2014 Annual Report

People | Purpose | Performance

CPP INVESTMENT BOARD

Toronto Hong Kong London New York São Paulo

Corporate Profile

Canada Pension Plan Investment Board (CPPIB) is a professional investment management organization with a critical purpose – to help provide a foundation on which Canadians build financial security in retirement. We invest the assets of the Canada Pension Plan (CPP) not currently needed to pay pension, disability and survivor benefits.

CPPIB is headquartered in Toronto with offices in London, Hong Kong, New York and São Paulo. We invest in public equities, private equities, bonds, private debt, real estate, infrastructure, agriculture and other areas. Assets currently total $219.1 billion. Of this, 31.0% or $68.0 billion is invested in Canada and the rest globally at 69.0% or $151.1 billion of the portfolio. Our investments have become increasingly international as we diversify risk and seek growth opportunities in global markets.

Created by an Act of Parliament in 1997, CPPIB is accountable to Parliament and to the federal and provincial finance ministers who serve as the CPP's stewards. However, we are governed and managed independently from the CPP, operating at arm's length from governments with a singular objective: to maximize returns without undue risk of loss. The funds that we invest belong to the 18 million Canadians who are current and future CPP beneficiaries; we owe them high standards of transparency and accountability for their assets.

The CPP Fund ranks among the world's 10 largest retirement funds. In managing the Fund, CPPIB pursues a diverse set of investment programs that contribute to the long-term sustainability of the CPP. The most recent triennial report by the Chief Actuary of Canada, as at December 31, 2012, indicated that the CPP is sustainable over a 75-year projection period, and that contributions to the Fund will exceed benefits paid until 2023. The Chief Actuary also projects the CPP Fund to grow to approximately $300 billion by 2020 and over $500 billion by 2030.

Scale and our long-term commitment make CPPIB a valued business partner, allowing us to participate in some of the world's largest transactions. Scale also creates investing efficiencies and provides the capacity to build the sophisticated tools, systems and analytics that support a global investment platform.

The certainty of cash inflows from contributions means we can be flexible, patient investors able to take advantage of opportunities in volatile markets when others face liquidity pressures. Our distinctive investment strategy, known as the Total Portfolio Approach, ensures that we can maintain – or deliberately change – targeted risk exposures across the entire portfolio as individual investments enter, leave or change in value, rather than being tied to specified allocations to individual asset categories. Finally, our exceptionally long investment horizon is an increasingly important competitive strength. We can assess and pursue opportunities differently and stay the course when many cannot. Further, CPPIB's long-term perspective makes patient capital available for direct commitments that can create value for the Fund over many years to come.

Taken together, our clarity of mission, independence, scale, certainty of assets, investment strategy and long horizon set us apart from most other funds. These advantages have earned CPPIB an international reputation, and help us attract, motivate and retain a world-class investment team.

For more information, please visit our website at www.cppib.com.

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Financial Highlights

$219.1 Billion
CPP Fund at March 31, 2014

$30.1 Billion
Net Investment Income After Operating Costs in Fiscal 2014

$95.1 Billion
Cumulative Investment Income for 10-Year Period Ending March 31, 2014 (net)

16.5%
Fiscal 2014 Rate of Return (gross)

11.7%
Five-Year Annualized Rate of Return (net nominal)

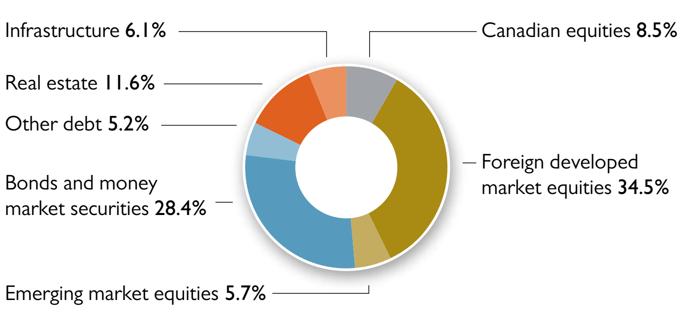
7.1%
10-Year Annualized Rate of Return (net nominal)

OUR CRITICAL PURPOSE

is to help provide a foundation on which Canadians build financial security in retirement.

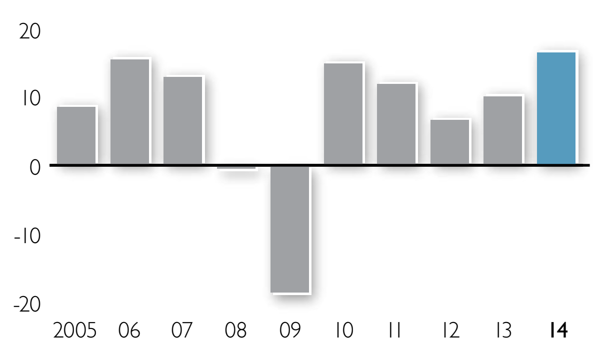
Asset Mix

AS AT MARCH 31, 2014



Rate of Return

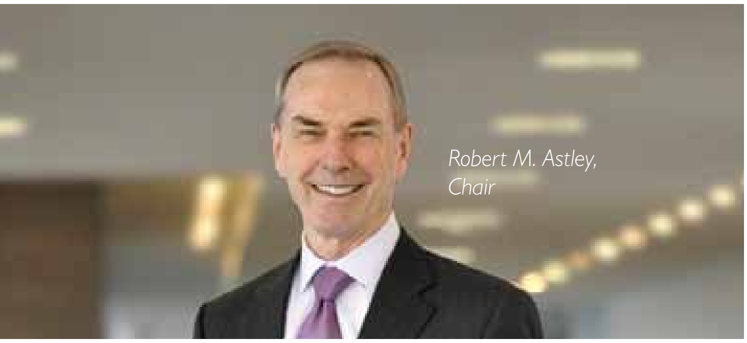
FOR THE YEAR ENDED MARCH 31 (%)



$88.5 Billion
Investments in Private Assets

$13.0 Billion
Investments in Active Public Market Programs

Chair's Report



Robert M. Astley, Chair

Over the past 10 years, the CPP Fund has more than tripled from $70 billion to $219.1 billion at the end of this fiscal year. CPP Investment Board (CPPIB) has matured into a global investment organization now managing one of the 10 largest retirement funds in the world.

In a relatively short period of time, CPPIB has earned a strong reputation as a sophisticated, knowledgeable and trusted global investor, an achievement of which Canadians can be proud.

Knowing that the Fund is expected to reach more than a half a trillion dollars by 2030, this year the Board and senior management undertook an intensive review of CPPIB's future evolution to espouse a multi-year business planning outlook. The unique combination of CPPIB's comparative advantages – in particular our exceptionally long investment horizon, scale and certainty of assets – allows the Board and management to take a comprehensive multi-year view rather than annual cycles. During the review, the Board worked shoulder-to-shoulder with management to assess the requirements for CPPIB to manage growth in a radically changing global economy. In reviewing progress over the past and looking to the future, the Board affirms its confidence in CPPIB's capabilities and its planned evolution as a unique global investment organization built solely for the creation of long-term value for Canadians.

Sustainability of the CPP

The CPP Fund remains on solid financial footing. Investment earnings of the Fund are an essential contributor to sustainability of the CPP, and this year saw very strong gross returns of 16.5%. This resulted in $30.1 billion of net investment income after operating expenses. Over 40% of the CPP Fund is invested in private investments, and thus CPP Fund returns are less volatile than public market returns, tending to lag rapid market gains, but also being more resilient in times of market losses. Despite this past year's exceptional public market equity returns, the Fund essentially matched the public market benchmark CPP Reference Portfolio after expenses. More important than any single year, CPPIB's 10-year annualized nominal rate of return of 7.1% after all expenses, or 5.1% in real terms after inflation, is above the Chief Actuary's assumptions for this same period and the prospective 4.0% real rate of return in determining contribution rates to sustain the CPP. In December 2013, the Chief Actuary confirmed in the latest triennial actuarial review that, as at December 31, 2012, the CPP remains sustainable at current contribution rates.

Managing Risks and Opportunities

As a national pension plan, the CPP is primarily financed by employee and employer contributions set for long-term stability (75 years in actuarial projections), with the CPP Fund acting as a significant but supporting reserve. Economic and demographic factors impacting future contributions to the CPP Fund will collectively continue to have greater impact on CPP sustainability than investment earnings alone. These major differences in financing relative to fully funded pension plans – where investment returns dominate contribution rates in mature plans – and the exceptionally long time horizon allow the CPP Fund to weather short-term downturns with greater resilience than most funds. Also, CPPIB operates under a stable and far-sighted legislative framework that provides complete separation of the CPP Fund from government assets. Its singular investment-only mandate and independence enable CPPIB to invest without interference from political motivations, while remaining fully transparent to the 18 million Canadians whose money it invests. Combined with our long-term view and scale, CPPIB is unique among other Canadian investment organizations and does not have the same constraints as many other investors. As a result, the Board and management can focus exclusively on maximizing long-term returns at a level of measured risk that is appropriate for our opportunity and responsibility.

Recognizing CPPIB's uniqueness, the Board has the conviction to endorse global strategies that undertake major new investment programs – such as the expansion into agriculture investments – and individual transactions that carry longer terms and less liquidity but are expected to deliver correspondingly higher returns. The Board also recognizes our obligations to safeguard Canadians' assets and continues to annually review and adjust risk limits that provide clear guidance to management, while fostering CPPIB's strong culture of prudent day-to-day control of risks. Further, the Board takes a longer-term view of risks and returns, addressing not only investment strategy but equally importantly the organization and resources that will be required for CPPIB to execute its strategies most effectively on a global scale.

In ongoing practice, risk management must extend well beyond investment risks. To solidify a comprehensive approach, enterprise-wide risk reporting to the Board now occurs semi-annually, including the assessment of risk level, relative to appetite for all key risks.

This year, the Board focused particularly on ensuring successful management of two critical operational risks – information security, and retention of talent in both investment and operational groups. The Board also endorsed further integration of enterprise risks into the annual business planning process; the enhancement of market and credit risk measurement techniques, systems and reports; and more explicitly defining and expressing appetite for new and emerging risks.

Governance

A strong, well-informed and diverse board is the foundation of good governance. We are proud that CPPIB is often considered as a model for pension fund governance, and we seek to meet or exceed best practices as they develop. Accordingly, of major importance this year is the passage of legislation by the Parliament of Canada to amend the CPPIB Act to permit the addition of up to three Board members who are not residents of Canada. Currently, we are awaiting passage of orders-in-council by the provinces which are required before this amendment is legally effective. With this addition, CPPIB would be following the practice of some of the world's most respected funds who have chosen to benefit from the wisdom of outstanding individuals regardless of their domicile. Such new directors would bring invaluable on-the-ground experience and knowledge to our Board as it guides and oversees global investments.

Over $151.1 billion or 69.0% of the CPP Fund's investments are now outside Canada. They assure broad diversification of the Fund, minimize reliance on the Canadian economy, and enable Canadians to participate in growth in all parts of the world. The Board is committed to CPPIB's evolution as a fully global investment organization. That this has become part of the fabric of CPPIB is further evidenced this year by the opening of offices in São Paulo and New York. These will broaden our access to new opportunities and partnerships, and strengthen local governance and management for our growing holdings.

Retrospective and Outlook

This year will mark the close of my tenure as a Director of CPPIB since September of 2006, with the last six years as Chair. I notified the Board of Directors last year of my plans to leave at the end of my current term in October 2014. This allowed sufficient time for the Board to undertake a diligent and orderly process in recommending to the Federal Minister of Finance a successor from among the current directors. The Minister will appoint a new Chair after consulting with the appropriate provincial ministers. I have full confidence that the responsibility will be in very capable hands.

I am deeply conscious of the Chair's responsibility to 18 million contributors and beneficiaries of the CPP and Canada's largest single investment fund, and I am sincerely grateful for the privilege and opportunity to have made a contribution to its stewardship. Inheriting a solid foundation of effective governance from my predecessors, the past eight years have been an intense and rewarding experience. I have seen a growing sophistication around the Board table, while CPPIB navigated through the "test of fire" of the 2008/2009 financial crisis and beyond. The Board oversaw a tremendous growth in capability and many major investments around the globe. Throughout, it was a pleasure to work closely with an expert and dedicated management and staff.

I take this occasion to thank Peter Hendrick, whose Board term since 2004 ended earlier this year, for his many years of wide-ranging and valuable advice. At the same time, the Board welcomes Kathleen Taylor who joined the Board in October 2013 and brings over 20 years of global business and financial experience. Ms. Taylor is currently Chair of the Board for Royal Bank of Canada and is the former CEO of Four Seasons Hotels.

With my fellow Directors, I would like to recognize the professionalism of all CPPIB employees, and thank them sincerely for their energy and enthusiasm in delivering the performance that Canadians need and have a right to expect. Under the leadership of our CEO Mark Wiseman together with a strong and seasoned Board, I am more confident than ever of CPPIB's ability to safeguard the future retirement savings of millions of Canadians.

Finally, speaking for the whole Board, I pay tribute to Minister Jim Flaherty who sadly passed away in April. As Federal Minister of Finance from 2006 to 2014 and Ontario Minister of Finance from 2001 to 2002, Minister Flaherty was one of CPPIB's stewards and an unwavering supporter of our mandate and goals. He will be warmly remembered.

Robert M. Astley, Chair

President's Message

Fiscal 2014 was another successful year for Canada Pension Plan Investment Board as we continued to pursue our diversified global investment strategy to support the multi-generational sustainability of the CPP Fund. The CPP Fund grew to almost $220 billion, we strengthened our international footprint by opening two new offices abroad and we completed 103 global transactions. In addition, we welcomed our 1,000th employee. I am pleased to report this progress against the backdrop of the Chief Actuary of Canada's latest review, which found that the CPP is financially sustainable over the long term at the current contribution rate.

CPP Fund Performance

During fiscal 2014, the CPP Fund grew by $35.8 billion to end the year at $219.1 billion. The increase in assets marked the Fund's largest annual gain to date, with CPPIB generating $30.1 billion in net investment income after operating costs. Since inception, CPPIB has contributed approximately $110 billion in cumulative net investment income, meaning that over half of the Fund's assets are the direct result of investment returns.

The exceptional strength of equity markets this fiscal year contributed significantly to the Fund's 16.5% gross return, our second highest annual return since inception. With Europe exiting recession and prospects of an accelerated U.S. recovery, global equity markets continued their strong rebound and pushed the return of our benchmark, the CPP Reference Portfolio, to 16.4%. With the CPP Reference Portfolio heavily weighted to public equity markets and private market assets now representing a large proportion of the CPP Fund, we expect flat or negative performance relative to the CPP Reference Portfolio over shorter-time horizons when there is strong performance of public equity markets. Over the longer term, however, we expect our private assets – including real estate, infrastructure, private equity and private debt – to contribute significant value to the CPP Fund.

Our private assets now comprise 40.4% of the Fund and generated $17.8 billion in realized and unrealized gains in fiscal 2014. We continue to believe that there is additional embedded value in our private assets. For example, shortly after year end, we signed an agreement for the sale of Gates Corporation for US$5.4 billion and entered into a definitive agreement to sell Air Distribution Technologies, Inc. for a total consideration of approximately $1.6 billion. Gates is a division of Tomkins, which the Onex Group and CPPIB jointly acquired in 2010. CPPIB acquired Air Distribution from Tomkins in 2012. Including the sale of Gates, Air Distribution and earlier divestitures of several other divisions of Tomkins, the total expected proceeds to CPPIB from the original Tomkins equity investment of approximately US$920 million is expected to result in a multiple of capital invested of 2.7 times, or investment income of close to US$1.6 billion. We will continue to employ our comparative advantages to build a diversified portfolio of assets to provide strong returns through market cycles over our long horizon.

As another measure of our performance we also track the difference between the investment portfolio's performance and that of the CPP Reference Portfolio in dollar terms, or dollar value-added (DVA). The CPP Reference Portfolio is a market-based benchmark and represents a passive portfolio of public market investments. With the exceptionally strong equity markets in fiscal 2014, our investment portfolio outperformed the CPP Reference Portfolio on a gross basis, returning $514 million above the CPP Reference Portfolio. After deducting operating costs, the Fund essentially matched the CPP Reference Portfolio, producing negative $62 million value-added on a net basis. We also track cumulative dollar value-added since the inception of our active management strategy in fiscal 2007. Over this period, our net dollar value-added is $3.0 billion.

CPPIB's active investment strategy is still in its early stages. We expect the benefits of our strategy will emerge over the longer horizon as our private market holdings benefit from valuation gains and high-quality cash flows over their intended holding periods that we measure in decades and as we continue to scale our active public market strategies.

By 2030, the Chief Actuary has estimated the CPP Fund will be more than half a trillion dollars. We continue to invest in building an organization capable of managing a fund of this size and succeeding in highly competitive global markets to secure investments that we believe will benefit from long-term growth and deliver attractive long-term returns, net of costs.

Global Investment Strategy

In fiscal 2014, we continued to leverage our comparative advantages: our exceptionally long investment horizon, scale and certainty of assets. We looked well beyond market cycles and focused on strengthening our organizational capabilities to maximize returns over multiple decades and generations of contributors.

In February, we opened offices in São Paulo and New York. São Paulo will be our Latin America headquarters, allowing us to forge strong relationships with local partners and focus on the key markets of Brazil, Chile, Colombia, Mexico and Peru to secure investments that align with our long-term horizon. Our New York office will place our investment teams closer to key partners and help them capitalize on global opportunities in one of the world's leading financial capitals. CPPIB now has five offices across four continents, allowing us to efficiently source and secure the best investments and closely monitor assets in our growing global portfolio.

We also invested in our people, who are the foundation of our business, by recruiting and building talent with expertise across geographies and asset classes. And we continued to invest in operational systems to support our activities.

The depth of our global capabilities was evident in the valuable assets that we added to our investment portfolio, including: a US$400 million increase in our equity allocation to Goodman China Logistics Holding; acquiring a 27.6% stake in Aliansce Shopping Centers S.A., one of Brazil's top real estate companies; a joint venture and initial US$200 million equity commitment with Shapoorji Pallonji Group to acquire office properties in major cities (CPPIB's first real estate transaction in India); the US$6.0 billion acquisition of Neiman Marcus Group LTD; and in public markets, acquiring a 15% interest in ORPEA S.A., one of Europe's leading providers of long-term care services. These transactions demonstrate our ability to apply our comparative advantages, internal skill to succeed in highly competitive markets and relentless focus on creating value over the long term.

At the end of fiscal 2014, 69.0% of the Fund was invested internationally, compared to 63.3% at the end of fiscal 2013. We expect this portion to grow as we capitalize on long-term trends in the global economy. During fiscal 2014, we completed 45 transactions of over $200 million each in 11 countries around the world.

Promoting Long-Term Thinking

CPPIB's actions are driven by our long-term outlook, yet we operate in a world stubbornly marked by short-term actions. As we carry out our mandate, we see an opportunity to help shape the investment environment within which we seek to maximize value. We continue to be a vocal advocate for long-term decision-making that spurs innovation, productivity, economic growth and job creation. We believe that when capital is deployed with a view to sustainable, long-term value creation, all market participants benefit – including the 18 million contributors and beneficiaries who invest through the CPP. This year, alongside McKinsey & Company, we were proud to launch a multi-year initiative called Focusing Capital on the Long Term. We are bringing together leading institutional investors and corporations from around the world to develop practical solutions to better focus on long-term value creation.

Sustainability of the CPP Fund

The sustainability of the CPP Fund continues to be an important measure of CPPIB's success. We retain a steadfast focus on our mandate to maximize returns to the CPP Fund. In other words, create long-term value to help ensure the CPP is there for Canadians when they retire. In late 2013, the Chief Actuary of Canada reaffirmed that, as at December 31, 2012, the CPP remains sustainable at the current contribution rate of 9.9% for the next 75 years. The Chief Actuary of Canada assumes a prospective 4.0% net real rate of return in assessing the sustainability of the CPP. After CPPIB operating expenses, the 10-year annualized nominal return is 7.1%. After adjusting for inflation, the 10-year real rate of return is 5.1%, comfortably above the Chief Actuary's assumption over the same period and prospectively. Given this period still includes the historic equity declines of the global financial crisis, it is an encouraging indicator of our long-term performance.

Outlook

CPPIB's investment horizon allows us to take a long-term approach to building our organization. In fiscal 2014, senior management along with the Board of Directors completed an in-depth examination of how we anticipate CPPIB will operate beyond the most immediate fiscal years to decide how we can continue to evolve to leverage our comparative advantages. By understanding our destination, we are well positioned to take the right actions today in the best long-term interest of the CPP Fund. Our principal corporate objectives for fiscal 2015 are a continuation of those pursued in fiscal 2014:

> Scaling our investment programs;
> Expanding our global presence;
> Building operational capacity and capabilities; and
> Developing talent and maintaining our distinctive culture.

These priorities are the core of a multi-year plan to evolve CPPIB. As at December 31, 2012, the Chief Actuary projected that the CPP Fund is expected to be almost $300 billion by 2020. Our priorities over fiscal 2015 and the years that follow will ensure CPPIB steadily delivers on our mandate and maximizes the value of the CPP Fund.

Conclusion

With each of our investment teams generating substantial gains, fiscal 2014 demonstrated the strength of our investment professionals and global investment platform. Yet, we continue to believe how we achieve these results is paramount. This year, all CPPIB employees participated in sessions that looked at how we incorporate our Guiding Principles of Integrity, Partnership and High Performance in our daily activities. This initiative affirmed my pride in our 1,000 employees and their sense of dedication to building the foundation for Canadians' financial security in retirement. I want to thank all CPPIB employees and our Board of Directors for their efforts and their ongoing commitment.

I also want to thank Donald Raymond, who stepped down as Senior Vice-President & Chief Investment Strategist, for his 13 years of dedicated service. Don was instrumental in the evolution of CPPIB from a start-up to a global investment organization, and I wish him the very best. On April 1, 2014, Ed Cass, our former Vice-President & Head of Global Tactical Asset Allocation, assumed the position of Senior Vice-President & Chief Investment Strategist and I welcomed him to our Senior Management Team.

In closing, and with deep sadness, I want to honour the late Minister Jim Flaherty for not only his extraordinary service to our country but also his steadfast support for our organization during his more than nine years as a steward of CPPIB, both as Ontario's and Canada's Minister of Finance.

M. Wiseman

Mark D. Wiseman, President & CEO

People

Commonwealth Property Office Fund – Australian Office Portfolio

We significantly expanded our office real estate portfolio in Australia with the acquisition of 100% of the units of Commonwealth Property Office Fund (CPA) alongside DEXUS Property Group. CPPIB holds a 50% interest for an equity investment of approximately A$1.5 billion. The CPA fund comprises a portfolio of 21 high-quality office properties, located in major markets across Australia, with total assets of A$3.3 billion.

(l–r) Jimmy Phua, Dorothy Tang, Justin Louis, Rebecca Lam

Neiman Marcus Group

A significant private equity transaction for CPPIB this year was the acquisition of luxury retailer, Neiman Marcus Group, alongside Ares Management, for a purchase price of US$6.0 billion. Neiman Marcus is one of the largest U.S. luxury retailers with 79 stores totalling more than 6.5 million gross square feet, operating well known brands including Neiman Marcus Stores and Bergdorf Goodman.

(l–r) Scott Nishi, Shane Feeney, Jennifer Pereira, Nick Senst

Purpose

The CPP Fund has a critical purpose – to help Canadians build financial security in retirement. The sole mandate of Canada Pension Plan Investment Board is to invest the Fund assets on behalf of the CPP's 18 million participants and beneficiaries to maximize returns over the long term without undue risk of loss.

75 +Years

Duration of
CPP Sustainability

9 Years

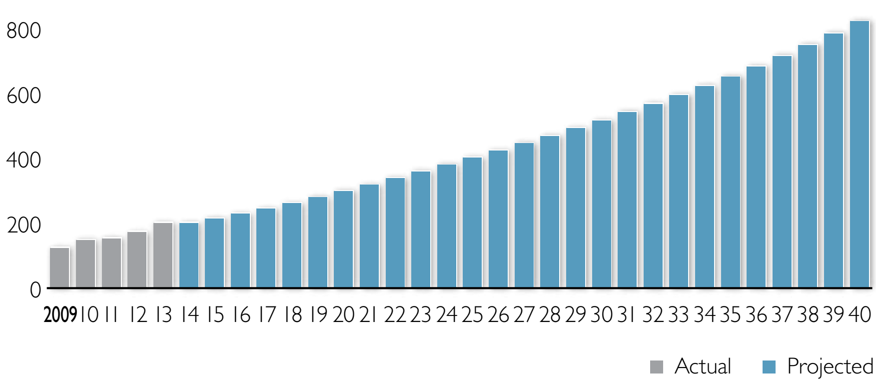
Before Investment Income
Needed to Pay Pensions

18 Million

Number of Canadians Who
Participate in the CPP

History and Projections of the CPP Fund

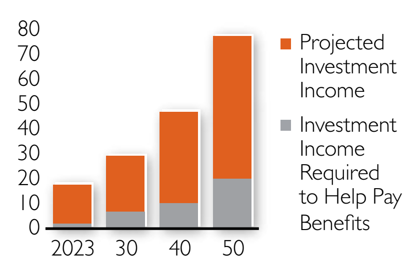
AS AT DECEMBER 31 ($ billions)



CPPIB's sole focus is investing the assets of the CPP. As at December 31, 2012, the Chief Actuary has projected that the CPP Fund will reach approximately $300 billion by the end of 2020. We have built, and will maintain, a professional investment organization capable of handling this substantial growth.

Investment Income Required Starting at 2023

AS AT DECEMBER 31 ($ billions)



The Chief Actuary of Canada has projected that CPP contributions will exceed annual benefits paid until 2023, providing nine more years in which excess CPP contributions will be available for investment. Starting in 2023, the CPP is expected to begin using a small portion of CPPIB investment earnings to supplement the contributions that constitute the primary means of funding benefits.

People

ORPEA S.A.

Our Relationship Investments team expanded its global reach with several transactions this year including a €320.8 million investment in ORPEA S.A. for a 15% stake. Based in Paris, ORPEA is a leading nursing, post-acute, and psychiatric care provider in Europe with over 40,000 beds across 430 sites. We also made an additional investment of €33.9 million to fund an equity capital raise to help facilitate the company's international expansion.

(l–r) Alain Carrier, Moritz Krautkrämer, Wendy Franks, Scott Lawrence, Christian Hensley, Teng Xu

Aliansce Shopping Centers

We expanded our real estate investment programs in emerging markets through key relationships. In Brazil, we made our first investment in a real estate operating company with the acquisition of a 27.6% interest in Aliansce Shopping Centers for US$480 million. Aliansce is one of the largest owners and developers of high-quality shopping malls in Brazil with whom we have an existing partnership in Iguatemi Salvador Shopping Center.

(l–r) Marco Ding, Christopher Moad, Peter Ballon, Corey Albert

Performance

Our investment strategies and innovative approach to total portfolio management underlie our commitment to deliver performance levels needed to help keep the CPP sustainable over many generations. Our Guiding Principles of Integrity, Partnership and High Performance underscore a culture at CPPIB that guides our activities. Aligned with our mission, governance and investment philosophy, this culture enables us to attract and maintain a highly talented team of professionals with the experience and expertise required to handle significant asset growth and complex investments.

$219.1 Billion
CPP Fund at March 31, 2014

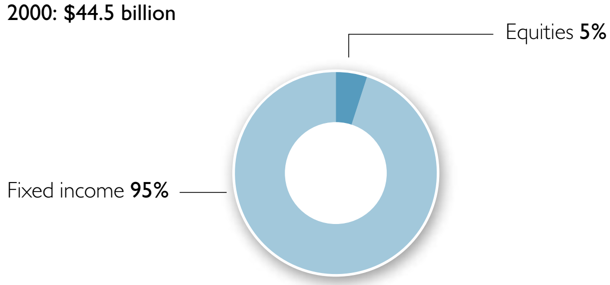
$30.1 Billion
Net Investment Income After Operating Costs in Fiscal 2014

16.5%
Fiscal 2014 Rate of Return (gross)

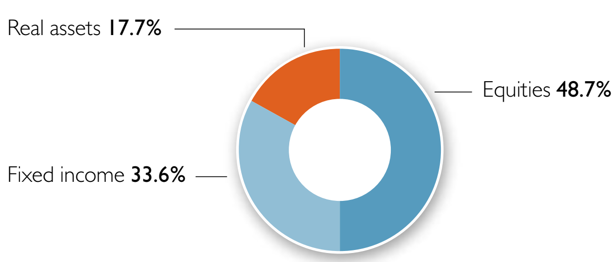
Historical Asset Mix Comparison

AS AT MARCH 31

2000: $44.5 billion



2014: $219.1 billion



7.1%
10-Year Annualized Rate of Return (net nominal)

$95.1 Billion
Cumulative Investment Income for 10-Year Period Ending March 31, 2014 (net)

People

Wilton Re

This year, we expanded our investments in the U.S. insurance sector. We entered into a definitive agreement to acquire 100% of the common stock of Wilton Re Holdings Limited for US$1.8 billion, together with the management of Wilton Re. Wilton Re is a provider of life insurance and reinsurance solutions to the U.S. life insurance market and a leading acquirer of closed blocks of life insurance policies.

(l–r) Ryan Selwood, David Chambers, Michael Douglas, Devon Kirk, Bin Li, Sunny Lee

Qualified Foreign Institutional Investor (QFII)

We increased our investments in China A-shares this year with a total value of US$633 million. China A-shares are domestically traded on the Shanghai and Shenzhen Stock Exchanges. Foreign investors can access the A-share market by obtaining a Qualified Foreign Institutional Investor (QFII) licence, which CPPIB obtained in 2011, and then receiving an investment quota from the Chinese regulator which must be invested within six months. In 2012, our External Portfolio Management team invested US$100 million in passive investments, and this year, we successfully invested a further US$500 million through A-share specialist managers.

(l–r) Michael Tao, Ted Lee, Peter Chen

Unique Advantages

CPPIB benefits from scale, an exceptionally long time horizon and certainty of assets. We have also developed strong internal capabilities, allied with expert external partners in every major area of investing, and have a disciplined approach to managing the total portfolio. The combination of these comparative advantages differentiates CPPIB from other funds and investors and enables us to undertake investments with a breadth, depth and resolve that others cannot achieve.

OUR COMPARATIVE ADVANTAGES

Long-Term View

The 75-year scope of the Chief Actuary's CPP projection enables us to acquire assets that offer substantial added value over time.

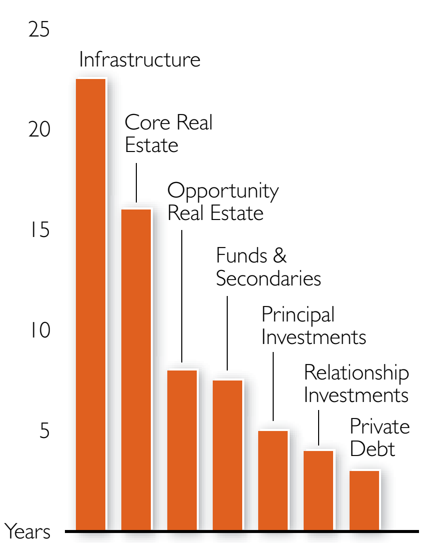
Certainty of Assets

The CPP will collect excess contributions until 2023, providing incoming cash for new investments and allowing us to build and adjust our portfolio with discipline.

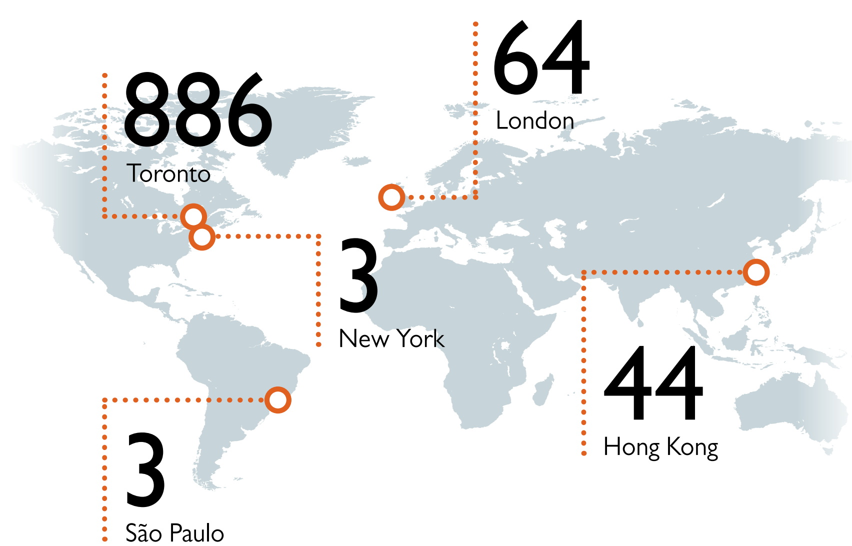
Size and Scale

The CPP Fund has scale. We can invest substantially in private markets many of which are larger than their public market counterparts and are expected to offer greater returns over time.

CPPIB Expected Average Hold Periods by Asset Type



Global Employees



People

REI India Ventures

We added India to our real estate investment program as a new emerging market this year with the formation of two new strategic alliances with experienced local partners. We formed an alliance with Shapoorji Pallonji, an India-based global conglomerate, to acquire foreign direct investment-compliant, stabilized office properties in India's major city centres. CPPIB's initial equity commitment is US$200 million. And, we launched an alliance with Piramal Enterprises Limited, one of India's largest diversified companies, to each commit US$250 million to provide structured debt financing for residential projects across major urban centres.

(l–r) Tom Jackson, Tim Barlow, Andrea Orlandi, Rod Carnan

TgP – Peruvian Infrastructure

In Latin America, our infrastructure team continues to build new relationships marked by our first investment in Peru. We completed the acquisition of a 36.8% interest in Transportadora de Gas del Peru (TgP) for a total consideration of US$807 million. TgP is the largest transporter of natural gas and natural gas liquids in Peru.

(l–r) Eric Szmurlo, Liliana Molina, Annie Harlow, Bruce Hogg, Jocelyn Cheng

Global Perspective

Enabled by our scale, we seek the best possible investment opportunities through our global perspective. We continue to enhance CPPIB's reputation as a trusted partner, able to contribute expertise and participate in major investment opportunities alongside like-minded organizations with a strong local presence. Building on the successful experience of our offices in Hong Kong and London, we are broadening CPPIB's international presence through newly opened offices in New York and São Paulo.

197
Global Investment Partners

33
Total Number of Countries in Which We Have Private Holdings

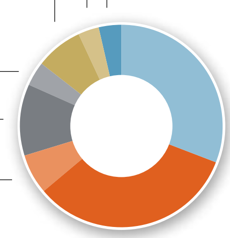
103
Total Number of Global Transactions in Fiscal 2014

$68.0 Billion
Canadian Assets

$151.1 Billion
Foreign Assets

Global Diversification by Region

AS AT MARCH 31, 2014



Global Investments

Key Transactions in Fiscal 2014

1 Piramal Enterprises Limited,
Mumbai, India
US$250 million
To provide structured debt financing to residential projects across India alongside PEL

2 Transportadora de Gas del Peru,
Lima, Peru
US$807 million
36.8% interest in Peru's largest transporter of natural gas and gas liquids

3 Assiniboia Farmland
Saskatchewan, Canada
C$128 million
First agricultural investment in Canada to acquire a portfolio of farmland in Saskatchewan

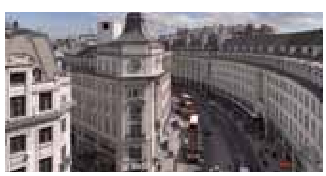
4 ORPEA S.A.,
Paris, France
€354.7 million
15% stake in Paris-based ORPEA, a leading nursing care provider in Europe

5 Shapoorji Pallonji,
Mumbai, India
US$200 million
To acquire stabilized office buildings in India's main urban centres through venture with Shapoorji Pallonji

6 Neiman Marcus Group,
Dallas, U.S.
US$6.0 billion
Acquired U.S. luxury retailer Neiman Marcus Group alongside Ares Management

7 Commonwealth Property Office Fund,
Sydney, Australia
A$1.5 billion
Partnered with DEXUS Property Group to acquire a portfolio of 21 high-quality office properties across Australia

8 Aliansce Shopping Centers,
São Paulo, Brazil
US$480 million
27.6% stake in one of Brazil's top real estate operating companies with a retail portfolio of 17 stabilized assets

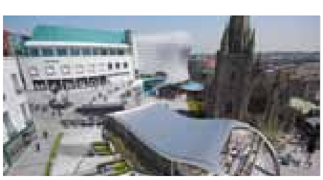


9 TORC Oil & Gas,
Calgary, Alberta
C$170 million
Investment in a Calgary-based oil & gas exploration and development company

10 Hermes Real Estate Investment Management Office JV,
London, UK
£173.9 million
50/50 office joint partnership to acquire value add/core plus office properties in London's West End

11 Goodman China Logistics Holdings,
China
US$400 million
Additional equity commitment to own and develop logistics assets in Mainland China with Goodman Group

12 Upper Canada Mall,
Newmarket, Ontario
Formed joint venture with Oxford Properties to acquire 50% interest in a prime shopping centre north of Toronto



13 Bullring Shopping Centre,
Birmingham, UK
£307 million
In partnership with Hammerson, acquired 33.3% interest in one of the U.K.'s top 10 shopping centres

14 Samsung SRA,
Seoul, South Korea
C$118.6 million
50% interest in 30-storey, Class A office development in Seoul's Gagnam Business District

15 China Vanke,
Shanghai, China
US$250 million
Formed venture with China Vanke to invest in projects in the Chinese residential market

16 Wilton Re,
Connecticut, U.S.
US$1.8 billion
Agreement to acquire U.S. life insurance and reinsurance provider, Wilton Re Holdings, together with the management of Wilton Re

Senior Management Team

(l–r)

Mark G.A. Machin
Senior Vice-President & Head of International and President, CPPIB Asia Inc.

Nicholas Zelenczuk
Senior Vice-President & Chief Operations Officer

John H. Butler
Senior Vice-President, General Counsel & Corporate Secretary

Pierre Lavallée
Senior Vice-President & Chief Talent Officer

André Bourbonnais
Senior Vice-President & Head of Private Investments

Benita M. Warmbold
Senior Vice-President & Chief Financial Officer

Mark D. Wiseman
President & Chief Executive Officer

Eric M. Wetlaufer
Senior Vice-President & Head of Public Market Investments

Edwin D. Cass
Senior Vice-President & Chief Investment Strategist

Michel R. Leduc
Senior Vice-President, Public Affairs & Communications

Graeme M. Eadie
Senior Vice-President & Head of Real Estate Investments

Key Operational Highlights

Executing Our Investment Programs

Continue to expand our investment programs and capabilities across all investment departments to keep pace with overall Fund growth

- Public Market Investments expanded existing programs; awarded 17 new mandates to specialized external managers, the majority focused on Asia and Latin America; launched a Managed Account Platform allowing us to better leverage external management capabilities within a controlled environment; and developed a thematic investing program to make investments focused on broad long-term macroeconomic trends.
- Committed $13.1 billion in Private Investments including the acquisition of Neiman Marcus Group LTD Inc., a large U.S. luxury retailer, alongside Ares Management LLC.
- Committed $6.4 billion in Real Estate Investments including acquiring a minority interest in Aliansce Shopping Centers S.A., a publicly-traded Brazilian shopping mall developer and operator.
- Further embedded environmental, social and governance (ESG) considerations into our investment decision making and asset management processes, as well as into our engagement activities through an update to our *Proxy Voting Principles and Guidelines*.
- Completed the multi-year build of the foundational components, processes and systems, of our total portfolio management approach.

Transforming to a Global Investment Organization

Expand our international presence with a focus on Asia, Europe and Latin America

- Opened new offices in New York and São Paulo and increased staff in our international offices to 114 from 83. International staff account for 11.4% of our total workforce and include staff from all our investment departments.
- Evolved our organizational structure by appointing senior executives to two newly created positions to head our International and European operations respectively.
- Completed 45 sizeable and complex transactions of over $200 million each in 11 different countries. Among them were investments across our three main regions including: new real estate ventures in China, India and Japan; a minority interest in a leading European provider of long-term care services; and, an equity investment in the largest transporter of natural gas in Peru.
- Investments outside Canada grew from $116.1 billion to $151.1 billion during the year; this represents 69.0% of our total assets.

