People | Purpose | Performance

2016 ANNUAL REPORT

CPP
INVESTMENT
BOARD

Corporate Profile

Canada Pension Plan Investment Board (CPPIB) is a professional investment management organization with a critical purpose – to help provide a foundation on which Canadians build financial security in retirement. We invest those assets of the Canada Pension Plan (CPP) not currently needed to pay pension, disability and survivor benefits.

CPPIB is headquartered in Toronto with offices in Hong Kong, London, New York, São Paulo, Luxembourg and Mumbai. We invest in public equities, private equities, bonds, private debt, real estate, infrastructure, agriculture, resources and other investment areas. Assets under management currently total $278.9 billion. The Investment Portfolio includes 80.9% or $225.8 billion in non-Canadian investments. We invest the remaining 19.1% or $53.3 billion in Canada. Our investments have become increasingly international, as we diversify risk and seek growth opportunities in global markets.

Created by an Act of Parliament in 1997, CPPIB is accountable to Parliament and to the federal and provincial finance ministers, who serve as the CPP's stewards. However, we are governed independently from the CPP. We operate at arm's length from governments and are focused on a singular long-term objective: to maximize returns without undue risk of loss. The funds we invest belong to 19 million CPP contributors and beneficiaries. We owe them high standards of investment management, as well as transparency and accountability for their assets.

The CPP Fund ranks among the world's 10 largest retirement funds. In managing the Fund, we pursue a diverse set of investment programs that contribute to the long-term sustainability of the CPP.

In its most recent triennial report, the Chief Actuary of Canada looked at the sustainability of the CPP over the next 75 years. It found that as at December 31, 2012, the CPP is sustainable over that period and that contributions will exceed benefits paid until 2023. The report also projected that the CPP Fund will grow to approximately $300 billion by 2020 and over $500 billion by 2030.

Our scale and our long-term commitment make CPPIB a valued business partner. This allows us to participate in some of the world's largest investment transactions. Scale also creates investing efficiencies. It provides us with the capacity to build a world-class internal team equipped with the necessary tools, systems and analytics we need to support a global investment platform.

Certainty about the amount of CPP net cash flows from contributions means that we can be flexible, patient investors. We are able to take advantage of opportunities in volatile markets when others face liquidity pressures. Also, our exceptionally long investment horizon is an increasingly important competitive strength. We can assess and pursue opportunities differently and stay the course when many cannot. We can take advantage of mispricing that short-term investors create. And, CPPIB's long-term perspective makes patient capital available for direct commitments that can create value for the Fund over many years to come.

Our investment strategy ensures diversification across asset classes, geographies and other factors, and our Total Portfolio Approach supports the achievement of targeted return-risk exposures across the entire portfolio as our investment programs evolve and individual investments are bought, sold or change in value.

Taken together, our clarity of mission, independence, scale, certainty of assets, investment strategy and long horizon set us apart from most other funds. These advantages have earned CPPIB an international reputation, and help us attract, motivate and retain a world-class team.

For more information, please visit our website at **www.cppib.com** or follow us on **LinkedIn** or **Twitter**.

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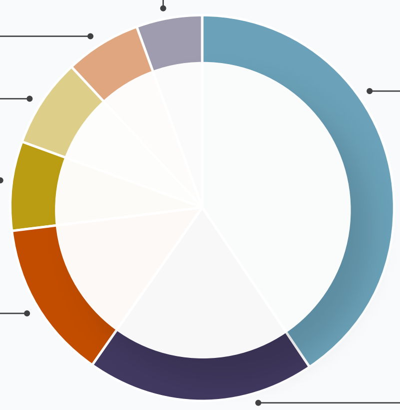
Fiscal 2016 Financial Highlights

Our critical purpose is to help provide a foundation on which Canadians build financial security in retirement.

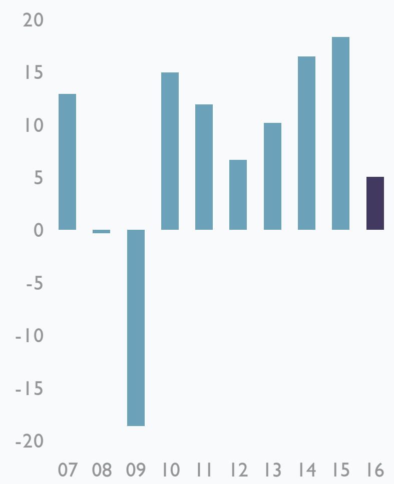
Asset Mix

As at March 31, 2016



Rate of Return (net nominal)

For the Year Ended March 31 (%)



3.4%

Fiscal 2016 Rate of Return (net nominal)

6.8%

10-Year Annualized Rate of Return (net nominal)

20.8%

Real Assets

26.9%

Fixed Income

52.3%

Public and Private Equities

$278.9 Billion

CPP Fund Value at March 31, 2016

$9.1 Billion

Net Investment Income After All CPPIB Costs

10.6%

Five-Year Annualized Rate of Return (net nominal)

$125.6 Billion

Net Cumulative Investment Income for 10-Year Period After All CPPIB Costs

Chairperson's Report

Dr. Heather Munroe-Blum, *Chairperson*

Dear fellow contributors to and beneficiaries of the Canada Pension Plan,

It is my pleasure to report to you on our progress in managing your funds over the past year. Before I turn to our financial results, I would like to acknowledge the appointment of our new President & CEO, Mark Machin. The Board ran a smooth and thorough process to appoint Mark Wiseman's successor, after learning that he desired to step down from his position to accept a role elsewhere. Mark Wiseman will be leaving big shoes to fill, there is no doubt. He has led this organization with skill, deep intelligence and dedicated effort. On learning of his intended departure, the organization was in a highly fortunate position with the Board having already identified a number of impressive internal candidates thanks to CPPIB's deep leadership bench strength and our ongoing succession work. We nonetheless ensured that the process to appoint a new CEO was rigorous and thorough. Among other things, this included identifying and assessing potential external candidates, to ensure we were confident that we were selecting the best individual for the job. After a full and diligent process our choice was unanimous. Mark Machin, who has been CPPIB's Senior Managing Director & Head of International, and President CPPIB Asia Inc., is the ideal person to assume the role at this time. I look forward to reporting back to you with him in these pages in a year's time.

Mark Machin officially takes over as President & CEO on June 13, 2016. He will be assuming the leadership of CPPIB at an exciting time. It has now been 50 years since the creation of the CPP, and we are constantly receiving requests from around the world to learn more about our model; it is a privilege for me and my fellow Directors to oversee this integral element of the national fabric. Canada is one of few nations globally with a sound national public pension plan. This milestone anniversary of the CPP provides an ideal moment to reflect on the performance of our CPP Fund and the role of CPPIB in contributing to its sustainability for the next half century and beyond.

How are we doing? It has been a busy year. CPPIB's 10-year real rate of return of 5.1%, after all costs, continues to remain comfortably above the prospective 4% real rate of return that the Chief Actuary of Canada assumes in assessing the sustainability of the Fund. In fiscal 2016, a challenging year for any global investor, CPPIB achieved a net return of 3.4%, after all costs. Assets increased by $14.3 billion, comprised of $9.1 billion of net investment income – the income generated from the investment activities of CPPIB – after all CPPIB costs, and $5.2 billion in net CPP contributions. CPPIB has now contributed more than $160.6 billion to your CPP Fund since it started operations in 1999. Investment income generated by CPPIB now surpasses the contributions made by all employees and employers.

As required by the *CPPIB Act*, CPPIB is subject to a Special Examination every six years to assess its financial and management controls, practices and systems and fiscal 2016 was such a year in the cycle. Deloitte LLP independently conducted the latest cyclical examination which was completed by February 2016. The process involved all departments within CPPIB, and I'm pleased to report that the auditors found no significant deficiencies in the systems and practices examined. This Special Examination practice is just one reflection of the importance placed on how CPPIB achieves its results and on its ongoing accountability to Canadians.

CPPIB's strong long-term financial performance, and the recent Special Examination report, affirm a governance model that is considered a high benchmark by similar organizations around the world. Operating at arm's length from governments, under the guidance of our professional Board of Directors, CPPIB's independence allows it to make investment decisions based *solely* on the long-term interests of generations of CPP beneficiaries.

CPPIB's strong, principled culture, combined with its public purpose and acclaimed governance framework, offer a significant competitive advantage in attracting and hiring top talent from around the world to work on your behalf, both within the organization, and with the Board.

During fiscal 2016, the Board worked closely with the Senior Management Team as they continued to implement CPPIB's multi-year business strategy and the evolution of the organization's investment framework.

My report this year will focus on three areas:

1. Renewing and enhancing the Board of Directors
2. Stewardship of CPPIB's long-term investment strategy
3. Engagement with CPPIB's ongoing business activities

1. Renewing and enhancing the Board of Directors

Since October 2014, the *CPPIB Act* has allowed for up to three non-resident Directors on the Board. This is an important enhancement of our governance framework. Effective oversight of CPPIB's complex global investment strategy demands Directors who bring special international perspectives and experience. With the terms of five of our most seasoned Directors coming to an end, the Board continues to work through a prudent transition plan to balance renewal and continuity, while also using the opportunity to seek out its first non-resident Directors.

In order to effectively steward CPPIB on behalf of now 19 million contributors and beneficiaries, our Board must remain of the highest quality – with Directors who bring the appropriate values and culture; relevant business, international and investment experience; and, expertise and commitment to this demanding role. We followed an extensive and rigorous process, with a worldwide search and interview process, to find the best non-resident candidates possible, to work with us on behalf of our contributors and beneficiaries.

During our search for new Board members, two things became abundantly clear. First, CPPIB's mandate and its global presence are attractive to high-calibre Director candidates. Second, the complexity involved and commitment demanded of a CPPIB directorship are on par with major financial and investment institutions and comparable to the largest companies globally. CPPIB Directors fully engage in the activities of the Board and its schedule, which in fiscal 2016 included 29 regularly scheduled Board and committee meetings, in addition to the ongoing work by the Board and Committee Chairs, and regular engagement with the CEO, Senior Management Team and the organization as a whole.

Since the first CPPIB Board was appointed in October 1998, CPPIB has grown exponentially from a small organization managing $12 million in assets to a sophisticated global investment organization with 1,266 employees across seven offices, managing $278.9 billion. This growth trajectory will continue to significantly shape governance requirements going forward, as CPPIB builds the foundation for an organization capable of managing a Fund that is expected to reach more than half a trillion dollars by 2030.

CPPIB's Directors' compensation framework has not changed since 1998. Our longstanding belief has been that Director compensation should be neither an incentive nor a disincentive for a Director to serve CPPIB. Given the extensive, complex and demanding job requirements of CPPIB Directors, and notwithstanding the attractiveness of CPPIB's mandate, compensation has begun to loom as a disadvantage in retaining and attracting top Directors. Thus, as part of the normal two-year cycle of Director compensation review, the Board's Governance Committee undertook an extensive review of our Directors' compensation model this past year to identify a framework that would support strong governance performance and the recruitment and retention of outstanding Directors, while at the same time recognizing the public purpose of CPPIB.

More details on this new compensation framework for Directors can be found on page 91 of this report.

2. Stewardship of CPPIB's long-term investment strategy

When CPPIB was created through an Act of Parliament in 1997, the duties and responsibilities of the Board were comprehensively outlined. The Board was also tasked with establishing CPPIB's Statement of Investment Objectives, Policies, Return Expectations and Risk Management (the Investment Statement), which can be found on cppib.com.

The Investment Statement outlines the objectives, policies, standards and procedures used to manage CPPIB's investment portfolio. Specifically, it defines the key elements of CPPIB's strategy including return expectations for the Fund, acceptable investment categories, management of credit and other financial risks, and, responsible investing and proxy voting practices.

The Investment Statement also outlines the Board's responsibility as it relates to setting the target risk level of the Fund, expressed as the Reference Portfolio. In fiscal 2016, the Board continued to oversee the prudent and gradual evolution of the investment framework, including the approval of the Reference Portfolio, which the Board does on an annual basis. More detail on the Reference Portfolio can be found on page 28 of this report.

A key element of management's multi-year business plan is the international expansion of CPPIB, which the Board has fully endorsed. CPPIB now has seven offices internationally to support its pursuit of the most attractive opportunities globally and to manage the existing portfolio of assets.

The Board's oversight activities also include an annual review of CPPIB's operating budget. CPPIB now operates more than 25 distinct investment programs and these naturally come with increased expense. While we expect expenses will continue

Chairperson's Report

to increase in the years ahead as CPPIB continues to build scalable platforms *today* that will support *tomorrow's* economies of scale, I can assure you that any incremental increase in expenses will be measured, prudent, and made in pursuit of enhanced returns in the long term. The combination of both Fund growth and the maturity of our investment programs should result in improved cost efficiency.

There is no question that deferring, or discontinuing, many of the organizational investments that management is undertaking today would lower CPPIB's total operating costs. Yet, management is prudently building an enduring organization with diverse, internationally competitive investment programs with the capabilities to run them successfully. The Board, management, and in fact the entire organization, are committed to realizing efficiencies in CPPIB's operations to help ensure expenses are appropriate and in keeping with the growth and effective management of the Fund, which is expected to reach more than half a trillion dollars by 2030.

3. Engagement with CPPIB's business activities

As I noted in my report last year, our Board is a strong 'working board.' Every Director is deeply engaged, from a governance role, with CPPIB's business, strategy and oversight. While long term in nature, CPPIB's strategy is not static. We regularly work closely with management to review particular elements of strategy and to determine if and where refinements or adjustments might be prudent.

The rollout of CPPIB's international expansion strategy is one of the key elements on which we have been deeply focused. Geographical diversification of the portfolio is fundamental to CPPIB's investment strategy. We are convinced that building an on-the-ground presence in key markets is the best way to build effective relationships with key partners. This allows CPPIB to efficiently secure attractive investment opportunities and, importantly, to act as a critical risk management instrument in the oversight of CPPIB's growing global portfolio of assets.

However, international expansion is not a flag-planting exercise and CPPIB must take a measured approach in determining the number and location of its international offices. With the support of the Board, management has made adjustments to its growth targets along the way. The Board acts alongside management in evaluating office growth successes and prospects as well as broader future expansion opportunities.

Once international offices are opened, the Board continues to play a crucial oversight role. An international presence brings, along with advantages certain challenges and one of the questions the Board often poses to management is, "How is CPPIB working to maintain its high standards and unique culture across all offices?" The Board seeks evidence that appropriate safeguard tools are in place and that management is constantly working to ensure a consistent culture across CPPIB's growing global footprint. Just one example of CPPIB's approach to sustaining cohesion and a common culture across the organization is CPPIB's annual *Living our Guiding Principles* sessions with all employees.

During the year, the Board continued its active oversight of CPPIB's investment decisions, reviewing within the Board-approved framework, potential transactions proposed by management with particular attention paid to any risks associated in owning these assets in the context of the total portfolio. This year, the Board approved 28 major transactions totalling approximately $34 billion, and, the appointment of six investment managers.

In closing

All 1,266 employees of CPPIB worked tirelessly in fiscal 2016 to achieve the organization's prime objective. I regularly interact with CPPIB employees, and can tell you that CPPIB has attracted an exceptional calibre of talent in Canada and abroad. It is abundantly clear that the organization's purpose, as reflected in CPPIB's mandate to serve our beneficiaries and contributors over the long term, and Guiding Principles of Integrity, Partnership and High Performance, are constantly informing the work of our employees, of the Senior Management Team and, of the Board of Directors.

The dedication of our employees, management and the Board to CPPIB's mandate is second to none. I see this in each interaction I have with the organization and in the discussions and exploration sessions we hold at Board meetings. The Board of Directors and I are proud to be working for a noble Canadian cause in support of our beneficiaries and contributors. The high degree of respect that CPPIB engenders globally is a reflection of the people who comprise the organization.

On behalf of the Board, I take this opportunity to commend the Senior Management Team and all CPPIB employees on their work of the past year. The resolve of all of our people – across continents and nationalities – to use their judgment and talent to act in the best interest of the 19 million Canadians they serve is both a source of pride and a promise of future success.

Dr. Heather Munroe-Blum,
Chairperson, CPPIB

President's Message

Dear fellow contributors to and beneficiaries of the Canada Pension Plan,

Ten years ago, CPPIB made a strategic decision that fundamentally changed how we invest the CPP Fund on your behalf and how we run the organization. We moved away from passively managing the CPP Fund's investments to pursue an active management strategy to take advantage of our comparative advantages of scale, certainty of assets and long-term investment horizon. While this strategy required CPPIB to build a global organization of highly skilled professionals, adding meaningful costs, we had conviction it would create better risk-adjusted returns for CPP Fund contributors and beneficiaries over time.

