CPP INVESTMENT BOARD

Statement of Investment Objectives, Policies, Return Expectations and Risk Management for the Investment Portfolio of the Canada Pension Plan

March 27, 2015

1.0 PURPOSE

1.1 This Statement of Investment Objectives, Policies, Return Expectations and Risk Management (the "Investment Statement") documents the key investment objectives, policies, standards and procedures approved by the Board of Directors[1] (the "Board") of the Canada Pension Plan Investment Board ("CPPIB") for the assets of the long-horizon portion of the Canada Pension Plan ("CPP") Fund known as the Investment Portfolio.

1.2 The Investment Statement has been prepared in accordance with the Canada Pension Plan Investment Board Act (the "Act") and the Canada Pension Plan Investment Board Regulations (the "Regulations").

1.3 The Investment Statement has been prepared with six stakeholder audiences in mind: CPP contributors and beneficiaries; federal-provincial CPP stewards; CPPIB Board of Directors; CPPIB Management and employees; agents engaged by CPPIB to manage and administer CPP assets; and the Chief Actuary of Canada (the "Chief Actuary").

1.4 The Investment Statement is supported by proprietary CPPIB documents that govern the day-to-day management of the Fund including decision authorities, risk management policies and standards, performance measurement standards and reporting protocols.

1.5 The Board reviews and confirms or amends the Investment Statement at least once every fiscal year.

2.0 INVESTMENT OBJECTIVES

2.1 The Act specifies three objectives for CPPIB in relation to the Fund:

(a) Assist the CPP in meeting its obligations to contributors and beneficiaries;

(b) Manage assets in the best interests of CPP contributors and beneficiaries; and

(c) Invest assets to achieve 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.

2.2 The policies documented in the Investment Statement and in a companion statement that governs the smaller short-horizon CPPIB Cash for Benefits Portfolio have been designed to achieve these three objectives.

[1] Terms explained in the Glossary are underlined when they first appear in the text.

3.0 FACTORS AFFECTING THE ABILITY OF THE CPP TO MEET ITS OBLIGATIONS

3.1 The CPP is a partially funded target benefit plan using a combination of steady-state funding and incremental full funding to determine the minimum contribution rate. The CPP is designed to be self-sustaining with benefits financed by employee-employer contributions and Fund investment earnings. If the best estimate assumptions in the 26th Actuarial Report (the “Actuarial Report”) on the CPP are realized, the current legislated 9.9% employee-employer contribution rate and investment earnings will be sufficient to sustain the plan as currently defined over the 75-year projection period considered in the Actuarial Report.

3.2 It is estimated in the latest Actuarial Report that CPP contributions will exceed benefit payments in the calendar years up to and including 2022. This allows CPPIB to re-invest investment earnings to build capital to help pay benefits in subsequent years. Starting in 2023, a small percentage of investment earnings is expected to be required to support the payment of benefits. By 2025, the Chief Actuary estimates that 11% of investment earnings will be required to support benefits. This increases to 27% of investment earnings in 2050.

3.3 Future CPP benefits and contributions will be driven by a mix of demographic, economic and investment factors, each of which could increase or decrease future CPP contribution rates and/or benefits if their future values differ materially from those assumed in the Actuarial Report. As a public target benefit plan the sustainability of the CPP is appropriately evaluated on an open group basis (projecting benefits and contributions for current and future CPP participants and beneficiaries over a 150-year period) in which future contributions are an asset of the plan. Using the open group approach the Chief Actuary estimates that in 2022 future contributions will account for 89% of total assets, with the CPP Fund accounting for 11%.

3.4 Fertility and life expectancy are the key demographic factors. Lower than expected fertility could increase CPP contribution rates. Unexpected increases in life expectancy could also increase CPP contribution rates.

