



CPP  
INVESTMENT  
BOARD

**Canada Pension Plan Investment Board**  
One Queen Street East, Suite 2500  
Toronto, ON M5C 2W5 Canada  
[www.cppib.com](http://www.cppib.com)

Condensed Interim Consolidated  
Financial Statements of

# Canada Pension Plan Investment Board

September 30, 2014

**Canada Pension Plan Investment Board**  
**Condensed Interim Consolidated Balance Sheet**  
**As at September 30, 2014**  
**(Unaudited)**

<i>(CAD millions)</i>	<b>September 30, 2014</b>	March 31, 2014	September 30, 2013	April 1, 2013
<b>Assets</b>				
Investments (note 3)	\$ 270,787	\$ 249,671	\$ 222,471	\$ 207,053
Amounts receivable from pending trades	2,430	2,251	1,897	2,580
Premises and equipment	325	320	295	68
Other assets	65	34	44	28
<b>Total assets</b>	<b>273,607</b>	<b>252,276</b>	<b>224,707</b>	<b>209,729</b>
<b>Liabilities</b>				
Investment liabilities (note 3)	35,710	30,820	30,430	22,383
Amounts payable from pending trades	3,170	1,979	1,212	3,779
Accounts payable and accrued liabilities	301	385	221	303
<b>Total liabilities</b>	<b>39,181</b>	<b>33,184</b>	<b>31,863</b>	<b>26,465</b>
<b>Net assets</b>	<b>\$ 234,426</b>	<b>\$ 219,092</b>	<b>\$ 192,844</b>	<b>\$ 183,264</b>
<b>Net assets, represented by:</b>				
Share capital (note 6)	\$ -	\$ -	\$ -	\$ -
Accumulated net income from operations	106,639	95,667	70,680	65,533
Accumulated net transfers from the Canada Pension Plan (note 7)	127,787	123,425	122,164	117,731
<b>Net assets</b>	<b>\$ 234,426</b>	<b>\$ 219,092</b>	<b>\$ 192,844</b>	<b>\$ 183,264</b>

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

## Canada Pension Plan Investment Board

### Condensed Interim Consolidated Statement of Comprehensive Income

For the three and six-month periods ended September 30, 2014

(Unaudited)

<i>(CAD millions)</i>	Three-months ended September 30		Six-months ended September 30	
	2014	2013	2014	2013
<b>Net investment income</b> (note 8)				
Investment income	\$ 8,086	\$ 3,653	\$ 11,926	\$ 5,912
Investment management fees	(310)	(212)	(532)	(431)
Transaction costs	(42)	(72)	(106)	(109)
	\$ 7,734	\$ 3,369	\$ 11,288	\$ 5,372
<b>Operating expenses</b>				
Personnel costs	120	57	211	140
General operating expenses	40	33	80	67
Professional services	12	10	25	18
	172	100	316	225
<b>Net income from operations</b>	\$ 7,562	\$ 3,269	\$ 10,972	\$ 5,147

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

## Canada Pension Plan Investment Board

### Condensed Interim Consolidated Statement of Changes in Net Assets

For the three and six-month periods ended September 30, 2014

(Unaudited)

<i>(CAD millions)</i>	For the three-month period ended September 30, 2014				
	Number of shares outstanding	Share capital	Accumulated net transfers from the Canada Pension Plan	Accumulated net income from operations	Total net assets
<b>As at July 1, 2013</b>	10	\$ -	\$ 121,527	\$ 67,411	\$ 188,938
Total net income for the period		-	-	3,269	3,269
Canada Pension Plan transfers (note 7):					
Transfers from the Canada Pension Plan		-	8,048	-	8,048
Transfers to the Canada Pension Plan		-	(7,411)	-	(7,411)
<b>Balance at September 30, 2013</b>	10	\$ -	\$ 122,164	\$ 70,680	\$ 192,844
<b>As at July 1, 2014</b>	10	\$ -	\$ 127,723	\$ 99,077	\$ 226,800
Total net income for the period		-	-	7,562	7,562
Canada Pension Plan transfers (note 7):					
Transfers from the Canada Pension Plan		-	8,269	-	8,269
Transfers to the Canada Pension Plan		-	(8,205)	-	(8,205)
<b>Balance at September 30, 2014</b>	10	\$ -	\$ 127,787	\$ 106,639	\$ 234,426

<i>(CAD millions)</i>	For the six-month period ended September 30, 2014				
	Number of shares outstanding	Share capital	Accumulated net transfers from the Canada Pension Plan	Accumulated net income from operations	Total net assets
<b>As at April 1, 2013</b>	10	\$ -	\$ 117,731	\$ 65,533	\$ 183,264
Total net income for the period		-	-	5,147	5,147
Canada Pension Plan transfers (note 7):					
Transfers from the Canada Pension Plan		-	19,385	-	19,385
Transfers to the Canada Pension Plan		-	(14,952)	-	(14,952)
<b>Balance at September 30, 2013</b>	10	\$ -	\$ 122,164	\$ 70,680	\$ 192,844
<b>As at April 1, 2014</b>	10	\$ -	\$ 123,425	\$ 95,667	\$ 219,092
Total net income for the period		-	-	10,972	10,972
Canada Pension Plan transfers (note 7):					
Transfers from the Canada Pension Plan		-	19,455	-	19,455
Transfers to the Canada Pension Plan		-	(15,093)	-	(15,093)
<b>Balance at September 30, 2014</b>	10	\$ -	\$ 127,787	\$ 106,639	\$ 234,426

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

## Canada Pension Plan Investment Board

### Condensed Interim Consolidated Statement of Cash Flows

For the three and six-month period ended September 30, 2014

(Unaudited)

(CAD millions)	Three-months ended		Six-months ended	
	September 30		September 30	
	2014	2013	2014	2013
<b>Cash flows from operating activities</b>				
Net income from operations	\$ 7,562	\$ 3,269	\$ 10,972	\$ 5,147
Adjustments for non-cash items:				
Amortization of premises and equipment	6	6	12	12
Effect of exchange rate changes on cash and cash equivalents	11	(64)	2	(40)
Unrealized (gains) losses on debt financing liabilities	425	(309)	169	(58)
Adjustments for net changes in operating assets and liabilities:				
(Increase) decrease in investments	(12,195)	(1,923)	(22,828)	(17,595)
(Increase) decrease in pending trades receivable	(144)	2,120	(179)	683
Increase (decrease) in pending trades payable	805	(4,805)	1,191	(2,567)
Increase (decrease) in investment-related liabilities	(3,682)	(2,329)	4,573	8,169
(Increase) decrease in other assets	2	(3)	(1)	(6)
Increase (decrease) in accounts payable and accrued liabilities	85	28	(84)	(82)
Proceeds from debt financing liabilities	8,631	8,582	18,297	17,989
Repayment of debt financing liabilities	(8,679)	(8,527)	(18,153)	(18,056)
<b>Net cash flows provided by (used in) operating activities</b>	<b>(7,173)</b>	<b>(3,955)</b>	<b>(6,029)</b>	<b>(6,404)</b>
<b>Cash flows from financing activities</b>				
Transfers from the Canada Pension Plan	8,269	8,048	19,455	19,385
Transfers to the Canada Pension Plan	(8,205)	(7,411)	(15,093)	(14,952)
<b>Net cash flows provided by (used in) financing activities</b>	<b>64</b>	<b>637</b>	<b>4,362</b>	<b>4,433</b>
<b>Cash flows from investing activities</b>				
Acquisitions of premises and equipment	(9)	(6)	(17)	(239)
<b>Net cash flows provided by (used in) investing activities</b>	<b>(9)</b>	<b>(6)</b>	<b>(17)</b>	<b>(239)</b>
Net increase (decrease) in cash and cash equivalents	(7,118)	(3,324)	(1,684)	(2,210)
Effect of exchange rate changes on cash and cash equivalents	(11)	64	(2)	40
Cash and cash equivalents at the beginning of the period	17,206	14,036	11,763	12,946
<b>Cash and cash equivalents at the end of the period</b>	<b>10,077</b>	<b>10,776</b>	<b>10,077</b>	<b>10,776</b>
<b>Cash and cash equivalents at the end of the period are comprised of:</b>				
Cash held for operating purposes <sup>1</sup>	54	35	54	35
Cash and cash equivalents held for investment purposes <sup>2</sup>	10,023	10,741	10,023	10,741
<b>Total</b>	<b>\$ 10,077</b>	<b>\$ 10,776</b>	<b>\$ 10,077</b>	<b>\$ 10,776</b>

<sup>1</sup> Presented as a component of Other assets on the Condensed Interim Consolidated Balance Sheet.

<sup>2</sup> Presented as a component of Investments on the Condensed Interim Consolidated Balance Sheet and Money market securities on the Condensed Interim Consolidated Schedule of Investment Portfolio.

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

## Canada Pension Plan Investment Board

### Condensed Interim Consolidated Schedule of Investment Portfolio

As at September 30, 2014

(Unaudited)