Enhancing Scalability and Managing Complexity

Ensure that our operational processes, systems and controls are scalable to support the growth and globalization of our investment programs

- Reorganized our Finance, Treasury, Risk, Operations and Technology departments and underlying functions to better support our investment programs for the long term.
- Further integrated risk considerations into business planning, expanded market and credit risk measures, and advanced development of our investment risk management technology platform.
- Improved the resilience and capacity of our technology infrastructure including expansion of our computing platforms to support new offices in São Paulo and New York.

Building Capabilities to Support the CPPIB Brand Promise

Build our brand to position ourselves as an employer, partner and investor of choice

- Completed a series of projects aimed at strengthening the awareness of CPPIB with those we interact with. We simplified and globalized our processes for interacting with the public, government, investment partners, service providers and advisors.
- Launched our Focusing Capital on the Long Term (FCLT) initiative with McKinsey, with global business leaders joining the advisory board.

Development and Continuity of Leadership and Talent

Continue to strengthen our leadership team and focus on attracting, developing and retaining talented professionals across our international offices

- Added 181 people during the year including 20 Vice-Presidents and Directors across investment and core services departments.
- Implemented improvements to recruitment and development programs aimed at enhancing the diversity of our workforce.
- Successfully filled leadership positions with internal candidates including the position of Senior Vice-President & Chief Investment Strategist.

Financial Review

This Annual Report contains forward-looking statements reflecting management's objectives, outlook and expectations as at May 14, 2014. These statements involve risks and uncertainties. Therefore, our future investment activities may vary from those outlined herein.

The following information provides analysis of the operations and financial position of the Canada Pension Plan Investment Board and should be read in conjunction with the Financial Statements and accompanying notes for the year ending March 31, 2014. The Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles.

Management's Discussion and Analysis

When the CPP was introduced in 1966, Canada's population was 20 million. By July 2013, it had grown to 35.1 million. Equally important, the population is aging. In 1966, only 8% of Canadians were over the age of 65. Today, this proportion is 15% and Statistics Canada's "medium growth" scenario projects that it will rise to 21% in 2026 and stabilize at close to 25% after 2040. So, having sufficient income throughout an increasing lifespan in retirement is a major concern for increasing numbers of Canadians. As one of four primary sources of income in retirement, the CPP helps provide millions of Canadians with a foundation for their retirement security. The other sources are Old Age Security with its Guaranteed Income Supplement, employee pension plans that now cover less than 40% of all employees, and personal savings.

Benefits paid out by the CPP can be financed by only two income flows: future earnings-based contributions by Canadians and investment returns on the CPP Fund. Over the long term, future contributions are expected to finance 75–80% of total benefits payments with investment returns financing the remainder. CPPIB is responsible for investing the CPP Fund's assets. The following discussion and analysis explains our purpose, describes our investment strategy and results, and looks ahead to the future.

OUR PURPOSE

In 1997, the CPP Fund held only non-marketable federal, provincial and territorial bonds, then valued at $36.5 billion. The legislation passed that year to place the CPP on a secure long-term footing created CPPIB to be a professional, independent organization empowered to harness the power of global capital markets and thereby earn higher long-term returns for the Fund through a more broadly diversified portfolio. CPPIB's sole purpose is to generate investment returns that will help sustain the CPP over many generations.

Our governing legislation is the *Canada Pension Plan Investment Board Act*. It directs CPPIB to invest "...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 Canada Pension Plan..." Significantly, the Act sets no geographic, economic development, social or specific investment requirements. As a result, we have a clear and singular investment objective, and seek to achieve it by executing and continually enhancing the overall investment strategy that, we believe, best balances prospective risk and return.

Every three years, the Chief Actuary of Canada reviews the contribution rate required to sustain the CPP over the next 75 years. The most recent actuarial review, conducted as at December 31, 2012, and released in December 2013, again concluded that the CPP can maintain its currently legislated contribution rate despite the difficult economic environment of recent years. The currently legislated contribution rate is 9.9% of covered earnings, shared equally between employees and employers. The actuarial review took into account that while the number and earnings of contributors are expected to grow steadily, the ratio of pensioners to employees will rise as baby boomers retire, and longevity will increase. These and many other assumptions underlie the review's conclusion. For CPPIB, the key assumption is that the CPP Fund's annual investment return, net of all investment costs and CPPIB's operating expenses, will average four percentage points above the rate of price inflation. Because of the volatility of capital markets, returns will fluctuate widely from year to year even in a portfolio as well diversified as the CPP Fund. While the averaging of "up" and "down" years narrows the range of annualized performance, longer-term returns and asset values still carry substantial uncertainty. As noted above, though, the financing of CPP benefits will depend much more on future contributions and longevity than investment earnings. The resulting resiliency of CPP contributions against shorter-term return fluctuations is a key factor in the level and types of risks we can prudently undertake when seeking longer-term returns for the CPP Fund.

History and expert opinion indicate that the investment returns assumed by the Chief Actuary in assessing the required contribution rates for CPP sustainability can be achieved only by taking a degree of investment risk. The most important single risk/return decision is the long-term allocation between equity and fixed income investments. Diversifying among asset classes with differing sources of return and risk can mitigate overall risk while enhancing prospective return. Making investments across the world reduces the CPP Fund's dependence on returns in any one country or region and hence reduces risk. Soundly managed investments in private markets and specialized areas, well-suited to CPPIB's comparative advantages, are expected to earn additional returns for the Fund. Active management in a wide variety of investment programs can contribute meaningfully to value creation and/or the reduction in risk. Our engagement with corporations as a major shareholder can lead to better outcomes for the benefit of the Fund and all stakeholders. Of critical importance, the exceptionally long time horizon and funding structure of the CPP shapes the nature and degree of risk that can be prudently undertaken. Our challenge as an investment organization is to rigorously construct, manage and evolve the total portfolio of risk/return exposures and active programs that is expected to maximize long-term returns at acceptable levels of risks given the unique characteristics of the CPP Fund.

INDEPENDENT DECISION-MAKING

Canadians expect the CPP to remain free from external interference and political control. During the 1996–97 CPP reforms, the federal and provincial finance ministers responded with carefully written legislation under which CPPIB operates at arm's length from governments. CPP Fund assets cannot be used for any purpose other than paying CPP benefits and costs of administering the plan and Fund. CPPIB deploys capital based solely on investment considerations for the long-term benefit of the CPP.

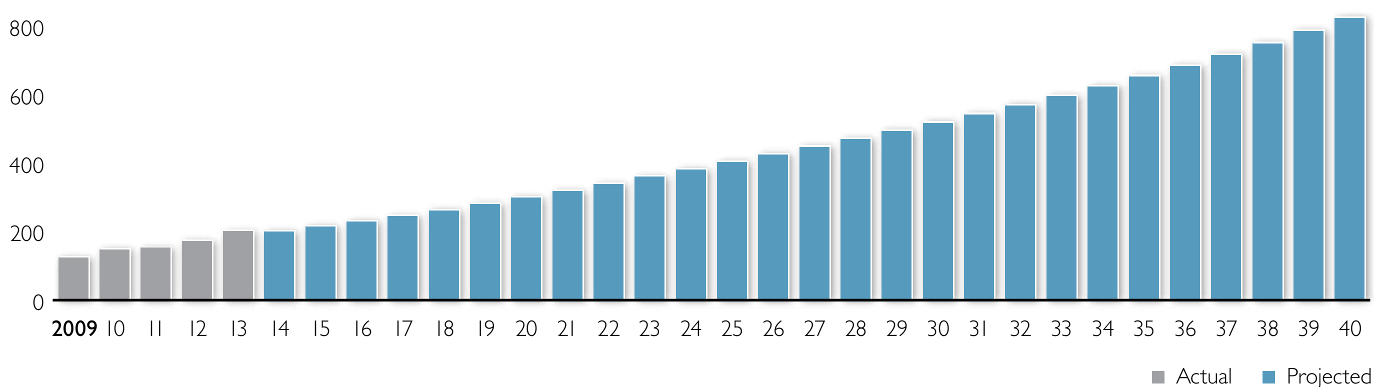
The CPP Fund is not a sovereign wealth fund – that is, a government-owned pool that may be deployed for economic development or other policy objectives. Unlike such funds, CPP assets belong only to the plan members and are strictly segregated from government accounts. To maintain the public's trust, CPPIB's independence in decision-making is balanced with public accountability and a high degree of transparency. This includes continuous disclosure of our investment activities, timely reporting of our performance results and other legislative requirements such as biennial public meetings.

CPP members can take comfort in the durability of the 1996–97 reforms. Amendments to the governing legislation require agreement by the federal government plus two-thirds of the provinces representing two-thirds of the population – a higher requirement than for changes to the Canadian Constitution.

DEVELOPMENT OF THE CPP FUND

As noted, the Chief Actuary of Canada has projected that CPP contributions will exceed annual benefit payments until 2023. The CPP is then expected to begin using a portion of the Fund's investment earnings to supplement the contributions that form the primary means of financing CPP benefits. Fund assets, as projected under the Chief Actuary's demographic, economic and capital markets assumptions, are shown below.

HISTORY AND PROJECTIONS OF THE CPP FUND
As at December 31 ($ billions)



CPPIB's sole focus is investing the assets of the CPP. As at December 31, 2012, the Chief Actuary has projected that the CPP Fund will reach approximately $300 billion by the end of 2020. We have built, and will maintain, a professional investment organization capable of handling this substantial growth.

OUR CULTURE

A cornerstone of our enterprise culture is our Guiding Principles of Integrity, Partnership and High Performance. This year, we recommitted to the Guiding Principles by holding our first company-wide day devoted to discussing the principles and reinforcing their application in real-life situations. In mandatory sessions, employees discussed ways to invoke Guiding Principles under a variety of workplace circumstances, focusing on *how* we do things. We plan to conduct similar mandatory interactive workshops every year. New employees receive Guiding Principles training and performance reviews now include a rating on how employees demonstrate them. Further, all employees attend a Code of Conduct session during their onboarding activities and reconfirm their commitment to the Code twice a year.

We have relocated a number of our employees internationally to maintain a consistent investing approach and instill a strong company-wide culture as we accelerate our development in local markets. Eighteen employees are currently on expatriate assignments across our five offices.

Finally, our distinctive culture is one of three key elements of our employee value proposition. The other two are our critical purpose and our global investment stature.

OUR COMPARATIVE ADVANTAGES

CPPIB seeks to grow investment value by maximizing the benefits of three major structural advantages that are inherent to the CPP Fund, and three developed advantages that result from strategic choices we have made. While no single advantage is unique, they reinforce each other in creating a strong foundation for investing the Fund. This provides us with both scope and clarity, and a distinct perspective for investment decision-making.

STRUCTURAL ADVANTAGES

> Long horizon – by its multi-generational nature, the CPP has an exceptionally long investment horizon. CPPIB can, and indeed must, assess its opportunities, returns and risks over decades, not years or months. Many other market participants must take short-term actions forced on them by business imperatives or legislated requirements. CPPIB can benefit from short-term market dynamics, but is not driven by them.

> Certainty of assets – there is a high degree of certainty and stability to the Fund's asset base. We are not subject to external directions, nor to any requirement to liquidate investments to pay benefits, as CPP contributions are projected to exceed benefit payments until 2023. Nevertheless, we always keep sufficient liquidity to make major new investments when we identify good opportunities and to adjust the total portfolio mix at any time as needed.

> Scale – as one of the 10 largest retirement funds in the world, we are able to make sizeable investments in private markets and access proprietary public market strategies around the globe. Likewise, we can undertake large transactions for which few others can compete. Scale also makes it feasible to build highly skilled in-house investment teams, superior investment technology and robust operational capabilities. Internalizing these activities wherever appropriate makes for the most cost-effective global investing platform.

DEVELOPED ADVANTAGES

> Internal expertise – the expertise of our world-class investment team is both broad and deep. High-calibre professionals are attracted from many countries not only by our size and growth, but also by our singular focus on investment management and distinctive culture. This culture is imbued by our obligations to Canadians and our Guiding Principles of Integrity, Partnership and High Performance.

> Expert partners – we also benefit from the varied and specialized expertise of our top-tier external partners. These firms offer access to well-researched opportunities together with in-depth analysis, experience and ongoing management services that complement CPPIB's internal capabilities. In turn, they value their relationship with CPPIB as both a highly knowledgeable investor and a trusted financial partner for the long term.

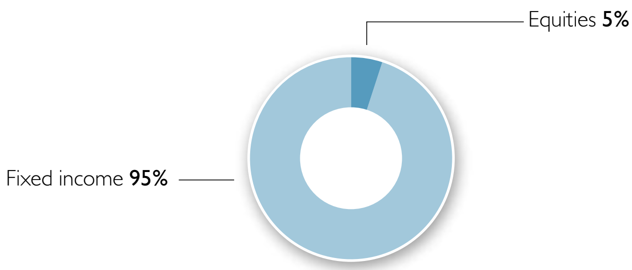
> Total Portfolio Approach – this particular way of investing looks through asset class labels to the underlying risk/return exposures of each investment, and enables us to target and manage our exposures with more flexibility and precision than traditional asset class-based approaches. We undertake a wide range of risks that individually are expected to produce appropriate long-term value. But to minimize unintended risk that does not carry commensurate expected return, we continuously weigh the contributions of each investment and strategy to the aggregate exposures of the total portfolio.

OUR INVESTMENT STRATEGY

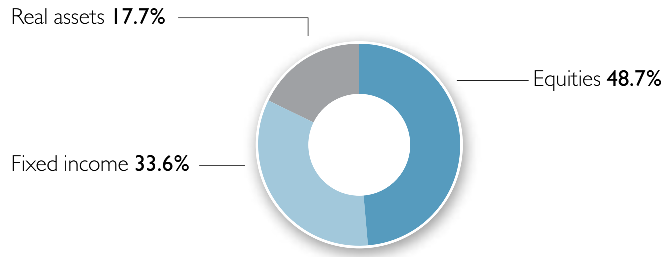
When CPPIB began receiving cash flows from the CPP in 1999, we first moved to diversify the portfolio by investing in Canadian and foreign public equities that reflected broad equity market indices. That was in line with the 1997 legislation and the CPP stewards' initial intent. Private equity and real estate investing programs were launched in 2001. In 2003, we internalized responsibility for managing the index-based equity portfolios. In 2004, we began active equity investing and acquired our first infrastructure assets. In 2007, we began building major holdings of marketable government bonds in line with market indices. We expanded into private debt in 2009 and agricultural land in 2013.

HISTORICAL ASSET MIX COMPARISON

2000: $44.5 billion



2014: $219.1 billion



Since April 1, 2006, CPPIB has adopted a broader and more active strategy for investing the Fund. This strategy was designed to seek risk-adjusted returns above those available from passive public market investing by diversifying the portfolio and by capitalizing on our comparative advantages. If we generate significantly higher returns than required to sustain the CPP at its current levels of benefits and contributions, and if other assumptions turn out as projected, the CPP stewards will be able to retain an additional margin of safety in the Fund, or reduce contribution rates, or increase benefits. For example, based on current projections, if the long-term annualized return is 50 basis points (0.50%) higher than required for sustainability, currently approximately 4.0% real return over the long term, the contribution rate could ultimately be reduced from 9.9% to 9.65% of covered earnings. This would save employees and employers a total of about $1 billion annually at current earnings levels. Over the past 10 years, after operating expenses, our annualized rate has been 7.1% nominal, or 5.1% real, after inflation.

Three principal elements constitute CPPIB's overall investment strategy as a global investment management organization:

1. **CPP Reference Portfolio:** a low-cost, low-complexity portfolio of global public market investments that could meet our mandated objective with a passive investment strategy;
2. **Active Management for Value Creation:** the range of public and private market investment strategies employed with the primary goal of maximizing return without undue risk of loss, and with the expectation of adding value, after all costs, over the CPP Reference Portfolio returns; and
3. **Total Portfolio Approach:** our method of managing the total portfolio to keep its aggregate risk exposures at known and intended levels as individual investments are added, sold, change in value, or alter their characteristics.

We implement these strategic elements in accordance with the *Statement of Investment Objectives, Policies, Return Expectations and Risk Management* that is available on our website. Also, we assign responsibilities and assess results for the total portfolio, each investment department and each investment program in accordance with our Risk/Return Accountability Framework discussed on page 30.

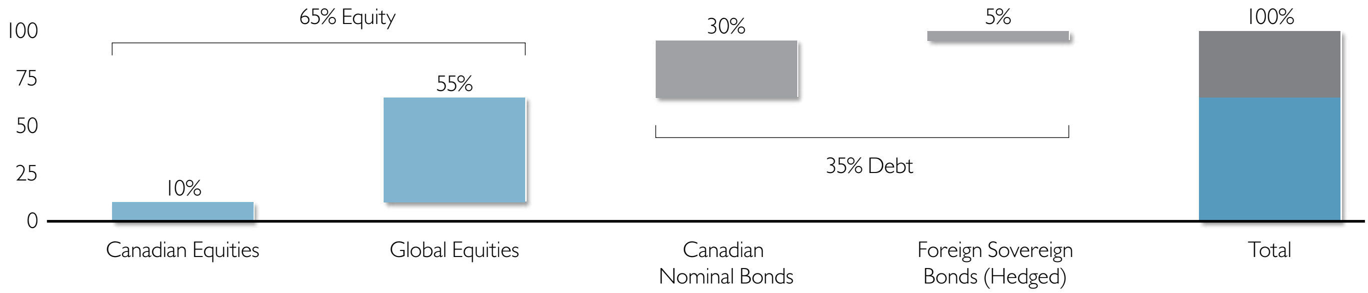
1. CPP REFERENCE PORTFOLIO

The CPP Reference Portfolio is designed as a simple, low-cost, diversified and readily investable portfolio that is expected to at least provide the returns anticipated by the Chief Actuary of Canada in his review of CPP sustainability without undue risk of loss.

To meet the criteria of simplicity, low cost and investability, the CPP Reference Portfolio comprises only public market asset classes represented by broad market indices which can be invested in at minimal expense. Its component allocations cover much of the global public stock and bond markets. As a passive alternative strategy, the CPP Reference Portfolio thus provides one measure of comparison for long-term performance of the actual portfolio.

The constituents of the CPP Reference Portfolio and their market weights also form the actual holdings in the Fund to the extent that these holdings have not been sold to finance the purchase of other investments. This provides another accountability measure as the returns foregone when constituents are used to finance other investments form a yardstick for measuring the value subsequently added by those investments.

CPP REFERENCE PORTFOLIO
As at April 1, 2014



The current 65% weighting for total equity exposure reflects the Fund's ability to accept shorter-term economic and capital markets risks to seek commensurately higher returns over the long term.

The current 35% weighting for fixed income provides more stable asset values and high-quality cash flows. A substantial component of the Fund's fixed income holdings, currently 10.6% of the Fund, comprises non-marketable Canadian federal, provincial and territorial bonds that were inherited or rolled over from the 1997 transition.

The CPP Reference Portfolio will be reviewed again in fiscal 2015, taking into account the 26th triennial review of the CPP by the Chief Actuary that was published in late 2013, and the evolution of CPPIB's multi-year planning consistent with its exceptionally long investment horizon.

Currency Hedging

Most countries allow exchange rates for their currencies to fluctuate in an open market regime, although central banks may intervene to stabilize excessive movements. Accordingly, many pension funds have partial or full hedging programs to stabilize the values of their foreign assets in Canadian dollar terms. But hedging has a financial cost. And it requires that cash be tied up or generated quickly to meet hedging contract obligations when the Canadian dollar depreciates against other global currencies.

Only one component of the CPP Fund's international investments is hedged to Canadian dollars: foreign bonds or equivalent debt exposures arising from other investments. Hedging reduces their return volatility, but more importantly allows them to serve as a reasonable substitute for Canadian bonds. For foreign equities, however, the contribution of exchange rate fluctuations to return volatility is much smaller than that of the local equity market returns themselves.

Four reasons underlie our policy of not hedging foreign investments other than fixed income exposure.

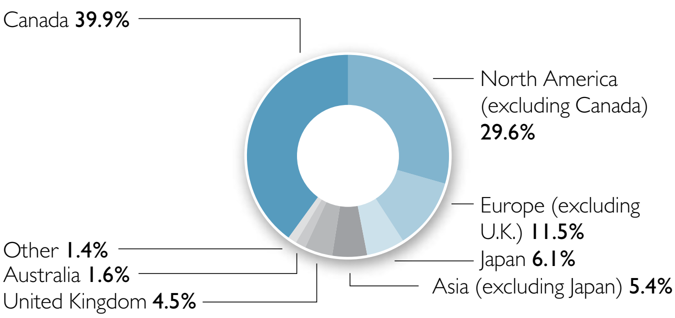
1. We see little reason to expect a sustained long-term trend to net returns from exchange rate movements for the widely diversified set of currencies associated with the Fund's equity holdings. If a country persistently has substantially higher inflation than others, investors will demand a risk premium against the likely decline of its currency.
2. The cost of hedging currencies of many developing countries is prohibitively high. And, if these countries prove to have a significant long-term advantage in productivity and economic growth, their currencies will tend to strengthen vis-à-vis those of developed countries. Hedging would negate this potential gain to the Fund.
3. The Canadian dollar is highly linked to the price of oil and, to a lesser extent, other commodities. In principle, it is prudent to diversify currency exposure away from such a dominant but uncertain influence.
4. Looking out over the long term, future contributions from CPP participants form the primary asset that offsets CPP benefit liabilities. Any strengthening of the Canadian dollar versus other currencies will most likely be accompanied by strengthening of the Canadian economy and rising earnings for CPP participants. As covered earnings rise, so do contributions to the CPP. This represents a natural hedge, greatly reducing the need for explicit currency hedging of the CPP Fund's foreign investments.

Under this long-term policy, we accept that in years of large currency moves, total Fund performance may be materially affected – in either direction – relative to other funds that have hedged currency exposure to a greater extent.

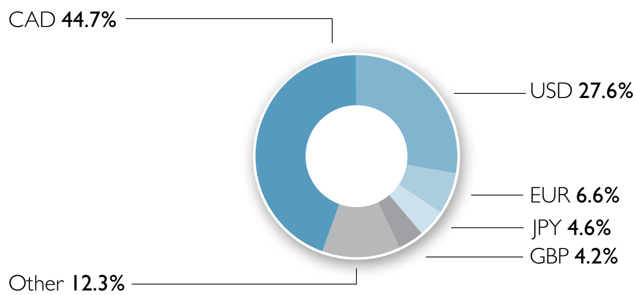
The constituent market value weightings of the four CPP Reference Portfolio asset classes, along with our currency hedging policy, would result in the targeted geographic and currency exposures shown below, as at March 31, 2014.

GEOGRAPHIC MARKET AND CURRENCY EXPOSURES OF CPP REFERENCE PORTFOLIO

Geographic Market Exposures



Currency Exposures



2. ACTIVE MANAGEMENT FOR VALUE CREATION

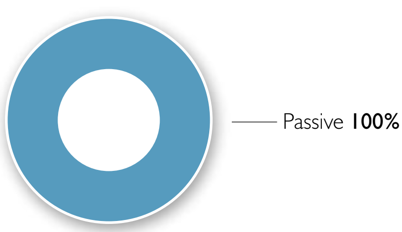
The second principal element of our investment strategy is to seek value creation, within risk limits, through a wide range of active investment programs that go beyond CPP Reference Portfolio holdings and weights. All active programs must meet the test of efficient scalability as the Fund continues to grow, and we eschew programs that might be attractive but have limited capacity.

The decision to deviate from the CPP Reference Portfolio is not taken lightly. Many investors seek above-market risk-adjusted returns, but relatively few consistently achieve them. Management must continually assure itself and the Board of Directors that it is reasonable to expect sufficient additional returns over long periods of time to justify the added cost and complexity of active management. Successful active investing in competitive markets requires that we attract and retain strong internal expertise, and ensure robust operational capability, whether portfolios are managed in-house or by selected external partners.

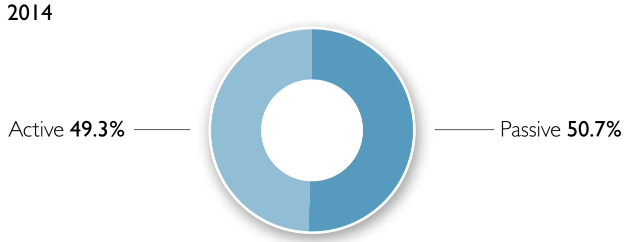
Active programs are funded by the sale of CPP Reference Portfolio holdings. Some programs, such as market-neutral or long/short positions, may be largely self-funding. The evolution of the resulting mix of passive and active management holdings is shown below.

ACTIVE VERSUS PASSIVE ASSETS

2000



2014



Risks and associated investment returns are usefully separated into their systematic and non-systematic components. Systematic risks stem from common factors that affect all investments in a particular portfolio. The market returns from these risks are often referred to as "beta." Investment-specific returns beyond the beta contribution are often called "alpha." Systematic risks may be diversified at the total portfolio level, but cannot be eliminated. Non-systematic, or idiosyncratic, risks are specific to each individual investment. In a sufficiently broad portfolio, non-systematic risk can be substantially diversified away but the broader the diversification, the greater the tendency to forego alpha returns.

Through active management, we seek to create value for the Fund in three ways:

> **Beta-oriented:** We seek to achieve meaningful and sustainable net additional returns as well as diversification of risks by investing significantly in asset classes and systematic risk exposures that are not directly represented in the CPP Reference Portfolio. The beta return sources are:

1. Public Market Beta. Total portfolio beta is dominated by the asset classes/indices of the CPP Reference Portfolio. However, this source may also be accessed by investing in publicly traded securities not included in those indices such as corporate bonds;
2. Public Alternative Beta. Other known systematic risks, such as size and "value" effects in public equities, can be accessed through rule-based portfolios constructed by alternative weightings, rather than standard capitalization-weighted indices; and
3. Private Alternative Beta. This arises from premium returns related to inherent risk/reward factors harvested by private investments, such as governance and liquidity differences, and participation in alternative return-generating areas such as real estate, infrastructure and agricultural land.

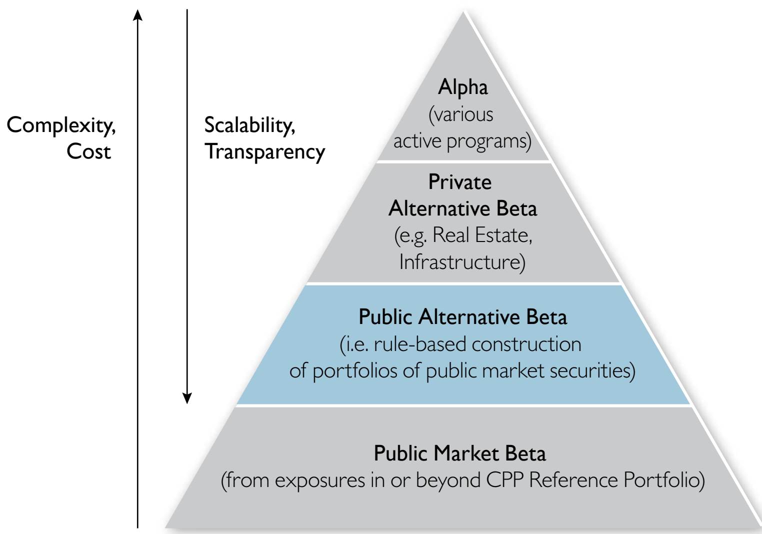
> **Alpha-oriented:** Ideally, alpha can be earned by investment management skill whether markets or specific assets are rising or falling. Such "pure" alpha is extremely valuable as it does not add to systematic risks in the portfolio and its contribution to total risk can be calibrated and controlled. We deploy several strategies to earn alpha, which include:

1. Capturing the special opportunities available only to large sophisticated investors. Our ability to execute major transactions in direct private equity, infrastructure and real estate investments is especially important;
2. Purchasing individual public market securities that outperform the assets used to finance them. The long/short activities of our Global Corporate Securities group and a number of external specialist managers we have engaged typify this approach. The choice of individual private investments also requires this selection skill;
3. Employing structured trades and arbitrage techniques to capture specific risk premiums without adding materially to market risks. This occurs most notably for supplying liquidity, an activity where we have a major competitive advantage. We maintain structuring and trading skills in our Global Capital Markets group; and
4. Actively shifting systematic risk exposures to successfully anticipate relative price movements within specific groups such as currencies, equity and/or bond markets, and commodities. At a tactical level, our Global Tactical Asset Allocation group and certain external managers provide particular skills for this strategy.

> **Strategic:** From a longer-term perspective, we seek to enhance the sustainability of value creation by the Fund over decades to come. While this principle runs through all of our investing activities, we note three particular aspects:

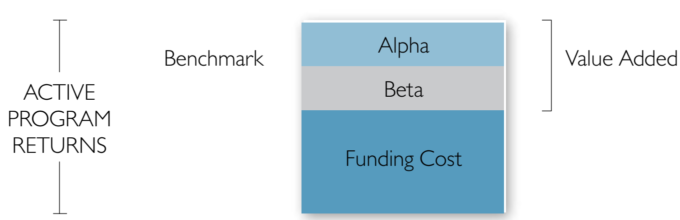
1. As capital markets become progressively more efficient, we regularly review all active management activities to assess whether their investment thesis remains capable of delivering meaningful long-term value beyond passive, lower cost investing;
2. We act as active and engaged owners of our direct equity, real estate and infrastructure investments, representing over 43% of the total portfolio. This is clearly critical when we have significant ownership in a private company or partnership, and in some cases board representation. However, it applies also to our long-term holdings in many public companies that result from both index-based investments and longer-term active equity strategies. When we believe that engagement with an individual company's management or board can lead to change that will materially improve long-term corporate performance, we will act directly or in concert with like-minded investors. The need to engage as an active owner often relates to governance, environmental or social issues. It is undertaken by our Responsible Investing group partnering with the relevant investment team; and
3. We increasingly seek to anticipate global economic trends and broad market themes over a five- to 10-year horizon. We are then prepared to adjust total portfolio risk exposures within prudent limits given the inherent uncertainties.

ALPHA/BETA SOURCES OF RETURN



Each active program has an assigned benchmark whose return provides the base for determining alpha contributions to total return. The benchmark is the market index or blend of indices most representative of the systematic risks (beta) in the program. Then, alpha value-added is the excess return over the benchmark return, and beta value-added is the excess of the benchmark return over the funding cost – the basic opportunity cost of the foregone returns on securities that were sold to make the investments in the program, as shown below:

BETA AND ALPHA VALUE-ADDED RETURNS



Capitalizing on our scale, skills and access to world-class partners, CPPIB has made a major commitment to investments in private markets. In some cases, these are expected over the long term to provide returns superior to those of their nearest public equivalents. In others, they provide a distinct source of underlying return generation and hence diversification within total portfolio returns. Examples include net rental income and appreciation of land and property values in real estate, or inherently growing stream of income such as user fees in public infrastructure. Also, the pattern of their reported returns is generally much less volatile year-to-year than for public markets. This is because valuations of private markets are necessarily based on periodic appraisals, which naturally tend to both lag and smooth the transaction-based valuations of publicly traded securities.

The growth of our private investing programs is shown below.

GROWTH OF PRIVATE INVESTING PROGRAMS

ASSET TYPE ($ billions)	March 31 2005	2010	2012	2013	**2014**
Private equity	2.9	16.1	26.3	32.6	**41.3**
Real estate	0.4	7.0	17.1	19.9	**25.5**
Infrastructure	0.2	5.8	9.5	11.2	**13.3**
Private debt	–	0.9	4.7	4.1	**5.7**
Private real estate debt	–	0.3	1.6	2.3	**2.7**
TOTAL	3.5	30.1	59.2	70.1	**88.5**
% OF FUND	4.3%	23.6%	36.6%	38.2%	**40.4%**

We also extensively pursue active management in global public markets as we build our internal teams, enhance our skills and work with a diverse and rigorously selected group of external manager partners whose expertise complements our in-house capabilities. Because many of these programs are conducted on a long/short basis, the amounts of net assets deployed do not adequately represent their impact on the CPP Fund. Rather, we compute the amount of implied Assets Under Management, so that the size of Public Market Investments' activities can be viewed on a comparable basis. More detail is provided on page 45. Using this measure, the growth of our active public market programs is shown below.

PUBLIC MARKET INVESTMENTS IMPLIED ASSETS UNDER MANAGEMENT (AUM) FOR ACTIVE PROGRAMS

ASSET TYPE ($ billions)	Fiscal year 2005	2010	2012	2013	**2014**
Public Market Investments	1.4	16.2	28.5	29.0	**40.3**

Internal Management

Our scale affords us the ability to manage substantial portions of the portfolio internally. This has two primary benefits. First is the obvious one of lowering the cost per dollar of managing investments. Every dollar saved by our lower-cost structure is additional net income for the Fund, and much more certain than one dollar of possible return. Frequently our scale and internal capabilities in both public and private markets allow us to successfully staff and execute activities similar to those of external investment management firms but at a fraction of the cost. Still, we do engage external managers for high prospective payoffs in areas where our own expertise can be cost-effectively supplemented, especially in newer but sound public market strategies. We also highly value the external partners with whom we participate in major private investments. Our close attention to all costs is described in the Managing Total Costs section on page 66.

The second benefit of internal management strength comes from the exceptionally broad and deep expertise that we bring to the assessment and acquisition of investments. In our Public Market Investments departments, all of the trading-oriented groups have developed specialist trading and structuring capabilities designed specifically for CPPIB. Our External Portfolio Management group has the experience and analytical strength to evaluate a continual flow of emerging strategies and managers – this enables us to invest only in those with a solid case for scalable, significant and sustainable return generation. Our Relationship Investments group is founded on deep, in-house fundamental analysis of candidate public companies – a subsequent successful relationship requires that we bring constructive expertise to the working partnership. In private markets, our success depends on the reputation and skills of the internal teams in our Real Estate Investments and Private Investments departments. Many investors in these asset classes are seriously handicapped by major asymmetry of knowledge between their limited or less qualified in-house staff and the external managers they engage. CPPIB, however, can work with carefully selected world-class partners as respected equals.

3. TOTAL PORTFOLIO APPROACH

We have developed a portfolio management approach that differs significantly from that of many other investors. By its nature, the CPP Reference Portfolio constitutes a set of market exposures and systematic risks that can form a starting point. As we modify or go beyond those, we deliberately weigh the prospects and risk exposures of each decision. The Total Portfolio Approach is critical to avoid, as far as possible, any exposures that are unintended and any risks that are insufficiently compensated. This approach generally has enabled us to prevent unrecognized equity-like risk from creeping into the portfolio through virtually all private asset classes – not just private equity.

The most important risk control dimension is identifying the relative public equity and government debt "economic exposures" inherent in each investment. Many investments, such as real estate and infrastructure, have characteristics of both equity and debt. Looking through asset class labels, we seek to ensure that the total portfolio's systematic risk exposures either match those of the CPP Reference Portfolio or deliberately deviate from it.

CPP REFERENCE PORTFOLIO	ECONOMIC EXPOSURES	
Canadian Equities Global Equities	All passive public equity exposure plus private equity plus underlying equity exposures inherent in real estate, infrastructure, other assets, and externally-managed funds.	65% Equity
Canadian Nominal Bonds Foreign Sovereign Bonds	All passive fixed income exposure plus underlying debt exposures inherent in private debt, real estate, infrastructure, other assets, and externally-managed funds.	35% Debt

Many investors target specific asset class weights in their total portfolio. We believe this traditional approach can create pressure, possibly at inopportune times, to buy or dispose of illiquid investments to stay close to allocation weights. Our approach considers the systematic factors underlying each investment opportunity, whether a purchase or a sale, so when warranted we can adjust liquid passive investments with reasonably matching characteristics to maintain overall targeted risk exposures. By themselves, asset class labels do not clearly convey the highly diverse nature of investments within each asset class. Nor do they explicitly recognize the extent of risk attributes that the investments have in common. Accordingly, we strive to deconstruct each investment into its systematic exposures to:

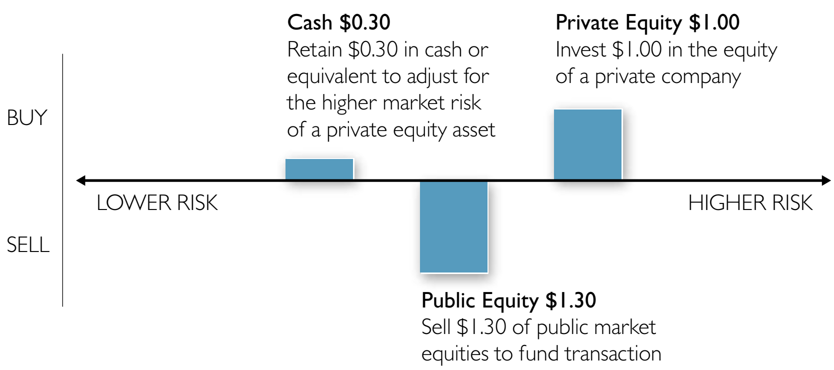
> Equity markets;
> Government bond yields;
> Currency exchange rates;
> Country and regional influences;
> Commercial sector influences;
> Credit quality; and
> Liquidity.

Our diverse portfolio holdings can be analyzed and aggregated along each of these dimensions to ascertain the portfolio's overall effective exposures and risks. Targeted exposures can never be exactly hit and maintained as the portfolio and markets change on a daily basis, but the total portfolio is rebalanced at least quarterly. We thus minimize unintended systematic risks at the total portfolio level as it continuously evolves through time.

Examples of the Total Portfolio Approach at Work

Here are two illustrations of how we use the Total Portfolio Approach to maintain intended exposures when making major transactions in private investments. Both also show how we adjust for leverage (debt level) in the underlying investment, a critical contributor to risk.

FUNDING A PRIVATE EQUITY TRANSACTION USING THE TOTAL PORTFOLIO APPROACH



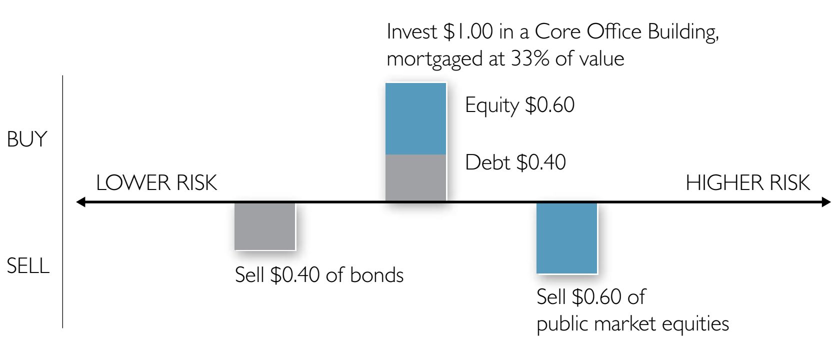
Our general premise is that private companies have much in common with comparable public companies, but typically carry significantly higher systematic risk. This often results from increased financial leverage after a public company goes private through a buyout. CPPIB's private equity portfolio largely comprises mid- and larger market leveraged buyouts, and we assign it an average 30% degree of higher market risk than comparable public equities. To maintain the total portfolio's country, sector and market risk exposures, we fund a private equity transaction through two steps:

1. Match, to the extent possible, the commercial sector and geographic regions of the public equities to be sold with the private company that is to be bought. For example, to invest privately in a U.S. healthcare company, we sell the appropriate proportion of publicly-traded U.S. healthcare stocks held in the passive portfolio – or the nearest systematic equivalent if insufficient U.S. healthcare stocks remain available for sale.
2. For each $1.00 of a private equity investment, we would ideally sell $1.30 of public equities and retain $0.30 in cash. In practice, we adjust such that the lower equity risk in the remainder of the total portfolio approximately offsets the higher systematic market risk inherent in private companies.

Real estate and infrastructure have both equity- and debt-like return and risk characteristics. As such, we:

1. Conduct quantitative and qualitative analyses of each investment and assign it to a risk category. Examples of infrastructure categories are energy transmission, toll roads and communications networks. Equity real estate risk categories are low, core/medium or high. Assignment reflects our overall risk assessment of the investment net of any debt or mortgage financing.
2. Fund new purchases by selling a mix of public fixed income and equity holdings designed to reasonably match the risk category and geographic exposures.

FUNDING A REAL ESTATE TRANSACTION USING THE TOTAL PORTFOLIO APPROACH



In summary, the Total Portfolio Approach demands that we characterize each investment or strategy in terms of its risk attributes which then determine the corresponding funding portfolio of security sales. Further, we decide to proceed on a major transaction only after quantifying its expected impact on the risk exposures of the managing group, the investment department and the total portfolio. Finally, we monitor our key evolving risk exposures each day with particular attention to effective equity/debt, currency and country weights. The total portfolio is balanced at least quarterly within tolerance ranges of the intended targets.

