



President's Message

The CPP Investment Board, like all other investment organizations, contended with a sustained global financial crisis in fiscal 2009 as credit markets seized, the global economy contracted and major equity markets suffered one of their most severe sell-offs in history.

The magnitude of these challenges is reflected in the decline in the value of the CPP Fund, which stood at \$105.5 billion at fiscal year end March 31, 2009, a decline of \$17.2 billion after operating expenses from \$122.7 billion at the previous year end. This decline consisted primarily of an investment return of negative 18.62 per cent or negative \$23.6 billion, offset by CPP contributions of \$6.6 billion.

The primary factor affecting performance in fiscal 2009 was the sharp decline in the global public equity markets in the latter half of the year. In fact, the first three months of calendar 2009 saw the S&P 500 decline to levels not seen since the 1990s. By the time our fiscal year closed on March 31, 2009, the Canadian public equity market had lost 34.7 per cent of its value over the 12-month period and global public equity markets had also registered steep losses, with the S&P 500 down 39.7 per cent, the FTSE lower by 31.1 per cent, the DAX declining 37.5 per cent and the Nikkei 225 dropping 35.3 per cent from their levels a year earlier.

The negative economic fundamentals that prevailed throughout fiscal 2009 adversely impacted the overall investment portfolio and resulted in lower valuations across several of the CPP Fund's asset classes. The steep declines in the global public equity markets are mirrored in the performance of the Fund's equity portfolio which experienced sharply negative returns. The Fund's private equity holdings, which are correlated with public markets, also experienced significant declines but performed better overall than public equities. Prices for commercial real estate were also impacted by the global economic recession and our portfolio of real estate assets reported negative returns for the year. Even infrastructure assets were not immune from market forces although their stable income returns were a strong counterbalance resulting in only a modest overall decline in value.

The magnitude of the negative investment returns we are reporting this year is indeed discomfiting. On a relative basis, the Fund essentially matched the returns of the

CPP Reference Portfolio benchmark in fiscal 2009 adding one basis point above the benchmark. As described more fully on page 17 of the MD&A, the CPP Reference Portfolio represents a low-cost, low-complexity portfolio that embodies the investment objectives and level of risk envisioned by the CPP stewards at the time of the CPP reforms in 1997. The CPP Reference Portfolio was created as a diversified and investable passive benchmark that could reasonably be expected to generate the long-term average annual real return assumed in the Chief Actuary of Canada's 75-year projection of CPP cash flows. In simple terms, the CPP Reference Portfolio is a market-based benchmark that the CPP Investment Board uses to measure our success in generating value-added returns over time.

In fiscal 2009, the CPP Reference Portfolio declined by 18.63 per cent, as compared to a decline of 18.62 per cent for the CPP Fund. In the three years since we established the CPP Reference Portfolio, our active management programs have cumulatively added 487 basis points or approximately \$5.3 billion above this market-based benchmark.

As a long-term investor, the CPP Investment Board primarily focuses on value-added returns over four-year periods, recognizing that there may be certain years where actual returns underperform the CPP Reference Portfolio; fiscal 2010 will complete the first full four-year period of comparability to the CPP Reference Portfolio.

For the four years ended March 31, 2009, our annualized investment rate of return was 1.4 per cent, which added \$2.3 billion of investment earnings to the Fund. This result is below the 4.2 per cent average real rate of return that Canada's Chief Actuary has determined is required to sustain the plan at its current contribution rate over the 75-year period of his report. However, as anticipated by the Chief Actuary, it is expected that over this 75-year period there will be times, such as these, when the Fund's returns lag this threshold and other times, such as the previous four-year period, when they exceed it. Taking an even longer view, since the CPP Investment Board began investing a decade ago, returns for the CPP Fund in all four-year periods prior to fiscal 2009 exceeded the 4.2 per cent real rate of return. In this same 10-year period, \$24.2 billion in investment income has been added to the CPP Fund which represents a 4.3 per cent annualized investment rate of return.



