

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 Feb 9, 2023

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## 1.0 PURPOSE

- 1.1 This Statement of Investment Objectives, Policies, Return Expectations and Risk Management for the **Investment Portfolios**<sup>1</sup> 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 (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**”). The Investment Statement should be read in conjunction with the CPP Investments Annual Report also required under the CPPIB Act and Regulations, and with the Report on Sustainable Investing, both available on the CPP Investments website.
- 1.3 The Investment Statement has been prepared with the following stakeholder audiences in mind: **CPP** contributors and beneficiaries; federal-provincial **CPP Stewards**; the 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 (including the integrated risk framework), 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

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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.

(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.

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 expected 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 CPP 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 (including aCPP).

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 31<sup>st</sup> Actuarial Report as of December 31, 2021 that bCPP contributions will exceed bCPP expenditures (bCPP benefit payments plus bCPP administrative expenses) in the calendar years up to and including 2025, 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 2026, a small percentage of investment earnings from the bCPP Investment Portfolio is expected to be required to support the payment of bCPP expenditures. By 2050, the Chief Actuary estimates that 16% of investment earnings from the bCPP Investment Portfolio will be required to support bCPP expenditures. Longer-term financing of bCPP is expected to stabilize around 2070, with total revenues each year thereafter comprising approximately 66% from contributions and 34% from net investment earnings.

- 3.5** As a plan enhancement occurring after 1997, the aCPP is targeted to be **fully funded** from inception on January 1, 2019. It is estimated in the 31<sup>st</sup> Actuarial Report that aCPP contributions will exceed aCPP expenditures (aCPP benefit payments plus aCPP administrative expenses) in the calendar years up to and including 2057, 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 to become more stable around 2080, with total revenues in 2080 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 the actual experience of the bCPP and aCPP and their Investment Portfolios, and also by prospective actuarial 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 previously assumed in the Actuarial Reports. For the bCPP, the 31<sup>st</sup> Actuarial Report notes that the rate of return assumption can have a significant impact on the bCPP Minimum Contribution Rate. For the aCPP, the 31<sup>st</sup> Actuarial Report identifies the rate of return assumption as having an even greater impact.
- 3.7** Long-term interest rates, and **risk premiums** on a variety of asset classes (notably global equities), 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, because of the different funding requirements, 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 Decisions by CPP Investments on overall risk appetite, leverage, diversification, and investment selection will 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 and geographies. Decisions by CPP Investments 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, notionally consisting of a diversified portfolio of publicly traded securities that could be readily implemented using a low-cost passive investment strategy. For each Investment Portfolio separately, the equity/debt weights of its Reference Portfolio are set to target a 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 proposed by Management and agreed annually by the Board’s approval of the **Risk Policy**.
- 4.2 A distinct Reference Portfolio is established for each Investment Portfolio primarily because of their different longer-term sensitivities to investment returns, arising from the difference in the funding of bCPP and aCPP. CPP Investments has developed an objective function that evaluates plan outcome risk and reward trade-offs over time in designing a Reference Portfolio for each Account, recognizing the funding differences between the bCPP and the aCPP. Fully funded plans like aCPP have greater sensitivity

to investment returns than do partially funded plans like bCPP, and correspondingly have less appetite for market risk.

- 4.3 The **Market and Credit risk** (herein “market risk”) of each Investment Portfolio, expressed in equity/debt risk equivalence terms, is maintained within a Board–approved range (bands of +/- 5%) 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 reducing expected plan adjustment risk – i.e., the risk of adverse contribution or benefit adjustments to bCPP and aCPP arising from adverse investment experience and/or changes in prospective return assumptions, as estimated by CPP Investments.
- 4.4 The Reference Portfolios stated in Exhibit 1 below are approved by the Board for fiscal years 2022 through 2024. Reflecting the targeted market risk level and being readily implementable at low cost, the Reference Portfolios also act as the portfolios against which the return performance of the Investment Portfolios is publicly measured.

Reference Portfolios	Exhibit 1	
	bCPP	aCPP
<b>Equity</b>		
Global Public Large/Midcap Equity (including Emerging Markets)	<b>85%</b>	<b>55%</b>
<b>Debt</b>		
Canadian Federal and Provincial Governments <b>Nominal Bonds</b>	<b>15%</b>	<b>45%</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 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 Investment Portfolio through its respective holdings in two **unitized pools** internally established and maintained by CPP Investments: the globally diversified **Core Pool** and the fixed income and public credit **Supplementary Pool**. CPP Investments achieves the distinct targeted risk level and appropriate return-risk exposures for each Investment Portfolio by appropriately allocating the assets of each Investment Portfolio 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 the 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 only partially hedged back to Canadian dollars. A significant portion of each Investment Portfolio is exposed to currency exchange rate movements in a mix of both developed and emerging markets as over time the diversity of currency exposures mitigates longer-term risks. 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. This policy also avoids the significant costs associated with extensive currency hedging.