3.5 Because the CPP is partially funded, real wage growth is the economic factor that most affects future contribution rates. Lower than expected real wage growth could increase contribution rates. On the other hand, with all other assumptions held constant, higher long-term price inflation could reduce contribution rates as benefits are slightly less sensitive to price inflation than earnings and contributions. Higher unemployment and/or lower workforce participation rates could also increase contribution rates.

3.6 Long-term interest rates and risk premiums are the investment factors that most affect future contributions. Realized rates of return on investments that are lower than expected could increase future contribution rates, as could the Chief Actuary's assumption in a future Actuarial Report of a lower prospective rate of return on investments.

3.7 While to a great extent the factors affecting future contribution rates are beyond the control of CPPIB, their potential impacts on contribution rates are considered by CPPIB when evaluating alternative investment policies. To the extent possible, CPPIB adopts investment policies that will mitigate the impact of unfavourable changes in these factors, as summarized in Section 4.0.

3.8 CPPIB decisions do affect Fund investment earnings, but the investment returns of a diversified portfolio are determined primarily by overall capital market returns. These are driven over the long run by economic activity, as applied to the portfolio's allocation of assets among the primary asset classes, in particular its equity/debt mix.

3.9 If the Chief Actuary determines that the current legislated contribution rate, in combination with future investment earnings, is not sufficient to sustain the plan, the contribution rate may be increased and/or benefits reduced in accordance with amending provisions specified in the Canada Pension Plan Act and Regulations. These provisions ensure the CPP is self-sustaining across future generations.

4.0 CPP REFERENCE PORTFOLIO

4.1 The CPP Reference Portfolio (the "Reference Portfolio") is a diversified portfolio of publicly traded securities that could be readily implemented using a low cost passive investment program. The equity/bond weights of the Reference Portfolio are set to target a risk level for the Investment Portfolio that is not considered undue having regard to both maximization of long-term returns and the factors affecting the funding of the CPP. The Investment Portfolio will generate both higher expected returns and risk as the proportion of equities increases. It is expected that the Reference Portfolio will earn capital market returns over the long term that are at least sufficient to help sustain the current legislated CPP contribution rate under the assumptions of the Chief Actuary, while also mitigating to some extent potential increases of CPP net liabilities as estimated by CPPIB.

4.2 The current Reference Portfolio stated in Exhibit 1 is approved by the Board for fiscal year 2016.

CPP Reference Portfolio	**Exhibit 1**
	(%)
Equity	
Global equity (including Canada and emerging markets)	**72**
Debt	
Canadian Federal and Provincial Governments Nominal Bonds	**28**
Total	**100**

4.3 The global equity component is expected to provide a long term real return higher than the long-term annualized 4.0% net real rate of return assumed by the Chief Actuary for the Fund as a whole.

4.4 The Canadian governments nominal bonds component carries a real return expectation that is lower than 4.0%, but the risk level of these bonds is substantially lower than for global equities.

4.5 The composition of the Reference Portfolio is reviewed by CPPIB at least triennially, in the fiscal year following the publication of each triennial Actuarial Report on the CPP by the Chief Actuary.

5.0 DIVERSIFICATION AND ASSET MIX

5.1 The Board believes that prudent global diversification of the Investment Portfolio, by asset classes, underlying risk factors, geographic exposures, currencies and active management strategies, provides both substantial diminution of long-term total portfolio risk and broad access to the worldwide range of investment opportunities for generation of long-term returns.

While Canadian investments will be significant, particularly in fixed income, the majority of the Investment Portfolio is expected to be invested outside Canada. This greatly reduces the dependence of the Fund on the Canadian economy, thus mitigating the risk of exposure to adverse Canadian economic conditions and their impact on CPP net liabilities through lower than expected wage growth and contribution inflows.

5.2 Currency exposures are generally not hedged back to Canadian dollars. As a result, a significant portion of the Investment Portfolio is exposed to movements of foreign currencies in a mix of both developed and emerging markets. This provides diversification against the risks of exposure to a single currency, the Canadian dollar, with its strong correlation to the price of oil and other commodities.