This was not an easy decision. As a long-term investor pursuing an active strategy, we knew that a single year in isolation would not be a significant indicator. And, while we believe that a 20- or 30-year window would be a better timeframe to judge, 10 years is a solid basis to provide an initial assessment of CPPIB's performance under CPPIB's active management approach.

We measure the results of our active management strategy using a dollar value-added comparison of our investment portfolio returns, after all costs, to a Reference Portfolio comprising public market indexes. In other words, we compare our active management strategy to the simple passive investment alternative that we chose not to pursue a decade ago. Using this metric, over the last 10 years, our strategy has contributed $17.1 billion of investment income after all costs, which is equivalent to 80 basis points per year in excess annual returns. In addition to increased value, we believe the CPP Fund now has a more resilient, diversified portfolio that can better withstand market risks. This result shows that our strategy is on track to continue to deliver superior risk-adjusted returns, though we will continue to assess long-term performance.

We are proud of this result; it isn't easy to beat the market. However, we must remain focused on generating the best long-term returns to help ensure the sustainability of the CPP. It was 50 years ago that the CPP was established to provide a solid foundation for Canadians' retirement income, and we want to ensure that it celebrates its 100th anniversary and beyond. The Chief Actuary projects that the CPP Fund will need a 4.0% real rate of return in order to be sustainable over the next 75 years. Currently, our 10-year net real return is comfortably above this at 5.1%. In fact, CPPIB has generated $160.6 billion in investment income since inception, or nearly 58% of the $278.9 billion total Fund. The majority of this investment income, $125.6 billion, was generated in the past 10 years.

Economic climate.

Fiscal 2016 is just one year in our long-term strategy, but it was a year of contrasts, given the volatility in the global markets.

The Canadian economy had a rough time this fiscal year. Growth was tepid and the Canadian dollar experienced exceptional volatility – with a high of US$0.84, a low of US$0.68, and ending the fiscal year at US$0.77. Underlying these trends was the rapid and unpredictable decline of oil prices. West Texas Intermediate, the benchmark in oil prices, traded as low as US$26.55, the lowest level since 2003. These developments led to broad concerns about the Canadian economy with our country's equity markets falling 6.6% through our fiscal year.

South of the border, the United States was a bright star with real GDP growth of 2.4% in 2015. China also had strong growth of 6.7%, though it also struggled with the bursting of the equity market bubble and the devaluation of the yuan. Unfortunately, the U.S. and China were the exception, as global economic conditions were broadly negative. There was also incredible volatility in markets around the world.

Mark D. Wiseman, *President & CEO*

Global equity markets fell as investor sentiment took a negative turn with numerous developments, including the potential for the United Kingdom to leave the European Union and the continuing refugee crisis in Europe. Other than the U.S., all major indexes were in negative territory in local currency terms during our fiscal year. The average drop of developed international equity markets, without the U.S., was negative 10.8% in local currency terms.

The fourth quarter of fiscal 2016 tested the fortitude of long-term investors to look beyond short-term performance.

Our performance.

Despite the most challenging investment environment in recent years, the CPP Fund generated a moderate gain demonstrating the benefits of a resilient, highly diversified global portfolio. The Fund realized a net 3.4% return, after all CPPIB costs. CPPIB added $9.1 billion in net investment income after all CPPIB costs and, in addition, received $5.2 billion in net contributions from workers and employers.

By the end of our fiscal year, your CPP Fund had grown to $278.9 billion. This is an increase of $14.3 billion over last year and $95.7 billion over the last three years.

Fiscal 2016 was a record year with $11.2 billion of net dollar value-added compared to the Reference Portfolio of public market indexes, which experienced a -1.0% decline.

President's Message

This year's return, and all metrics, should be put in the context of CPPIB's long-term investment horizon. Short-term pressures can have a striking influence on results. For example, in calendar 2015, CPPIB generated a net 16.0% return, yet, due to the losses in the first quarter of calendar 2016 compared to the gains made in the first quarter of calendar 2015, our fiscal year generated a net 3.4% return.

Last fiscal year, we had our highest net return ever of 18.3%. In fiscal 2009, we had our largest loss of 18.8% due to the global financial crisis. We expect yearly results will continue to be volatile. Our current risk profile means we expect to incur losses of at least 11% one year in 10, but over time we expect to achieve superior long-term returns given the risk that we take.

Our long-term view can also be seen in our approach to currency hedging, which investors often use to stabilize the values of their international assets in Canadian dollar terms. At CPPIB our liability profile allows us to chart a different course where we don't hedge our foreign currency holdings to the Canadian dollar. This strategy periodically results in significant impacts on our financial results in any given year. For example, in fiscal 2010, we lost $10.1 billion due to the strengthening value of the Canadian dollar, while since fiscal 2010 we have gained $21.3 billion from a weakening Canadian dollar.

These results can be just as dramatic within a single year. In the second quarter of fiscal 2016, we gained $10.5 billion value from the weakening Canadian dollar, while in the fourth quarter, the Canadian dollar strengthened significantly and we lost $10.1 billion in Fund value. Fiscal 2016 ended with a total $5.2 billion in currency gains, or 1.9% of our total return. In order to hedge against this volatility, CPPIB would have spent a substantial sum for no expected benefit over the long term. It should be noted that our Reference Portfolio benchmark is also unhedged and, as such, even though currency movements affect our total returns, generally they do not result in value-add or loss against our benchmark.

These are just a few examples of short-term volatility that can impact investment results and create pressure to focus on yearly or quarterly results. CPPIB must remain focused on long-term returns as we are investing not just for today's beneficiaries, but generations of Canadian workers. This investment horizon means that times of economic volatility also provide opportunities for CPPIB as many other investors need to divest assets during such market conditions. Investing in these assets will help us plant seeds for long-term growth.

How did we achieve these returns?

1. Building a world-class investment firm

We are focused on building a highly sophisticated investment firm that can easily manage the Fund's increasing size.

In fiscal 2016, we continued to scale our investment programs, develop our talent, and invest in our systems and processes.

Employee development continues to be a priority with expanded and improved talent development initiatives, including the launch of a training program for new managers to equip them with leadership skills to develop their careers and their teams.

We now have multiple investment programs investing internationally. It is critical that CPPIB has an on-ground presence to access and evaluate investment opportunities and to closely monitor our assets. In fiscal 2016, we created a new office in Mumbai to have a physical presence in India. Our international operations account for approximately 30% of total operating expenses.

An inclusive environment, that promotes the best and brightest, is critical to encouraging a diversity of knowledge, ideas, and approaches that lead to better decision-making. By 2020, our goal is to have half of all of our new hires be women. In fiscal 2016, 46% were female, an increase of 2% over the previous year. At the end of fiscal 2016, there was 27% female representation at the Managing Director and Senior Managing Director levels, with overall female representation of 41% across all levels. While we are continuing to make progress, there is more work to be done to ensure that we are consistently hiring the most talented people across our organization.

2. Remaining a patient, long-term investor

CPPIB competes against the largest investors around the world for quality assets. When choosing assets, we are guided by our investment framework of building the CPP Fund over an exceptionally long horizon that considers long-term economic trends and is not driven by short-term market conditions. Unlike many investors, we never have to make an investment to fill a gap in a particular asset class or geography. We only invest when there is the prospect of an appropriate risk-adjusted return.

In fiscal 2016, we completed a number of investments with the potential to provide strong returns over the long term, including:

> Closing a US$12 billion transaction, with an equity investment of US$3.9 billion, to acquire Antares Capital, which provides access to a high-quality loan book in the U.S. middle market lending sector;

> Acquiring Informatica Corporation for approximately US$5.3 billion, alongside our partner, the Permira funds. Informatica is one of the world's top independent providers of enterprise data integration software;

> Committing an additional US$1 billion to the Goodman China Logistics Partnership (GCLP), established with Goodman Group in 2009 to own and develop logistics assets in Mainland China, which has now invested in 45 logistics projects in 16 Chinese markets.

3. Being ever aware of our purpose

Everything we do comes back to our commitment to CPP's 19 million contributors and beneficiaries. Not just in the way we act as investment professionals, but in how we conduct our business on your behalf, and we report to you on our progress. We're committed to providing you with a clear picture of the value that we provide and our strategy to maximize your pension fund's returns without undue risk of loss.

Our employees are the core of our organization and we are committed to their development. We held our third annual session for all employees on the same day across all offices to renew their commitment to our Guiding Principles of Integrity, Partnership and High Performance. I am encouraged by how our principles are firmly embedded into our culture, hiring, on-boarding and performance evaluation processes.

Allow me to focus for a moment on costs. Expenses have increased over the years as the investment portfolio has grown and as we have increased the proportion of assets that are managed internally. We incur these costs in pursuit of enhanced, long-term returns. CPPIB is focused on building an organization today, that will support a Fund that is expected to reach more than half a trillion dollars by 2030.

To be clear, these costs are not insignificant and we are committed to being transparent with Canadians with enhanced disclosure. This past year our operating costs were 32 cents for every $100 invested. For a full discussion on our costs, please see page 48. It's important to view all of our costs within the context of the return we generate on our investments. In order to secure prized assets, we must invest in our people, technology and physical infrastructure.

Reflections on the year.

The world economy continues to demonstrate that short-term forces too often cloud the ability of participants in capital markets to keep a focus on the long term. In years' previous, I have updated Canadians on my work with the *Focusing Capital on the Long Term* initiative that CPPIB co-founded to counteract short-term thinking in the economy.

We continued to push this initiative forward this year. Significantly, CPPIB led the development of a new S&P Long-Term Value Creation Global Index, comprised of companies that have demonstrated the ability to manage both current and future economic and governance opportunities and risks by focusing on a long-term strategy.

This year also put the issue of climate change firmly on the global agenda through the COP21 process. We recognize that climate change has the far-reaching potential to result in both direct and indirect financial implications for companies and long-term shareholder value. At CPPIB, we have a Sustainable Investing team that ensures that climate change is a key focus area of engagement with companies that we are invested in and that we fully consider these risks in our investment decision-making. We will continue to review our approach to climate change risks in light of global developments. For more information, please see page 42.

The year ahead.

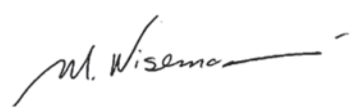
Last year, I wrote about our multi-year business plan to grow CPPIB in the next decade and the implementation of our new investment framework. Throughout this report, you will find details on our progress. In fiscal 2017, we will focus on four key areas to continue scaling investment programs and implementing capabilities. First, continuing to implement our enhanced investment framework. Second, developing talent with a focus on increasing diversity, early career hiring and building future leaders from within the organization. Third, expanding our global investing activities to develop a greater international presence. Fourth, delivering fundamental elements of an integrated, straight-through trade life cycle process for publicly traded securities which will be scalable to support CPPIB's future asset levels and investing activities.

To conclude.

Last year, I was honoured to take on the role of United Way Campaign Chair for Toronto and York Region for 2015. At CPPIB, we set an ambitious goal to raise $500,000 for United Way of Toronto and York Region and its member agencies, and I'm pleased to note that CPPIB employees contributed $850,000, a 68% increase over 2014 and a showcase of the generosity of our employees.

Finally, with mixed emotions, and after 11 years with CPPIB, I have decided to accept a leadership position with another investment organization, effective in September. Choosing to leave CPPIB was an incredibly difficult decision. I am so proud of what our organization has accomplished and of the success that I know that it will achieve in the future, as CPPIB continues to place as much emphasis on *how* work is done as on what work is done. I am confident that CPPIB will continue to deliver superior financial results and that, at the same time, it will always maintain its strong demonstration of its Guiding Principles. Knowing that CPPIB has exceptional leadership talent made my decision a little easier, and I couldn't be more pleased by the Board of Director's decision to name Mark Machin as my successor. The senior leadership team at CPPIB have spent a lot of time planning for CPPIB's long-term future. I know that all of the hard work to implement our strategy has firmly positioned CPPIB to achieve the objectives that the CPP's 19 million contributors and beneficiaries expect and deserve.

Last, and certainly not least, I thank our Board of Directors and my colleagues for a highly successful year, and their relentless commitment and support of our organization, today and into the future.



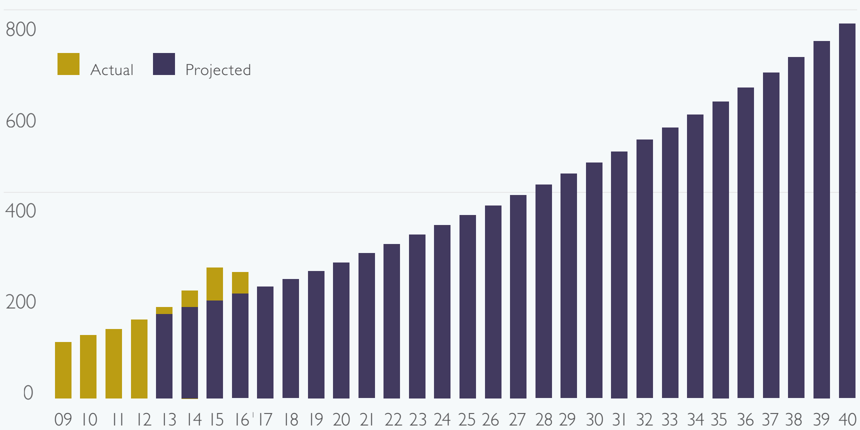
Mark Wiseman
President & CEO

Purpose

The CPP Fund has a critical purpose – to help Canadians build financial security in retirement. CPPIB's singular, long-term objective is to invest the Fund assets on behalf of the CPP's 19 million contributors and beneficiaries to maximize returns over the long term without undue risk of loss.

History and Projections of the CPP Fund

as at December 31 ($ Billions)

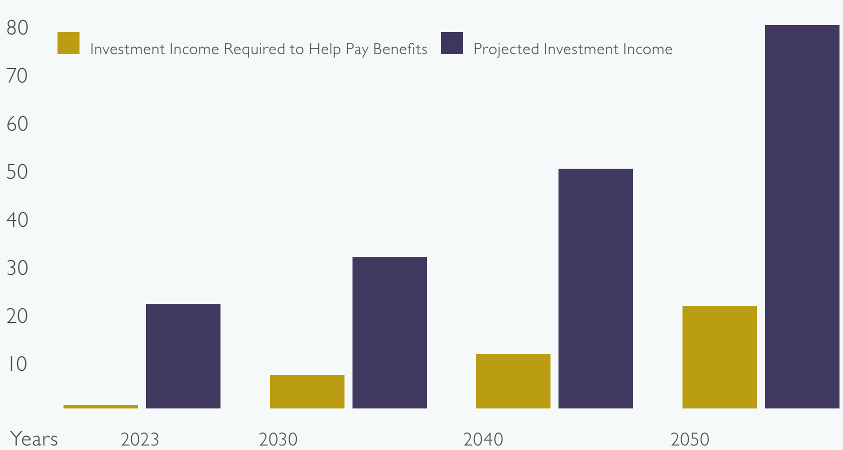


CPPIB's sole focus is investing the assets of the CPP. As at December 31, 2012, the Chief Actuary has projected that the CPP Fund will reach approximately $300 billion by the end of 2020. We have built, and will maintain, a professional investment organization capable of handling this substantial growth.

[1] Table modified by CPPIB to show fiscal 2016 actual assets under management, as at March 31, 2016.

Investment Income Required Starting at 2023

as at December 31 ($ Billions)



The Chief Actuary of Canada has projected that CPP contributions will exceed annual benefits paid until 2023, providing seven more years in which excess CPP contributions will be available for investment. Starting in 2023, the CPP is expected to begin using a small portion of CPPIB investment earnings to supplement the contributions that constitute the primary means of funding benefits.

75+
Years Duration of CPP Sustainability

7 Years
Before Investment Income needed to Pay Pensions

19 Million
Number of CPP Contributors and Beneficiaries

People

Chicago Skyway

We expanded our U.S. infrastructure portfolio with the acquisition of Skyway Concession Company LLC (SCC), alongside OMERS and Ontario Teachers' Pension Plan, for a total consideration of US$2.9 billion. CPPIB owns a 33.33% interest for an equity investment of approximately US$560 million. SCC manages, operates and maintains the 7.8-mile Chicago Skyway toll road under a concession agreement, which runs for another 88 years. An essential part of the Chicago network, it delivers reliability and time savings for its users in one of the busiest corridors in the U.S.

(l–r) Andrew Alley, Bruce Hogg, Yiyi Yang, Adam Thouret
Not pictured: Esper Nemi

Cash and Liquidity Group

The Cash and Liquidity Group is a new function within Global Capital Markets. Working in partnership with Treasury Services and Total Portfolio Management, the group coordinates and optimizes funding and liquidity to prudently manage CPPIB's overall balance sheet. Sources of funding such as the issuance of commercial paper and medium term notes provide flexibility in meeting cash requirements that may not match cyclical flows from the CPP. We manage a pool of liquid securities to ensure coverage of all expected cash outflows under stressed market conditions, and to provide capital for future investments.