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

<i>(CAD millions)</i>	September 30, 2014	March 31, 2014	September 30, 2013	April 1, 2013
<b>Equities (note 3a)</b>				
<b>Canada</b>				
Public equities	\$ 6,397	\$ 5,562	\$ 5,558	\$ 4,789
Private equities	3,411	2,902	2,225	2,250
	<b>9,808</b>	<b>8,464</b>	<b>7,783</b>	<b>7,039</b>
<b>Foreign developed markets</b>				
Public equities	59,562	49,722	42,803	35,957
Private equities	35,718	35,516	28,822	28,529
	<b>95,280</b>	<b>85,238</b>	<b>71,625</b>	<b>64,486</b>
<b>Emerging markets</b>				
Public equities	8,779	8,212	8,151	8,525
Private equities	3,644	2,856	2,092	1,788
	<b>12,423</b>	<b>11,068</b>	<b>10,243</b>	<b>10,313</b>
<b>Total equities</b>	<b>117,511</b>	<b>104,770</b>	<b>89,651</b>	<b>81,838</b>
<b>Fixed income (note 3b)</b>				
Bonds	57,513	55,258	56,773	52,755
Other debt	16,389	13,883	11,210	10,215
Money market securities	20,772	19,663	18,178	19,991
<b>Total fixed income</b>	<b>94,674</b>	<b>88,804</b>	<b>86,161</b>	<b>82,961</b>
<b>Absolute return strategies<sup>1</sup> (note 3c)</b>	<b>13,713</b>	<b>12,243</b>	<b>10,041</b>	<b>9,028</b>
<b>Real assets (note 3d)</b>				
Real estate	25,457	25,461	21,995	19,922
Infrastructure	12,364	13,123	10,845	11,069
<b>Total real assets</b>	<b>37,821</b>	<b>38,584</b>	<b>32,840</b>	<b>30,991</b>
<b>Investment receivables</b>				
Securities purchased under reverse repurchase agreements (note 3e)	4,750	3,221	1,949	630
Accrued interest	937	907	823	725
Derivative receivables (note 3f)	1,246	1,010	887	742
Dividends receivable	135	132	119	138
<b>Total investment receivables</b>	<b>7,068</b>	<b>5,270</b>	<b>3,778</b>	<b>2,235</b>
<b>Total investments</b>	<b>\$ 270,787</b>	<b>\$ 249,671</b>	<b>\$ 222,471</b>	<b>\$ 207,053</b>
<b>Investment liabilities</b>				
Securities sold under repurchase agreements (note 3e)	(7,978)	(5,230)	(9,014)	(2,180)
Securities sold short	(15,500)	(14,874)	(11,025)	(9,715)
Debt financing liabilities (note 3g)	(9,971)	(9,654)	(9,421)	(9,543)
Derivative liabilities (note 3f)	(2,261)	(1,062)	(970)	(945)
<b>Total investment liabilities</b>	<b>(35,710)</b>	<b>(30,820)</b>	<b>(30,430)</b>	<b>(22,383)</b>
Amounts receivable from pending trades	2,430	2,251	1,897	2,580
Amounts payable from pending trades	(3,170)	(1,979)	(1,212)	(3,779)
<b>Net investments</b>	<b>\$ 234,337</b>	<b>\$ 219,123</b>	<b>\$ 192,726</b>	<b>\$ 183,471</b>

<sup>1</sup> Includes only investments in funds.

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

## Canada Pension Plan Investment Board

### Condensed Interim Consolidated Schedule of Investment Asset Mix

As at September 30, 2014

(Unaudited)

This Condensed Interim Consolidated Schedule of Investment Asset Mix is grouped by asset class based on the risk/return characteristics of the investment strategies of the underlying portfolios. These investments, after allocating derivative contracts, associated money market securities and other investment receivables and liabilities to the asset classes to which they relate, are as follows:

<i>(CAD millions)</i>	September 30, 2014		March 31, 2014		September 30, 2013		April 1, 2013	
	Fair value	(%)	Fair value	(%)	Fair value	(%)	Fair value	(%)
<b>Equities</b>								
Canada	\$ 19,838	8.5 %	\$ 18,625	8.5 %	\$ 16,223	8.4 %	\$ 15,316	8.4 %
Foreign developed markets	86,819	37.0	75,610	34.5	69,158	35.9	63,985	34.9
Emerging markets	13,545	5.8	12,574	5.7	12,140	6.3	12,356	6.7
	<b>120,202</b>	<b>51.3</b>	<b>106,809</b>	<b>48.7</b>	<b>97,521</b>	<b>50.6</b>	<b>91,657</b>	<b>50.0</b>
<b>Fixed income</b>								
Bonds	54,865	23.4	54,409	24.8	52,686	27.3	52,912	28.8
Other debt	13,164	5.6	11,385	5.2	9,434	4.9	8,640	4.7
Money market securities <sup>1</sup>	18,075	7.8	17,415	8.0	9,546	5.0	8,725	4.8
Debt financing liabilities	(9,971)	(4.3)	(9,654)	(4.4)	(9,421)	(4.9)	(9,543)	(5.2)
	<b>76,133</b>	<b>32.5</b>	<b>73,555</b>	<b>33.6</b>	<b>62,245</b>	<b>32.3</b>	<b>60,734</b>	<b>33.1</b>
<b>Real assets</b>								
Real estate	25,441	10.8	25,461	11.6	21,995	11.4	19,922	10.8
Infrastructure	12,561	5.4	13,298	6.1	10,965	5.7	11,158	6.1
	<b>38,002</b>	<b>16.2</b>	<b>38,759</b>	<b>17.7</b>	<b>32,960</b>	<b>17.1</b>	<b>31,080</b>	<b>16.9</b>
<b>Net investments</b>	<b>\$ 234,337</b>	<b>100 %</b>	<b>\$ 219,123</b>	<b>100 %</b>	<b>\$ 192,726</b>	<b>100 %</b>	<b>\$ 183,471</b>	<b>100 %</b>

<sup>1</sup> Includes absolute return strategies' investments in funds and internally managed portfolios, as described in note 3c.

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

Table of Contents

September 30, 2014

(Unaudited)

---

Note	Description	Page
	Corporate Information	8
1	First-time adoption of IFRS	8
2	Summary of significant accounting policies	8
3	Investments and investment liabilities	12
3(a)	Equities	12
3(b)	Fixed income	13
3(c)	Absolute return strategies	13
3(d)	Real assets	14
3(e)	Securities purchased under reverse repurchase agreements and sold under repurchase agreements	14
3(f)	Derivative contracts	14
3(g)	Debt financing liabilities	19
3(h)	Unconsolidated subsidiaries	19
4	Fair value measurement	19
5	Investment risk management	29
6	Share capital	36
7	Canada Pension Plan transfers	36
8	Net investment income (loss)	37
9	Collateral	38
10	Commitments	38
11	Related party transactions	38
12	Guarantees and indemnifications	39



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

The CPP Investment Board's registered office is at One Queen Street East, Toronto, Ontario, Canada.

The Consolidated Financial Statements were approved by the Board of Directors and authorized for issue on November 12, 2014.

### 1. First time adoption of IFRS

The CPP Investment Board adopted International Financial Reporting Standards (IFRS) effective April 1, 2014. The date of transition to IFRS was April 1, 2013.

The CPP Investment Board's IFRS accounting policies presented in note 2 have been applied in preparing the Consolidated Financial Statements for the three and six-month periods ended September 30, 2014, the comparative information and the opening consolidated Balance Sheet at the date of transition.

The CPP Investment Board has applied IFRS 1, *First-time Adoption of International Financial Reporting Standards* (IFRS 1), in preparing these first IFRS Consolidated Financial Statements. IFRS 1 sets out the procedures that the CPP Investment Board must follow when it adopts IFRS for the first time as the basis for preparing its Consolidated Financial Statements.

There is no impact on net assets and net income from operations as a result of adopting IFRS. However, a Statement of Cash Flows is required which was not a requirement under previous Generally Accepted Accounting Principles (Canadian GAAP).

### 2. Summary of significant accounting policies

#### a) Basis of presentation

These Consolidated Financial Statements present the financial position and results of operations of the CPP Investment Board in accordance with IFRS and are presented in compliance with International Accounting Standard (IAS) 34, *Interim financial reporting*.

The CPP Investment Board qualifies as an investment entity as it meets the following definition of an investment entity outlined in IFRS 10, *Consolidated Financial Statements*:

- Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services. In the case of the CPP Investment Board, we have one investor (CPP), but we invest the funds for a wide group of investors being the beneficiaries of the CPP.
- Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measures and evaluates the performance of substantially all of its investments on a fair value basis.

No significant judgments or assumptions were made in determining that the CPP Investment Board meets the definition of an investment entity as defined in IFRS 10.

#### **Statement of compliance**

The Consolidated Financial Statements of the CPP Investment Board have been prepared in accordance with IFRS as issued by the International Accounting Standards Board and the requirements of the Act and the regulations of the CPP Investment Board.

#### **b) Subsidiaries**

The CPP Investment Board is required to report the results of operations in accordance with IFRS 10, *Consolidated Financial Statements*. As a consequence, the Consolidated CPP Investment Board Financial Statements represent the results of operations of the CPP Investment Board and its wholly-owned subsidiaries that were created to provide investment-related services to support its operations. Operating subsidiaries of this nature include those that provide investment advisory services or subsidiaries that were created to provide financing to the CPP Investment Board. Subsidiaries that were created to structure and hold investments are investment holding companies and are not consolidated in these Consolidated Financial Statements but instead measured and reported at fair value.

#### **c) Financial instruments**

##### **(i) Classification**

The CPP Investment Board classifies its financial assets and financial liabilities into the categories below in accordance with IFRS 9, *Financial Instruments*.

##### **Financial assets classified at fair value through profit or loss**

Financial assets are either classified at fair value through profit or loss or at amortized cost. The classification depends on (a) the business model for managing the financial assets and (b) the cash flow characteristics of the financial assets. All financial assets through profit or loss are classified at fair value on the basis that they are part of a portfolio of financial assets which are managed and whose performance is evaluated on a fair value basis in accordance with investment strategies and risk management of the CPP Investment Board. Financial assets classified at fair value through profit or loss includes investments, other than accrued interest and dividends receivable.

##### **Financial liabilities classified at fair value through profit or loss**

Financial liabilities are either classified at fair value through profit or loss or at amortized cost. The classification depends on (a) whether the financial liability meets the definition of held for trading or (b) upon initial recognition the financial liability is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

- It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

---

- On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or
- It is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

All financial liabilities are classified at fair value through profit or loss on the basis that they meet the definition of held for trading. Financial liabilities classified at fair value through profit or loss includes securities sold under repurchase agreements, securities sold short, debt financing liabilities and derivative liabilities.

(ii) Recognition

The CPP Investment Board recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Investments, investment receivables and investment liabilities are recorded on a trade date basis.

(iii) Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from the financial asset expire or where the CPP Investment Board has transferred its rights to receive cash flows from the asset and where:

- The CPP Investment Board has transferred substantially all the risks and rewards of the asset; or
- The CPP Investment Board has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The CPP Investment Board derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expires.

(iv) Initial measurement

Financial assets and financial liabilities are measured on initial recognition at fair value.

(v) Subsequent measurement

After initial measurement, financial assets and financial liabilities classified at fair value through profit or loss are measured at fair value. Subsequent changes in the fair value of those financial assets and financial liabilities are recorded as a net gain (loss) on investments and included in investment income (loss) (see note 8). Interest income and dividend income elements of such financial instruments are included in investment income (loss) (see note 8).

**d) Valuation of investments, investment receivables and investment liabilities**

Investments, investment receivables and investment liabilities are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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, pricing models and other accepted industry valuation methods. See note 3 for more details about the determination of fair value.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

---

**e) 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.

**f) Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Financial Statements if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**g) 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 included in net investment income (loss) (see note 8).

**h) Investment management fees**

Investment management fees are paid to investment managers for externally managed investments. Investment management fees are expensed as incurred and included in net investment income (loss) (see note 8).

**i) Cash equivalents**

Cash equivalents consist of short-term deposits with a maturity of 90 days or less.

