

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

Effective February 13, 2020

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## 1.0 PURPOSE

- 1.1 This Statement of Investment Objectives, Policies, Return Expectations and Risk Management for the **Investment Portfolios** of the Base Canada Pension Plan and the Additional Canada Pension Plan (“**Investment Statement**”) documents the key investment objectives, policies, standards and procedures approved by the Board of Directors<sup>1</sup> (the “**Board**”) of the Canada Pension Plan Investment Board (“**CPP Investments**”) for the long-horizon Investment Portfolios of the base Canada Pension Plan (“**bCPP**”) **Account** and the additional Canada Pension Plan (“**aCPP**”) **Account**.
- 1.2 The Investment Statement has been prepared in accordance with the *Canada Pension Plan Investment Board Act* (the “**CPPIB Act**”) and the *Canada Pension Plan Investment Board Regulations* (the “**CPPIB Regulations**”).
- 1.3 The Investment Statement has been prepared with six stakeholder audiences in mind: **CPP** contributors and beneficiaries; federal-provincial **CPP Stewards**; the **CPP Investments Board**; **CPP Investments Management** and employees; agents engaged by **CPP Investments** to manage and administer **CPP Investments** assets; and the Chief Actuary of Canada (the “**Chief Actuary**”).
- 1.4 The Investment Statement is supported by proprietary **CPP Investments** documents that govern the day-to-day management of **CPP Investments**’ investment activities, including decision authorities, **risk** management policies and standards, performance measurement standards and reporting protocols including compliance.
- 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 **CPPIB Act** specifies three objectives for **CPP Investments**:
  - (a) Assist the **CPP** in meeting its obligations to contributors and beneficiaries;
  - (b) Manage amounts transferred to **CPP Investments** in respect of **bCPP** and **aCPP** in the best interests of **CPP** contributors and beneficiaries; and
  - (c) Invest **CPP Investments**’ 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.

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<sup>1</sup> Capitalized terms used but not defined in this Investment Statement have the meanings given to them in the Glossary attached as Appendix A. Terms explained in the Glossary are in bold when they first appear in the text.

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

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

- 3.1 The CPP is a target benefit plan that is designed to be self-sustaining with pension and other benefits financed solely by employee-employer contributions and investment earnings. Periodic reviews are conducted by the **Office of the Chief Actuary** at least triennially to assess the long-term sustainability (75-year projection) of CPP benefits at current statutory contribution rates, separately for each of bCPP and aCPP. If the Chief Actuary determines that the current statutory contribution rates, in combination with future investment earnings, are not sufficient to sustain either bCPP or aCPP when compared with their **Minimum Required Contribution Rates**, the applicable contribution rate(s) may be increased and/or the applicable benefits may be reduced by amendments to the **CPP Act**. Failing sufficient federal and provincial agreement to either change CPP contributions and/or benefits or explicitly confirm them, CPP contributions and benefits may be adjusted automatically in accordance with provisions specified in the CPP Act. These provisions are designed to ensure the CPP is self-sustaining across future generations.
- 3.2 The bCPP was reformed in 1997 to be partially funded using a combination of **steady-state funding**, and **incremental full funding** for any plan enhancements after 1997.
- 3.3 The sustainability of both parts of the CPP is evaluated in each **Actuarial Report** using an open group asset/liability balance approach. The **Minimum Contribution Rates** for each of bCPP and aCPP are essentially the contribution rates that balance the assets of each Account (the sum of current Account investments plus the discounted present value of expected contributions) with corresponding liabilities (the discounted present value of expected expenditures), each projection including benefits and contributions for current and future participants over the next 150 years.
- 3.4 It is estimated in the 30<sup>th</sup> Actuarial Report that bCPP contributions will exceed bCPP expenditures (bCPP benefit payments plus bCPP administration expenses) in the calendar years up to and including 2021, allowing CPP Investments to re-invest all investment earnings from the **bCPP Investment Portfolio** until then to build capital to help pay bCPP benefits in subsequent years. Starting in 2022, a small percentage of investment earnings from the bCPP Investment Portfolio is expected to be required to support the payment of bCPP expenditures. By 2028, the Chief Actuary estimates that 18% of investment earnings from the bCPP Investment Portfolio will be required to

support bCPP expenditures. Longer-term financing of bCPP is expected under the 30<sup>th</sup> Actuarial Report to stabilize around 2070, with total revenues each year thereafter comprising approximately 60% from contributions and 40% from net investment earnings.