(l–r) David Mitchell, Derek Miners, Kevin Cunningham, Daanish Hasan, Chris Roper

Performance

In pursuit of maximizing returns, our investment strategies and Total Portfolio Approach underlie our deep commitment to deliver the long-term returns needed to help keep the CPP sustainable over many generations. Our success depends on building a high-performing global workforce to execute our long-term active management strategy. Our public purpose, global reputation and strong, principled culture enable us to attract high-calibre professionals from around the world with the experience and expertise needed to handle significant asset growth and complex investments through our prudent and responsible long-term strategy.

$278.9 Billion
CPP Fund at March 31, 2016

$9.1 Billion
Net Investment Income After All CPPIB Costs in Fiscal 2016

6.8%
10-Year Annualized Rate of Return (net nominal)

3.4%
Fiscal 2016 Rate of Return (net nominal)

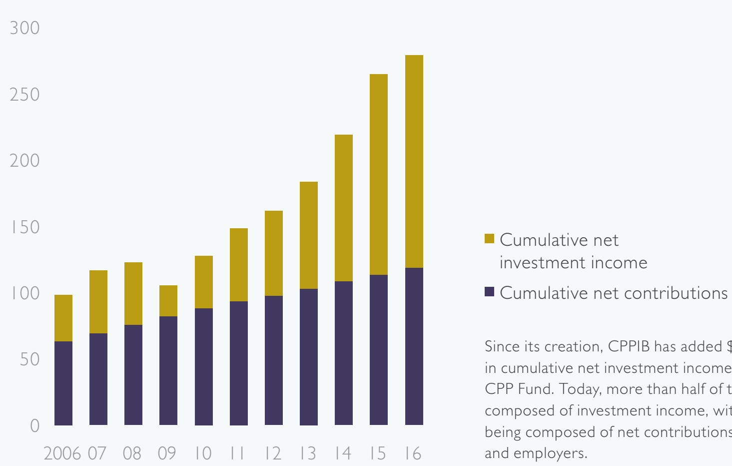
$125.6 Billion
Cumulative Investment Income for 10-Year Period Ending March 31, 2016 (net of all costs)

$132.9 Billion
Investments in Private Assets

$71.7 Billion
Implied Assets Under Management for Active Public Market Programs

Growth of the CPP Fund

As at March 31 (C$ Billions)



Since its creation, CPPIB has added $160.6 billion in cumulative net investment income to the CPP Fund. Today, more than half of the Fund is composed of investment income, with the remainder being composed of net contributions from employees and employers.

People

Goodman China Logistics Partnership

We committed an additional US$1 billion to our existing joint venture with Goodman Group, the Goodman China Logistics Partnership (GCLP), consistent with our 80% ownership interest. To date, CPPIB has committed US$2.6 billion to the successful GCLP joint venture, which owns and develops logistics assets in Mainland China. Since its formation in 2009, the joint venture has invested in 45 logistics projects in 16 Chinese markets. We continue to see strong demand in core markets, driven primarily by e-commerce and domestic consumption.

(l–r) Guy Fulton, Jimmy Phua, Kay Fan

Global Corporate Securities – Fundamental Investing (GCS-F)

The GCS-F team conducts sector research to determine a specific company's intrinsic value and build long/short portfolios based on the findings. Leveraging insights from this research, GCS-F then executes positions in various global companies through public market securities. This year, for example, GCS-F conducted an in-depth evaluation of structural changes taking place in the energy industry. Amid sector volatility, the team made security selection decisions through rigorous investigation that determined distinct qualities of long-term value, independent of the direction of oil prices.

(l–r) Jocelyn Wu, Greg Cohen, David Yuen, Bill MacKenzie, Aaron Duxbury, Benny Yeung, Jonathan Yach

Advantages

CPPIB benefits from the CPP Fund's exceptionally long investment horizon, certainty of assets and scale. We have also developed a world-class investment team, aligned with top-tier external partners that complement our internal capabilities, and a disciplined, prudent long-term approach to managing the total portfolio. While no single advantage is unique to our organization, the combination of these comparative advantages provides a strong foundation for investment programs and global competitiveness that help us achieve our long-term objectives.

Our Corporate Advantage

Long-Term View

The 75-year scope of the Chief Actuary's CPP projection enables us to view opportunities, returns and risks over decades, not quarters or years. We are able to withstand short-term losses, staying the course on investments in pursuit of enhanced long-term returns.

Certainty of Assets

The CPP will collect excess contributions until 2023, providing incoming cash for new investments and allowing us to build and adjust our portfolio with discipline.

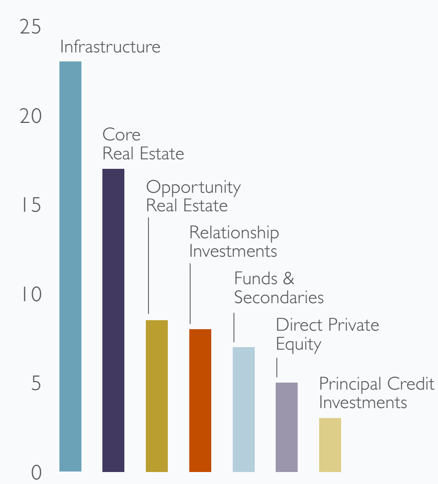
Size and Scale

As one of the largest retirement funds in the world, we can access major opportunities globally that few others can, including in private markets.

Total Global Employees

1,266

CPPIB Expected Average Hold Periods by Asset Type (Years)



People

Antares Capital

A significant investment this year was the acquisition of Antares Capital, through Antares Holdings, a subsidiary of CPPIB Credit Investments Inc., alongside Antares management, for a total consideration of approximately US$12 billion. CPPIB Credit Investment's equity investment was US$3.9 billion. Antares is a leading lender to middle market private equity sponsors in the U.S. Our Principal Credit Investments, Direct Private Equity and Portfolio Value Creation groups collaborated on this transaction, which enabled us to create turn-key scale in the sector.

(l–r) Michael Douglas, Peter Busse, Ryan Selwood, Adam Vigna, Tom Kalvik, Paras Vira

S&P Long-Term Value Creation Global Index

Through the collaboration of cross-functional teams, CPPIB led the development of the new S&P Long-Term Value Creation Global Index, created as a powerful tool to focus markets on the long term. Six of the world's largest institutional investors, including CPPIB, supported this initiative, and CPPIB allocated $1 billion to an internally managed program to track the newly formed index. The index comprises companies with above average potential for long-term value creation based on economic sustainability and financial quality.

(l–r) Anu Gurung, Philippe Zaugg, Poul Winslow, Matthew Bianco, David Tien
Not pictured: Colin Carlton

Global Perspective

As a sophisticated, global investor, we invest across geographies and asset classes to enhance long-term returns and build a resilient, broadly diversified portfolio.

Enabled by our scale, we seek the most attractive investment opportunities around the world to benefit from global growth and reduce the CPP Fund's dependence on returns in any one country, currency or region.

We continue to enhance CPPIB's reputation as a trusted partner, able to contribute expertise and participate in major investment opportunities alongside like-minded organizations with a strong local presence.

Today, we have international offices in Toronto, Hong Kong, London, Luxembourg, Mumbai, New York and São Paulo, broadening CPPIB's global reach and internal capabilities. Our local teams seek new investment opportunities, foster relationships with partners and closely monitor our existing assets.

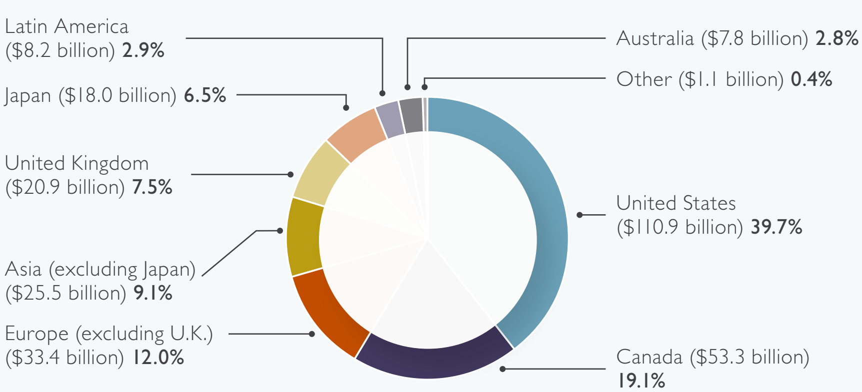
45
Total Number of Countries in Which We Have Private Holdings

219
Global Investment Partners

180
Total Number of Global Transactions in Fiscal 2016

Global Diversification by Region

As at March 31, 2016



$53.3 Billion
Total of Canadian Assets

$225.8 Billion
Total of International Assets

People

Homeplus

We expanded our portfolio in the South Korean retail market with an investment in Homeplus, alongside MBK Partners and other like-minded investors. CPPIB acquired a 20.0% stake in Homeplus for US$534 million. Homeplus is one of the largest multi-channel retailers in South Korea and the number two player in both the hypermarket and supermarket segments. South Korea remains an attractive retail market, offering stable long-term investment opportunities.

(l–r) Karan Saraf, Brian Lam, Suyi Kim, Frank Su, Chen Ni

Unibail-Rodamco Germany

A strategic focus for Real Estate Investments is to acquire equity interests in high-quality real estate operating companies to strengthen relationships and secure future investment opportunities alongside best-in-class operators. Our acquisition of a 46.1% interest in URG, the German retail operating platform of Unibail-Rodamco, for an initial equity investment of up to €394 million, provides CPPIB with access to a leading shopping centre owner, operator and developer. URG's portfolio consists of seven existing shopping centres and one development across Germany. URG also provides third-party asset management services for an additional 17 shopping centres.

(l–r) Andrea Orlandi, Jasmin Hu, Kristian Smyth, Rod Carnan

Global Investments

1

4

7

2

5

8

3

6

9

NORTH AMERICA

1. Antares Capital

Chicago, U.S.
US$12 billion

100% ownership of a leading lender to middle market private equity sponsors in the U.S.

2. Skyway Concession Company

Chicago, U.S.
US$560 million

33.33% ownership in the toll road company, which manages, operates and maintains the 7.8-mile Chicago Skyway

3. Informatica

Redwood City, U.S.
US$5.3 billion

Jointly acquired one of the world's top independent providers of enterprise data integration software, with Permira

4. Petco Animal Supplies

San Diego, U.S.
US$4.6 billion

Jointly acquired a leading specialty retailer of premium pet food, supplies and services, with CVC Capital Partners

5. Aston Gardens JV

Florida, U.S.
US$555 million

Joint venture with Welltower to purchase a 97.5% interest in a portfolio of six seniors housing properties

6. U.S. Student Housing JV

United States
US$1.4 billion

Formed joint venture with GIC and The Scion Group to acquire a leading student housing portfolio in the U.S.

7. Wolf Infrastructure

Calgary, Canada
C$1 billion

Initial commitment to invest in the midstream energy infrastructure sector in Western Canada through this investment vehicle

8. Minto High Park Village

Toronto, Canada
C$105 million

60% ownership of a multi-family rental property located in the highly desirable High Park neighbourhood

9. Enstar Group

Bermuda
US$378 million

14% ownership in the global specialty insurance company and market leader in acquiring and managing closed blocks of property and casualty insurance

10

12

14

11

entertainmentOne

13

15

16

EUROPE

10. Unibail-Rodamco Germany

Düsseldorf, Germany
€394 million

46.1% ownership in the German retail platform, forming a joint venture with one of the largest retail REITs in Europe

11. Paradise Birmingham Development

Birmingham, U.K.
£150 million

Extended regional joint venture with Hermes by committing to a 50% share in the first phase of the mixed-use development

12. Goodman U.K. Logistics Partnership

United Kingdom
£200 million

33% interest in Partnership to invest in high-quality U.K. logistics and industrial development opportunities

13. Entertainment One

Canada, U.K., U.S.
£194 million

19.8% ownership in a leading international distributor of film, television and family entertainment content

ASIA

14. Postal Savings Bank of China

China
US$500 million

Invested in the common equity of PSBC, China's largest bank by customers and distribution network

15. Homeplus

South Korea
US$534 million

20.0% ownership in one of the largest multi-channel retailers in South Korea and number two player in the hypermarket and supermarket segments

16. Goodman China Logistics Partnership

China
US$1 billion

Additional commitment to joint venture that owns and develops logistics assets in Mainland China

Senior Management Team

Left to right:

Mark G.A. Machin
Senior Managing Director &
Head of International;
President, CPPIB Asia Inc.

Appointed as President & CEO, effective June 13, 2016

Eric M. Wetlaufer
Senior Managing Director & Global Head of Public Market Investments

Michel R. Leduc
Senior Managing Director &
Global Head of Public Affairs and Communications

Nicholas Zelenczuk
Senior Managing Director &
Chief Operations Officer

Mark Jenkins
Senior Managing Director &
Global Head of Private Investments

Patrice Walch-Watson
Senior Managing Director, General Counsel & Corporate Secretary

Mark D. Wiseman
President & Chief Executive Officer

Until June 12, 2016

Benita M. Warmbold
Senior Managing Director &
Chief Financial Officer

Edwin D. Cass
Senior Managing Director &
Chief Investment Strategist

Graeme M. Eadie
Senior Managing Director &
Global Head of Real Estate Investments

Pierre Lavallée
Senior Managing Director &
Global Head of Investment Partnerships

Mary Sullivan
Senior Managing Director &
Chief Talent Officer

Key Operational Highlights

Scaling Our Investment Programs – by growing in chosen major markets around the globe

> Public Market Investments added new strategies and products to Short Horizon Alpha, Global Tactical Asset Allocation and Global Corporate Securities.

> Committed $14.7 billion in Investment Partnerships including the acquisition of a 20.0% stake in Homeplus, one of the largest multi-channel retailers in Korea.

> Committed $21.2 billion in Private Investments including the acquisition of Antares Capital, a leading provider of financing solutions to middle market private equity sponsors in North America, supporting our strategy to achieve scale in key sectors through platforms.

> Committed $9.0 billion in Real Estate Investments including the joint acquisition of University House Communities Group, a leading student housing portfolio in the U.S.

> Increased staff in our international offices to 204 from 173 including six professionals in our newly opened Mumbai office. International staff account for about 16% of our total workforce and include staff from all our investment departments as well as selected roles from our Finance, Tax and Human Resources functions.

> Grew our investments outside Canada from $201.0 billion to $225.8 billion during the year; this represents 80.9% of our total assets.

Developing Talent – with a focus on increasing diversity, early career hiring and building future leaders from within our organization

> Added 248 people during the year, including 13 Managing Directors and Directors across the investment and core services departments.

> Expanded and improved our talent development initiatives including the launch of a training program for new managers to equip them with leadership skills and tools to build talent from within.

> Established a partnership with Women in Capital Markets (WCM), the largest network of professional women in the Canadian financial sector, and introduced a new women's internship program to encourage women to join CPPIB.

> Provided more opportunities for employees to receive cross-functional training via secondments and international assignments.

> Increased campus hiring for both full-time and summer internship roles.

> Reinforced and renewed employee commitment to our unique culture through the annual *Living our Guiding Principles* sessions held across the entire organization.

Implementing Our Enhanced Investment Framework – following the approval of the enhanced investment framework in fiscal 2015 to bring greater focus on total long-term returns

> Introduced the Strategic Portfolio, our long-term vision for the asset and geographic diversification of the Investment Portfolio five or more years into the future, and the Target Portfolio Ranges, our plan for how we will actually invest assets today and the coming fiscal year as we move toward the longer-term vision.

Implementing the Revised Incentive Compensation Structure – to align with the enhanced investment framework

> Rolled out a new incentive compensation program to better align compensation with three performance factors: total Fund return and added value, department and group performance, and individual performance; and simplified our investment program performance benchmarks for fiscal 2017 to align with the enhanced investment framework.

Delivering Foundational Elements of an Integrated, Straight-Through Trade Life Cycle Process for Publicly Traded Securities – which will be scalable to support CPPIB's future asset levels and investing activities

> Began development and implementation of new trade execution and processing systems to support listed and over-the-counter securities across our public market portfolios.

Evolving Our Compliance Practices – in accordance with growing trade volumes, new products, increasing global activity and related external regulatory requirements

> Established a standalone Central Compliance group to advise, coordinate and monitor organization-wide compliance, and deployed a new compliance management system to provide meaningful and specific risk-based compliance tracking and reporting.

Our Mission and Investment Strategy

How We Manage the CPP Fund

OUR INVESTMENT OBJECTIVE

CPPIB is governed by the *Canada Pension Plan Investment Board Act*. It directs CPPIB to invest "with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the Canada Pension Plan (CPP)."