5.3 The Investment Portfolio is invested across the following asset classes/strategies and geographies:

Asset Classes/Strategies:

- Public Equity
- Private Equity
- Public Fixed Income (high quality government issues)
- Credit Investments (private debt, and public fixed income excluding high quality governments)
- Real Assets (public and private, including real estate, infrastructure, agricultural land)
- Cash and Absolute Return Strategies

Geographies:

- Americas Developed Markets
- Europe, Middle East and Africa Developed Markets
- Asia Pacific Developed Markets
- Emerging Markets

6.0 RETURN EXPECTATIONS

6.1 Based on historical experience and reasonable future return expectations, the Board believes that the Reference Portfolio has an expected return that will exceed over the long-term the 4.0% real rate of return assumed in the 26th Actuarial Report.

6.2 The Board expects that, over the long term and net of all expenses, the Investment Portfolio can outperform the returns on the Reference Portfolio without undue risk of loss, by diversifying across asset classes, geographies and investment programs. The expected and actual returns on the Reference Portfolio are accordingly used as benchmarks to evaluate performance of the Investment Portfolio and hold Management accountable for its portfolio management decisions, with a focus on results over rolling five-year periods.

6.3 The Board recognizes that over short and medium time periods the Fund's returns can and will deviate significantly from long-term expectations – both positively and negatively.

7.0 INVESTMENT CATEGORIES

7.1 CPPIB can invest in the securities or assets of any issuer or business that would be lawful if carried on in Canada and is domiciled in any country with which Canada maintains normal financial, trade and investment relations, and if the investment is not prohibited by the Act and Regulations. Exhibit 2 is a non-exhaustive list of the range of investment categories in which CPPIB does or could invest.

Illustrative Range of Investment Categories **Exhibit 2**

Public Market Investments	Real Estate Investments	Private Investments	Funds and Partnerships
Developed and emerging markets equity Developed and emerging markets debt Real return bonds Mortgage-backed securities Insurance-linked securities Tactical asset allocation Currencies Commodity futures Exchange and/or Over-The-Counter traded derivatives	Core income-producing commercial properties Non-core and development commercial properties Private mortgages Property-lease backs Undeveloped land	Leveraged buy-outs Venture capital Infrastructure assets Farmland, Timberland and related operations Private commodities and resources Private Debt Intellectual Property	Absolute return strategies and hedge funds Secondary limited partnership interests Thematic investments

8.0 DEBT ISSUANCE

8.1 In order to enhance or ensure liquidity within, or further diversify, the Investment Portfolio, from time to time, CPPIB may create, issue, certify and deliver various forms of indebtedness either directly or through a dedicated subsidiary. CPPIB or its dedicated subsidiaries may also undertake indebtedness related to real estate or other assets in which the Investment Portfolio is invested.

8.2 From time to time, CPPIB may provide a guarantee in respect of any such indebtedness issued by a dedicated subsidiary.

9.0 MANAGING MARKET, CREDIT AND OTHER FINANCIAL RISKS

9.1 The Board establishes a primary measure of total absolute risk related to potential size of losses, integrating <u>market risk</u> and <u>credit risk</u>. For risk targeting and monitoring, the risk of the Investment Portfolio is also expressed as the percentage equity/debt weights of a simple portfolio, comprising only the two asset classes of the Reference Portfolio, having the same measured risk as the Investment Portfolio.

9.2 The Board reviews and approves annually <u>Upper and Lower Absolute Risk Limits</u> for the Investment Portfolio, as well as an <u>absolute risk operating range</u> within which CPPIB Management has discretion to make and implement investment decisions with the objective of earning returns above the Reference Portfolio.

9.3 The Upper and Lower Absolute Risk Limits are set at levels that represent respectively the deemed threshold of undue risk and the minimum level of risk required for the expected returns to at least equal to the long term returns assumed by the Chief Actuary. Management must ensure that these limits are not breached at any time.