- 3.5 As a plan enhancement occurring after 1997, the aCPP is targeted to be **fully funded** from inception. It is estimated in the 30<sup>th</sup> Actuarial Report that aCPP contributions will exceed aCPP expenditures (aCPP contributions plus aCPP administrative expenses) in the calendar years up to and including 2055, allowing CPP Investments to re-invest all investment earnings from the **aCPP Investment Portfolio** until then to build capital to help pay aCPP benefits in subsequent years. Longer-term financing of aCPP is expected under the 30<sup>th</sup> Actuarial Report to stabilize around 2080, with total revenues each year thereafter comprising approximately 30% from contributions and 70% from net investment earnings. This means there is a greater dependence on investment earnings for the fully funded aCPP than for the partially funded bCPP.
  
- 3.6 Future CPP benefits and contributions will be driven by plan and Investment Portfolios experience and by assumptions concerning 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 Reports. For the bCPP, investment returns are more important to contribution rates than any other single factor identified in the 30<sup>th</sup> Actuarial Report, and are comparable in importance to the combination of all other factors. For the aCPP, the 30<sup>th</sup> Actuarial Report identifies investment returns as of greater importance to future contribution rates than all other factors combined.
  
- 3.7 Long-term interest rates, and **risk premiums** on a variety of asset classes, are the underlying elements that most affect expected future investment returns for both the **bCPP Account** and the **aCPP Account**. Realized rates of return on investments that are lower than expected could lead to higher Minimum Contribution Rates required to sustain the CPP, as could the Chief Actuary's assumption in a future Actuarial Report of lower prospective rates of return on investments.
  
- 3.8 As regards demographic factors, fertility and life expectancy are the key factors. Lower than expected fertility would increase the bCPP Minimum Contribution Rate. Unanticipated increases in life expectancy would increase both bCPP and aCPP Minimum Contribution Rates.
  
- 3.9 As regards economic factors, real wage growth is the factor that most affects future contribution rates. Lower than expected real wage growth increases the bCPP Minimum Contribution Rate but reduces the aCPP Minimum Contribution Rates. With all other assumptions held constant, higher long-term price inflation lowers the

Minimum Contribution Rate for bCPP as benefits are slightly less sensitive to price inflation than earnings and contributions. Changes in future price inflation have a relatively small impact on the Minimum Contribution Rates for aCPP.

- 3.10 CPP Investments decisions on diversification of asset classes and underlying return-risk factor exposures may substantially affect investment earnings for both the bCPP Investment Portfolio and the aCPP Investment Portfolio. Investment returns of each of the two broadly diversified Investment Portfolios will be determined primarily by overall capital market returns, as applied to each Investment Portfolio’s allocation of assets among the primary asset classes. CPP Investments decisions on individual investment selections and strategic positioning may also materially affect investment returns.

#### 4.0 REFERENCE PORTFOLIOS AND TOTAL RISK TARGETING

- 4.1 CPP Investments establishes a **Reference Portfolio** for each of the Investment Portfolios. Each Reference Portfolio notionally consists of a diversified portfolio of publicly traded securities that could be readily implemented using a low-cost passive investment program. For each Investment Portfolio separately, the equity/debt weights of its Reference Portfolio are set to target an absolute long-term risk level that (i) is deemed appropriate in seeking to maximize long-term returns, (ii) is not considered undue, and (iii) has regard to the factors affecting the funding of the bCPP or the aCPP, as applicable. These three considerations reflect the objects for CPP Investments set out in the CPPIB Act. The assessment of “undue” risk, including potential losses, **liquidity** requirements and ongoing sustainability of the CPP, is explicitly proposed by Management and agreed annually by the Board’s approval of Risk Appetite Statements.
- 4.2 A distinct Reference Portfolio is established for each Investment Portfolio primarily because of the difference in the funding of bCPP and aCPP, and their resultant different longer-term sensitivities to investment returns.
- 4.3 The absolute risk of each Investment Portfolio, expressed in equity/debt risk equivalence terms, is maintained within a Board–approved range around its Reference Portfolio. Each Reference Portfolio, and each of the more broadly diversified and actively managed Investment Portfolios, is expected to earn capital market returns over the long term that will help sustain bCPP and aCPP at their respective current legislated contribution rates under the current assumptions of the Chief Actuary, while also mitigating to some extent the risk of adverse adjustments to bCPP and aCPP as estimated by CPP Investments.

