increase to $2,000 and the non-meeting day travel fee will apply to all attending directors as well as the Chair.

BOARD ATTENDANCE

The board held 11 meetings in fiscal 2010, of which six were regularly scheduled meetings. The Investment Committee is composed of the full board. The table below shows the number of meetings each director attended in fiscal 2010 relative to the number of meetings he or she could have attended.

TABLE 10: BOARD ATTENDANCE

DIRECTOR	Board and/or Investment Committee[1]	Audit Committee[2]	Governance Committee[3]	Human Resources and Compensation Committee (HRCC)[4]
Robert M. Astley, Chair	11/11	–	6/6	–
Ian A. Bourne, chair of audit committee[5]	11/11	4/4	–	2/2
Robert L. Brooks	10/11	4/4	–	–
Pierre Choquette	11/11	–	6/6	5/6
Germaine Gibara	7/11	–	5/6	6/6
Michael Goldberg	11/11	4/4	–	–
Peter K. Hendrick	10/11	4/4	–	–
Nancy Hopkins, chair of governance committee[6]	11/11	–	5/6	–
Douglas W. Mahaffy[7]	4/5	–	–	1/2
Elaine McKinnon	11/11	–	–	6/6
Helen Sinclair[8]	6/6	–	5/5	–
Ronald E. Smith, chair of HRCC	11/11	–	–	6/6
D. Murray Wallace	11/11	4/4	–	6/6

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

[2] Four in-person meetings.

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

[4] Six in-person meetings.

[5] Ceased to be HRCC member May 14, 2009.

[6] Became Governance Committee chair effective August 1, 2009.

[7] Joined the board October 27, 2009.

[8] Ceased to be Governance Committee chair effective August 1, 2009; left the board effective October 26, 2009, after her term expired and her successor was appointed.

DIRECTOR COMPENSATION

Based on the attendance and fee schedules, individual compensation for each of the directors for fiscal 2010 was as follows:

TABLE 11: DIRECTOR COMPENSATION

DIRECTOR	Annual Retainer	Board and Committee Meeting Fees	Travel Fees	Total Remuneration
Robert M. Astley, Chair	$120,000	–	–	$120,000
Ian A. Bourne, chair of audit committee[1]	$32,500	$20,250	$7,000	$59,750
Robert L. Brooks[2]	$25,000	$18,500	–	$43,500
Pierre Choquette	$25,000	$23,250	$5,000	$53,250
Germaine Gibara	$25,000	$18,250	$1,000	$44,250
Michael Goldberg	$25,000	$17,750	$6,000	$48,750
Peter K. Hendrick	$25,000	$17,000	–	$42,000
Nancy Hopkins, chair of governance committee[3]	$30,000	$18,500	$6,000	$54,500
Douglas W. Mahaffy[2,4]	$10,417	$6,500	–	$16,917
Elaine McKinnon[2]	$25,000	$20,750	$3,500	$49,250
Helen Sinclair[5]	$17,083	$13,250	–	$30,333
Ronald E. Smith, chair of HRCC	$32,500	$20,250	$4,000	$56,750
D. Murray Wallace	$25,000	$26,000	–	$51,000
Total	$417,500	$220,250	$32,500	$670,250

[1] Ceased to be HRCC member May 14, 2009.

[2] Meeting fees include attendance at orientation session.

[3] Became Governance Committee chair effective August 1, 2009.

[4] Joined the board October 27, 2009.

[5] Ceased to be Governance Committee chair effective August 1, 2009; left the board effective October 26, 2009, after her term expired and her successor was appointed.

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 59 of Management's Discussion and Analysis in the 2010 annual report.

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, management authorities and procedures 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, management authorities and procedures 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, policies, management authorities and procedures 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 Consolidated 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.

DAVID F. DENISON
PRESIDENT AND CHIEF EXECUTIVE OFFICER
TORONTO, ONTARIO
MAY 14, 2010

NICHOLAS ZELENCZUK
SENIOR VICE-PRESIDENT AND CHIEF FINANCIAL OFFICER

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, 2010, 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, 2010

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, 2010, and the consolidated statements of net income (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, 2010, 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 14, 2010

CONSOLIDATED BALANCE SHEET

AS AT MARCH 31 ($ MILLIONS)	2010	2009
ASSETS		
Investments (note 3)	$ 130,477	$ 109,198
Amounts receivable from pending trades	9,813	3,245
Premises and equipment (note 4)	21	29
Other assets	25	14
TOTAL ASSETS	140,336	112,486
LIABILITIES		
Investment liabilities (note 3)	2,519	2,149
Amounts payable from pending trades	10,086	4,733
Accounts payable and accrued liabilities	101	103
TOTAL LIABILITIES	12,706	6,985
NET ASSETS	$ 127,630	$ 105,501
NET ASSETS, REPRESENTED BY		
Share capital (note 6)	$ –	$ –
Accumulated net income from operations	24,561	8,579
Accumulated net transfers from the Canada Pension Plan (note 7)	103,069	96,922
NET ASSETS	$ 127,630	$ 105,501

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 INCOME (LOSS) AND ACCUMULATED NET INCOME FROM OPERATIONS

FOR THE YEAR ENDED MARCH 31 ($ MILLIONS)	2010	2009
NET INVESTMENT INCOME (LOSS) (note 8)	$ 16,218	$ (23,576)
OPERATING EXPENSES		
Personnel costs	145	111
General operating expenses (note 9a)	73	59
Professional services (note 9b)	18	19
	236	189
NET INCOME (LOSS) FROM OPERATIONS	15,982	(23,765)
ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF YEAR	8,579	32,344
ACCUMULATED NET INCOME FROM OPERATIONS, END OF YEAR	$ 24,561	$ 8,579

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED MARCH 31 ($ MILLIONS)	2010	2009
NET ASSETS, BEGINNING OF YEAR	$ 105,501	$ 122,703
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (note 7)		
Transfers from the Canada Pension Plan	30,308	29,131
Transfers to the Canada Pension Plan	(24,161)	(22,568)
Net income (loss) from operations	15,982	(23,765)
INCREASE (DECREASE) IN NET ASSETS FOR THE YEAR	22,129	(17,202)
NET ASSETS, END OF YEAR	$ 127,630	$ 105,501

