**Opening Remarks of the Canada Pension Plan Investment Board (CPPIB)**

**Before the Standing Committee on Finance**
**Regarding the Study on Measures to Enhance Credit Availability and the Stability of the Canadian Financial System**

**Tuesday April 28, 2009**

**Delivered by Benita Warmbold**
**Chief Operating Officer and Senior Vice President**

**Check against delivery**

Good morning, Mr. Chairman and Members of the Committee.

My name is Benita Warmbold, and I am Senior Vice President and Chief Operations Officer of the CPP Investment Board. With me today is Mr. Don Raymond, Senior Vice President and head of Public Market Investments.

When the federal and provincial ministers of finance successfully reformed the Canada Pension Plan in the mid-1990s, they endowed the CPP – and the CPP Investment Board – with a number of advantages. Three of those advantages have proven invaluable in the recent economic environment.

The first is the clarity of our investment mandate enshrined in legislation to maximize returns without undue risk of loss.

The second is a governance model that balances independence with accountability. The CPPIB operates at arm's length from government and is overseen by an independent board of directors which approves investment policies and makes critical operational decisions. To balance that independence, the CPPIB is accountable to the federal and provincial finance ministers who act as stewards of the CPP. And we have a high degree of transparency so Canadians can see how their pension fund is managed.

The third is stability, through the legislation that protects the CPP assets and governs the CPP Investment Board, which requires the cooperation of the federal and provincial finance ministers to change.

All of these advantages reinforce our ability to earn investment returns to help sustain future benefits for the 17 million Canadians who participate in the CPP.

To fulfill this objective, the investment strategy of the CPP Fund is designed to generate returns over decades and generations and as a result we have a long investment horizon.

That long-term focus is central to my remarks today.

The combination of our long-term focus and the funding structure of the CPP -- in which contributions are expected to exceed benefits through 2019 -- has proven extremely valuable in helping the CPP withstand a prolonged market downturn.

The assets of the CPP Fund have grown steadily as the portfolio has been diversified over the past 10 years. As at December 31, 2008, the CPP Fund had assets of $108.9 billion. That's an increase of $71 billion as a result of investment returns and contributions from employees and employers.

The fund today is a broadly diversified portfolio of public equities, private equities, real estate, inflation-linked bonds, infrastructure and fixed income instruments.

Just under half of the fund – about 49% -- was invested in Canada and the balance was invested globally as of December 31.

As recent results have shown, the CPP Fund is not isolated from the storms buffeting financial markets and the global economies. Sharp declines in global equity markets have negatively impacted our recent results. For the first three quarters of the fiscal year, the fund declined $13.8 billion reflecting a return of negative 13.7 percent.

While we recognize that Canadians may be concerned about these short-term results, our long investment horizon creates advantages and opportunities.

First, the portfolio we manage today is not being used to pay benefits today. In fact, it will be another 11 years before money from the fund will be required to help pay pensions.

Secondly, as a result of new cash flows for the next 11 years, we have the opportunity to invest in quality assets at attractive prices, when many other investors cannot.

And thirdly, our portfolio reflects our long term mission and is designed to generate returns over 4 year periods, rather than focusing on a single year.

Appropriately, our policy on management compensation reflects our long-term investment strategy, our portfolio design and our long-term outlook.

The key principles are that compensation rewards performance over the long term as measured in 4 year periods; that pay for performance is based on two factors -- how the fund performs overall and whether we generate returns above a market-based benchmark.

Overall, the program balances pay-for-performance with the ability to attract and retain the best investment professionals to manage the fund.

In summary, the CPPIB is very confident that we have the investment strategy to generate the long term returns required to help sustain the CPP. Given recent conditions, we know Canadians are placing an even higher value on a strong public pension system. We take very seriously our responsibility to help sustain one of Canada's most important social programs for decades and generations to come.

Thank you.