In our view, the Total Portfolio Approach is a relatively simple concept for disciplined portfolio structuring and risk control. However, making it work requires an understanding of how it differs from conventional decision-making. This is especially the case for private investments, which many assess against absolute return targets but not also the foregone returns on securities sold to fund their acquisition. Our approach requires complementary technology, detailed risk measurement and coordinated decision-making across the entire organization.

RISK/RETURN ACCOUNTABILITY FRAMEWORK

The Risk/Return Accountability Framework (RRAF) delineates accountabilities within which CPPIB manages the Fund. It is founded on two basic governance elements adopted by our Board of Directors: the CPP Reference Portfolio described on page 22 and the Total Fund Active Risk Limit. "Active risk" arises from the deviations between the actual portfolio holdings and those of the CPP Reference Portfolio. Each year, the Board approves a specific limit for active risk. This controls how far management can deviate from the CPP Reference Portfolio to seek additional returns. Risks and limits are expressed in the form of one-year Value at Risk (VaR) at the 90th percentile. This means that under normal market conditions, we expect the total portfolio to face no more than a 10% chance of underperforming the CPP Reference Portfolio by the VaR amount or more in any 12-month period.

Through the annual risk budgeting process, management's Investment Planning Committee (IPC) evaluates each investment department's annual business plan including expected net new investments and risk for the coming five fiscal years. Keeping aggregate risk within the limit set by the Board of Directors, the IPC then approves the preferred range of new asset deployment and risk expectations for each investment department and also for investments that are the accountability of the IPC itself. Through comprehensive quarterly reports, the Board monitors total fund risk, management's progress against the business plans, and the extent of value added relative to the CPP Reference Portfolio.

Successful investing requires not only a well-defined scope, clear decision-making responsibilities and singular accountabilities but also well-aligned compensation with performance-based incentives. The Human Resources and Compensation Committee of the Board of Directors (HRCC) establishes an explicit performance benchmark index or blend of indices for each active program and its related incentive compensation structure.

The Board and Management continue to evaluate potential adjustments to the RRAF to ensure that its structure is most appropriate to effect CPPIB's longer-term plans. The diagram below shows our current structure:

Accountability	**Risk/Return**
Board of Directors	CPP Reference Portfolio Active Risk Limit
Human Resources & Compensation Committee	Active program benchmarks and incentive frameworks
Investment Planning Committee (advised/implemented by Total Portfolio Management department)	Departmental asset and risk targets; active program approvals and funding; total portfolio risk management Beta Value-Added → Total DVA ← Alpha Value-Added
Investment Departments	Execute investment strategies and active programs to generate alpha and beta

We assign accountabilities for both risk undertaken and returns achieved as follows:

Investment Planning Committee

> The Investment Planning Committee (IPC) is accountable for decisions to extend portfolio investments beyond the CPP Reference Portfolio in both beta and alpha areas, and for the assignment and approval of investment mandates for each active program;
> It is also accountable for establishing and maintaining the targeted systematic risk exposures of the Fund, including currency exposures, and for controlling total portfolio risks within any limits established by the Board;
> IPC also directs the management of a number of investments that are deemed of strategic importance to the Fund but which are better accounted for centrally than in any particular investment group;
> The IPC's primary measures of risk are the total active risk arising from differences between actual holdings and the CPP Reference Portfolio, and the absolute risk level of the Fund as compared to that of the CPP Reference Portfolio; and
> Its measures of success are the long-term value-added – beta plus alpha – from each active program relative to its funding costs, and the total dollar value-added for the Fund relative to the CPP Reference Portfolio.

Investment Departments/Groups

> Each is accountable for the decisions of its Investment Department Decision Committee to approve or reject new strategies and individual investment transactions;
> Each is accountable for the execution of active portfolio management programs within their mandate;
> The primary measure of risk is the active risk of active program holdings relative to their benchmarks; and
> The primary measure of success is alpha contribution: the dollar value-added by the department's programs, after all costs, relative to the benchmarks approved by the HRCC.

Risk quantification goes beyond market risk to recognize the important factor of credit risk, including counterparty risk. Using a VaR measure, credit risk estimates the potential losses if entities default on loans from the CPP Fund or if counterparties fail to meet their financial obligations under derivatives or other contracts. Policies and methodologies for the assessment and control of credit risk exposures are proposed by management's cross-departmental Credit Investment Committee and approved by the IPC. The Credit Investment Committee also approves specific strategies and transactions that extend the Fund's exposure to credit risk.

We backtest risk measurement methodologies each quarter by comparing the actual range and frequency of outcomes against those predicted by our risk models. We also conduct stress tests to estimate the potential impacts of major adverse events or environments. Tests include occurrences similar to the 1987 equity crash, the emerging markets currencies and debt crisis of 1997–98, and the global financial crisis of 2008–09. We continue to develop additional risk models that use multi-scenario forward-looking simulations to enhance risk control and active decision-making.

BENCHMARKING UNDER THE RISK/RETURN ACCOUNTABILITY FRAMEWORK

Benchmarking is critical to CPPIB's management and our Board of Directors to:

> Assess the effectiveness of the active programs based on the value-added relative to the risks taken;
> Help decide which strategies should be emphasized, modified or curtailed; and
> Provide a basis for determining the element of employee incentive compensation that is related to investment performance.

TOTAL FUND BENCHMARK

The CPP Reference Portfolio provides a total fund benchmark as a simple, investable low-cost portfolio alternative. We seek to add value by generating net returns above those that could have been achieved by investing passively according to the CPP Reference Portfolio and its public market benchmark indices. Net returns consist of total fund performance minus all investment costs and CPPIB operating expenses. Total Fund dollar value-added averaged over a four-year period directly affects incentive compensation for all CPPIB employees. Further detail is provided in the Compensation Discussion and Analysis on page 74.

DEPARTMENT/GROUP BENCHMARKS AND VALUE-ADDED TARGETS

We also compare our investment results to relevant benchmarks that are more granular than the CPP Reference Portfolio and more specific than the very long-term expectations of absolute returns needed to help sustain the CPP. Returns on public market indices are available for many types of investments. When they are not available or sufficiently representative, the results of comparable investors can provide a standard. However, the length of the measurement period, the circumstances during that period and the extent to which the future may differ from the past are all limiting factors in drawing conclusions about investment performance results.

The HRCC of the Board of Directors approves the framework for all compensation as well as the specific benchmark indices and targets required to achieve defined levels of incentive compensation related to investment performance. Benchmarks and targets are established according to the following principles and processes:

> Operating independently of the investment departments, the Total Portfolio Management department identifies benchmarks that are most representative of the expected constitution and systematic risks of each active program and proposes them for approval by the IPC and HRCC;
> Targets for value-added performance are set that reflect:
  - The intended scope and focus of active decision-making and investment selection;
  - The degree of risk inherent in the program. There should be no incentive to seek additional compensation simply by taking on more risk than targeted;
  - The return that might reasonably be expected for the projected risk; and
  - The range of skill-based results exhibited by external managers in the same or related field.
> All external investment costs and internal operating expenses are deducted from actual returns before attributing any value-added. Internal operating expenses include direct costs for the investment group and allocated amounts from oversight, management, operations and technology areas;
> A range of positive/negative incentive compensation multipliers for levels of value-added is developed for each active program. The multiplier for zero net value-added is typically set at zero unless the program's primary purpose is to effectively harvest beta returns largely inherent in the benchmark itself. The maximum multiplier generally corresponds to estimated top-decile four-year performance of a representative group of external managers under comparable mandates;
> Incentive payments in a year are based on a four-year averaging methodology. This period is the norm for organizations similar to CPPIB and consistent with industry-leading practices. It encourages a focus on longer-term rather than single-year results;
> Methods and results for actual and benchmark returns are examined by CPPIB's external auditors who report their findings to the HRCC. An independent advisor has confirmed that our processes meet or exceed the standards in the G20 Principles on Compensation in Financial Services.

Specific benchmarks and targets for individual investing groups are described below. In all cases, they are adjusted to remove the influence of currency fluctuations from the actual returns and corresponding benchmarks as currency management is conducted at the total portfolio level.

Public Market Investments: Most active programs in the department are intended to generate pure alpha independent of market movements. Targets in dollar terms are set at the start of each year for the degree of risk expected to be employed. For pure alpha strategies, an absolute dollar amount of value-added is required over the risk-free returns on any cash required to finance or maintain the investment. Certain programs that employ external managers may involve significant systematic risks. In that case, an appropriate benchmark index is assigned. In both cases, the value-added target ranges are determined from competitive ratios of value-added per unit of risk.

Private Equity: The underlying benchmark for each investment is the return on public large/mid-cap equity in the relevant region and sector adjusted to a 1.3 market beta. Our benchmarks recognize the clear lag and smoothing inherent in appraisals-based private equity valuations relative to public equities by using a weighted average of the quarterly public market index returns over the four quarters prior to the most recent quarter. This substantially improves quarter-to-quarter tracking between private equity and public market returns without introducing any positive or negative systematic bias over time

Agriculture: Since there is no satisfactory published index that is sufficiently representative of this program, the benchmark matches the funding cost as a weighted blend of the global bond and global stock indices used for the CPP Reference Portfolio. As with Private Equity, a weighted average of the quarterly index returns for the previous four quarters is used to calculate the benchmark return.

Infrastructure: The underlying benchmark for each investment is a blend of indices of broad public equity and government bonds. The equity weighting is based on the systematic risk of the investment's particular sector, such as toll roads or water utilities, relative to the public equity index with an adjustment for the riskiness of the specific investment within that sector. The returns on this benchmark are averaged over the latest eight quarters to improve the tracking of actual returns with public benchmarks without introducing any systematic bias over time.

Private Debt: The benchmark is a weighted blend of published indices for high-yield debt and leveraged loans. The weights reflect the expected distribution of the portfolio holdings across types (loans or debt), credit ratings and regional composition.

Intellectual Property: The benchmark is a weighted blend of published U.S. high-yield and investment grade intermediate term bond indices, and stock indices for the U.S. healthcare, information technology, telecom and media industries . The weights reflect the expected distribution of the portfolio holdings for the fiscal year across types of royalty investments and quality classifications.

Private Real Estate Equity: The Investment Property Databank (IPD) maintains performance surveys for a variety of countries and regions. These are well-recognized standards for comparable private real estate investments by institutions. Returns from the relevant survey are used as benchmarks for the regional and sector components of our real estate program. These benchmark returns are then reduced for certain unavoidable expenses not included in the IPD calculations, notably land transfer and other taxes, acquisition costs and the basic portfolio management fees or costs required to harvest the beta return.

Private Real Estate Debt: The benchmark is a weighted blend of market indices of publicly-traded corporate bonds and loans of comparable credit quality and term to maturity.

Our approach employs more investment-specific benchmarks than investment organizations typically use. We believe this additional complexity provides a better match of benchmarks with the risk characteristics of our active programs, providing clearer accountability and alignment for investment decision-making and incentive compensation.

ENTERPRISE RISK MANAGEMENT

CPPIB's activities expose us to a broad range of risks in addition to investment risks. All risks are managed within an Enterprise Risk Management (ERM) framework with the goal of ensuring that the risks we take are commensurate with and rewarded by long-term benefits.

Our ERM framework is based on a strong governance structure including a risk-aware culture, risk policies, defined risk appetite and risk limits; processes for identifying, assessing, measuring, mitigating, monitoring and reporting all key existing and emerging risks; and control practices with independent assurance that these practices are working properly. We define a key risk as one that could have a significant impact on our ability to execute our mandate.

During fiscal 2014, we made a number of enhancements to our risk management practices:

> Further integrated risk budgeting and consideration of enterprise risks and risk appetite statements into the business planning process;
> Made revisions to our key enterprise risks and appetite statements to reflect new and emerging risks; and
> Enhanced our market and credit risk measures and advanced development of a new system to measure and report on investment risks.

Risk governance at CPPIB is accomplished by the Board, management and committees. The Board of Directors is responsible for oversight of CPPIB's efforts to achieve a "maximum rate of return, without undue risk of loss" in accordance with CPPIB's mandate. To this end, the Board is responsible for ensuring that management has identified all key risks and established appropriate strategies to manage them. Board committees have risk-related responsibilities as follows:

> The Investment Committee establishes investment standards, procedures and policies. It reviews, approves and monitors CPPIB's investment activities and active risk levels. It also reviews the approach to investment risk management;
> The Audit Committee oversees financial reporting, information systems and technology and associated risks, external and internal audit and internal control policies and practices;

> The HRCC is responsible for risks related to our employees and employment practices. The HRCC reviews and recommends the compensation framework, approves performance benchmarks and incentive compensation, and ensures a succession planning program is in place; and
> The Governance Committee recommends governance policies, guidelines and procedures, makes recommendations on the Board's effectiveness, monitors application of the Code of Conduct and conflict of interest guidelines, and assumes other duties at the request of the full Board.

The President & CEO is, by way of delegation by the Board of Directors, accountable for all risks beyond those explicitly controlled by the Board. The responsibility for risk management is further distributed throughout the organization starting with the Senior Management Team (SMT), which comprises the President & CEO and his direct reports.

The SMT considers the full spectrum of inherent and emerging risks and ensures close alignment of our risk management efforts with our business strategy and plans. The leaders of each department are responsible for appropriately managing the risks assumed within their areas of responsibility.

The Chief Operations Officer (COO) oversees the ERM framework for CPPIB.

The Chief Financial Officer (CFO) is accountable for the Investment Risk group which measures, monitors and reports investment risks independently from the investment departments. The Internal Audit department plays an important role as it provides independent assurance that controls and mitigants are properly designed and operating effectively.

Management committees, including the Investment Planning Committee (IPC), the Investment Department Decision Committees and the Credit Investment Committee, have risk-related responsibilities as described previously in the Risk/Return Accountability Framework (RRAF) section on page 30.

The following sections describe each of our five principal risk categories and risk management strategies:

Strategic Risk: This is the risk that CPPIB will make inappropriate strategic choices or be unable to successfully execute selected strategies or adapt to changes in the external business, political or socioeconomic environment over the long term. Managing strategic risk effectively is critical to achieving our mandate.

A number of important processes control and mitigate strategic risks:

> An annual review of our strategy by management that is reviewed with the Board;
> Strategies are prepared for each investment program to ensure alignment with CPPIB's overall strategy and comparative advantages;
> Detailed business planning that considers our longer-term objectives is carried out by each department and reviewed by the President & CEO, with an annual business plan approved by management and the Board;
> Quarterly reviews of the portfolio and associated investment risks are completed, in the context of capital market and emerging economic conditions; and
> Quarterly reporting and discussion of our progress is conducted against the approved business plan by both management and the Board.

Investment Risk: This is the risk of loss due to participation in investment markets. It includes market risk (including currency, interest rate, equity price, commodity price and credit spread risk), credit risk (including counterparty risk) and liquidity risk, in both internally and externally managed portfolios. It is managed and monitored in accordance with the RRAF and the Investment Risk Management Policy approved by the Board of Directors.

We have risk committees to oversee our investment risk exposures. The Investment Committee of the Board receives a quarterly report that reviews our assets, investment income, investment returns, risk measures and stress testing results. Management's IPC reviews the risks in the portfolio weekly and monthly through commentaries prepared by the Investment Risk group. The Credit Investment Committee oversees all credit exposures and monitors our risk levels in accordance with approved policy risk limits.

Additional information related to our investment risk exposures and risk measurement and management processes is included in note 4 to our Financial Statements on page 108.

Legislative and Regulatory Risk: This is the risk of loss due to actual or proposed changes to and/or non-compliance with applicable laws, regulations, rules and mandatory industry practices. Failure to comply could result in financial penalties or portfolio losses and damage to our reputation.

Our compliance program is designed to promote adherence to regulatory obligations worldwide, and to help ensure awareness of the laws and regulations that affect us and the risks associated with failing to comply. We monitor emerging legal and regulatory issues as well as proposed regulatory changes, and take a constructive role in these developments when appropriate. Input is regularly sought from external legal counsel to keep us informed on emerging issues.

Our Tax group plays a key role in informing decision-making, advising on tax risk management and evaluating overall tax practices. We review key tax risk issues both as part of transaction due diligence and at the total Fund level.

Operational Risk: This is the risk of loss due to actions of people, or inadequate or failed internal processes or systems as a result of either internal or external factors. Operational risk encompasses a broad range of risks, including those associated with:

a) Human resource management and employment practices;
b) Employee misconduct including breaches of the Code of Conduct, fraud, and unauthorized trading;
c) Ability to recover from business interruptions and disasters;
d) Transaction processing, operations and project execution;
e) Data, models, user-developed applications (UDAs) and information security; and
f) The integrity of financial reporting.

Exposures can take the form of direct financial losses, indirect financial losses appearing as operating inefficiencies, regulatory sanctions or penalties, or damage to our reputation. Operational risk can also directly impact our ability to manage other key risks.

Each member of the SMT bears primary accountability for managing operational risks within their department. We manage operational risk through internal controls that are subject to internal audit reviews. We also conduct a thorough analysis as part of the CEO/CFO certification of internal control over financial reporting. The Finance, Analytics and Risk department, and the Operations and Technology department maintain rigorous protocols for implementing new investment products and technologies, managing data, models and user-developed applications, ensuring information security, and establishing continuity plans for potential business interruptions. Also, we purchase property and casualty insurance, as well as director and officer liability coverage.

Reputation Risk: This is the risk of loss of credibility due to internal or external factors and is often related to, or results from, other categories of risk. This risk can arise from our internal business practices or those of our business partners or the companies in which we are investors. Business partners include third parties hired to perform some of our administrative functions as well as investment organizations with whom we have a contractual arrangement. A loss of reputation could impact our position as a partner, investor and employer of choice and impede our ability to execute our strategy.

The responsibility for managing reputation risk extends to every employee and Director. This is clearly detailed and communicated through our Code of Conduct and our Guiding Principles of Integrity, Partnership and High Performance which apply to all employees and all business activities. The Code, as an example, requires all employees and directors to disclose any personal trading or business interests that might lead to a real, potential or perceived conflict of interest.

We require that reputation risk assessments be part of the investment decision-making process, and business strategy development and execution. Our Issues Management Executive Committee has a mandate to address any significant issues as they arise. Additionally, we continue to proactively build our reputation and brand with key stakeholders globally to support our business objectives and mitigate risk.

Our approach to managing risks and opportunities related to environmental, social and governance (ESG) factors is described in the Responsible Investing section on page 36.

RESPONSIBLE INVESTING

Supporting the sustainability of the Canada Pension Plan (CPP) for generations to come compels us to consider long-term environmental, social and governance (ESG) factors when we make investment decisions, manage our investments and engage with companies in which we invest. As a global investment organization, considering ESG factors in our investment and asset management decisions is an integral element of our investment processes to maximize returns without undue risk of loss. As an engaged asset owner, we have put in place policies, processes and resources that we use to integrate the consideration of ESG into our investment decisions and asset management activities.

We believe that organizations that manage ESG factors effectively are more likely to create sustainable value over the long term than those that do not. Given our investment-only mandate, we integrate ESG into our investment analysis, rather than eliminating investments based on ESG factors alone. As an owner, we monitor ESG factors and actively engage with companies to promote improved management of ESG, ultimately leading to enhanced long-term outcomes in our investments. As a long-term investor, ESG factors are of greater importance to us than to investors who focus on near-term financial performance metrics. Better disclosure of ESG-related metrics and activities, such as greenhouse gas emissions data and water-related strategies, helps us make better long-term investment decisions.

We seek to be active, engaged owners by establishing policies and processes, devoting resources, implementing strategies and undertaking activities to consider ESG. We do this through two core functions:

> Integration – we incorporate both the risks and opportunities of ESG factors in our investment decision-making and asset management across all of our investment departments; and
> Engagement – we seek to enhance long-term performance of companies in which we invest by engaging, either individually or with like-minded investors, to encourage better management of ESG factors. We fully exercise our rights as shareholders, including proxy voting, and provide public disclosure of our *Proxy Voting Principles and Guidelines* as well as our company-specific proxy voting intentions.

To evaluate and consider both the risks and opportunities of ESG factors in our investments, CPPIB has a dedicated in-house Responsible Investing (RI) group. As best practices and approaches to managing ESG factors evolve, CPPIB continues to review and enhance how we integrate such factors into our day-to-day investment decisions and asset management activities. The RI group supports ESG integration by working with investment teams across CPPIB to establish and refine ESG-related investment processes, and by acting as an internal ESG domain expert resource. Public markets, private investments and real estate globally present unique risks, opportunities and rights to investors. As such, we implement a tailored approach to how we manage ESG factors across these distinct asset classes.

The Responsible Investing group also actively engages with companies and stakeholders, and executes our proxy voting rights according to CPPIB's *Proxy Voting Principles and Guidelines* that are updated annually. The Responsible Investing group conducts research on companies, industries and assets where ESG factors are significant and have a material impact on investments within the Fund. It reviews industry standards and global best practices on ESG factors, and collaborates with other investors and organizations such as the United Nations-supported Principles for Responsible Investment (PRI) initiative. Eric Wetlaufer, Senior Vice-President of Public Market Investments, was elected in 2012 to the PRI Advisory Council for a three-year term.

Our responsible investing approach and activities are further described in the *2013 Report on Responsible Investing* and its companion, titled *Investing for Long-Term Value* and *Our Approach to Responsible Investing* which are available on our website and include our *Proxy Voting Principles and Guidelines.*

Financial Performance

We continued to broaden CPPIB's global capabilities in fiscal 2014, expanding our private and public assets portfolios in both size and breadth.

The chart below provides a more detailed view of the Fund's asset weightings, both by asset category and economic exposures, as discussed in the Total Portfolio Approach section on page 28.

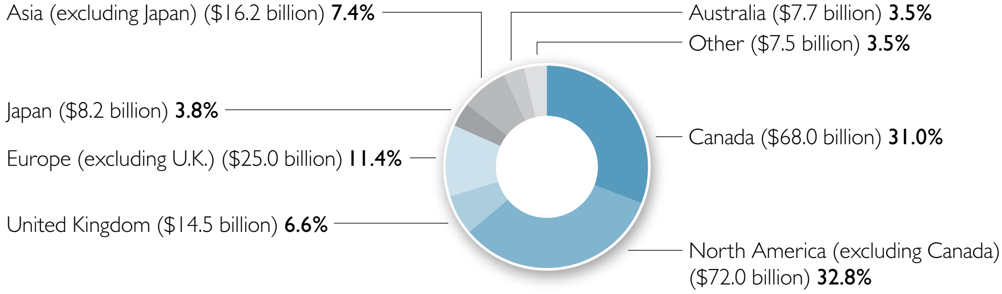
ASSET MIX

As at March 31, 2014	Asset Mix		Economic Exposure Mix	
ASSET CLASS	($ billions)	(%)	($ billions)	(%)
CANADIAN EQUITIES	**18.6**	**8.5%**	**21.5**	**9.8%**
Public	15.7	7.2%		
Private	2.9	1.3%		
FOREIGN DEVELOPED MARKET EQUITIES	**75.6**	**34.5%**	**109.1**	**49.8%**
Public	40.1	18.3%		
Private	35.5	16.2%		
EMERGING MARKET EQUITIES	**12.6**	**5.7%**	**12.1**	**5.5%**
Public	9.7	4.4%		
Private	2.9	1.3%		
FIXED INCOME	**73.5**	**33.6%**	**62.0**	**28.3%**
Non-marketable bonds	23.4	10.6%		
Marketable bonds	31.0	14.2%		
Other debt	11.4	5.2%		
Money markets and debt financing	7.7	3.6%		
FOREIGN SOVEREIGN BONDS	**–**	**0.0%**	**14.4**	**6.6%**
REAL ASSETS	**38.8**	**17.7%**		
Real estate	25.5	11.6%		
Infrastructure	13.3	6.1%		
INVESTMENT PORTFOLIO[1]	**219.1**	**100.0%**	**219.1**	**100.0%**

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

The chart below illustrates the global diversification of our portfolio. Canadian assets represented 31.0% of the portfolio at the end of fiscal 2014, and totalled $68.0 billion. Foreign assets represented 69.0% and totalled $151.1 billion.

GLOBAL DIVERSIFICATION
As at March 31, 2014



PORTFOLIO RETURNS[1]

ASSET CLASS[2]	Fiscal 2014	Fiscal 2013
Canadian public equities	**15.6%**	4.2%
Canadian private equities	**30.1%**	3.4%
Public foreign developed market equities	**26.3%**	13.2%
Private foreign developed market equities	**35.1%**	16.8%
Public emerging market equities	**5.8%**	2.4%
Private emerging market equities	**36.8%**	7.4%
Bonds and money market securities[3]	**0.3%**	4.0%
Non-marketable bonds	**-0.1%**	8.2%
Other debt	**20.0%**	15.1%
Real estate	**18.0%**	9.2%
Infrastructure	**16.6%**	8.8%
Investment Portfolio[4]	**16.5%**	10.1%

1 Before CPPIB operating expenses.
2 Investment results by asset class are reported on an unhedged Canadian dollar basis as any currency hedging takes place at the total CPP Fund level. Results are calculated on a time-weighted basis.
3 The Fund's remaining allocation to real return bonds was sold within fiscal 2014. Return contributions from real return bonds are reflected in Bonds and money market securities in both years shown.
4 The total Fund return in fiscal 2014 includes a loss of $543 million from currency hedging activities and a $1,005 million gain from absolute return strategies, which are not attributed to an asset class.

	Fiscal 2014		Fiscal 2013	
	%	$ billions	%	$ billions
TOTAL FUND RETURNS[1,2]				
1-year return	**16.5**	**30.7**	10.1	16.7
5-year return	**11.9**	**89.2**	4.2	34.7
10-year return	**7.3**	**97.7**	7.4	77.2

1 Commencing in fiscal 2007, the rate of return reflects the performance of the Investment Portfolio which excludes the Cash for Benefits portfolio.
2 Percentage returns are annualized. Dollar figures are cumulative. All figures are before CPPIB operating expenses.

TOTAL FUND PERFORMANCE

The CPP Fund ended its fiscal year on March 31, 2014 with net assets of $219.1 billion, an increase of $35.8 billion from the prior year end. This increase consisted of $30.1 billion in net investment income after operating expenses and $5.7 billion in net CPP contributions.

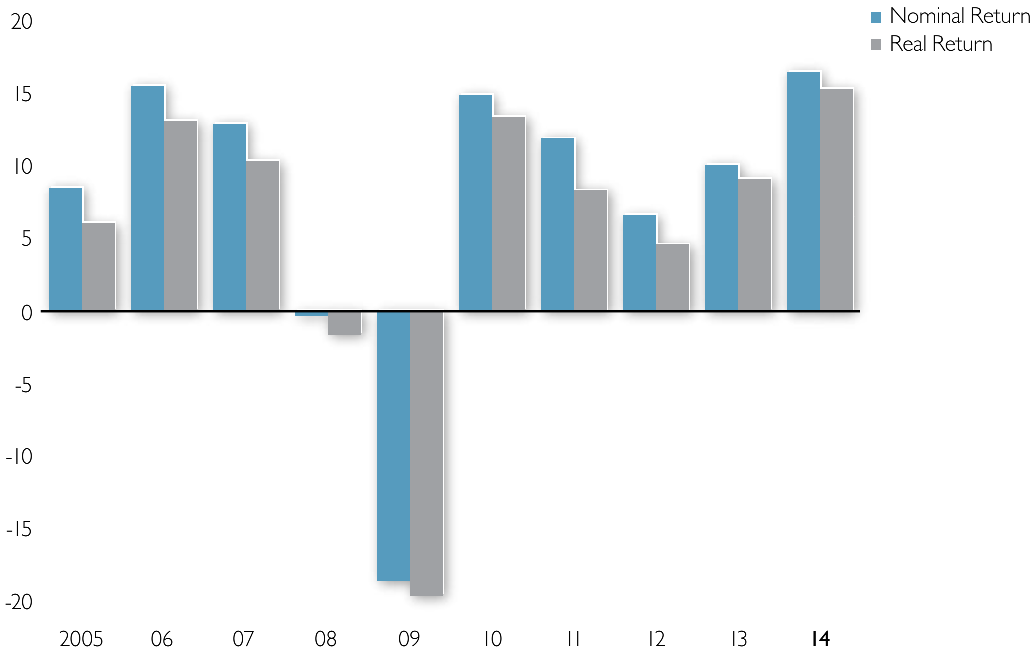
The portfolio delivered a gross return of 16.5% for fiscal 2014 compared with 10.1% for fiscal 2013. Earning its second highest annual return since inception, the Fund was bolstered by the strength in global equity markets. Exceptional returns were seen in select markets as the German DAX and S&P 500 generated returns of 22.6% (42.9% in Canadian dollars) and 21.9% (32.4% in Canadian dollars) respectively, while attaining new all-time highs. The Canadian S&P/TSX Composite also posted strong results of 16.0%, however it lagged behind its foreign counterparts. Investors saw reason for optimism in fiscal 2014 with signs of recovery in the U.S. labour market where job creation was steady and the unemployment rate trended downward. Previous concerns about the risk of European-led economic contagion faded to the background as Europe exited recession and debt funding conditions continued to improve. Markets experienced a brief period of heightened volatility in January as balance of payment tensions in certain vulnerable emerging markets weighed on investor sentiment. Fixed income market returns were relatively flat in fiscal 2014, with the Canadian DEX All Government Bond Index returning 0.3%. Income yields were offset by bond price declines as long-term interest rates in Canada and the U.S. rose meaningfully from historically low levels, driven by a reduction in the size of the U.S. Federal Reserve's Quantitative Easing program and the prospect of an accelerating U.S. recovery.

In addition to the strong returns from global equity markets, the Fund benefited from the strength and breadth of CPPIB's global investment platform as each of our investment departments generated double-digit gains. Further details are available in the respective departmental sections within the MD&A.

The Canadian dollar weakened significantly against a group of key currencies in fiscal 2014. Converting the Fund's foreign-denominated holdings into Canadian dollars added $9.7 billion in gains, boosting the Fund's total return. The British pound, euro and U.S. dollar gained 19.3%, 16.6% and 8.6% respectively against the Canadian dollar. A wide array of factors contributed to the weakening Canadian dollar in the past year, ranging from low domestic inflation and Bank of Canada monetary policy to foreign factors such as the Federal Reserve's decision to reduce its asset purchase program, increased confidence in Europe and a recent strengthening of economic activity in the United Kingdom.

Consistent with our long-term investment horizon, we focus on performance over the past five- and especially 10-year periods. For the five-year period ending March 31, 2014, the CPP Fund generated an annualized nominal return of 11.7% after deducting CPPIB operating expenses. For the 10-year period, the Fund generated an annualized nominal return of 7.1% after expenses. In the recently issued 26th Actuarial Report on the CPP, the Chief Actuary of Canada assumes a long-term prospective real rate of return of 4.0%, after CPPIB operating expenses, in determining the sustainability of the CPP. Adjusting for inflation, the CPP Fund generated net real returns of 9.7% and 5.1% over the respective five- and 10-year periods, exceeding the Chief Actuary's assumption over the same 10-year period.

RATE OF RETURN (GROSS)
For the year ended March 31 (%)



CPP REFERENCE PORTFOLIO RETURNS

The CPP Reference Portfolio comprises public market asset classes represented by broad indices, blended in weights that are rebalanced quarterly. As such, it provides a clear benchmark for long-term total portfolio returns. See page 22 for more information.

CPP REFERENCE PORTFOLIO RETURNS

ASSET CLASS	BENCHMARK	**2014 Return (%)**	2013 Return (%)
Canadian equities	S&P Canada Broad Market Index	**16.6%**	4.7%
Global equities	S&P Global ex-Canada LargeMidCap Index[1]	**27.4%**	13.2%
Canadian nominal bonds	Custom blended benchmark: DEX All Government Bond Index, actual CPP bonds and actual Canadian real return bonds[2]	**0.1%**	5.9%
Foreign sovereign bonds (hedged)[3]	Citigroup World Government G7 Bond Index[3]	**1.8%**	5.3%
Total CPP Reference Portfolio		**16.4%**	9.9%

[1] Net of tax, unhedged.
[2] The remaining real return bond allocation was removed from the CPP Reference Portfolio within fiscal 2014.
[3] Hedged to Canadian dollars.

PERFORMANCE AGAINST BENCHMARKS

The CPP Fund posted a strong return of 16.5% in fiscal 2014, and its performance corresponded closely to the CPP Reference Portfolio. Strong returns from both Canadian and foreign public equity markets, as well as foreign currency gains were the main contributors to the CPP Reference Portfolio's performance. We measure the difference between the investment portfolio's performance and that of the CPP Reference Portfolio in dollar terms, or dollar value-added (DVA). The investment portfolio return was $514 million above the CPP Reference Portfolio's return; however after deducting operating expenses the Fund essentially matched the CPP Reference Portfolio, resulting in negative $62 million value-added on a net basis. With private market assets – real estate, infrastructure, private equity and private debt – now representing a large proportion of the Fund at 40.4%, we can expect flat or negative performance relative to the CPP Reference Portfolio over shorter-time horizons, especially when public markets show significant rapid gains as experienced this fiscal year. There is typically a valuation lag between private and public assets, since until sale there is not an observable price as there is for public market assets. In addition, private asset returns tend to be less volatile than public market returns and will rarely match sharp gains by public market assets; on the other hand, they tend to be more resilient in times of public market losses. Given the high level of diversification in our portfolio, the CPP Fund has realized lower levels of volatility relative to the CPP Reference Portfolio with volatility of quarterly Fund returns for the last five years being over 30% lower than the benchmark. We continue to believe that there is additional embedded value in our private assets.

We primarily track value-added performance over rolling four-year periods. While this does not necessarily represent a full market cycle, the four-year period provides a reasonable basis for assessing longer-term performance over such multiple periods and aligns with our incentive compensation framework.

On a longer-term basis and showing their cumulative dollar impact on the Fund, CPP Reference Portfolio returns have been as follows:

	Fiscal 2014		Fiscal 2013	
	%	**$ billions**	%	$ billions
CPP REFERENCE PORTFOLIO RETURNS[1]				
1-year	**16.4**	**30.2**	9.9	16.5
4-year	**10.1**	**66.3**	11.1	58.7
Since inception[2]	**5.6**	**72.7**	4.2	42.5

1 Percentage returns are annualized. Dollar figures are cumulative.
2 CPP Reference Portfolio inception date: April 1, 2006.

	Fiscal 2014 $ billions	Fiscal 2013 $ billions
VALUE-ADDED RETURNS[1]		
1-year	**0.5**	0.2
4-year	**6.6**	-0.3
Since inception[2]	**5.5**	5.0
Since inception value-added net of all Fund costs[2]	**3.0**	3.1

1 Relative to CPP Reference Portfolio. Figures are cumulative.
2 CPP Reference Portfolio inception date: April 1, 2006.

Given our long-term view and Risk/Return Accountability Framework, we track cumulative value-added returns since the April 1, 2006 inception of the CPP Reference Portfolio. Cumulative value-added over the past eight years totals $5.5 billion. Over this period cumulative costs to operate CPPIB were $2.5 billion, resulting in net dollar value-added of $3.0 billion. This includes operating costs allocated to the investment departments and also governance costs that are not attributable to specific departments.

Many of our investment programs, such as real estate, infrastructure and private equity, are long-term in nature. After patient management, they are producing the longer-term results that we believe reflect the benefits of our strategy. Investment income for the year, including both fund interests and direct investments, reflects both strong valuation gains and realization of the value embedded within our private market holdings.

CASH FOR BENEFITS PORTFOLIO

We have been responsible since 2004 for the short-term cash management program that supports monthly benefit payments made by the CPP. This Cash for Benefits portfolio is segregated from the long-term investment portfolio and invested only in liquid money market instruments. The primary objective is to ensure the CPP can meet benefit payment obligations on any business day.

A secondary objective is to match or exceed the benchmark return of the DEX Capital Markets 91-day Treasury Bill Index. The portfolio earned 1.1% or $11.2 million for fiscal 2014 versus 1.0% for the index. Over the course of the year, this short-term portfolio had average balances of approximately $1.0 billion.

INVESTMENT DEPARTMENTS REVIEW

This section describes the responsibilities of our three investment departments – Public Market Investments, Private Investments and Real Estate Investments – as well as the Total Portfolio Management department that supports the Investment Planning Committee in coordinating all investment programs under our Total Portfolio Approach. We also review departmental performance and highlight investment activities during fiscal 2014.

This year, we continued to broaden CPPIB's global reach and capabilities while developing and executing our wide range of investment programs in pursuit of long-term objectives. Internal expertise and depth are critical to successful global activities at the scale and diversity of the CPP Fund. CPPIB's singular focus on investing for the long term, and distinctive culture inspired by our Guiding Principles of Integrity, Partnership and High Performance, attract world-class investment professionals. Likewise, our reputation, scale, knowledge and reliability of assets enable us to form and nurture relationships with top-tier external investment organizations around the world.

We believe it is important to be close to the places where we invest. Having a presence in key markets will help us access the best global investment opportunities, and importantly, help mitigate risks associated with our existing investments in each region. Our European and Asian offices, in Hong Kong and London, opened in 2008. They clearly demonstrate CPPIB's long-term commitment to those regions, and have been highly effective in gaining access to both private and public investment opportunities. This year, we took another major step in further broadening CPPIB's global reach and presence, by opening two more investment offices outside Canada. Our office in New York opened in January 2014 with an initial focus on real estate investments. Our São Paulo office opened in April 2014 allowing us to participate more fully and directly with experienced local partners in the long-term high-growth prospects for several countries in Latin America.

Capital markets are constantly changing and continued improvement of our investment processes is as important as global perspective. This fiscal year, we launched an in-depth review of how best to meet our objective to maximize returns without undue risk of loss. The review is aimed at establishing even greater clarity on the meaning, value and practical implications of long-term investing in a global context, and the best use of all our comparative advantages on a global scale for the benefit of Canadians. Progressively putting the review's conclusions into practice will be a key focus in fiscal 2015 and the next several years.

As a globally recognized long-term investor, we are presented with numerous investment opportunities in both private and public markets. But the decision not to invest, or to sell an existing holding, is as important as the decision to make new investments or increase our commitment. Every potential opportunity is screened to eliminate those that do not meet our criteria of quality, sustainability and scale. Remaining opportunities then undergo rigorous quantitative analysis combined with sound human judgment. Ultimately, we decline over 95% of opportunities presented because they do not meet our criteria or risk/return requirements. Investments undergo periodic reviews using a similar discipline to determine if they should be maintained, increased or divested.

This year, we concluded 45 transactions of over $200 million each, 12 in real estate, 22 in private equity, private debt and infrastructure investments and 11 mandates within the External Portfolio Management group. These sizeable and complex transactions were made in 11 countries, attesting to both CPPIB's internal capabilities and our external global reach.

Highlights include:

> Neiman Marcus Group, U.S.
> Aliansce Shopping Centers, Brazil
> Commonwealth Office Property, Australia
> Wilton Re, U.S.
> Assiniboia Farmland, Canada
> Transportadora de Gas del Peru, Peru
> Real estate ventures with Shapoorji Pallonji and PEL, India

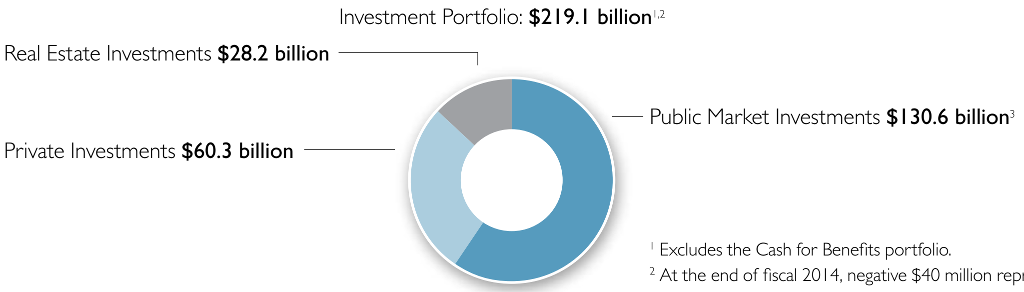
When large or complex transactions such as these are contemplated or completed, the Total Portfolio Approach described on page 28 ensures that risk exposures of the total portfolio are maintained at targeted levels. Likewise, liquidity is carefully managed and maintained to make the changes in holdings and currencies as needed on a timely basis without adverse market impact.