DAVID F. DENISON
*President and
Chief Executive Officer*

A Long-Term View

While it is certainly uncomfortable to live through this period of portfolio declines, we believe that this current market environment also presents long-term investment opportunities. Since our mandate is to invest to help sustain the Canada Pension Plan across multiple generations of contributors and beneficiaries, we do need to maintain our focus on the long term. Even though we report quarterly and annual results as part of our commitment to transparency, we design our investment strategy to deliver superior risk-adjusted returns over the span of decades and generations.

Indeed this long investment horizon is one of the CPP Investment Board's most significant advantages. By design, the CPP is funded on a steady-state rather than a fully funded basis. This means that investment earnings play a smaller role in funding CPP benefits than is the case with more common fully funded plans, and allows for a much longer time frame – a 75-year period in our case – over which to amortize investment returns. This time frame, combined with the fact that we have additional inflows to the Fund over the next 11 years and that the existing assets are not subject to withdrawals or redemptions as is the case with most investment managers, means we can take a longer view in our investment approach. As a result, we can capitalize on opportunities to buy assets when other market participants are constrained or may be forced to sell to meet their own liquidity demands, as has been the case in recent months. In this environment, we believe that adhering to a very disciplined investment process is especially critical. While we have evaluated many investment opportunities over the course of fiscal 2009, we have not felt compelled to complete transactions. We have maintained our rigorous risk and return analysis and acted only when we were satisfied that projected risk-adjusted returns met our thresholds.

Investment Strategy

Since its inception, the CPP Investment Board has set about building a diversified investment portfolio well suited to its long-term investment goals. Our strategy is to capitalize upon our structural advantages of scale, a long investment horizon and stability of cash inflows within the framework of a rigorous investment process and active risk management.

During the course of fiscal 2009, management and our board re-examined our long-term strategy in light of the extraordinary market conditions of this past year. In some cases, this has led us to modify our investment programs in light of the decreased amount of intermediation, the decline in securitization, the lower availability and higher cost of debt financing and other factors that we believe will persist for a period of time. We have also adjusted our short-term activities to address daily market circumstances such as levels of market volatility and credit spreads. Fundamentally, however, we have concluded that the main foundations of our strategy remain valid and prudent given the time horizon and nature of the CPP Fund. We have also reaffirmed the key economic exposures for our portfolio in the context of our Total Portfolio Approach that we believe will yield sufficient long-term returns at an appropriate level of systematic risk. At fiscal 2009 year end, those weightings entailed \$33.5 billion in fixed income assets, which included inflation-linked bonds, \$11.5 billion in real estate and infrastructure assets, \$14.1 billion of private equity and \$46.5 billion of public equity assets.

CPP Reference Portfolio Transition

Based upon extensive asset/liability modelling that we conducted this year, we have changed the composition of the CPP Reference Portfolio by reducing the Canadian equity and Canadian real return bond weightings, increasing the foreign developed market equity weighting, and adding emerging market equity and foreign sovereign bond components. Our work has led us to conclude that this is a more robust design for the CPP Fund's key benchmark and we transitioned the portfolio accordingly during the last quarter of fiscal 2009. Going forward, we will continue to monitor the CPP Reference Portfolio annually and do a more extensive review every three years to correspond with the release of the Chief Actuary's triennial report. A more detailed discussion of the CPP Reference Portfolio transition can be found on page 17.

Performance Against Objectives

Each year management establishes a set of corporate objectives for the year ahead. In fiscal 2009 our key objectives were: further diversify the CPP Fund, continue building our internal capabilities and progress our multi-year plan to enhance our operational processes and technologies. I am pleased to report that we achieved our targets or milestones for these objectives.