9.4 The absolute risk operating range is large enough to accommodate normal markets-driven daily variation in the risk of the Investment Portfolio, and to permit CPPIB Management the flexibility to achieve the absolute return and value-added objectives established by the Board. If CPPIB Management believes that market circumstances or investment opportunities warrant a variation in risk level outside the absolute risk operating range, then prior approval for the variation must be sought from and approved by the Board.

9.5 CPPIB Management monitors and manages market and credit risk exposures on a daily basis, rebalancing the Investment Portfolio from time to time to remain within established risk limits. CPPIB annually budgets risk exposures across and within investment departments as appropriate, within the business plan approved annually by the Board.

9.6 Market risk is managed by diversifying across different asset classes and investment strategies such that Investment Portfolio assets are not imprudently exposed to any single unexpected event. In addition, accepted risk management practices and analytical tools, including Value-at-Risk methodologies, are used to measure, monitor and evaluate prospective Investment Portfolio performance under different market conditions.

9.7 Credit exposures are managed by adhering to credit policies and limits reviewed and approved by the Board at least annually. Exceptions to Board-approved policies or credit limits can be granted by the President and CEO, but are subject to the review of the Board as soon as is practical. Credit risk is measured, monitored and evaluated using accepted risk management practices and analytical tools including contingent exposure and Value-at-Risk methodologies.

9.8 Individual investment transactions that exceed Board-established dollar limits and meet other Board-approved criteria must be approved by the Board before being implemented.

9.9 CPPIB Management reports total absolute risk exposures, as well as the contributing exposures to market, credit and other financial risks, to the Board at least quarterly or more frequently as required.

10.0 VALUATION OF NON-REGULARLY TRADED ASSETS

10.1 Fair values of publicly traded liquid assets held by the Fund will be determined using publicly quoted prices.

10.2 Fair values of publicly traded illiquid assets held by the Investment Portfolio will be determined using publicly quoted prices where available. Where publicly quoted prices are not available, fair value estimates will be generated by internal models and be compared with fair value estimates reported by external managers or brokers. Such assets might include derivatives, structured instruments or long dated transactions.

10.3 Valuations of non-traded private assets are reviewed quarterly and adjusted if there is evidence of a significant change in fair value.

10.4 CPPIB recognizes that valuations of assets that are not regularly traded are inevitably based on judgment and are therefore inherently uncertain. Where quoted market prices are not available, valuation of non-traded private assets will be primarily based on fair value estimates reported by external asset managers or valuations provided by external parties. Internal valuations will be prepared for all assets that do not require an external valuation. All fair value estimates are determined using accepted industry valuation methods under the International Financial Reporting Standards, and are reported by hierarchy level for all classes of assets of the Fund in the Annual Report.

11.0 RESPONSIBLE INVESTING AND PROXY VOTING

11.1 CPPIB is committed to encouraging companies and organizations to adopt policies and practices that enhance their long-term financial performance, including responsible corporate and organizational behaviour with respect to environmental, social and governance ("ESG") factors. CPPIB believes that companies that manage ESG factors effectively are more likely to create value over the long term, recognizing that the materiality of ESG factors varies across industries and, geographies.

11.2 CPPIB encourages responsible behaviour in our public equity portfolio through engagement with companies, which can serve as an effective means through which shareholders can influence positive change and enhance long-term financial performance. CPPIB believes that engagement, and integration of ESG factors into the evaluation and management of both public and private investments, better fit the Fund's investment objectives than excluding securities through screening.

11.3 Shareholder voting rights have economic value and share voting can positively impact Fund returns by constructively influencing corporate performance.

11.4 CPPIB will exercise its voting rights in a manner that is consistent with its Proxy Voting Principles and Guidelines and its Policy on Responsible Investing. CPPIB may exercise judgment in connection with the voting of any proxy on a case-by-case basis.