As CPPIB's scope of investment activities evolves, we are acquiring larger ownership stakes in multiple markets around the world. This involves increasingly complex deals and corporate structures. A cross-functional working group is engaged in enhancing our professional management of holding companies to tighten control and direction while keeping new growth consistent with our plans and scalable.

INVESTMENT ACTIVITIES BY DEPARTMENT

All investment activity is conducted in accordance with the *Statement of Investment Objectives, Policies, Return Expectations and Risk Management* approved by our Board of Directors and the *Policy on Responsible Investing* discussed on page 36. Both are available on our website. The year-end composition of assets among the departments is shown below.

As at March 31, 2014



[1] Excludes the Cash for Benefits portfolio.
[2] At the end of fiscal 2014, negative $40 million represented the Investment Planning Committee programs.
[3] At the end of fiscal 2014, these assets were valued at $130.6 billion, of which $13.0 billion represented the active public market programs.

INVESTMENT PLANNING COMMITTEE

Management's Investment Planning Committee (IPC) has overall accountability for the oversight and management of the CPP Fund portfolio as a whole. Its responsibilities include establishing total portfolio strategy over long- and medium-term horizons, and providing ongoing supervision of portfolio activities over shorter-time horizons. The IPC is chaired by the Chief Investment Strategist, who also heads the Total Portfolio Management department. Other IPC members are the President & CEO; the department heads of Public Market Investments, Private Investments and Real Estate Investments; the Senior Vice-President, International; the Chief Operations Officer; the Chief Financial Officer; the Chief Talent Officer; and the Vice-President, Investment Risk. To facilitate effective decision-making in distinct areas, the IPC has designated two sub-committees, one dealing with investment decisions and the other addressing benchmarks and incentive compensation structures.

Board of Directors

- Approves the CPP Reference Portfolio and the total Fund Active Risk Limit, upon recommendation from the IPC

Investment Planning Committee

- Manages total Fund risk exposures
- Approves investment deployment targets for assets/active risk
- Approves active programs
- Undertakes select active investments

Investment Departments

- Total Portfolio Management
- Public Market Investments
- Private Investments
- Real Estate Investments

Finance, Analytics & Risk

- Provides risk measurements and assessments
- Provides returns measurements and attribution
- Manages short-term liquidity requirements

The IPC has overall responsibility at management level for total performance of the Fund. This combines CPP Reference Portfolio returns with value-added by (i) IPC's beta decisions to extend active investments into areas not included in the CPP Reference Portfolio, (ii) investment-specific alpha and beta decisions of the respective investment departments or the IPC itself under the active programs, and (iii) strategic shifts in risk exposures directed by the IPC.

From an overall perspective, four broad strategic areas of investment contribute to total value-added. The amounts of their respective contributions are shown in the table below.

VALUE-ADDED CONTRIBUTIONS OF INVESTMENT STRATEGIES[1]

$ billions	1-Year	4-Year	Since Inception[2]
Public Market Investments	**1.0**	2.9	2.7
Private Investments	**-0.5**	1.2	2.2
Real Estate Investments	**-0.1**	0.6	0.1
Investment Planning Committee	**0.1**	1.9	0.6
Total Fund	**0.5**	6.6	5.5

[1] Includes both alpha and beta value-added, before operating expenses.
[2] CPP Reference Portfolio inception date: April 1, 2006.

The IPC is responsible for certain active programs that are deemed in the best long-term interest of the CPP Fund but better suited for the IPC account rather than any particular investment department. These programs could represent risk sharing with an investment department of large investments, poor fits with existing programs and benchmarks, exploratory areas, or strategic shifts in factor exposures. In each case, the IPC mandates a specific group within an investment department to carry out day-to-day management. Among this diverse set of return generators are:

> Specialized credit investments – leveraged loan and distressed mortgage programs that were initiated during the 2008–2009 financial crisis at prices well below expected long-term value. These programs are maturing and the sizes of the positions have been significantly reduced;
> Variance swaps – strategy of selling long-horizon equity index volatility which capitalizes on several of CPPIB's comparative advantages and carries low correlation with most other programs;
> Exposure tilts – positions that reflect mid-term macro views on broad systematic risk/reward directions; and
> Strategic investments – for example, gaining access to loan and real estate investments in Spain, publicly-traded real estate in Brazil, and diversified financial services in India; and provision of liquidity to the natural catastrophe insurance market. For these investments, the value-added contributions are included in their respective areas in the chart above rather than in the IPC contribution.

In fiscal 2010, CPPIB established a Canadian commercial paper program to further ensure flexibility in managing short-term liquidity. Extended to the U.S. in fiscal 2013, these borrowings continue to carry the top credit ratings from Standard & Poor's, Moody's and DBRS. Overseen by the IPC but operationally managed by the Treasury and Global Capital Market groups, the total debt outstanding was $9.7 billion at year end.

With the same groups, the IPC also oversees the Fund's overall foreign currency exposures (excluding active tactical programs) under the policy described on page 23. This centralized approach is more cost-effective and provides better control of exposures than managing currencies within each investment department.

TOTAL PORTFOLIO MANAGEMENT

The Total Portfolio Management (TPM) department is the operational arm of the IPC and responsible for ensuring comprehensive implementation of the Total Portfolio Approach. Investments and trading in the public markets, and ongoing acquisitions and divestments in private markets change portfolio composition of the CPP Fund over time. TPM monitors and guides this composition to maintain and enhance the quality of the total portfolio. "Quality" is not a single quantitative or prescriptive measure, but rather a range of desired characteristics. These include asset class and geographic mix, active risk exposures, expected return to risk, liquidity, resource requirements and expense implications, scalability and flexibility. We believe that continuously evolving a high-quality portfolio will carry the best odds of maximizing long-term returns without undue risk.

Management guides investment portfolio composition with both bottom-up and top-down levers, seeking to capture ever-present opportunities while avoiding the tendency to migrate to ever-higher risk investments. Bottom-up levers include hurdle rates, benchmarks and other standards that provide tangible and specific guides for investment decision-makers. They are designed to ensure that the expected return of each incremental investment and its prospective added value net of expected funding costs, justify the accompanying risks in a total portfolio context.

Our formal process of risk budgeting is the primary top-down lever for shaping development of the total portfolio. We believe that some portfolio configurations are clearly of higher quality than others and carry more robust expected outcomes over a wide range of economic and market scenarios. However, long lead times accompany the necessary staffing, market access and operational capabilities for significant changes, so portfolio composition must evolve gradually. Within these practical constraints, we first scope out the full range of potentially attractive investments in each active program. Considering the portfolio as a whole, we then narrow these to the "range of the preferred" as the planned longer-term direction. The annual risk budgeting exercise seeks to align investment opportunities, liquidity, people and other resources for growth in that direction, over a rolling five-year outlook. We believe that further development of TPM's total portfolio investment process with a five- to 10-year perspective carries the potential for a more precise and dynamic evolution of portfolio composition, designed to strategically emphasize opportunities or scale back exposures as global capital market conditions change and fundamental economic themes emerge.

In addition to guiding total portfolio performance with the levers described above, TPM is responsible for the asset-liability modelling and portfolio analyses that underlie our formal triennial review of the CPP Reference Portfolio, for recommendation to the Board of Directors. The current review began after the December 2013 release of the Chief Actuary's 26th Actuarial Report on the CPP.

PUBLIC MARKET INVESTMENTS

Public Market Investments (PMI) invests in publicly-traded equity and fixed income securities, and in listed and over-the-counter derivatives that are based upon the price of these assets or others such as commodities, currencies and interest rates. Investments in public markets are the largest component of the CPP Fund. At the end of fiscal 2014, these assets were valued at $130.6 billion, or 60% of the Fund. Of this, $13.0 billion is actively managed by internal or external teams in a wide variety of alpha-oriented programs. Substantial additional active management is undertaken through market-neutral or long/short strategies for which a portion of the index-related, passively managed assets form the backing assets or security. PMI is organized as six investment groups: External Portfolio Management, Global Capital Markets, Global Corporate Securities, Global Tactical Asset Allocation, Relationship Investments and Short Horizon Alpha.

The distribution and development of PMI's activities is shown below at the current and prior year ends, reflecting substantial overall growth this year:

PMI IMPLIED ASSETS UNDER MANAGEMENT (AUM) FOR ACTIVE PROGRAMS (in $ billions)

PMI GROUP	March 31, 2014	March 31, 2013
External Portfolio Management	**23.2**	16.2
Global Capital Markets	–	0.1
Global Corporate Securities	**13.0**	9.7
Global Tactical Asset Allocation	**1.3**	1.9
Relationship Investments	**1.9**	0.4
Short Horizon Alpha	**0.9**	0.7
Total	**40.3**	29.0

To calculate the size of PMI's activities on a comparable basis, we compute their implied AUM in the following ways: For investments in externally managed funds, we use the reported net asset values. For internal long/short securities-based programs, we use the average of the absolute value of long and short positions. For other strategies, we estimate the asset amount based on the amount of economic capital required to support the amount of risk being taken.

PMI's mandate has two aspects:

> Functions provided by the Global Capital Markets group, including:
  i. Management of index-related exposures in all CPP Reference Portfolio asset classes on behalf of the IPC;
  ii. Management of CPPIB debt issues; and
  iii. Execution of public market transactions as needed for all active programs.
> Management by the other five PMI groups of a diverse array of active strategies designed primarily to capture alpha – the additional returns from successful active management beyond the market returns for systematic risks.

A particular area of focus during fiscal 2014 was a heightened level of collaboration between PMI and the other areas of CPPIB, and among PMI's internal active investment groups themselves. Examples include coordinated research efforts around significant investment opportunities, formulation of an enhanced portfolio construction methodology to apportion risk most efficiently across PMI, and the development of a Thematic Investing program to allocate multi-asset class/multi-strategy investments focused on broad long-term themes.

The chart below shows the combined value-added generated by PMI's active investment programs in fiscal 2014. Returns are reported only in dollar amounts, as many of the activities are conducted on a market-neutral or long/short basis for which there is no generally accepted underlying asset base for measuring returns in percentage terms.

PUBLIC MARKET INVESTMENTS – ACTIVE	**Fiscal 2014 $ billions**	Fiscal 2013 $ billions
RETURNS		
1-year	**2.4**	1.6
1-year benchmark	**1.2**	0.5

PUBLIC MARKET INVESTMENTS – ACTIVE	**Fiscal 2014 $ billions**	Fiscal 2013 $ billions
CONTRIBUTION TO PORTFOLIO VALUE-ADDED[1]		
1-year	**1.1**	1.1
4-year	**2.9**	2.0
Since inception[2]	**2.7**	1.6

1 Before CPPIB operating expenses.
2 CPP Reference Portfolio inception date: April 1, 2006.

This year's strong results, in terms of both absolute returns and value-added relative to benchmarks, were produced in a global economy that continues to be fairly volatile and marked by divergent central bank policies. Over the past 12 months, the markets have had to process the start of tapering of Quantitative Easing in the U.S., increased stimulation via "Abenomics" in Japan and continued low growth in Europe but with signs of increased stability for the euro. The main theme was transition as emerging markets growth which dominated the markets in recent years gave way to a more normal balance with developed markets, as seen by positive performance in equities and other risk assets in developed markets. This environment enabled a number of programs that had been driven mostly by broad drivers of absolute returns to focus more on relative-value themes. We remain confident in the diversity and underlying soundness of the approaches that our active programs employ and in their ability to generate and sustain significant value creation over the longer term.

FISCAL 2014 ACTIVITIES

PMI's primary focus this year was on managing a solid foundation of people, processes and systems necessary to deliver a suite of high-quality programs aimed at generating robust and more consistent dollar value-added while controlling for the downside. Emphasis was placed on expanding the depth of existing programs while limiting new ones to a select few. We extended investment activities through the award of 17 new mandates to specialized external managers, the majority focused on Asia and Latin America, and by establishing three additional longer-term relationships with public companies.

Supporting these initiatives, PMI strengthened its global reach by adding staff in the Hong Kong office, and placing staff in London for the first time.

The responsibilities and activities of PMI's six groups are described below.

External Portfolio Management

External Portfolio Management (EPM) creates value through the engagement of external managers whose distinct strategies and expertise are accretive to the overall PMI portfolio. These strategies are expected to offer attractive, sustainable results on a risk-adjusted basis, with value-added that has low correlation to that of internal investment programs. Each mandate must also be sufficiently scalable to be meaningful for the CPP Fund's current size and expected growth. In fiscal 2014, we launched our Managed

Account platform, which allows external mandates to be executed through separate investments fully under the ownership and control of CPPIB rather than through participation in collective funds. CPPIB thus gains flexibility, better look-through on investments held, and greater ability to customize the mandates given to external managers.

Our external managers are valued partners with whom we seek strong long-term relationships. EPM differs from many traditional multi-manager programs by not making aggressive shifts in assets between strategies and managers. Rather, we control exposures and risks through a more slowly evolving balance of types of strategy – tactical strategies tend to perform better in volatile markets and hopefully also during crises; directional and relative strategies tend to perform well when there is a rising market or little trend, but underperform in crises; while defensive strategies tend to add value in strongly negative markets.

Notional assets directed by EPM grew substantially this year to $23.2 billion from $15.6 billion last year, and return-seeking active risk exposures increased by 50%. We added 17 new mandates, increased funding to 11 mandates and redeemed four mandates. Extensions were made primarily in Asian equity and credit strategies. Continuing the theme of greater investment in emerging markets with higher alpha opportunities, three of the new managers are focused on Asia, and two were given active Latin American public equity mandates. The portfolio now includes 55 managers, up from 47 at the end of fiscal 2013. Overall, they direct 69 diverse mandates with increasingly balanced global market coverage.

Qualified Foreign Institutional Investor (QFII) Licence and Quota
China A-Shares are the domestically listed and Renminbi-denominated equity securities traded on the Shanghai Stock Exchange and the Shenzhen Stock Exchange. These securities are generally available only to domestic investors, but foreign investors can access the A-share market if they obtain a Qualified Foreign Institutional Investor (QFII) licence from the China Security and Regulatory Commission. A licensed investor then applies for an investment quota from the State Administration of Foreign Exchange (SAFE), and if successful, it must then invest the full amount in the A-share market within six months.

CPPIB received its QFII licence in 2011. An initial US$100 million of quota was granted by SAFE in 2012 and invested passively. A further US$500 million of quota was subsequently granted which EPM deployed among three A-share specialist managers by December 2013. At the end of fiscal 2014, the Fund's China A-Shares had a total value of US$633 million.

Global Capital Markets
Global Capital Markets (GCM) delivers three services critical to the efficient management of public markets assets:

1. On behalf of the IPC, management of the portfolio's passive component against the constituent weights within benchmark indices, balancing minimization of transaction costs against tight tracking with the benchmark returns. This also provides the means for disciplined ongoing rebalancing of the total portfolio against its targeted market and currency exposures;
2. Maintenance of necessary liquidity and execution of transactions required to fund major investments without undue negative market impact; and
3. Provision of the most price-effective and timely execution services for active programs within PMI. This activity is fundamental to the realization of value-added return.

A focus for fiscal 2014 was the expansion of capabilities, products and geographies, including required staffing and technology enhancements and extended working hours, to support active equity programs in Asia and Europe. Additionally, GCM further developed its execution capabilities in options and volatility derivatives, and enhanced its facilities for securities borrowing.

Global Corporate Securities
Global Corporate Securities (GCS) seeks to add value through bottom-up equity selections, directly or via derivatives when appropriate. Portfolios balance long and short positions, optimally structured to maximize returns for a given level of overall risk. Unlike other long/short managers, CPPIB's structural advantage as a long-term investor allows GCS to focus decision-making on intrinsic value over a multi-year horizon. We thus benefit from markedly less portfolio turnover and correspondingly lower transaction costs. The group manages two distinct portfolios. One employs a quantitative approach and the other assesses company fundamentals and prospects.

> Our quantitative research is focused on refining existing strategies for greater efficacy, and developing new strategies that can be implemented at a scale that is meaningful for the CPP Fund. We manage quantitative stock selection programs in Canada, the U.S., Japan and the developed markets in Europe and Asia ex-Japan, the latter launched at the start of this fiscal year.

In addition to actual investment activity, the quantitative team also focused on strengthening its data and analytics foundations, sharing research not only within the group but also across the department.

> Our fundamental investing team conducts extensive industry and financial analysis to forecast a specific company's future earnings power, balance sheet strength and free cash flow. From this forecast, we derive an intrinsic value for the company. We construct a portfolio consisting of long positions in companies whose market prices are well below their intrinsic values and short positions whose market prices are well above their intrinsic values. The portfolio is global in scope, encompassing developed and emerging markets.

The Global Corporate Securities portfolio is maintained in a market-neutral position, and its returns are thus unaffected by market direction. However, stock selection benefited from the continuing trend of increased emphasis on company fundamentals, as opposed to macro factors common to all stocks that dominated the previous two years. During the past year, the fundamental team also focused on building credibility and relevance with our research, allowing us to meaningfully increase the notional capital deployed in our strategies. We have built larger and more concentrated positions while scaling up diversification of the short side of our portfolio. Additionally, we made significant investments in our talent base, hiring senior portfolio management professionals in the Hong Kong and London offices to focus on our Asian and European investments.

Relationship Investments

Relationship Investments (RI) considers significant direct minority investments in public companies, or those about to become public, providing strategic capital to help generate meaningful longer-term outperformance relative to their peers. Investments generally range from $100 million to several billion dollars for a five to 25% ownership position. Each investment involves an active ongoing relationship with the company's management team and board of directors. The group focuses particularly on transformative growth opportunities and situations involving the strengthening of balance sheets or transition of ownership blocks. In most cases, RI obtains governance rights commensurate with the importance of its stake while the company benefits from having a patient and supportive major investor.

RI continued to expand its geographic reach in fiscal 2014 by completing two transactions and leading a third investment on behalf of the Fund:

> In July 2013, RI committed $170 million to help TORC Oil & Gas Ltd, a Calgary-based exploration and development company, acquire significant assets in southeastern Saskatchewan and convert to a dividend-paying company with significant growth prospects;
> In December 2013, RI invested €320.8 million for a 15% stake in ORPEA S.A., a leading nursing, post-acute, and psychiatric care provider in Europe with over 40,000 beds across 430 sites. RI made an additional investment of €33.9 million to fund an equity capital raise to help facilitate ORPEA's international expansion; and
> During the year, RI led efforts to build a meaningful stake in a publicly listed Asian bank, following significant discussions with its management and Board, in anticipation of future cooperation and potential primary and secondary share sales.

Global Tactical Asset Allocation

Global Tactical Asset Allocation (GTAA) adds value through scalable, top-down active management within and across broad asset classes. Positions are taken in markets heavily influenced by macroeconomic drivers, such as currencies, government bonds, equity indices and commodities. The program is global in nature, encompassing both developed and emerging markets. The GTAA program currently has exposure to 33 countries, trading over 80 different assets. GTAA's primary focus is on longer-horizon views, while shorter-horizon insights allow the group to better manage macro risks and changes in economic conditions.

This year, GTAA implemented a top-down structure for portfolio implementation, providing greater centralization of portfolio construction decisions. This represents a strategic choice to allocate primarily to factors we characterize as driving returns such as "value", a choice that aligns the group's investment activities with the CPP Fund's long horizon. Several asset class programs then augment these policy portfolio views by adding specific macro forecasting factors. Currently, GTAA operates a number of asset class-based programs, as well as a program which implements views on the relative short- to mid-term prospects of broad asset classes.

Similar to other PMI groups, GTAA activities can differ from those of other investment managers as CPPIB's strategic advantages allow us to persevere with sound strategies through difficult conditions that might force commercial firms to close positions at inopportune times. For example, GTAA shorted the market when longer-dated fixed income securities became very over-valued in early fiscal 2014. This could have become problematic for other investors as the price rises continued, but we were able to hold positions and then benefit when prices fell as yields rose later in the fiscal year.

Short Horizon Alpha

Short Horizon Alpha (SHA) develops and implements short horizon active management programs including a suite of relative value programs. With a quantitative emphasis, SHA strategies are designed to systematically take advantage of opportunities resulting from temporary market dislocations in cash and derivative products in foreign exchange, credit, equities and other asset classes and products. In general, SHA positions target closure inside three to six months; however, the majority of positions to date have been held for shorter periods.

Market conditions this year were difficult for directional systematic strategies given central bank interventions, tapering from quantitative easing in the U.S. and ongoing economic concerns in Europe. The majority of SHA programs focused on relative value strategies given the market uncertainty. As a result, returns were fairly muted for the first half of the year but solid in the second half. However, both relative and absolute value opportunities became fewer and less potentially rewarding as the year progressed, causing the group to scale back market risk exposure accordingly.

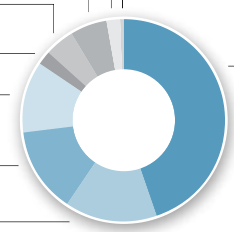
PRIVATE INVESTMENTS

Private Investments (PI) invests in a wide range of private equity, debt and infrastructure assets. The markets for these private assets are in some cases comparable in size to their public equivalents and well suited for patient, knowledgeable investors. We seek to harvest the return premiums for investing in less liquid and longer-term assets, and for meeting particular financing needs of the entities to which we provide capital. Further, with expert partners, we can generate skill-based additional returns in a wide variety of ways:

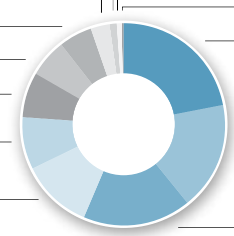
> At the decision to invest, through access to the best opportunities, superior information, unique insights, and expert structuring and financing of transactions;
> During the holding period, through careful stewardship, enhanced governance, and improvement in assets, operations and profitability; and
> Upon exit, through selection of the optimal means and timing with conclusion on favourable terms.

Private investment assets grew from $47.9 billion at the end of fiscal 2013 to $60.3 billion at the end of fiscal 2014. This growth represents only revaluations of current investments, plus new investments funded of $10 billion, including draws on prior commitments, as all net cash income is consolidated into the CPP Fund as it is received. PI's assets have grown to major importance in our active management programs over the past eight years. They now represent approximately 28% of the total portfolio. These investments have also become widely diversified by asset type and geographic location as shown below.

PRIVATE INVESTMENTS – GEOGRAPHIC DIVERSIFICATION
As at March 31, 2014



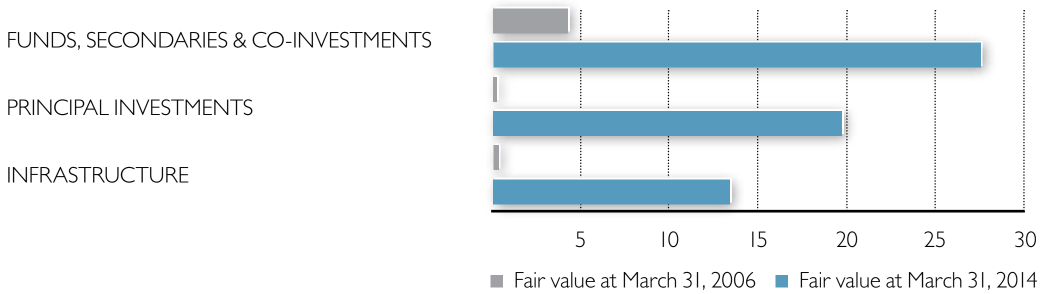
PRIVATE INVESTMENTS BY SECTOR
As at March 31, 2014



While early investments were made entirely through funds, our developed internal expertise has led to new investments increasingly and cost-effectively being made on a direct basis and in larger amounts. Nevertheless, partnerships with leading fund managers remain critical to our success and strategy.

Several organizational changes were implemented within PI at the beginning of fiscal 2014. They align internal capabilities with expanding investment programs to accommodate the growth and increasing complexity of our investments. The PI department is now organized into four specialized groups: (1) Funds, Secondaries & Co-investments, (2) Principal Investments, (3) Infrastructure and (4) Portfolio Value Creation. The growth and current size of assets managed by each of the first three groups are shown on the next page. The fourth group supports ongoing asset management activities across all direct portfolio holdings.

SIZE OF PRIVATE INVESTMENTS BY GROUP
($ billions)



The first table summarizes aggregated returns in absolute terms with rates of return calculated on an unhedged time-weighted basis. The second shows dollars of value-added relative to the corresponding investments had they earned the returns on relevant public benchmark indices.

PRIVATE INVESTMENTS	**Fiscal 2014 %**	Fiscal 2013 %
RETURNS		
1-year excluding foreign currency impact	**18.5**	13.1
1-year	**29.2**	13.6
1-year benchmark	**35.5**	13.7

PRIVATE INVESTMENTS	**Fiscal 2014 $ billions**	Fiscal 2013 $ billions
CONTRIBUTION TO PORTFOLIO VALUE-ADDED[1,2]		
1-year	**-2.3**	-0.2
4-year	**0.5**	-2.3
Since inception[3]	**0.2**	2.5

1 Before CPPIB operating expenses.
2 Foreign currency fluctuations have no impact on departmental value-added. See page 23 for more details.
3 CPP Reference Portfolio inception date: April 1, 2006.

In absolute return terms, this was an exceptionally strong year overall for our private investments. As noted in the Benchmark discussion on page 32, our private equity now reflects a leverage adjustment which essentially means that public market returns are grossed up by 130% to set as the base against which our portfolio is measured. Given the dramatic rise in public markets, our private equity returns did not keep up with its short-term performance. We believe that significant intrinsic value in our private investments has not yet been reflected in current appraisals, and that this will emerge over time with corresponding growth in future value-added.

FISCAL 2014 ACTIVITIES

Private equity markets started off slowly in fiscal 2014, as was largely expected given economic uncertainties. Nevertheless, the credit markets have remained strong over fiscal 2014, with the persistent low interest rates making lending conditions for leveraged buyouts and other debt-financed deals attractive. Market participants accelerated their pace of investing through the year in an environment characterized by rising valuations and concerted efforts by General Partner (GP) private equity firms seeking to deploy aging available capital from older vintage funds. This created increased competition for attractive targets with less attention to price. The Direct Private Equity team stayed focused on acquiring assets through proprietary channels by making good use of our reputation, capabilities and existing partnerships. This careful approach led to three major direct transactions: Neiman Marcus Group, Wilton Re and Assiniboia Farmland LP.

With strong performance of the equity markets and signs of a U.S. economic recovery, private equity firms were well positioned to return capital to their investors. This included our partners' funds and challenged our plan to grow the Fund's private investments portfolio in size as large returns of capital and distributions offset new invested capital. We will continue to monitor market dynamics, adhere to our long-term investment strategy and remain disciplined, while further diversifying our portfolio in fiscal 2015.

PI remains a major contributor to CPPIB's global expansion initiatives. The Infrastructure group continues to build new relationships in Latin America, marked by its first investment in Peru in the fourth quarter. We acquired a 36.8% equity stake in Transportadora de Gas del Perú S.A. (TgP), the largest transporter of natural gas and natural gas liquids in Peru, for a total consideration of approximately US$807 million through several transactions. Efforts are also underway in India to build upon the strategy work conducted in fiscal 2013 with identified sectors, preferred partners and new investment platforms.

We continue to examine new areas for private investment, and in particular to engage in innovative partnerships where we can efficiently acquire quality assets at appropriate prices.

FUNDS, SECONDARIES & CO-INVESTMENTS (FSC)

Funds, Secondaries & Co-Investments (FSC) currently manages more than $45 billion in carrying value and unfunded commitments and maintains relationships with more than 80 general partners globally, in pursuit of investments that will outperform public benchmarks. Working as one global team, FSC is a leading investor in private equity funds. The group also engages in co-investments alongside private equity partners. As well, the group is a large global player in secondary market transactions through which we acquire portfolios of seasoned assets from other private equity owners. The activities in each business unit are described below.

Funds

The Funds team focuses on identifying, making and monitoring capital commitments to large- and middle-market buyout and growth equity funds in North America, Europe and Latin America. Fundraising activity in fiscal 2014 continued at a robust pace, but we remained highly selective and focused on opportunities to increase the scale of capital commitments with some of our largest and top-performing private equity relationships. The Funds team currently has relationships with 69 fund managers. The group's portfolio value increased to $20.0 billion in 148 funds at year-end 2014, up from $17.2 billion in 137 funds last year. In addition, we have made commitments of up to $14.5 billion for further investment with fund managers. Looking ahead to fiscal 2015, the pipeline of new fund commitments remains strong and the team expects to continue making additional commitments to both new and existing private equity managers.

Significant transactions this year included:

> $1 billion commitment to Apollo Investment Fund VIII, a value-oriented fund focused on distressed investments, corporate carve-outs and opportunistic buyouts in North America and Western Europe;
> €650 million commitment to CVC European Equity Partners VI, a fund focused on control buyouts in Europe and selectively in North America;
> €350 million commitment to Permira Europe V, a fund focused on control buyouts of market-leading businesses, primarily in Europe;
> US$425 million commitment to Trident VI, a U.S. mid-market fund managed by Stone Point Capital, focused on investing across a broad range of subsectors within financial services; and
> US$400 million commitment to Onex IV, a fund focused on medium- and large-sized buyouts in North America and, opportunistically, Europe.

Secondaries & Co-Investments

Secondaries & Co-Investments (S&C) experienced a challenging environment deploying capital in fiscal 2014. Our portfolio remained relatively flat at $4.4 billion in current total value, despite several positive cash realizations of several holdings. In the secondary market, CPPIB continues to acquire seasoned portfolios at attractive prices by fully leveraging our scale, information advantage and team capabilities. We participate in the secondary market by acquiring interests in existing funds (LP Secondaries) or providing liquidity solutions to existing funds (Direct Secondaries). The Co-Investment program focuses on minority investments alongside our private equity partners, with a target investment size of $50 to $150 million.

During fiscal 2014, working alongside private equity fund managers, the team closed four new co-investments for a total of over $200 million, including Fieldwood Energy for US$90 million. These investments represent growing momentum for CPPIB and are expected to deliver meaningful opportunities to deploy capital at attractive returns. The LP secondary market was characterized by large distributions and high prices this year. While this led to positive performance for our existing portfolio, it made finding satisfactory new opportunities more challenging. On the direct secondary front, following the two direct secondary transactions completed last year – Behrman Capital and Kainos Capital – CPPIB continues to take the lead in origination and innovative whole-fund portfolio solutions. As one of the largest and most active participants in this market, we can deploy significant amounts of additional capital in this area.

Following year end, we completed a US$596 million secondary transaction related to JW Childs' 2002 Vintage Fund, JW Childs Equity Partners III, and a commitment to a new fund JW Childs Equity Partners IV.

Private Equity Asia

Private Equity Asia focuses on commitments to both regional and single country private equity funds in Asia and transacts in direct co-investment and co-sponsorship opportunities. Despite a slow fundraising and investment environment in fiscal 2014, we were able to grow the Private Equity Asia portfolio from $1.7 billion to $5.4 billion in total exposure. The team made commitments to four funds, including a new relationship with Anchor Equity Partners for our first country-focused fund investment in South Korea. This is consistent with FSC's strategic priorities to increase exposure to both emerging private equity markets and mid-market managers.

Significant transactions this year included:

> US$250 million commitment to CVC Asia IV, a fund focused on control, joint-control and minority investments in the core regions of Southeast Asia, Greater China, Japan and Korea;
> US$200 million commitment to CDH Fund V, a fund focused on growth capital investments, and selectively, control investments in China;
> US$200 million commitment to TPG Asia VI, a fund focused on control and growth investments across Asia; and
> US$125 million commitment to Anchor Equity Partners Fund I, a fund focused on mid-market buyout and growth opportunities in Korea.

In addition, we made two new co-investments: Geoyoung Corporation, South Korea's largest national pharmaceutical distributor, and Hexaware Technologies, a leading mid-size information technology services provider based in India.

In fiscal 2015, Private Equity Asia will continue assessing both new and existing managers in the Asia region, proactively sourcing direct co-investment and co-sponsorship opportunities.

PRINCIPAL INVESTMENTS

Principal Investments makes co-sponsorship and lead investments in a broad range of private transactions around the world. It is subdivided into three business units: Direct Private Equity, Natural Resources and Private Debt.

Direct Private Equity

Direct Private Equity (DPE) focuses on North American and European co-sponsorship and other direct private equity transactions, typically alongside existing fund partners but also transacting alone when warranted. In addition, the team may undertake a lead role in a transaction within Canada without a partner or provide a full or partial exit to a partner in an existing portfolio company. The group invests across multiple industry sectors.

As market conditions remained competitive this year, DPE assessed several new investment opportunities alongside GP partners in the U.S. and European markets but continued to exercise strong discipline on pricing.

At year end, we held 31 direct investments valued at $11.6 billion compared with 34 valued at $8.3 billion one year earlier. In total, we invested in five new companies. New investments totalled approximately $1.2 billion. Highlights include:

> Completed the acquisition of luxury retailer Neiman Marcus Group LTD Inc., alongside Ares Management, for a purchase price of US$6.0 billion. CPPIB and Ares will hold an equal economic interest, with the Company's management retaining a minority stake.

> Entered into a definitive agreement to acquire 100% of the common stock of Wilton Re Holdings Limited for US$1.8 billion, together with the management of Wilton Re. Wilton Re is a provider of life insurance and reinsurance solutions to the U.S. life insurance market and a leading acquirer of closed blocks of life insurance policies.
> Completed a €175 million investment in ista International GmbH alongside CVC Capital Partners and ista management. Headquartered in Essen, Germany, ista is the world leader in sub-metering, the measurement of energy and water consumption and related cost allocation for multi-occupant properties. This transaction was part of DPE's expanded strategy of pursuing partnership opportunities within the current portfolio companies of CPPIB's GP fund partners.

Sales of holdings included full realization of our investment in Generac Power Systems Inc. with $283 million in cash proceeds, and Dollar General with $967 million in cash proceeds.

Following year end, we signed an agreement alongside Onex Corporation for the sale of Gates Corporation, a division of Tomkins plc, for US$5.4 billion. Upon completion of the sale, CPPIB's portion of the proceeds will be approximately US$1.5 billion resulting in a multiple of capital invested of approximately 2.2 times. We also signed an agreement to sell Air Distribution Technologies, Inc. for US$1.6 billion. Upon closing, it is expected that CPPIB will receive proceeds of approximately US$1.0 billion resulting in a multiple of capital invested of approximately 2 times.

Over the past eight years, DPE has evolved its "smart partner" model from an initial focus on syndicated co-investments to the current focus on co-sponsoring and opportunistically leading transactions. This transition has enabled DPE to perform better due diligence, benefit from improved governance, and invest more money in fewer deals to leverage our investment professionals' time and improve scalability. We expect the trend to continue in fiscal 2015, with DPE continuing to use CPPIB's comparative advantages in scale, liquidity and long-term investment horizon to execute primarily on co-sponsorships and co-lead investments. DPE will continue to focus on companies in North America and Europe with an enterprise value of $1 billion or more.

Natural Resources

Natural Resources focuses on private equity investments in the oil and gas and mining industries and in agricultural lands. In oil and gas and mining, the group has largely focused on investments in the upstream oil and gas segment in Canada. In agricultural lands, the team is building a global platform consisting of both lead and partnership investments.

During fiscal 2014, unconventional oil and gas production in North America continued its strong growth, and companies in our portfolio with an unconventional focus benefited from early investments in attractive areas. In November 2013, we completed a $43 million increase in our capital commitment to Black Swan Energy Ltd., a company growing its base of liquids-rich gas production in the Montney play in British Columbia and the Duvernay play in Alberta.

The rapid growth of onshore North American oil and gas production has expanded capital needs in upstream and midstream segments, and over the course of the year, we observed an increase in private equity interest. In the mining industry, we expect the combination of non-core asset sales, a lack of capital for development projects and currently depressed equity prices to provide greater investment opportunities for CPPIB.

This year, we grew the team of investment professionals dedicated to building our Agriculture investment program and closed CPPIB's first agricultural investment in Canada. For an equity commitment of $128 million, we acquired the assets of Assiniboia Farmland LP, an investment fund that owns and manages a diverse portfolio of 115,000 acres of farmland in Saskatchewan.

At year end, we held nine direct investments valued at $2.1 billion compared with $1.5 billion a year earlier.

Private Debt

Private Debt is focused on investing in sub-investment grade corporate debt through both primary and secondary transactions. With investments in the Americas, Europe and Asia, the team provides debt financing across the entire capital structure including term loans, high-yield bonds, mezzanine lending and other solutions for corporations.

The Private Debt platform also includes a sub-group that specializes in acquiring intellectual property rights, primarily in pharmaceuticals and technology. The group participates in unique event-driven opportunities, such as acquisitions, refinancings, restructurings and recapitalizations. It has to date targeted single-name position sizes ranging between $50 million and $500 million.

Private Debt was able to grow its portfolio by $1.8 billion in fiscal 2014, despite market conditions that prompted the monetization of several existing positions, and challenged our ability to reinvest with sufficient prospects for added value at acceptable levels of risk. Credit quality in the primary markets deteriorated during the year, with covenant-light new issuance at a record high for the second year in a row. Despite this increasingly risky environment, record inflows into high-yield mutual funds tightened pricing to produce record-low yields on the average U.S. single-B loan issue and the high-yield bond index. Yields on European private debt also fell significantly, reducing opportunities. These lower credit spreads led to elevated refinancing activity and the repayment of several of our investments.

In light of these market conditions, we exercised discipline in conventional lending and leveraged our relationships to find larger and more tailored situations where the group was better able to obtain appropriate structure and terms, resulting in attractive risk-adjusted opportunities. We were able to close 33 new investments in 10 countries, funding approximately $3.6 billion.

The credit portfolio has maintained its geographic balance, with 54% in North America, 38% in Europe, 6% in Asia and now 2% in Latin America. The Europe and North America teams have been increasingly active in the secondary market, with the Hong Kong office ramping up on primary transactions in the Asia-Pacific region. After sales, maturities and revaluations of holdings, assets totalled $5.9 billion, up from $4.1 billion at the end of fiscal 2013.

Notable transactions this fiscal year include:

> Acquired a 23.8% interest in Altamira Asset Management representing an equity investment of €106 million. Altamira is the market leading debt recovery and real estate servicing platform in Spain.
> Completed an investment in Ports America to finance a new seven-year US$375 million Holdco financing. Concurrent with the transaction, CPPIB will own a 10% equity stake in the company. Ports America is the largest independent marine terminal operator in the U.S. and currently operates in more than 42 ports and 80 locations.
> Completed a $150 million structured debt agreement with Laricina Energy Ltd., a Calgary-based in situ oil sands company. This financing agreement follows CPPIB's existing $350 million investment in Laricina through its Natural Resources group.

Private Debt continues to invest in opportunities underpinned by intellectual property such as patents, trademarks and copyrights. This year, the intellectual property team acquired a royalty interest in Lyrica®, a major drug for the treatment of seizures, nerve pain and fibromyalgia. To date, the team has deployed $1.0 billion in these investments.

In fiscal 2015, we expect net growth in an increasingly diversified portfolio of private debt assets, growing in geographical presence through the recently established New York office, the new Latin America team focus and the Asia team build-out. Additional growth will be derived from the continual expansion of the intellectual property platform into new industries.

INFRASTRUCTURE

Infrastructure continued its focus on well-established brownfield infrastructure assets in core developed markets this year, and is conducting strategic reviews in other sectors. In line with CPPIB's strategy to increase exposure to higher-growth emerging markets, the group also continued to broaden its global investment capability. During the year, the team dedicated resources to building expertise and relationships in new markets, particularly in India and Latin America (Brazil, Peru and Colombia), as well as selective opportunities in Asia. At the same time, the group is exploring innovative structures to provide long-term capital to enable early stage investors in such markets to release and recycle investment from maturing development projects.

The team completed an in-depth review of the investment landscape in India. Infrastructure is a key growth area in India with a large part of the opportunities expected to be in greenfield build-outs as well as an emerging brownfield asset pool. CPPIB's model of long-term infrastructure equity capital does not commonly exist in India, and is a competitive advantage in a country where neither public equity markets nor traditional private equity has the capacity to provide the capital required.

In Latin America, the infrastructure team is actively pursuing platform investments with key strategic relationships. In November 2013, CPPIB and Graña y Montero (GyM), the largest engineering and construction company in Peru, signed a non-exclusive, long-term agreement to invest together in infrastructure in targeted markets in South America. In partnership with GyM, CPPIB then completed its first infrastructure investment in Peru with the acquisition of a 36.8% equity stake in Transportadora de Gas del Perú S.A. (TgP), the largest transporter of natural gas and natural gas liquids in the country, for a total consideration of US$807 million.