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)	2010	2009
EQUITIES (note 3a)		
Canada		
Public equities	$ 8,553	$ 8,058
Private equities	985	775
	9,538	8,833
Foreign developed markets		
Public equities	24,614	19,057
Private equities	14,565	13,100
	39,179	32,157
Emerging markets		
Public equities	4,895	3,866
Private equities	512	240
	5,407	4,106
TOTAL EQUITIES	54,124	45,096
FIXED INCOME (note 3b)		
Bonds	35,649	26,915
Other debt	3,526	1,828
Money market securities	14,068	14,569
TOTAL FIXED INCOME	53,243	43,312
ABSOLUTE RETURN STRATEGIES (note 3c)	2,871	1,830
INFLATION-SENSITIVE ASSETS (note 3d)		
Public real estate	–	255
Private real estate	7,982	7,610
Infrastructure	5,821	4,584
Inflation-linked bonds	904	775
TOTAL INFLATION-SENSITIVE ASSETS	14,707	13,224
INVESTMENT RECEIVABLES		
Securities purchased under reverse repurchase agreements (note 3e)	4,000	4,000
Accrued interest	594	558
Derivative receivables (note 3f)	760	1,042
Dividends receivable	178	136
TOTAL INVESTMENT RECEIVABLES	5,532	5,736
TOTAL INVESTMENTS	$ 130,477	$ 109,198
INVESTMENT LIABILITIES		
Debt financing liabilities (note 3g)	(1,303)	–
Securities sold under repurchase agreements (note 3e)	–	(99)
Debt on private real estate properties (note 3d)	(947)	(930)
Derivative liabilities (note 3f)	(269)	(1,120)
TOTAL INVESTMENT LIABILITIES	(2,519)	(2,149)
Amounts receivable from pending trades	9,813	3,245
Amounts payable from pending trades	(10,086)	(4,733)
NET INVESTMENTS	$ 127,685	$ 105,561

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 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)	**2010**		2009	
	Fair Value	**(%)**	Fair Value	(%)
EQUITIES[1]				
Canada	**$ 18,503**	**14.5%**	$ 15,561	14.7%
Foreign developed markets	**46,221**	**36.2**	40,437	38.3
Emerging markets	**6,465**	**5.0**	4,591	4.4
	71,189	**55.7**	60,589	57.4
FIXED INCOME				
Bonds[1,2]	**36,805**	**28.8**	28,366	26.9
Other debt[1,2]	**3,532**	**2.8**	1,833	1.7
Money market securities[1,3]	**267**	**0.2**	(768)	(0.7)
Debt financing liabilities[2]	**(1,303)**	**(1.0)**	–	–
	39,301	**30.8**	29,431	27.9
INFLATION-SENSITIVE ASSETS				
Real estate[1,4]	**7,035**	**5.5**	6,912	6.5
Infrastructure[1]	**5,821**	**4.6**	4,549	4.3
Inflation-linked bonds[1,2]	**4,339**	**3.4**	4,080	3.9
	17,195	**13.5**	15,541	14.7
NET INVESTMENTS	**$ 127,685**	**100%**	$ 105,561	100%

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

[2] Includes accrued interest.

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

[4] Net of debt on private real estate properties, as described more fully in note 3d.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2010

CORPORATE INFORMATION

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 CPP 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 29 of the 2010 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 ("GAAP") 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. The CPP Investment Board qualifies as an Investment Company in accordance with Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 18, *Investment Companies*, and accordingly, the CPP Investment Board reports its investments at fair value. 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) CHANGE IN ACCOUNTING POLICY

FINANCIAL INSTRUMENTS – DISCLOSURES

Effective for the March 31, 2010, annual Consolidated Financial Statements, the CPP Investment Board adopted the amended CICA section 3862, *Financial Instruments – Disclosures*, which enhance the disclosures regarding fair value measurement and liquidity risk. These new standards prescribe the classification of fair value measurement in accordance with a fair value hierarchy that reflects the significance of the inputs used in determining the fair value of financial instruments (see note 2). The new standards are for disclosure purposes only and do not impact the CPP Investment Board's financial position or results of operations.

(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 market prices are not available or reliable, such as for those securities that are not sufficiently liquid, 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) Fair value for direct investments in private debt is calculated using quoted market prices or accepted industry valuation methods such as discounted cash flows based on current market yields of instruments with similar characteristics.

(vii) 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.

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

(ix) 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.

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

(xi) Fair value for exchange-traded derivatives, which includes futures, options and warrants, 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.

(xii) Debt financing liabilities are recorded at the amount originally issued, which, together with accrued interest expense, approximates fair value due to its short-term nature.

(D) INCOME RECOGNITION

Income from investments includes realized gains and losses from investments, changes in unrealized gains and losses on investments, dividend income, interest income and net operating income from private real estate investments. Dividend income is recognized on the ex-dividend date, which is when the CPP Investment Board's right to receive the dividend has been established. Interest income is recognized using the effective interest rate method. 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) INVESTMENT MANAGEMENT FEES

Investment management fees are paid to investment managers for externally managed investments. Investment management fees are expensed as incurred and recorded as a component of net investment income.

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

Securities sold under repurchase agreements represent the sale of securities effected with a simultaneous agreement to buy them back at a specified price at a specified future date and are accounted for as an investment liability. 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 8). Securities purchased under reverse repurchase agreements represent the purchase of securities effected with a simultaneous agreement to sell them back at a specified price at a specified future date and are accounted for as an investment receivable. These securities are not recognized as an investment of the CPP Investment Board. 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 8).

(H) 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 8).

(I) CANADA PENSION PLAN TRANSFERS

Amounts from the CPP are recorded as received.

(J) 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.

(K) 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

(L) FUTURE ACCOUNTING POLICY CHANGE

INTERNATIONAL FINANCIAL REPORTING STANDARDS

In February 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards ("IFRS"). For the CPP Investment Board, IFRS will be effective for interim and annual periods commencing April 1, 2011, including the disclosure of prior-year comparative figures.

The CPP Investment Board has developed an IFRS conversion plan and has identified the major differences between existing Canadian GAAP and IFRS. As IFRS is still not finalized, the CPP Investment Board cannot definitively comment on the impact these differences could have on its operations, financial position and results of operations. We continue to monitor developments and changes to IFRS and are on schedule to meet the timelines established in the IFRS conversion plan.

