

# 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

Effective February 14, 2024

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## 1.0 PURPOSE

- 1.1 This Statement of Investment Objectives, Policies, Return Expectations and Risk Management for the **Cash For Benefits Portfolios**<sup>1</sup> of the Base Canada Pension Plan and the Additional Canada Pension Plan ("**Investment Statement**") documents the objectives, policies and procedures approved by the Board of Directors ("**Board**") of the Canada Pension Plan Investment Board ("**CPP Investments**") for the management of the Cash for Benefits Portfolio of the base Canada Pension Plan ("**bCPP Cash for Benefits Portfolio**") and the Cash for Benefits Portfolio of the additional Canada Pension Plan ("**aCPP Cash for Benefits Portfolio**").
- 1.2 The bCPP Cash for Benefits Portfolio holds assets to pay anticipated base Canada Pension Plan ("**bCPP**") benefits in the near term and/or to purchase **Units** of the **Core Pool** and/or **Supplementary Pool**, as applicable, in the near term. The aCPP Cash for Benefits Portfolio holds assets to pay anticipated additional CPP Canada Pension Plan ("**aCPP**") benefits in the near term and/or to purchase Units of the Core Pool and/or Supplementary Pool, as applicable, in the near term.<sup>2</sup>
- 1.3 The bCPP Cash for Benefits Portfolio and the aCPP Cash for Benefits Portfolio are referred to collectively as the "Cash for Benefits Portfolios", and "Cash for Benefits Portfolio" means either one of them, as applicable. Along with the respective long-term **Investment Portfolio**, each Cash for Benefits Portfolio forms part of the respective **Account** for bCPP and aCPP.
- 1.4 This 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.

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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.

<sup>2</sup> Under certain circumstances, it may not be possible to immediately invest cash received from the CPP in Units of the Pools. If cash payments on account of bCPP and aCPP are received from CPP within 5 business days after month-end, they may not be immediately invested in Units of the Pool. In this case the funds will be held in the applicable Cash for Benefits Portfolio until Units can be purchased, generally on the 5th business day after month-end.

## 2.0 INVESTMENT OBJECTIVES

- 2.1** The primary objective of the bCPP and aCPP Cash for Benefits Portfolios is to ensure that the **CPP** has the necessary liquidity to meet bCPP and aCPP benefit payment obligations on any given business day.
- 2.2** The secondary objectives of the Cash for Benefits Portfolios are:
- (a) Holding bCPP and aCPP amounts, as applicable, pending their investment in the **Pools**;
  - (b) Earning a return that meets or exceeds a benchmark rate for each of the Cash for Benefits Portfolios over a fiscal year basis;
  - (c) Transferring cash as required to CPP Investments corporate accounts for payment of appropriately allocated CPP Investments **operating expenses**.

## 3.0 BENCHMARK INDEX AND WEIGHTS

- 3.1** The benchmark for measuring and evaluating the performance of the bCPP and aCPP Cash for Benefits Portfolios is the FTSE Canada 91 Day Treasury Bill Index.<sup>3</sup>
- 3.2** Benchmark returns are weighted daily by the actual cash holdings throughout the year.

## 4.0 RISK MANAGEMENT

- 4.1** The key risks to be managed are:
- (a) Not immediately meeting the liquidity requirements for bCPP and/or aCPP.
  - (b) Experiencing undue losses in value relative to the applicable benchmark due to increased interest rates or defaults.
- 4.2** To manage these risks, the Cash for Benefits Portfolios will be invested in accordance with the following:
- (a) Financial instruments that shall be limited to:

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<sup>3</sup> In the event that any rate or index referred to in this policy ceases to be available for general market reference, the market-accepted successor to such rate or index shall be used in its place.

- I. Canadian fixed income securities and money market instruments with tenors not exceeding 364 days and having a minimum credit rating of A- determined by CPP Investments as the lowest rating of the major agencies<sup>4</sup>, and
- ii. Reverse repurchase transactions with Approved Counterparties where the underlying securities are limited to debt issued by Canadian federal or provincial governments, their agents and/or crown corporations.

in each case, within any applicable overall credit and counterparty limits established for the Total Fund<sup>5</sup>.

**(B)** Except for Government of Canada debt obligations and without inclusion of transaction exposures to an Approved Counterparty in the case 4.2(a)(ii) above, when the combined market value of the Cash for Benefits Portfolios exceeds \$1B, the credit exposure to any one single obligor shall not comprise more than 40% of the combined market value of the Cash for Benefits Portfolios. When the combined market value is below \$1B, this limit shall not apply. Instruments necessary to expedite cash transfers to and from the CPP or the near time purchase of Units of the Pools shall be exempt from this concentration limit for the five business days prior to the transfer date or the Unit purchase date.

