



**CPP
INVESTMENT
BOARD**

Web site: www.cppib.ca

Backgrounder

CPP Investment Board creates additional flexibility to fund long term investments

The CPP Investment Board is a long-term investor with a mandate to maximize returns without undue risk of loss and an objective of diversifying the portfolio. In order to create additional flexibility with respect to the timing and raising of funds that is advantageous to the CPP Investment Board, the CPPIB is planning to issue short- and medium-term debt of between \$2 and \$5 billion over the next two years.

As the next logical step in the development of the portfolio, the debt program will assist in both short-term cash management and create additional flexibility to fund long-term investments. This will be done in two parts. The CPPIB will first issue Commercial Paper which provides short term flexibility and helps build a track record within debt markets. In the future it also allows the organization to borrow longer term funds consistent with the nature of investments being funded.

The second phase, once a track record is established, is to issue medium term notes which will allow the CPPIB to pursue long-term investments such as real estate, infrastructure and private debt. The CPPIB will only issue debt where it thinks this is the most advantageous financing alternative for the CPP Fund.

It is important to note that it will be another 11 years before a portion of the CPP Fund is used to help pay benefits. The CPPIB continue to have strong annual cash flow and operate with a very long investment horizon. The purpose for the debt issuance program is to take advantage of investment opportunities in the most efficient manner. The CPPIB will be issuing \$2 billion to \$5 billion over the course of two years which is less than 5% of the current assets of the CPP Fund.

Frequently Asked Questions

- 1. Why is the CPP Investment Board issuing debt when you do not have to help pay pensions for 11 years?**
 - Current market conditions are creating opportunities for the CPPIB to acquire assets with attractive risk adjusted returns.
 - CPPIB is seeking greater flexibility with the funding of these investment opportunities.
 - The CPP Investment Board wants to fund these opportunities in the most advantageous way.
 - Debt financing will give us additional flexibility to fund attractive investments in real estate, infrastructure and private debt.

- 2. What is the limit on how much debt you can issue?**
 - The CPP Investment Board will be issuing \$2 billion to \$5 billion over the course of two years which is less than 5% of the current assets of the CPP Fund.
 - This debt program would never exceed 10 percent of the portfolio and we are currently contemplating between \$2 and \$5 billion for this program.

- Issuing debt is a funding vehicle already used by other major pension plans in Canada such as OMERS, Ontario Teachers' Pension Plan and PSP and is the next logical step as we enhance our investment capabilities.

3. Give me an example of how you are able to raise funds more cost effectively?

- One of the ways that we can fund investments more cost effectively is to raise debt at the CPPIB level and then push that debt down to the project finance level on specific investments such as real estate or infrastructure. In other words, we can raise debt at a lower rate than we can borrow funds for specific investments that may require leverage.
- In the short term we can reduce our transition costs by taking longer periods of time to sell assets needed to fund new investments.
- In addition, we are taking advantage of our fund size and long investment horizon to raise funds that can be used to purchase quality assets at lower valuations, which is an advantage over other investors who are finding it difficult to transact because of the credit crisis.

4. You claim that this program will assist you in capitalizing on investment opportunities arising from the current market downturn. Can you specifically name these opportunities?

- In private markets, we are seeing a range of very high quality assets on the market. These opportunities are particularly evident in real estate where high-quality commercial properties that haven't traded in many years are available especially in the UK and the US.
- Governments in Canada, the U.S. and elsewhere have embraced infrastructure projects as a top priority and a key strategy for providing economic stimulus. The CPP Investment Board has long recognized the potential of infrastructure projects to provide attractive long-term, risk-adjusted returns. We have built significant capabilities in this area and are actively reviewing a broad range of potential investments.
- We are also contemplating investments in a range of private debt opportunities.

5. What rating did you receive?

- CPPIB received the highest possible rating from each agency, Triple A for medium term debt and R1 High or A1+ for commercial paper.