The Act sets no specific investment requirements. There are no geographic, economic, development or social limitations. While the federal and provincial finance ministers are the stewards of the CPP Fund, they do not direct us to follow any particular investing path. As a result, we have a single and unambiguous investment objective and responsibility: to maximize long-term returns at an appropriate level of risk.

OUR PURPOSE

The CPP Fund is managed independently of governments. All the assets in the Fund are entirely separate from any governments' assets. Unlike Old Age Security, CPP benefits do not come from tax revenues and are not backed by them. Contributions that plan members and employers pay into the CPP are not a tax but rather an investment in the Fund, whose sole purpose is to help support the CPP. The money needed to pay CPP benefits comes from only two sources:

> Contributions from plan members and their employers, based on employment earnings covered by the CPP; and

> Investment returns earned on the CPP Fund.

At the inception of the CPP in 1966, the rate of contributions was set quite low but with the clear expectation that it would rise over time. By 1997 serious concern had arisen about the long-term viability of the CPP, despite several contribution rate increases. In response, the federal and provincial governments worked together to place the CPP on a more secure financial footing.

They made two major changes. First, they introduced a system to set contribution rates at a long-term, stable level. Second, they reformed the rules so that the CPP Fund could invest in more than just non-marketable Canadian federal, provincial and territorial bonds.

One of the most significant outcomes of the 1997 reforms was the creation of the CPP Investment Board to take over investment management of the CPP Fund. Operating as an independent organization, our sole purpose is to generate investment returns that will help sustain the Canada Pension Plan indefinitely into the future.

In 1998, the Fund comprised only CPP Bonds, with a fair market value of $44.9 billion. Since then, we have built a professional investment organization and executed an investment strategy that has generated $160.6 billion in net investment income to date. Together with the $73.4 billion from CPP contributions (after benefit payouts), the Fund has grown to its current fair value of $278.9 billion. That money is invested in a wide range of assets across the globe.

With its breadth and depth of expertise, our team remains dedicated to the continuing growth of the CPP Fund. But managing a fund successfully is not only about investment skills and techniques – it is equally about the organization's culture.

We have developed a strong and unifying culture founded on our Guiding Principles – Integrity, Partnership and High Performance. All new employees receive in-depth orientation on the meaning and consequences of these Guiding Principles. In addition, all staff members attend an intensive workshop every year devoted to reviewing the Principles, discussing how they apply through case studies, and reinforcing their use in everyday duties. Our regular performance reviews include an assessment on whether employees demonstrated these principles in their work.

INDEPENDENCE WITH ACCOUNTABILITY

Canadians expect the CPP to remain free from political interference. Under the 1997 CPP reforms, the federal and provincial finance ministers enshrined that independence with carefully written legislation. It ensures that we can, and do, operate at arm's length from any government.

We make decisions based solely on investment considerations for the long-term benefit of the CPP, not influenced by any other political or policy objective.

To maintain the public's trust, we operate in an accountable and highly transparent way. This includes:

> Explaining on our public website who we are, what we do and how we invest;

> Disclosing our investment activities;

> Issuing timely reports about our assets, portfolio and performance results; and

> Complying fully with all legislative requirements, such as public meetings every two years.

CPP members and beneficiaries can take comfort in knowing the 1996–97 reforms cannot easily be changed. Amendments to the governing CPP and CPPIB legislation require agreement by the federal government plus two-thirds of the provinces representing two-thirds of the population. This is a higher requirement than for changes to the Canadian Constitution.

WHAT DIFFERENTIATES US

The nature of the CPP Fund, our culture, our expertise and the strategic choices we make give us several comparative advantages in investing the Fund. While no single advantage is unique to CPPIB, they reinforce each other to create a strong foundation for our investment programs and global competitiveness.

OUR INHERENT ADVANTAGES

The nature of the CPP Fund itself gives us three distinct structural advantages:

Long horizon – By law and its purpose, the CPP must serve Canadians for many generations to come. As a result, the CPP Fund has an exceptionally long investment horizon. In many instances, we assess the prospects of our strategies and potential returns and risks over decades, not years or months. Other market participants are often forced to take a short-term approach because of business pressures or legislation. We can benefit from the opportunities these shorter-term investors create. We can also take advantage of investments they ignore or that are not available to them.

Certainty of assets to invest – The CPP Fund's cash flows and future asset base are largely certain and stable. We can be reasonably sure about the contributions flowing into the Fund and the benefits being paid out over several years to come. We expect annual contributions will exceed annual benefits for at least the next seven years. Beyond that, annual cash income from the investment portfolio will more than cover net payments to CPP beneficiaries. We do not foresee a need to sell off investments to pay CPP benefits. Nevertheless, we always maintain sufficient liquidity in the Fund to make major new investments and to adjust the total portfolio mix at any time. This certainty reinforces CPPIB's ability to act as a long-term financial partner in major transactions.

Scale – As one of the largest funds in the world, we can access major opportunities globally for which few others can compete. We are able to make substantial investments in private markets, and employ public market strategies that are not readily accessible to many investors. In addition, our size enables us to build highly skilled in-house teams. We can also develop the investment technology and operational capabilities needed to support our wide range of strategies. By handling many of these activities ourselves, we ensure we have the most cost-effective global investing platform for these strategies.

OUR DEVELOPED ADVANTAGES

The choices we make as an organization afford us three key strategic advantages:

Internal expertise – We employ a world-class investment team that combines depth, experience and broad expertise, both in managing assets internally and working with external partners. We are able to attract high-calibre professionals from around the world. They recognize and appreciate our global reputation, professional investing environment, principled culture and critical purpose.

Expert partners – Internal capabilities alone could not match the variety and innovation of global capital markets and investment strategies. Accordingly, we also seek out the varied specialist expertise of many top-tier external partners. They research and offer access to major investment opportunities; provide in-depth, on-the-ground analysis and experience; and supply ongoing asset management services. In turn, they value CPPIB as a highly knowledgeable investor and a trusted financial partner with long-term staying power.

Total Portfolio Approach – In managing the CPP Fund's investments we use a particular approach to managing the total portfolio that looks beyond asset class labels such as "real estate" and "alternatives". With the Total Portfolio Approach, we delve into the fundamental and more independent return-risk factors underlying each investment and program. This allows us to better understand various risk exposures and continuously combine them into a coherent total portfolio. We expect this portfolio to maximize long-term returns at the total risk level targeted for the Fund. More details about the Total Portfolio Approach are described on page 31.

CURRENT AND PROJECTED STATUS OF THE CPP FUND

Every three years, the Chief Actuary of Canada reviews the contribution rate required to sustain the CPP over the next 75 years. This review takes many factors into account, including:

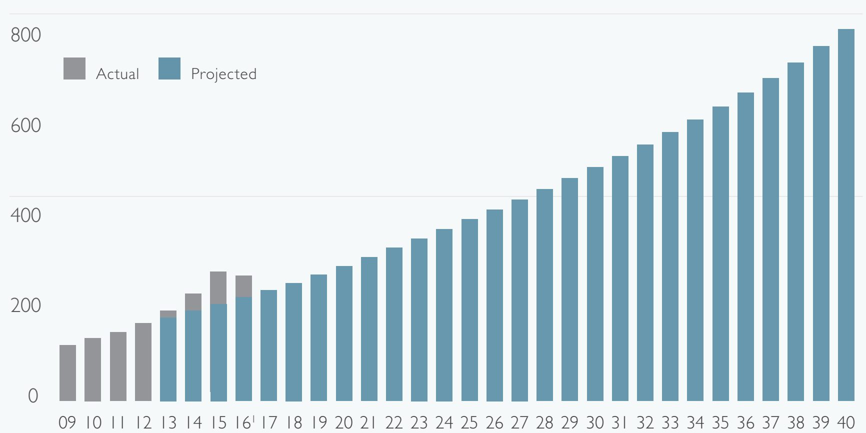
> The growing base of contributors and employment earnings;

> The rising number of pensioners compared to employees, as baby boomers retire; and

> Increases in life expectancy.

HISTORY AND PROJECTIONS OF THE CPP FUND

As at December 31 ($ billions)



The December 31, 2012, review projected that the CPP Fund will grow to approximately $300 billion by 2020. At a current value of $278.9 billion, the Fund is well on track towards that level.

1 Table modified by CPPIB to show fiscal 2016 actual assets under management, as at March 31, 2016, of $278.9 billion.

The most recent actuarial review was conducted as of December 31, 2012, and released in December 2013. It again concluded that the CPP can maintain pension benefits by keeping contributions at the current legislated rate of 9.9% of covered earnings – an amount shared equally between employees and employers.

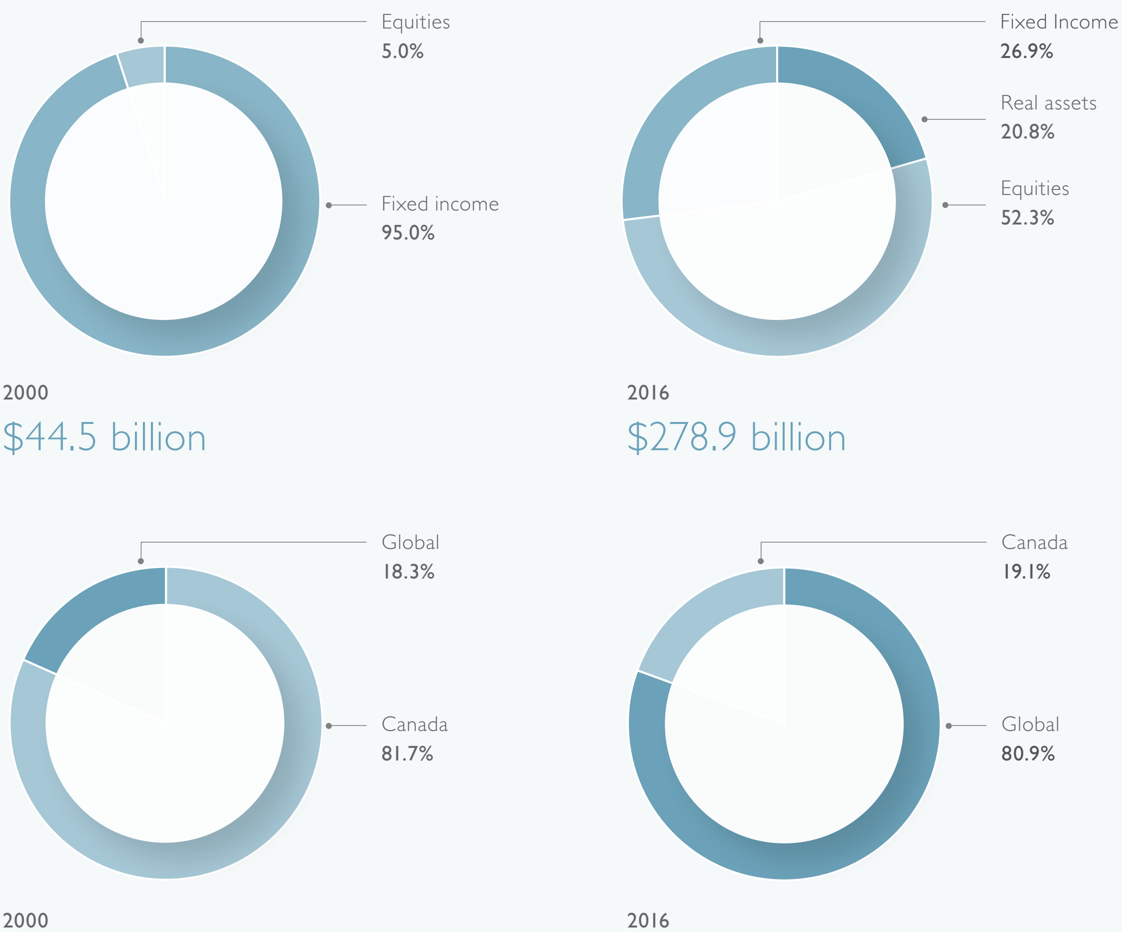
A key assumption in the review is that, over the long term, CPP Fund investments will earn a compound rate of return of 4.0% per annum above the Canadian consumer price index inflation rate. This figure is after deduction of all investment costs and operating expenses.

Based on very long-term projections, the Chief Actuary estimates that contributions will cover 75–80% of future CPP benefits, with investment returns covering 20–25%. In other words, contributions will be three to four times as important as investment returns in sustaining future CPP benefits. This is very different than most fully funded defined benefit pension plans, which rely on investment returns to provide the larger share of long-term benefits. The CPP's partially funded structure means that investment returns have a secondary impact on maintaining the CPP relative to the collective effect of real wage growth and demographic developments such as longevity, immigration and employment growth. In the shorter term, fluctuations in returns generally have only a modest effect on the minimum contributions required under the Chief Actuary's assessment. This resilience is a key factor when we determine the level of risk that is prudent when seeking to maximize long-term returns.

The Chief Actuary has projected that CPP contributions will exceed annual benefit payments until 2023. The CPP is then expected to begin using a portion of the Fund's investment earnings to supplement the contributions. The chart on page 21 shows the actual value of the Fund assets and the Chief Actuary's projected values.

HISTORICAL ASSET AND GEOGRAPHY MIX COMPARISON

As at March 31



Our Investment Strategy

In this section, we explain our approach to investing to meet the Fund's objectives. We begin with a brief history of how the investment strategy has evolved over the years.

OUR INVESTMENT HISTORY

Before CPPIB started managing the investments of the CPP Fund, the Fund consisted of only Canadian federal, provincial and territorial bonds that were not traded on the open market.

HOW WE CREATE VALUE FOR THE CPP FUND THROUGH ACTIVE MANAGEMENT

CPPIB made the strategic decision to move to a greater degree of active management in 2006. In the ten years since then, active management has added $17.1 billion of value to the Fund, after all costs and operating expenses. This figure is over and above the returns represented by our low-cost passive benchmark, the Reference Portfolio (see page 28). Given the ever-changing nature of capital markets and our maturity as investors, we believe we should actively manage the Fund's long-term investment portfolio. Even in those instances where we choose to structure a part of the portfolio as a passive market index, we make active decisions about the size and composition of each strategy.

Here are highlights of the steps taken to supplement the initial endowment of CPP bonds:

1999	Invested for the first time in publicly traded Canadian and foreign stocks, by mirroring broad stock market indexes.
2001	Launched investment programs in private equity and real estate, initially through external funds and in later years increasingly through direct investments.
2003	In-house investment staff took on the management of our index-based equity portfolios.
2004	Started investing actively in equities and acquired our first infrastructure assets, such as toll highways, water supply facilities, and electrical power generation and transmission systems.
2005	The government removed all limits on Canadian pension and retirement fund investments in non-Canadian assets. We started broadening our investments in both developed and emerging economies, which has steadily reduced the Fund's dependence on the narrowly based Canadian economy and capital markets.
2006	Made the strategic decision to move away from largely index-based investments towards the more active selection of investments. The intent is to capitalize on our comparative advantages to achieve net returns significantly higher than those available from passive index investments. We established the low-cost, readily investable Reference Portfolio as the passive investment benchmark.
2007	Began building major holdings of Canadian and Group of Seven industrialized country (G7) government bonds (beyond the legacy CPP bonds inherited from 1998), in order to maintain the desired balance of equity and debt investments in the total portfolio.
2009–2016	Expanded into private debt and commercial property mortgages (2009), intellectual property such as drug patent royalties (2010), agricultural land and other resource holdings (2013), and thematic investing (2014). We have also significantly broadened the range and size of public market strategies managed with external partners. We also began investing in operating companies with experienced management teams, or platform investments, as an efficient way to build scale in an asset class or sector.

Systematic and Non-systematic Risk

Investment returns cannot be achieved without accepting some form of risk – there is no free lunch. Investors face two general types of risk: *systematic* and *non-systematic*.