Significant new sources of capital have entered the infrastructure market since we launched our direct investing platform eight years ago. Competition is particularly intense for brownfield assets in markets such as the U.K., Australia and the U.S. where regulation is well established and understood. Still, there remains a large global funding deficit for infrastructure, particularly for greenfield investment. Looking forward, the Infrastructure group will continue to expand its investment program by building capabilities in new markets, pursuing opportunities in developed markets where our competitive advantages are most potent and assessing the attractiveness of new sectors through strategic reviews.

The Infrastructure group continues to deepen its expertise with the addition of Cressida Hogg as Managing Director & Head of Infrastructure effective the end of July 2014. Based in the London office, Ms. Hogg has an extensive background in the global infrastructure sector and was most recently CEO of 3i Group's infrastructure division. Alain Carrier, who previously led the Infrastructure team, was appointed Managing Director & Head of Europe earlier in the year, and will continue to manage both functions until July.

PORTFOLIO VALUE CREATION

Effective portfolio management and value creation continue to differentiate CPPIB from other investors and is also a key risk management activity. Portfolio Value Creation is actively involved in the governance and management of CPPIB's private assets. The team monitors developments in portfolio companies, and identifies and helps resolve emerging issues related to both governance and operational matters. The group also assists other teams in defining and executing commercial due diligence, selecting advisors and reviewing conclusions.

This year, the team continued to oversee the semi-annual monitoring process for all large assets. This covers financial performance, operational efficiencies and compliance. The team also focused on the environmental, social and governance (ESG) diligence process initiated in fiscal 2013 and launched an ESG monitoring process in support of CPPIB's Responsible Investment goals. It also identified several cost reduction opportunities within the portfolio and supported management in realizing them. The team plays an active role in transitioning new assets into the CPPIB portfolio, particularly with regard to business continuity and governance matters.

REAL ESTATE INVESTMENTS

The mandate of Real Estate Investments (REI) is to build and manage a portfolio of investments in properties that delivers stable and growing income to the Fund. We focus on high-quality core properties, supported by strong real estate fundamentals that retain their long-term value across multiple business cycles.

Most of the world's commercial real estate is privately owned, although public real estate investment trusts (REITS) are major participants in the U.S. and Australia. Consequently, our primary strategy is to pursue investments through the private market. We invest globally but take a targeted approach by focusing on the largest and most transparent developed markets where we can develop internal expertise and build scale. We also invest in select emerging markets that have a shortage of institutional-quality real estate but are likely to become large and dynamic real estate markets as their economies grow in the coming decades. While our department has developed strong in-house real estate expertise across our key markets, we act as an investor and portfolio manager first and not as a real estate operating company.

REI comprises two groups. The Equity group manages the majority of our portfolio holdings at 90.4% of portfolio value and is organized into the Americas, Europe and Asia sub-groups. Private Real Estate Debt (PRED) provides junior and senior financing underpinned by high-quality real estate, and comprises 9.6% of our holdings.

The Equity group's primary activity continues to be identifying best-in-class real estate owner/operators in select markets, partnering with them through joint ventures (JVs). These partners provide day-to-day management and leasing services to our co-owned properties. Their equity investment ensures that decisions made with us are aligned with the best interests of the property and thus the CPP Fund. While JVs will continue to be the primary source of growth for our Equity group, we have added ownership in real estate operating companies to our strategy in order to broaden our opportunity set.

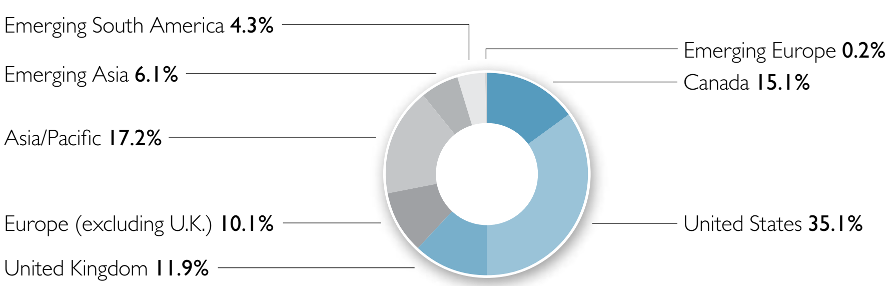
PRED complements the equity program by providing debt financing across the capital structure of properties. PRED's geographic and sector focus is broadly consistent with that of the Equity group, enabling it to leverage our in-house market knowledge and existing relationships. The two groups work closely in sharing market intelligence with the ultimate goal of providing a one-stop capital solution to potential partners.

We pursue development-focused strategies in markets and sectors with strong risk/return attributes compared to acquiring stabilized, income-producing assets. This is particularly evident in the emerging markets, where the industry is nascent and the scarcity of fully developed and mature assets support development projects that are expected to be profitable on a risk-adjusted basis. For the most part, our development programs are designed to build high-quality assets that will be suitable for long-term investment once completed.

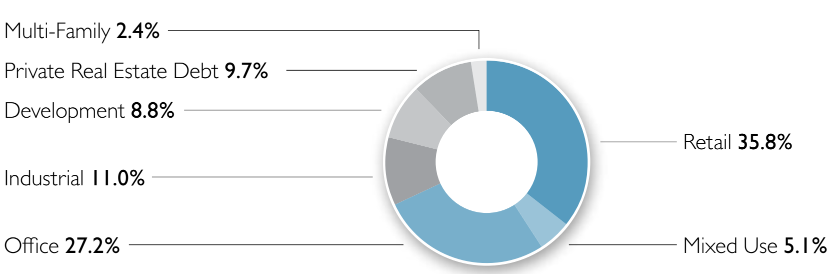
Fiscal 2014 marked another year of growth for REI's investment activities and the continued strengthening of our reputation in the marketplace. Net of third-party mortgage financing, REI's portfolio value (including PRED) increased by $6.0 billion from $22.2 billion at the end of fiscal 2013 to a current $28.2 billion, representing 12.9% of the total Fund. The change in portfolio value was the net result of (i) new investment activity, (ii) draw down of capital committed to existing programs, (iii) dispositions and (iv) changes in valuation and foreign exchange movement during the year. The vast majority of our equity holdings represents investments in high-quality assets that we expect to hold and manage for the long term. We also have an additional $7.9 billion of outstanding commitments, predominantly comprising undrawn allocations to development programs that will be funded as these projects are built over the next several years. As active managers, we have also disposed of $1.8 billion in non-core investments under favourable market conditions this year.

Our real estate portfolio now spans five continents with holdings in the developed markets of Canada, the U.S., U.K., Continental Europe, Australia, Japan and also the key emerging markets of Brazil, China and India. We continue to focus primarily on the four main commercial property sectors: office, retail, industrial and multi-family residential. REI's geographic and sector diversification by portfolio value is shown below.

REAL ESTATE INVESTMENTS – GLOBAL DIVERSIFICATION
As at March 31, 2014



REAL ESTATE INVESTMENTS BY SECTOR DIVERSIFICATION
As at March 31, 2014



The two tables below show REI's performance in absolute terms and relative to its benchmarks. The first table summarizes the absolute returns on all assets (equity values after mortgage liabilities), with rates of return calculated on a time-weighted basis. Assets include properties under development, which are carried at cost until completed and stabilized. Returns are net of mortgage financing costs as well as transaction costs, land transfer taxes, external manager fees and other significant expenses related to the growth of the portfolio. The second table shows the dollars of value-added generated by the department compared to our performance benchmarks. We use distinct benchmarks for our real estate debt and equity programs: our debt investments are benchmarked to public corporate debt indices, while our equity investments are benchmarked to the Investment Property Databank (IPD) indices. IPD is a third-party private real estate index provider and our equity investments are benchmarked to its corresponding country and sector level indices. If a local IPD index is not available, a global composite index is used. For comparability, the applicable benchmark returns are adjusted for leverage and unavoidable external expenses not included in the IPD indices.

REAL ESTATE INVESTMENTS	**Fiscal 2014 %**	Fiscal 2013 %
RETURNS		
1-year excluding foreign currency impact	**10.7**	8.8
1-year	**18.7**	9.4
1-year benchmark	**17.7**	9.7

REAL ESTATE INVESTMENTS	**Fiscal 2014 $ billions**	Fiscal 2013 $ billions
CONTRIBUTION TO PORTFOLIO VALUE-ADDED[1,2]		
1-year	**0.3**	0.0
4-year	**0.5**	0.6
Since inception[3]	**0.6**	0.4

1 Before CPPIB operating expenses.
2 Foreign currency fluctuations have no impact on departmental value-added. See page 23 for more details.
3 CPP Reference Portfolio inception date: April 1, 2006.

FISCAL 2014 ACTIVITIES

Global real estate markets continued to strengthen over the past year. Our portfolio experienced a rise in asset values in most major markets, and outpaced benchmark returns to generate positive value-added. Valuations for private commercial real estate increased in conjunction with the strength of the public markets. Capital values have now reached or in some instances exceeded those achieved during the peak of the last real estate cycle in fiscal 2008. This was largely the result of a strong demand for high-quality commercial real estate from institutional investors in search of yield in a low interest rate environment. We continue to see an increase in allocation to real estate by many of our peers, and for the first time, by investors from emerging markets interested in non-domestic assets. We expect these trends to continue in the absence of any unforeseen shocks to the global financial markets or a dramatic rise in interest rates not supported by strengthening in real estate fundamentals.

In the nine years since REI was established, our real estate holdings have increased nine-fold in size, from an assemblage of mainly domestic holdings to a global portfolio of 124 investments with 60 partners. We now rank as one of the world's largest real estate organizations globally, one bigger than most public real estate companies.

Our activities over the past 12 months were consistent with that of a growing and maturing global real estate program. As a long-horizon investor, we benefit from being able to take a longer-term view on properties past the current business cycle and continue to pursue core investments consistent with this approach. CPPIB's real estate portfolio grew at a more moderate pace this year because we took a more cautious approach as asset prices continued to rise. Following several years of rapid growth and expansion, we have now established a sizeable presence in most of our key geographic markets. The current environment further highlights the importance of long-term relationships with our partners to secure attractive opportunities. This year, we made several large investments that we were able to source on an exclusive basis. We also took advantage of rising asset prices by opportunistically selling assets which no longer align with our strategy. These dispositions offset some of the growth in portfolio size from new investment activity.

Having surpassed the $25 billion mark, it is increasingly important for REI to have well-executed business plans for managing existing properties to ensure sustainable performance over the long term. Against a supportive market environment this year, we divested a total of $1.8 billion in non-core holdings located in North America and the U.K. The largest undertaking was the reorganization of our Canadian mall portfolio. We divested our investment in seven regional malls, formed two new retail joint ventures with Ivanhoé Cambridge and Oxford Properties, and acquired a 50% interest with Oxford in a dominant regional mall in the Greater Toronto Area. We believe this reorganization sets our Canadian mall portfolio on a better path to achieving stable and sustainable growth with two experienced and well-regarded national mall operators that are strongly aligned with CPPIB through their significant co-investment in the properties they manage and their similar outlook as subsidiaries of major Canadian pension funds. Other significant divestitures included Del Mar Highlands Town Center in the U.S. We also reached an agreement to sell Northland Shopping Centre in Australia and Derby and Merry Hill Shopping Centres in the U.K. in late March.

While our portfolio continues to comprise core, long-term assets, the program has reached a sufficient scale that enables us to invest in certain tactical strategies that typically have a shorter investment horizon and a higher return requirement. These programs, while small in scale, have the potential to generate outsized returns that will complement our predominantly core program. Tactical investments undertaken in fiscal 2014 include two for-sale residential development programs we formed in the emerging markets, as well as a JV with Hermes Real Estate Investment Management Limited that seeks to acquire and reposition office properties in the Central London market.

Our emerging markets programs in China and Brazil continue to grow primarily through several key relationships. This year, we made our first investment in a real estate operating company by acquiring a 27.6% interest in Aliansce Shopping Centers. Aliansce is one of the largest owners and developers of high-quality shopping malls in Brazil. Through our long-standing relationship with both the company and its founding shareholder, General Growth Properties, we were able to secure this opportunity on an exclusive basis. Aliansce is an example of a portfolio of high-quality assets that would otherwise not be available to us through our preferred JV structure. We will be open to similar opportunities in the future even as joint ventures continue to be our main focus.

Internal strength also enabled us to undertake transactions that offer compelling value but are complicated to execute and require major commitments of time and resources. Partnering with DEXUS Property Group, we successfully privatized the Commonwealth Office Property Fund, one of the largest pure-play office REITs in Australia. This complex transaction closed in April 2014 and enabled us to acquire a high-quality portfolio in a tightly held market through a single transaction, aligning well with several of CPPIB's comparative advantages.

We also added India to our investment program as a new emerging market this year. We have been monitoring India as a potential market for our equity program over the past several years and are pleased to have been able to establish two investment programs with strong and experienced partners in the subcontinent. Similar to our approach in other emerging markets, we will take measured steps in building on our initial presence and increase our investment activities over time as we deepen our internal capabilities and market expertise.

Finally, several organizational changes were made this year to enhance the alignment of internal capabilities with our expanding investment programs.

> With the opening of CPPIB's New York and São Paulo offices in late fiscal 2014, the Americas group was reorganized into three teams. Several investment professionals responsible for the U.S. and Brazilian markets were transferred from Toronto with additional staff hired locally. We expect the local presence in the U.S. and Brazil to further strengthen our investment sourcing capabilities and our ability to manage relationships with local partners. REI now has a full international presence in all five of CPPIB's offices.

> We formed a Business Development and Strategy group in Toronto to reinforce investment planning support for existing and new strategies, improve the coordination between our investment and portfolio management activities, and build the department's business infrastructure to ensure consistency and efficiency as we invest globally.

This year's investment highlights included:

AMERICAS

> Formed a discretionary venture with Banco BTG Pactual S.A. (BTG), one of the leading investment banks in South America, to invest in residential development opportunities targeting Brazil's growing middle class. CPPIB will invest up to US$240 million for a 40% interest in the venture. BTG has committed to an equal investment.

- Acquired a 27.6% interest in Aliansce Shopping Centers S.A. for an equity amount of US$480 million. Based in Rio de Janeiro, Aliansce is one of Brazil's top publicly traded real estate operating companies. Aliansce is focused on the ownership, management and development of enclosed shopping centres. Its retail portfolio consists of 17 stabilized assets and two development projects, located in various regions across the country.
- Successfully divested seven regional Canadian shopping centres for a combined gross consideration of $1.35 billion. The divestments support CPPIB's multi-phase Canadian retail strategy to pursue new opportunities for this portfolio with core assets in primary markets held jointly with strong operating partners. As part of this strategy, we formed JVs on the two remaining Canadian mall properties we own, selling 50% of Carrefour de l'Estrie in Sherbrooke, Quebec to Invanhoé Cambridge and 50% of Les Galeries de la Capitale in Quebec City to Oxford Properties. As part of a new retail JV with Oxford Properties, we acquired a 50% interest in Upper Canada Mall in Newmarket, Ontario from Oxford.

EUROPE

- Entered into a 50%/50% office joint partnership with Hermes Real Estate Investment Management Limited, the real estate subsidiary of the BT Pension Scheme, through an initial £173.9 million investment to acquire value-add/core plus properties located in London's West End. For £100 million, the venture's first acquisition was Aldgate House, a 214,000 square foot multi-let, high-quality office property. The JV's strategy is to pursue well-located office properties in London that require repositioning through active management and refurbishment.
- Formed a 50%/50% joint venture with Hammerson, one of the U.K.'s largest shopping centre and retail park operators, to acquire a 33.3% stake in Bullring Shopping Centre for £307 million. Located in Birmingham, the U.K.'s second largest city, Bullring is one of the country's top 10 retail destinations with over 40 million visitors annually.
- Launched CPPIB's first real estate venture in India through the formation of a strategic alliance with the Shapoorji Pallonji Group to acquire foreign direct investment-compliant, stabilized office buildings in India's major metropolitan centres. CPPIB will own 80% of the venture with an initial equity commitment of US$200 million. The Shapoorji Pallonji Group is an India-based global conglomerate focused primarily on the real estate, construction, infrastructure and engineering sectors.
- Entered into a joint partnership agreement with Intu Properties plc to acquire Parque Principado Shopping Centre in Oviedo, Spain for €162 million. Parque Principado is one of Spain's top 10 prime retail destinations and is the primary out-of-town centre for the region of Asturias.

ASIA

- Formed the Tokyo Office Venture with GE Capital Real Estate (GECRE) to invest in mid-size Class A and B offices in key Central Business District sub-markets of Tokyo, Japan. CPPIB and GECRE will initially invest a combined equity amount of up to JPY40 billion (US$403 million) on a 49%/51% basis.
- Committed US$400 million of additional equity to our China logistics joint venture with Goodman Group, Goodman China Logistics Holding (GCLH) for a total commitment to date of US$1.2 billion. GCLH was formed in 2009 and has invested in modern logistics projects across Chinese markets. The Goodman Group is one of the largest owners, developers and operators of logistics properties globally.
- Acquired 100% of the units of Commonwealth Property Office Fund (CPA) alongside DEXUS Property Group. CPPIB holds a 50% interest for an equity investment of approximately A$1.5 billion. The CPA fund comprises a portfolio of 21 high-quality office properties, located in major markets across Australia, with total assets of A$3.3 billion. This transaction closed in April subsequent to year end.
- Acquired 50% of the Samsung SRA Private Real Estate Investment Trust No. 4 for KRW126 billion (C$118.6 million). This single-asset fund owns a high-quality, 30-storey, Class A office development project in the Gangnam Business District in Seoul, South Korea. The property is fully pre-leased to Samsung SDS, South Korea's largest IT services company.
- Formed a new venture with China Vanke, the largest real estate residential developer in China. Through this venture, CPPIB will over time invest US$250 million in the Chinese residential market.

PRED

- Announced a strategic alliance with Piramal Enterprises Limited (PEL), one of India's largest diversified companies, to provide structured debt financing to residential projects across India's major urban centres. CPPIB and PEL have each initially committed US$250 million.
- Fontainebleau Mezzanine Loan (US$240 million): We participated in a refinancing of the Fontainebleau Miami Beach Hotel by investing in a senior mezzanine loan secured by the property.
- Miracle Mile repayment (US$100 million): We received an early repayment on our junior mezzanine loan on the Miracle Mile Shops in Las Vegas, a 500,000-square-foot retail complex located in the heart of the Las Vegas Strip.

REAL ESTATE HOLDINGS AS AT MARCH 31, 2014

PROPERTY	City	Province/ State	Country	Total Gross Leasing Area (sq. ft.)	Ownership Interest (%)
AMERICAS PROPERTIES					
OFFICE PROPERTIES					
Canterra Tower	Calgary	AB	Canada	817,000	50
Oceanic Plaza	Vancouver	BC	Canada	351,000	50
401 West Georgia Street	Vancouver	BC	Canada	270,000	50
Guinness Tower	Vancouver	BC	Canada	256,230	50
800 Burrard Street	Vancouver	BC	Canada	222,000	50
Marine Building	Vancouver	BC	Canada	174,000	50
1133 Melville	Vancouver	BC	Canada	79,000	50
Constitution Square	Ottawa	ON	Canada	1,054,000	50
Place de Ville II	Ottawa	ON	Canada	609,000	50
Place de Ville I	Ottawa	ON	Canada	581,000	50
Jean Edmonds Towers	Ottawa	ON	Canada	553,000	50
First Canadian Place	Toronto	ON	Canada	2,666,000	25
Royal Bank Plaza	Toronto	ON	Canada	1,478,000	50
Waterpark Place	Toronto	ON	Canada	801,000	50
One Financial Place	Toronto	ON	Canada	654,000	50
2 Queen Street E.	Toronto	ON	Canada	464,000	50
Yonge/Richmond Centre	Toronto	ON	Canada	299,000	50
Tour KPMG	Montreal	PQ	Canada	493,000	50
Tabor Center	Denver	CO	USA	726,000	39
US Bank Tower	Denver	CO	USA	520,000	39
Warner Building	Washington	DC	USA	602,000	45
1255 23rd St.	Washington	DC	USA	326,000	45
1101 17th Street NW	Washington	DC	USA	207,000	45
ABA Building (740 15th St.)	Washington	DC	USA	171,000	49
Alhambra	Coral Gables	FL	USA	323,000	49
Datran Center	Kendall	FL	USA	471,000	49
1221 Avenue of the Americas	New York	NY	USA	2,520,000	45
10 East 53rd St.	New York	NY	USA	351,000	45
600 Lexington Avenue	New York	NY	USA	298,000	45
Shenandoah Building	McLean	VA	USA	197,000	49
RETAIL PROPERTIES					
RioCan Beacon Hill	Calgary	AB	Canada	528,000	50
Edmonton City Centre (Retail)	Edmonton	AB	Canada	814,000	50
RioCan Meadows	Edmonton	AB	Canada	211,000	50
Grandview Corners	Surrey	BC	Canada	530,000	50
RioCan Centre Burloak	Burlington	ON	Canada	455,000	50
Promenades Cathédrale	Montreal	PQ	Canada	137,000	50
Upper Canada Mall	Newmarket	ON	Canada	968,000	50
Les Galeries de la Capitale	Quebec City	PQ	Canada	1,488,000	50
Carrefour de l'Estrie	Sherbrooke	PQ	Canada	1,161,000	50
Rancho San Diego	El Cajon	CA	USA	98,000	45
Westfield Topanga	Los Angeles	CA	USA	1,569,000	45
Westfield Santa Anita	Los Angeles	CA	USA	1,461,000	45
Westfield Culver City	Los Angeles	CA	USA	1,052,000	45
Hasley Canyon Village	Los Angeles	CA	USA	70,000	40
Westfield Mission Valley	San Diego	CA	USA	1,007,000	45
Westfield North County	San Diego	CA	USA	1,255,000	45
Westfield Plaza Bonita	San Diego	CA	USA	1,019,000	45
Westfield Horton Plaza	San Diego	CA	USA	725,000	45
Morena Plaza	San Diego	CA	USA	411,000	45
Westfield Oakridge	San Jose	CA	USA	1,139,000	45
Blossom Valley	San Jose	CA	USA	93,000	40
Redhawk Town Center	Temecula	CA	USA	417,000	45
Crystal Mall	Waterford	CT	USA	783,000	22
Oakwood Plaza North	Hollywood	FL	USA	722,000	45
Oakwood Plaza South	Hollywood	FL	USA	177,000	45
Willa Springs Shopping Center	Orlando	FL	USA	90,000	40
Pier Park	Panama City	FL	USA	841,000	34
Dunwoody Hall	Atlanta	GA	USA	90,000	40
Auburn Mall	Auburn	MA	USA	588,000	44
Liberty Tree Mall	Danvers	MA	USA	856,000	47
Cape Cod Mall	Hyannis	MA	USA	726,000	44
Solomon Pond Mall	Marlborough	MA	USA	887,000	44
Emerald Square	North Attleboro	MA	USA	1,023,000	44
Northshore Mall	Peabody	MA	USA	1,584,000	44
Square One Mall	Saugus	MA	USA	930,000	44
Greendale Mall	Worcester	MA	USA	430,000	44
Westfield Annapolis	Annapolis	MD	USA	1,501,000	45
St. Louis Galleria	St. Louis	MO	USA	465,000	26
Plaza Frontenac	St. Louis	MO	USA	480,000	45
Maynard Crossing	Raleigh	NC	USA	123,000	40
Mall of New Hampshire	Manchester	NH	USA	811,000	44
Mall at Rockingham Park	Salem	NH	USA	1,020,000	22
Richland Marketplace	Quakertown	PA	USA	266,000	45
Shiloh Springs	Dallas	TX	USA	110,000	40

REAL ESTATE HOLDINGS AS AT MARCH 31, 2014 (CONTINUED)

PROPERTY	City	Province/ State	Country	Total Gross Leasing Area (sq. ft.)	Ownership Interest (%)
Bethany Park Place	Dallas	TX	USA	99,000	40
Alden Bridge Village Center	Houston	TX	USA	139,000	40
Pentagon Centre	Pentagon City	VA	USA	337,000	45
Apple Blossom Mall	Winchester	VA	USA	440,000	47
Westfield Southcenter	Seattle	WA	USA	1,683,000	45
MULTI-FAMILY PROPERTIES					
AMLI 900	Chicago	IL	USA	372,000	45
AMLI Museum Gardens	Vernon Hills	IL	USA	328,000	45
AMLI Ballpark – Phase I	Frisco	TX	USA	531,484	45
Essex West Dublin	Dublin	CA	USA	286,000	45
Palazzo Westwood Village	Los Angeles	CA	USA	414,000	49
North Point	Cambridge	MA	USA	385,000	40
Woodland Park	Herndon	VA	USA	393,000	40
Sixth & Lenora	Seattle	WA	USA	467,000	40
TOTAL AMERICAS				**55,518,714**	
INTERNATIONAL PROPERTIES					
OFFICE PROPERTIES					
Le Bleriot Office Building	Suresnes		France	232,000	94
LaSalle German Fund	Munich		Germany	1,945,000	44
100 Regent Street	London		UK	52,000	50
40 Eastbourne Terrace	London		UK	83,000	50
Prospect House	London		UK	103,000	50
Cheapside House	London		UK	79,000	50
242 Marylebone Road	London		UK	122,000	50
50 Eastbourne Terrace	London		UK	62,000	50
20/24 Broadwick Street	London		UK	21,000	50
69 Carter Lane	London		UK	29,000	50
Aldgate House	London		UK	213,051	50
55 Bishopsgate	London		UK	193,000	80
RETAIL PROPERTIES					
Northland Shopping Centre	Melbourne		Australia	964,000	50
CFSGAM Property Retail Partnership	Various		Australia	3,008,000	39
Macquarie Centre	Sydney		Australia	1,431,000	19
Pacific Fair	Gold Coast		Australia	1,112,000	30
Botafogo Praia Shopping	Rio de Janeiro		Brazil	167,000	25
Iguatemi Salvador	Salvador, Bahia		Brazil	840,000	15
Hurth Park	Cologne		Germany	654,000	80
Centro Shopping Centre	Oberhausen		Germany	1,205,000	50
Parque Principado	Oviedo		Spain	804,021	49
Kista Galleria Shopping Centre	Stockholm		Sweden	1,015,000	50
Forum Ankara	Ankara		Turkey	867,000	26
Forum Aydin	Aydin		Turkey	328,000	26
Forum Camlik	Denizli		Turkey	348,000	26
Forum Istanbul	Istanbul		Turkey	1,917,000	26
Forum Kapadokya	Kapadokya		Turkey	285,000	26
Forum Marmara	Marmara		Turkey	1,612,000	13
Forum Trabzon	Trabzon		Turkey	536,000	26
Bexleyheath Shopping Centre	Bexleyheath		UK	458,000	93
Bullring Shopping Centre	Birmingham		UK	1,360,000	17
Borehamwood Retail Shopping Park	Borehamwood		UK	198,000	93
Whitefriars Quarter Shopping Centre	Canterbury		UK	600,000	50
Silverburn Shopping Centre	Glasgow		UK	1,000,000	50
Westfield Stratford City	London		UK	1,900,000	25
Eagles Meadow Shopping Centre	Wrexham		UK	353,000	93
INDUSTRIAL PROPERTIES					
Banfield Distribution Centre	Victoria		Australia	828,000	80
Bungarribee Distribution Centre	New South Wales		Australia	1,005,000	80
Lytton Distribution Centre	Queensland		Australia	557,000	80
Goodman Trust Australia – Industrial Portfolio	Various	Various	Australia/Europe	22,061,000	42
Fengxian International Logistic Park	Shanghai		China	1,440,000	80
Kangqiao Distribution Centre	Shanghai		China	588,000	80
Goodman Beijing Airport Logistics Centre	Beijing		China	449,000	80
Fengxian Distribution Centre	Shanghai		China	520,000	80
Taopu Industrial Estate	Shanghai		China	488,000	80
Goodman Lujia Logistics Centre	Shanghai		China	410,000	80
Goodman Lingang Logistics Centre	Shanghai		China	630,000	80
Goodman Waigaoqiao Distribution Centre	Shanghai		China	823,000	80
Goodman Suzhou West Logistics Centre	Suzhou		China	1,013,000	80
Interlink Industrial	Tsing Yi	Hong Kong	China	2,424,000	50
GLP Atsugi	Kanagawa Prefecture		Japan	479,000	50
GLP Misato	Saitama		Japan	418,700	50
GLP Soja	Okayama		Japan	679,000	50
TOTAL INTERNATIONAL				**60,908,772**	
PORTFOLIO TOTAL				**116,427,486**	

PARTNERING WITH EXTERNAL MANAGERS

INVESTMENT PARTNERS

PRIVATE EQUITY

Actera Group
Advent International
AlpInvest Partners
Anchor Equity Partners
Apax Partners
Apollo Management
Archer Capital
Ares Management
Baring Private Equity Asia
Behrman Capital
BC Partners
Birch Hill Equity Partners
Bridgepoint Capital
Brookfield Asset Management Inc.
CCMP
CDH Investments
Charterhouse Capital Partners
Chequers Capital
Cinven
CITIC Capital Partners
CIVC Capital Partners
Coller Capital
Court Square Capital Partners
CVC Capital Partners
Diamond Castle
Edgestone Capital Partners
EnCap Investments
First Reserve
Ford Financial
FountainVest
Friedman Fleischer & Lowe Capital Partners
GCM Grosvenor
Goldman Sachs
Heartland Industrial Partners
Hellman & Friedman
HitecVision
Hony Capital
Kainos Capital, LLC
Kensington Capital Partners
Kohlberg Kravis Roberts & Co.
KSL Capital Partners
Lexington Partners
Lindsay, Goldberg & Bessemer
Lion Capital
Lone Star Funds
Magnum Industrial Partners
Matlin Patterson
MBK Partners
MidOcean Partners
MPM Capital
Multiples Alternate Asset Management
New Mountain Capital
Nexus Group Capital
Northleaf
Onex Partners
PAI Partners
Partners Group
Paul Capital Partners
Performance Equity Management
Permira
Quantum Energy Partners
Riverstone/Carlyle
Silver Lake Partners
Standard Life
Stone Point Capital
Schroders Ventures
Tenaya Capital
Terra Firma Capital Partners
Texas Pacific Group
The Blackstone Group
The Carlyle Group
The Jordan Company
The Sterling Group
Thomas H. Lee Partners
Thomas Weisel Partners
TowerBrook
Triton
Victoria Capital
Vista Equity Partners
Welsh, Carson, Anderson & Stowe

INFRASTRUCTURE

Macquarie Infrastructure and Real Assets (Europe) Limited

PRIVATE DEBT

Farallon Capital Management

REAL ESTATE INVESTMENT PARTNERS

Aliansce Shopping Centers
AMLI Residential
AMP Capital Investors Limited
Ancar Ivanhoe Shopping Centers
AvalonBay Communities, Inc.
Bentall Kennedy LP
Brookfield Properties Corporation
BTG Pactual
Callahan Capital Partners
CapitaLand Group
CapitaMalls Fund Management Pte. Ltd.
Carr Properties
Casden Properties
CBRE Global Investors (UK Funds) Limited
Citycon
Clarion Partners
Colonial First State Global Asset Management
Cornerstone Real Estate Advisors
Cyrela Commercial Properties
DEXUS Property Group
Douglas Emmett, Inc.
Essex Property Trust
GE Capital Real Estate
General Growth Properties
Global Logistic Properties
Goodman Group
Grosvenor Investment Management
Hammerson
Hawkeye Partners
Henderson Global Investors
Hermes Investment Management Limited
Intu Properties plc
Ivanhoé Cambridge Inc.
John Buck Company
Kimco Realty Corporation
Land Securities
LaSalle Investment Management
Lend Lease
Liquid Realty Partners
Macquarie Global Property Advisors
Morgan Stanley Real Estate
Multi Corporation
Oxford Properties Group
Piramal Enterprises Limited (PEL)
Pramerica Real Estate Investors Ltd
ProLogis
RioCan Real Estate Investment Trust
Samsung SRA
Secured Capital Investment Management Co. Ltd
Shapoorji Pallonji Group
Simon Property Group
SL Green Realty Corp.
Stadium Group of Companies
The Blackstone Group
The Rockefeller Group
The Westfield Group
TIAA-CREF Asset Management
USAA Real Estate Company
Vankic Investments
Vornado Realty Trust

PUBLIC MARKET INVESTMENTS

Allard Partners Management Limited
Amplitude Capital International Ltd
Anchorage Capital Group LLC
AQR Capital Management LLC
Arrowstreet Capital
BlackRock, Inc.
BlueCrest Capital Management LLP
BlueMountain Capital Management LLC
Brevan Howard Asset Management LLP
Bridgewater Associates Inc.
BTG Pactual Global Asset Management Limited
Capital Fund Management
Cevian Capital Limited
Connor Clark & Lunn Investment Management Ltd.
Corvex Management LP
Credit Suisse Asset Management LLC
Dymon Asia Capital Ltd.
Dynamo Internacional Gestão de Recursos Ltda.
Edesia Asset Management B.V.
Effissimo Capital Management Pte Ltd
Elliott International Capital Advisors Inc.
Fermat Capital Management LLC
Fortress Investment Group LLC
Garrison Investment Group LP
Grantham, Mayo, Van Otterloo & Co. LLC (GMO)
Greenwoods Asset Management Ltd
Hillhouse Capital Advisors, Ltd.
Ionic Capital Partners LP
Janchor Partners Management Limited
JGP Global Gestao de Recursos Ltda.
Knighthead Capital Management LLC
Macquarie Funds Management Hong Kong Limited
Myriad Asset Management (Cayman) Limited
Nephila Capital Ltd.
OxFORD Asset Management
OZ Management LP
Pacific Alliance Investment Management Limited
Pacific Investment Management Company
Penta Investment Advisors Limited
Pershing Square Capital Management LP
Prime Capital Management (Cayman) Ltd.
Samlyn Capital, LLC
Sensato Investors LLC
Soroban Capital Partners LLC
Springs Capital Limited
SPX Gestao de Recursos Ltda.
Squadra Investments – Gestão de Recursos Ltda.
Starboard Value LP
Tarpon Gestora de Recursos S.A.
Treesdale Partners LLC
Two Sigma Investments LLC
ValueAct Capital
Wellington Management Company, LLP
Wolverine Asset Management LLC
Yannix Management LP

OPERATIONAL HIGHLIGHTS

INTERNAL CAPABILITIES

As a knowledge-based organization, attracting and retaining talented world-class professionals is critical to the success of our long-term active management strategy aimed at achieving our mandate to maximize investment returns without undue risk of loss.

This year, we continued to build a high-performing global workforce by attracting additional top talent from around the world and developing our existing leaders and employees through structured performance management processes and an array of training programs.

GLOBAL WORKFORCE

At year end, we had 1,000 full-time employees, an increase of 10% from fiscal 2013: 886 in Toronto, 44 in Hong Kong, 64 in London, 3 in New York and 3 in São Paulo.

An important milestone was the opening of offices in New York and São Paulo. We are building local teams in selected areas of our business, whose on-the-ground knowledge will support our investment strategies which include identifying partners, sourcing investments and managing existing assets. Each international office is staffed with a complementary combination of existing CPPIB employees and new locally hired staff.

Our Talent Acquisition team has developed in-house search capabilities to find top talent, reducing our dependence on external search firms. This year, we filled close to 85% of open roles through our own recruitment expertise. We are able to attract top international talent to our high-performing organization, including 32 new hires in our international offices.

We believe that a diverse workforce makes us more effective. A key focus area is gender diversity. We established a women's council that is supported by senior leaders including both men and women from different levels, with varied experience, from all parts of the organization. Currently, women represent 20% of employees at the Director level and above. The council has developed a long-term strategy with detailed plans to attract, develop and advance more women at all levels. More broadly, we have developed a three-year Employment Equity Plan that includes measures to attract and retain women, employees from visible minorities and aboriginal groups, and people with disabilities.

TALENT DEVELOPMENT

This year, we significantly enhanced our talent management processes. A new performance rating scale and process were introduced which improved our mid-year discussions, reframed our talent pipeline evaluation and recast our approach to promotions.

We have begun to create career frameworks that outline job expectations by role and that guide career progression. Our Private Investments department is the first group to apply career frameworks to assist with professional development and to evaluate performance. This is the beginning of a multi-year rollout of career frameworks, which will also educate the creation of new formal training programs and staffing decisions for all roles and departments.

Managers are accountable for attracting, developing and retaining high-performing teams. We continue to offer a series of programs to provide them with the skills to help lead teams, coach employees, provide feedback and encourage career growth and development. To date, over 258 employees have attended these programs.

As a result of our commitment to development, 152 employees were promoted. We filled 20% of our open roles internally. We expect this number to continue to rise as we execute our strategy to build talent from within and preserve favourable employee retention rates.

ORGANIZATIONAL CHANGES AND SENIOR APPOINTMENTS

In support of our long-term objectives, we made organizational changes in three areas and appointed four senior executives to new or expanded roles.

We realigned various functions that previously resided in our Treasury, Risk, Operations and Technology (TROT) team and in our Finance department. All finance functions now reside with the Chief Financial Officer (CFO) who leads our new Finance, Analytics and Risk (FAR) department. All operations, technology and planning functions are now grouped under the Chief Operations Officer (COO), who leads our Operations & Technology team. Benita Warmbold, who was previously our COO, has assumed the role of CFO and Nick Zelenczuk, who was previously our CFO, has become our COO.

As we expand our global reach, we will continue to develop our capabilities in various regional and local markets that will cluster around hub offices in Europe, Asia and Latin America. Mark Machin, previously the President of CPPIB Asia Inc. has expanded his role to become our Senior Vice-President, International in addition to continuing in his role of leading our Asia team. The regional heads based in our hub offices will report to Mark in his expanded role. He is also responsible for coordinating all of our international investment activities and the overall management of our global advisory relationships.

Ed Cass joined CPPIB in 2008 and has held three different leadership roles within our Public Markets Investment team. He was promoted to Senior Vice-President & Chief Investment Strategist, effective April 1, 2014, taking over the leadership of our Total Portfolio Management team.

These four appointments reflect the depth of talent within the senior ranks of CPPIB.

FURTHERING OPERATIONAL CAPABILITIES

Our operational capabilities aim to support the continued growth and globalization of CPPIB's investment programs. The focus is to ensure that our processes and controls are scalable and responsive to the unique requirements of each investment strategy and transaction.

Early this year, we completed implementation of the shared services model in the Tax group, which realigned tax management accountabilities among CPPIB's investments, operations, finance and tax professionals. This initiative established the tax management framework and tools that will ensure that CPPIB is best positioned to manage its tax exposures given the growing scale of investments and global operations.

We further increased the flexibility and scalability of our investment risk management capabilities this year with continued implementation of a new risk analysis and reporting platform for investment programs and the total Fund. This platform enables us to look more closely at key factors including asset class, product type, industrial sector, geography and counterparty exposure. The objective is more timely and accurate risk analysis. In fiscal 2015, we will complete this effort, including the implementation of enhanced credit risk analytics, risk limit monitoring and reporting for market, credit and liquidity risks.

Investment in portfolio reporting and analytics continued this year with enhancement of the reporting portal that supports compliance, management analysis and investment decision-making across the Fund. Key advancements included enhanced cash forecasting, transaction cost analysis, and analysis of portfolio returns and value-added. Development of our portfolio reporting and analytics capabilities will continue in fiscal 2015, with a focus on reducing operational risk, improving business efficiencies and standardizing information that supports investment decision-making and portfolio analysis across the Fund.

Building on the success of our brand initiatives, we improved the coordination and tools to manage investment relationships with banks, partners and advisors. We are actively engaging certain strategic partners to deepen relationships and improve access to new investment opportunities. Management of our global banking and advisory relationships will be coordinated by Mark Machin, Senior Vice-President & Head of International.

We initiated a legal entity management initiative to ensure that we proactively administer the growing number of international subsidiaries relating to our private investment and real estate transactions. The focus of this multi-year initiative is on enhancing governance and the ongoing investment and operational management of CPPIB's legal entities. This will entail the implementation of policies, standards and processes to support the work of our Investment and Finance teams internationally.

Fiscal 2014 saw progress in our multi-year initiative to establish a scalable end-to-end transaction execution process for publicly-traded securities. We defined a scalable process and systems architecture that integrates our Global Capital Markets and Operations processes. In fiscal 2015, we will begin to implement the trade execution and processing systems needed to support listed and over-the-counter securities across our passively and actively managed portfolios.

This year, we also improved the resilience and capacity of our technology infrastructure. This included increasing the capacity of our computing facilities, moving our secondary data centre to a new, more secure and fully redundant facility and expanding our platforms to integrate new offices in New York and São Paulo. Business continuity and resumption capabilities were enhanced to provide increased capacity and more robust recovery capabilities at a newly established back-up business site.