In addition to the above, the AcSB issued an exposure draft in April 2010 for section 4600, *Pension Plans* which proposes to expand the scope to include an entity that is separate from a pension plan and whose sole purpose is to hold and invest assets received from one or more pension plans, but does not itself have a pension obligation (such as the CPP Investment Board). Should the changes in the exposure draft be approved and the CPP Investment Board choose to adopt section 4600, it would be effective for interim and annual periods commencing April 1, 2011. The impact on the CPP Investment Board and its IFRS conversion plan is not yet determinable.

2. FAIR VALUE MEASUREMENT

(A) The following table shows investments and investment liabilities recognized at fair value, analyzed between those whose fair value is based on:

- Quoted prices in active markets for identical assets or liabilities (Level 1);
- Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and
- Those with inputs for the asset or liability that are not based on observable market data (non-observable inputs) (Level 3).

AS AT MARCH 31, 2010 ($ MILLIONS)	Basis of Fair Value Determination			
	Level 1	Level 2	Level 3	Total
INVESTMENTS				
EQUITIES				
Canada				
Public equities	$ 8,551	$ –	$ 2	$ 8,553
Private equities	–	–	985	985
	8,551	–	987	9,538
Foreign developed markets				
Public equities[1]	22,623	1,509	482	24,614
Private equities	688	–	13,877	14,565
	23,311	1,509	14,359	39,179
Emerging markets				
Public equities[1]	4,254	641	–	4,895
Private equities	–	–	512	512
	4,254	641	512	5,407
TOTAL EQUITIES	36,116	2,150	15,858	54,124
FIXED INCOME				
Bonds	13,436	22,213	–	35,649
Other debt	–	671	2,855	3,526
Money market securities	–	14,068	–	14,068
TOTAL FIXED INCOME	13,436	36,952	2,855	53,243
ABSOLUTE RETURN STRATEGIES	–	638	2,233	2,871
INFLATION-SENSITIVE ASSETS				
Private real estate	–	–	7,982	7,982
Infrastructure	981	–	4,840	5,821
Inflation-linked bonds	904	–	–	904
TOTAL INFLATION-SENSITIVE ASSETS	1,885	–	12,822	14,707
INVESTMENT RECEIVABLES				
Securities purchased under reverse repurchase agreements	–	4,000	–	4,000
Accrued interest	–	594	–	594
Derivative receivables	161	594	5	760
Dividends receivable	–	178	–	178
TOTAL INVESTMENT RECEIVABLES	161	5,366	5	5,532
TOTAL INVESTMENTS	$ 51,598	$ 45,106	$ 33,773	$ 130,477
INVESTMENT LIABILITIES				
Debt financing liabilities	–	(1,303)	–	(1,303)
Debt on private real estate properties	–	(947)	–	(947)
Derivative liabilities	(20)	(249)	–	(269)
TOTAL INVESTMENT LIABILITIES	(20)	(2,499)	–	(2,519)
Amounts receivable from pending trades	–	9,813	–	9,813
Amounts payable from pending trades	–	(10,086)	–	(10,086)
NET INVESTMENTS	$ 51,578	$ 42,334	$ 33,773	$ 127,685

[1] Includes investments in funds.

(B) TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

There were no significant transfers between Level 1 and Level 2 during the year ended March 31, 2010.

(C) LEVEL 3 RECONCILIATION

The following table presents a reconciliation for investments included in Level 3 of the fair value hierarchy for the year ended March 31, 2010.

($ MILLIONS)	Fair Value as at April 1, 2009	Gains (Losses) Included in Net Investment Income (Loss)	Purchases	Sales[1]	Transfers into Level 3	Transfers out of Level 3	Fair Value as at March 31, 2010	Change in Unrealized Gains (Losses) on Investments Still Held at March 31, 2010
INVESTMENTS								
EQUITIES								
Canada								
Public equities	$ 17	$ (15)	$ –	$ –	$ –	$ –	$ 2	$ (15)
Private equities	775	96	239	(125)	–	–	985	55
	792	81	239	(125)	–	–	987	40
Foreign developed markets								
Public equities[2]	360	122	–	–	–	–	482	122
Private equities	13,056	(1,187)	3,521	(867)	–	(646)	13,877	(1,368)
	13,416	(1,065)	3,521	(867)	–	(646)	14,359	(1,246)
Emerging markets								
Private equities	240	42	232	(2)	–	–	512	45
	240	42	232	(2)	–	–	512	45
TOTAL EQUITIES	14,448	(942)	3,992	(994)	–	(646)	15,858	(1,161)
FIXED INCOME								
Other debt	530	231	554	(1)	1,541	–	2,855	968
TOTAL FIXED INCOME	530	231	554	(1)	1,541	–	2,855	968
ABSOLUTE RETURN STRATEGIES	1,301	(226)	1,520	(362)	–	–	2,233	(264)
INFLATION-SENSITIVE ASSETS								
Private real estate	7,610	(1,194)	1,669	(103)	–	–	7,982	(1,194)
Infrastructure	3,709	(660)	1,849	(58)	–	–	4,840	(641)
TOTAL INFLATION-SENSITIVE ASSETS	11,319	(1,854)	3,518	(161)	–	–	12,822	(1,835)
INVESTMENT RECEIVABLES								
Derivative receivables	190	(63)	–	–	–	(122)	5	5
TOTAL INVESTMENT RECEIVABLES	190	(63)	–	–	–	(122)	5	5
TOTAL	$ 27,788	$ (2,854)	$ 9,584	$ (1,518)	$ 1,541	$ (768)	$ 33,773	$ (2,287)

[1] Includes return of capital.

[2] Consists of investments in funds.

Gains (losses) included in net investment income (loss) for the year ended March 31, 2010, are presented as net gain (loss) on investments (see note 8).

Investments were transferred from Level 3 to Level 1 as these investments became listed on an active market for which quoted market prices were obtained.

Investments were transferred from Level 2 to Level 3 as these investments are now valued using valuation techniques using inputs based on non-observable market data.

Direct investments in private equities, infrastructure, private real estate, private debt and certain derivatives 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, 2010, could result. Management has determined that the potential impact on fair values using these reasonable alternative assumptions would not be significant.

3. INVESTMENTS AND INVESTMENT LIABILITIES

The CPP Investment Board manages the following types of investments and investment liabilities as described below:

(A) EQUITIES

(i) Public equity investments are made directly or through funds. As at March 31, 2010, public equities include fund investments with a fair value of $2,631 million (2009 – $1,730 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, 2010, private equities include direct investments with a fair value of $3,997 million (2009 – $2,906 million).