DIVERSIFY THE CPP FUND

Our first objective was to broaden the diversification of the investment portfolio by geography and active strategies. In terms of geography, we committed €250 million (\$430 million) to retail shopping centres in 21 locations across Turkey, completed our analysis of the real estate market in Brazil and the private equity market in India, and launched a program in Japanese equities as well as an emerging markets currency program. In terms of active strategies, we have added a multi-faceted private debt program targeting the full range of opportunities from senior secured loans to mezzanine financing, introduced a new global corporate bond program, and implemented a stock-bond-cash tactical asset allocation program among others.

BUILD CAPABILITY

Our second objective was to continue building the capabilities of the CPP Investment Board to effectively manage the expansion and execution of our investment programs. To this end, we added 122 people to the organization in 2009. This included 63 investment professionals, as well as three talented new senior leaders, Nicholas Zelenczuk, Benita Warmbold and Saylor Millitz-Lee in the capacities of Chief Financial Officer, Chief Operations Officer and Senior Vice-President of Human Resources, respectively. These important additions have deepened our capabilities and broadened our expertise to ensure that we have the resources to fulfill our mandate successfully and responsibly.

Our offices in London and Hong Kong are now fully operational and integrated within our investment processes. Just after the close of the fiscal year, our international real estate group relocated from Toronto to our London office consistent with our geographic approach to real estate investing.

PROGRESS ON OPERATIONAL PROCESSES AND TECHNOLOGIES

Our third objective was to continue to build out our multi-year plan to enhance key management capabilities, operational processes and our technology infrastructure.

This objective is fundamental to our ability to support and scale our investment programs and monitor and manage their attendant risk attributes. Among the technology systems implemented during the year were a derivatives trading system and a new investment risk measurement system. We also launched projects to implement new portfolio accounting and investment performance systems which will be completed in fiscal 2010.

Objectives for Fiscal 2010

Looking ahead to 2010, we will maintain those same key corporate objectives as they continue to be relevant for our strategy and evolution as an organization, namely: broaden the diversification of the CPP Fund, continue to build our internal capabilities, advance our multi-year plan to enhance operational processes and technologies, and generate value-added returns net of all costs over rolling four-year periods. With respect to diversification, we will have a particular focus on private debt, infrastructure and real estate throughout fiscal 2010 and will be prepared to commit considerable investment capital when our analysis of valuation and risk proves compelling.

I would like to thank my colleagues at the CPP Investment Board, our board of directors and our external partners for their insights, commitment and resilience in the face of very difficult markets during the past year. In particular, I would like to recognize our now-retired founding chair Gail Cook-Bennett, who has had a profound influence on the organization. From the outset, Gail championed the principles of integrity, accountability and transparency for our organization, oversaw the development of the CPP Investment Board from concept to a sophisticated global investor, and established an accountability framework that is greatly admired around the world. We will continue to benefit for many years to come from Gail's strong legacy. We are also very fortunate to have continuity of direction and strong leadership through the appointment of Bob Astley as current chair of the board of directors.

Although the economic outlook remains uncertain, we believe market downturns present opportunities for patient, long-term investors like the CPP Investment Board. We remain confident in our ability to execute our strategy which will help to ensure the sustainability of the CPP for decades and generations to come.



DAVID F. DENISON
President and Chief Executive Officer

Financial Highlights

CPP FUND FINANCIAL OVERVIEW

FOR THE YEAR ENDED MARCH 31 (\$ billions)

| | 2009 | 2008 |
|---|----------|----------|
| Net assets ¹ | \$ 105.5 | \$ 122.7 |
| Net contributions | 6.6 | 6.5 |
| Investment income net of operating expenses | (23.8) | (0.4) |