As we look forward to fiscal 2015, we will realize efficiencies that accrue from the fiscal 2014's reorganization of the Finance, Operations and Technology functions, as discussed on page 65. Reporting and analytics is a focus to ensure that insights regarding investment performance, operating expenses, transaction costs and management fees are readily available for all investment programs and transactions. The legal entity management initiative will continue with implementation of the management and controls framework that was initiated in fiscal 2014.

We will take steps to ensure that our technology platforms, resourcing and services are sufficiently scalable to support investment and core services activities in international offices. Fiscal 2015 will also see further investment in CPPIB's business and data centre operations, to ensure that we can conduct our most important business activities in the event that computing facilities or office premises suffer a power failure or other event.

We will begin to establish selected Finance, Investment Risk and Tax roles in international offices including London and Hong Kong. These roles will increase responsiveness to investment teams in these offices, while more directly engaging with local partners and service providers. These changes reflect the evolution of our operational capabilities as part of CPPIB's multi-year business planning strategy.

MANAGING TOTAL COSTS

CPPIB is committed to source and secure the most attractive investment opportunities globally in an efficient and cost-effective way. We are convinced that, with our comparative advantages as an investor, CPPIB's active management strategy will deliver attractive returns over the long term.

Our governance framework includes expense management policies and authorities, as well as expense control reporting to Senior Management and the Board of Directors to ensure that growth is pursued in a responsible and cost-effective manner consistent with the approved operating budget. Compliance oversight also includes regular reviews by the Internal Audit group.

Total costs consist of external management fees, transaction costs and operating expenses.

External Management Fees: External asset managers were paid a total of $947 million in fiscal 2014 compared to $782 million in fiscal 2013. Whenever possible, fee arrangements are largely performance-based. We follow the customary practice of reporting investment returns net of fees paid. External management fees have increased in recent years, as we increased commitments in areas that complement our internal programs. We remain diligent in managing these costs, ensuring that the external managers' interests are aligned with ours, and most importantly, the expense incurred is proportional to the benefits derived for the Fund. External management fee information can be found in note 7 to the Financial Statements.

Transaction Costs: Transaction costs for fiscal 2014 totalled $216 million compared to $177 million in the prior year. Investment returns are reported net of these costs. Transaction costs are often associated with the acquisition of private market assets, especially infrastructure, real estate and private equity. These costs can vary from year to year according to the number, size and complexity of our investing activities. They can include a variety of non-recurring expenses such as due diligence consulting, as well as legal and tax advisory fees. In public markets, we pay commissions when trading securities. Commission costs vary depending on volumes, markets in which we trade and by portfolio rebalancing activities. Transaction cost information can be found in note 7 to the Financial Statements.

Operating Expenses: This category covers all other costs incurred to manage the CPP Fund. Operating expenses were $576 million this year, representing 29.3 cents for every $100 of invested assets, compared to $490 million in fiscal 2013 or 28.9 cents for the prior year. Operating expenses are detailed more fully in note 8 to the Financial Statements.

CPPIB remains in a growth stage as we diversify risk and further develop the required capabilities to successfully operate and compete as a truly international investment organization. We believe that establishing offices in select international markets improves access to high-quality investments and their ongoing local management. Expenses will increase as we continue to build an enduring, internationally competitive organization to manage the expected growth of the Fund in the decades ahead.

We remain steadfast in our conviction that building internal investment expertise and capabilities in areas where CPPIB has comparative advantages makes good business sense from cost and competitive perspectives. Infrastructure investing is a case in point. We estimate that the total costs for an externally managed $12 billion portfolio would range from $210 million to $240 million per year. By contrast, our fully costed internal management of our $12 billion portfolio of direct infrastructure investments amounted to approximately $51 million. Building internal expertise also provides CPPIB with considerable competitive advantages in adding assets globally and working as equals with our partners.

FISCAL 2015 CORPORATE OBJECTIVES

The principal corporate objectives for fiscal 2015 are a continuation of those pursued in fiscal 2014 and are:

1. Scaling our investment programs;
2. Expanding our global presence;
3. Building operational capacity and capabilities; and
4. Developing talent and maintaining our distinctive culture.

ORGANIZATIONAL ACCOUNTABILITY

CEO/CFO CERTIFICATION

During the year, we completed an evaluation of internal control over financial reporting and disclosure controls and procedures using the framework and criteria set out in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. CPPIB is not required by law or regulation to perform this annual evaluation. We do so voluntarily as part of our commitment to strong corporate governance and accountability.

CEO/CFO certification makes it clear that the CEO and CFO are responsible for establishing and maintaining internal control over financial reporting to provide reasonable assurance that it is reliable and conforms with Canadian generally accepted accounting principles (GAAP). They are also responsible for the design of disclosure controls and procedures that provide reasonable assurance that all material information is gathered and reported to management on a timely basis.

No changes were made in our internal control over financial reporting, disclosure controls or procedures that have affected, or are reasonably likely to materially affect, our reporting.

Based on the results of management's evaluation, the CEO and CFO have concluded that internal control over financial reporting and the disclosure controls and procedures are properly designed and operated effectively throughout the year.

ACCOUNTING POLICIES AND CRITICAL ESTIMATES

Financial Statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP). This requires Management to adopt accounting policies and make certain assumptions and estimates that affect the reported amounts of assets, liabilities, income and expenses. We have established procedures to ensure accounting policies are applied consistently and processes for changing methodologies are well controlled. In addition, we actively engage and consult with our peers in the pension fund industry in Canada and internationally to ensure that our accounting policies are appropriate in comparison with industry practice. Note 1 to the Financial Statements summarizes the significant accounting policies we have adopted.

Management's most critical accounting estimates are with regard to the determination of fair value for investments. We are considered an investment company under Canadian GAAP and, accordingly, all of our investments are measured at fair value. Fair value is defined as the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Quoted market prices are used to measure the fair value for investments traded in an active market, such as public equities and marketable bonds.

Where the market for an investment is not active, such as for private equity, infrastructure, private real estate, private debt and over-the-counter derivatives, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. These techniques include recent arm's length transactions, reference to the current fair value of another investment that is substantially the same, discounted cash-flow analysis, pricing models and other accepted industry valuation methods. Management engages independent appraisers to assist in the review or preparation of investment valuations. Regardless of the technique used, judgment is required to estimate fair value for investments which are not traded on an active market.

FUTURE ACCOUNTING POLICY CHANGE

INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Canadian Accounting Standards Board (AcSB) confirmed in February 2008 that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) for interim and annual periods starting April 1, 2011. Subsequently, the AcSB granted Canadian investment companies an optional three-year deferral from the requirement to adopt IFRS.

The three-year deferral provided the International Accounting Standards Board (IASB) time to complete its consolidation project. On October 31, 2012, the project was completed and the IASB published amendments to *IFRS 10, Consolidated Financial Statements* which permits CPPIB to continue to measure all investments at fair value, including those in controlled entities.

We adopted IFRS starting April 1, 2014. We have completed our analysis of IFRS and have identified the major differences between our application of existing Canadian GAAP and current IFRS. The adoption of IFRS will not have a significant impact on our financial reporting. There will be a new Statement of Cash Flows and additional Financial Statement Note disclosures in our Financial Statements. However, there will be no impact on the reported amount for net assets and net income from operations. We continue to monitor developments and changes to IFRS.

ACCOUNTABILITY AND DISCLOSURE

CPPIB is accountable to Parliament and the federal and provincial finance ministers who serve as the CPP's stewards. We report to Parliament through the federal finance minister who tables our Annual Report in the House of Commons.

Quarterly Financial Statements are filed with the federal and provincial finance ministers and made public. Further, our Chair and CEO hold biennial public meetings in the provinces that participate in the CPP. These meetings offer individual Canadians and stakeholder groups the opportunity to ask questions and learn more about CPPIB. The next public meetings will be held on June 9, 2014. We are also committed to timely and continuous disclosure of significant investments and events.

An external accounting firm audits our Financial Statements annually. We provide information to the Office of the Chief Actuary of Canada to facilitate its triennial evaluation of the CPP. We also provide requested information to the federal and provincial finance ministers for their periodic reviews of the CPP.

Every six years, we undergo an external Special Examination of our records, systems and practices as required for all Crown corporations. A Special Examination was completed in 2010 with a favourable opinion. Additionally, the federal minister of finance can require a special audit at any time.

All public reports issued by CPPIB are subject to review and approval by the Audit Committee of our Board of Directors, which then recommends their approval to the full Board. This includes the Financial Statements and Annual Report.

CPPIB seeks to meet or exceed both legislated requirements and industry norms in maintaining high standards of conduct and business practice. This is part of our commitment to ethical conduct. Our comprehensive governance and accountability framework includes measures designed to preserve the public trust.

One of these measures is our Code of Conduct for directors and employees. This Code, which is available on our website, obligates everyone at CPPIB to act as whistle-blowers if they become aware of a suspected breach. This can be done confidentially to an external conduct review advisor who is not part of Management or the Board of Directors. The Honourable Frank Iacobucci was appointed to this position in fiscal 2006. He is a former justice of the Supreme Court of Canada, former member of the Ontario Securities Commission and author of five major books on business law. Mr. Iacobucci submits a report and meets in person with the Board at least once a year to discuss his activities.

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

DISCLOSURE

Canadians have the right to know why, how and where we invest their Canada Pension Plan money, who makes the investment decisions, what assets are owned on their behalf and how the investments are performing.

We believe in transparency as the foundation of public trust and CPPIB is committed to keeping stakeholders informed. This disclosure includes the quarterly release of investment results and the Annual Report, which contain extensive information about Fund performance and investment activities. We are also committed to timely and continuous disclosure of significant investments and events. From time to time, our decision for non-disclosure is due to compelling commercial reasons such as confidentiality agreements or proprietary deal information.

Our website contains comprehensive information about how we operate. This includes details of our investments and partners. It also provides access to CPPIB's governing legislation and regulations, by-laws, governance manual and policies. These policies include the investment statements that guide us in managing the CPP Fund and the Cash for Benefits portfolio. We also maintain alternative digital channels to communicate new developments.

We continuously review disclosure practices and remain committed to keeping Canadians informed.

Report of the Human Resources and Compensation Committee

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

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

The committee members for fiscal 2014 were:
Pierre Choquette, Chair
Douglas W. Mahaffy
Heather Munroe-Blum
Karen Sheriff
D. Murray Wallace

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

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

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

With respect to its mission, the committee is mindful that there is an element of public trust involved in managing the retirement assets of 18 million Canadians. CPPIB is also a relatively young organization, but one that is meant to endure for a very long time. A large element of management's focus in the near term is on attracting talent; growing the organization globally; establishing scalable investment programs and processes; putting in place enabling technology, operations and risk management capabilities and establishing a strong culture with uncompromising standards of integrity. Accordingly, the HRCC wants the compensation framework to take into account these important dimensions of management's responsibility and performance. Given the public trust dimension, the committee also needs to assess not just what gets accomplished, but also how it is accomplished. The committee believes that the best way to achieve this is to have a meaningful component of management's compensation tied to annual objectives that emanate from the annual business plan approved by the Board. For this component of the compensation system, the committee retains full discretion to reward performance for the Senior Management Team within a range of zero to two times target levels. This full discretion allows the committee to not just assess and reward results but also the manner in which they were achieved.

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

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

1. CHOICE OF INVESTMENT PERFORMANCE BENCHMARKS

The HRCC approves the framework for all benchmarks used for compensation, as well as the CPP Fund and the specific benchmarks for all investment programs above a materiality threshold. There is an extensive description of compensation benchmarks in the "Benchmarking Under the Risk/Return Accountability Framework" section of the Management's Discussion and Analysis component of this Annual Report. In approving the compensation framework and benchmarks, the HRCC is particularly focused on ensuring that each benchmark is relevant to the activities within the corresponding investment program, and that the benchmarks also take into account the level of risk taken. In the case of Infrastructure, for example, the higher the leverage management used in acquiring an asset, the greater its risk profile and, correspondingly, our benchmark return expectations. The committee wants to ensure that the compensation system does not reward management for simply taking more risk.

2. CALIBRATION OF RESULTS

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

The committee has adopted the policy that each investment program should first recover its costs before any value-added performance is attributed. This aligns the interests of employees and the CPP Fund beneficiaries by ensuring that there is only incentive to incur costs if they will be more than offset by incremental returns. The committee assigns a compensation multiplier of one to a target level of value-added returns after costs that, in our judgment, represent a good level of performance. Beyond that target level, the committee approves a distribution of returns, both positive and negative around the target of one, ranging from a floor of negative three to a cap of five.

3. TIME FRAME

The HRCC wants the period over which value-added investment returns are measured to correspond to the long-horizon focus of CPPIB's strategy and the multi-generational nature of the Canada Pension Plan itself. Consequently, investment performance is measured annually and then averaged over rolling four-year periods; this four-year result is then incorporated within the compensation system. Four-year periods are also used by a number of organizations similar to CPPIB. While this is shorter than the actual duration of many of CPPIB's investment programs, the committee thinks this is a reasonable length of time for accountability and compensation purposes.

4. ADJUSTMENTS

The investment performance component of CPPIB's compensation framework is based upon actual and benchmark returns. The committee expects that, across investment programs, there will be positive and negative value-added results in any given year, and this is precisely what has occurred over the last four years. To date, the investment performance components of our investment program compensation system have largely operated within the parameters anticipated by the committee. That said, the HRCC reviews these key elements of benchmarks, calibration and time frame on a regular basis and will make any changes or adjustments to payouts it considers appropriate.

KEY ACTIVITIES FOR FISCAL 2014

The HRCC held five meetings during fiscal 2014. Although not a committee member, the Chair of the Board of Directors attended all meetings. The CEO and the Senior Vice-President & Chief Talent Officer, also attended portions of the meetings at the committee's request. A list of the HRCC's activities is included as Table 1 of this report.

In addition to those activities, the committee adopted specific objectives designed to highlight areas of focus in fiscal 2014 and continuing into fiscal 2015. The objectives and progress relative to the objectives follow:

> In conjunction with the Chair and CEO, ensured and was satisfied that comprehensive succession plans are in place for the CEO, including a contingency plan in the event of an unanticipated departure of the CEO, and key senior roles, and that a sound process is in place for timely decisions and execution of these plans.

> Working with Management and the committee's external compensation advisor, monitored the introduction of new and amended incentive compensation benchmarks. The committee also reviewed and recommended, for Board of Directors' approval, the benchmark and incentive compensation curve for the CPP Fund. More detailed information regarding benchmarks and value-added performance targets is contained on pages 31 to 33.

> Continued the committee's efforts to ensure that the Board is comfortable with CPPIB's approach to executive compensation. The committee worked with management and the committee's external compensation advisor to begin a review of compensation that will continue through fiscal 2015 for changes aligned with CPPIB's long-term horizon. The committee kept the Board apprised of executive compensation matters during fiscal 2014, including the committee's assessment of each officer's performance against objectives established for the year, as well as other qualitative factors and the awards specific to the level of performance achieved.

The HRCC has engaged Hugessen Consulting Inc. (Hugessen) to provide independent advice, information and guidance. Hugessen cannot provide any services to management without the committee's prior approval. Fees paid to Hugessen for its services to the committee were $161,000 and $198,000 in fiscal 2014 and fiscal 2013, respectively, and no additional services were provided to management.

In conclusion, the HRCC is satisfied that the compensation outcomes for fiscal 2014 are appropriate and that our decisions with respect to the individual performance components of compensation reflect our assessment of the Senior Management Team's performance relative to pre-established objectives for fiscal 2014.

Pierre Choquette
Chair, Human Resources and Compensation Committee

TABLE 1: ACTIVITIES OF THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

Agenda items	May 2013	October 2013	November 2013	January 2014	February 2014
Review of executive compensation trends as provided by the HRCC's external compensation advisor			•		
Review officers' compensation, including requesting and reviewing a report from the HRCC's external compensation advisor on the compensation of officers relative to other large Canadian pension funds and investment management companies	•		•		
Review, approve and recommend for Board approval salary ranges, salary increases and incentive compensation payouts for officers and employees	•				
Oversee the disclosure of Directors' and officers' compensation and the compensation framework in the Annual Report	•				
Review and recommend the benchmark and incentive compensation curve for the CPP Fund for Board approval					•
Review and approve benchmarks and incentive compensation curves for specific investment programs below the CPP Fund level	•				•
Review and recommend for Board approval changes to incentive compensation plans			•		
Review and recommend for Board approval the appointment and compensation arrangements for officers		•	•	•	
Review and recommend the CEO's performance objectives and performance evaluation process for Board approval	•				•
Review significant outside commitments of the CEO	•				
Review and recommend for Board approval HRCC Terms of Reference and review performance against Terms of Reference			•		
Review succession planning and talent management programs					•
Receive the Annual Report of the Pension Committee and review and approve pension plan documents					•
Review non-material changes to employee benefit plans and Human Resources policies					•
Review the performance of the external compensation advisor			•		

Compensation Discussion and Analysis

The Compensation Discussion and Analysis starts by summarizing the foundational principles of our Compensation Framework. We then discuss the elements of our compensation program. Following this, we report on our fiscal 2014 performance results and remuneration of the named executive officers (NEOs) and Directors.

PRINCIPLES OF OUR COMPENSATION FRAMEWORK

Our Compensation Framework rests on three key principles:

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

Our compensation program is a key factor in attracting the talent and investment experience we need to manage a global active portfolio of $219.1 billion. In our search for employees, we compete with the largest investment managers, securities dealers and banks, not only in Canada but around the world. As one of the largest funds of its type globally, we require people with significant experience in investment management, investment research, portfolio design, risk management, investment operations and other skills. A competitive compensation package is essential to attract and retain this talent.

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

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

> Value-added performance is averaged over rolling four-year periods to determine incentive compensation payments. This four-year measurement period for investment performance is consistent with our longer-term investment strategy and represents a reasonable payout period;
> Investment returns are compared against external benchmarks that are considered most relevant to each investment program in order to determine value-added performance. For the overall CPP Fund, this benchmark is the CPP Reference Portfolio, as noted on page 22 (see page 31 for a description of the benchmarks used);
> The long-term component of incentive compensation is also modified by the CPP Fund's cumulative four-year return to reinforce that incentive compensation is aligned with the absolute return performance of the CPP Fund in addition to its returns relative to benchmarks;
> Investment returns take into account all of our operating costs and external manager fees;
> Annual value-added performance calculations are subject to maximum caps, positive and negative, to ensure that no single-year result has undue impact and that maximum achievement levels are appropriate;
> The only element of compensation shorter than four years, by design, is a discretionary component tied to the achievement of annual individual objectives; and
> The majority of total pay for the Senior Management Team is incentive-based.

Incentive compensation plans also include several risk-mitigating features, such as:

> A significant portion of senior management and investment team compensation is deferred;
> Multi-year performance periods are used to determine incentive compensation payouts;
> There is a cap on the short-term and long-term incentive multipliers and payouts;
> Benchmarks used to calculate value-added returns reflect appropriate risk/return characteristics for each investment program;
> The Board approves overall risk limits (see page 118 for more information);
> Annual risk budgets are approved by the Board for the CPP Fund overall and for the Public Markets investment programs; and
> The Board can claw back or adjust all forms of incentive compensation.

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

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

KEY ELEMENTS OF OUR COMPENSATION FRAMEWORK

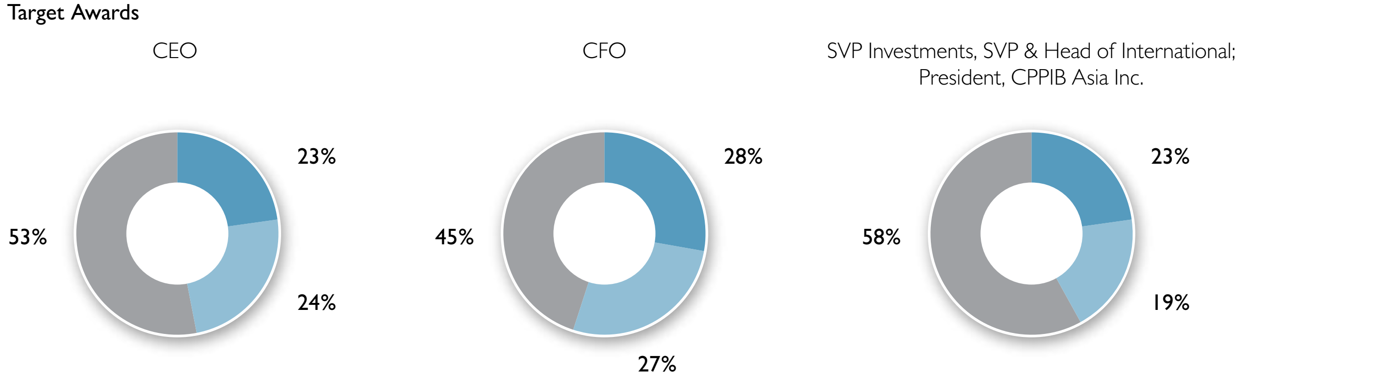
Our compensation program is driven by four-year investment performance and annual individual objectives.

The mix of compensation elements is specific to each role. Senior Management Team members have a higher percentage of their compensation that is incentive-based and tied to four-year investment performance.

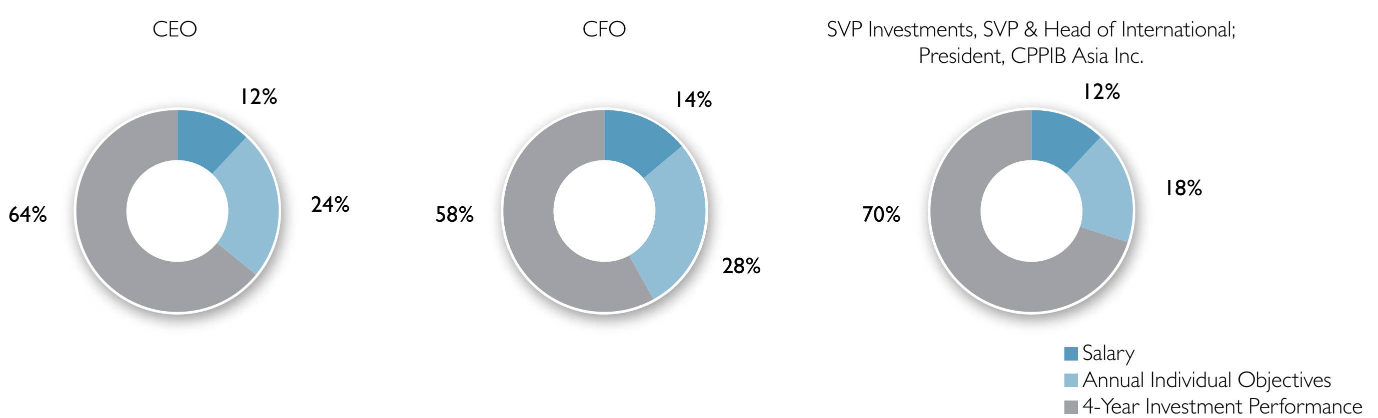
The following charts show the compensation mix for the named executive officers.

MIX OF TOTAL DIRECT COMPENSATION FOR FISCAL 2014

Target Awards



Maximum Awards



MARKET POSITIONING

The competitiveness of our compensation framework is assessed relative to a peer group consisting of organizations with investment management professionals and other talent similar to that employed by CPPIB, taking into consideration criteria such as assets under management, functional scope and complexity. These organizations include other major Canadian pension funds, public investment management firms and other financial services firms.

As part of the fiscal 2014 officers' compensation review undertaken by Hugessen, the HRCC reviewed publicly disclosed information gathered from the following public pension funds: Ontario Teachers' Pension Plan, OMERS, Caisse de dépôt et placement du Québec, British Columbia Investment Management Corporation, Alberta Investment Management Corporation and Public Sector Pension Investment Board, as well as investment management companies and data (e.g. compensation surveys) from compensation advisory firms.

COMPENSATION ELEMENTS

BASE SALARY

Base salaries are paid to employees for fulfilling their core job responsibilities. Salaries reflect skill level, ability and performance. We use annual compensation surveys from compensation consulting firms to ensure we remain competitive with peer organizations. Salaries are reviewed annually at the end of each fiscal year; any change in Senior Management Team's salaries requires Board approval.

SHORT-TERM INCENTIVE PLAN (STIP)

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

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

> **Annual individual performance:** This is measured by the employee's overall individual performance, including achievement of personal objectives set at the start of the fiscal year. The individual performance multiplier ranges from zero to two allowing for significant differentiation in incentives based on individual contribution.

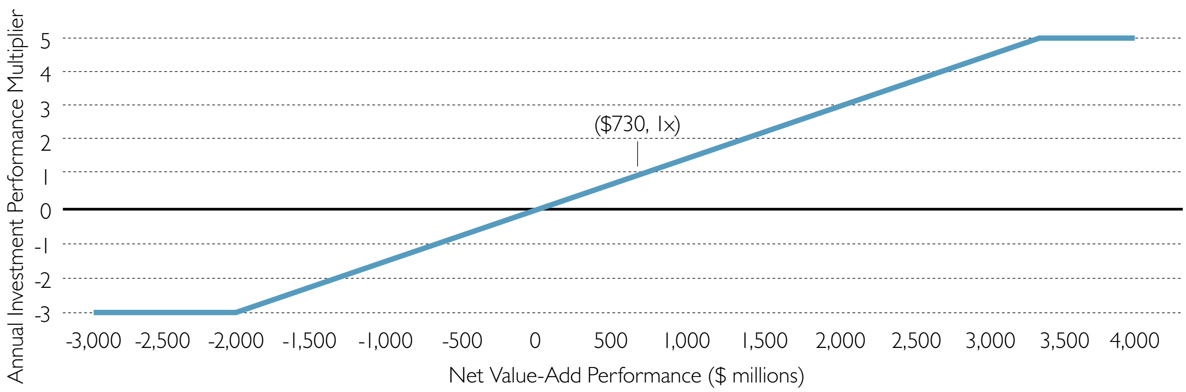
> **Four-year investment performance:** This factor reflects the value-added performance of the CPP Fund over the four-year period ending in the fiscal year. For investment professionals, it also reflects department and asset class performance relative to specified benchmarks. Table 1, on page 77, shows the weighting of the CPP Fund and department performance under STIP for named executive officers. Inclusion of CPP Fund performance for all employees is designed to encourage and reinforce the partnering necessary for the success of our Total Portfolio Approach.

CPP Fund, investment department and asset class performance are measured net of operating expenses and external manager fees. The net CPP Fund return is compared to that of the CPP Reference Portfolio. The return we generate relative to this benchmark is our value-added performance. Similarly, investment department and asset class net returns are compared to appropriate market-based benchmarks approved by the HRCC. The compensation benchmarks are described on pages 31 to 33 of Management's Discussion and Analysis.

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

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

2014 CPP FUND COMPENSATION CURVE



DEFERRED SHORT-TERM INCENTIVE PLAN (DSTIP)

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

LONG-TERM INCENTIVE PLAN (LTIP)

The Long-Term Incentive Plan supports our overall goal of contributing to the long-term strength of the Canada Pension Plan. The intent is to encourage and reward value-added investment performance over the next four years at the CPP Fund level and, in the case of investment professionals, at department and asset class levels too. These awards also have a retention element, as they vest and pay out at the end of the four-year performance period. So, a grant made on April 1, 2014 will vest on March 31, 2018, and be paid out shortly thereafter.

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

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

Target LTIP Award ($)	×	Four-year Investment Performance Multiplier (0 to 3)	×	1 + CPP Fund Four-year Cumulative Rate of Return	=	LTIP Payout ($)

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

TABLE 1: INVESTMENT PERFORMANCE WEIGHTING UNDER STIP AND LTIP FOR NEOS

	CPP Fund	Department
CEO, CFO, SVP & Head of International; President CPPIB Asia Inc.	100%	N/A
Investment Department SVPs	50%	50%

SUPPLEMENTAL RESTRICTED FUND UNITS (RFUS)

RFUs are a notional investment whose value fluctuates in accordance with CPP Fund performance.

RFUs with multi-year vesting schedules can be awarded with the CEO's approval to address transitioning issues for certain new hires.

CLAWBACK AND FORFEITURE PROVISION

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

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

PENSION

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

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

CPPIB provides its employees and executives with participation in defined contribution retirement plans only, with relatively lower and more predictable costs than the more generous defined benefit plans offered by other organizations in the large pension fund and investment management industry.

BENEFITS AND OTHER COMPENSATION

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

RESULTS: PERFORMANCE OUTCOMES AND COMPENSATION DECISIONS

As described earlier, incentive compensation is based on performance against predetermined individual annual objectives and investment performance relative to market-based benchmarks. This section describes the fiscal 2014 performance measures and results upon which compensation is based.

ANNUAL NON-FINANCIAL OBJECTIVES

Management establishes non-financial organizational goals in each fiscal year's business plan, which is approved by the Board of Directors. Fiscal 2014 non-financial organizational goals are outlined in Table 2. Annual individual objectives for officers and employees are then aligned with these organizational objectives. Progress against organizational objectives is reviewed with the Board on a quarterly basis throughout the year and at year end. Based on the Board's assessment, management achieved the organizational objectives for fiscal 2014.

TABLE 2: FISCAL 2014 NON-FINANCIAL GOALS

Execute our investment programs
Transform to a global investment organization
Enhance scalability and manage complexity
Build capabilities to support the CPPIB brand promise
Develop and ensure continuity of leadership and talent

FOUR-YEAR INVESTMENT PERFORMANCE

The CPP Fund's value-added performance must meet a pre-defined target before a 1.0 multiplier is assigned for compensation purposes. This target is comprised of a threshold representing the Fund's operating costs, plus an additional value-added amount above operating costs. For fiscal 2014, the value-added amount to achieve a 1x multiplier was $730 million. See the CPP Fund Compensation Curve diagram on page 77 for more details.

Incentive compensation payouts for fiscal 2014 reflect CPP Fund performance over the four fiscal year period beginning April 1, 2010, and ended March 31, 2014.

Value-added performance, net of operating expenses, over the CPP Reference Portfolio benchmark was positive in two of these years (fiscal 2011 and fiscal 2012), and negative in fiscal 2013 and fiscal 2014, resulting in a cumulative net value-added performance of $4.7 billion over the four-year period ending March 31, 2014.

TABLE 3: CPP FUND PERFORMANCE, FISCAL 2011 TO 2014 AND CUMULATIVE RESULTS

	Reference Portfolio Return ($ billions)	CPP Fund Return ($ billions)	Gross Actual Value-added[1] ($ billions)	Net Actual Value-added ($ billions)	Annual Investment Performance Multiplier
Fiscal 2014	30.18	30.69	0.51	-0.1	-0.08
Fiscal 2013	16.5	16.7	0.2	-0.3	-0.43
Fiscal 2012	6.8	9.9	3.1	2.7	4.42
Fiscal 2011	12.8	15.5	2.7	2.4	4.56
Cumulative – 4 year	66.3	72.9	6.6	4.7	
Cumulative – since inception	72.7	78.2	5.5	3.0	

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

Investment performance at the department and asset class level relative to their specific benchmarks is discussed in detail on pages 45 to 60 of the Management's Discussion and Analysis and summarized below.

TABLE 4: INVESTMENT DEPARTMENT PERFORMANCE, FISCAL 2011 TO 2014

	Department		
FISCAL YEAR	Public Market Investments	Private Investments	Real Estate Investments
2014	Exceeded target	Exceeded target	Exceeded target
2013	Exceeded target	Exceeded target	Did not meet target
2012	Did not meet target	Exceeded target	Exceeded target
2011	Exceeded target	Exceeded target	Exceeded target

Investment performance over the past four years resulted in STIP investment performance multipliers of 2.0 for the CEO and the other NEOs. For the fiscal 2011 LTIP grant, which vests and pays out at the end of fiscal 2014, the LTIP investment performance multiplier for the CEO was 2.12, and 2.12 to 3.0 for the other NEOs. Fiscal 2014 investment performance multipliers have increased over fiscal 2013 multipliers because the -3.0 multiplier for the Total Fund in fiscal 2010 is eliminated and replaced by the -0.08 multiplier for fiscal 2014 in the four-year average investment performance multiplier calculation. The CPP Fund's four-year rate of return was 53.0%, which is an average annualized return of 11.2% since the beginning of fiscal 2011.

COMPENSATION DISCLOSURE

In our effort to be transparent and to conform to reporting standards, regulatory requirements for public issuers and the requirements of the CPPIB Regulations, we are disclosing information on compensation for key management personnel required by International Financial Reporting Standards, the CEO, the CFO, and the top five highest paid Senior Management Team members.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel is composed of the Senior Management Team and the Board of Directors. The total compensation expense for Key Management Personnel for fiscal 2014 is $26.8 million, up 9% from $24.5 million for fiscal 2013. See note 8 of the Financial Statements for more information.

COMPENSATION OF THE CEO

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

Mr. Wiseman's personal objectives for fiscal 2014 included:

- Executing the investment programs, including ensuring processes are scalable, investment decisions are strategically aligned, and capabilities are in place to execute on new transactions and the growing asset base;
- Undertaking a strategy review focused on the next phase of becoming a global investment organization;
- Improvement of HR practices;
- Continued development of CPPIB's culture; and
- Ensuring the development and continuity of leadership and talent.

All of these key goals were substantially achieved.

The Board of Directors awarded an STIP annual individual performance payout of $562,400 for Mr. Wiseman for fiscal 2014 and an STIP investment performance payout of $1,249,900, for a total STIP payout of $1,812,300. The STIP investment component payout reflects the performance of the CPP Fund relative to the CPP Reference Portfolio for the four-year period ending March 31, 2014. The Board has increased Mr. Wiseman's annualized base salary from $505,000 to $515,000 for fiscal 2015.

COMPENSATION OF THE SENIOR MANAGEMENT TEAM

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

NAMED EXECUTIVE OFFICER COMPENSATION

For fiscal 2014, the named executive officers are the CEO, CFO and the additional four highest paid senior management team members.

As detailed in the Summary Compensation table that follows, total remuneration for the named executive officers is $18.8 million, up 26% from $15.0 million in fiscal 2013. During the year, Ms. Warmbold and Mr. Zelenczuk changed roles. They were both CFO during fiscal 2014. Mr. Zelenczuk has been excluded from the total remuneration calculation for the named executive officers, for comparability between the two fiscal years.

This year's negative net value-added investment performance will continue to dampen short- and long-term incentive compensation through fiscal 2017.

SUMMARY COMPENSATION

Table 5 shows remuneration over the past three fiscal years for the named executive officers.

TABLE 5: SUMMARY COMPENSATION[1]

			Incentive Plan Compensation ($)						
				Four-year Investment Performance					
NAME AND POSITION	Year	Salary ($)	STIP Annual Individual Objectives[2]	STIP Investment Component[2]	LTIP[3]	SRFU[4]	Pension Value ($)[5]	All Other Compensation ($)[6]	Total Compensation ($)
Mark D. Wiseman[7]	**2014**	**505,000**	**562,400**	**1,249,900**	**1,248,100**	**–**	**59,955**	**14,148**	**3,639,503**
President and CEO	2013	490,000	620,100	843,000	734,700	–	57,431	12,019	2,757,250
	2012	400,000	409,500	1,170,000	984,200	–	46,219	8,264	3,018,183
Benita Warmbold[7,8]	**2014**	**340,000**	**360,000**	**535,500**	**999,500**	**–**	**37,723**	**10,515**	**2,283,239**
SVP and CFO	2013	330,000	381,200	361,300	629,700	–	36,480	8,353	1,747,033
	2012	315,000	394,100	347,800	469,200	–	34,812	7,612	1,568,524
Nicholas Zelenczuk[7,8]	**2014**	**351,700**	**473,900**	**553,900**	**799,500**	**–**	**39,568**	**10,875**	**2,229,342**
SVP and COO	2013	325,000	273,000	108,400	503,800	–	35,848	8,485	1,254,533
	2012	315,000	194,000	106,000	375,300	–	34,812	7,612	1,032,724
André Bourbonnais	**2014**	**365,000**	**574,900**	**1,067,600**	**1,422,600**	**–**	**41,055**	**10,515**	**3,481,670**
SVP Private Investments	2013	350,000	344,500	1,023,800	820,400	–	39,094	8,485	2,586,279
	2012	325,000	383,900	950,600	623,700	–	36,094	7,612	2,326,906
Graeme Eadie	**2014**	**360,000**	**396,900**	**1,053,000**	**1,491,400**	**–**	**40,423**	**10,515**	**3,352,239**
SVP Real Estate	2013	350,000	344,500	1,023,800	1,078,300	–	39,180	8,485	2,844,265
Investments	2012	335,000	369,300	914,600	645,600	–	37,485	7,612	2,309,597
Mark Machin[9]	**2014**	**498,015**	**666,700**	**425,200**	**–**	**1,241,000**	**44,821**	**168,549**	**3,044,286**
SVP and Head of	2013	444,981	750,900	0	–	980,200	34,944	145,003	2,356,028
International; President,	2012	16,579	196,621	0	–	–	0	6,906	220,106
CPPIB Asia Inc.									
Eric Wetlaufer[10]	**2014**	**367,500**	**405,200**	**1,074,900**	**1,087,100**	**–**	**41,436**	**16,274**	**2,992,410**
SVP Public Market	2013	357,500	512,800	925,000	–	821,900	40,258	11,692	2,669,150
Investments	2012	350,000	492,200	734,800	–	746,300	15,750	13,402	2,352,452

1 All amounts shown in the Summary Compensation table reflect compensation paid to the NEO in, or in respect of, the current fiscal year only. Therefore, amounts shown under the Long-Term Incentive Plan (LTIP) and Supplemental Restricted Fund Units (SRFU), do not depict grant date values. Incentive compensation is paid in cash in the year following the year in which it is earned; amounts shown above were paid or credited to the NEOs in early fiscal 2015 in respect of fiscal 2014. Where applicable, payments have been rounded to the nearest $100 in accordance with administrative practices.

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

3 Long-Term Incentive Plan compensation reflects amounts payable for the current year. Target LTIP awards are set as a percentage of salary at the outset of each year and are typically paid out at the end of a four-year cycle. As with STIP, a multiplier is applied to the target LTIP award based on the investment performance of the CPP Fund and department as compared with specified benchmarks; by the end of the performance period, this multiplier cannot exceed three times the value of the target award. The final LTIP payout is increased (or decreased) based on the Fund's rate of return over the four-year performance period.

4 Supplemental Restricted Fund Units are a notional investment in the Fund that fluctuate in value according to Fund performance; awards are set as a percentage of salary and vest and are paid out in cash in two installments at the beginning of the following two fiscal years.

5 CPPIB makes contributions to the defined contribution pension plan and notional contributions to the supplementary pension plan. Under the registered pension plan, employees contribute 3% of annual eligible earnings and CPPIB contributes 6%, up to the maximum allowed under the Income Tax Act (Canada). Eligible earnings include salary plus annual STIP to a maximum of 50% of salary. Under the supplementary pension plan, which is unfunded, employees earn credits equal to 9% of their eligible earnings in excess of the maximum eligible earnings under the registered pension plan. The contributions under both plans are outlined in Table 8: Pension Plan Contributions. The total unfunded liability for the Canadian-based NEOs as at March 31, 2014, is $907,694 (2013 – $1,113,565). Mr. Machin participates in the Hong Kong Mandatory Provident Fund.

6 All other compensation includes life insurance, disability benefits, health and dental benefits, and fitness reimbursement as well as comprehensive health assessment conducted at a private medical clinic. Perquisites are limited to paid parking for officers. Mr. Machin receives a housing allowance in accordance with local market practice.

7 NEO elected to defer all or part of the 2014 STIP payment under the Deferred Short-Term Incentive Plan.

8 Ms. Warmbold and Mr. Zelenczuk changed roles on December 1, 2013. Ms. Warmbold became SVP and CFO, and Mr. Zelenczuk became SVP and COO. Both held the role of CFO during the fiscal year.

9 Mr. Machin was hired on March 19, 2012. His annualized salary was HKD 3,400,000 (CAD 437,682). Per employment agreement, Mr. Machin received an STIP of HKD 1,500,000 (CAD 196,621) for fiscal 2012. Mr. Machin also received a fiscal 2013 SRFU grant of HKD 13,600,000 (CAD 1,935,144), which vests over two years; 50% paid out at the end of fiscal 2013 and 50% at the end of fiscal 2014.