**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 debt securities other than high quality government bonds)
- Real Assets (public and private, including real estate ownership, infrastructure and sustainable energies)
- Cash (including controlled external financing used to enhance liquidity, to expand the invested asset base, and to allow enhanced diversification) and Absolute Return Strategies

- 5.4 CPP Investments establishes a diversified **Strategic Portfolio** for each of the Investment Portfolios that expresses preferred long-term (five-plus year) investment allocations levels at the same level of risk as the relevant Reference Portfolio. Current targets for Strategic Portfolio composition five years and beyond for each Investment Portfolio are the approximate allocations shown in Exhibit 2 below:

Strategic Portfolio Composition	Exhibit 2	
	Base CPP	Additional CPP
Asset Class	% of total	% of total
Public Equity	23	14
Private Equity	23	14
Fixed Income	32	39
Credit Investments	17	31
Real Assets	31	19
Cash and Absolute Return Strategies	(27)	(16)
Geographic Region	% of total	% of total
Canada	8%	44%
Developed Markets excluding Canada	59%	37%
Emerging Markets	33%	19%

Actual compositions of the Investment Portfolios, broadly diversified within each asset class and geographic region, 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.

- 5.5 Strategic Portfolio allocations are reviewed by CPP Investments at least triennially, in line with review of the Reference Portfolios as described in section 4.5.

## 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 31<sup>st</sup> Actuarial Report.
- 6.2 Over the long term and net of all investment costs including 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 Targets and Limits expressed within the Risk Policy.

## 7.0 INVESTMENT CATEGORIES

- 7.1** CPP Investments diversifies the Investment Portfolios broadly across geographies and types of investments. Exhibit 3 is a non-exhaustive list of the investment categories in which CPP Investments does or could invest.

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

## 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 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, LIQUIDITY AND OTHER FINANCIAL RISKS

- 9.1 The Board annually approves the **Risk Policy** covering the management and oversight of all risks that could materially impact CPP Investments’ ability to fulfill its mandate and achieve its strategic objectives (called “Key Risks”). The five broad categories of key risks include: Market & Credit, Liquidity & Leverage, Operational, Regulatory & Legal and Strategic.
- 9.2 The Board reviews and approves annually **Market and Credit Risk** Limits for each Investment Portfolio, expressed in equity/debt risk equivalency terms (described in Section 4) and absolute potential loss terms. CPP Investments Management has discretion to make and implement investment decisions while holding the equity/debt equivalency ratio of each Investment Portfolio within its market risk limits, with the dual objectives of maximizing long-term net returns and earning net returns above the corresponding Reference Portfolio.
- 9.3 The market risk limits 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 market risk limits for either Investment Portfolio, then prior approval must be sought from and provided by the Board (with the exception of de minimis variances which can be approved by the CEO).
- 9.4 Market risk is mitigated and managed by diversifying across different risk-return factor exposures, asset classes, geographies, currencies, 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 **Value-at-Risk** and stress testing methodologies, are used to measure, monitor and evaluate prospective performance of each Investment Portfolio under different market conditions.

- 9.5 The Board reviews and approves annually **Liquidity** and **Leverage** Limits. The Liquidity limit is set for the Core Pool and represents the amount of unrestricted high quality liquid assets that need to be held against cash requirements. Leverage limits are set for each Investment Portfolio and represent the maximum leverage that can be undertaken relative its Net Assets.
- 9.6 CPP Investments manages the 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; pay required interest and principal when due on its external borrowings; meet any collateral, margin or mark-to-market requirements of derivatives or other contracts; fund investment transactions; readily permit changes in the composition of the Pools necessary to achieve or maintain intended exposures and risk levels; and cover any other financial obligations of CPP Investments.
- 9.7 The leverage levels of the bCPP and aCPP Investment Portfolios are maintained within established limits through prudent monitoring of net on-and off-balance sheet financing used to increase investment exposures.
- 9.8 CPP Investments' management monitors and manages all investment risks 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 also rebalances the aCPP Account's holdings of **Units** of the Pools to maintain its intended risk and exposures allocations.
- 9.9 Individual investment transactions, and external manager engagements, that would exceed Board-established dollar limits or other Board-approved criteria must be approved by the Investment Strategy Committee of the Board before being implemented.
- 9.10 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.
- 9.11 Treatment of policy and limit breaches and escalation procedures in relation to this Investment Statement are contained in the Risk Policy.

## 10.0 VALUATION OF ASSETS

- 10.1 Fair values of publicly traded assets and liabilities are determined using quoted prices (in active markets) or other relevant observable inputs. 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.

- 10.2** Fair values of all non-traded private assets are reviewed and updated at least quarterly.
- 10.3** Fair values of private assets in the form of investments in externally managed funds are primarily based on valuations reported by the respective external managers, subject to internal review. Fair values of other non-traded private assets are determined internally and reviewed by experienced and certified finance professionals, independent of the applicable investment departments. Techniques used include inputs observed in public markets, recent comparable transactions, current fair value of substantially similar investments, discounted cash flow analysis, pricing models and other industry-accepted valuation methods. Fair values are informed by independent valuations provided by external appraisers, business valuers, or valuation specialists.
- 10.4** 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 via the Consolidated Financial Statements. The fair values reflected in the Consolidated Financial Statements are also periodically subject to external review and audit.