(B) 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:

	2010						2009	
	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	$ –	$ 2,046	$ 756	$ 800	$ 3,602	3.4%	$ 869	2.9%
Canadian provincial government	–	770	656	1,046	2,472	4.4	955	4.6
Canadian government corporations	–	2,463	411	344	3,218	3.5	1,971	3.3
Foreign government	80	1,510	1,012	555	3,157	2.6	–	–
Corporate bonds	1	431	539	16	987	4.6	455	7.8
NON-MARKETABLE BONDS								
Government of Canada	434	30	–	–	464	0.8	584	0.9
Canadian provincial government	1,708	4,694	2,316	13,031	21,749	4.5	22,081	4.6
TOTAL	$ 2,223	$ 11,944	$ 5,690	$ 15,792	$ 35,649	4.1%	$ 26,915	4.5%

(ii) Other debt consists of investments in distressed mortgage and private debt funds and direct investments in private debt. The terms to maturity of the direct investments in private debt as of March 31 are as follows:

	2010						2009	
	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
Leveraged loans	$ –	$ 698	$ 217	$ –	$ 915	7.5%	$ –	–%

(C) 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.

(D) 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, 2010, the subsidiary's share of these investments includes assets of $7,982 million (2009 – $7,610 million) and $947 million of secured debt (2009 – $930 million). The terms to maturity of the undiscounted principal repayments of the secured debt at March 31 are as follows:

	2010							2009		
	Terms to Maturity									
($ MILLIONS)	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Fair Value	Weighted Average Interest Rate	Total	Fair Value	Weighted Average Interest Rate
Debt on private real estate properties	$ 444	$ 337	$ 189	$ 120	$ 1,090	$ 947	6.0%	$ 1,011	$ 930	6.6%

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)	2010	2009
Assets	$ 5,259	$ 4,860
Liabilities	(947)	(930)
	$ 4,312	$ 3,930

PROPORTIONATE SHARE OF NET INCOME

FOR THE YEAR ENDED MARCH 31 ($ MILLIONS)	2010	2009
Revenue	$ 584	$ 567
Expenses	(364)	(363)
	$ 220	$ 204

(ii) 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, 2010, infrastructure includes direct investments with a fair value of $4,395 million (2009 – $3,154 million).

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

	2010						2009	
	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	$ –	$ 141	$ 117	$ 646	$ 904	3.4%	$ 775	2.8%

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

As at March 31, 2010, securities sold under repurchase agreements are $nil (2009 – $99 million). The terms to maturity of the securities purchased under reverse repurchase agreements as at March 31 are as follows:

	2010						2009	
	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
Securities purchased under reverse repurchase agreements	$ 1,500	$ 2,500	$ –	$ –	$ 4,000	1.9%	$ 4,000	2.1%

(F) DERIVATIVE CONTRACTS

A derivative contract is a financial contract, the value of which is derived from the value of underlying assets, indices, interest rates, currency exchange rates or other market-based factors. Derivatives are transacted through regulated exchanges or are negotiated in over-the-counter markets.

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. They are not recorded as assets or liabilities on the Consolidated Balance Sheet. Notional amounts do not necessarily represent the amount of potential market risk or credit risk arising from a derivative contract.

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 market exposure of derivative contracts is allocated to the asset class to which each contract relates.

The CPP Investment Board uses derivatives to generate value-added investment returns and to limit or adjust market, credit, interest rate, currency and other financial exposures without directly purchasing or selling the underlying instrument.

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

Equity Contracts

Equity futures are standardized contracts transacted on an exchange to purchase or sell a specified quantity of an equity index, a basket of stocks or a single stock at a predetermined price and date in the future. Futures contracts may be cash-settled or require physical delivery of the underlying asset.

Equity swaps are over-the-counter contracts in which one counterparty agrees to pay or receive from the other, cash flows based on changes in the value of an equity index, a basket of stocks or a single stock in exchange for a return based on a fixed or floating interest rate or the return on another instrument.

Variance swaps are over-the-counter contracts where cash flows are exchanged based on the realized variance of an equity index, a basket of stocks, or a single stock compared to the fixed strike level specified in the contract.

Equity options are contractual agreements where the seller (writer) gives the purchaser the right, but not the obligation, to buy or sell a specified quantity of an equity index, a basket of stocks or a single stock at or before a specified future date at a predetermined price. The seller receives a premium from the purchaser for this right. The CPP Investment Board purchases (buys) and writes (sells) equity options. Equity options may be transacted in standardized amounts on regulated exchanges or customized in over-the-counter markets.

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.

Foreign Exchange Contracts

Foreign exchange forwards are customized over-the-counter contracts negotiated between counterparties to either purchase or sell a specified amount of foreign currencies at a predetermined price and date in the future. These contracts result in a fixed future foreign exchange rate for a period of time.

Interest Rate Contracts

Bond futures are standardized contracts transacted on an exchange to purchase or sell a specified quantity of a bond index, a basket of bonds or a single bond at a predetermined price and date in the future. Futures contracts may be cash-settled or require physical delivery of the underlying asset.

Interest rate forwards are customized over-the-counter contracts negotiated between counterparties to either purchase or sell a specified amount of an interest rate sensitive financial instrument at a predetermined price and date in the future. These contracts result in a fixed future interest rate for a period of time.

Bond and inflation-linked bond swaps are over-the-counter contracts in which counterparties exchange the return on a bond, inflation-linked bond or group of such instruments for the return on a fixed or floating interest rate or the return on another instrument.

Interest rate swaps are over-the-counter contracts where counterparties exchange cash flows based on different interest rates applied to a notional amount in a single currency. A typical interest rate swap would require one counterparty to pay a fixed market interest rate in exchange for a variable market interest rate on a specified notional amount. No exchange of notional amount takes place. Cross-currency interest rate swaps involve the exchange of both interest and notional amounts in two different currencies.

Credit Contracts

Credit default swaps are over-the-counter contracts that transfer the credit risk of an underlying financial instrument (referenced asset) from one counterparty to another. The CPP Investment Board purchases credit default swaps that provide protection against the decline in value of an underlying financial instrument (referenced asset) as a result of a specified credit event such as default or bankruptcy. The purchaser pays a premium to the seller in return for payment contingent on a credit event affecting the referenced asset.