11.5 For more details, see "Proxy Voting Principles and Guidelines" and "Policy on Responsible Investing" both available at www.cppib.com.

12.0 DERIVATIVES

12.1 CPPIB may use derivatives to achieve its investment and financial objectives, including strategies to achieve intended exposures, mitigate risk, reduce costs, increase expected returns, increase cash liquidity or diversify financing and investing alternatives available to the Investment Portfolio.

13.0 LIQUIDITY

13.1 CPPIB manages liquidity for the CPP. The CPP provides its monthly liquidity requirements to CPPIB, which manages the Cash for Benefits Portfolio so that the CPP can meet its financial obligations on any given business day. For more details, see "Statement of Investment Objectives, Policies, Return

Expectations, and Risk Management for the Cash for Benefits Portfolio of the Canada Pension Plan" available at www.cppib.ca.

13.2 CPPIB manages liquidity of the Investment Portfolio through management policies and practices designed to ensure sufficient liquidity at all times to meet anticipated requirements of the Cash for benefits Portfolio; meet any collateral, margin or mark-to-market requirements of derivative or other contracts; fund investment transactions; and readily permit changes in Investment portfolio composition necessary to achieve or maintain intended exposures.

14.0 SECURITIES LENDING

14.1 CPPIB may enter into securities lending agreements providing the agreements meet Board-approved conditions.

14.2 Where CPPIB invests through pooled funds, mutual funds or insurance contracts, it will inform itself about the securities lending practices of such investment vehicles and satisfy itself that the practices are sound, and sufficient collateral is provided for any loans.

15.0 RELATED PARTY TRANSACTIONS

15.1 Except as specified in section 15.2, CPPIB shall not directly or indirectly enter into a transaction with a related party.

15.2 CPPIB may enter into a transaction with a related party if:

a. The transaction is required for the operation or administration of CPPIB and the terms and conditions of the transaction are not less favourable to CPPIB than market terms and conditions;

b. The transaction is in securities of the related party and they are acquired on a public exchange; or

c. The value of the transaction is nominal.

15.3 In assessing whether the value of a transaction is nominal, reference shall be made to any relevant generally accepted accounting principles that provide guidance on materiality. Two or more transactions with the same related party in any twelve month period shall be considered a single transaction.

GLOSSARY

Absolute Risk Operating Range	The permissible range of absolute risk levels around the risk of the Reference Portfolio within which Management must operate the Investment Portfolio, unless additional approval is sought by Management and approved by the Board.
Actuarial Report	The report prepared at least every three years by the Chief Actuary of Canada to evaluate the sustainability of the CPP over a 75-year projection period.
Board of Directors	The twelve individuals appointed by the federal Minister of Finance to govern the activities of CPPIB. Each director is appointed for a term of three years by the Governor in Council. A director is eligible for reappointment for one or more additional terms.
Canada Pension Plan Investment Board (CPPIB)	Created in 1997 by an act of Parliament, CPPIB is an arm's length Crown Corporation that invests the assets of the Canada Pension Plan (CPP).
Canada Pension Plan (CPP)	A mandatory defined benefit retirement income program established in 1965 and administered by the federal government on behalf of all Canadian provinces and territories, with the exception of Quebec. Quebec administers a parallel Quebec Pension Plan. The CPP pays monthly pensions to retirees who made contributions during their working years. The CPP also pays spousal, orphan, disability and death benefits.
Cash for Benefits Portfolio	CPP assets managed by CPPIB to ensure the CPP can meet its current benefits payment obligations on any given business day.
Chief Actuary of Canada	The person responsible for the content and actuarial opinions in reports prepared by the Office of the Chief Actuary.