4.4 The Reference Portfolios stated in Exhibit 1 below are approved by the Board for fiscal years 2019 through 2021.

Reference Portfolios	Exhibit 1	
	bCPP	aCPP
<b>Equity</b>		
Global Public Large/Midcap Equity (including Emerging Markets)	<b>85%</b>	<b>50%</b>
<b>Debt</b>		
Canadian Federal and Provincial Governments <b>Nominal Bonds</b>	<b>15%</b>	<b>50%</b>

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

## 5.0 DIVERSIFICATION AND ASSET MIX

5.1 Prudent global diversification of each Account’s Investment Portfolio, by asset classes, underlying return-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. These characteristics can be achieved equitably for each Account through its respective holdings in two **unitized pools** internally established and maintained by CPP Investments: the return-maximizing, globally diversified **Core Pool** and the risk-calibrating, fixed income **Supplementary Pool**. CPP Investments achieves the distinct targeted risk level and appropriate return-risk exposures for each Account by appropriately allocating the assets of each Account between the two Pools.

The majority of the non-fixed income portion of each Investment Portfolio is expected to be invested outside Canada. This greatly reduces dependence of portfolios’ returns on the Canadian economy, thus mitigating the risk of exposure to adverse Canadian economic conditions and their impact on the CPP through lower than expected wage growth and contribution inflows.

5.2 Foreign currency exposures in the Investment Portfolios are generally not hedged back to Canadian dollars, as over time the diversity of currency exposures mitigates longer-

term risks. As a result, a significant portion of each Investment Portfolio is exposed to currency exchange rate movements in a mix of both developed and emerging markets. This currency exposure policy protects against the risks of exposure to a single currency, the Canadian dollar, with its strong dependence on the price of oil and other commodities.

**5.3** Each Investment Portfolio is invested across the following asset classes/strategies:

- Public Equity
- Private Equity
- Fixed Income (high quality governments’ nominal bond issues)
- Credit Investments (private debt including mortgages on properties, and publicly-traded fixed income other than high quality government bonds)
- Real Assets (public and private, including real estate ownership, infrastructure, natural resources, energy and renewables)
- Cash (including controlled external financing used to enhance liquidity, to expand the invested asset base, and to allow enhanced diversification) and Absolute Return Strategies (ARS).

**5.4** Current targets for strategic portfolio composition five years and beyond for each Investment Portfolio are the following approximate allocations shown in Exhibit 2

Strategic Portfolio Composition	Exhibit 2	
	Base CPP	Additional CPP
Asset Class	% of total	% of total
Public Equity	26	14
Private Equity	20	11
Fixed Income	27	60
Credit Investments	13	7
Real Assets	34	19
Cash and Absolute Return Strategies	(20)	(11)
Geographic Region	% of total	% of total
Canada	11	51
Developed Markets ex-Canada	56	31
Emerging Markets	33	18

Actual compositions of the Investment Portfolios will vary from the above weights within Board-approved limits as markets and asset values fluctuate, and as CPP Investments reviews its target asset allocations annually and its strategic asset allocations at least every three years.

## 6.0 RETURN EXPECTATIONS

- 6.1 Based on historical experience and reasonable future return expectations, each Reference Portfolio has a long-term expected return that is higher than the minimum rate of return required to sustain each of bCPP and aCPP at its current legislated contribution rates under the corresponding assumptions in the 30<sup>th</sup> Actuarial Report.
- 6.2 Over the long term and net of all investment costs and allocated CPP Investments operating expenses, the more broadly diversified and actively managed Investment Portfolio for each Account is expected to outperform the returns on its corresponding Reference Portfolio without undue risk of loss. The expected and actual returns on each Reference Portfolio are accordingly used as benchmarks to evaluate performance of the corresponding Investment Portfolio and hold CPP Investments Management accountable for its portfolio and risk management decisions, with a focus on results over rolling five-year periods.
- 6.3 Over short- and medium-term periods Investment Portfolio returns can and will deviate significantly from long-term expectations – both positively and negatively – and the Board has taken account of this in approving the Risk Appetite Statements and the targeted total prospective risk equivalency level expressed by each Reference Portfolio.