(ii) *Derivative-related Risk*

The primary risks associated with derivatives are:

Market Risk

Derivatives generate value, positive or negative, as the value of underlying assets, indices, interest rates, currency exchange rates or other market-based factors change such that the previously contracted terms of the derivative transactions have become more or less favourable than what can be negotiated under current market conditions for contracts with the same terms and remaining period to expiry. The potential for derivatives to increase or decrease in value as a result of the foregoing factors is generally referred to as market risk.

The derivative-related market risk is a component of the total portfolio market risk which is managed through the Risk/Return Accountability Framework as described in note 10.

Credit Risk

Credit risk is the risk of a financial loss occurring as a result of the failure of a counterparty to meet its obligations to the CPP Investment Board. The maximum exposure to credit risk is represented by the positive fair value of the derivative instrument and is normally a small fraction of the contract's notional amount. Negotiated over-the-counter derivatives generally present greater credit exposure than exchange-traded contracts. Credit risk on exchange-traded contracts is limited, as these transactions are executed on regulated exchanges, each of which is associated with a well-capitalized clearing house that assumes the obligation of the writer of a contract and guarantees their performance.

The CPP Investment Board limits credit risk on over-the-counter contracts through a variety of means including dealing only with authorized counterparties of a minimum credit rating and limiting the maximum exposures to any individual counterparty, the use of master netting agreements and collateral as discussed in note 10.

(iii) The fair value of derivative contracts held is as follows:

	As at March 31, 2010			For the Year Ended March 31, 2010	
($ MILLIONS)	Positive Fair Value	Negative Fair Value	Net Fair Value	Average Positive Fair Value[1]	Average Negative Fair Value[1]
EQUITY CONTRACTS					
Equity futures	$ 1	$ (19)	$ (18)	$ 17	$ (30)
Equity swaps	340	(86)	254	455	(220)
Variance swaps	42	(23)	19	19	(67)
Exchange-traded purchased options	1	(1)	–	1	(35)
Over-the-counter written options	–	(57)	(57)	–	(44)
Warrants	164	–	164	150	–
TOTAL EQUITY CONTRACTS	548	(186)	362	642	(396)
FOREIGN EXCHANGE CONTRACTS					
Forwards	159	(56)	103	223	(162)
TOTAL FOREIGN EXCHANGE CONTRACTS	159	(56)	103	223	(162)
INTEREST RATE CONTRACTS					
Bond futures	–	–	–	1	(1)
Interest rate forwards	–	–	–	–	–
Bond swaps	2	–	2	3	(4)
Inflation-linked bond swaps	78	–	78	55	(6)
Interest rate swaps	17	(9)	8	20	(4)
Cross-currency interest rate swaps	10	–	10	2	(159)
TOTAL INTEREST RATE CONTRACTS	107	(9)	98	81	(174)
CREDIT CONTRACTS					
Credit default swaps	14	(18)	(4)	8	(10)
TOTAL CREDIT CONTRACTS	14	(18)	(4)	8	(10)
SUBTOTAL	828	(269)	559	954	(742)
Less: Cash collateral received under derivative contracts	(68)	–	(68)	–	–
TOTAL	$ 760	$ (269)	$ 491	$ 954	$ (742)

[1] Determined using month-end values.

	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 futures	$ 51	$ (1)	$ 50	$ 36	$ (34)
Equity swaps	470	(273)	197	363	(425)
Variance swaps	6	(138)	(132)	4	(84)
Exchange-traded purchased options	–	–	–	–	–
Over-the-counter written options	–	(128)	(128)	–	(99)
Warrants	190	–	190	172	–
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 futures	1	–	1	–	–
Interest rate forwards	–	–	–	–	–
Bond swaps	6	–	6	7	(8)
Inflation-linked bond swaps	193	–	193	31	(45)
Interest rate swaps	3	(2)	1	3	–
Cross-currency interest rate swaps	–	(412)	(412)	–	(238)
TOTAL INTEREST RATE CONTRACTS	203	(414)	(211)	41	(291)
CREDIT CONTRACTS					
Credit default swaps	–	(1)	(1)	–	(1)
TOTAL CREDIT CONTRACTS	–	(1)	(1)	–	(1)
SUBTOTAL	1,042	(1,120)	(78)	769	(1,146)
Less: Cash collateral received under derivative contracts	–	–	–	–	–
TOTAL	$ 1,042	$ (1,120)	$ (78)	$ 769	$ (1,146)

[1] Determined using month-end values.

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

	2010					2009			
	Terms to Maturity								
($ MILLIONS)	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Within 1 Year	1 to 5 Years	6 to 10 Years	Total
EQUITY CONTRACTS									
Equity futures	$ 5,353	$ –	$ –	$ –	$ 5,353	$ 3,781	$ –	$ –	$ 3,781
Equity swaps	16,706	2,413	–	–	19,119	14,363	1,296	–	15,659
Variance swaps	90	423	4,536	–	5,049	3	110	4,877	4,990
Exchange-traded purchased options	40	–	–	–	40	–	–	–	–
Over-the-counter written options	214	–	–	–	214	–	265	–	265
Warrants	33	437	19	–	489	59	377	8	444
TOTAL EQUITY CONTRACTS	22,436	3,273	4,555	–	30,264	18,206	2,048	4,885	25,139
FOREIGN EXCHANGE CONTRACTS									
Forwards	32,747	–	–	–	32,747	16,597	–	–	16,597
TOTAL FOREIGN EXCHANGE CONTRACTS	32,747	–	–	–	32,747	16,597	–	–	16,597
INTEREST RATE CONTRACTS									
Bond futures	270	–	–	–	270	379	–	–	379
Interest rate forwards	–	–	–	–	–	–	–	–	–
Bond swaps	338	–	–	–	338	1,469	–	–	1,469
Inflation-linked bond swaps	3,345	–	–	28	3,373	3,099	–	–	3,099
Interest rate swaps	–	939	407	105	1,451	–	546	46	592
Cross-currency interest rate swaps	–	–	133	–	133	1,477	–	–	1,477
TOTAL INTEREST RATE CONTRACTS	3,953	939	540	133	5,565	6,424	546	46	7,016
CREDIT CONTRACTS									
Credit default swaps	–	436	348	–	784	–	74	25	99
TOTAL CREDIT CONTRACTS	–	436	348	–	784	–	74	25	99
TOTAL	$ 59,136	$ 4,648	$ 5,443	$ 133	$ 69,360	$ 41,227	$ 2,668	$ 4,956	$ 48,851

(G) DEBT FINANCING LIABILITIES

The terms to maturity of the undiscounted principal repayments of the debt financing liabilities as at March 31 are as follows:

	2010						2009		
	Terms to Maturity								
($ MILLIONS)	Within 1 Month	1 to 3 Months	3 to 6 Months	Total	Fair Value	Weighted Average Interest Rate	Total	Fair Value	Weighted Average Interest Rate
Commercial paper payable	$ 779	$ 333	$ 191	$ 1,303	$ 1,303	0.3%	$ –	$ –	–%

(H) COLLATERAL

Collateral transactions are conducted under the terms and conditions that are common and customary to collateral arrangements. The net fair value of collateral held and pledged as at March 31 is as follows:

($ MILLIONS)	2010	2009
Fixed income securities held as collateral on reverse repurchase agreements[1]	$ 4,088	$ 4,084
Cash held as collateral on over-the-counter derivative transactions	68	–
Fixed income securities pledged as collateral on repurchase agreements	–	(100)
Securities pledged as collateral on guarantees (see note 12)	(120)	–
TOTAL	$ 4,036	$ 3,984

[1] The fair value of the collateral held that may be sold or repledged as at March 31, 2010, is $3,923 million (2009 – $3,923 million). The fair value of securities collateral sold or repledged as at March 31, 2010, is $nil (2009 – $nil).

4. PREMISES AND EQUIPMENT

	2010			2009		
($ MILLIONS)	Cost	Accumulated Amortization	Net Carrying Amount	Cost	Accumulated Amortization	Net Carrying Amount
Computer equipment and software	$ 23.7	$ 15.5	$ 8.2	$ 21.7	$ 9.0	$ 12.7
Leasehold improvements	17.6	7.8	9.8	17.1	5.3	11.8
Office furniture and equipment	7.9	4.6	3.3	7.7	3.3	4.4
TOTAL	$ 49.2	$ 27.9	$ 21.3	$ 46.5	$ 17.6	$ 28.9

5. CREDIT FACILITIES

The CPP Investment Board maintains $1.5 billion (2009 – $1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2010, the total amount drawn on the credit facilities is $nil (2009 – $nil).

6. 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.

7. 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)	2010	2009
Accumulated transfers from the Canada Pension Plan	$ 212,512	$ 182,204
Accumulated transfers to the Canada Pension Plan	(109,443)	(85,282)
ACCUMULATED NET TRANSFERS FROM THE CANADA PENSION PLAN	$ 103,069	$ 96,922

8. NET INVESTMENT INCOME (LOSS)

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

Net investment income (loss) is grouped by asset class based on the intent of the investment strategies of the underlying portfolios. Net investment income (loss), after giving effect to derivative contracts and investment receivables and liabilities for the year ended March 31, is as follows:

2010						
($ MILLIONS)	Investment Income (Loss)[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	$ 178	$ 5,707	$ 5,885	$ (1)	$ (23)	$ 5,861
Private equities	30	100	130	(17)	–	113
	208	5,807	6,015	(18)	(23)	5,974
Foreign developed markets						
Public equities	706	6,135	6,841	(37)	(49)	6,755
Private equities	178	(1,175)	(997)	(220)	(7)	(1,224)
	884	4,960	5,844	(257)	(56)	5,531
Emerging markets						
Public equities	115	1,946	2,061	(1)	(2)	2,058
Private equities	1	38	39	(27)	–	12
	116	1,984	2,100	(28)	(2)	2,070
	1,208	12,751	13,959	(303)	(81)	13,575
FIXED INCOME						
Bonds	1,320	84	1,404	–	–	1,404
Other debt	124	1,337	1,461	(13)	(1)	1,447
Money market securities[5]	108	385	493	(84)	(7)	402
Debt financing liabilities	(2)	–	(2)	–	–	(2)
	1,550	1,806	3,356	(97)	(8)	3,251
INFLATION-SENSITIVE ASSETS						
Public real estate	7	95	102	–	(1)	101
Private real estate	406	(1,141)	(735)	(60)	(27)	(822)
Infrastructure	267	(512)	(245)	(6)	(31)	(282)
Inflation-linked bonds	13	382	395	–	–	395
	693	(1,176)	(483)	(66)	(59)	(608)
TOTAL	$ 3,451	$ 13,381	$ 16,832	$ (466)	$ (148)	$ 16,218

	2009					
($ MILLIONS)	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[5]	100	(314)	(214)	(20)	–	(234)
Debt financing liabilities	–	–	–	–	–	–
	1,410	(971)	439	(33)	–	406
INFLATION-SENSITIVE ASSETS						
Public real estate	18	(269)	(251)	(8)	(1)	(260)
Private real estate	320	(1,485)	(1,165)	(49)	(11)	(1,225)
Infrastructure	237	(295)	(58)	(5)	(20)	(83)
Inflation-linked bonds	55	(131)	(76)	–	–	(76)
	630	(2,180)	(1,550)	(62)	(32)	(1,644)
TOTAL	$ 4,067	$ (27,167)	$ (23,100)	$ (383)	$ (93)	$ (23,576)

[1] Includes interest income, dividends, private real estate operating income (net of interest expense), and interest expense on the debt financing liabilities and repurchase agreements.

[2] Includes realized gains and losses from investments, unrealized gains and losses on investments held at the end of the year, and other investment-related expenses.

[3] Includes foreign exchange losses of $10,052 million (2009 – foreign exchange gains of $6,789 million).

[4] Includes net unrealized losses of $1,257 million (2009 – $1,209 million) which represents the change in fair value estimated on direct investments in private equities, infrastructure, private real estate, private debt and certain derivatives, where the fair value is derived primarily from assumptions based on non-observable market data.

[5] Includes absolute return strategies.

9. OPERATING EXPENSES

(A) GENERAL OPERATING EXPENSES

General operating expenses for the year ended March 31 consist of the following:

($ MILLIONS)	2010	2009
Operational business services	$ 27.3	$ 19.7
Custodial fees	14.2	10.2
Premises	14.1	12.1
Amortization of premises and equipment	10.3	7.7
Travel and accommodation	4.5	4.3
Communications	1.8	1.8
Directors' remuneration	0.7	0.6
Other	(0.2)	2.3
TOTAL	$ 72.7	$ 58.7

(B) PROFESSIONAL SERVICES

Professional services for the year ended March 31 consist of the following:

($ MILLIONS)	2010	2009
Consulting	$ 12.5	$ 14.0
Legal	2.8	3.7
External audit and audit-related services[1]	2.4	1.1
Tax services	0.6	0.5
TOTAL	$ 18.3	$ 19.3

[1] Includes fees paid to the external auditors of the CPP Investment Board for audit services of $1.3 million (2009 – $1.0 million), audit-related services of $0.1 million (2009 – $0.1 million), and the Special Examination carried out pursuant to the Act of $1.0 million (2009 – $nil).