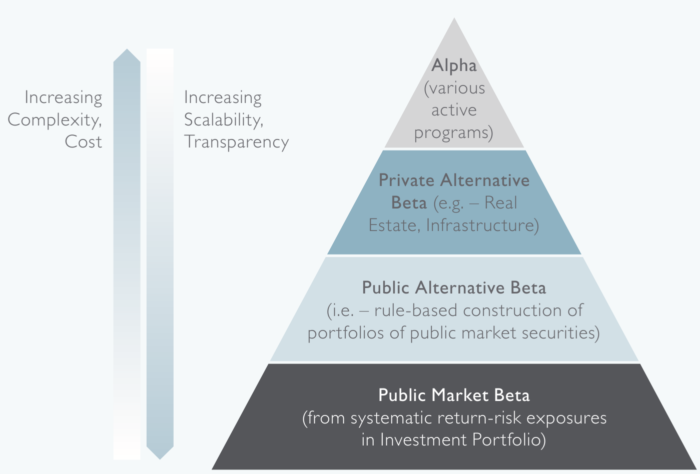
> **Systematic risks stem from common factors that affect all investments of a particular type. These risks can be diversified, but not eliminated. The market returns earned over time from systematic risk are often called "beta".**

> **Non-systematic or "idiosyncratic" risks are those introduced by specific investments and the portfolio manager's decisions. The returns from non-systematic risks are often called "alpha". Diversification of holdings within specific investment types can substantially reduce non-systematic risk, but doing so also reduces potential alpha.**

Our strategic choice to manage the Fund actively is not made lightly. Many investors seek above-market, risk-adjusted returns. Few consistently achieve them. Active management increases costs and complexity, and introduces additional risks. Our managers must measure their results against passive alternatives (net of all costs) and must continually assure themselves and the Board that they can expect sufficient additional returns, relative to risk, to justify active management. In order to succeed we retain strong and sufficient internal expertise, effectively use complementary external expertise that is aligned with the Fund's purposes, and strive for operational excellence. And to sustain long-term success in active management we must remain patient, disciplined and thoughtful to evolve successfully.

Clearly, we must understand the distinct sources of the returns from active management. For each investment program, we identify a benchmark market index or blend of indexes that best represents the systematic risks inherent in the intended holdings in the program. The return on this benchmark is the systematic element, i.e. beta. The value added by management, i.e. alpha, is the excess return of the program over its benchmark return.

ALPHA/BETA SOURCES OF RETURN



THE THREE COMPONENTS OF TOTAL PORTFOLIO RETURN

Total portfolio returns are driven by three key components:

1. Diversification of assets and systematic risks;
2. Investment selection; and
3. Strategic management.

Here is a closer look at the ways we use active management to create value for the CPP Fund.

1. DIVERSIFICATION OF ASSETS AND SYSTEMATIC RISKS

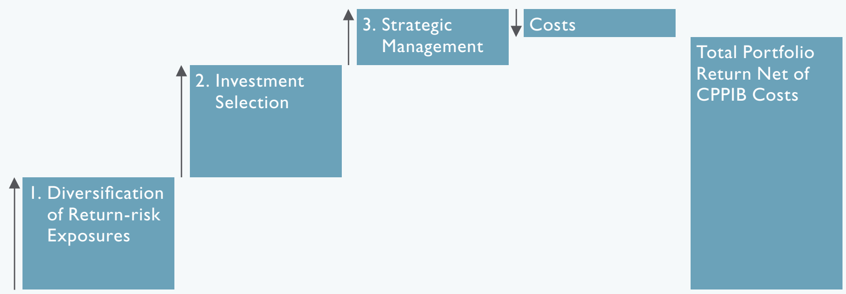
We seek sustainable returns by maintaining significant investments in almost all of the primary asset classes and systematic risks, in both developed and emerging markets around the world. Within and across these markets, we diversify active investment strategies by employing over 25 distinct investment programs.

We balance the total portfolio globally across three main types of investment:

a) **Public markets securities.** We profit from economic growth by having equity ownership or credit investments, such as corporate bonds, in public corporations around the world. To help balance total risk, the Fund also has meaningful holdings of government bonds. These investments provide both returns and liquidity to the Fund, and also value-added from a wide variety of focused and innovative active strategies.

In many of our public markets strategies, we take long positions in assets that are expected to grow alongside short positions in assets of a similar type but which are expected to decline. As a result, the programs can generate value regardless of the direction markets take.

THE THREE COMPONENTS OF TOTAL PORTFOLIO RETURN



Long and Short Investing

A long investment is one that generates a return when the underlying asset increases in value. An example is a traditional stock purchase. A short investment is one that generates a return when the underlying asset decreases in value. An example is short selling, in which the investor sells a stock that he/she has borrowed, and repurchases it later to pay off the stock loan; if the stock's price then is lower than the original selling price, the investor has made a positive return.

Because we take long and short positions and use derivatives, simply measuring the net assets in our active public markets programs understates their full impact on the portfolio. In order to compare them fairly with the rest of the Fund, we calculate what we call an implied amount of assets under management that these programs would represent. The chart below shows the growth of our active public market investments using this measure.

b) **Private company investments.** We invest substantially in the equity and debt of privately held companies. These can provide the same kind of returns as comparable public companies, but in addition, well-selected private company investments are expected to deliver extra returns to compensate us for their illiquidity and provide other premiums over the long term that more than compensate their higher costs and the different forms of risk they bring.

c) **Real assets.** These assets generate returns from very different fundamental sources. They include investments in real estate, infrastructure, agricultural land and natural resources, held primarily through private partnerships or other entities. Again we may take equity or debt interests in these assets.

We have made a major commitment to capitalize on our comparative advantages by investing in private markets. Over the long term, many private markets are expected to provide better net returns than the nearest public equivalents. With their potential for large transactions, private markets fit our advantages of scale and certainty. Our long investment horizon also applies as we are well positioned to capture the premium for illiquidity associated with private investments. In addition, the special expertise that we and our world-leading partners can bring is a particular differentiating and durable feature for success in private markets.

The chart below shows the growth of our private investing programs.

The key to sound diversification is to understand both the short-term volatilities and the long-term risks underlying each broad investment area and each investment program, and how they relate to each other. Only those investment areas and programs that have fundamentally distinct sources of value creation can offer true diversification. The risk and expected return of the total portfolio depends primarily on how we choose to combine active risk exposures, together with any leverage (borrowing) we use to achieve the targeted risk level in pursuit of additional returns.

GROWTH OF ACTIVE INVESTMENTS IN PUBLIC MARKETS

ASSET TYPE ($ billions)	2005	2010	2015[1]	**2016**
Implied Assets Under Active Management	1.4	16.2	66.3	**71.7**

GROWTH OF PRIVATE MARKETS INVESTING PROGRAMS

ASSET TYPE ($ billions)	2005	2010	2015[1]	**2016**
Private Equity	2.9	16.1	50.4	**53.8**
Real Estate	0.4	7.0	30.3	**36.7**
Infrastructure	0.2	5.8	15.2	**21.3**
Private Debt	0	0.9	8.0	**17.0**
Private Real Estate Debt	0	0.3	3.8	**4.1**
TOTAL	3.5	30.1	107.7	**132.9**
% of Fund	4.3%	23.6%	40.7%	**47.6%**

1 Certain comparative figures have been recalculated to the current year's presentation.

2. INVESTMENT SELECTION

Superior investment managers can generate significant value-added returns through their skills in the buying, weighting and selling of individual investments and securities. Because of the pressures and different objectives of prevalent shorter-term investing, we believe that individual security prices and current valuations often do not represent their long-term intrinsic value. This creates opportunities for insightful management to succeed in the selection of investments in virtually every asset class and every part of the world. Careful management can also add value whether markets are rising or falling. Such pure "alpha" return is extremely valuable as, properly controlled, it adds relatively little to total risk in the portfolio while adding to total return.

Outperforming competitive markets is a challenging task, so we use a wide range of distinct strategies to earn this extra return, including:

a) Taking advantage of special opportunities available only to large, sophisticated investors. Alone or with partners we can access, structure and carry out major transactions globally in private equity, principal lending, infrastructure, real estate, agricultural land and natural resources.

b) Skillfully selecting individual private investments, both equity and debt. The specialized teams in our Private Investments, Real Estate Investments and Investment Partnerships departments, along with their external partners, focus on this activity.

c) Buying and selling individual public securities that are materially mispriced relative to their intrinsic value. Likewise, sector selection/weighting can contribute to value added. With our long investment horizon, we can be patient and profit from longer-term indicators than most other managers can or do use. Our Global Corporate Securities group, Relationship Investments group and select external specialist managers supply this expertise.

d) Structuring the simultaneous buying and selling of very similar assets to profit from price differences. Although this is inherently a short-term strategy, it is sustainable because the market participants and their needs are very diverse. This arbitrage-like activity allows us to capture additional returns with little additional risk. Our Global Capital Markets and Short Horizon Alpha groups are specialists in this area.

e) Investing through "themes," by anticipating structural changes and secular trends such as demographic shifts or alternative energy. These are changes that we expect will affect security prices significantly and over the long term. Our specialized teams develop investment portfolios to capitalize on these trends, working with external partners where appropriate.

f) Engaging world class investment management expertise in specialized and emerging areas. Our Investment Partnerships department deploys the distinct skills and experience that are needed to successfully identify and select external expertise, to evaluate performance and to manage relationships.

3. STRATEGIC MANAGEMENT

We seek sustainable value creation over decades into the future. While this principle runs through all of our investing activities, four aspects are particularly relevant:

a) We monitor market pricing, market-implied returns and other indicators to identify points in time when current return expectations are materially different from long-term expectations. When this happens, we are prepared to modify the total portfolio mix and adjust total risk if justified. We call these "strategic tilts."

b) We deploy capital to a greater or lesser degree in individual areas and strategies as markets change, but only if the opportunities offer good value for the money. We do not invest simply to fill allocations. And we can provide investment capital at a price when it is in demand.

c) We manage dedicated portfolios designed to capitalize on relative price movements within specific broad areas such as currencies, equity markets, bond markets and commodities. Our Global Tactical Asset Allocation group and select external managers provide the tactical skills for this strategy.

d) We regularly review the underlying theses and execution of all active management programs and how they are being executed. We look at all direct and indirect costs and assess whether the programs can still be expected to deliver meaningful and sustained value for the cost and risks involved. If our conclusion has changed, we adjust the strategies accordingly.

In another form of strategic management, CPPIB undertakes an active role as engaged owners in our direct equity, real estate and infrastructure holdings. These investments now make up more than 27.2% of the total portfolio. We are also active owners when it comes to our long-term holdings in many public companies. When we see an opportunity for material improvement of a company's long-term corporate performance, we will act – either alone or with like-minded investors. We are prepared to support companies with sound long-term strategies in the face of attacks by short-term activists. These actions can be a powerful counterweight to prevailing short-term pressure in markets, and align with the Focusing Capital on the Long Term initiative jointly sponsored by CPPIB, McKinsey & Company, BlackRock, Dow Chemical and Tata Sons. For further information, see the website at www.fclt.org.

Finally, CPPIB views environmental, climate change and social concerns as major long-term strategic issues. From an investment perspective, they represent both risk and opportunity. We integrate analysis of these factors fully into our investment processes. And, we engage directly with companies, or through effective organizations, as responsible long-term investors for the benefit of all stakeholders. More information is provided under Sustainable Investing on page 42.

OUR VIEW ON CURRENCY HEDGING

Many Canadian pension funds make substantial use of currency hedging to reduce the impact of currency movements on the value of their foreign investments translated to Canadian dollars. But hedging has a financial cost. And when the Canadian dollar depreciates, hedging requires setting aside cash or generating it quickly to meet hedging contract obligations.

We believe extensive hedging of foreign investments is not appropriate for the CPP Fund for the following reasons:

1. For a Canadian investor, hedging foreign equity returns reinforces their inherent risk. This reflects the Canadian dollar's status as a commodity currency that tends to strengthen when global equity markets are rising but weaken when they are falling. It also reflects the status of certain currencies including the U.S. dollar to act as a safe haven during times of crisis. We believe that the Canadian dollar will continue to behave this way, but we are less confident that there will be any return to compensate commensurately for accepting that risk.
2. The cost of hedging currencies of many developing countries is prohibitively high. And if these countries increase productivity and economic growth, their currencies will tend to strengthen.
3. When the Canadian dollar strengthens against other currencies as a result of higher commodity prices, especially oil, the Canadian economy is likely also stronger. That in turn means increased earnings for CPP contributors. As earnings rise, so do contributions to the CPP. This represents a natural hedge, reducing the need for explicit currency hedging of the CPP Fund's foreign investments.

Currency risks are also reduced by holding a broadly diversified set of currency exposures across the world, as shown on page 45. For the most part, we do not hedge foreign holdings exposures to the Canadian dollar. In years of major strengthening or weakening of the Canadian dollar, total performance of the CPP Fund will differ from funds that have a policy of greater hedging. This effect can work in either direction. For example, when the Canadian dollar strengthened along with global equities and commodity prices in fiscal 2010, the Fund generated $16 billion in overall investment returns despite a $10.1 billion loss in the Canadian dollar value of our foreign holdings. On the other hand, we realized currency gains on our investments of $9.7 billion in fiscal 2014, $7.8 billion in fiscal 2015 and $5.2 billion in fiscal 2016 as foreign currencies strengthened against the commodities-driven Canadian dollar.

THE BALANCE OF INTERNAL AND EXTERNAL EXPERTISE

Because of our size and professional environment, we can maintain expert internal teams to manage large parts of the CPP Fund. This has two main benefits.

First, it lowers fees and other management costs. We often have the skills to carry out activities similar to those of external management firms at a lower cost. Every dollar saved is additional net income for the Fund – and much more certain than a dollar of possible return. More details on how we control costs in the Managing Total Costs section is found on page 48.

The second benefit of internal management comes from the range of expertise that we bring to assessing investments and strategies:

> All groups in our Public Market Investments department can draw on specialized strategies, trading and structuring capabilities designed specifically for our programs;

> Our Relationship Investments group has the management experience to make a major contribution to the corporate growth and operational strategies of the public companies in which we take a substantial stake;

> The professionals in our Real Estate Investments, Private Investments and Investment Partnerships departments give us the ability to engage and co-invest with well-aligned external partners who provide access to specialist capabilities about private investments; and

> Our addition of international offices is critical to an increasing number of valuable relationships in less developed and emerging markets.

We also recognize the enormous breadth of external expertise that can benefit the Fund. An external manager is not only able to develop specialist strategies, they can also provide valuable knowledge as a long-term partner. We will consider engaging an external manager wherever we can add a strategy that we cannot execute as effectively on our own. These strategies must be relevant, distinct and meaningful and we must be able to scale them up as the Fund grows.

When engaging an external manager, the Board approves all appointments above certain limits. The external manager must demonstrate expertise and, equally important, must provide risk-adjusted value that will more than offset the cost of external fees. We structure external contracts and mandates with great care to align our partners with the interests of the Fund. We make use of performance-based fees, sharing of investment gains beyond minimum performance levels and deferred payouts.

Our Investment Partnerships department has the depth and investment knowledge to successfully evaluate strategies and managers, in both public and private markets around the world. Selecting, sizing, mandating, monitoring and replacing external organizations is a distinct skill. In addition, our Investment Partnerships department has the experience to distinguish solid, sustainable opportunities from those that are fleeting, weakly founded or poorly executed.

Many investors are at a disadvantage because the external managers they appoint are far more knowledgeable than their in-house staff. At CPPIB our teams have the skills, experience and capabilities to work with any of our world-class partners as mutually respected peers.

KEY COMPONENTS OF OUR TOTAL PORTFOLIO INVESTMENT FRAMEWORK

Our investment framework lays out the structures and accountabilities that we believe will best enable CPPIB to meet its investment objective. We have a dual focus:

> To achieve long-term total returns that will help sustain the CPP and pay pensions; and

> To use our comparative advantages to earn significant net added value compared to a low-cost, passive investment strategy.

When assessing the sustainability of the CPP, the Chief Actuary assumes a long-term net annual return of 4.0% after inflation. Based on current projections, if we could increase that return by one percentage point per annum over the long term, the contribution rate could eventually be reduced from 9.9% of covered earnings to 9.4%. That is equivalent to a combined savings to employees and employers of more than $2 billion annually at current earnings levels. Alternatively, the additional returns could be used to increase benefits or strengthen the sustainability of the CPP.

At the same time, we must manage the assets of the Fund prudently, without undue risk of loss. Our concern is not so much about short-term volatility but rather with longer-term impairment that could lead to an increase in CPP contributions or reduced benefits. To balance the maximization of returns with the control of risk, we have developed a total portfolio investment framework with four principal components:

1. The Reference Portfolio
2. The Strategic Portfolio
3. The Target Portfolio Ranges
4. The Total Portfolio Approach

1. RISK APPETITE – THE REFERENCE PORTFOLIO

The foundation of investment strategy is to determine a prudent and appropriate risk level for the Fund. At a minimum, we need to take only enough risk that would be expected to generate the net real return assumed by the Chief Actuary in assessing sustainability of the CPP. A portfolio of 40–50% global equities and 50–60% Canadian governments' bonds is the lowest risk, simplest portfolio that we can expect to meet this requirement currently. However, there are major potential benefits to achieving higher returns by undertaking a higher but still prudent risk level.