10 Mr. Wetlaufer joined CPPIB on June 27, 2011. Per Mr. Wetlaufer's employment agreement, his fiscal 2012 SRFU grant ($1,400,000) vests over two years, 50% paid out at the end of fiscal 2012 and 50% at the end of fiscal 2013. Mr. Wetlaufer also received an SLTIP grant of 100% of base salary in fiscal year 2012 which was paid at the end of fiscal year 2014.

LONG-TERM INCENTIVE AWARDS AND ESTIMATED FUTURE PAYOUTS

LTIP awards are granted at the start of a fiscal year and paid out at the end of the four-year vesting period. Table 6 shows the LTIP and estimated future payouts for each named executive officer. The future value of the awards granted but not yet vested are estimated as at March 31, 2014, based on:

> Actual performance multipliers for fiscal 2012, 2013 and 2014, and pro forma multipliers of one for future years; and
> Actual CPP Fund rates of return for fiscal 2012, 2013 and 2014, and no assumed growth in future years.

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

NAME	Year of Grant	Type of Award	Award Target Value ($)[1]	Maximum Value at Time of Grant ($)[2]	Estimated Future Payouts at the End of Fiscal Years ($): 2015	2016	2017	2018	Total
Mark D. Wiseman	**2015**	**LTIP**	**515,000**	**1,545,000**				**515,000**	**515,000**
President and CEO	2014	LTIP	505,000	1,515,000			428,800		428,800
	2013	LTIP	490,000	1,470,000		234,100			234,100
	2012	LTIP	400,000	1,200,000	672,000				672,000
Benita Warmbold	**2015**	**LTIP**	**347,500**	**1,042,500**				**347,500**	**347,500**
SVP and CFO	2014	LTIP	340,000	1,020,000			288,700		288,700
	2013	LTIP	330,000	990,000		157,700			157,700
	2012	LTIP	315,000	945,000	529,200				529,200
Nicholas Zelenczuk[3]	**2015**	**LTIP**	**350,000**	**1,050,000**				**350,000**	**350,000**
SVP and COO	2014	LTIP	436,000	1,308,000			370,200		370,200
	2013	LTIP	260,000	780,000		124,200			124,200
	2012	LTIP	252,000	756,000	423,400				423,400
André Bourbonnais	**2015**	**LTIP**	**372,300**	**1,116,900**				**372,300**	**372,300**
SVP Private Investments	2014	LTIP	365,000	1,095,000			534,800		534,800
	2013	LTIP	350,000	1,050,000		582,400			582,400
	2012	LTIP	325,000	975,000	1,021,000				1,021,000
Graeme Eadie	**2015**	**LTIP**	**367,500**	**1,102,500**				**367,500**	**367,500**
SVP Real Estate	2014	LTIP	360,000	1,080,000			685,000		685,000
Investments	2013	LTIP	350,000	1,050,000		607,100			607,100
	2012	LTIP	335,000	1,005,000	958,100				958,100
Mark Machin[4]	**2015**	**LTIP**	**821,725**	**2,465,175**				**821,725**	**821,725**
SVP and Head of	2014	LTIP	498,015	1,494,045			422,857		422,857
International; President,	2013	LTIP	967,571	2,902,713		332,517			332,517
CPPIB Asia Inc.									
Eric Wetlaufer	**2015**	**LTIP**	**375,000**	**1,125,000**				**375,000**	**375,000**
SVP Public Market	2014	LTIP	367,500	1,102,500			577,700		577,700
Investments	2013	LTIP	357,500	1,072,500		799,500			799,500
	2012	LTIP	350,000	1,050,000	938,100				938,100

[1] Represents the target value at the time of grant; no award is payable if performance is below a certain level.
[2] Represents the maximum value payable under LTIP at the end of the four-year vesting period, excluding the CPP Fund's cumulative rate of return over the four-year vesting period. See LTIP section for details.
[3] As part of the extraordinary LTIP program, Mr. Zelenczuk was awarded a grant of $150,000 in addition to his regular LTIP grant for fiscal 2014.
[4] Mr. Machin received an SLTIP grant of HKD 3,400,000 (CAD 483,786) in fiscal 2013, which vests in fiscal 2015. He also received an extraordinary LTIP grant of HKD 1,925,000 (CAD 273,908) in fiscal 2015 in addition to his regular grant.

DEFERRED SHORT-TERM INCENTIVE PLAN (DSTIP)

DSTIP elections are made by January 31 of the fiscal year of the STIP award and paid out at the end of a two-year or three-year deferral period. In fiscal 2013, the DSTIP transitioned from a two-year to a three-year deferral period. Participants were given a choice of deferral for that year. Table 7 shows the DSTIP amounts and estimated future payouts for each named executive officer who elected to participate in the plan. The future value of the payouts are estimated as at March 31, 2014, based on actual CPP Fund and Private Investment portfolio rates of return for fiscal 2013 and 2014 and no assumed growth in future years.

TABLE 7: DSTIP ELECTION AND ESTIMATED PAYOUT

NAME	Year of Election	Amount Deferred[1]	Actual Payout at End of Fiscal Year ($) 2014	Estimated Payouts at the End of Fiscal Years ($) 2015	2016	2017	Total
Mark D. Wiseman	2014	1,812,300				1,812,300	1,812,300
President and CEO	2013	1,463,100			1,703,800		1,703,800
	2012	1,579,500	2,172,400				
Benita Warmbold	2014	895,500				895,500	895,500
SVP and CFO	2013	742,400			864,500		864,500
	2012	556,400	713,600				
Nick Zelenczuk	2014	770,900				770,900	770,900
SVP and COO	2013	305,100		374,800			374,800
	2012	240,000	330,100				

1 Represents the original amount deferred.

PENSION PLANS

As described earlier, all Canada-based employees participate in the regular and supplementary defined contribution pension plans. Employees based outside Canada are eligible to participate in local pension plans that vary based on local regulations and market practices.

The table below shows the contributions and investment earnings for the named executive officers under both plans. The total unfunded liability for the Canadian-based named executive officers, as at March 31, 2014, is $907,694 (2013 – $1,113,565).

TABLE 8: PENSION PLAN CONTRIBUTIONS

NAME	Plan Type	Accumulated Value at Start of Year ($)	Compensatory ($) Employer Contributions ($)	Compensatory ($) Investment Earnings ($)	Non-compensatory ($)[1]	at End of Year ($)
Mark D. Wiseman	Registered	$ 195,320	$ 16,388		$ 51,447	$ 263,155
President and CEO	Supplementary	$ 212,890	$ 43,567	$ 46,561		$ 303,019
Benita Warmbold	Registered	$ 136,484	$ 16,318		$ 33,891	$ 186,694
SVP and CFO	Supplementary	$ 84,460	$ 21,405	$ 15,073		$ 120,938
Nicholas Zelenczuk	Registered	$ 116,004	$ 16,307		$ 23,778	$ 156,089
SVP and COO	Supplementary	$ 76,755	$ 23,261	$ 12,216		$ 112,233
André Bourbonnais	Registered	$ 185,726	$ 16,388		$ 33,668	$ 235,782
SVP Private Investments	Supplementary	$ 118,882	$ 24,667	$ 1,173		$ 144,722
Graeme Eadie	Registered	$ 202,032	$ 16,318		$ 47,478	$ 265,828
SVP Real Estate Investments	Supplementary	$ 151,471	$ 24,105	$ 1,477		$ 177,053
Mark Machin	Mandatory[2,4]	$ 4,145	$ 2,134	See note 5	$ 2,134	$ 8,414
SVP and Head of International; President, CPPIB Asia Inc.	Voluntary[3,4]	$ 35,768	$ 42,687	See note 5		$ 78,455
Eric Wetlaufer	Registered	$ 53,073	$ 16,318		$ 19,620	$ 89,012
SVP Public Market Investments	Supplementary	$ 24,324	$ 25,117	$ 288		$ 49,729

1 Represents employee contributions and investment earnings in the registered pension plan.
2 Mr. Machin participates in the Mandatory Provident Fund (MPF) for Hong Kong, which has an employee and employer contribution of 5% towards relevant income capped at HKD 25,000 monthly earnings.
3 CPPIB provides an employer pension contribution of 5% towards relevant income above the HKD 25,000 monthly earnings ceiling.
4 Contributions have been reported in Canadian dollars using an F/X rate of 0.1422899.
5 Investment earnings are not disclosed by the plan administrator.

TERMINATION AND RETIREMENT ARRANGEMENTS

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

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

In the event of resignation and in consideration of adherence to a one-year non-compete and non-hire agreement, named executive officers receive a prorated payment of the LTIP grant which would have vested at the end of the fiscal year of resignation, payable one year after resignation. All other incentives and benefits are forfeited.

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

Table 9 shows the payments that would be made, as of March 31, 2014, to the named executive officers on termination without cause, resignation or retirement.

TABLE 9: POTENTIAL TERMINATION AND RETIREMENT PAYMENTS[1]

NAME	Completed Years of Service	Severance ($)[2]	Resignation ($)	Retirement ($)[3]
Mark D. Wiseman President and CEO	8	2,735,417	504,000	n/a
Benita Warmbold SVP and CFO	5	1,324,583	396,900	547,900
Nicholas Zelenczuk SVP and COO	5	1,370,161	317,500	790,400
André Bourbonnais SVP Private Investments	8	1,779,375	768,200	n/a
Graeme Eadie SVP Real Estate Investments	8	2,340,000	721,600	1,199,400
Mark Machin SVP and Head of International; President, CPPIB Asia Inc.	2	1,888,307	115,600	n/a
Eric Wetlaufer SVP Public Market Investments	2	1,393,438	703,500	n/a

1 Excludes incentive compensation payouts for the current year which are included in Table 5: Summary Compensation.
2 Excludes the value of insured benefits, such as health, dental and life insurance, continued during the severance period.
3 Amounts included for those individuals who are retirement eligible. Eligible retirement payments are for LTIP, subject to the following criteria:
- Individual is at least 55 years of age, consistent with the early retirement provisions of the registered pension plan;
- Performance measured at the end of the performance period;
- Payout is prorated based on length of service within the performance period; and
- Payment is made at the end of the performance period.

DIRECTORS' COMPENSATION

The Governance Committee of the Board is responsible for making recommendations with respect to Directors' compensation. Directors' compensation consists of an annual retainer, meeting fees and travel time allowances.

Directors' compensation is reviewed at least every two years and changes, if any, are recommended to the Board. In 2014, a comparative review was conducted to ensure that Director compensation continues to appropriately reflect significant internal and external developments, including the CPP Fund's growth, increased complexity of the global investment programs, diversification of the portfolio, global expansion, as well as intensifying competition for governance talent among institutional investment organizations internationally. As a result of the review, annual retainers will be increased for fiscal 2015.

TABLE 10: DIRECTOR COMPENSATION

	2014 Fee ($)	**2015 Fee ($)**
Annual Retainers		
Chair[1]	140,000	**160,000**
Director	32,500	**35,000**
Committee chair, additional retainer	10,000	**12,500**
Board Meeting	1,500	**1,500**
Committee Meeting		
Investment Committee	1,500	**1,500**
Other Committees	1,500	**1,500**
Meeting by Teleconference	750	**750**
Travel Time Allowance (based on distance travelled)	250 to 1,000	**250 to 1,000**
Biennial Public Meeting		
Director, chair of public meeting	2,000	**2,000**
Director, attendance	1,000	**1,000**
Non-meeting day travel	1,000	**1,000**

[1] Chair receives an annual retainer but does not receive Director or committee chair retainer fees, nor per meeting fees, unless the fees relate to the biennial public meetings.

BOARD ATTENDANCE

There were six regularly scheduled Board and Investment Committee meetings in fiscal 2014. The Investment Committee is composed of the full Board. The table below shows the number of meetings each Director attended in fiscal 2014 relative to the number of meetings he or she could have attended.

TABLE 11: BOARD ATTENDANCE

DIRECTOR	Board Meeting[1]	Investment Committee[2]	Audit Committee[3]	Governance Committee[4]	Human Resources and Compensation Committee (HRCC)[5]
Robert Astley, Chair	8/8	14/14	–	5/5	–
Ian Bourne, Chair of Audit Committee	6/8	11/14	4/4	5/5	–
Bob Brooks	8/8	13/14	4/4	–	–
Pierre Choquette, Chair of HRCC	8/8	14/14	–	5/5	5/5
Michael Goldberg	8/8	14/14	4/4	5/5	–
Peter Hendrick[6]	4/4	8/8	2/2	–	–
Nancy Hopkins, Chair of Governance Committee	6/8	12/14	–	5/5	–
Douglas Mahaffy	8/8	13/14	–	–	5/5
Heather Munroe-Blum[7]	8/8	12/14	–	1/1	5/5
Karen Sheriff	8/8	13/14	–	–	5/5
Kathleen Taylor[7,8,9]	3/4	5/6	2/2	1/1	2/2
Murray Wallace	8/8	14/14	–	–	5/5
Jo Mark Zurel	8/8	14/14	4/4	–	–

1 Six in-person and two teleconference meetings.
2 Seven in-person and seven teleconference meetings.
3 Four in-person meetings.
4 Four in-person and one teleconference meetings.
5 Four in-person and one teleconference meetings.
6 Left the Board on October 26, 2013.
7 Attended Governance Committee by invitation.
8 Joined the Board on October 27, 2013. Appointed to the Audit Committee November 6, 2013.
9 Attended HRCC by invitation.

DIRECTOR COMPENSATION

Based on the attendance and fee schedules, individual compensation for each of the Directors for fiscal 2014 was as follows:

TABLE 12: DIRECTOR COMPENSATION

DIRECTOR	Annual Retainer ($)	Board and Committee Meeting Fees ($)	Public Meeting Fees ($)	Travel Fees ($)	Total Remuneration ($)
Robert M. Astley, Chair	140,000	–	–	–	140,000
Ian Bourne, Chair of Audit Committee	42,500	35,250	–	6,000	83,750
Robert Brooks	32,500	31,500	–	–	64,000
Pierre Choquette, Chair of HRCC	42,500	45,000	–	–	87,500
Michael Goldberg	32,500	39,000	–	6,000	77,500
Peter Hendrick	18,522	18,750	–	–	37,272
Nancy Hopkins, Chair of Governance Committee	42,500	32,250	–	6,000	80,750
Douglas Mahaffy	32,500	31,500	–	–	64,000
Heather Munroe-Blum	32,500	32,250	–	1,500	66,250
Karen Sheriff	32,500	32,250	–	3,000	67,750
Kathleen Taylor	13,978	16,500	–	–	30,478
Murray Wallace	32,500	34,500	–	–	67,000
Jo Mark Zurel	32,500	32,250	–	6,000	70,750
Total	527,500	381,000	–	28,500	937,000

Management's Responsibility for Financial Reporting

The Financial Statements of the Canada Pension Plan Investment Board (the CPP Investment Board) have been prepared by management and approved by the Board of Directors. Management is responsible for the integrity and reliability of the Financial Statements and the financial information contained within the Annual Report.

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

The CPP Investment Board develops and maintains systems of internal control and supporting procedures. The systems of internal control are designed to provide reasonable assurance that assets are safeguarded; that transactions are properly recorded, authorized and are in accordance with the *Canada Pension Plan Investment Board Act*, the accompanying regulations, the by-laws and investment policies of the CPP Investment Board; and that there are no material misstatements in the Financial Statements or the financial information contained within the Annual Report. The internal control over financial reporting and disclosure controls and procedures are tested for both design and operational effectiveness as part of our CEO/CFO certification process as described on page 67 of Management's Discussion and Analysis in the 2014 Annual Report.

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

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

The CPP Investment Board's external auditor, Deloitte LLP, has conducted an independent examination of the Financial Statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as it considers necessary to express an opinion in its Independent Auditor's Report. The external auditor has full and unrestricted access to management and the Audit Committee to discuss any findings related to the integrity and reliability of the CPP Investment Board's financial reporting and the adequacy of internal control systems.

M. Wiseman

Mark Wiseman
President & Chief Executive Officer

B. Warmbold

Benita Warmbold
Senior Vice-President & Chief Financial Officer

Toronto, Ontario
May 14, 2014

Investment Certificate

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

The investments of the CPP Investment Board, held during the year ended March 31, 2014, were in accordance with the Act and the CPP Investment Board's investment policies, standards and procedures.

Ian A. Bourne
Chair of the Audit Committee on behalf of the Board of Directors

Toronto, Ontario
May 14, 2014

Independent Auditor's Report

To the Board of Directors
Canada Pension Plan Investment Board

We have audited the accompanying Financial Statements of the Canada Pension Plan Investment Board (the CPP Investment Board), which comprise the Balance Sheet and the Statements of Investment Portfolio and Investment Asset Mix as at March 31, 2014, and the Statements of Net Income and Accumulated Net Income from Operations and Changes in Net Assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the Financial Statements present fairly, in all material respects, the financial position of the CPP Investment Board and the investments held as at March 31, 2014, and the results of its operations and changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles, which were applied on a basis consistent with that of the preceding year.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
May 14, 2014

Balance Sheet

As at March 31, 2014

($ millions)	2014	2013
ASSETS		
Investments (note 2)	$ 251,728	$ 208,971
Amounts receivable from pending trades	2,251	2,580
Premises and equipment	320	68
Other assets	34	28
TOTAL ASSETS	254,333	211,647
LIABILITIES		
Investment liabilities (note 2)	32,877	24,301
Amounts payable from pending trades	1,979	3,779
Accounts payable and accrued liabilities	385	303
TOTAL LIABILITIES	35,241	28,383
NET ASSETS	$ 219,092	$ 183,264
NET ASSETS, REPRESENTED BY		
Share capital (note 5)	$ –	$ –
Accumulated net income from operations	95,667	65,533
Accumulated net transfers from the Canada Pension Plan (note 6)	123,425	117,731
NET ASSETS	$ 219,092	$ 183,264

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

On behalf of the Board of Directors

Robert M. Astley
Chair

Ian A. Bourne
Chair of the Audit Committee

Statement of Net Income and Accumulated Net Income from Operations

For the year ended March 31, 2014
($ millions)

	2014	2013
NET INVESTMENT INCOME (note 7)	$ 30,710	$ 16,736
OPERATING EXPENSES (note 8)		
Personnel costs	400	313
General operating expenses	133	140
Professional services	43	37
TOTAL OPERATING EXPENSES	576	490
NET INCOME FROM OPERATIONS	30,134	16,246
ACCUMULATED NET INCOME FROM OPERATIONS, BEGINNING OF YEAR	65,533	49,287
ACCUMULATED NET INCOME FROM OPERATIONS, END OF YEAR	$ 95,667	$ 65,533

Statement of Changes in Net Assets

For the year ended March 31, 2014
($ millions)

	2014	2013
NET ASSETS, BEGINNING OF YEAR	$ 183,264	$ 161,636
CHANGES IN NET ASSETS		
Canada Pension Plan transfers (note 6)		
Transfers from the Canada Pension Plan	34,332	31,682
Transfers to the Canada Pension Plan	(28,638)	(26,300)
Net income from operations	30,134	16,246
INCREASE IN NET ASSETS FOR THE YEAR	35,828	21,628
NET ASSETS, END OF YEAR	$ 219,092	$ 183,264

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

Statement of Investment Portfolio

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. The 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:

As at March 31, 2014 ($ millions)	2014	2013
EQUITIES (note 2a)		
Canada		
Public equities	$ 5,562	$ 4,789
Private equities	2,902	2,250
	8,464	7,039
Foreign developed markets		
Public equities	49,722	35,957
Private equities	35,516	28,529
	85,238	64,486
Emerging markets		
Public equities	8,212	8,525
Private equities	2,856	1,788
	11,068	10,313
TOTAL EQUITIES	104,770	81,838
FIXED INCOME (note 2b)		
Bonds	55,258	52,755
Other debt	13,883	10,215
Money market securities	19,663	19,991
TOTAL FIXED INCOME	88,804	82,961
ABSOLUTE RETURN STRATEGIES[1] (note 2c)	12,243	9,028
REAL ASSETS (note 2d)		
Real estate	27,397	21,840
Infrastructure	13,244	11,069
TOTAL REAL ASSETS	40,641	32,909
INVESTMENT RECEIVABLES		
Securities purchased under reverse repurchase agreements (note 2e)	3,221	630
Accrued interest	907	725
Derivative receivables (note 2f)	1,010	742
Dividends receivable	132	138
TOTAL INVESTMENT RECEIVABLES	5,270	2,235
TOTAL INVESTMENTS	$ 251,728	$ 208,971
INVESTMENT LIABILITIES		
Securities sold under repurchase agreements (note 2e)	(5,230)	(2,180)
Securities sold short (note 2a and 2b)	(14,874)	(9,715)
Debt financing liabilities (note 2g)	(9,654)	(9,543)
Debt on real assets (note 2d)	(2,057)	(1,918)
Derivative liabilities (note 2f)	(1,062)	(945)
TOTAL INVESTMENT LIABILITIES	(32,877)	(24,301)
Amounts receivable from pending trades	2,251	2,580
Amounts payable from pending trades	(1,979)	(3,779)
NET INVESTMENTS	$ 219,123	$ 183,471

[1] Includes only investments in funds.

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

Statement of Investment Asset Mix

This Statement of Investment Asset Mix is grouped by asset class based on the risk/return characteristics of the investment strategies of the underlying portfolios. The 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:

As at March 31, 2014 ($ millions)	2014 Fair Value	2014 (%)	2013 Fair Value	2013 (%)
EQUITIES				
Canada	**$ 18,625**	**8.5%**	$ 15,316	8.4%
Foreign developed markets	**75,610**	**34.5**	63,985	34.9
Emerging markets	**12,574**	**5.7**	12,356	6.7
	106,809	**48.7**	91,657	50.0
FIXED INCOME				
Bonds	**54,409**	**24.8**	52,912	28.8
Other debt	**11,385**	**5.2**	8,640	4.7
Money market securities[1]	**17,415**	**8.0**	8,725	4.8
Debt financing liabilities	**(9,654)**	**(4.4)**	(9,543)	(5.2)
	73,555	**33.6**	60,734	33.1
REAL ASSETS				
Real estate[2]	**25,461**	**11.6**	19,922	10.8
Infrastructure[2]	**13,298**	**6.1**	11,158	6.1
	38,759	**17.7**	31,080	16.9
NET INVESTMENTS	**$ 219,123**	**100%**	$ 183,471	100%

[1] Includes absolute return strategies' investments in funds and internally managed portfolios, as described in note 2c.
[2] Net of debt on real assets, as described in note 2d.

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

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Notes to the Financial Statements

For the year ended March 31, 2014

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 Financial Statements provide information on the net assets managed by the CPP Investment Board and do not include the pension liabilities of the CPP.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(A) BASIS OF PRESENTATION

These Financial Statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and the requirements of the Act and the accompanying regulations.

These Financial Statements present the financial position and results of operations of the CPP Investment Board. The CPP Investment Board qualifies as an investment company in accordance with Chartered Professional Accountants of Canada Accounting Guideline 18, *Investment Companies*, and accordingly, the CPP Investment Board reports its investments at fair value.

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

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

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

In an active market, fair value is best evidenced by an independent quoted market price. In the absence of an active market, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. These valuation techniques include using recent arm's length market transactions, if available, or current fair value of another investment that is substantially the same, discounted cash flow analysis, pricing models and other accepted industry valuation methods. See note 2 for more details about the determination of fair value.

(C) INCOME RECOGNITION

Income from investments includes realized gains and losses from investments, changes in unrealized gains and losses on investments, dividend income, interest income and net operating income from private real estate investments. Dividend income is recognized on the ex-dividend date, which is when the CPP Investment Board's right to receive the dividend has been established. Interest income is recognized using the effective interest rate method. Distributions received from limited partnerships and funds are recognized as interest income, dividend income, net operating income, realized gains and losses from investments or return of capital, as appropriate.

(D) 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 7).

(E) 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 7).

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

Securities purchased under reverse repurchase agreements represent the purchase of securities 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 7). Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is included in investment income (loss) (see note 7).

(G) 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 7).

(H) TRANSLATION OF FOREIGN CURRENCIES

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

(I) CANADA PENSION PLAN TRANSFERS

Net amounts from the CPP are recorded as received.

(J) USE OF ESTIMATES

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

(K) FUTURE ACCOUNTING POLICY CHANGE

International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board (AcSB) confirmed that Canadian GAAP for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS), which was effective for our interim and annual periods commencing April 1, 2011. Subsequently, the AcSB granted Canadian investment companies an optional three-year deferral from the requirement to adopt IFRS.

The three-year deferral provided the International Accounting Standards Board (IASB) time to complete its consolidation project. On October 31, 2012, the project was completed and the IASB published amendments to *IFRS 10, Consolidated Financial Statements,* which will allow investment entities in Canada, such as the CPP Investment Board, to continue to measure all investments at fair value, including those in controlled entities. The CPP Investment Board adopted IFRS as of April 1, 2014.

The CPP Investment Board has developed a conversion plan and is on schedule for completion. The major differences between existing Canadian GAAP and IFRS have been identified. There is no impact on net assets and net income from operations as a result of adopting IFRS. However, there will be incremental financial statement disclosures primarily as it relates to investments, investment receivables and investment liabilities. A Statement of Cash Flows is also required which was not an existing requirement under Canadian GAAP.

2. 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 March 31, 2014, public equities include fund investments with a fair value of $6,000 million (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 March 31, 2014, private equities include direct investments with a fair value of $15,037 million (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 an earnings multiple 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, 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 on behalf of the CPP Investment Board by investment managers primarily through co-ownership arrangements. As at March 31, 2014, real estate investments include assets of $27,397 million (2013 – $21,840 million) and $1,936 million of secured debt (2013 – $1,918 million).

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. Debt on private real estate properties is valued using discounted cash flows based on current market yields for instruments with similar characteristics.

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 that have a typical term of 10 years. As at March 31, 2014, infrastructure includes direct investments with a fair value of $13,090 million (2013 – $10,883 million) and $121 million of secured debt (2013 – $nil).

Fair value for infrastructure investments is primarily determined using discounted cash flows based on significant inputs including projected cash flows and discount rates. Debt on infrastructure is valued using discounted cash flows based on current market yields for instruments with similar characteristics.

(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 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 Statement of Investment Portfolio. In the Statement 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 and 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 4.

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 4b.

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

Fair Value of Derivative Contracts

	As at March 31, 2014		As at March 31, 2013	
($ millions)	Positive Fair Value	Negative Fair Value	Positive Fair Value	Negative Fair Value
EQUITY CONTRACTS				
Futures	$ 13	$ (3)	$ 4	(4)
Swaps	608	(320)	297	(250)
Options:				
Exchange-traded – purchased	1	–	–	–
Exchange-traded – written	–	–	–	–
Warrants	13	–	18	–
TOTAL EQUITY CONTRACTS	635	(323)	319	(254)
FOREIGN EXCHANGE CONTRACTS				
Forwards	188	(330)	229	(359)
Options:				
Over-the-counter – purchased	–	–	–	–
TOTAL FOREIGN EXCHANGE CONTRACTS	188	(330)	229	(359)
INTEREST RATE CONTRACTS				
Futures	3	(1)	2	(3)
Swaps	95	(134)	147	(193)
Options:				
Exchange-traded – purchased	–	–	–	–
Exchange-traded – written	–	–	–	–
TOTAL INTEREST RATE CONTRACTS	98	(135)	149	(196)
CREDIT CONTRACTS				
Purchased credit default swaps	10	(252)	26	(108)
Written credit default swaps	188	(14)	92	(21)
Options:				
Over-the-counter – purchased	–	–	–	–
Over-the-counter – written	–	–	–	–
TOTAL CREDIT CONTRACTS	198	(266)	118	(129)
COMMODITY CONTRACTS				
Futures	4	(8)	9	(7)
TOTAL COMMODITY CONTRACTS	4	(8)	9	(7)
SUBTOTAL	1,123	(1,062)	824	(945)
Less: Cash collateral received under derivative contracts	(113)	–	(82)	–
TOTAL	$ 1,010	$ (1,062)	$ 742	$ (945)

(iv) The terms to maturity of the notional amounts for derivative contracts, as at March 31, 2014, are as follows:

Notional Amount of Derivatives by Terms to Maturity

	2014					2013
	Terms to Maturity					
($ millions)	Within 1 year	1 to 5 years	6 to10 years	Over 10 years	Total	Total
EQUITY CONTRACTS						
Futures	$ 1,513	$ –	$ –	$ –	$ 1,513	$ 5,339
Swaps	29,096	18,174	90	–	47,360	34,460
Options:						
Exchange-traded – purchased	107	–	–	–	107	–
Exchange-traded – written	180	–	–	–	180	–
Warrants	7	148	6	–	161	400
TOTAL EQUITY CONTRACTS	30,903	18,322	96	–	49,321	40,199
FOREIGN EXCHANGE CONTRACTS						
Forwards	37,832	–	–	–	37,832	34,892
Options:						
Over-the-counter – purchased	44	–	–	–	44	–
TOTAL FOREIGN EXCHANGE CONTRACTS	37,876	–	–	–	37,876	34,892
INTEREST RATE CONTRACTS						
Futures	11,348	205	–	–	11,553	9,396
Swaps	4,358	7,874	2,778	860	15,870	37,639
Options:						
Exchange-traded – purchased	2,625	–	–	–	2,625	–
Exchange-traded – written	3,849	–	–	–	3,849	–
TOTAL INTEREST RATE CONTRACTS	22,180	8,079	2,778	860	33,897	47,035
CREDIT CONTRACTS						
Purchased credit default swaps	1,376	6,853	369	–	8,598	4,855
Written credit default swaps	1,286	6,513	115	–	7,914	4,556
Options:						
Over-the-counter – purchased	1,656	–	–	–	1,656	305
Over-the-counter – written	–	–	–	–	–	51
TOTAL CREDIT CONTRACTS	4,318	13,366	484	–	18,168	9,767
COMMODITY CONTRACTS						
Futures	1,013	–	–	–	1,013	776
TOTAL COMMODITY CONTRACTS	1,013	–	–	–	1,013	776
TOTAL	$ 96,290	$ 39,767	$ 3,358	$ 860	$140,275	$132,669

(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.

3. 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).

Fair Value Hierarchy

	As at March 31, 2014			
($ millions)	Level 1	Level 2	Level 3	Total
INVESTMENTS				
EQUITIES				
Canada				
Public equities	$ 5,562	$ –	$ –	$ 5,562
Private equities	–	455	2,447	2,902
	5,562	455	2,447	8,464
Foreign developed markets				
Public equities[1]	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
Emerging markets				
Public equities[1]	6,781	1,431	–	8,212
Private equities	101	–	2,755	2,856
	6,882	1,431	2,755	11,068
TOTAL EQUITIES	59,595	9,393	35,782	104,770
FIXED INCOME				
Bonds	29,593	25,665	–	55,258
Other debt	–	4,531	9,352	13,883
Money market securities	–	19,663	–	19,663
TOTAL FIXED INCOME	29,593	49,859	9,352	88,804
ABSOLUTE RETURN STRATEGIES	–	10,775	1,468	12,243
REAL ASSETS				
Real estate	383	3,213	23,801	27,397
Infrastructure	271	121	12,852	13,244
TOTAL REAL ASSETS	654	3,334	36,653	40,641
INVESTMENT RECEIVABLES				
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
TOTAL INVESTMENT RECEIVABLES	21	5,236	13	5,270
TOTAL INVESTMENTS	$ 89,863	$ 78,597	$ 83,268	$ 251,728
INVESTMENT LIABILITIES				
Securities sold under repurchase agreements	–	(5,230)	–	(5,230)
Securities sold short	(14,874)	–	–	(14,874)
Debt financing liabilities	–	(9,654)	–	(9,654)
Debt on real assets	–	(2,057)	–	(2,057)
Derivative liabilities	(12)	(1,050)	–	(1,062)
TOTAL INVESTMENT LIABILITIES	(14,886)	(17,991)	–	(32,877)
Amounts receivable from pending trades	–	2,251	–	2,251
Amounts payable from pending trades	–	(1,979)	–	(1,979)
NET INVESTMENTS	$ 74,977	$ 60,878	$ 83,268	$ 219,123

($ millions)	As at March 31, 2013 Level 1	Level 2	Level 3	Total
INVESTMENTS				
EQUITIES				
Canada				
Public equities	$ 4,789	$ –	$ –	$ 4,789
Private equities	–	–	2,250	2,250
	4,789	–	2,250	7,039
Foreign developed markets				
Public equities[1]	33,282	2,675	–	35,957
Private equities	602	92	27,835	28,529
	33,884	2,767	27,835	64,486
Emerging markets				
Public equities[1]	7,529	996	–	8,525
Private equities	–	–	1,788	1,788
	7,529	996	1,788	10,313
TOTAL EQUITIES	46,202	3,763	31,873	81,838
FIXED INCOME				
Bonds	28,639	24,116	–	52,755
Other debt	–	4,060	6,155	10,215
Money market securities	–	19,991	–	19,991
TOTAL FIXED INCOME	28,639	48,167	6,155	82,961
ABSOLUTE RETURN STRATEGIES	–	7,813	1,215	9,028
REAL ASSETS				
Real estate	–	1,544	20,296	21,840
Infrastructure	199	–	10,870	11,069
TOTAL REAL ASSETS	199	1,544	31,166	32,909
INVESTMENT RECEIVABLES				
Securities purchased under reverse repurchase agreements	–	630	–	630
Accrued interest	–	725	–	725
Derivative receivables	24	715	3	742
Dividends receivable	–	138	–	138
TOTAL INVESTMENT RECEIVABLES	24	2,208	3	2,235
TOTAL INVESTMENTS	$ 75,064	$ 63,495	$ 70,412	$ 208,971
INVESTMENT LIABILITIES				
Securities sold under repurchase agreements	–	(2,180)	–	(2,180)
Securities sold short	(9,715)	–	–	(9,715)
Debt financing liabilities	–	(9,543)	–	(9,543)
Debt on real assets	–	(1,918)	–	(1,918)
Derivative liabilities	(9)	(936)	–	(945)
TOTAL INVESTMENT LIABILITIES	(9,724)	(14,577)	–	(24,301)
Amounts receivable from pending trades	–	2,580	–	2,580
Amounts payable from pending trades	–	(3,779)	–	(3,779)
NET INVESTMENTS	$ 65,340	$ 47,719	$ 70,412	$ 183,471

[1] Includes investments in funds.

(B) TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

During the years ended March 31, 2014 and March 31, 2013, there were no significant transfers between Level 1 and Level 2.

(C) LEVEL 3 RECONCILIATION

The following presents the reconciliations for investments included in Level 3 of the fair value hierarchy for the year ended March 31, 2014:

Reconciliation of Changes in Fair Value for Level 3 Investments

	2014							
($ millions)	Fair Value as at April 1, 2013	Gain (Loss) Included in Net Investment Income[1]	Purchases	Sales[2]	Transfers into Level 3[3]	Transfers out of Level 3[3]	Fair Value as at March 31, 2014	Change in Unrealized Gains (Losses) on Investments Still Held at March 31, 2014[1,4]
INVESTMENTS								
EQUITIES								
Canada								
Public equities	$ –	$ –	$ –	$ –	$ –	$ –	$ –	$ –
Private equities	2,250	674	281	(303)	–	(455)	2,447	245
	2,250	674	281	(303)		(455)	2,447	245
Foreign developed markets								
Public equities	–	(5)	41	–	–	–	36	(5)
Private equities	27,835	8,869	4,223	(6,020)	–	(4,363)	30,544	4,819
	27,835	8,864	4,264	(6,020)	–	(4,363)	30,580	4,814
Emerging markets								
Private equities	1,788	766	467	(266)	–	–	2,755	607
	1,788	766	467	(266)	–	–	2,755	607
TOTAL EQUITIES	31,873	10,304	5,012	(6,589)	–	(4,818)	35,782	5,666
FIXED INCOME								
Other debt	6,155	773	4,816	(2,392)	–	–	9,352	372
TOTAL FIXED INCOME	6,155	773	4,816	(2,392)	–	–	9,352	372
ABSOLUTE RETURN STRATEGIES	1,215	219	35	(1)	–	–	1,468	219
REAL ASSETS								
Real estate	20,296	3,053	3,005	(2,553)	–	–	23,801	2,857
Infrastructure	10,870	1,190	1,151	(359)	–	–	12,852	1,081
TOTAL REAL ASSETS	31,166	4,243	4,156	(2,912)	–	–	36,653	3,938
INVESTMENT RECEIVABLES								
Derivative receivables	3	5	5	–	–	–	13	8
TOTAL INVESTMENT RECEIVABLES	3	5	5	–	–	–	13	8
TOTAL	$ 70,412	$ 15,544	$ 14,024	$ (11,894)	$ –	$ (4,818)	$ 83,268	$ 10,203

($ millions)	Fair Value as at April 1, 2012	Gain (Loss) Included in Net Investment Income[1]	Purchases	Sales[2]	Transfers into Level 3[3]	Transfers out of Level 3[3]	Fair Value as at March 31, 2013	Change in Unrealized Gains (Losses) on Investments Still Held at March 31, 2013[1,4]
	2013							
INVESTMENTS								
EQUITIES								
Canada								
Public equities	$ 10	$ 46	$ 245	$ (18)	$ –	$ (283)	$ –	$ –
Private equities	1,726	56	640	(172)	–	–	2,250	43
	1,736	102	885	(190)	–	(283)	2,250	43
Foreign developed markets								
Public equities	–	–	–	–	–	–	–	–
Private equities	22,147	3,633	6,912	(4,820)	–	(37)	27,835	2,269
	22,147	3,633	6,912	(4,820)	–	(37)	27,835	2,269
Emerging markets								
Private equities	1,394	168	311	(85)	–	–	1,788	142
	1,394	168	311	(85)	–	–	1,788	142
TOTAL EQUITIES	25,277	3,903	8,108	(5,095)	–	(320)	31,873	2,454
FIXED INCOME								
Other debt	4,795	352	3,032	(2,142)	118	–	6,155	(10)
TOTAL FIXED INCOME	4,795	352	3,032	(2,142)	118	–	6,155	(10)
ABSOLUTE RETURN STRATEGIES	1,099	118	–	(2)	–	–	1,215	118
REAL ASSETS								
Private real estate	17,476	1,047	2,552	(779)	–	–	20,296	1,064
Infrastructure	9,258	433	1,440	(261)	–	–	10,870	456
TOTAL REAL ASSETS	26,734	1,480	3,992	(1,040)	–	–	31,166	1,520
INVESTMENT RECEIVABLES								
Derivative receivables	12	(9)	–	(10)	10	–	3	(9)
TOTAL INVESTMENT RECEIVABLES	12	(9)	–	(10)	10	–	3	(9)
TOTAL	$ 57,917	$ 5,844	$ 15,132	$ (8,289)	$ 128	$ (320)	$ 70,412	$ 4,073

1 Presented as investment income (loss) (see note 7).
2 Includes return of capital.
3 Transfers into and out of Level 3 are assumed to occur at the end of year values.
4 Includes the entire change in fair value for the period for those investments that were transferred into Level 3 during the year, and excludes the entire change in fair value for the period for those investments that were transferred out of Level 3 during the year.

During the years ended March 31, 2014 and March 31, 2013, the transfers into and out of Level 3 were primarily due to changes in the availability of market observable inputs used to determine fair value.

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

4. INVESTMENT RISK MANAGEMENT

The CPP Investment Board is exposed to a variety of financial risks as a result of its investment activities. These risks include market risk, credit risk and liquidity risk. The CPP Investment Board manages and mitigates financial risks through the Risk/Return Accountability Framework that is included 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.

(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

($ millions)	2014 Net Exposure	2014 % of Total	2013 Net Exposure	2013 % of Total
CURRENCY				
United States Dollar	$ 83,612	58%	$ 62,098	57%
Euro	22,241	15	14,985	14
British Pound Sterling	9,380	7	8,184	8
Australian Dollar	7,222	5	5,671	5
Japanese Yen	6,966	5	5,330	5
Hong Kong Dollar	2,285	2	2,581	2
South Korean Won	1,468	1	1,189	1
Chilean Pesos	1,459	1	1,206	1
Brazilian Real	1,017	1	854	1
Other	7,232	5	6,795	6
TOTAL	$ 142,882	100%	$ 108,893	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.