10. INVESTMENT 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 given 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 page 23 in the Risk/Return Accountability Framework section of Management's Discussion and Analysis in the 2010 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 or investment liability will fluctuate because of changes in market prices and rates. As discussed previously, 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. Market risk is comprised of the following:

Currency Risk: The CPP Investment Board is exposed to currency risk through holdings of investments or investment liabilities 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 or future cash flows of these investments and investment liabilities.

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

	2010		2009	
CURRENCY ($ MILLIONS)	**Net Exposure**	**% of Total**	Net Exposure	% of Total
United States Dollar	**$ 35,121**	**55%**	$ 25,698	57%
Euro	**9,936**	**15**	7,988	18
Japanese Yen	**5,365**	**8**	3,907	9
British Pound Sterling	**4,430**	**7**	2,436	5
Australian Dollar	**2,345**	**4**	875	2
Hong Kong Dollar	**1,537**	**2**	1,363	3
Swiss Franc	**1,432**	**2**	505	1
Other	**4,292**	**7**	2,099	5
TOTAL	**$ 64,458**	**100%**	$ 44,871	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% 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% 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, VaR, at a 90% confidence level, indicates that one year in 10 the portfolio can be expected to lose at least the following amounts:

	2010	
($ MILLIONS)	VaR	% of CPP Investment Portfolio[1]
CPP Reference Portfolio	$ 12,998	10.2%
CPP Investment Portfolio Active Risk	$ 1,583	1.2%
CPP Investment Portfolio[2]	$ 13,487	10.6%

	2009	
($ 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 3f). 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"), which is 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, and/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 as at March 31 are as follows:

2010

CREDIT RATING ($ MILLIONS)	Bonds[1,2]	Money Market Securities[1]	Reverse Repurchase Agreements[1,3]	Over-the-Counter Derivatives	Direct Investments in Private Debt[1]	Total	% of Total
AAA/R-1 (high)	$ 16,745	$ 11,281	$ 1,501	$ 423	$ –	$ 29,950	54%
AA/R-1 (mid)	16,379	2,052	–	211	–	18,642	33
A/R-1 (low)	3,262	–	2,502	28	–	5,792	10
BBB/R-2 (low)	500	–	–	–	–	500	1
BB/R-3	253	–	–	–	250	503	1
B	–	–	–	–	667	667	1
CCC	–	–	–	–	5	5	–
TOTAL	$ 37,139	$ 13,333	$ 4,003	$ 662	$ 922	$ 56,059	100%

2009

CREDIT RATING ($ MILLIONS)	Bonds[1,2]	Money Market Securities[1]	Reverse Repurchase Agreements[1,3]	Over-the-Counter Derivatives	Direct Investments in Private Debt[1]	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	–
BB/R-3	–	–	–	–	–	–	–
B	–	–	–	–	–	–	–
CCC	–	–	–	–	–	–	–
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, 2010, fixed income securities with a fair value of $4,088 million (2009 – $4,084 million) and a AAA credit rating were received as collateral which mitigates the credit risk exposure on the reverse repurchase agreements (see note 3h).

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, 2010, master netting arrangements and collateral held reduce the credit risk exposure to over-the-counter derivatives from $662 million to $455 million (2009 – $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 and investment liabilities as they come due. The CPP Investment Board mitigates liquidity risk through its unsecured credit facilities (see note 5) available in the amount of $1.5 billion (2009 – $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 7). 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 of ensuring the CPP has the necessary liquidity to meet benefit payment obligations on any business day.

11. 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, 2010, the commitments total $18.0 billion (2009 – $23.9 billion).

As at March 31, 2010, the CPP Investment Board is also committed to redeem exchangeable bonds for a subsidiary up to a maximum of $0.2 billion (2009 – $nil) and to provide inter-company loan facilities to certain subsidiaries for up to $0.6 billion (2009 – $nil).

As at March 31, 2010, the CPP Investment Board has made lease and other commitments of $39.5 million (2009 – $54.7 million) that will be paid over the next eight years.

12. GUARANTEES AND INDEMNIFICATIONS

GUARANTEES

As part of certain investment transactions entered into during the year ended March 31, 2010, the CPP Investment Board has agreed to guarantee up to $0.6 billion to other counterparties in the event certain subsidiaries and other entities default under the terms of loan and other related agreements.

INDEMNIFICATIONS

The CPP Investment Board provides indemnifications to its officers, directors, certain others and, in certain circumstances, to various counterparties and other entities. The CPP Investment Board may be required to compensate these indemnified parties for costs incurred as a result of various contingencies such as changes in laws and regulations and litigation claims. The contingent nature of these 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

(AS AT MARCH 31, 2010 EXCEPT WHERE INDICATED)

The board of directors 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, audit, valuation, accounting, 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 [1*,2]

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.

IAN A. BOURNE [1,3*]

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. Over 35 years of experience in senior finance roles at TransAlta, General Electric and Canada Post Corporation. Chair of Ballard Power Systems Inc. Director of Canadian Oil Sands Trust, Wajax Income Fund, SNC Lavalin Group, and the Canadian Public Accountability Board. 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.

ROBERT L. BROOKS [1,3]

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 and Hamilton Capital Partners Inc. 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.

PIERRE CHOQUETTE [1,2,4]

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.

GERMAINE GIBARA [1,2,4]

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 Cordiant Capital Inc., a private company, Chair of the governance committee of Agrium and chair of the strategy committee of Technip. 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.

In Memoriam
Sadly, Germaine Gibara passed away on April 21, 2010. Germaine, who was appointed to our board in November 2002, was a highly respected member of the CPPIB board. Her valued counsel and wisdom helped guide the CPPIB as it developed from a relatively small organization to its current state. She will be greatly missed and warmly remembered.

MICHAEL GOLDBERG [1,3]

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. Former director of China Enterprises Limited, Redekop Properties Ltd., Vancouver Land Corporation, Catamaran Ferries International Inc., Imperial Parking Limited and Lend Lease Global Properties Fund, a Luxembourg-based fund investing in properties in Europe and Asia. 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.