INVESTMENT PERFORMANCE (%)

| | | |
|-------------------------------------|--------|-------|
| Annual | (18.6) | (0.3) |
| Four-year annualized rate of return | 1.4 | 9.0 |
| Ten-year annualized rate of return | 4.3 | 7.2 |

| INVESTMENT PORTFOLIO | (\$ billions) | (% of total) | (\$ billions) | (% of total) |
|--------------------------------------|---------------|--------------|---------------|--------------|
| Public equities | \$ 46.5 | 44.0% | \$ 63.7 | 51.8% |
| Private equities | 14.1 | 13.4 | 13.4 | 10.9 |
| Bonds | 28.4 | 26.9 | 30.2 | 24.6 |
| Other debt | 1.8 | 1.7 | 1.1 | 1.0 |
| Money market securities ² | (0.8) | (0.7) | – | – |
| Real estate ³ | 6.9 | 6.5 | 6.9 | 5.6 |
| Inflation-linked bonds | 4.1 | 3.9 | 4.7 | 3.9 |
| Infrastructure | 4.6 | 4.3 | 2.8 | 2.2 |
| | \$ 105.6 | 100% | \$ 122.8 | 100% |

¹ Includes non-investment assets such as premises and equipment and non-investment liabilities.

² Includes amounts receivable/payable from pending trades, dividends receivable, accrued interest and absolute return strategies.

³ Net of debt on real estate properties.

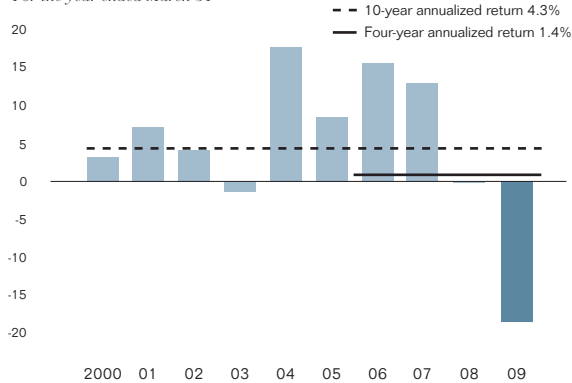
CPP REFERENCE PORTFOLIO BENCHMARK RETURNS AT THE END OF FISCAL 2009

| Asset Class | Benchmark | Weight | 2009 Return | 2008 Return |
|---|--|--------|-------------|-------------|
| Canadian equities | S&P Canada Broad Market Index | 15% | -33.1% | 2.6% |
| Foreign developed market equities | S&P Developed Ex-Canada LargeMidCap Index (net of tax), unhedged | 45% | -29.1% | -13.8% |
| Emerging market equities ¹ | S&P Emerging LargeMidCap Equity Index (net of tax), unhedged | 5% | 14.2% | N/A |
| Canadian nominal fixed income | Custom-blended benchmark of actual CPP bonds and DEX All Government Bond Index | 25% | 7.8% | 6.8% |
| Foreign sovereign bonds (hedged) ¹ | Citigroup World Government G7 Bond Index hedged to Canadian dollars | 5% | – | N/A |
| Canadian real return bonds | DEX Real Return Canada Bond Index | 5% | -0.5% | 6.7% |
| | | 100% | -18.63% | -2.7% |

¹ Investments were included in the CPP Reference Portfolio at the end of the year. Returns are reported only for the period during which actual investments were held.

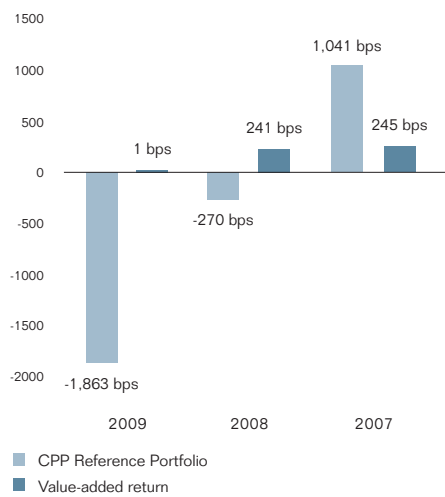
RATE OF RETURN (%)