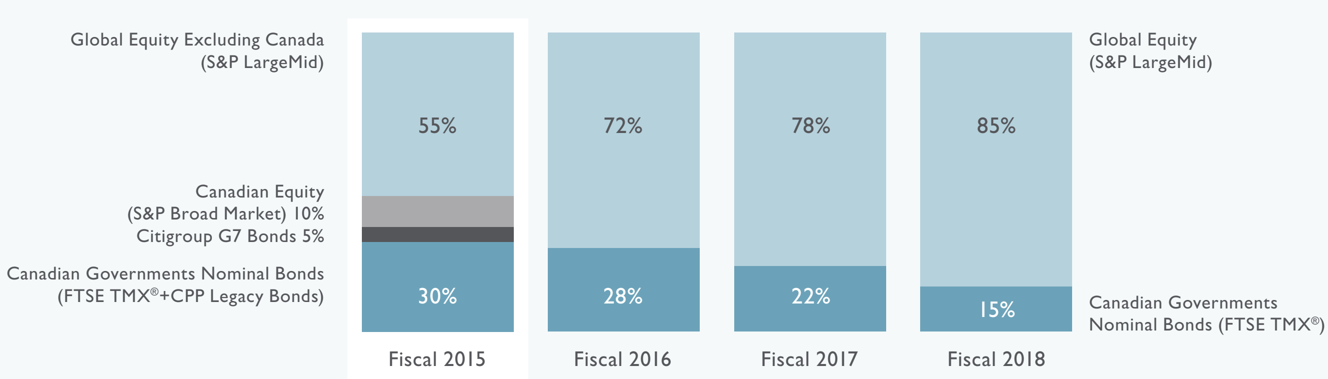
As explained earlier, the financial structure and long horizon of the CPP means that short-term volatility in returns has much less impact on CPP sustainability and required contributions than for conventionally funded plans. And over the longer term, the expected benefit of higher returns tends to increasingly offset the impact of higher short-term volatility. Given this resilience, in fiscal 2014 the Board and management of CPPIB concluded that the risk level of the Fund could and should be increased over time to the same level of risk as a portfolio of 85% global equities and 15% Canadian governments' bonds, with a correspondingly material increase in expected long-term returns.

The construct we use to express the appropriate long-term risk target is CPPIB's Reference Portfolio. This two-asset-class portfolio comprises only public market global equities and fixed-payment bonds issued by Canadian governments. Each class is represented by broad market indexes that could be invested in at minimal expense.

We are evolving the return-risk profile of the Fund in a prudent and gradual manner. The chart below shows the planned Reference Portfolios for the four fiscal years 2015 to 2018:

The actual Investment Portfolio may have somewhat more or less risk than the Reference Portfolio, but will be maintained within governance limits described on page 32.

REFERENCE PORTFOLIO – A SHIFT ALONG THE RETURN-RISK SPECTRUM



"Global equities" includes both developed and emerging markets, and takes into account their evolving market capitalization. Because there is no separate allocation to Canadian equities, the composition of the S&P Global LargeMidCap equity index effectively determines the weighting of Canadian equities in the Reference Portfolio. As of March 31, 2016, this market weighting was approximately 2.1%. However, the actual Investment Portfolio will likely continue to contain a higher percentage of exposure to Canadian equities, as we take advantage of our home-country knowledge and access.

HOW BEST TO RAISE THE RETURN-RISK PROFILE OF THE FUND

Matching the risk of a Reference Portfolio of 85% equity and 15% debt does *not* mean that we will simply increase the percentage of public equity holdings in the actual Investment Portfolio. This would not be prudent, as the total risk would be still further influenced by a single risk factor – that of equities.

It is better to generate a higher return-risk profile by blending a variety of investments and strategies that fit our portfolio. Each of these investments and strategies offers an attractive return-risk tradeoff of its own. Higher return-risk strategies include:

> Replacing publicly traded companies with privately held ones;

> Substituting some government bonds with higher-yielding credits in public or private debt;

> Judiciously using leverage in our real estate and infrastructure investments, along with increased investment in development projects;

> Increasing participation in selected emerging markets; and

> Making significant use of "pure alpha" investment strategies, which rely on the skills and experience of our managers.

We can balance these investment programs with stable, income-generating assets such as:

> Core real estate

> Basic infrastructure

> Farmland

> Intellectual property royalties

> Life insurance contracts

If need be to achieve the targeted total risk, we can make carefully controlled use of derivatives and low-cost debt issuance by CPPIB to help maintain sufficient liquidity and increase our holdings of assets earning long-term returns.

We can thereby build a highly diversified portfolio at the intended total risk level, but one that has a significantly higher expected return and is more resilient under a wide range of future economic and market circumstances than a simple portfolio of 85% public equity and 15% government bonds.

ACCEPTABLE SHORT-TERM VOLATILITY

As we increase expected long-term returns, we expect some increase in year-to-year volatility. We believe this risk can be intentionally accepted given the CPP Fund's advantages of long investment horizon and certainty of assets, and the resilience of the CPP contribution rate to market downturns. After publication of the Chief Actuary's triennial review now being conducted, we will review the Reference Portfolio for fiscal 2019 and beyond. We review the Reference Portfolio at least every three years. This will allow us to affirm our strategy or modify the total Fund performance benchmark and the appropriate level of total risk for the long term.

CHARACTERISTICS OF INVESTMENT PORTFOLIO WITH HIGHER RETURN-RISK PROFILE

Simple Portfolio in Two Asset Classes

Illustrative CPP Portfolio in Multiple Asset Classes

	Simple Portfolio in Two Asset Classes	Illustrative CPP Portfolio in Multiple Asset Classes
Equity/Debt Risk Equivalence	85/15	85/15
Active Programs Contribution	None	High
Public Equity Allocation	High	Moderate
Diversification	Low	High
Comparative Advantage Alignment	Low	High
Major Loss Potential	High	Moderate
Best Return-Risk	No	Yes

FUND RETURN BENCHMARK

In addition to serving as the expression of risk appetite, the low-cost passive Reference Portfolio performs a second critical function – it represents the benchmark for the total net return of the CPPIB Investment Portfolio. The Investment Portfolio generally has the same overall risk level as the Reference Portfolio but with much broader composition and the use of active management. Given the wide differences between these two portfolios and the time necessary for long-term strategies to demonstrate results, we focus ongoing performance assessments on the outcomes over five- and 10-year periods.

2. DIVERSIFYING SOURCES OF RETURN AND RISK – THE STRATEGIC PORTFOLIO

Our long-term vision for the optimal diversification of the Investment Portfolio five or more years into the future is expressed as the Strategic Portfolio.

Looking through asset types to their underlying characteristics and the relative correlations among them, and incorporating the presence and risk of active value-added strategies, we first design a preferred mix of key systematic return-risk factor exposures. No investment restrictions are imposed other than practical market limitations facing a fund of our size. The mix of exposures is designed to maximize expected long-term returns, with the same total risk level as the Reference Portfolio. However, the performance of this well-diversified mix is expected to be more robust than a simple two-asset class portfolio in a variety of market conditions.

We then express the Strategic Portfolio as the percentage weights in six distinct public and private asset classes. The Strategic Portfolio also sets out our long-term plan for allocating assets to four geographic regions. The asset class and geographic percentage weights of the current Strategic Portfolio are shown below:

STRATEGIC PORTFOLIO ASSET CLASS AND GEOGRAPHIC CLASSIFICATIONS AND PERCENTAGE WEIGHTS

ASSET CLASS	% Weight
Public Equity	41%
Private Equity	21%
Public Fixed Income (high-quality government issues)	27%
Credit Investments (private debt and public fixed income excluding high-quality governments)	8%
Real Assets (public and private, including real estate, infrastructure, resources, agricultural land)	23%
Cash and Absolute Return Strategies	-20%[1]
	100%

GEOGRAPHIC REGION	% Weight
Americas Developed Markets	53%
Europe, Middle East and Africa Developed Markets	23%
Asia Pacific Developed Markets	9%
Emerging Markets	15%
	100%

1 Sustained explicit and implicit financing of the investment holdings of the Investment Portfolio, partially offset by net assets in Absolute Return Strategies and short-term holding. The controlled use of such financing enables the optimal diversification of the portfolio at the targeted risk level.

The Strategic Portfolio provides a clear direction to guide the choices we make as the CPP Fund continues to grow. It leads to a set of "Signals" developed for each investment program. These set out the program's targeted size in five years' time, its long-term expected risk and returns characteristics, the nature of the investments sought to deliver the intended return-risk exposures for the specific program, and geographic and other guidelines for the accountable investment group.

We will review the Strategic Portfolio at least every three years, when we review the Reference Portfolio.

3. CURRENT YEAR PLANS AND IMPLEMENTATION – THE TARGET PORTFOLIO RANGES

While the Strategic Portfolio is a long-term aspirational plan to deliver on our objectives, the development of internal capabilities and the judicious management of transitions require a shorter-term implementation plan. Also, the values of portfolio investments change daily, and investments are actively bought and sold, so there is inevitable movement and drift in the weights of total portfolio holdings and risk exposures.

These needs are addressed by our Target Portfolio Ranges, which control how we actually invest assets today and over the upcoming fiscal year. They use the same six asset classes and four geographic regions as the Strategic Portfolio, and define the ranges of percentage weights within which we expect the asset class and geographic composition of the Investment Portfolio to evolve over the year. This may be augmented by more specific limits, such as single-country investments, whenever we need to exert further risk control and/or make strategic tilts (see page 26). While the aspirational Strategic Portfolio will strongly influence annual targets from the top down, determining these targets must also take into account the practical business and investment plans of each investment department and group in the current market environment.

As always, our individual investment groups will only make an investment when there is a reasonable prospect of an appropriate risk-adjusted return. We never make an investment simply because it fills a gap in a particular asset class or geographic region.

At the same time, however, the Target Portfolio Ranges ensure that we achieve the desired growth, balance and control of total portfolio return-risk exposures. They direct available resources to the best areas of long-term opportunity that suit our comparative advantages. They are also a primary mechanism for the ongoing control of risk exposures.

4. LOOKING THROUGH TO UNDERLYING DRIVERS OF RETURNS AND RISKS – THE TOTAL PORTFOLIO APPROACH

Running throughout our investment framework is a sophisticated portfolio management system called the Total Portfolio Approach. This is the way we view and control the underlying return-risk profile in the construction of the total portfolio.

By themselves, asset class labels do not fully convey the highly diverse nature of the investments within each class. For example, real estate and infrastructure investments clearly have attributes of both equities and fixed income in addition to their specific attributes. Private and public investments may appear fundamentally very similar, but the ease with which they can be sold for cash is very different. Debt securities carry a wide range of credit risk. Equities vary in their geographic, sector and financial leverage exposures.

To deal with this complex reality, we look through the asset class labels to understand and weigh the underlying return drivers, risk factors and exposures. We deconstruct all investments and programs to determine how much each is affected by key return-risk factors including:

> Movements in equity markets;

> Credit spreads over government bonds;

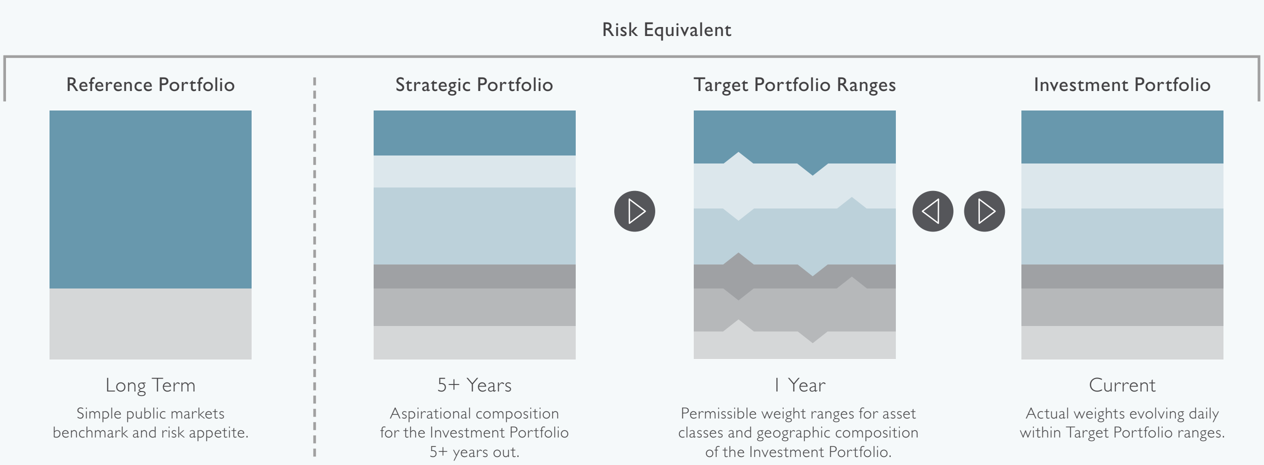
> Real assets characteristics;

> Country and regional influences; and

> Illiquidity – how difficult it is to convert an asset into cash.

When we create our Strategic and Target Portfolios, their design carefully takes into account how much overall exposure is desired for each of these factors. We also use these factors to analyze major potential new investments by their impact on exposures at the total portfolio level.

ELEMENTS OF ENHANCED INVESTMENT FRAMEWORK



ALIGNING THE INVESTMENT FRAMEWORK

This system helps us to decide how to raise cash for investments and rebalance the portfolio when needed. When we acquire a new investment, we generally fund it by selling other investments with similar risk characteristics, so as to preserve the intended risk profile and structure of the entire investment portfolio as fully as possible while retaining the impact of the specific investment selection decision.

As markets, security prices and investment values change, the Total Portfolio Approach drives how we rebalance the portfolio and keep return-risk exposures within acceptable ranges. It is a critical tool to avoid unintended risk exposures. For example, it has enabled us to prevent unrecognized equity-like risk from creeping into the portfolio through all alternative asset classes.

GOVERNANCE FRAMEWORK

Board governance of the investment strategy has four basic elements:

1. Setting Absolute Risk Limits. The lower limit is the minimum degree of risk we believe is necessary to generate total portfolio returns that match the long-term return assumption in the Actuarial Review. The upper limit is the maximum degree of risk the Board believes is justifiable and not undue for the Fund. Management must maintain the Investment Portfolio within these limits at all times.
2. Establishing the Reference Portfolio. Every three years, the Chief Actuary releases a report on the CPP. Management then proposes the composition of the Reference Portfolio as a simple, low cost, investable portfolio carrying an appropriate level of risk. This level then forms the total risk target for the Investment Portfolio. The Reference Portfolio also continues to represent the basic benchmark for Fund performance.
3. Approving the Business Plan and Risk Policy. This annual plan confirms or adjusts the Strategic Portfolio, and specifies the Target Portfolio Ranges. The Board also approves the Risk Policy, which includes the Absolute Risk Operating Range (AROR) for the upcoming fiscal year. The AROR limits how far the total risk of the Investment Portfolio is permitted to stray from that of the Reference Portfolio without specific Board approval.
4. Approving the Risk Policy. This document, which the Board approves annually, formalizes the three previous elements and sets out the measures the Board and management use to monitor and control risks. It also spells out limits on other risks, such as credit risk and the exposures to counterparties.

At times, management may wish to make a strategic shift or "tilt" in total portfolio exposures. If the tilt would take the portfolio outside the Target Portfolio Ranges and/or the Absolute Risk Operating Range, prior approval from the Board is required. Also, if market changes alone take the portfolio materially outside the Target Portfolio Ranges, management must present the Board with a plan to address any situation or a request to allow the variance for a specific time period.

How We Maintain Accountability for Risk-Taking and Performance

Successful investing requires clear decision-making and accountability. It also requires competitive compensation and carefully aligned performance-based incentives. The diagram above shows how we align all our activities throughout the investment framework.

Management's Investment Planning Committee (IPC) is responsible for controlling overall portfolio return-risk exposures within the investment and governance frameworks outlined above. Also, each year, it approves the investment plans and active programs' Signals (as described on page 30) for all investment departments, and evaluates each department's business plan for CEO approval.

The IPC issues comprehensive quarterly reports on the Investment Portfolio enabling the Board to monitor:

> Portfolio growth and composition;
> Management's progress against the year's investment plans;
> Total risk, other risk measures, and individual program contributions;
> Total returns, and individual program contributions; and
> Value-added versus the Reference Portfolio.

RISK/RETURN ACCOUNTABILITY FRAMEWORK

Accountability	Return/Risk 2016
Board of Directors[1]	• Reference Portfolio • Strategic Portfolio
Human Resources and Compensation Committee[1]	• Compensation and incentive frameworks
Investment Planning Committee (advised/implemented by Total Portfolio Management department)	• Target Portfolio Ranges • Departmental asset and risk targets • Program approvals and Signals • Total portfolio risk management • Total Fund returns; total DVA
Investment Departments	• Active programs to generate exposures, returns and value-added
Total Portfolio Management	• Balancing programs to deliver intended total return-risk factor exposures

[1] Approval of management recommendations.

The diagram above summarizes Board and management accountabilities.