## 7.0 INVESTMENT CATEGORIES

- 7.1 CPP Investments can invest in the securities or assets of any issuer or business that would be lawful if carried on in Canada and if the investment is not prohibited by the CPPIB Act and CPPIB Regulations. Exhibit 3 is a non-exhaustive list of the range of investment categories in which CPP Investments does or could invest.

Illustrative Range of Investment Categories		Exhibit 3	
Public Market Investments (direct holdings, separate portfolios and funds, of publicly-traded securities)	Real Assets (direct, joint ventures, and funds)	Private Equity Investments (direct, partnerships, joint ventures and funds)	Credit Investments (direct, separate portfolios and funds)

<ul style="list-style-type: none"> <li>• Equity and debt securities in developed and emerging markets</li> <li>• Mortgage-backed securities</li> <li>• Insurance-linked securities</li> <li>• Currencies</li> <li>• Commodity futures</li> <li>• Exchange and/or over-the-counter traded derivatives</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure assets</li> <li>• Commercial real estate, both income-producing and in development</li> <li>• Energy and resources</li> <li>• Power and renewables</li> </ul>	<ul style="list-style-type: none"> <li>• Direct private equity ownership interests</li> <li>• Private equity fund interests</li> <li>• Secondary limited partnership interests</li> </ul>	<ul style="list-style-type: none"> <li>• Public and private corporate debt securities and loans</li> <li>• Intellectual property royalties</li> </ul>
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## 8.0 DEBT ISSUANCE

- 8.1** In order to enhance or ensure liquidity within the Investment Portfolios, and to optimize portfolio diversification while achieving the targeted risk level for each Investment Portfolio through the prudent and controlled use of leverage, from time to time CPP Investments may create, issue, certify and deliver various forms of indebtedness either directly or through a dedicated subsidiary.
- 8.2** CPP Investments or its dedicated subsidiaries may also undertake indebtedness related to specific investments.
- 8.3** CPP Investments 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 **market risk** and **credit and counterparty risk**. As described in Section 4, for risk targeting and monitoring, the risk of each Investment Portfolio is also expressed as the equity/debt ratio in percentage terms of a simple portfolio comprising only the two asset classes of the corresponding Reference Portfolio that has the same measured risk as the applicable Investment Portfolio.
- 9.2** The Board reviews and approves at least triennially **Upper and Lower Absolute Risk Limits** for each Investment Portfolio. The Upper Absolute Risk Limits are set at levels that represent CPP Investments’ deemed threshold of undue risk for each Investment Portfolio. The Lower Absolute Risk Limits are set at the minimum level of risk CPP Investments deems to be required for expected returns on each Investment Portfolio

to at least equal the long-term returns required to sustain each of bCPP and aCPP at its current legislated contribution rates, under the assumptions in the most recent Actuarial Report. CPP Investments Management manages each Investment Portfolio to remain within its applicable limits at all times and will not knowingly complete any transaction that would cause these limits to be breached.

- 9.3 The Board reviews and approves annually an **Absolute Risk Operating Range** for each Investment Portfolio, expressed in equity/debt risk equivalency terms. CPP Investments Management has discretion to make and implement investment decisions while holding the equity/debt ratio equivalent risk of each Investment Portfolio within its Absolute Risk Operating Range, with the dual objectives of maximizing long-term net returns and earning net returns above the corresponding Reference Portfolio.
- 9.4 The Absolute Risk Operating Ranges are wide enough to accommodate normal markets-driven daily variation in the risk of the Investment Portfolios, and to permit CPP Investments Management the flexibility to achieve the absolute return and value-added objectives established by the Board. If CPP Investments Management believes that market circumstances or investment opportunities warrant a variation in risk level outside the Absolute Risk Operating Range for either Investment Portfolio, then prior approval must be sought from and provided by the Board.
- 9.5 CPP Investments Management monitors and manages market risk, credit risk and other exposures on a daily basis, and rebalances tradeable investment holdings within each of the Pools from time to time to achieve overall targeted exposures to return-risk factors and remain within established risk limits. CPP Investments Management may also rebalance each Account's holdings of **Units** of the Pools to maintain the intended allocation for each Investment Portfolio.
- 9.6 Market risk is mitigated and managed by diversifying across different asset classes, currencies, factor exposures and investment strategies such that the Investment Portfolios are not imprudently exposed to any single unexpected event or set of directly related events. In addition, accepted risk management practices and analytical tools, including **Conditional Value-at-Risk** methodologies, are used to measure, monitor and evaluate prospective performance of each Investment Portfolio under different market conditions.
- 9.7 Credit and counterparty exposures in each Investment Portfolio are managed by adhering to credit policies and limits reviewed and approved by the Board at least annually. Exceptions to the Board-approved **Risk Policy** 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 Conditional Value-at-Risk methodologies.