The terms to maturity of these fixed income securities, as at March 31, 2014, are as follows:

Investments Terms to Maturity

($ millions)	2014 Terms to Maturity: Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Average Effective Yield	2013 Total	2013 Average Effective Yield
NON-MARKETABLE BONDS								
Canadian provincial government	$ 437	$ 1,056	$ 8,087	$ 13,471	$ 23,051	3.5%	$ 24,116	3.2%
MARKETABLE BONDS								
Government of Canada	–	7,122	697	2,881	10,700	2.4	13,945	1.7
Canadian provincial government	–	1,316	5,993	4,784	12,093	3.4	8,702	3.1
Canadian government corporations	–	2,745	1,390	1,225	5,360	2.9	3,489	2.3
Foreign government	–	338	1,099	2	1,439	2.6	683	0.3
Corporate bonds	127	1,754	572	162	2,615	3.1	1,396	2.8
Inflation-linked bonds	–	–	–	–	–	–	424	(0.1)
OTHER DEBT								
Private debt	24	2,239	2,214	–	4,477	11.0	3,483	9.1
Real estate private debt	527	703	245	415	1,890	5.7	1,448	6.1
Asset-backed securities	–	264	1,520	823	2,607	0.9	1,659	0.8
SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS	3,221	–	–	–	3,221	0.9	630	0.4
TOTAL	$ 4,336	$ 17,537	$ 21,817	$ 23,763	$ 67,453	3.4%	$ 59,975	3.0%

The terms to maturity of investment liabilities and the notional amount of derivative receivables are disclosed in note 4c and note 2f(iv), 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.

Value at Risk

CPP Investment Board uses a Value at Risk (VaR) methodology to monitor market risk exposure and credit risk exposure (see note 4b) 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.

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 market indices to determine correlations between defaults and downgrades of credit exposures, and using empirical rating transition and default 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

	2014		2013	
($ millions)	VaR	% of CPP Investment Portfolio[1]	VaR	% of CPP Investment Portfolio[1]
CPP Reference Portfolio	**$ 19,840**	**9.1%**	$ 16,082	8.8%
CPP Investment Portfolio[2]	**$ 22,993**	**10.5%**	$ 18,467	10.1%
CPP Investment Portfolio Total Active Risk[3,4]	**$ 5,053**	**2.3%**	$ 4,048	2.2%
CPP Investment Portfolio Active Market Risk[4]	**$ 4,908**	**2.2%**	$ 3,920	2.1%
CPP Investment Portfolio Active Credit Risk[4]	**$ 573**	**0.3%**	$ 494	0.3%

1 Excludes certain assets where the market risk exposure is not monitored using VaR, such as the assets of the Cash for Benefits Portfolio, which is a separately managed short-term cash management program designed to facilitate monthly benefit payments by the CPP.
2 CPP Investment Portfolio VaR is less than the sum of the CPP Reference Portfolio VaR and CPP Investment Portfolio Active Market Risk due to the beneficial impact of risk diversification.
3 Market and Credit Risk are combined using an assumed positive correlation under normal market conditions.
4 Active Risk is the estimated risk for the Investment Portfolio relative to the CPP Reference Portfolio.

(B) 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 2f). The carrying amounts of these investments as presented in the Statement 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 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

2014 ($ millions)	Bonds[1]	Money Market Securities[1]	Reverse Repurchase Agreements[1]	Over-the-Counter Derivatives	Other[1,2]	Total	% of Total
CREDIT RATING							
AAA	$ 25,896	$ 31	$ –	$ –	$ 1,605	$ 27,532	32%
AA	18,386	3,358	24	59	696	22,523	26
A	9,747	15,363	3,197	889	676	29,872	34
BBB	1,271	6	–	141	467	1,885	2
BB	522	–	–	–	1,428	1,950	2
B	18	–	–	–	2,934	2,952	3
CCC/D	–	–	–	–	765	765	1
TOTAL	$ 55,840	$ 18,758	$ 3,221	$ 1,089	$ 8,571	$ 87,479	100%

2013 ($ millions)	Bonds[1]	Money Market Securities[1]	Reverse Repurchase Agreements[1]	Over-the-Counter Derivatives	Other[1,2]	Total	% of Total
CREDIT RATING							
AAA	$ 26,064	$ 31	$ –	$ –	$ 675	$ 26,770	33%
AA	18,749	3,427	427	50	815	23,468	29
A	7,271	15,828	203	739	598	24,639	31
BBB	722	–	–	2	681	1,405	2
BB	411	–	–	–	1,545	1,956	2
B	38	–	–	–	1,890	1,928	2
CCC/D	–	–	–	–	395	395	1
TOTAL	$ 53,255	$ 19,286	$ 630	$ 791	$ 6,599	$ 80,561	100%

[1] Includes accrued interest.
[2] Includes direct investments in private debt and asset-backed securities.

Credit risk exposure on over-the-counter derivatives is mitigated through the use of master netting agreements and collateral within International Swaps and Derivatives Association (ISDA) Master Agreements. The CPP Investment Board enters into master netting agreements so if a default event occurs, all amounts with the counterparty are terminated and settled on a net basis. Credit support annexes are negotiated with certain counterparties and require that collateral, in the form of cash or fixed income securities, be provided to the CPP Investment Board when the positive fair value of the derivative contract exceeds certain threshold amounts. As at March 31, 2014, master netting agreements and collateral held reduced the credit risk exposure to over-the-counter derivatives from $1,089 million to $146 million (2013 – $791 million to $28 million).

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

(C) 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 terms to maturity of investment liabilities, as at March 31, 2014, are as follows:

Investment Liabilities Terms to Maturity

	2014							2013		
	Terms to Maturity									
($ millions)	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Fair Value	Weighted Average Interest Rate	Total	Fair Value	Weighted Average Interest Rate
Debt on real assets[1]	$ 204	$ 121	$ 1,713	$ 9	$ 2,047	$ 2,057	4.5%	$ 1,900	$ 1,918	4.9%
Securities sold under repurchase agreement	5,231	–	–	–	5,231	5,230	1.0	2,180	2,180	1.0
Securities sold short[2,3]	14,874	–	–	–	14,874	14,874	n/a	9,715	9,715	n/a
Debt financing liabilities	9,663	–	–	–	9,663	9,654	0.3	9,551	9,543	0.3
TOTAL	$29,972	$ 121	$ 1,713	$ 9	$31,815	$31,815	n/a	$23,346	$23,356	n/a

1 Represents undiscounted principal repayments.
2 Considered repayable within one year based on the earliest period in which the counterparty could request payment under certain conditions.
3 Consists primarily of equities sold short, for which the weighted average interest rate is not applicable.

The terms to maturity of the notional amount of derivative liabilities are disclosed in note 2f.

The CPP Investment Board also maintains $1.5 billion (2013 – $1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2014, the total amount drawn on the credit facilities is $nil (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 6). 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.

5. 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.

6. CANADA PENSION PLAN TRANSFERS

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

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

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

Canada Pension Plan Transfers

($ millions)	2014	2013
Accumulated transfers from the Canada Pension Plan	$ 341,662	$ 307,330
Accumulated transfers to the Canada Pension Plan	(218,237)	(189,599)
ACCUMULATED NET TRANSFERS FROM THE CANADA PENSION PLAN	$ 123,425	$ 117,731

7. NET INVESTMENT INCOME

Net investment income 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, after giving effect to derivative contracts and investment receivables and liabilities, is as follows:

Net Investment Income

	2014			
($ millions)	Investment Income (Loss)[1]	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
EQUITIES				
Canada				
Public equities	$ 2,223	$ –	$ (14)	$ 2,209
Private equities	677	(9)	–	668
	2,900	(9)	(14)	2,877
Foreign developed markets				
Public equities	8,452	(80)	(19)	8,353
Private equities	9,707	(240)	(29)	9,438
	18,159	(320)	(48)	17,791
Emerging markets				
Public equities	588	(66)	(7)	515
Private equities	807	(42)	–	765
	1,395	(108)	(7)	1,280
	22,454	(437)	(69)	21,948
FIXED INCOME				
Bonds	88	–	–	88
Other debt	1,870	(83)	(6)	1,781
Money market securities[2]	2,348	(311)	(40)	1,997
Debt financing liabilities	(737)	–	–	(737)
	3,569	(394)	(46)	3,129
REAL ASSETS				
Private real estate	3,970	(113)	(74)	3,783
Infrastructure	1,880	(3)	(27)	1,850
	5,850	(116)	(101)	5,633
TOTAL	$ 31,873	$ (947)	$ (216)	$ 30,710

($ millions)	2013 Investment Income (Loss)[1]	Investment Management Fees	Transaction Costs	Net Investment Income (Loss)
EQUITIES				
Canada				
Public equities	$ 703	$ –	$ (8)	$ 695
Private equities	88	(12)	(2)	74
	791	(12)	(10)	769
Foreign developed markets				
Public equities	4,020	(35)	(18)	3,967
Private equities	4,336	(274)	(26)	4,036
	8,356	(309)	(44)	8,003
Emerging markets				
Public equities	349	(15)	(6)	328
Private equities	165	(42)	(1)	122
	514	(57)	(7)	450
	9,661	(378)	(61)	9,222
FIXED INCOME				
Bonds	2,766	–	–	2,766
Other debt	1,271	(47)	(4)	1,220
Money market securities[2]	1,504	(287)	(37)	1,180
Debt financing liabilities	(204)	–	–	(204)
	5,337	(334)	(41)	4,962
REAL ASSETS				
Private real estate	1,763	(67)	(40)	1,656
Infrastructure	934	(3)	(35)	896
	2,697	(70)	(75)	2,552
TOTAL	$ 17,695	$ (782)	$ (177)	$ 16,736

[1] 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.
[2] Includes absolute return strategies, consisting of investments in funds and internally managed portfolios.

8. OPERATING EXPENSES

(A) COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the CPP Investment Board, consisting of the Senior Management Team and the Board of Directors.

Compensation of key management personnel of the CPP Investment Board for the year ended March 31 is as follows:

($ millions)		2014		2013
Short-term employee compensation and benefits[1]	$	17	$	16
Other long-term compensation and benefits[1]		10		9
TOTAL	$	27	$	25

[1] Compensation is discussed in greater detail on page 70 in the Compensation Discussion and Analysis of the 2014 Annual Report.

(B) GENERAL OPERATING EXPENSES

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

($ millions)		2014		2013
Operational business services	$	59	$	61
Amortization of premises and equipment		24		25
Premises		20		26
Custodial fees		16		15
Travel and accommodation		9		8
Communications		4		3
Directors' remuneration		1		1
Other		–		1
TOTAL	$	133	$	140

(C) PROFESSIONAL SERVICES

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

($ millions)		2014		2013
Consulting	$	35	$	31
Legal and tax services		6		4
External audit and audit-related services[1]		2		2
TOTAL	$	43	$	37

[1] Includes fees paid to the external auditor of the CPP Investment Board for audit services of $1.3 million (2013 – $1.4 million), and audit-related services of $0.3 million (2013 – $0.2 million).

9. COLLATERAL

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

Collateral Held and Pledged

($ millions)	2014	2013
Assets held as collateral on:		
Reverse repurchase agreements[1]	$ 3,221	$ 630
Over-the-counter derivative transactions[1]	134	93
Other debt[1]	1,129	1,009
Assets pledged as collateral on:		
Repurchase agreements	(5,227)	(2,183)
Securities sold short	(14,690)	(10,752)
Debt on private real estate properties	(2,605)	(2,230)
Guarantees (see note 11)	–	(177)
TOTAL	$ (18,038)	$ (13,610)

[1] The fair value of the collateral held that may be sold or repledged as at March 31, 2014 is $4,371 million (2013 – $1,651 million). The fair value of collateral sold or repledged as at March 31, 2014 is $3,216 million (2013 – $630 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 March 31, 2014, the commitments totalled $27.9 billion (2013 – $20.7 billion).

As at March 31, 2014, the CPP Investment Board made lease and other commitments of $165.9 million (2013 – $197.0 million) that will be paid over the next 11 years.

11. GUARANTEES AND INDEMNIFICATIONS

(A) GUARANTEES

As part of certain investment transactions, the CPP Investment Board agreed to guarantee, as at March 31, 2014, up to $1.5 billion (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.

Governance Practices of the Board of Directors

This section sets out certain key governance practices of the Board of Directors. More extensive governance information is posted on our website.

ENSURING BEST PRACTICES

The aim of the Board is to preserve and enhance a governance model in which CPPIB operates at arm's length from governments with an investment-only mandate.

DUTIES, OBJECTIVES AND MANDATE OF THE BOARD OF DIRECTORS

The Board is responsible for the stewardship of CPPIB including oversight of management.

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

Among other duties, the Directors appoint the CEO and annually review his or her performance; set compensation policies and approve Senior Management compensation; determine with Management the organization's strategic direction; review and approve investment policies, standards and procedures; approve investment risk limits; review and approve the annual business plan and budget; appoint the external auditor; establish procedures to identify and resolve conflicts of interest; establish and monitor compliance with a Code of Conduct for directors and employees; assess the performance of the Board itself including an annual Chair and peer review; establish other policies relating to such matters as authorities, procurement, travel and expenses; and review and approve material disclosures such as quarterly and annual Financial Statements and the Annual Report. In addition, the Directors approve the retention of external investment managers and large investment transactions that exceed management's delegated authority, and regularly review results of investment decisions. A detailed description of the activities of the Board committees is described below.

An important part of the carefully designed governance structure that balances independence with accountability is that investment professionals are accountable to an independent Board of Directors operating at arm's length from governments with an investment-only mandate. This mandate is to be undertaken without regard to political, regional, social or economic development considerations or any other non-investment objectives.

CPPIB's Code of Conduct provides that Board members shall not participate in any political activity that could be incompatible with their duties, affect their ability to carry out their duties in a politically impartial fashion or cast doubt on the integrity, objectivity or impartiality of the organization. Directors, like officers and employees, have a duty under the Code of Conduct to report immediately any attempted political interference with respect to investments, procurement, hiring or any other decisions. No such reports have ever been made.

COMPOSITION, MANDATES AND ACTIVITIES OF BOARD COMMITTEES

The Board has four committees: Investment, Audit, Human Resources and Compensation, and Governance. Membership is shown in the Board Attendance chart on page 86.

The Investment Committee oversees CPPIB's core business, which is making investment decisions within the context of a Board-approved risk limit. The Committee reviews and recommends to the Board investment policies and it reviews, approves and monitors the investment program. The Committee also reviews portfolio risk tolerances, approves the engagement of all external investment managers in accordance with the governing statute, and approves large investment transactions and all custodians. Responsibility for enterprise risk management is shared between the Board and the Investment Committee. All members of the Board serve on the Investment Committee.

The Audit Committee oversees financial reporting. This includes reviewing the Annual Report's Management's Discussion and Analysis section, reviewing and recommending the Annual Report's financial content, and monitoring the external and internal audit functions. Oversight also involves appointing the internal auditor and recommending the external auditor for appointment by the full Board. As a related matter, the Audit Committee reviews information systems and internal control policies and practices. It oversees the Internal Audit function and financial aspects of the employee pension plans, and advises the Board in connection with any statutorily mandated Special Examinations. The Audit Committee regularly meets separately with each of the external and internal auditors without management present.

The Human Resources and Compensation Committee (HRCC) administers the performance evaluation process for the CEO, reviews and recommends the compensation framework, reviews organizational structure and ensures proper succession planning. It also oversees employee benefits and human resources policies as well as the employee pension plans. The role of the HRCC is further outlined in the Compensation Discussion and Analysis beginning on page 74.

The Governance Committee ensures that CPPIB follows appropriate governance best practices and is involved in preparing and recommending this governance practices section of the Annual Report. The committee monitors the application of the Code of Conduct and recommends amendments. It makes recommendations to the Board to improve the Board's effectiveness, oversees the design of director orientation and ongoing director education programs, reviews criteria and qualifications for new directors, recommends director compensation, and establishes, recommends and is involved in performance evaluation processes for the Chair, individual directors, Board committees and the full Board.

At every meeting, the Board of Directors and all committees have *in camera* sessions with no member of Management present. As noted above, the Audit Committee also meets privately with each of the internal and external auditors. In addition, at every meeting the Board meets alone with the President & CEO.

We believe that diversity is crucial to ensuring an effective Board of Directors with various perspectives and qualifications. Gender diversity is one important element. There are currently four women who serve as Directors, representing one-third of total Board members. They bring a broad range of relevant legal, governance, business and academic qualifications to the Board. Each of these Directors is serving a three-year term which may be renewed.

DECISIONS REQUIRING PRIOR BOARD APPROVAL

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

DIRECTOR APPOINTMENT PROCESS

Directors are appointed by the federal Governor in Council on the recommendation of the federal finance minister, following the minister's consultation with the finance ministers of the participating provinces and assisted by an external nominating committee with private sector involvement.

A strong, expert and diverse board is the foundation of good governance and we seek to meet or exceed best practices as they develop. This year, the Parliament of Canada passed legislation amending the *Canada Pension Plan Investment Board Act* to permit the addition of up to three Board members who are not residents of Canada. Orders-in-council of the provinces are required before this amendment is legally effective.

The director appointment process is designed to ensure that the Board has directors with proven financial ability or relevant work experience such that CPPIB will be able to effectively achieve its objectives. The Governance Committee regularly reviews and updates both desirable and actual competencies of the Board to ensure that appointment and reappointment decisions are made with a view to having a Board fully capable of providing the effective oversight necessary for CPPIB to achieve its statutory objects. The Board has determined that the governance, functional and industry experience of the Board currently provides for such effective oversight of CPPIB's activities. Details of the competencies analysis of the current Board are set out immediately below.

	Experience								Industry Experience						
NAME	Governance Experience	C-Level Experience	Investment Judgment	Risk Assessment	P&L Ownership (Non-CEO)	Business Building	Public Policy	International Operations	Asset Management	Banking/ I-Banking	Insurance	Professional Services	Industrial/ Other	Academia	Government
Robert Astley (Chair)	×	×				×	×				×				
Ian Bourne	×	×					×	×					×		
Robert Brooks	×		×	×	×			×	×	×					
Pierre Choquette	×	×			×			×					×		
Michael Goldberg	×		×	×			×	×						×	
Nancy Hopkins	×						×					×			
Douglas Mahaffy	×		×		×			×	×						
Karen Sheriff	×	×			×	×							×		
Heather Munroe-Blum	×				×	×	×							×	
Kathleen Taylor	×	×	×			×		×					×		
Murray Wallace	×	×			×		×				×				×
Jo Mark Zurel	×	×		×		×		×					×		

As part of the director appointment process, CPPIB retains and manages an executive search firm to source qualified candidates for consideration. In that connection, the competencies analysis described above is used to set search qualifications to guide the search. In addition to the competencies analysis, an important consideration in ensuring a qualified Board of Directors is diversity, including gender diversity. Once finalized, the names of qualified candidates are forwarded to the external nominating committee, which considers them and submits names of recommended candidates to the federal finance minister.

Biographies of the CPPIB Board of Directors are on pages 124 and 125. They provide details of each director's background, business and financial experience.

BOARD MEMBER ORIENTATION AND DEVELOPMENT

The Board has a process for new director orientation. This comprehensive, full-day session includes discussion of the background, history and mandate of CPPIB as well as its strategy, business planning process and current corporate and departmental business plans. It involves advance provision to each new director of background material and intensive interaction with management during the session. Several directors have attended a supplemental orientation session to further deepen their knowledge of the organization.

In-house development for all directors is a key focus for the Board because of the evolving nature of a director's responsibilities and the unique nature of CPPIB. Management business presentations are provided on an ongoing basis. Special development seminars outside the regular meeting context feature both external and internal experts. Seminars in fiscal 2014 covered global economic conditions and developments, competitiveness in the face of changing global dynamics, the impact that rapidly changing technology is having on traditional business models, crisis management and Board oversight in connection with the prevention of crisis situations. Directors are also encouraged to attend external educational seminars and programs relevant to their CPPIB duties.

A COMMITMENT TO ACCOUNTABILITY

PROCEDURES FOR THE ASSESSMENT OF BOARD PERFORMANCE

Soon after its inception in October 1998, the Board established an annual process for evaluating its own performance and that of its committees, the Chair and each Director. Since then it has focused on improving this process. All assessments are currently conducted through confidential questionnaires. Summaries of the results of the Board and committee evaluations are reviewed by the full Board and provide a basis for improvement plans. The confidential annual Chair review is led by the chair of the Governance Committee who, subject to the direction of the Board, provides feedback to the Chair. The feedback is also relevant to the issue of reappointment of the Chair when his or her term expires. The confidential annual peer review is led by the Chair and designed to assist each Director in identifying self-development initiatives and assist in providing the external nominating committee with guidance on individual reappointments. After receipt of relevant questionnaire feedback, the Chair meets formally with each Director.

Robert Astley, Chair of CPPIB, notified the Board of Directors last year of his plans to leave the Board at the end of his current term in October 2014. This advance notice has allowed sufficient time for the Board to carry out a diligent Chair succession process with a view to selecting a successor Chair from among the current directors and having the Chair successor appointed and announced on a timetable which allows for an orderly transition in advance of October 2014. This process includes establishing desired attributes, a thorough peer review, creation of a special ad hoc committee to assess the potential candidates and in-depth discussions with individual directors. The Board subsequently made recommendations to the federal minister of finance who is consulting with the appropriate provincial ministers of the participating provinces before formalizing the appointment.

To ensure independence among directors, the Board of Directors also follows leading practices by monitoring interlocking relationships. This includes Board and committee interlocks. We currently have one Board interlock whereby Heather Munroe-Blum and Kathleen Taylor both serve on the Board of Royal Bank of Canada. We have determined that this relationship does not impair the exercise of independent judgment of the Directors.

BOARD EXPECTATIONS OF MANAGEMENT

Management is expected to comply with the *Canada Pension Plan Investment Board Act* and regulations and all policies approved by the Board and to otherwise act in accordance with applicable law. Management develops, with involvement from the Board, the strategic direction of the organization in response to its growing asset management responsibilities and the outlook for capital markets. The strategy incorporates risk management policies and controls, as well as monitoring and reporting mechanisms. Management is also expected to sustain and promote a culture of the highest integrity which appropriately manages any conflicts of interest, and to adhere to a stringent Code of Conduct.

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

The implementation of the CPP Reference Portfolio commencing on April 1, 2006 established a relevant benchmark for the CPP Fund. This has enabled management to more precisely measure total CPP Fund value-added returns, enabling the Board to tailor compensation more precisely to performance. The CPP Reference Portfolio is reviewed on an ongoing basis to ensure that it continues to reflect the passive, low-cost, low-complexity portfolio that would best contribute to the achievement of CPPIB's mandate.

Management is expected to disclose all material activities to the Board and public on a full and timely basis. This includes new investments, the engagement of operational and investment partners, quarterly and annual financial results, and developments that may affect CPPIB's reputation.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

Details of director and management compensation are described at length in the Compensation Discussion and Analysis beginning on page 74.

In accordance with subsections 10(10) and 12(5) of the *Canada Pension Plan Investment Board Act,* a comparative review was conducted during fiscal 2014 to ensure that Board compensation continues to appropriately reflect significant internal and external developments, including the CPP Fund's growth, increased complexity of the global investment programs, diversification of the portfolio, global expansion, as well as intensifying international competition for governance talent among institutional investment organizations. The comparative review resulted in an increase in Directors' compensation, commencing at the beginning of fiscal 2015. Effective April 1, 2014, the annual retainer for a Director will increase to $35,000 from $32,500; the annual retainer for the Chair of each committee of the Board of Directors will increase to $12,500 from $10,000; and the annual retainer for the Chair of the Board will increase to $160,000 from $140,000.

A CULTURE OF INTEGRITY AND ETHICAL CONDUCT

CONFLICT OF INTEREST PROCEDURES

Conflicts of interest were anticipated in CPPIB's legislation as a result of the need to recruit directors with financial and investment experience and to engage employees with financial expertise. Our Code of Conduct was established to manage and, where possible, eliminate such conflicts. Stringent procedures under the Code are designed to ensure that directors and employees act in the best interests of the organization. They are required to disclose any personal or business interests that might lead to a real, potential or perceived conflict of interest. Any involvement in relevant decision-making is prohibited should those circumstances arise. Further, directors are expected to resign from the Board if they take on executive responsibilities with an organization whose objectives and mandates may be, or might reasonably be perceived to be, in conflict with CPPIB's objectives and mandate.

Our policy is that non-audit services provided by the external auditor must be approved by the Audit Committee. Firms that perform any internal or external audit services must also affirm that the provision of non-audit services does not impair their independence.

CODE OF CONDUCT

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

As part of the hiring process, new recruits are required to read and agree to comply with the Code of Conduct and related personal trading guidelines. Together, these set a high standard for conflict of interest and ethical conduct. Directors and employees must reconfirm their compliance semi-annually and employees must complete an online module to confirm their understanding of the Code and ability to apply it in day-to-day decisions and actions.

This year, CPPIB held sessions for all employees on the same day across all offices to renew their commitment to the Guiding Principles of Integrity, Partnership and High Performance. These sessions will be held annually going forward to maintain the focus on this cornerstone of our culture.

When the Board hires or conducts annual performance reviews of the CEO, it considers the individual's leadership in promoting ethical conduct and championing a culture of Integrity, Partnership and High Performance. These factors are also relevant in the hiring and reviews of other officers.

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

Board of Directors

ROBERT M. ASTLEY, CHAIR [1*,2]

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

Former president of Sun Life Financial Canada, former president and CEO of Clarica Life Insurance Company. Director of the Bank of Montreal, and chair of its human resources committee from 2008 to 2014. Former chair of Canadian Life and Health Insurance Association and of Wilfrid Laurier University. Will receive the designation as Fellow, Institute of Corporate Directors, in September 2014. Honorary Lifetime Director of the Kitchener-Waterloo Symphony. Qualifications include extensive senior management experience in pension and life and health insurance financial services, including oversight of the successful integration of Clarica with Sun Life Financial.

IAN A. BOURNE [1,2,3*]

Corporate Director | Calgary, Alberta | Director since April 2007

Chair of SNC-Lavalin Group Inc. Chair of Ballard Power Systems Inc. Director of Canadian Oil Sands Limited, Wajax Corporation, and the Canadian Public Accountability Board. Retired executive vice-president and CFO of TransAlta Corporation, a power generation company, and president of TransAlta Power L.P. Over 35 years of experience in senior finance roles at TransAlta, General Electric and Canada Post Corporation. Former director of TransAlta Power L.P., TransAlta CoGeneration, L.P. and Purolator Courier Ltd. Qualifications include expertise in finance in major corporations and international experience in Paris and London.

ROBERT L. BROOKS [1,3]

Corporate Director | Toronto, Ontario | Director since January 2009

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

PIERRE CHOQUETTE [1,2,4*]

Corporate Director | Vancouver, British Columbia[5] | Director since February 2008

CEO and director of Methanex Corporation from 1994 to 2004, and Chair from 2002 until 2012. As CEO of Methanex, credited with globalizing the company's asset base. Former president and COO of Novacorp International and former president of Polysar Inc. Former chair of Gennum Corporation. Former director of Credit Lyonnais (Canada), Echo Bay Mines (U.S.), Stelco, Inc., TELUS Corporation, Terasen Gas, Inc., Terasen Pipelines and Terasen, Inc. Qualifications include 25 years of senior management experience concentrated in the natural gas and chemical industries, international experience in Belgium and Switzerland, and extensive board experience, including chairing human resources and governance committees and serving on the full range of board committees, notably two acquisition committees for large transactions.

MICHAEL GOLDBERG [1,2,3]

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

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

PETER K. HENDRICK [1,3]

Chartered Professional Accountant, Chartered Financial Analyst | Toronto, Ontario | Director since October 2004
Left the Board effective October 2013, after his term expired.

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

NANCY HOPKINS [1,2*]

Lawyer | Saskatoon, Saskatchewan | Director since September 2008

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

DOUGLAS W. MAHAFFY [1,4]

Corporate Director | Toronto, Ontario | Director since October 2009

Recently retired chairman and chief executive officer of McLean Budden Ltd., an institutional money management firm. Former managing director and head of investment banking (Ontario) of Merrill Lynch Canada Inc., and former senior vice-president, finance and chief financial officer of Hudson's Bay Company. Current director at Methanex Corporation and former director at Stelco Inc. and Woodward's Ltd. Current chairman at Drumlane Capital, a personally owned investment firm. Qualifications include more than 25 years of investment industry, general management, and mergers and acquisitions experience.

HEATHER MUNROE-BLUM [1,4]

Corporate Director | Montreal, Quebec | Director since March 2010

Served for a decade as McGill's principal (president) and vice-chancellor (2003-2013). Distinguished academic administrator and renowned scholar in the fields of psychiatric epidemiology and public policy. Served as vice-president (Research and International Relations) at the University of Toronto (1994-2002). Serves and has served on the boards and advisory committees of numerous Canadian and international not-for-profit and for-profit bodies. Currently, a member of the Canada Foundation for Innovation, the President's Council of the New York Academy of Sciences, and the Trilateral Commission. Director of the Gairdner Foundation and the Royal Bank of Canada. Specially Elected Fellow of the Royal Society of Canada, and an Officer of both the Order of Canada and l'Ordre national du Québec. Recipient of numerous national and international honorary degrees. Holds a Ph.D. with distinction in epidemiology from the University of North Carolina at Chapel Hill, in addition to M.S.W. (Wilfrid Laurier University) and B.A. and B.S.W. degrees (McMaster University). Qualifications include over 25 years of senior management experience concentrated in higher education, public policy, and research and development. Has served as director on executive, human resources and compensation, governance, investment and finance committees across the public and private sectors.

KAREN SHERIFF [1,4]

Corporate Executive | Halifax, Nova Scotia | Director since October 2012

President and CEO of Bell Aliant since November 2008. Previously Chief Operating Officer, Bell Aliant; President of Small and Medium Business, Bell Canada; Chief Marketing Officer, Bell Canada; Senior Vice President of Product Management and Development, Bell Canada. Prior to joining Bell, held a variety of assignments with Ameritech and United Airlines. Director of Bell Aliant Inc., Bell Aliant Regional Communications Inc., and Bell Aliant Preferred Equity Inc. Past director of Aliant Inc. and Teknion Corporation. Current Chair of the Board of Trustees of the Gardiner Museum of Ceramic Art and member of the New Brunswick Business Council. Named one of Canada's Top 25 Women of Influence for 2013 by Women of Influence Inc. In 2012, named Woman of the Year by Canadian Women in Communications (CWC). Named one of Atlantic Canada's Top 50 CEOs (*Atlantic Business Magazine*). Recognized as one of Canada's Top 100 Most Powerful Women three times and named to the Women's Executive Network Top 100 Women Hall of Fame. Qualifications include extensive senior management experience and expertise in strategic-priority setting of major corporations, including oversight of Bell Aliant's conversion back to a corporation from one of the largest income trusts in Canada, and leading Bell Aliant's corporate transformation and industry-leading fibre-to-the-home (FTTH) network build, the first of its kind in Canada.

KATHLEEN TAYLOR [1,3]

Corporate Executive, Lawyer, Corporate Director | Toronto, Ontario | Director since October 2013

Chair of Royal Bank of Canada. Former president and CEO of Four Seasons Hotels and Resorts, with over 24 years of experience, beginning as General Counsel; promoted to EVP Corporate Planning and Development; President, Worldwide Business Operations; and president and COO. Prior to joining Four Seasons, practiced corporate securities and competition law at Goodmans, LLP and spent a year secondment at the Ontario Securities Commission. Member of RBC Board for over a decade (chair of HR Committee, member of Risk Committee, previously member of Audit Committee). Director and vice chair of the Hospital for Sick Children Foundation in Toronto (Chair of Compensation and Resource Management Committee, member of Capital Campaign Cabinet for Peter Gilgan Research and Learning Tower).

First woman to receive the Corporate Hotelier of the World award from Hotels Magazine. Recipient of Cornell University Hospitality Innovator Award, Schulich School of Business Award for Outstanding Executive Leadership, inaugural Medal for Career Achievement from Hennick Centre for Business and Law at York University, and inducted into the Canadian Marketing Hall of Legends. Qualifications include over 25 years of global executive experience overseeing major strategic and operations initiatives, negotiating expertise, and strong relationship management capabilities that drove the modern evolution of an iconic company with the support of almost 100 ownership and development partners around the world.

D. MURRAY WALLACE [1,4]

Fellow, Chartered Professional Accountants of Ontario | London, Ontario | Director since April 2007

CEO of Granite Global Solutions, an insurance services company, since August 1, 2009. Former president of Axia NetMedia Corporation. Former Director of Terravest Income Fund, Critical Outcome Technologies Inc., Western Surety Ltd., Ontario Hydro, London Insurance Group, IPSCO Inc., Crown Life Insurance Co. and Queen's University School of Business (Advisory Committee), among others. Former Deputy Minister of Finance and Deputy Minister to the Premier for the Government of Saskatchewan. Qualifications include expertise as a chartered professional accountant, senior-level financial experience from five years as President of Avco Financial Services Canada Ltd., and eight years in executive roles with companies in the Trilon Financial Group, and experience in public pension plan management and interface with government.

JO MARK ZUREL [1,3]

Chartered Professional Accountant, Corporate Director | St. John's, Newfoundland and Labrador | Director since October 2012

President/Owner of Stonebridge Capital Inc., a private investment company that invests in a variety of businesses, including Atlantic Canadian start-up and high-growth companies. From 1998 to 2006 served as Senior Vice-President and Chief Financial Officer of CHC Helicopter Corporation. Director of Highland Resources Inc., chair of Newfoundland Power, director of Major Drilling Group International Inc., Chair of the Atlantic Provinces Economic Council and director of Dr. H. Bliss-Murphy Cancer Care Foundation. Honoured as one of Canada's Top 40 Under 40 in 2000. Qualifications include extensive investment industry and corporate director experience, including as an active angel investor with the Newfoundland and Labrador Angel Network (NLAN), and as director of the Institute of Corporate Directors (ICD), and member of the founding executive of the ICD's Newfoundland and Labrador affiliate.

[1] Investment Committee | [2] Governance Committee | [3] Audit Committee | [4] Human Resources and Compensation Committee | [5] At the time of appointment | * Indicates Chair position

Ten-Year Review

For the year ended March 31 ($ billions)	**2014**	2013	2012	2011	2010	2009	2008	2007	2006	2005
CHANGE IN NET ASSETS										
Income[1]										
Investment income	**30.7**	16.7	9.9	15.5	16.2	(23.6)	(0.3)	13.1	13.1	6.3
Operating expenses	**(0.6)**	(0.5)	(0.4)	(0.3)	(0.2)	(0.2)	(0.1)	(0.1)	–	–
Net contributions	**5.7**	5.5	3.9	5.4	6.1	6.6	6.5	5.6	3.6	4.5
Increase in net assets	**35.8**	21.7	13.4	20.6	22.1	(17.2)	6.1	18.6	16.7	10.8

As at March 31 ($ billions)	**2014**	2013	2012	2011	2010	2009	2008	2007	2006	2005
EQUITIES										
Canada	**18.6**	15.3	14.2	21.0	18.5	15.6	28.9	29.2	29.0	27.7
Foreign developed markets	**75.6**	64.0	56.7	50.8	46.2	40.4	47.5	46.1	32.7	20.9
Emerging markets	**12.6**	12.4	10.6	7.6	6.5	4.6	0.7	–	–	–
FIXED INCOME										
Non-marketable bonds	**23.4**	24.4	23.6	21.8	22.7	23.2	23.8	24.9	27.2	28.6
Marketable bonds	**31.0**	28.5	21.2	19.7	17.1	9.3	11.1	8.1	4.0	–
Other debt	**11.4**	8.6	8.8	6.1	3.5	1.8	1.1	–	–	–
Money market securities[2]	**17.4**	8.7	2.5	2.3	1.7	(0.8)	–	0.4	0.6	3.1
Debt financing liabilities	**(9.7)**	(9.5)	(2.4)	(1.4)	(1.3)	–	–	–	–	–
REAL ASSETS										
Real estate[3]	**25.5**	19.9	17.1	10.9	7.0	6.9	6.9	5.7	4.2	0.8
Infrastructure[3]	**13.3**	11.2	9.5	9.5	5.8	4.6	2.8	2.2	0.3	0.2
INVESTMENT PORTFOLIO[4]	**219.1**	183.5	161.8	148.3	127.7	105.6	122.8	116.6	98.0	81.3
PERFORMANCE (%)										
Rate of return (annual)[5]	**16.5**	10.1	6.6	11.9	14.9	(18.6)	(0.3)	12.9	15.5	8.5

1 Included in the CPP Fund are certain specified CPP assets which were previously administered by the federal government and transferred to the CPP Investment Board over a period that began on May 1, 2004 and ended on April 1, 2007. Since April 1, 1999, the CPP Fund has earned $110.9 billion in investment income net of operating expenses, which comprises $95.7 billion from the CPP Investment Board and $15.2 billion from assets historically administered by the federal government.
2 Includes amounts receivable/payable from pending trades, dividends receivable, accrued interest and absolute return strategies.
3 Net of debt on real assets.
4 Excludes non-investment assets such as premises and equipment and non-investment liabilities.
5 Commencing in fiscal 2007, the rate of return reflects the performance of the investment portfolio which excludes the Cash for Benefits portfolio.

Management Team

As at April 1, 2014

Mark D. Wiseman
President & CEO

André Bourbonnais
Senior Vice-President & Head of Private Investments

John H. Butler
Senior Vice-President, General Counsel & Corporate Secretary

Edwin D. Cass
Senior Vice-President & Chief Investment Strategist

Graeme M. Eadie
Senior Vice-President & Head of Real Estate Investments

Pierre Lavallée
Senior Vice-President & Chief Talent Officer

Michel R. Leduc
Senior Vice-President, Public Affairs & Communications

Mark G.A. Machin
Senior Vice-President & Head of International; President, CPPIB Asia Inc.

Benita M. Warmbold
Senior Vice-President & Chief Financial Officer

Eric Wetlaufer
Senior Vice-President & Head of Public Market Investments

Nicholas Zelenczuk
Senior Vice-President & Chief Operations Officer

Mona Akiki
Vice-President, Human Resources

David Allen
Managing Director, Private Debt

Lisa Baiton
Vice-President, Global Public Affairs

Peter Ballon
Vice-President & Head of Real Estate Investments – Americas

Susan Bellingham
Vice-President, Business Planning & Enterprise Risk Management

Alain Carrier
Managing Director & Head of Europe, Head of Infrastructure

Kevin Cunningham
Vice-President & Head of Global Capital Markets

Andrew Darling
Vice-President, Infrastructure

Jeff Donahue
Vice-President & Head of Natural Resources

Kristina Fanjoy
Vice-President & Head of Tax

Jim Fasano
Vice-President & Head of Funds, Secondaries & Co-Investments

Shane Feeney
Vice-President & Head of Direct Private Equity

Chris Hawman
Vice-President, Integration Management

Martin Healey
Vice-President & Head of Private Real Estate Debt

Wenzel R.B. Hoberg
Managing Director & Head of Real Estate Investments – Europe

Bruce Hogg
Vice-President & Head of Infrastructure – Americas

James Hughes
Vice-President & Head of Investment Risk

Jeffrey Hurley
Vice-President & Head of Technology

Mark Jenkins
Vice-President & Head of Principal Investments

Jennifer Kerr
Vice-President & Head of Funds

Malcolm Khan
Vice-President & Head of Investment Operations

Suyi Kim
Managing Director & Head of Private Equity Asia

Andreas Koettering
Managing Director & Head of Infrastructure – EMEA

R. Scott Lawrence
Vice-President & Head of Relationship Investments

Stephanie Leaist
Vice-President, Sustainable Investing

Rosemary Li-Houpt
Vice-President, Talent Acquisition

Alistair McGiven
Vice-President & Head of Global Tactical Asset Allocation

Derek Miners
Vice-President, Treasury Services

Paul Mullins
Vice-President & Head of Portfolio Value Creation

Jimmy Phua
Managing Director & Head of Real Estate Investments – Asia

Chris Pinkney
Vice-President, Short Horizon Alpha

Yann Robard
Vice-President & Head of Secondaries & Co-Investments

Kathy Rohacek
Vice-President, Organizational Development

Chris Roper
Vice-President & Head of Short Horizon Alpha

Mark Roth
Vice-President, Business Management, Public Market Investments

Karen Rowe
Vice-President, Investment Finance

Barry Rowland
Vice-President & Head of Internal Audit

Geoffrey Rubin
Vice-President & Head of Portfolio Management

Geoffrey Souter
Vice-President, Private Real Estate Debt

Cheryl Swan
Vice-President & Head of Treasury, Performance and Reporting

Adam Vigna
Vice-President & Head of Private Debt

Jay Vyas
Vice-President & Head of Quantitative Investing

Poul A. Winslow
Vice-President & Head of External Portfolio Management

David Yuen
Vice-President & Head of Fundamental Investing

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Ce rapport annuel est aussi disponible en français.

CPP INVESTMENT BOARD

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