**j) Securities purchased under reverse repurchase agreements and sold under repurchase agreements**

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 (see note 9). In the event of counterparty default, the CPP Investment Board has the right to liquidate the collateral held.

Securities sold under repurchase agreements are accounted for as collateralized borrowing because they represent the sale of securities with a simultaneous agreement to buy them back at a specified price at a specified future date. The securities sold continue to be recognized as an investment of the CPP Investment Board with any changes in fair value recorded as net gain (loss) on investments and included in investment income (loss) (see note 8). Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is included in investment income (loss) (see note 8).

**k) Securities sold short**

Securities sold short represent securities that are sold, but not owned, by the CPP Investment Board. The CPP Investment Board has an obligation to cover these short positions, which are accounted for as an investment liability based on the fair value of the securities sold. Collateral is pledged to the counterparty, when appropriate (see note 9). Interest and dividend expense on securities sold short are included in investment income (loss) (see note 8).

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

---

**l) Functional and presentation currency**

The CPP Investment Board's functional and presentation currency is the Canadian dollar, which is the currency of the primary economic environment in which it operates. The CPP Investment Board's performance is evaluated and its liquidity is managed in Canadian dollars. Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

**m) Foreign currency translation**

Transactions, including purchases and sales of investments, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction. Investments and monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate at each balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss are included in net investment income in the Consolidated Statement of Comprehensive Income.

**n) Canada Pension Plan transfers**

Net amounts from the CPP are recorded as received.

**o) Use of estimates, judgments and assumptions**

The preparation of the Consolidated Financial Statements requires management to make estimates, judgments and assumptions that affect the amounts recognized for assets and liabilities, principally the valuation of financial instruments which are not actively traded. Uncertainty about these estimates, judgments and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future.

**3. Investments and investment liabilities**

The CPP Investment Board manages the following types of investments and investment liabilities and determines fair value as follows:

**a) Equities**

- (i) Public equity investments are made directly or through funds. As at September 30, 2014, public equities include fund investments with a fair value of \$6,964 million (March 31, 2014 - \$6,000 million, September 30, 2013 - \$4,667 million, April 1, 2013 - \$3,657 million).

Fair value for publicly traded equities, including equity short positions, is based on quoted market prices. Fair value for fund investments is generally based on the net asset value as reported by the external administrators or managers of the funds.

- (ii) Private equity investments are generally made directly or through ownership in limited partnership funds. The private equity investments represent equity ownerships or investments with the risk and return characteristics of equity. As at September 30, 2014, private equities include direct investments with a fair value of \$14,940 million (March 31, 2014 - \$15,037 million, September 30, 2013 - \$9,350 million, April 1, 2013 - \$9,803 million).

The fair value for investments held directly is primarily determined using earnings multiples of comparable publicly traded companies. Significant inputs include company specific earnings before interest, taxes, depreciation and amortization (EBITDA) and earnings multiples of comparable publicly traded companies.

Recent market transactions, where available, is also used. In the case of investments held through a limited partnership fund, fair value is generally determined based on relevant information reported by the general partner using similar accepted industry valuation methods.

**b) Fixed income**

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

The non-marketable bonds issued by the provinces prior to 1998 have rollover provisions attached to them by the Act. These provisions 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 more 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 the maturity date. The replacement bonds are also redeemable before maturity at the option of the issuers.

Fair value for non-marketable Canadian government bonds is calculated using discounted cash flows based on current market yields of instruments with similar characteristics, and adjusted for rollover provisions of the bonds. In the case of marketable bonds, including bond short positions, fair value is based on quoted market prices. Where the market price is not available, fair value is calculated using discounted cash flows based on relevant benchmark yield curves and credit spreads pertaining to the issuer.

- (ii) Other debt consists of investments in direct private debt, asset-backed securities, intellectual property, royalties, distressed mortgage funds and private debt funds.

Fair value for direct investments in private debt and asset-backed securities is based on quoted market prices or broker quotes or recent market transactions, if available. Where the market price is not available, fair value is calculated using discounted cash flows based on significant inputs such as projected cash flows and discount rates using current market yields of instruments with similar characteristics.

In the case of intellectual property investments and royalty investments, fair value is primarily determined using discounted cash flows based on projected cash flows and discount rates using current market yields of instruments with similar characteristics.

Fair value for fund investments is generally based on the net asset value as reported by the external administrators or managers of the funds.

- (iii) Money market securities consist of cash, term deposits, treasury bills and commercial paper. Fair value is determined using cost, which, together with accrued interest income, approximates fair value due to the short-term nature of these securities.

**c) Absolute return strategies**

Absolute return strategies consist of investments in funds and internally managed portfolios 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 and the internally managed portfolios could include, but are not limited to, equities, fixed income securities and derivatives. Fair value

for fund investments is generally based on the net asset value as reported by the external administrators or managers of the funds.

**d) Real assets**

- (i) The CPP Investment Board obtains exposure to real estate through direct investments in privately held real estate, real estate funds and publicly-traded securities. Private real estate investments are managed by investment managers primarily through co-ownership arrangements.

Fair value for private real estate investments is primarily determined using discounted cash flows based on various factors such as net operating income, discount rate and terminal capitalization rate.

Fair value for real estate funds and publicly-traded securities are generally based on the net asset value as reported by the external managers of the funds and quoted market prices respectively.

- (ii) Infrastructure investments are generally made directly, but can also occur through limited partnership funds.

Fair value for infrastructure investments is primarily determined using discounted cash flows based on significant inputs including projected cash flows and discount rates.

**e) Securities purchased under reverse repurchase agreements and sold under repurchase agreements**

Reverse repurchase and repurchase agreements are carried at the amounts at which the securities were initially acquired or sold, which together with accrued interest income or expense, approximates fair value due to the short-term nature of these securities.

**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 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 Schedule of Investment Portfolio. In the Consolidated Schedule of Investment Asset Mix, the derivative contracts are allocated to the asset class to which each contract relates.

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 includes swaps, options, forward contracts and warrants, is determined based on valuation techniques such as option pricing models, discounted cash flows and consensus pricing from independent brokers and/or third-party vendors. Inputs used in these valuation techniques can include, but are not limited to, spot prices, price volatilities, currency exchange rates, interest rate curves and credit spreads. In determining fair value, consideration is also given to the credit risk of the counterparty.

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

(i) **Derivative instruments**

The CPP Investment Board uses the following types of derivative instruments, which are subject to the following types of risks:

**Futures and forwards**

Futures are standardized contracts transacted on an exchange, whereas forwards are customized over-the-counter contracts negotiated between counterparties. Futures contracts may be cash-settled or require physical delivery of the underlying asset. Examples of futures and forwards are described below:

Equity futures are contractual obligations 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.

Foreign exchange forwards are contractual obligations negotiated between counterparties to either purchase or sell a specified amount of foreign currencies at a predetermined price and date in the future.

Interest rate futures, including bond futures, are contractual obligations to purchase or sell a specified amount of an interest rate sensitive financial instrument(s) or index at a predetermined price and date in the future.

Commodity futures are contractual obligations to purchase or sell a specified quantity of a commodity, such as precious metals and energy related products at a predetermined price and date in the future.

**Swaps**

Swaps are over-the counter contracts between two parties to exchange a series of cash flows. Examples of swaps are described below:

Equity-based swaps include equity swaps and variance swaps. Equity swaps are contracts where 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 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.

Interest rate-related swaps include bond swaps, interest rate swaps and cross-currency interest rate swaps. Bond swaps are contracts in which counterparties exchange the return on a 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 contracts where counterparties exchange cash flows based on different interest rates applied to a notional amount in a single currency, with no exchange of a notional amount. Cross-currency interest rate swaps involve the exchange of both interest and notional amounts in two different currencies.

Credit default swaps are contracts that provide credit protection against a specified credit event such as the default or bankruptcy of the underlying financial instrument (referenced asset). The purchaser (buyer) pays a premium to the writer (seller) in return for payment, which is contingent on a credit event affecting the referenced asset.

The CPP Investment Board purchases (buys) and writes (sells) credit default swaps. Credit default swaps require the writer to compensate counterparties for the decline in value of an underlying financial



instrument (referenced asset) as a result of the occurrence of a specified credit event. The notional amount represents the maximum amount payable to these counterparties under these written credit default swap contracts.

#### **Options and warrants**

Options are contractual agreements where the seller (writer) gives the purchaser the right, but not the obligation, to buy or sell a specified amount of an equity security, currency, interest rate sensitive financial instrument, credit, commodity or other financial instrument at or before a specified future date at a predetermined price. The purchaser pays a premium to the seller for this right. Options can be transacted in standardized amounts on regulated exchanges or customized in over-the-counter markets.

The CPP Investment Board purchases (buys) and writes (sells) options. Call or put options may require the writer to sell or purchase the underlying asset at any time at a fixed date or within a fixed future period. Due to the nature of these contracts, the CPP Investment Board cannot make a reasonable estimate of the potential maximum amount of future payments.

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.

#### **(ii) Derivative-related risk**

The following are primary risks associated with derivatives:

##### **Market risk**

Derivatives generate positive or negative value, 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 described in note 5.

##### **Credit risk**

Credit risk is the risk of a financial loss that occurs 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 because 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 that meet the minimum credit rating and limiting the maximum exposures to any individual counterparty, and the use of master netting agreements and collateral as discussed in note 5c.