- 9.8 Individual investment transactions, and external manager appointments, that would exceed Board-established dollar limits or meet other Board-approved criteria must be approved by the Board before being implemented.
- 9.9 CPP Investments 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.
- 9.10 Treatment of policy and limit breaches and escalation procedures in relation to this Investment Statement are contained in the Risk Policy approved annually by the Board.

## 10.0 VALUATION OF ASSETS

- 10.1 **Fair values** of publicly traded liquid assets are determined using publicly quoted prices.
- 10.2 Fair values of publicly traded illiquid assets are determined using publicly quoted prices where available. Where publicly quoted prices are not available, fair value estimates are generated by internal models and 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 CPP Investments 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 are primarily based on fair value estimates reported by external asset managers or valuations provided by external parties. Internal valuations are prepared for all assets that do not require an external valuation.
- 10.5 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 in CPP Investments' Annual Report.

## 11.0 RESPONSIBLE INVESTING AND PROXY VOTING

- 11.1 Under its Policy on Responsible Investing, CPP Investments is committed to encouraging companies and organizations to adopt policies and practices that enhance their long-term financial performance, in particular responsible corporate and organizational behaviour with respect to environmental, social and governance ("ESG")

factors including climate change. CPP Investments believes that companies that manage these factors effectively are more likely to create value over the long term, recognizing that the materiality of ESG factors and their impact varies across industries and geographies.

- 11.2** CPP Investments encourages responsible behaviour in the entities underlying our investments. CPP Investments engages with companies, either directly or in collaboration with like-minded investors, as an effective means through which investors can influence positive change and enhance long-term financial performance. In general, CPP Investments believes that corporate engagement, and integration of ESG factors into the evaluation and management of both public and private investments, usually better conform with CPP Investments’ investment objectives than simply excluding companies through screening criteria.
- 11.3** Shareholder voting rights have economic value, and share voting can also positively impact returns by constructively influencing corporate behaviour and performance. CPP Investments exercises its voting rights in a manner that is consistent with its Proxy Voting Principles and Guidelines and its Policy on Responsible Investing. CPP Investments may exercise judgment in connection with the voting of any proxy on a case-by-case basis.
- 11.4** For more details, see “Policy on Responsible Investing” and “Proxy Voting Principles and Guidelines”, both available at [www.cppinvestments.com](http://www.cppinvestments.com).

## 12.0 DERIVATIVES

- 12.1** CPP Investments may use derivatives to achieve its portfolio management objectives, including strategies to achieve intended market, credit, interest rate and currency exposures, mitigate and manage risks, reduce costs, increase expected returns, increase cash liquidity or diversify financing and investing alternatives available to each Investment Portfolio and Pool.
- 12.2** The fair values, notional amounts and contractual maturities of all derivatives financial instruments are disclosed in the CPP Investments Annual Report.

## 13.0 LIQUIDITY

- 13.1** CPP Investments manages liquidity to ensure that each Account always has the cash needed to pay its respective share of CPP’s current financial obligations.
- 13.2** The CPP provides its monthly liquidity requirements to CPP Investments, which manages the Cash for Benefits Portfolio of each Account 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 Portfolios of the Base Canada Pension Plan and the Additional Canada Pension Plan” available at [www.cppinvestments.com](http://www.cppinvestments.com).

- 13.3** CPP Investments further manages liquidity of the Investment Portfolios through policies and practices designed to ensure sufficient liquidity in the Pools at all times to meet anticipated requirements of the Cash for Benefits Portfolios; meet any collateral, margin or mark-to-market requirements of derivatives or other contracts; fund investment transactions; and readily permit changes in the composition of the Pools necessary to achieve or maintain intended exposures and risk levels.

#### 14.0 SECURITIES LENDING

- 14.1** CPP Investments may lend securities (other than under the “agency model”), subject to sufficient collateral requirements, to generate additional income for the Investment Portfolios or otherwise support investment strategies.

#### 15.0 RELATED PARTY TRANSACTIONS

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

- 15.2** CPP Investments may enter into a transaction with a related party if:

- (a) The transaction is required for the operation or administration of CPP Investments and the terms and conditions of the transaction are not less favourable to CPP Investments 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.