For the year ended March 31



CPP FUND VALUE-ADDED RETURNS

For the year ended March 31

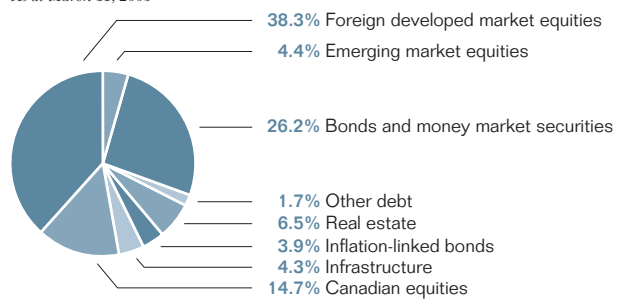


CPP FUND RETURNS¹

| Asset Class | Fiscal 09 | Fiscal 08 |
|---|----------------|------------------|
| Canadian public equities | -32.3% | 3.2% |
| Canadian private equities | -7.8% | 2.2% |
| Foreign public developed market equities | -29.7% | -13.9% |
| Foreign private developed market equities | -17.8% | 8.5% |
| Public emerging market equities | -32.6% | N/A ² |
| Private emerging market equities | -13.7% | N/A ³ |
| Bonds and money market securities | 5.4% | 6.9% |
| Other debt | -30.3% | 0.3% |
| Public real estate | -43.7% | -24.2% |
| Private real estate | -14.0% | 8.2% |
| Inflation-linked bonds | -0.6% | 9.3% |
| Infrastructure | -5.0% | 23.6% |
| Total CPP Fund | -18.62% | -0.29% |

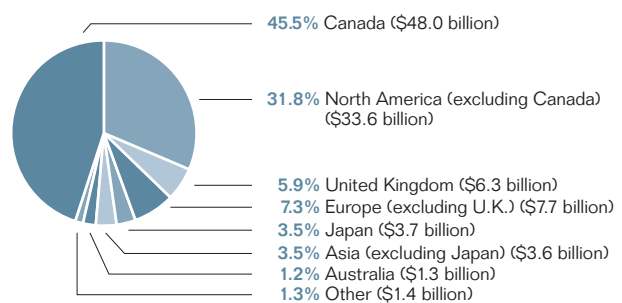
ASSET MIX

As at March 31, 2009



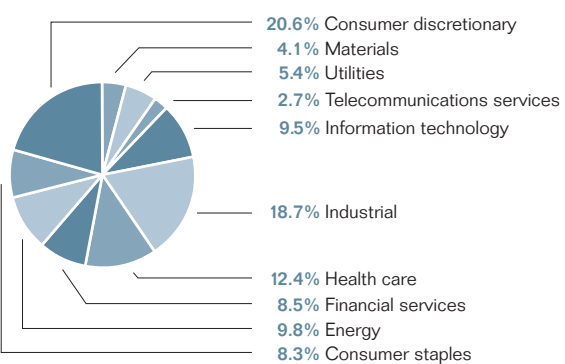
GLOBAL DIVERSIFICATION

As at March 31, 2009



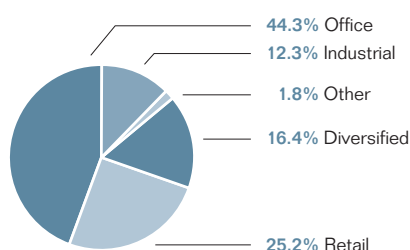
PRIVATE EQUITY INVESTMENTS BY SECTOR

As at March 31, 2009



REAL ESTATE INVESTMENTS – PRODUCT TYPE DISTRIBUTION

As at March 31, 2009



¹ Investment results by asset class are reported on an unhedged Canadian dollar basis, since any hedging takes place at the total CPP Fund level. Results are reported on a time-weighted basis.

² Included within foreign public developed market equities.

³ Included within foreign private developed market equities.

Key Corporate Objectives for Fiscal 2009

Objectives

Highlights

CPP Fund Diversification

Broaden the diversification of the investment portfolio through different geographies and asset classes and through alpha-based strategies.