Here are the specific management accountabilities for risk undertaken and returns achieved:

INVESTMENT PLANNING COMMITTEE

The Investment Planning Committee (described on page 35) is accountable for:

> Establishing and maintaining targets for the Fund's exposure to systematic and active risks;

> Controlling total portfolio risks within any limits set by the Board, and approving risk management policies and procedures;

> Decisions to add size, increase, decrease or end investment programs, and assigning their mandates and benchmarks; and

> Managing strategic investments that come under central accountability rather than a particular investment group.

The Investment Risk group within the Finance, Analytics and Risk department independently provides the IPC with basic and supplementary risk assessments. These include stress tests to estimate the potential impacts of major events. For example, we model the potential impact of incidents similar to the 1987 equity crash, the emerging markets currency and debt crisis of 1997–98, and the global financial crisis of 2008–09. We continue to develop new risk models to better estimate long-term risk and enhance our strategic decision-making.

We use a statistical technique called Value-at-Risk to measure the level of risk within our portfolio over a specific timeframe. An important inclusion in this measurement is credit risk. This is an estimate of the potential loss if borrowers default on loans we have made to them. We also evaluate counterparty risk, which is the loss potential if other parties in financial contracts fail to meet their financial obligations to CPPIB.

The IPC proposes policies for Board approval, and approves applicable management standards and methodologies.

The IPC's measures of success are:

> The absolute returns on the Investment Portfolio;

> The total net dollar value-added relative to the Reference Portfolio Ranges;

> The impacts of strategic tilts; and

> The establishment and maintenance of a total portfolio that respects the Target Portfolio Ranges and is progressing as planned towards the Strategic Portfolio.

INVESTMENT DEPARTMENTS AND GROUPS

Each investment department or group therein is accountable for:

> Identification of investment opportunities, research and selection, and access;

> Execution of active portfolio management programs cost effectively within their mandate and Signals;

> Decisions to propose or reject new strategies, and to resize or reposition existing strategies, within the overall guidance for total portfolio exposures; and

> Undertaking individual investment transactions.

A key numeric measure of investment success for each department or group is dollar value-added to the portfolio, after all costs, compared to their approved benchmarks. Equally important is their contribution towards developing the targeted return-risk exposures and total return of the Investment Portfolio.

HOW WE MEASURE AND COMPENSATE PERFORMANCE

Each year, the Human Resources and Compensation Committee (HRCC) of the Board of Directors approves the compensation structure for all levels of employees. It ties incentive compensation to the following elements:

1. Total Fund investment results, both as total return and as value-added relative to the Reference Portfolio;
2. The Department and Group performance, measured against a variety of objectives set in the annual business plan; and
3. Individual performance.

You can read full details of our compensation system in the Compensation Discussion and Analysis section, beginning on page 74.

When used for incentive compensation purposes, we calculate Fund and investment program returns after deducting all investment costs, external manager and other fees, and internal operating expenses.

To benchmark group investment performance results, we generally use public market indexes specific to each investment program. When these are not available or adequately representative, the performance of comparable investors may be approved as a standard.

HOW WE SET BENCHMARKS AND VALUE-ADDED TARGETS

Consistent with the Signals provided by the Total Portfolio Management (TPM) department for an investment program (described on page 30), the Investment Department head and the Performance group within the Finance Analytics and Risk department jointly recommend to the IPC benchmarks that best represent the investment characteristics of each active program and are operationally feasible.

With guidance from TPM, they also recommend competitive value-added targets for each investment program, which are used as part of the assessment of the success of the program against its Signals and business plan. The targets reflect:

> The intended scope and focus of active decision-making and investment selection;

> The degree of risk inherent in the program relative to its benchmark. There should be no incentive to earn additional compensation simply by taking on more risk; and

> The net additional return over the benchmark that might reasonably be expected from active risk and investment management.

The Human Resources subcommittee of the Investment Planning Committee approves all benchmarks and value-added targets.

Our external auditors examine the methods and results for actual and benchmark returns and report their findings to the HRCC. An independent advisor has confirmed that our processes meet or exceed the standards in the G20 Principles on Compensation in Financial Services.

In fiscal 2016, many of the benchmarks within each investment program were very specific. For example, they set performance targets within a single country, sector or sub-portfolio. The intent was to focus on the value-added through investment selection.

Following a review in fiscal 2016, we decided to simplify the benchmarks and greatly reduce their number for fiscal 2017 to a single benchmark and value-added target for each program. The intent is to promote greater focus on the total return and value-added of each program when viewed as a whole. This is consistent with the dual focus at the total portfolio level on both absolute returns and value-added over the Reference Portfolio. Also for fiscal 2017, we will discontinue averaging certain benchmark returns for private market assets. We used this approach to improve the year-to-year tracking between appraisal-based assets and public market benchmark indexes. We have removed the complication of averaging because our evaluations will focus on a variety of factors, not just value-added, and we have extended the primary evaluation period to five years, reducing the need for averaging.

Below are the specific benchmarks we use for individual investment programs:

Public Markets: Most active programs aim to generate returns that are largely independent of market movements. At the start of each year, we set dollar targets for the degree of risk each of these programs is expected to take. For fiscal 2016, the benchmark for each program is a set dollar amount of excess return over cash. For fiscal 2017, we establish a risk budget and an overall target Information Ratio (a risk-adjusted measure of performance, calculated as the value-added over returns on cash employed, divided by its annualized volatility) to arrive at a dollar target that is then allocated among the respective programs.

Private Equity: The underlying benchmark is the return on an index of public large/mid-capitalization equities. For fiscal 2016, the index is selected at the country and sector level, adjusted to a beta equivalent of 1.3, with returns averaged over four quarters. For fiscal 2017, the benchmark is simply a broad market public equity index for developed or global markets depending on the program, with no averaging.

Agriculture: There is no satisfactory published index that is sufficiently representative of this program. Therefore for fiscal 2016 the benchmark is the return on a blend of equity and G7 government bond indexes, averaged over four quarters. For fiscal 2017, the benchmark for the program is simplified to the G7 government bond index only, with no averaging.

Natural Resources: For fiscal 2016, these investments are treated as Private Equity. For fiscal 2017, the program benchmark is a Developed Energy large/midcap public equity index.

Infrastructure: The benchmark is a weighted blend of indexes of public equities and government bonds. For fiscal 2016, the weights are chosen individually for each investment, and returns are averaged over eight quarters. For fiscal 2017, the weights apply to the program as a whole, of indexes for global large/midcap equity and G7 government bonds only with no averaging.

Private Credit Investments including Intellectual Property: The benchmark is a weighted blend of published indexes for high-yield debt and leveraged loans. For fiscal 2016, this is a blend of seven indexes. For fiscal 2017, this is simplified to three indexes, for U.S. leveraged loans, U.S. high yield corporate bonds, and emerging market bonds.

Private Real Estate Equity: The Investment Property Databank (IPD) maintains performance surveys for a variety of countries and regions. These are well-recognized results for comparable private real estate investments by institutions. For fiscal 2016, the benchmark is IPD returns for the applicable region and sector for the individual investment. For fiscal 2017, the benchmark for the program as a whole is the Global Fund Manager Property index.

Private Real Estate Debt: For fiscal 2016, the benchmark is a weighted blend of ten market indexes of corporate bonds and leveraged loans. For fiscal 2017, this is simplified to a weighted blend of indexes of investment-grade Real Estate Investment Trust (REIT) bonds and leveraged loans.

Investment Departments Overview

This section provides an overview of the responsibilities of our four investment departments:

> Public Market Investments

> Investment Partnerships

> Private Investments

> Real Estate Investments

It also describes the responsibilities of the Total Portfolio Management department. This department supports the Investment Planning Committee in coordinating all investment programs under our Total Portfolio Approach. Details about the fiscal 2016 and longer-term performance for each investment department are provided on pages 52 to 67.

INVESTMENT PLANNING COMMITTEE

Management's Investment Planning Committee (IPC) has overall accountability for the oversight and management of the Investment Portfolio. It does this within the Board-established policies and management authorities. The IPC is chaired by the Chief Investment Strategist, who also heads the Total Portfolio Management department. Other IPC members are the President & CEO; the Investment Department heads; the Senior Managing Director, International; the Chief Operations Officer; the Chief Financial Officer; the Managing Director, Investment Risk; and the Managing Director, Portfolio Construction and Research. To facilitate decision-making in distinct areas, the IPC has designated two sub-committees, one dealing with investment decisions and the other addressing human resources issues such as benchmarks and incentive compensation.

The IPC is responsible for certain strategic investments that are in the best long-term interest of the Fund but are better suited to the IPC account rather than to any particular investment department. For each investment, the IPC mandates a specific group within an investment department to provide day-to-day management. Among these investments currently are:

> Variance swaps – a type of investment contract that generates returns based on the degree of price movement of underlying equity indexes. This strategy capitalizes on several of CPPIB's comparative advantages and carries low correlation with most other programs;

> Efficient indexed portfolio management – strategies that harvest incremental returns through the optimal structuring of the index-based investments in the balancing portfolio used to achieve the intended overall return-risk exposures;

> Strategic investments – for example, invested in China A-shares, and $1.0 billion in the new S&P Long-Term Value Creation Global Index; and

> Strategic exposure tilts – positions intended to capitalize on market pricing or mid-term macro outlooks for broad movements in markets.

The IPC also maintains the overall liquidity position of the Fund. In fiscal 2010, CPPIB established a debt funding program, with an initial focus on Canadian commercial paper. The purpose was to ensure that we have sufficient flexibility in managing short-term liquidity. Extended to the U.S. in fiscal 2015, these borrowings continue to carry the highest AAA credit ratings from Standard & Poor's, Moody's and DBRS. The program is operationally managed by the Treasury Services and Global Capital Markets groups. The total amounts outstanding at year end were $13.4 billion in short-term notes (under one year to maturity at issue) and $2.2 billion in medium-term notes (three and five years to maturity at issue). See the Liquidity and Capital Resources section on page 70 for more details.

OVERVIEW OF RESPONSIBILITIES

Board of Directors

- Approves total Fund risk appetite
- Approves annual Business Plan
- Approves Risk Policy
- Approves major investments and external management appointments

Investment Planning Committee

- Approves investment programs
- Approves investment deployment Signals
- Manages total Fund asset, currency and risk exposures
- Undertakes select strategic investments

Investment Departments

- Total Portfolio Management
- Public Market Investments
- Investment Partnerships
- Private Investments
- Real Estate Investments

Finance, Analytics & Risk

- Recommends risk governance elements
- Provides risk measurements and assessments
- Provides returns measurements and attribution
- Manages short-term liquidity requirements

The IPC oversees the Fund's overall foreign currency exposures (excluding active tactical currency allocation programs) under the approach described on page 27. Centralized currency management is more cost-effective and provides better control of exposures at the total portfolio level than managing currencies within each investment department.

TOTAL PORTFOLIO MANAGEMENT

The Total Portfolio Management (TPM) department is the operational arm of the IPC. It ensures comprehensive implementation of the Total Portfolio Investment Framework (see page 23). The department conducts high-level investment research on asset classes, return-risk factors, portfolio construction and active management strategies. This department also develops CPPIB's primary economic and market forecasts that help frame investment decision-making for the total portfolio and within specific investment programs.

TPM enhances portfolio performance and composition in four broad ways:

> Development of the Strategic Portfolio and Target Portfolio Ranges;

> Input to strategic tilts at the total portfolio level;

> Guidance for the investment departments' activities to help ensure that each contributes effectively to the total portfolio in a coherent way; and

> Management of the "balancing" portfolio to maintain or achieve intended overall return-risk exposures under the Total Portfolio Approach (as described on page 31).

Our formal process of annual business planning for Board approval is integral to the development of the total portfolio through time. It will continue to thoughtfully evolve with global economic themes and capital market characteristics. We believe that some portfolio configurations are clearly of higher quality than others, with higher returns and greater resilience over a wide range of economic and market scenarios. However, long lead times accompany the necessary staffing, market access and operational capabilities to make significant changes in the total portfolio composition.

Given the above constraints, we first scope out the full range of potentially attractive investments in each active program over one-year and five-year periods. Considering the portfolio as a whole, we then narrow these down to the preferred range of long-term deployment for each program. They give us longer-term direction so that we can practically achieve the aspirational return-risk exposures in the Strategic Portfolio. These directions are formalized as the "ID Signals" for each program. They include:

> Targeted size of assets and/or risk exposures;

> Intended nature, areas and types of investments and return-risk exposure characteristics; and

> Long-term return expectations.

Annual departmental business plans then specify the liquidity, people, international offices, technology and other resources needed to cost-effectively support the investment plans.

In addition to guiding the evolution of the total portfolio and its component strategies through the process described above, TPM is also responsible for multi-year forward modelling of projected Fund assets and CPP contributions, benefits and net liabilities. This simulation-based modelling underlies the long-term portfolio return-risk analyses that support our formal reviews of the Reference Portfolio and the Strategic Portfolio. The next reviews will begin following release of the Chief Actuary's next triennial Actuarial Report on the CPP, anticipated in late calendar 2016.

PUBLIC MARKET INVESTMENTS

Public Market Investments (PMI) invests in publicly traded equity and fixed income securities. It also invests in listed and over-the-counter derivatives that are based upon the price of these assets or others such as commodities, currencies and interest rates. These active management activities are undertaken through market-neutral or long/short strategies. PMI is also responsible for providing public market execution and funding services for all investment groups. It also manages certain strategies on behalf of the IPC.

The "quality" of a portfolio is not a single quantitative or prescriptive measure, but rather a range of desired characteristics. These include maximized long-term expected net return with adherence to intended total risk; optimal diversification of risk, geographic, currency and strategy exposures; feasible resource requirements and cost-effectiveness; and liquidity, scalability and flexibility.

PMI's mandate is to:

> Design and execute a diverse range of active strategies intended primarily to capture alpha – the additional returns from successful active management beyond the market returns for systematic risks – both within PMI and on behalf of the IPC;

> Execute public market transactions for all active programs;

> Coordinate and optimize fund liquidity, including administration of CPPIB's debt issuance program; and

> Manage public market exposures in the balancing portfolio on behalf of the IPC.

To carry out these functions, PMI is organized into the following five groups:

GLOBAL CAPITAL MARKETS

Global Capital Markets (GCM) provides four services critical to the efficient management of public markets assets:

1. Maintains the Fund's targeted market, risk and liquidity exposures within prescribed ranges, on behalf of the IPC. This function includes deploying and/or raising funds for Cash, Equity and Fixed Income asset classes, as well as rebalancing asset class, currency and other exposures to target levels as market prices move. In all these activities, GCM must weigh minimization of transaction costs against close tracking to the desired portfolio composition;
2. Executes the transactions required to fund major investments without undue negative market impact;
3. Provides price-effective and timely execution services for active programs within PMI. This activity is fundamental to the realization of value-added return; and

4. Coordinates activities related to the prudent management of CPPIB's overall balance sheet, through the Cash and Liquidity Group within GCM. This includes assessing and analyzing our liquidity position and managing CPPIB's cash exposures and asset/liability structure.

GCM also provides a wide array of value-added services over and above execution to other investment teams within CPPIB. GCM execution desks act as a central hub for implementation advice, trading strategies for dispositions and acquisitions, efficient hedge construction, and liquidity discounts.

GLOBAL CORPORATE SECURITIES

We have two Global Corporate Securities (GCS) programs. Both add value through active bottom-up security selection programs where the security represents an underlying interest in a specific corporation (e.g. – corporate stocks and bonds or derivatives thereof).

> **Global Corporate Securities – Fundamental Investing:** The Global Corporate Securities–Fundamental Investing (GCS-F) investment process has been designed to take advantage of the structural advantages accruing to CPPIB as a long-term investor, specifically through the adoption of a long investment horizon. Unlike other long/short managers, CPPIB's advantage as a long-term investor allows GCS-F to focus decision-making on intrinsic value over a multi-year horizon. We therefore benefit from considerably lower portfolio turnover and correspondingly lower transaction costs.

GCS-F generates alpha by exploiting security-specific research insights, where risks are concentrated in idiosyncratic exposures and diversified across traditional quantitative factors. GCS-F research and investment teams use deep fundamental research to build long/short portfolios. For the long and short positions, the search is for mispriced securities and is agnostic in investment style (i.e. – Value or Growth).

In many cases, the team spends significant time researching a particular theme and the investment opportunities derived from the theme. We incorporate this research into a financial forecast to derive an estimate of a specific company's intrinsic value. We then construct a portfolio consisting of long positions in companies whose market prices are well below their intrinsic values and short positions whose market prices are well above their intrinsic values. The portfolio is global in scope, encompassing developed and emerging markets.