## Canada Pension Plan Investment Board

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

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

#### Fair value of derivative contracts

<i>(CAD millions)</i>	As at September 30, 2014		As at March 31, 2014		As at September 30, 2013	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value	Positive fair value	Negative fair value
<b>Equity contracts</b>						
Futures	\$ 12	\$ (2)	\$ 13	\$ (3)	\$ 2	\$ (24)
Swaps	725	(1,039)	608	(320)	442	(265)
Options:						
Exchange-traded – purchased	-	-	1	-	-	-
Exchange-traded – written	-	-	-	-	-	-
Over-the-counter – purchased	7	-	-	-	-	-
Over-the-counter – written	-	(4)	-	-	-	-
Warrants	1	-	13	-	2	-
<b>Total equity contracts</b>	<b>745</b>	<b>(1,045)</b>	<b>635</b>	<b>(323)</b>	<b>446</b>	<b>(289)</b>
<b>Foreign exchange contracts</b>						
Forwards	354	(748)	188	(330)	219	(304)
Options:						
Over-the-counter – purchased	6	-	-	-	1	-
Over-the-counter – written	-	(8)	-	-	-	-
<b>Total foreign exchange contracts</b>	<b>360</b>	<b>(756)</b>	<b>188</b>	<b>(330)</b>	<b>220</b>	<b>(304)</b>
<b>Interest rate contracts</b>						
Futures	6	(3)	3	(1)	1	(2)
Swaps	101	(133)	95	(134)	147	(171)
Options:						
Exchange-traded – purchased	-	-	-	-	-	-
Exchange-traded – written	-	-	-	-	-	-
Over-the-counter – purchased	-	-	-	-	-	-
Over-the-counter – written	-	-	-	-	-	-
<b>Total interest rate contracts</b>	<b>107</b>	<b>(136)</b>	<b>98</b>	<b>(135)</b>	<b>148</b>	<b>(173)</b>
<b>Credit contracts</b>						
Purchased credit default swaps	11	(282)	10	(252)	15	(182)
Written credit default swaps	189	(19)	188	(14)	108	(17)
Options:						
Over-the-counter – purchased	1	-	-	-	-	-
Over-the-counter – written	-	-	-	-	-	-
<b>Total credit contracts</b>	<b>201</b>	<b>(301)</b>	<b>198</b>	<b>(266)</b>	<b>123</b>	<b>(199)</b>
<b>Commodity contracts</b>						
Futures	27	(23)	4	(8)	5	(5)
<b>Total commodity contracts</b>	<b>27</b>	<b>(23)</b>	<b>4</b>	<b>(8)</b>	<b>5</b>	<b>(5)</b>
<b>Subtotal</b>	<b>1,440</b>	<b>(2,261)</b>	<b>1,123</b>	<b>(1,062)</b>	<b>942</b>	<b>(970)</b>
Less: Cash collateral received under derivative contracts	(194)	-	(113)	-	(55)	-
<b>Total</b>	<b>\$ 1,246</b>	<b>\$ (2,261)</b>	<b>\$ 1,010</b>	<b>\$ (1,062)</b>	<b>\$ 887</b>	<b>\$ (970)</b>

## Canada Pension Plan Investment Board

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

(iv) The terms to maturity of the notional amounts for derivative contracts is as follows:

#### Notional amount of derivatives by terms to maturity

	Terms to maturity				Total	As at	As at
	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years		March 31, 2014	September 30, 2013
	As at September 30, 2014						
<i>(CAD millions)</i>							
<b>Equity contracts</b>							
Futures	\$ 2,307	\$ -	\$ -	\$ -	\$ 2,307	\$ 1,513	\$ 3,562
Swaps	29,105	25,411	91	-	54,607	47,360	36,448
Options:							
Exchange-traded – purchased	-	-	-	-	-	107	-
Exchange-traded – written	-	-	-	-	-	180	3
Over-the-counter – purchased	36	-	-	-	36	-	-
Over-the-counter – written	1	-	-	-	1	-	-
Warrants	5	74	6	-	85	161	404
<b>Total equity contracts</b>	<b>31,454</b>	<b>25,485</b>	<b>97</b>	<b>-</b>	<b>57,036</b>	<b>49,321</b>	<b>40,417</b>
<b>Foreign exchange contracts</b>							
Forwards	47,585	-	-	-	47,585	37,832	32,648
Options:							
Over-the-counter – purchased	861	-	-	-	861	44	93
Over-the-counter – written	1,034	-	-	-	1,034	-	51
<b>Total foreign exchange contracts</b>	<b>49,480</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49,480</b>	<b>37,876</b>	<b>32,792</b>
<b>Interest rate contracts</b>							
Futures	20,984	22	-	-	21,006	11,553	9,031
Swaps	5,312	7,020	3,273	744	16,349	15,870	18,652
Options:							
Exchange-traded – purchased	-	-	-	-	-	2,625	-
Exchange-traded – written	-	-	-	-	-	3,849	103
Over-the-counter – purchased	559	-	-	-	559	-	-
Over-the-counter – written	1,118	-	-	-	1,118	-	-
<b>Total interest rate contracts</b>	<b>27,973</b>	<b>7,042</b>	<b>3,273</b>	<b>744</b>	<b>39,032</b>	<b>33,897</b>	<b>27,786</b>
<b>Credit contracts</b>							
Purchased credit default swaps	878	9,239	632	-	10,749	8,598	6,736
Written credit default swaps	753	8,461	192	-	9,406	7,914	5,886
Options:							
Over-the-counter – purchased	353	-	-	-	353	1,656	463
Over-the-counter – written	706	-	-	-	706	-	463
<b>Total credit contracts</b>	<b>2,690</b>	<b>17,700</b>	<b>824</b>	<b>-</b>	<b>21,214</b>	<b>18,168</b>	<b>13,548</b>
<b>Commodity contracts</b>							
Futures	2,256	-	-	-	2,256	1,013	842
<b>Total commodity contracts</b>	<b>2,256</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,256</b>	<b>1,013</b>	<b>842</b>
<b>Total</b>	<b>\$ 113,853</b>	<b>\$ 50,227</b>	<b>\$ 4,194</b>	<b>\$ 744</b>	<b>\$ 169,018</b>	<b>\$ 140,275</b>	<b>\$ 115,385</b>

**g) Debt financing liabilities**

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

**h) Unconsolidated subsidiaries**

The CPP Investment Board consolidates those subsidiaries that provide investment-related services to support its investment operations. All other subsidiaries are not consolidated but rather measured at fair value (see note 2b). Investments in unconsolidated subsidiaries include 159 wholly-owned subsidiaries (March 31, 2014 – 153, September 30, 2013 - 145) incorporated to hold investments primarily in private equities, debt, real estate and infrastructure. Of the 159 wholly-owned subsidiaries, 110 are incorporated in Canada, 16 are incorporated in the United States, 16 are incorporated in Australia and 17 are incorporated in other jurisdictions.

The CPP Investment Board has commitments to provide financial or other support to wholly-owned subsidiaries to fund day-to-day operations and investment activity under loan agreements or shareholder's resolutions as needed.

Unconsolidated subsidiaries, that are not wholly-owned but controlled, typically include those that were acquired by the CPP Investment Board or indirectly acquired through its investment holding companies. Fair value for unconsolidated investment holding companies is based on the fair value of the underlying investments and investment liabilities held by the investment holding company together with its accumulated net income from operations. The determination of the fair value of the underlying investments and investment liabilities are based on the valuation techniques and related inputs outlined in note 3.

**4. Fair value measurement**

**a) Fair value hierarchy**

The following 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).

# Canada Pension Plan Investment Board

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

### Fair value hierarchy

(CAD millions)	As at September 30, 2014			
	Level 1	Level 2	Level 3	Total
<b>Investments</b>				
<b>Equities</b>				
<b>Canada</b>				
Public equities	\$ 6,397	\$ -	\$ -	\$ 6,397
Private equities	-	1,709	1,702	3,411
	6,397	1,709	1,702	9,808
<b>Foreign developed markets</b>				
Public equities <sup>1</sup>	53,706	5,456	400	59,562
Private equities	2,401	829	32,488	35,718
	56,107	6,285	32,888	95,280
<b>Emerging markets</b>				
Public equities <sup>1</sup>	7,265	1,514	-	8,779
Private equities	1,001	-	2,643	3,644
	8,266	1,514	2,643	12,423
<b>Total equities</b>	<b>70,770</b>	<b>9,508</b>	<b>37,233</b>	<b>117,511</b>
<b>Fixed income</b>				
Bonds	30,415	27,098	-	57,513
Other debt	-	5,628	10,761	16,389
Money market securities	-	20,772	-	20,772
<b>Total fixed income</b>	<b>30,415</b>	<b>53,498</b>	<b>10,761</b>	<b>94,674</b>
<b>Absolute return strategies</b>	-	12,654	1,059	13,713
<b>Real assets</b>				
Real estate	764	-	24,693	25,457
Infrastructure	-	-	12,364	12,364
<b>Total real assets</b>	<b>764</b>	<b>-</b>	<b>37,057</b>	<b>37,821</b>
<b>Investment receivables</b>				
Securities purchased under reverse repurchase agreements	-	4,750	-	4,750
Accrued interest	-	937	-	937
Derivative receivables	45	1,200	1	1,246
Dividends receivable	-	135	-	135
<b>Total investment receivables</b>	<b>45</b>	<b>7,022</b>	<b>1</b>	<b>7,068</b>
<b>Total investments</b>	<b>\$ 101,994</b>	<b>\$ 82,682</b>	<b>\$ 86,111</b>	<b>\$ 270,787</b>
<b>Investment liabilities</b>				
Securities sold under repurchase agreements	-	(7,978)	-	(7,978)
Securities sold short	(15,500)	-	-	(15,500)
Debt financing liabilities	-	(9,971)	-	(9,971)
Derivative liabilities	(28)	(2,233)	-	(2,261)
<b>Total investment liabilities</b>	<b>(15,528)</b>	<b>(20,182)</b>	<b>-</b>	<b>(35,710)</b>
Amounts receivable from pending trades	-	2,430	-	2,430
Amounts payable from pending trades	-	(3,170)	-	(3,170)
<b>Net investments</b>	<b>\$ 86,466</b>	<b>\$ 61,760</b>	<b>\$ 86,111</b>	<b>\$ 234,337</b>

## Canada Pension Plan Investment Board

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

(CAD millions)	As at March 31, 2014			
	Level 1	Level 2	Level 3	Total
<b>Investments</b>				
<b>Equities</b>				
<b>Canada</b>				
Public equities	\$ 5,562	\$ -	\$ -	\$ 5,562
Private equities	-	455	2,447	2,902
	5,562	455	2,447	8,464
<b>Foreign developed markets</b>				
Public equities <sup>1</sup>	45,117	4,569	36	49,722
Private equities	2,034	2,938	30,544	35,516
	47,151	7,507	30,580	85,238
<b>Emerging markets</b>				
Public equities <sup>1</sup>	6,781	1,431	-	8,212
Private equities	101	-	2,755	2,856
	6,882	1,431	2,755	11,068
<b>Total equities</b>	59,595	9,393	35,782	104,770
<b>Fixed income</b>				
Bonds	29,593	25,665	-	55,258
Other debt	-	4,531	9,352	13,883
Money market securities	-	19,663	-	19,663
<b>Total fixed income</b>	29,593	49,859	9,352	88,804
<b>Absolute return strategies</b>	-	10,775	1,468	12,243
<b>Real assets</b>				
Real estate	383	1,535	23,543	25,461
Infrastructure	271	-	12,852	13,123
<b>Total real assets</b>	654	1,535	36,395	38,584
<b>Investment receivables</b>				
Securities purchased under reverse repurchase agreements	-	3,221	-	3,221
Accrued interest	-	907	-	907
Derivative receivables	21	976	13	1,010
Dividends receivable	-	132	-	132
<b>Total investment receivables</b>	21	5,236	13	5,270
<b>Total investments</b>	\$ 89,863	\$ 76,798	\$ 83,010	\$ 249,671
<b>Investment liabilities</b>				
Securities sold under repurchase agreements	-	(5,230)	-	(5,230)
Securities sold short	(14,874)	-	-	(14,874)
Debt financing liabilities	-	(9,654)	-	(9,654)
Derivative liabilities	(12)	(1,050)	-	(1,062)
<b>Total investment liabilities</b>	(14,886)	(15,934)	-	(30,820)
Amounts receivable from pending trades	-	2,251	-	2,251
Amounts payable from pending trades	-	(1,979)	-	(1,979)
<b>Net investments</b>	\$ 74,977	\$ 61,136	\$ 83,010	\$ 219,123

