



**CPP
INVESTMENT
BOARD**

**STATEMENT OF INVESTMENT OBJECTIVES, POLICIES,
RETURN EXPECTATIONS AND RISK MANAGEMENT
FOR THE CASH FOR BENEFITS PORTFOLIO OF THE
CANADA PENSION PLAN**

August 10, 2010



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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 Portfolio of the Canada Pension Plan (“Investment Statement”) documents the objectives, policies and procedures approved by the Board of Directors of the Canada Pension Plan Investment Board for the management of the Cash for Benefits Portfolio of the CPP. The Cash for Benefits Portfolio holds assets required by the CPP to pay benefits.

2.0 INVESTMENT OBJECTIVES

- 2.1 Ensuring the CPP has the necessary liquidity to meet benefit payment obligations on any given business day is the primary objective of the Cash for Benefits Portfolio.
- 2.2 Earning a return that meets or exceeds a Board-approved benchmark over a fiscal year basis is the secondary objective of the Cash for Benefits Portfolio.

3.0 BENCHMARK INDEX AND WEIGHTS

- 3.1 The Board-approved benchmark for measuring and evaluating the performance of the Cash for Benefits Portfolio is the Scotia Capital 91-Day Treasury Bills Index.
- 3.2 Benchmark returns are weighted daily by the actual cash holdings throughout the year.

4.0 RISK MANAGEMENT

- 4.1 Not meeting the CPP liquidity requirements or experiencing undue capital losses relative to the Board-approved benchmark due to increased interest rates or defaults are the key risks being managed.
- 4.2 To manage these risks the Cash for Benefits Portfolio will be invested in accordance with the following rules:
- (a) The only securities purchased will be fixed income securities and money market instruments with tenors not exceeding 364 days, with counterparties that possess investment grade ratings as defined in Appendix 1 of the Board-approved Risk Policy.
 - (b) Except for Government of Canada debt/obligations, when the market value of the Cash for Benefits Portfolio exceeds \$1B, no single counterparty shall comprise more than 40% of the Cash for Benefits Portfolio. When such market value is below \$1B, this limit shall not apply. Instruments necessary to expedite cash transfers to and from the CPP shall be exempt from this counterparty concentration limit for the five business days prior to the transfer date.



- 4.3 Treatment of policy and limit breaches and escalation procedures, in relation to this Investment Statement, are contained in Section 10 of the Board-approved Risk Policy.
- 4.4 Additional standards will be developed as needed for the management of the Cash for Benefits Portfolio by the SVP PMI and approved by the President.
- 4.5 Although the performance of the Cash for Benefits Portfolio is measured and reported separately from the Investment Portfolio, the Cash for Benefits Portfolio's credit exposure will be managed and reported within the overall credit exposure limits established for the CPP Portfolio.
- 4.6 The cash requirement for each month-end will be obtained from the CPP by Treasury Services in TROT¹. Treasury Services will calculate the minimum quantity of funds necessary to meet the CPP's monthly cash requirement and communicate this to Public Market Investments. Treasury Services will monitor the cash balance in the Cash for Benefits Portfolio daily to ensure the Cash for Benefits Portfolio contains no more than the minimum amount so required and communicated.
- 4.7 Given the Cash for Benefits Portfolio's short time horizon and the low balances maintained for most of the year, specifying, calculating and monitoring market risk relative to a Board-approved risk limit has been determined to be unnecessary.
- 5.0 MONEY MARKET DESK MANAGES CASH-FLOW REQUESTS**
- 5.1 In addition to managing the Cash for Benefits Portfolio's assets, the money market desk is responsible for managing payment requests to and from the CPP by investing cash inflows and providing liquidity for outflows. As well, the money market desk can provide short term liquidity to facilitate transaction settlement for the Investment Portfolio.
- 6.0 A SOURCE OF LIQUIDITY FOR THE INVESTMENT PORTFOLIO**
- 6.1 From time to time, the Investment Portfolio requires short term cash to settle large transactions. The balances in the Cash for Benefits Portfolio may be utilized to meet these short term cash needs, provided this does not negatively impact the primary objective of the Cash for Benefits Portfolio. The lending rate would be the equivalent rate charged on CPPIB's lowest cost line of credit as determined by Treasury Services, but only if the rate paid exceeds the return that would otherwise be earned by the Cash for Benefits Portfolio.
- 7.0 PERFORMANCE MEASUREMENT, MONITORING AND COMPLIANCE**

¹ Treasury, Risk, Operations and Technology



- 7.1 Performance of the Cash for Benefits Portfolio is measured and reported separately in recognition of the Cash for Benefits Portfolio's focus on short-term liquidity and capital preservation.
- 7.2 Investment Finance Reporting and Valuations in 'TROT' reports the performance of the Cash for Benefits Portfolio. Treasury Services monitors the performance of the Cash for Benefits Portfolio for compliance and management purposes. The Chief Operations Officer reports at least quarterly to the Audit Committee and the Investment Committee on compliance of the Cash for Benefits Portfolio with Board-approved policies and procedures.
- 7.3 To report the performance of the total CPP Investment Portfolio, the returns of the Cash for Benefits Portfolio and the Investment Portfolio are aggregated and reported as a single overall return.