PETER K. HENDRICK [1,3]

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.

NANCY HOPKINS [1,2**]

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.

DOUGLAS W. MAHAFFY [1,4]

Corporate Director
Toronto, Ontario
Director since October 2009
Recently retired Chairman, chief executive officer and director of McLean Budden Ltd., an institutional money management firm. Former managing director and head of investment banking (Ontario) of Merrill Lynch Canada Inc., and former senior vice-president, finance and chief financial officer of Hudson's Bay Company. Current director at Methanex Corporation and former director at Stelco Inc. and Woodward's Ltd. Current chairman at Drumlane Capital, a personally owned investment firm. Qualifications include more than 20 years of investment industry experience with expertise in mergers and acquisitions and risk management practices.

ELAINE MCKINNON [1,4]

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.

HELEN SINCLAIR [1,2***]

Financial Executive
Toronto, Ontario
Director since March 2001. Left the board effective October 2009, after her term expired.
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 Income Fund and director of Davis + Henderson G.P. Qualifications include extensive experience in senior management roles at financial institutions and on boards of financial institutions.

RONALD E. SMITH [1,4*]

Fellow, Institute of Chartered Accountants of Nova Scotia
Yarmouth, Nova Scotia
Director since November 2002
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 Ltd. Chair of Innovative Properties Inc. and interim chair of Gammon Gold Inc. Former director of Bangor Hydro Electric Company. Member of the Accounting Standards Oversight Council. Former chair of the Board of Governors of Acadia University. Former partner Ernst & Young. Qualifications include extensive experience in investment, finance and compensation.

D. MURRAY WALLACE [1,3,4]

Fellow, Institute of Chartered Accountants of Ontario
London, Ontario
Director since April 2007
CEO of Granite Global Solutions, an insurance services company, since August 1, 2009. Chairman and CEO of Park Street Capital Corporation, a personally owned investment and corporate advisory firm. Former president of Axia NetMedia Corporation. Director of Terravest Income Fund and Critical Outcome Technologies Inc. Former director of Western Surety Ltd., 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.

[1] Investment Committee
[2] Governance Committee
[3] Audit Committee
[4] Human Resources and Compensation Committee

[*] Indicates chair position.
[**] Chair effective August 2009.
[***] Chair of the Governance Committee until August 2009 and member until her term expired in October 2009.

For more information on our board members please visit our website at **www.cppib.ca**.

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 CPP 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 material disclosures 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 mandate. This mandate is 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 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.

CPP Investment Board's code of conduct provides that board members shall not participate in any political activity that could be incompatible with their duties, impact their ability to carry out their duties in a politically impartial fashion or cast doubt on the integrity, objectivity or impartiality of the CPP Investment Board.

DIRECTOR APPOINTMENT PROCESS

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 77.

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 and monitoring the external and internal audit. This involves 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 oversight for ongoing director education, 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 66.

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. Several directors have attended the orientation session a second time to assist in the orientation and also further solidify their knowledge of the organization.

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 2010, these special seminars included sessions on governmental response to the financial crisis, CPPIB's real estate program, CPPIB's risk measurement framework, the long-term outlook for world oil prices, and China. The Chief Actuary of Canada also presented a session on the role of the Office of the Chief Actuary in relation to the Canada Pension Plan, including a review of public information about the Plan's funding status.

At its February 2010 meeting, the board decided to be more supportive of director attendance at outside conferences, seminars and forums. As a first step in this regard, a corporate membership in the Institute of Corporate Directors was obtained, thereby affording to directors the benefits, including development opportunities, of individual membership in that organization.

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. After receipt of relevant questionnaire feedback, the Chair 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.

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.

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 on page 66.

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 73 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 personal objectives and four-year rolling average investment performance and is composed of short- and long-term incentives. A focus on CPP Fund performance functions as a check on individual risk-taking in pursuit of value-added results.

The CPP Reference Portfolio benchmark enables 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 66.

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 prohibited should those circumstances arise. 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 and 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)	**2010**	2009	2008	2007	2006	2005	2004	2003	2002	2001
CHANGE IN NET ASSETS										
Income[1]										
Investment income	**16.2**	(23.6)	(0.3)	13.1	13.1	6.3	10.3	(1.1)	2.3	3.0
Operating expenses	**(0.2)**	(0.2)	(0.1)	(0.1)	–	–	–	–	–	–
Net contributions	**6.1**	6.6	6.5	5.6	3.6	4.5	4.6	3.1	2.6	1.2
Increase in net assets	**22.1**	(17.2)	6.1	18.6	16.7	10.8	14.9	2.0	4.9	4.2

AS AT MARCH 31 ($ billions)	**2010**	2009	2008	2007	2006	2005	2004	2003	2002	2001
INVESTMENT PORTFOLIO										
EQUITIES										
Canada	**18.5**	15.6	28.9	29.2	29.0	27.7	22.6	11.7	10.0	5.0
Foreign developed markets	**46.2**	40.4	47.5	46.1	32.7	20.9	9.3	5.4	4.1	2.1
Emerging markets	**6.5**	4.6	0.7	–	–	–	–	–	–	–
FIXED INCOME										
Bonds	**36.8**	28.4	30.2	29.2	27.2	28.6	30.2	31.0	32.6	35.3
Other debt	**3.5**	1.8	1.1	–	–	–	–	–	–	–
Money market securities[2]	**0.3**	(0.8)	–	0.4	0.6	3.1	7.7	7.2	6.8	6.3
Debt financing liabilities	**(1.3)**	–	–	–	–	–	–	–	–	–
INFLATION-SENSITIVE ASSETS										
Real estate[3]	**7.0**	6.9	6.9	5.7	4.2	0.8	0.7	0.3	0.1	–
Infrastructure	**5.8**	4.6	2.8	2.2	0.3	0.2	–	–	–	–
Inflation-linked bonds	**4.4**	4.1	4.7	3.8	4.0	–	–	–	–	–
INVESTMENT PORTFOLIO[4]	**127.7**	105.6	122.8	116.6	98.0	81.3	70.5	55.6	53.6	48.7
PERFORMANCE										
Rate of return (annual)[5]	**14.9%**	-18.6%	-0.3%	12.9%	15.5%	8.5%	17.6%	-1.5%	4.0%	7.0%

[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 $39.8 billion in investment income net of operating expenses, which is comprised of $24.6 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, reverse repurchase and repurchase agreements, 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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