# Canada Pension Plan Investment Board

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

<i>(CAD millions)</i>	As at September 30, 2013			
	Level 1	Level 2	Level 3	Total
<b>Investments</b>				
<b>Equities</b>				
<b>Canada</b>				
Public equities	\$ 5,558	\$ -	\$ -	\$ 5,558
Private equities	-	-	2,225	2,225
	5,558	-	2,225	7,783
<b>Foreign developed markets</b>				
Public equities <sup>1</sup>	39,364	3,399	40	42,803
Private equities	372	-	28,450	28,822
	39,736	3,399	28,490	71,625
<b>Emerging markets</b>				
Public equities <sup>1</sup>	6,859	1,292	-	8,151
Private equities	-	-	2,092	2,092
	6,859	1,292	2,092	10,243
<b>Total equities</b>	52,153	4,691	32,807	89,651
<b>Fixed income</b>				
Bonds	34,097	22,676	-	56,773
Other debt	-	4,025	7,185	11,210
Money market securities	-	18,178	-	18,178
<b>Total fixed income</b>	34,097	44,879	7,185	86,161
<b>Absolute return strategies</b>	-	8,756	1,285	10,041
<b>Real assets</b>				
Real estate	403	-	21,592	21,995
Infrastructure	212	-	10,633	10,845
<b>Total real assets</b>	615	-	32,225	32,840
<b>Investment receivables</b>				
Securities purchased under reverse repurchase agreements	-	1,949	-	1,949
Accrued interest	-	823	-	823
Derivative receivables	9	877	1	887
Dividends receivable	-	119	-	119
<b>Total investment receivables</b>	9	3,768	1	3,778
<b>Total investments</b>	\$ 86,874	\$ 62,094	\$ 73,503	\$ 222,471
<b>Investment liabilities</b>				
Securities sold under repurchase agreements	-	(9,014)	-	(9,014)
Securities sold short	(11,025)	-	-	(11,025)
Debt financing liabilities	-	(9,421)	-	(9,421)
Derivative liabilities	(30)	(940)	-	(970)
<b>Total investment liabilities</b>	(11,055)	(19,375)	-	(30,430)
Amounts receivable from pending trades	-	1,897	-	1,897
Amounts payable from pending trades	-	(1,212)	-	(1,212)
<b>Net investments</b>	\$ 75,819	\$ 43,404	\$ 73,503	\$ 192,726

# Canada Pension Plan Investment Board

## Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

(CAD millions)	As at April 1, 2013			
	Level 1	Level 2	Level 3	Total
<b>Investments</b>				
<b>Equities</b>				
<b>Canada</b>				
Public equities	\$ 4,789	\$ -	\$ -	\$ 4,789
Private equities	-	-	2,250	2,250
	4,789	-	2,250	7,039
<b>Foreign developed markets</b>				
Public equities <sup>1</sup>	33,282	2,675	-	35,957
Private equities	602	92	27,835	28,529
	33,884	2,767	27,835	64,486
<b>Emerging markets</b>				
Public equities <sup>1</sup>	7,529	996	-	8,525
Private equities	-	-	1,788	1,788
	7,529	996	1,788	10,313
<b>Total equities</b>	46,202	3,763	31,873	81,838
<b>Fixed income</b>				
Bonds	28,639	24,116	-	52,755
Other debt	-	4,060	6,155	10,215
Money market securities	-	19,991	-	19,991
<b>Total fixed income</b>	28,639	48,167	6,155	82,961
<b>Absolute return strategies</b>	-	7,813	1,215	9,028
<b>Real assets</b>				
Real estate	-	-	19,922	19,922
Infrastructure	199	-	10,870	11,069
<b>Total real assets</b>	199	-	30,792	30,991
<b>Investment receivables</b>				
Securities purchased under reverse repurchase agreements	-	630	-	630
Accrued interest	-	725	-	725
Derivative receivables	24	715	3	742
Dividends receivable	-	138	-	138
<b>Total investment receivables</b>	24	2,208	3	2,235
<b>Total investments</b>	\$ 75,064	\$ 61,951	\$ 70,038	\$ 207,053
<b>Investment liabilities</b>				
Securities sold under repurchase agreements	-	(2,180)	-	(2,180)
Securities sold short	(9,715)	-	-	(9,715)
Debt financing liabilities	-	(9,543)	-	(9,543)
Derivative liabilities	(9)	(936)	-	(945)
<b>Total investment liabilities</b>	(9,724)	(12,659)	-	(22,383)
Amounts receivable from pending trades	-	2,580	-	2,580
Amounts payable from pending trades	-	(3,779)	-	(3,779)
<b>Net investments</b>	\$ 65,340	\$ 48,093	\$ 70,038	\$ 183,471

<sup>1</sup> Includes investments in funds.



## Canada Pension Plan Investment Board

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

#### b) Transfers between level 1 and level 2

During the six-month period ended September 30, 2014, there were \$8 million of transfers from Level 1 to Level 2 (September 30, 2013 - \$4 million) and no transfers from Level 2 to Level 1 (September 30, 2013 - \$132 million).

#### c) Level 3 reconciliation

The following presents the reconciliations for investments included in Level 3 of the fair value hierarchy for the six-month period ended September 30, 2014:

#### Reconciliation of changes in fair value for level 3 investments

For the six-month period ended September 30, 2014								
(CAD millions)	Fair value as at April 1, 2014	Gain (loss) included in net investment income (loss) <sup>1</sup>	Purchases	Sales <sup>2</sup>	Transfers into level 3 <sup>3</sup>	Transfers out of level 3 <sup>3</sup>	Fair value as at September 30, 2014	Change in unrealized gains (losses) on investments still held at September 30, 2014 <sup>1,4</sup>
<b>Investments</b>								
<b>Equities</b>								
<b>Canada</b>								
Public equities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Private equities	2,447	287	144	(158)	-	(1,018)	1,702	(25)
	2,447	287	144	(158)	-	(1,018)	1,702	(25)
<b>Foreign developed markets</b>								
Public equities	36	2	362	-	-	-	400	1
Private equities	30,544	1,714	4,465	(3,435)	4	(804)	32,488	112
	30,580	1,716	4,827	(3,435)	4	(804)	32,888	113
<b>Emerging markets</b>								
Private equities	2,755	569	482	(316)	-	(847)	2,643	85
	2,755	569	482	(316)	-	(847)	2,643	85
<b>Total equities</b>	<b>35,782</b>	<b>2,572</b>	<b>5,453</b>	<b>(3,909)</b>	<b>4</b>	<b>(2,669)</b>	<b>37,233</b>	<b>173</b>
<b>Fixed income</b>								
Other debt	9,352	17	2,952	(1,560)	-	-	10,761	67
<b>Total fixed income</b>	<b>9,352</b>	<b>17</b>	<b>2,952</b>	<b>(1,560)</b>	<b>-</b>	<b>-</b>	<b>10,761</b>	<b>67</b>
<b>Absolute return strategies</b>								
	1,468	61	16	(1)	-	(485)	1,059	61
<b>Real assets</b>								
Real estate	23,543	121	1,292	(1,726)	1,522	(59)	24,693	121
Infrastructure	12,852	(404)	107	(191)	-	-	12,364	(343)
<b>Total real assets</b>	<b>36,395</b>	<b>(283)</b>	<b>1,399</b>	<b>(1,917)</b>	<b>1,522</b>	<b>(59)</b>	<b>37,057</b>	<b>(222)</b>
<b>Investment receivables</b>								
Derivative receivables	13	(8)	-	(4)	-	-	1	(12)
<b>Total investment receivables</b>	<b>13</b>	<b>(8)</b>	<b>-</b>	<b>(4)</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>(12)</b>
<b>Total</b>	<b>\$ 83,010</b>	<b>\$ 2,359</b>	<b>\$ 9,820</b>	<b>\$ (7,391)</b>	<b>\$ 1,526</b>	<b>\$ (3,213)</b>	<b>\$ 86,111</b>	<b>\$ 67</b>

## Canada Pension Plan Investment Board

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

For the six-month period ended September 30, 2013									
(CAD millions)	Fair value as at April 1, 2013	Gain (loss) included in net investment income (loss) <sup>1</sup>	Purchases	Sales <sup>2</sup>	Transfers into level 3 <sup>3</sup>	Transfers out of level 3 <sup>3</sup>	Fair value as at September 30, 2013	Change in unrealized gains (losses) on investments still held at September 30, 2013 <sup>1,4</sup>	
<b>Investments</b>									
<b>Equities</b>									
<b>Canada</b>									
Public equities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Private equities	2,250	89	91	(205)	-	-	2,225	(47)	
	2,250	89	91	(205)	-	-	2,225	(47)	
<b>Foreign developed markets</b>									
Public equities	-	(1)	41	-	-	-	40	(1)	
Private equities	27,835	1,884	1,549	(2,818)	-	-	28,450	1,053	
	27,835	1,883	1,590	(2,818)	-	-	28,490	1,052	
<b>Emerging markets</b>									
Private equities	1,788	128	291	(115)	-	-	2,092	61	
	1,788	128	291	(115)	-	-	2,092	61	
<b>Total equities</b>	<b>31,873</b>	<b>2,100</b>	<b>1,972</b>	<b>(3,138)</b>	<b>-</b>	<b>-</b>	<b>32,807</b>	<b>1,066</b>	
<b>Fixed income</b>									
Other debt	6,155	49	2,023	(1,091)	49	-	7,185	(14)	
<b>Total fixed income</b>	<b>6,155</b>	<b>49</b>	<b>2,023</b>	<b>(1,091)</b>	<b>49</b>	<b>-</b>	<b>7,185</b>	<b>(14)</b>	
<b>Absolute return strategies</b>									
	1,215	58	13	(1)	-	-	1,285	58	
<b>Real assets</b>									
Real estate	19,922	629	2,167	(1,127)	-	-	21,591	557	
Infrastructure	10,870	(61)	32	(207)	-	-	10,634	(101)	
<b>Total real assets</b>	<b>30,792</b>	<b>568</b>	<b>2,199</b>	<b>(1,334)</b>	<b>-</b>	<b>-</b>	<b>32,225</b>	<b>456</b>	
<b>Investment receivables</b>									
Derivative receivables	3	(2)	-	-	-	-	1	(2)	
<b>Total investment receivables</b>	<b>3</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>(2)</b>	
<b>Total</b>	<b>\$ 70,038</b>	<b>\$ 2,773</b>	<b>\$ 6,207</b>	<b>\$ (5,564)</b>	<b>\$ 49</b>	<b>\$ -</b>	<b>\$ 73,503</b>	<b>\$ 1,564</b>	

<sup>1</sup> Presented as investment income (loss) (see note 8).