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.

APPENDIX A  
GLOSSARY

<b>Absolute Risk Operating Range</b>	For each Investment Portfolio, the permissible range of absolute risk levels around the risk of the corresponding Reference Portfolio within which Management must operate that Investment Portfolio, unless additional approval is sought by Management and provided by the Board.
<b>Account</b>	The bCPP Account or the aCPP Account, as applicable, and “ <b>Accounts</b> ” refers to the bCPP Account and the aCPP Account collectively.
<b>aCPP</b>	The additional Canada Pension Plan, as defined in section 91 of the CPP Act.
<b>aCPP Account</b>	The Account representing the assets managed by CPP Investments that are derived from aCPP amounts transferred to CPP Investments pursuant to section 108.3 of the CPP Act. The total aCPP assets managed by CPP Investments consist of the aCPP Investment Portfolio plus the aCPP Cash for Benefits Portfolio.
<b>aCPP Cash for Benefits Portfolio</b>	The portfolio of short-horizon investments in respect of the aCPP Account that is used to hold assets to cover any shortfall between aCPP contributions and expenditures (benefits plus administrative expenses) and/or assets held pending the purchase of Units of the Pools.
<b>aCPP Investment Portfolio</b>	The long-horizon portfolio in respect of the aCPP Account, consisting of Units held of the Core Pool, the Supplementary Pool and any cash held in the aCPP Account arising from rounding associated with <b>Unitization</b> .
<b>Actuarial Report</b>	The report prepared at least every three years by the Office of the Chief Actuary to evaluate the sustainability of the CPP over a 75-year projection period.
<b>bCPP</b>	The base Canada Pension Plan, as defined in section 91 of the CPP Act.
<b>bCPP Account</b>	The Account representing the assets managed by CPP Investments that are derived from bCPP amounts transferred to CPP Investments pursuant to section 108.1 of the CPP Act. The total

bCPP assets managed by CPP Investments consist of the bCPP Investment Portfolio plus the bCPP Cash for Benefits Portfolio.

<b>bCPP Cash for Benefits Portfolio</b>	The portfolio of short-horizon investments in respect of the bCPP Account that is used to hold assets to cover any shortfall between bCPP contributions and expenditures (benefits plus administrative expenses) and/or hold assets pending the purchase of Units of the Pools.
<b>bCPP Investment Portfolio</b>	The long-horizon portfolio in respect of the bCPP Account, consisting of Units held of the Core Pool and any cash held in the bCPP Account arising from rounding associated with Unitization.
<b>Board</b>	The board of directors of CPP Investments.
<b>Cash for Benefits Portfolios</b>	The bCPP Cash for Benefits Portfolio and the aCPP Cash for Benefits Portfolio collectively, and “ <b>Cash for Benefits Portfolio</b> ” means either the bCPP Cash for Benefits Portfolio or the aCPP Cash for Benefits Portfolio, as applicable.
<b>Chief Actuary</b>	The person responsible for the content and actuarial opinions in reports on the CPP prepared by the Office of the Chief Actuary.
<b>Conditional Value-at-Risk (VaR)</b>	An estimate of the average size of severe potential loss in value of a portfolio or security evaluated at a specific confidence level and over a defined holding period.
<b>Core Pool</b>	A Unitized Pool of investments designed to deliver the bCPP desired exposures; it is used to manage the bCPP Investment Portfolio and a portion of the aCPP Investment Portfolio.
<b>CPP</b>	The Canada Pension Plan.
<b>CPP Act</b>	<i>The Canada Pension Plan, R.S.C., 1985, c. C-8, as amended to date.</i>
<b>CPP Investments</b>	The Canada Pension Plan Investment Board.
<b>CPPIB Act</b>	<i>The Canada Pension Plan Investment Board Act, S.C. 1997, c. 40 and associated Regulations, as amended to date.</i>
<b>CPPIB Regulations</b>	<i>The Canada Pension Plan Investment Board Regulations, SOR/99-190, as amended to date.</i>