- Committed €250 million (\$430 million) to retail shopping centres in 21 locations across Turkey.
- Completed an analysis of the real estate market in Brazil and the private equity market in India.
- Launched a program in Japanese equities as well as an emerging markets currency program.
- Added a multi-faceted private debt program targeting the full range of opportunities from senior secured loans to mezzanine financing.
- Introduced a new global corporate bond program.
- Implemented a stock-bond-cash tactical asset allocation program.
- Announced a formal offer to acquire 100 per cent of Macquarie Communications Infrastructure Group for \$1.7 billion.

Capabilities

Deepen our internal investment and support capabilities and processes.

- Added 122 people to the CPP Investment Board including 63 investment professionals and three new senior leaders in Finance, Operations and Human Resources.
- Fully operationalized the Hong Kong and London offices which opened in fiscal 2008. The international real estate team relocated to the London office in early April.

Technology and Business Processes

Execute our multi-year plan to establish the management, technology and operational capabilities that will allow us to meet our long-term investment mandate.

- Implemented a derivatives trading system and new investment risk measurement system.
- Launched projects to implement new portfolio accounting and investment performance systems, which will be completed in fiscal 2010.

Value-Added Returns

Management seeks to cost effectively and risk efficiently outperform the CPP Reference Portfolio over the long term. Accordingly, it focuses on value-added returns over four-year periods rather than a single year.

- The return of the CPP Fund essentially matched the CPP Reference Portfolio adding one basis point above the benchmark return of negative 18.63 per cent.
- Over the past three years, since the CPP Reference Portfolio was introduced, the CPP Investment Board has generated cumulative value-added returns of 487 basis points representing approximately \$5.3 billion in additional investment income.

Ten-Year Review

| FOR THE YEAR ENDED MARCH 31 (\$ billions) | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | 2003 | 2002 | 2001 | 2000 |
|--|--------------|--------------|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| CHANGE IN NET ASSETS | | | | | | | | | | |
| Income ¹ | | | | | | | | | | |
| Investment income | (23.6) | (0.3) | 13.1 | 13.1 | 6.3 | 10.3 | (1.1) | 2.3 | 3.0 | 1.1 |
| Operating expenses | (0.2) | (0.1) | (0.1) | – | – | – | – | – | – | – |
| Net contributions | 6.6 | 6.5 | 5.6 | 3.6 | 4.5 | 4.6 | 3.1 | 2.6 | 1.2 | (1.3) |
| Increase in net assets | (17.2) | 6.1 | 18.6 | 16.7 | 10.8 | 14.9 | 2.0 | 4.9 | 4.2 | (0.2) |
| AS AT MARCH 31 (\$ billions) | | | | | | | | | | |
| INVESTMENT PORTFOLIO | | | | | | | | | | |
| Equities | | | | | | | | | | |
| Canada | 15.6 | 28.9 | 29.2 | 29.0 | 27.7 | 22.6 | 11.7 | 10.0 | 5.0 | 2.0 |
| Foreign developed markets | 40.4 | 47.5 | 46.1 | 32.7 | 20.9 | 9.3 | 5.4 | 4.1 | 2.1 | 0.4 |
| Emerging markets | 4.6 | 0.7 | – | – | – | – | – | – | – | – |
| Fixed income | | | | | | | | | | |
| Bonds | 28.4 | 30.2 | 29.2 | 27.2 | 28.6 | 30.2 | 31.0 | 32.6 | 35.3 | 35.8 |
| Other debt | 1.8 | 1.1 | – | – | – | – | – | – | – | – |
| Money market securities ² | (0.8) | – | 0.4 | 0.6 | 3.1 | 7.7 | 7.2 | 6.8 | 6.3 | 6.3 |
| Inflation-sensitive assets | | | | | | | | | | |
| Real estate ³ | 6.9 | 6.9 | 5.7 | 4.2 | 0.8 | 0.7 | 0.3 | 0.1 | – | – |
| Infrastructure | 4.6 | 2.8 | 2.2 | 0.3 | 0.2 | – | – | – | – | – |
| Inflation-linked bonds | 4.1 | 4.7 | 3.8 | 4.0 | – | – | – | – | – | – |
| INVESTMENT PORTFOLIO⁴ | 105.6 | 122.8 | 116.6 | 98.0 | 81.3 | 70.5 | 55.6 | 53.6 | 48.7 | 44.5 |
| PERFORMANCE | | | | | | | | | | |
| Rate of return (annual) ⁵ | -18.6% | -0.3% | 12.9% | 15.5% | 8.5% | 17.6% | -1.5% | 4.0% | 7.0% | 3.2% |