- 4.3** Treatment of policy and limit breaches and escalation procedures, in relation to this Investment Statement, are contained in the Board-approved **Risk Policy**.
- 4.4** Additional standards will be developed as needed for the management of the Cash for Benefits Portfolios by the Chief Investment Officer and approved by the President.
- 4.5** Although the returns of the Cash for Benefits Portfolios are measured separately from the long-term Investment Portfolios in recognition of the Cash for Benefits Portfolios' focus on short-term liquidity and capital preservation, the Cash for Benefits Portfolios' credit exposure will be managed within any applicable credit exposure limits established for the Total Fund.
- 4.6** The cash requirement for each month-end for both bCPP and aCPP will be obtained from the CPP and used to calculate the minimum funds necessary to meet bCPP's and aCPP's respective cash requirements. Management will monitor the cash balances in each of the Cash for Benefits Portfolios daily to ensure that:
  - (a) the bCPP and aCPP Cash for Benefits Portfolios each contain not materially more than the minimum amount required to meet bCPP's and aCPP's respective monthly and aggregated annual net cash requirements plus funds

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<sup>4</sup> The approach for assigning credit ratings is detailed in the Management-approved Credit Rating Methodology.

<sup>5</sup> For the avoidance of doubt, rating thresholds are measured at initiation of a transaction.

held pending purchase of Units of the Pools or in anticipation of near-term payment of CPP Investments operating expenses.

- 4.7** Given the Cash for Benefits Portfolios' short time horizons, the low balances maintained for most of the year, and the restriction on investments specified in Section 4.2, specifying, calculating and monitoring **market risk** relative to a Board-approved **risk limit** is not necessary.

## **5.0** PAYMENT OF CPP INVESTMENTS OPERATING EXPENSES

- 5.1** From time to time, amounts may be transferred from cash balances in a Cash for Benefits Portfolio to CPP Investments corporate accounts solely for the payment of CPP Investments Operating Expenses allocated by CPP Investments to the corresponding bCPP or aCPP Account. No such transfer shall result in any amounts being transferred from one Account to the other.

## APPENDIX A GLOSSARY

<b>Account</b>	The <b>bCPP Account</b> or the <b>aCPP Account</b> , 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 <b>CPP Act</b> .
<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 of aCPP contributions relative to expenditures (benefits plus administrative expenses), and operating expenses of CPP Investments.
<b>aCPP Investment Portfolio</b>	The long-horizon portfolio in respect of the account representing the assets managed by CPPIB that are derived from aCPP amounts transferred to CPPIB pursuant to section 108.3 of the CPPIB Act
<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), and operating expenses of CPP Investments.
<b>bCPP Investment Portfolio</b>	The long-horizon portfolio in respect of the account representing the assets managed by CPPIB that are derived from bCPP amounts transferred to CPPIB pursuant to section 108.1 of the CPPIB Act.
<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 one of them, as applicable.
<b>Core Pool</b>	A <b>unitized pool</b> of investments designed to deliver the bCPP desired exposures; it is used to manage assets of the <b>bCPP Investment Portfolio</b> and a portion of the assets of the <b>aCPP Investment Portfolio</b> .
<b>CPP</b>	The Canada Pension Plan.

<b>CPP Act</b>	The Canada Pension Plan, R.S.C., 1985, c. C-8.
<b>CPP Investments</b>	The Canada Pension Plan Investment Board.
<b>Market Risk</b>	Captures investment losses arising from the fluctuations in market prices and rates, which include equity prices, interest rates, credit spreads and currency exchange rates.
<b>NAV</b>	The Net Asset Value of a Pool, which is the sum of the current fair values of all assets in the Pool minus all liabilities of that Pool.
<b>Operating Expenses</b>	Primarily represent the expenditures of employing skilled professionals to manage and support CPP Investments' active management investment activities, maintaining its global operations, and performing risk management and governance activities. These costs include personnel and general and administrative expenses, as described in the applicable Note to the annual Financial Statements of CPP Investments.
<b>Pool</b>	The Core Pool or the Supplementary Pool, as applicable, and Pools refers to the Core Pool and the Supplementary Pool collectively.
<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, the additional CPP Account, and the total Fund.
<b>Risk Limit</b>	Minimum or maximum values for risk measures where breaches indicate unacceptable risk level.
<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 assets of the aCPP Investment Portfolio.
<b>Units</b>	A construct representing fractions of the <b>NAV</b> of a Pool 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.
<b>Unitization</b>	The process by which the unit prices and number of Units in each Pool are determined from the NAV.