<sup>2</sup> Includes return of capital.

<sup>3</sup> Transfers into and out of Level 3 are assumed to occur at the end of period values.

<sup>4</sup> Includes the entire change in fair value for the period for those investments that were transferred into Level 3 during the period, and excludes the entire change in fair value for the period for those investments that were transferred out of Level 3 during the period.

During the six-month periods ended September 30, 2014 and September 30, 2013, transfers into and out of Level 3 were primarily due to changes in the availability of market observable inputs used to determine fair value.

## Canada Pension Plan Investment Board

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

#### d) Level 3 – Significant unobservable inputs

The following presents fair values of the investments categorized within Level 3 of the fair value hierarchy, valuation techniques used to determine their fair values, ranges and weighted averages of unobservable inputs:

September 30, 2014					
<i>(CAD millions)</i>	Fair value	Primary valuation techniques used	Significant unobservable inputs	Range of input values <sup>3</sup>	Weighted average <sup>3</sup>
<b>Public equities</b>					
Direct <sup>1,2</sup>	\$ 400	Broker quotes	-	-	-
<b>Private equities</b>					
Direct <sup>1</sup>	9,001	Earnings multiples of comparable companies	EBITDA multiple	7.6x - 12.0x	10.0x
Fund investments <sup>2</sup>	27,832	Net asset value provided by Investment Manager	-	-	-
<b>Other debt</b>					
Direct private debt <sup>1</sup>	5,525	Discounted cash flow	Discount rate	6.8% - 30.0%	12.0%
Asset-backed securities <sup>2</sup>	3,309	Broker quotes	-	-	-
Fund investments <sup>2</sup>	1,927	Net asset value provided by Investment Manager	-	-	-
<b>Absolute return strategies</b>					
Fund investments <sup>2</sup>	1,059	Net asset value provided by Investment Manager	-	-	-
<b>Real estate</b>					
Direct <sup>1,2</sup>	16,616	Discounted cash flow	Discount rate	4.0% - 13.0%	6.5%
			Terminal capitalization rate	4.2%-10.0%	5.6%
	3,387	Net asset value provided by Investment Manager	-	-	-
Fund investments <sup>2</sup>	4,690	Net asset value provided by Investment Manager	-	-	-
<b>Infrastructure</b>					
Direct <sup>1</sup>	12,129	Discounted cash flow	Discount rate	8.3% - 13.0%	11.2%
Fund investments <sup>2</sup>	235	Net asset value provided by Investment Manager	-	-	-
<b>Derivative receivables</b>					
Warrants	1	Option model	Market volatility	10.0%	10.0%
<b>Total</b>	<b>\$ 86,111</b>				

## Canada Pension Plan Investment Board

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

March 31, 2014					
<i>(CAD millions)</i>	Fair value	Primary valuation techniques used	Significant unobservable inputs	Range of input values <sup>3</sup>	Weighted average <sup>3</sup>
<b>Public equities</b>					
Direct <sup>2</sup>	\$ 36	Broker quotes	-	-	-
<b>Private equities</b>					
Direct <sup>1</sup>	9,478	Earnings multiples of comparable companies	EBITDA multiple	7.6X – 12.0X	10.0X
Fund investments <sup>2</sup>	26,268	Net asset value provided by Investment Manager	-	-	-
<b>Other debt</b>					
Direct private debt <sup>1</sup>	5,167	Discounted cash flow	Discount rate	7.3% – 30.0%	11.5%
Asset-backed securities <sup>2</sup>	2,569	Broker quotes	-	-	-
Fund investments <sup>2</sup>	1,616	Net asset value provided by Investment Manager	-	-	-
<b>Absolute return strategies</b>					
Fund investments <sup>2</sup>	1,468	Net asset value provided by Investment Manager	-	-	-
<b>Real estate</b>					
Direct <sup>1,2</sup>	14,990	Discounted cash flow	Discount rate	4.3% – 12.3%	6.5%
			Terminal capitalization rate	4.3% – 10.0%	5.7%
	2,964	Net asset value provided by Investment Manager	-	-	-
Fund investments <sup>2</sup>	5,589	Net asset value provided by Investment Manager	-	-	-
<b>Infrastructure</b>					
Direct <sup>1</sup>	12,524	Discounted cash flow	Discount rate	8.3% – 13.0%	11.2%
Fund investments <sup>2</sup>	328	Net asset value provided by Investment Manager	-	-	-
<b>Derivative receivables</b>					
Warrants	13	Option model	Market volatility	10.0% – 30.0%	16.7%
<b>Total</b>	<b>\$ 83,010</b>				

## Canada Pension Plan Investment Board

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

September 30, 2013					
<i>(CAD millions)</i>	Fair value	Primary valuation techniques used	Significant unobservable inputs	Range of input values <sup>3</sup>	Weighted average <sup>3</sup>
<b>Public equities</b>					
Direct <sup>2</sup>	\$ 40	Broker quotes	-	-	-
<b>Private equities</b>					
Direct <sup>1</sup>	9,093	Earnings multiples of comparable companies	EBITDA multiple	5.5X – 12.0X	9.4X
Fund investments <sup>2</sup>	23,674	Net asset value provided by Investment Manager	-	-	-
<b>Other debt</b>					
Direct private debt <sup>1</sup>	3,660	Discounted cash flow	Discount rate	9.4% – 30.0%	12.8%
Asset-backed securities <sup>2</sup>	1,838	Broker quotes	-	-	-
Fund investments <sup>2</sup>	1,687	Net asset value provided by Investment Manager	-	-	-
<b>Absolute return strategies</b>					
Fund investments <sup>2</sup>	1,285	Net asset value provided by Investment Manager	-	-	-
<b>Real estate</b>					
Direct <sup>1,2</sup>	11,895	Discounted cash flow	Discount rate	4.0% – 12.5%	6.9%
			Terminal capitalization rate	3.5% – 10.0%	5.9%
	4,758	Net asset value provided by Investment Manager	-	-	-
Fund investments <sup>2</sup>	4,938	Net asset value provided by Investment Manager	-	-	-
<b>Infrastructure</b>					
Direct <sup>1</sup>	10,343	Discounted cash flow	Discount rate	8.5% – 12.8%	11.1%
Fund investments <sup>2</sup>	291	Net asset value provided by Investment Manager	-	-	-
<b>Derivative receivables</b>					
Warrants	1	Option model	Market volatility	30.0%	30.0%
<b>Total</b>	<b>\$ 73,503</b>				

<sup>1</sup> May include certain recently acquired investments held at cost, which approximates fair value.

<sup>2</sup> In certain cases, external valuations are prepared by a third-party and hence, valuation information is not available.

<sup>3</sup> The range of input values represents the highest and lowest inputs used to value the investments in a particular asset class. The weighted average of the input values is calculated based on the relative fair values of the investments within the asset class. The diversity of investments reported within each asset class, such as the geographic location and industry sector of the investments, may result in certain ranges of inputs being wide and unevenly distributed across the range.

Significant increases (decreases) in any of the above unobservable inputs would result in a significantly higher or lower fair value measurement. The interrelationship of significant unobservable inputs and fair value measurement for the most significant key inputs identified in the table above are as follows:

- An increase (decrease) in the EBITDA multiple will result in a higher (lower) fair value.
- An increase (decrease) in the discount rate and terminal capitalization rate will result in a lower (higher) fair value.

The fair value of these direct investments classified within Level 3 of the fair value hierarchy above are 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 could result. Management has determined that the potential impact on fair values using these reasonable alternative assumptions would not be significant.

## 5. Investment risk management

The CPP Investment Board and its unconsolidated investment holding companies are 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 utilizes a total portfolio approach to risk management which considers all of the investment activities taken together, including those made through its unconsolidated investment holding companies. In the discussion that follows, any references to the investment activities and exposures to risk of the CPP Investment Board also include those of its unconsolidated investment holding companies.

The CPP Investment Board manages and mitigates financial risks through the Risk/Return Accountability Framework that is contained within the investment policies and 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. It 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.