## 11.0 SUSTAINABLE INVESTING AND PROXY VOTING

- 11.1** Under its Policy on Sustainable Investing, CPP Investments is committed to integrating material sustainability-related factors in its investment decision-making across the investment life cycle and across asset classes. These sustainability factors include, but are not limited to, climate change, environmental and social impacts, responsible sourcing, data and cyber security, and other emerging factors material to the longer-term success of companies. We use differentiated investment analyses commensurate to the potential financial impacts of these factors on the type of investment and/or asset class. 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 sustainability-related factors and their impact varies across industries, geographies, type of investment and/or asset class.
- 11.2** As an active owner, CPP Investments monitors sustainability-related factors and engages with companies consistent with its Policy on Sustainable Investing to promote improved management of sustainability-related factors to enhance long-term outcomes in the companies and assets in which we invest. CPP Investments does this respecting the division of authority and responsibilities among the triad of interests that is the core of good corporate governance – shareholders, directors and managers.

- 11.3** In general, CPP Investments believes that consideration and integration of sustainability-related factors into its investment analysis and asset management activities, and engagement with portfolio companies where we believe doing so will create better long-term outcomes, and better conform with CPP Investments’ investment objectives, than simply excluding companies through screening criteria.
- 11.4** Shareholder voting rights have economic value, and exercising these rights 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 Sustainable Investing. CPP Investments may exercise judgment in connection with the voting of any proxy on a case-by-case basis.
- 11.5** For more details, see “Policy on Sustainable 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 derivative financial instruments are disclosed in the CPP Investments Annual Report via the Financial Statements.

## 13.0 CPP CASH OUTFLOW REQUIREMENTS

- 13.1** The CPP provides its monthly net cash outflow 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).

## 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, support management of Fund liquidity 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>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 used to hold assets to cover any shortfall between aCPP contributions and expenditures (benefits plus administrative expenses), and CPP Investments operating expenses.
<b>aCPP Investment Portfolio</b>	The long-horizon portfolio of investments within the aCPP Account.
<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 used to hold assets to cover any shortfall between bCPP contributions and expenditures (benefits plus administrative expenses).
<b>bCPP Investment Portfolio</b>	The long-horizon portfolio of investments within the bCPP Account.

<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>Core Pool</b>	A <b>unitized pool</b> of investments designed to deliver the bCPP Investment Portfolio’s desired exposures and a portion of the aCPP Investment Portfolio’s desired exposures.
<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>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>Equity/Debt Risk Equivalence Ratio</b>	A measure of the market risk of a portfolio expressed as the proportion of equity and debt that gives rise to the same amount of downside risk.
<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 together with projected investment income are sufficient to fully pay the projected expenditures of the aCPP over the foreseeable future.
<b>Fund</b>	The sum of the bCPP Account and the aCPP Account.
<b>Incremental Full Funding</b>	Under the CPP Act, 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>Leverage</b>	A notional-based measure which represents the net amount of on- and off-balance sheet financing used by the Fund to increase investment exposures.
<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 and Credit Risk</b>	Captures investment losses arising from the following: Fluctuations in market prices and rates, which include equity prices, interest rates, credit spreads and currency exchange rates; and Permanent impairment of investment value due to direct exposure to a defaulted entity, indirect counterparty exposure via “Over-the-Counter” derivative transactions, and deterioration of an entity’s credit quality.
<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.

**NAV**

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.

**Nominal Bonds**

Bonds that pay interest and principal without adjustments for inflation.

**Office of the Chief Actuary**

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.

**Plan Adjustment Risk**

The risk of an increase in the Minimum Contribution Rate due primarily to adverse investment experience. It is an overarching risk that is impacted by any key risk that could materially impact our long-term returns. Plan Adjustment Risk is considered in determining the risk appetite for each Account.

**Pool**

The Core Pool or the Supplementary Pool, as applicable, and **Pools** refers to the Core Pool and the Supplementary Pool collectively.

**Reference Portfolios**

The representative portfolios of diversified publicly traded securities that are designed to represent the degree of long-term total absolute risk for each of the Investment Portfolios that CPP Investments believes is appropriate to meet its legislated objective.

**Related Party**

CPPIB Regulations define related parties as:

- (a) a director, officer or employee of CPP Investments,
- (b) a person responsible for holding or investing the assets of CPP Investments, 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 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 Limit</b>	Minimum or maximum values for risk measures where breaches indicate unacceptable risk level.
<b>Risk Policy</b>	The Risk Policy sets out CPP Investments’ approach to risk management and defines the risk appetite (in the form of risk limits, statements and targets) and risk management provisions approved by the Board to manage and mitigate risks associated with the base CPP Account, additional CPP Account and Total Fund.
<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>Strategic Portfolio(s)</b>	The representative portfolios that express preferred long-term (five-plus year) investment allocations levels to a set of asset and geographic exposure categories for each of the Investment Portfolios, as approved by the Board.

<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 holdings 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 <b>Units</b> of that Pool then outstanding.
<b>Value-at-Risk</b>	An estimate of the minimum size of severe potential loss in value of a portfolio or security evaluated at a specific level of likelihood over a defined holding period.