¹ Included in the CPP Fund are certain specified CPP assets which were previously administered by the federal government and transferred to the CPP Investment Board over a period that began on May 1, 2004 and ended on April 1, 2007. Since April 1, 1999, the CPP Fund has earned \$23.8 billion in investment income net of operating expenses, which is comprised of \$8.6 billion from the CPP Investment Board and \$15.2 billion from assets historically administered by the federal government.

² Includes amounts receivable/payable from pending trades, dividends receivable, accrued interest and absolute return strategies.

³ Net of debt on real estate properties.

⁴ Excludes non-investment assets such as premises and equipment and non-investment liabilities.

⁵ Commencing in fiscal 2007, the rate of return reflects the performance of the investment portfolio which excludes the Cash for Benefits portfolio.

Corporate Profile

The Canada Pension Plan Investment Board is a professional investment management organization that invests the assets of the Canada Pension Plan (CPP) not required to pay current benefits. Created by an Act of Parliament in December 1997 as part of the successful CPP reforms, the organization's mandate is to help sustain the pensions of 17 million CPP contributors and beneficiaries by maximizing returns without undue risk of loss.

According to the latest report by the Chief Actuary of Canada, released in 2007, the CPP, as constituted, is sustainable throughout the report's 75-year projection period. The report indicates that CPP contributions are expected to exceed annual benefits paid until 2020, providing an 11-year period before a portion of the investment income from the CPP Investment Board is needed to help pay pensions. As a result, the CPP Fund will grow significantly between now and 2020. Beyond 2020 it will continue to grow, but at a slower rate, as a small portion of the investment income will be needed to help pay pensions. By increasing the long-term value of funds available to the CPP, the CPP Investment Board will help the plan to keep its pension promise to Canadians.

Our Disclosure Policy states: "*Canadians have the right to know why, how and where we invest their Canada Pension Plan money, who makes the investment decisions, what assets are owned on their behalf and how the investments are performing.*" This annual report, together with our website and quarterly financial result disclosures, help to make this information available to Canadians.

In order to continue diversifying the portfolio of CPP assets, the CPP Investment Board invests in public equities, private equities, real estate, inflation-linked bonds, infrastructure and fixed income instruments. Approximately \$48.0 billion is invested in Canada through

a broadly diversified portfolio, while the rest is invested globally so that income from foreign investments flows back to Canada to help pay future pensions.

The CPP Investment Board is a Crown corporation that was specifically designed by the federal and provincial finance ministers to operate at arm's length from governments in the private-sector world of financial markets but with significant public accountability.

The organization is accountable to Parliament and to the federal and provincial finance ministers who serve as the stewards of the CPP. As an investment management organization operating in the private sector investing non-government assets, it is not a sovereign wealth fund. Several key attributes, including an arm's length governance model, independent board and investment-only mandate, distinguish the CPP Investment Board from the large pools of government assets under government direction generally identified as "sovereign".

Headquartered in Toronto, with offices in London and Hong Kong, the CPP Investment Board is governed and managed independently of the CPP and at arm's length from governments.

For more information on the CPP Investment Board, visit our website at www.cppib.ca.

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