An active risk limit is included within the Risk/Return Accountability Framework, 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 30 in the Risk/Return Accountability Framework section of the Management's Discussion and Analysis in the 2014 Annual Report.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

a) Market risk

Market risk (including currency risk, interest rate risk and other 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 are as follows:

**Currency risk exposures**

<i>(CAD millions)</i>	September 30, 2014			March 31, 2014			September 30, 2013		
		Net exposure	% of total		Net exposure	% of total		Net exposure	% of total
Currency									
United States dollar	\$	95,168	59 %	\$	83,612	58 %	\$	65,794	55 %
Euro		25,417	16		22,241	15		17,323	15
British pound sterling		9,758	6		9,380	7		9,503	8
Japanese yen		8,669	5		6,966	5		7,274	6
Australian dollar		6,772	4		7,222	5		5,352	5
Hong Kong dollar		2,949	2		2,285	2		2,417	2
South Korean won		1,742	1		1,468	1		1,430	1
Chilean pesos		1,366	1		1,459	1		1,157	1
Brazilian real		1,240	1		1,017	1		1,069	1
Other		8,242	5		7,232	5		6,787	6
Total	\$	161,323	100 %	\$	142,882	100 %	\$	118,106	100 %

**Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of an investment or investment-related liability will fluctuate because of changes in market interest rates. The CPP Investment Board is exposed to interest rate risk primarily through holdings of fixed income securities, certain investment liabilities and interest rate derivative instruments.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

The terms to maturity of fixed income securities, as at September 30, 2014, are as follows:

**Investments terms to maturity**

<i>(CAD millions)</i>	Terms to maturity						Average effective yield	March 31, 2014		September 30, 2013	
	September 30, 2014							Total	Average effective yield	Total	Average effective yield
	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Total					
<b>Non-marketable bonds</b>											
Canadian provincial government	\$ 481	\$ 1,962	\$ 8,673	\$ 12,515	\$ 23,631	3.3 %	\$ 23,051	3.5 %	\$ 22,676	3.7 %	
<b>Marketable bonds</b>											
Government of Canada	-	2,854	550	2,920	6,324	2.5	10,700	2.4	13,139	2.4	
Canadian provincial government	-	1,068	6,842	4,335	12,245	3.0	12,093	3.4	12,141	3.7	
Canadian government corporations	-	2,867	1,170	1,336	5,373	2.7	5,360	2.9	4,997	2.8	
Foreign government	-	6,112	146	214	6,472	1.7	1,439	2.6	1,548	1.9	
Corporate bonds	391	1,914	733	430	3,468	3.0	2,615	3.1	2,272	3.3	
Inflation-linked bonds	-	-	-	-	-	-	-	-	-	-	
<b>Other debt</b>											
Private debt	20	2,581	2,281	245	5,127	9.6	4,477	11.0	3,482	9.9	
Real estate private debt	84	1,370	766	426	2,646	5.7	1,890	5.7	1,473	6.0	
Asset-backed securities	-	309	1,086	1,952	3,347	1.0	2,607	0.9	1,876	0.8	
<b>Securities purchased under reverse repurchase agreements</b>											
	4,750	-	-	-	4,750	0.7	3,221	0.9	1,949	0.2	
<b>Total</b>	<b>\$ 5,726</b>	<b>\$ 21,037</b>	<b>\$ 22,247</b>	<b>\$ 24,373</b>	<b>\$ 73,383</b>	<b>3.1 %</b>	<b>\$ 67,453</b>	<b>3.4 %</b>	<b>\$ 65,553</b>	<b>3.5 %</b>	

The terms to maturity of investment liabilities and the notional amount of derivative receivables are disclosed in note 5d and note 3f, respectively.

**Other price risk**

Other price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices arising primarily from equity price risk, commodity price risk and credit spread 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.

**b) Value at Risk**

The CPP Investment Board uses a Value at Risk (VaR) methodology to monitor market risk exposure and credit risk exposure (see note 5c) 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.

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 other 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.



Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

Market VaR calculated by the CPP Investment Board is estimated using a historical simulation method, evaluated at a 90% confidence level and scaled to a one-year holding period. The significant assumptions used in this method are the incorporation of the most recent 10 years of weekly market returns and the use of public market proxies to represent investment returns on those investments, valued with inputs that are based on non-observable market data (e.g., those for private real estate and private equities), both of which are reasonable for estimating their contribution to the VaR.

Credit VaR is estimated using a Monte Carlo simulation with a sufficient number of scenarios to simulate low probability credit events over a one-year investment horizon. Significant assumptions under this method include using a statistical process to determine asset correlations and using empirical based default and loss rates.

In order to estimate Total Active Risk, both Market and Credit VaR are estimated using a similar confidence level and combined using an appropriate correlation factor approved by the Investment Planning Committee (IPC).

The CPP Investment Board monitors the active risk of the CPP Investment Portfolio relative to the CPP Reference Portfolio. Active Risk is expressed using VaR, at a 90% confidence level, which indicates that one year in 10 the portfolio can be expected to lose at least the following amounts:

**Value at Risk**

(CAD millions)	September 30, 2014			March 31, 2014			September 30, 2013		
	VaR	% of CPP Investment Portfolio <sup>1</sup>		VaR	% of CPP Investment Portfolio <sup>1</sup>		VaR	% of CPP Investment Portfolio <sup>1</sup>	
CPP Reference Portfolio	\$ 20,644	8.8 %		\$ 19,840	9.1 %		\$ 17,255	9.0 %	
CPP Investment Portfolio <sup>2</sup>	\$ 24,307	10.4 %		\$ 22,993	10.5 %		\$ 20,140	10.5 %	
CPP Investment Portfolio Total Active Risk <sup>3,4</sup>	\$ 4,543	1.9 %		\$ 5,053	2.3 %		\$ 4,228	2.2 %	
CPP Investment Portfolio Active Market Risk <sup>4</sup>	\$ 4,341	1.9 %		\$ 4,908	2.2 %		\$ 4,121	2.2 %	
CPP Investment Portfolio Active Credit Risk <sup>4</sup>	\$ 730	0.3 %		\$ 573	0.3 %		\$ 429	0.2 %	

<sup>1</sup> 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.

<sup>2</sup> CPP Investment Portfolio VaR is less than the sum of the CPP Reference Portfolio VaR and CPP Investment Portfolio Active Market Risk due to the beneficial impact of risk diversification.

<sup>3</sup> Market and Credit Risk are combined using an assumed positive correlation under normal market conditions.

<sup>4</sup> Active Risk is the estimated risk for the Investment Portfolio relative to the Reference Portfolio.

**c) 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 through 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 Schedule of Investment Portfolio represent the maximum credit risk exposure at the Balance Sheet date.

The IPC, chaired by the Chief Investment Strategist, is accountable for monitoring and managing the total portfolio strategic risk exposures and providing strategic direction to the investment departments. Credit risk measurement and reporting are performed by experienced risk managers within the Investment Risk group (IR). IR monitors board-approved exposure limits, provides detailed analysis of single-name and sector exposures, and oversees the credit risk inherent in certain fund investments. Credit VaR is the common measure of credit risk across all investment strategies. IR works closely with the investment

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

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 monthly to members of the IPC.

The CPP Investment Board manages credit risk by setting overall credit exposure limits within categories that include credit rating, region and institution type. The Board of Directors approves the credit exposure limits at least once every fiscal year. Counterparties are assigned a credit rating as determined through an internal credit rating process or by recognized credit rating agencies, where applicable. Credit exposure to any single counterparty is limited to a maximum amount as specified in the investment policies. The IPC has also established single-name sub-limits within the credit exposure limits to mitigate risks arising from concentrated exposures to financial institution counterparties. IR measures and monitors credit exposure daily for compliance to approved credit limits and reports to the IPC at least monthly, or more frequently as necessary.

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

**Credit risk exposures**

Credit rating	As at September 30, 2014						% of total	As at	
	Bonds <sup>1</sup>	Money market securities <sup>1</sup>	Reverse repurchase agreements <sup>1</sup>	Over-the-counter derivatives	Other <sup>1,2</sup>	Total		March 31, 2014	September 30, 2013
AAA	\$ 22,441	\$ 19	\$ -	\$ -	\$ 2,179	\$ 24,639	26 %	\$ 27,532	\$ 28,433
AA	23,933	2,354	2,239	58	522	29,106	31	22,523	21,304
A	9,523	17,357	2,511	1,165	1,078	31,634	33	29,872	28,508
BBB	1,458	6	-	180	541	2,185	2	1,885	1,480
BB	662	-	-	-	2,344	3,006	3	1,950	1,909
B	87	-	-	-	3,496	3,583	4	2,952	2,252
CCC/D	-	-	-	-	1,084	1,084	1	765	500
<b>Total</b>	<b>\$ 58,104</b>	<b>\$ 19,736</b>	<b>\$ 4,750</b>	<b>\$ 1,403</b>	<b>\$ 11,244</b>	<b>\$ 95,237</b>	<b>100 %</b>	<b>\$ 87,479</b>	<b>\$ 84,386</b>

<sup>1</sup> Includes accrued interest.

<sup>2</sup> Includes direct investments in private debt and asset-backed securities.

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

**Financial instruments – rights of offset**

Certain financial assets and financial liabilities have conditional offset rights in the event of default, insolvency or bankruptcy, which will mitigate credit risk exposures. Given that the rights of offset are conditional, they do not qualify for netting on the Consolidated Balance Sheet.

For securities purchased under reverse repurchase agreements, securities sold under repurchase agreements and over-the-counter derivatives, collateral is collected from or pledged to counterparties to manage credit exposure. In addition, in the event of default, amounts with a specific counterparty are settled on a net basis under master netting or similar arrangements, such as the Global Master Repurchase Agreement and the International Swaps and Derivatives Association Netting Agreements.

## Canada Pension Plan Investment Board

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

The following presents the effect of conditional master netting and similar arrangements:

#### Rights of offset

As at September 30, 2014						
(CAD millions)	Gross amounts subject to netting arrangements	Less: Amounts offset in Consolidated Financial Statements	Net amount presented in the Consolidated Schedule of Investment Portfolio	Less: Amounts subject to master netting or similar arrangements but not presented net		Net exposure
				Subject to agreements	Securities and cash collateral <sup>1</sup>	
Securities purchased under reverse repurchase agreements	\$ 4,750	\$ -	\$ 4,750	\$ (3,192)	\$ (1,558)	\$ -
Derivative receivables	1,440	(194)	1,246	(1,087)	(66)	93
<b>Total investment receivables</b>	<b>\$ 6,190</b>	<b>\$ (194)</b>	<b>\$ 5,996</b>	<b>\$ (4,279)</b>	<b>\$ (1,624)</b>	<b>\$ 93</b>
Securities sold under repurchase agreements	\$ (7,978)	\$ -	\$ (7,978)	\$ 3,192	\$ 4,786	\$ -
Derivative liabilities	(2,261)	-	(2,261)	1,087	172	(1,002)
<b>Total investment payables</b>	<b>\$ (10,239)</b>	<b>\$ -</b>	<b>\$ (10,239)</b>	<b>\$ 4,279</b>	<b>\$ 4,958</b>	<b>\$ (1,002)</b>

As at March 31, 2014						
(CAD millions)	Gross amounts subject to netting arrangements	Less: Amounts offset in Consolidated Financial Statements	Net amount presented in the Consolidated Schedule of Investment Portfolio	Less: Amounts subject to master netting or similar arrangements but not presented net		Net exposure
				Subject to agreements	Securities and cash collateral <sup>1</sup>	
Securities purchased under reverse repurchase agreements	\$ 3,221	\$ -	\$ 3,221	\$ (1,810)	\$ (1,411)	\$ -
Derivative receivables	1,123	(113)	1,010	(809)	(21)	180
<b>Total investment receivables</b>	<b>\$ 4,344</b>	<b>\$ (113)</b>	<b>\$ 4,231</b>	<b>\$ (2,619)</b>	<b>\$ (1,432)</b>	<b>\$ 180</b>
Securities sold under repurchase agreements	\$ (5,230)	\$ -	\$ (5,230)	\$ 1,810	\$ 3,420	\$ -
Derivative liabilities	(1,062)	-	(1,062)	809	-	(253)
<b>Total investment payables</b>	<b>\$ (6,292)</b>	<b>\$ -</b>	<b>\$ (6,292)</b>	<b>\$ 2,619</b>	<b>\$ 3,420</b>	<b>\$ (253)</b>