Credit and Counterparty Risk	Credit and counterparty risk is the potential for loss due to the failure of a borrower, counterparty, or guarantor to repay a loan or obligation in accordance with agreed terms; or the diminution in the value of a debt instrument due to a change in the credit quality of the borrower, counterparty, guarantor or underlying assets supporting the credit exposure.
Derivative	A financial instrument, either exchange traded or over-the-counter, the price of which is derived from the value of one or more underlying securities or indexes.
Fair Value	The price that an interested buyer would be willing to pay and an interested seller would be willing to accept in an arm's length transaction between knowledgeable parties who are under no compulsion to act.
Federal-Provincial CPP Stewards	The federal and provincial Ministers of Finance who review the Plan's financial state every three years and make recommendations as to whether benefits and/or contribution rates should be changed.
Fiscal Year	For CPPIB, the 12-month period ending on March 31 of the stated year.
Fund	The total assets held for investment by CPPIB on behalf of the CPP.
Global Equity	Share ownership of Canadian and non-Canadian companies listed on recognized developed and emerging market stock exchanges.
Incremental Full Funding	Any changes to the CPP benefits after 1997 that increase or add new benefits are to be fully funded by a permanent increase in contribution rates plus a temporary increase to fully pay for any resulting unfunded accrued liability that is created.
Investment Portfolio	CPP assets managed by CPPIB with a long-term investment horizon.

Liquidity	Exists when an asset is readily converted into cash, or when sales of the asset can occur in sufficient size and timeliness without materially affecting its market price.
Management	Officers or employees of CPPIB who have been given responsibilities for portfolio/risk management, reporting or internal controls.
Market Risk	Market risk is the risk of loss in portfolio value as a result of changes in capital market factors such as interest rates, foreign exchange rates, equity and commodity prices, and volatility.
Minimum Contribution Rate	The proportion of earnings covered by the CPP required to sustain the CPP over the 75 year projection period, assuming best estimate actuarial projections.
Net Liabilities	Future CPP benefits minus contributions on an open group approach assuming current provisions of the CPP remain unchanged.
Nominal Bonds	Bonds that pay interest and principal without adjustments for inflation.
Office of the Chief Actuary (OCA)	Within the Office of the Superintendent of Financial Institutions Canada, the department that provides actuarial and other services to the Government of Canada and provincial governments who are CPP stakeholders.
Real Rate of Return	The portion of an investment return that exceeds the rate of consumer price inflation.

Related Party	CPP Investment Board Regulations define related parties as: (a) a director, officer or employee of CPPIB, (b) a person responsible for holding or investing the assets of CPPIB, or any officer, director or employee of the person, (c) the spouse or a child of any person referred to in paragraph (a) or (b), (d) a corporation that is directly or indirectly controlled by a person referred to in any of paragraphs (a) to (c), or (e) an entity in which a person referred to in paragraph (a), (b) or (c) has a substantial investment Related parties do include Her Majesty in right of Canada or of a province, or an agency of either one, or a bank, trust company or other financial institution that holds the assets of the Board.
Risk	The potential for financial loss from exposures to the capital markets, or from credit or counterparty exposures, or from active management investment decisions.
Risk Premium	The additional return that a risky asset is expected to earn over the return available from a lower-risk asset to compensate for the increased likelihood and/or size of potential losses.
Securities Lending	The temporary loan of a security from an institutional investor's portfolio to a broker/dealer or custodian to support that firm's trading activities
Steady-State Funding	The OCA estimate of the lowest contribution rate sufficient to sustain the CPP beyond the current review period (2013-2015) without further contribution increases. The 26th Actuarial Report estimated a 9.84% minimum contribution rate for 2016 and thereafter. The estimate is made such that the ratio of projected assets to expenditures is generally constant over a 50-year period (2025 to 2075).

Upper and Lower Absolute Risk Limits	The outer bounds of the Board's appetite for risk of the Investment Portfolio consistent with fulfilling CPPIB's legislated objectives.
Value-at-Risk (VaR)	An estimate of the potential loss in value of a portfolio or security evaluated at a specific confidence level and over a defined holding period.