<b>Credit and Counterparty Risk</b>	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.
<b>Derivative</b>	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.
<b>Fair Value</b>	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.
<b>Fiscal Year</b>	For CPP Investments, the 12-month period ending on March 31 of the stated year.
<b>Full Funding, Fully Funded</b>	The financing objective for the aCPP stated in the CPP Act, that projected aCPP contributions at a constant rate and investment income are sufficient to fully pay the projected expenditures of the aCPP over the foreseeable future.
<b>Incremental Full Funding</b>	Any changes to 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.
<b>Investment Portfolios</b>	The bCPP Investment Portfolio and the aCPP Investment Portfolio collectively, and “ <b>Investment Portfolio</b> ” means either the bCPP Investment Portfolio or the aCPP Investment Portfolio, as applicable.
<b>Liquidity</b>	Exists when an asset is readily converted or convertible into cash, or when sales of the asset can occur in sufficient size and timeliness without materially affecting its market price.
<b>Management</b>	Officers or employees of CPP Investments who have been given responsibilities for portfolio/risk management, reporting or internal controls.

<b>Market Risk</b>	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 prices and commodity prices, and volatility.
<b>Minimum Contribution Rate</b>	For each of bCPP and aCPP, the proportion of earnings covered by the CPP that is required to be contributed by employers/employees in order to sustain each of the bCPP and the aCPP, as applicable, over the 75-year projection period, assuming best estimate actuarial projections by the Office of the Chief Actuary.
<b>NAV</b>	The Net Asset Value of a Pool, which is the sum of current fair values of all assets in the Pool minus all liabilities of that Pool.
<b>Nominal Bonds</b>	Bonds that pay interest and principal without adjustments for inflation.
<b>Office of the Chief Actuary</b>	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.
<b>Pool</b>	The Core Pool or the Supplementary Pool, as applicable, and <b>Pools</b> refers to the Core Pool and the Supplementary Pool collectively.
<b>Reference Portfolios</b>	The reference portfolios established for the bCPP Investment Portfolio and the aCPP Investment Portfolio collectively, and “ <b>Reference Portfolio</b> ” means either of them, as applicable.
<b>Related Party</b>	<p>CPPIB Regulations define related parties as:</p> <ul style="list-style-type: none"> <li>(a) a director, officer or employee of CPP Investments,</li> <li>(b) a person responsible for holding or investing the assets of CPP Investments, or any officer, director or employee of the person,</li> <li>(c) the spouse or a child of any person referred to in paragraph (a) or (b),</li> </ul>

- (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 not 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 CPP Investments.

<b>Risk</b>	The potential for financial loss from exposures to the capital markets, or from credit or counterparty exposures, or from active management investment decisions.
<b>Risk Policy</b>	The Investment Risk Management Policy.
<b>Risk Premium</b>	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.
<b>Securities Lending</b>	The temporary loan of a security from a lender to a borrower to support the investment and financial objectives of each.
<b>Supplementary Pool</b>	A Unitized Pool of investments designed so that, in an appropriate combination with the Core Pool, it will deliver the aCPP desired exposures; it is used to manage a portion of the aCPP Investment Portfolio.
<b>Steady-State Funding</b>	The level of funding required to sustain the bCPP when assessed on a long-term (150 years) open-group basis, for which the ratio of projected bCPP assets to expenditures is also generally stable over a 50-year period commencing 12 years following the effective date of the Actuarial Report.
<b>Stewards</b>	The federal and provincial Ministers of Finance in Canada who review both CPP's financial state and the reports of the Chief Actuary, and make recommendations as to whether CPP benefits and/or contribution rates should be maintained or changed.
<b>Total Fund, Fund</b>	The sum of the bCPP Account and the aCPP Account.
<b>Units</b>	A construct representing fractions of a Pool <b>NAV</b> that are issued from the Pools to the Accounts, or redeemed by the Accounts from

the Pools. Each Unit represents an equal proportional financial interest in the applicable Pool. Each of the bCPP Investment Portfolio and the aCPP Investment Portfolio is returned the performance of its fraction of the total number of Units in the applicable Pool.

<b>Unitization</b>	The process by which the <b>Unit Prices</b> and number of Units in each Pool are determined from the NAV.
<b>Unitized Pool</b>	An investment vehicle whose NAV is determined at a given frequency and in which the Accounts invest at a given Unit Price.
<b>Unit Price</b>	The NAV of a Pool divided by the total number of Units of that Pool then outstanding.
<b>Upper and Lower Absolute Risk Limits</b>	For each Investment Portfolio, the Board-approved outer bounds for risk of that Investment Portfolio consistent with fulfilling CPP Investments' legislated objectives.