## Canada Pension Plan Investment Board

### Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

As at September 30, 2013						
(CAD millions)	Gross amounts subject to netting arrangements	Less: Amounts offset in Consolidated Financial Statements	Net amount presented in the Consolidated Schedule of Investment Portfolio	Less: Amounts subject to master netting or similar arrangements but not presented net		Net exposure
				Subject to agreements	Securities and cash collateral <sup>1</sup>	
Securities purchased under reverse repurchase agreements	\$ 1,949	\$ -	\$ 1,949	\$ (1,949)	\$ -	\$ -
Derivative receivables	942	(55)	887	(723)	(93)	71
<b>Total investment receivables</b>	<b>\$ 2,891</b>	<b>\$ (55)</b>	<b>\$ 2,836</b>	<b>\$ (2,672)</b>	<b>\$ (93)</b>	<b>\$ 71</b>
Securities sold under repurchase agreements	\$ (9,014)	\$ -	\$ (9,014)	\$ 1,949	\$ 7,065	\$ -
Derivative liabilities	(970)	-	(970)	723	-	(247)
<b>Total investment payables</b>	<b>\$ (9,984)</b>	<b>\$ -</b>	<b>\$ (9,984)</b>	<b>\$ 2,672</b>	<b>\$ 7,065</b>	<b>\$ (247)</b>

<sup>1</sup> Securities and cash collateral exclude over-collateralization and collateral in transit. Refer to Note 9 for the total amount of collateral.

#### d) 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 manages liquidity risk through its ability to raise funds through the issuance of commercial paper and transacting in securities sold under repurchase agreements.

The CPP Investment Board also maintains \$1.5 billion (March 31, 2014 - \$1.5 billion, September 30, 2013 - \$1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at September 30, 2014, the total amount drawn on the credit facilities is \$nil (March 31, 2014 - \$nil, September 30, 2013 - \$nil).

The CPP Investment Board also has 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 and marketable 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, certain assets are segregated and managed separately. Liquidity risk is also managed by investing these assets in liquid money market instruments with the primary objective of ensuring that the CPP has the necessary liquidity to meet benefit payment obligations on any business day.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

The terms to maturity of investment liabilities, as at September 30, 2014, are as follows:

**Investment liabilities terms to maturity**

(CAD millions)	Terms to maturity							March 31, 2014			September 30, 2013		
	September 30, 2014							Total	Fair value	Weighted average interest rate	Total	Fair value	Weighted average interest rate
	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Fair value	Weighted average interest rate						
Securities sold under repurchase agreements	\$ 7,979	\$ -	\$ -	\$ -	\$ 7,979	\$ 7,978	0.9 %	\$ 5,231	\$ 5,230	1.0 %	\$ 9,014	\$ 9,014	1.0 %
Securities sold short <sup>1,2</sup>	15,500	-	-	-	15,500	15,500	n/a	14,874	14,874	n/a	11,025	11,025	n/a
Debt financing liabilities	9,978	-	-	-	9,978	9,971	0.4	9,663	9,654	0.3	9,426	9,421	0.3
<b>Total</b>	<b>\$ 33,457</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 33,457</b>	<b>\$ 33,449</b>	<b>n/a</b>	<b>\$ 29,768</b>	<b>\$ 29,758</b>	<b>n/a</b>	<b>\$ 29,465</b>	<b>\$ 29,460</b>	<b>n/a</b>

<sup>1</sup> Considered repayable within one year based on the earliest period in which the counterparty could request payment under certain conditions.

<sup>2</sup> Consists primarily of equities sold short for which the average interest rate is not applicable.

The terms to maturity of the notional amount of derivative liabilities are disclosed in note 3f.

**6. Share capital**

The issued and authorized share capital of the CPP Investment Board is \$100 divided into 10 shares with 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 are as follows:

**Canada Pension Plan Transfers**

(CAD millions)	September 30, 2014	March 31, 2014	September 30, 2013
Accumulated transfers from the Canada Pension Plan	\$ 361,117	\$ 341,662	\$ 326,715
Accumulated transfers to the Canada Pension Plan	(233,330)	(218,237)	(204,551)
<b>Accumulated net transfers from the Canada Pension Plan</b>	<b>\$ 127,787</b>	<b>\$ 123,425</b>	<b>\$ 122,164</b>

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

8. Net investment income (loss)

Net investment income (loss) is reported net of transaction costs and investment management fees, and is grouped by asset class based on the risk/return characteristics of the investment strategies of the underlying portfolios.

Net investment income (loss), after giving effect to derivative contracts and investment receivables and liabilities are as follows:

Net investment income

For the three-month period ended September 30, 2014						
(CAD millions)	Investment income (loss) <sup>1</sup>	Investment management fees	Transaction costs	Net investment income (loss)		
Equities	\$ 5,098	\$ (157)	\$ (23)	\$ 4,918		
Fixed income <sup>2</sup>	1,819	(133)	(18)	1,668		
Real assets	1,169	(20)	(1)	1,148		
Total	\$ 8,086	\$ (310)	\$ (42)	\$ 7,734		

For the three-month period ended September 30, 2013						
(CAD millions)	Investment income (loss) <sup>1</sup>	Investment management fees	Transaction costs	Net investment income (loss)		
Equities	\$ 3,245	\$ (97)	\$ (25)	\$ 3,123		
Fixed income <sup>2</sup>	(16)	(66)	(13)	(95)		
Real assets	424	(49)	(34)	341		
Total	\$ 3,653	\$ (212)	\$ (72)	\$ 3,369		

For the six-month period ended September 30, 2014						
(CAD millions)	Investment income (loss) <sup>1</sup>	Investment management fees	Transaction costs	Net investment income (loss)		
Equities	\$ 7,465	\$ (251)	\$ (42)	\$ 7,172		
Fixed income <sup>2</sup>	3,815	(243)	(34)	3,538		
Real assets	646	(38)	(30)	578		
Total	\$ 11,926	\$ (532)	\$ (106)	\$ 11,288		

For the six-month period ended September 30, 2013						
(CAD millions)	Investment income (loss) <sup>1</sup>	Investment management fees	Transaction costs	Net investment income (loss)		
Equities	\$ 5,518	\$ (180)	\$ (36)	\$ 5,302		
Fixed income <sup>2</sup>	(767)	(184)	(23)	(974)		
Real assets	1,161	(67)	(50)	1,044		
Total	\$ 5,912	\$ (431)	\$ (109)	\$ 5,372		

<sup>1</sup> Includes realized gains and losses from investments, changes in unrealized gains and losses on investments, interest income, dividends, private real estate operating income (net of interest expense), interest expense on the debt financing liabilities and other investment-related income and expenses.

<sup>2</sup> Includes absolute return strategies, consisting of investments in funds and internally managed portfolios.

Notes to the Condensed Interim Consolidated Financial Statements

For the three and six-month periods ended September 30, 2014

(Unaudited)

**9. Collateral**

Collateral transactions are conducted to support investment activities under terms and conditions that are common and customary to collateral arrangements. The net fair value of collateral held and pledged are as follows:

**Collateral held and pledged**

<i>(CAD millions)</i>	September 30, 2014	March 31, 2014	September 30, 2013
<b>Assets held as collateral on:</b>			
Reverse repurchase agreements <sup>1</sup>	\$ 4,750	\$ 3,221	\$ 1,947
Over-the-counter derivative transactions <sup>1</sup>	260	134	148
Other debt <sup>1</sup>	1,093	1,129	1,059
<b>Assets pledged as collateral on:</b>			
Repurchase agreements	(7,983)	(5,227)	(9,020)
Securities sold short	(14,172)	(14,690)	(11,360)
Over-the-counter derivative transactions	(172)	-	-
Debt on private real estate properties	(2,670)	(2,605)	(2,310)
<b>Total</b>	<b>\$ (18,894)</b>	<b>\$ (18,038)</b>	<b>\$ (19,536)</b>

<sup>1</sup> The fair value of the collateral held that may be sold or repledged as at September 30, 2014 is \$5,910 million (March 31, 2014 - \$4,371 million, September 30, 2013 - \$3,061 million). The fair value of collateral sold or repledged as at September 30, 2014 is \$4,667 million (March 31, 2014 - \$3,216 million, September 30, 2013 - \$1,947 million).

**10. Commitments**

The CPP Investment Board has entered into commitments related to the funding of investments. These commitments are generally payable on demand based on the funding needs of the investment subject to the terms and conditions of each agreement. As at September 30, 2014, the commitments totalled \$28.4 billion (March 31, 2014 - \$27.9 billion, September 30, 2013 - \$24.3 billion).

As at September 30, 2014, the CPP Investment Board made lease and other commitments, which require future annual payments as follows:

<i>(CAD millions)</i>	September 30, 2014	March 31, 2014	September 30, 2013
Within one year	\$ 33	\$ 27	\$ 22
After one year but not more than five years	120	107	104
More than five years	42	32	36
<b>Total</b>	<b>\$ 195</b>	<b>\$ 166</b>	<b>\$ 162</b>

**11. Related party transactions**

Related parties of the CPP Investment Board consist of investments in unconsolidated subsidiaries (see note 2b), joint ventures and associates, all of which are measured at fair value. Investments in joint ventures are those arrangements where the CPP Investment Board has joint control. An associate is an entity which the CPP Investment Board has the ability to exercise significant influence over decision making.

Related party transactions consist of investments primarily in private equities, debt, real estate and infrastructure and are presented in detail in the Consolidated Schedule of Investment Portfolio on page 4. Related party transactions are measured at fair value and will therefore have the same impact on net assets and net investment income (loss) as those investment transactions with unrelated parties.

Related party transactions with consolidated subsidiaries are eliminated upon consolidation.

**12. Guarantees and indemnifications**

**a) Guarantees**

As part of certain investment transactions, the CPP Investment Board agreed to guarantee, as at September 30, 2014, up to \$1.4 billion (March 31, 2014 - \$1.5 billion, September 30, 2013 - \$1.4 billion) to other counterparties in the event certain investee entities default under the terms of loan and other related agreements.

**b) 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, 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.