> **Global Corporate Securities – Quantitative Investing:** Global Corporate Securities–Quantitative Investing's (GCS-Q) program is premised on the idea that, rather than selecting securities one-by-one to form a portfolio, we can construct a portfolio of securities that displays certain characteristics or factors that will lead the portfolio to earn excess risk-adjusted returns over time. These factors broadly fall into three categories: value, sentiment and quality. Combining these three factor groups together across a large number of securities enhances the return potential of the portfolio while reducing drawdowns. Portfolios are constructed to be neutral to undesired factor exposures and with idiosyncratic risks minimized through diversification.

The team focuses on refining existing strategies for greater efficacy and developing new strategies that can be implemented at a scale that is meaningful for the Fund. We manage quantitative stock-selection programs in Canada, the U.S., Japan and the developed markets in Europe and Asia, excluding Japan. In addition to actual investment activity, the quantitative team also focuses on strengthening its data and analytics foundations, sharing research not only within the group but also across the firm.

GLOBAL TACTICAL ASSET ALLOCATION

The mandate for the Global Tactical Asset Allocation (GTAA) team is to add value in scalable, top-down active management. GTAA takes positions in markets heavily influenced by macroeconomic drivers, such as currencies, government bonds, equity indexes and commodities. The program is global in nature, encompassing both developed and emerging markets. The GTAA program currently has long or short exposure to 32 countries, trading more than 80 different asset types. GTAA's primary focus is on longer-horizon views, while shorter-horizon insights allow the group to better manage macro risks and changes in economic conditions.

RELATIONSHIP INVESTMENTS

Relationship Investments (RI) makes significant direct minority investments in public (or soon-to-be-public) issuers where an investment by CPPIB can make a meaningful difference to the success of the company and therefore generate long-term outperformance relative to peers. Since the group's inception in 2009, RI has expanded its geographic reach to include companies listed on Canadian, American, European and key Asian exchanges. We now have a physical presence in the Toronto, Hong Kong and London offices. RI will also consider select inbound opportunities from companies listed in Latin America, leveraging our relationships out of the São Paulo office. Investments can range from $100 million to several billion dollars for a 5–25% ownership position. Each investment involves an active ongoing relationship with the company's management team and board of directors. The group focuses particularly on transformative growth opportunities and transactions involving the strengthening of balance sheets or transition of ownership blocks. In most cases, RI obtains governance rights commensurate with the importance of its stake while the company benefits from having a patient and supportive cornerstone investor.

SHORT HORIZON ALPHA

Short Horizon Alpha (SHA) develops and implements short horizon active management programs. With a quantitative emphasis, SHA strategies are designed to systematically take advantage of opportunities resulting from market dislocations in a wide range of asset classes and products. These include cash and derivative products in foreign exchange, credit, equities, volatility, interest rates, and commodities. In general, SHA positions target closure inside three to six months; however, the majority of positions to date have been held for shorter periods.

INVESTMENT PARTNERSHIPS

Investment Partnerships (IP) establishes and broadens relationships with CPPIB's external managers through private and public market funds and related co-investments. IP currently maintains relationships with over 150 premier private equity and hedge fund managers around the globe. In addition, we make direct private equity investments in Asia, and identify long-term thematic opportunities. The IP department comprises three groups: External Portfolio Management, Thematic Investing, and Funds, Secondaries & Co-investments.

EXTERNAL PORTFOLIO MANAGEMENT

External Portfolio Management (EPM) creates value through the engagement of external managers whose distinct strategies and expertise in public markets are accretive and complementary to the overall CPPIB portfolio. These strategies are expected to offer attractive, sustainable results on a risk-adjusted basis, with value-added that has low correlation to that of internal investment programs. Each mandate must also be sufficiently scalable to be meaningful for the Fund's current size and expected growth.

Our external managers are valued partners with whom we seek strong long-term relationships. EPM differs from many traditional multi-manager programs by not making aggressive shifts in assets between strategies and managers. Rather, we control exposures and risks through balancing various types of strategies and generating a diversified return stream.

THEMATIC INVESTING

Thematic Investing (TI) conducts research and makes investments to capitalize on large structural changes and mega trends across the globe. Because these structural changes and trends evolve over many years, in some cases decades, they align well with our long-term investment strategy. Capital may be deployed using public or private asset classes. An example of TI's research is in the evolving demographics theme.

FUNDS, SECONDARIES & CO-INVESTMENTS

Working as one global team, Funds, Secondaries & Co-Investments (FSC) is a leading investor in private equity with three main streams of activity:

> **Funds:** The Funds team focuses on identifying, making and monitoring capital commitments to large- and middle-market buyout and growth equity funds in North America, Europe and Latin America. We have a well-established portfolio of large private equity managers while we pursue new relationships in the middle market and with emerging managers. The Funds portfolio plays a critical role in the generation of investment opportunities for our direct investment platforms, in particular our Direct Private Equity and Secondaries & Co-Investments teams.

> **Secondaries & Co-Investments (S&C):** We participate in the secondaries market by acquiring interests in existing funds (LP Secondaries) and providing partial or whole-fund liquidity solutions to existing funds (Direct Secondaries). Secondaries transactions range in size from small single fund Limited Partner (LP) interests to portfolios in excess of $1 billion. The Co-Investment program focuses on minority investments alongside our private equity partners, with a target investment size of up to $275 million.

> **Private Equity Asia (PE Asia):** This team focuses on commitments to both regional and single-country private equity funds in Asia. PE Asia also co-invests, co-sponsors and makes strategic investments with General Partners (GP) in our funds portfolio and with other like-minded strategic partners.

PRIVATE INVESTMENTS

Private Investments (PI) invests in a wide range of private equity, debt and infrastructure assets. The markets for these private assets in some cases are comparable in size to their public equivalents. They are well-suited for large, patient, knowledgeable investors. We seek to harvest the return premiums for investing in less liquid and longer-term assets, and for meeting particular financing needs of the entities to which we provide capital. Further, with expert partners, we can generate skill-based additional returns in a wide variety of ways:

> At the decision to invest, through access to the best opportunities, superior information, unique insights, and expert structuring and financing of transactions;

> During the holding period, through careful stewardship, enhanced governance, and improvements in operations and profitability; and

> Upon exit, through selection of the optimal path and timing with conclusion on favourable terms.

While early investments were made entirely through funds, our developed internal expertise has led to new investments increasingly and cost-effectively being made on a direct basis and in larger amounts. Nevertheless, partnerships with leading fund managers remain important to our strategy. The PI department is organized into five specialized groups:

DIRECT PRIVATE EQUITY

Direct Private Equity (DPE) focuses on North American and European co-sponsorship and other direct private equity transactions. Our mandate permits a wide range of ownership structures from minority to co-lead to full control. Our investments typically fall under the co-sponsorship framework alongside our private equity fund partners (or investments in existing portfolio companies of our private equity fund partners); or under our strategic investments strategy, which includes investments that do not fit the traditional private equity return-risk framework; or are not reasonably accessible by private equity funds. The group also has specialized expertise in both Financial Institutions and Agriculture and Farmland as part of its broader strategy.

NATURAL RESOURCES

Natural Resources invests directly in companies, strategic partnerships and direct resource interests in energy (oil and gas, midstream and oilfield services), merchant power generation and metals and mining. Interest in the sector is driven by compelling fundamentals that offer opportunities to deploy significant capital that can generate attractive long-term returns in an environment that aligns well with CPPIB's investment principles and competitive advantages. The group aims to build a scalable and balanced portfolio diversified across geography, subsectors and commodity types.

PRINCIPAL CREDIT INVESTMENTS

Principal Credit Investments (PCI) focuses on investing in sub-investment-grade corporate debt through both primary and secondary transactions. With investments in the Americas, Europe and Asia, the group provides debt financing across the entire capital structure. This includes term loans, high-yield bonds, mezzanine lending and other solutions for corporations.

The group participates in unique event-driven opportunities such as acquisitions, refinancings, restructurings and recapitalizations. In select cases, PCI may also commit to debt funds in order to access manager expertise in new markets or where other strategic benefits exist. The PCI platform also includes a sub-group that specializes in acquiring intellectual property rights, primarily in pharmaceuticals and technology.

INFRASTRUCTURE

The Infrastructure group invests globally in large-scale infrastructure assets that provide essential services with minimal substitution risk, within the utilities, transport and energy sectors. The group focuses on investing in lower risk, asset-intensive businesses with stable and predictable long-term returns that operate within strong regulatory environments, and which afford us significant shareholding stakes and meaningful governance rights.

The Infrastructure group targets private and public-to-private opportunities in both developed and developing countries, and often invests with other like-minded partners. As a total return focused investor, the Infrastructure group can also deploy additional capital to re-invest in its portfolio companies, and work alongside management teams to drive operational and financial improvements through proactive asset management initiatives.

PORTFOLIO VALUE CREATION

Portfolio Value Creation (PVC) supports ongoing asset management activities across all direct portfolio holdings. Effective portfolio management and value creation continue to differentiate CPPIB from other investors. The PVC group is actively involved in the governance and management of CPPIB's private assets. The group monitors developments in portfolio companies, and identifies and helps resolve emerging issues related to both governance and operational matters. The group also assists other investment teams in defining and executing commercial and operational due diligence, selecting advisors and reviewing conclusions.

REAL ESTATE INVESTMENTS

The mandate of Real Estate Investments (REI) is to build and manage a portfolio of property investments that delivers stable and growing income to the Fund. The team focuses on well-located, high-quality assets managed by experienced local operating partners. Real estate offers stable income streams that rise with inflation over the long term, and asset values that likewise grow over time. As such, it provides diversification benefits to the Fund. REI has a relatively low correlation with other asset classes such as public equities and bonds, and helps cushion the Fund against market and business-cycle volatility.

The majority of the world's commercial real estate is privately owned by pension funds, insurance companies and high-net-worth individuals. As such, REI's primary strategy has been to build its program by investing through the private markets. As an investment management organization, we act as an investor first and take a partnership approach to owning and managing our real estate portfolio by working with experienced local operators and sponsors. These partners have the necessary leasing and property management capabilities to effectively oversee the day-to-day operation of the assets. While REI's investment mandate is global, we take a targeted approach by focusing on select markets that can bring sufficient scale to investment activities. We establish a local presence in our key markets as it enables us to develop deeper internal expertise while fostering even stronger relationships with our partners.

The real estate portfolio core holdings consist primarily of investments which are underpinned by high-quality, income-producing properties that generate a stable income stream and are suitable for long-term ownership. We have also pursued development-oriented strategies where we seek attractive risk-adjusted returns supported by favourable supply/demand dynamics. This "build to core" strategy is designed to manufacture high-quality assets that will be suitable for long-term investment once completed. As the portfolio has grown in size, we have also made select value-added investments that offer the potential to deliver superior performance in order to complement the portfolio's core return profile. Such programs are typically asset rehabilitation or repositioning strategies that require active asset management.

REI's strategy continues to evolve in response to emerging trends and changing market dynamics. But we remain focused on core geographic markets and sectors, which include (i) the key developed markets of Canada, U.S., U.K. and Australia, as well as the key emerging markets of Brazil, China and India, and (ii) the four main commercial property sectors of office, retail, industrial and multi-family residential.

These markets and sectors are among the largest and most liquid in the real estate investable universe and continue to form the majority of our portfolio. In recent years we have complemented our core sector focus with investments in the student housing and health care sectors, which offer the potential for attractive risk-adjusted returns and opportunities to grow our investment programs in established geographic markets.

REI is organized along two main groups:

EQUITY PROGRAMS

The Equity group forms the majority of our portfolio (90.0%) and is organized geographically into the Americas, Europe and Asia sub-groups. The Equity group's primary activity is to source best-in-class real estate owner/operators in select markets. We partner with them through co-ownership structures such as joint ventures (JV). These partners provide the necessary local market expertise and are also responsible for the day-to-day management of our properties.

In order to ensure strong alignment with our partners, we generally seek a significant co-ownership stake from them in our investments. Our goal of building scalable programs requires significant capital investments from our partners, who tend to be large, well-capitalized, listed real estate companies. While JVs will continue to be the primary focus for our Equity group, in recent years we have made a number of strategic investments in real estate operating companies in order to broaden our opportunity set. We expect to focus more on the ownership of operating companies or platforms in the coming years, as we believe it is an efficient way to build scale while enhancing alignment of interests with our operating partners.

PRIVATE REAL ESTATE DEBT

The Private Real Estate Debt group (PRED) complements the equity program by providing debt financing across the capital structure of quality properties. PRED's geographic and sector focus is broadly consistent with that of the Equity group, enabling it to leverage our in-house market knowledge and existing relationships. The two groups work closely in sharing market intelligence with the ultimate goal of providing a one-stop capital solution to potential partners.

Our Internal Capabilities

Our employees and our unique culture are the foundation of CPPIB's success. To sustain that success, we continue to build and develop our global capabilities from within the organization while also attracting more diverse talent. The overall goal is to ensure all employees are aligned and actively contributing to CPPIB's strategic objectives and demonstrating our values in everything we do. These are the cornerstones on which we are building an enduring, global organization for the long term.

GLOBAL WORKFORCE

At the end of fiscal 2016, the number of regular full-time employees grew to 1,266, an increase of 9.4% over the previous year: Toronto – 1062; Hong Kong – 65; London – 102; Luxembourg – 4; Mumbai – 6; New York – 13; and São Paulo – 14.

In the fall of 2015, we officially opened our seventh office, in Mumbai, India's business capital. As the third-largest economy in Asia, India is a key, long-term growth market for CPPIB and having this local presence gives us invaluable insights, business connections and access to deal flow. We currently have four employees in our Mumbai office who are focused on real estate opportunities with plans to expand the office over time.

As our organization grows and new opportunities are identified in our international offices, we are enabling more workforce mobility. In the past year, 22 employees transferred between our offices. This gave them the opportunity to further deepen and share their knowledge and expertise, while at the same time, reinforcing a consistent CPPIB culture across all our locations.

TALENT DEVELOPMENT

We believe that most of an employee's development occurs through on-the-job experience, supplemented by formal learning programs, along with coaching and mentoring so that employees are supported in their current role and can plan their future career. That commitment is demonstrated by the range of initiatives that have been introduced in the past year.

To support our overall commitment to build talent from within, we introduced a new program to our suite of organization-wide programming to develop skills required for success and to support career progression. All of our programs are highly interactive and include opportunities to learn from other colleagues and engage with senior leaders. The programs also help participants to collaborate and build a community of peers across the organization. Our launch last year of the IMPACT program equips managers with the skills that they need to lead people in an increasingly complex environment. Over 60 employees have participated so far and feedback continues to be very positive.

We continue to offer our New Grad training program, which is designed for recent hires directly out of undergraduate school. This program supports career development from the start. Our EDGE program focuses on core skills including structured problem solving, pitching an idea, collaborating and much more. In addition to our array of programs, we also offer on-site skills training programs. In the past year, a total of 1,100 participants have attended different learning programs.

Our Career Frameworks initiative continues to support employees' development by clarifying career paths and their progression within CPPIB. While Career Frameworks provide the foundation to inform our training programs, they also facilitate career conversations between managers and employees.

The following results illustrate our efforts to develop talent in the past year:

> We created opportunities for interns who provide an effective talent pipeline. Twenty-four of our 32 Intern Analysts and Summer Associates (75%) were offered full-time roles;

> We continue to promote from within the organization. In all, 180 employees received promotions and we filled 20% of our open roles internally;

> Employees may also benefit from secondments to further develop their careers. In fiscal 2016, 29 employees were on secondments.

Another critical component of our talent development is succession planning. On an annual basis, we review the succession plans across the organization every year. We significantly increased the number of potential successors for our Senior Managing Director roles, and moving ahead to improve successor readiness and focus on filling succession gaps.

DIVERSITY

As a global knowledge-based organization, we believe that an inclusive environment is critical to our success. We encourage our employees to bring diversity of knowledge, ideas and approaches to fuel our performance. We are convinced that diversity of insights, backgrounds and experiences leads to better decisions and business outcomes and we always want to be attracting the best talent. For that reason, we are focused on attracting, developing and retaining talented women. By 2020, our goal is to have half of all of our new hires be women. In fiscal 2016, 46% of new hires were female, an increase of 2% over the previous year. At the end of fiscal 2016, there was 27% female representation at the Managing Director and Senior Managing Director levels. Overall female representation was 41% across all levels of the organization. While this is an improvement, more progress is required.

To further support the development of women, we recently established a partnership with Women in Capital Markets, the largest network of professional women in the Canadian financial sector and a voice of advocacy for women in our industry. As a result of this partnership, CPPIB is participating in a newly developed women's internship program designed specifically to attract undergraduate women who are interested in a career in finance and investments. We are also participating in the Return to Bay Street Award, designed to help professional women re-launch their careers in the Canadian capital markets after an extended period of absence from the industry. Through these programs, we are identifying new talent pipelines for CPPIB.

In November 2015, our President and CEO Mark Wiseman was honoured to receive the Women in Capital Markets Leadership Award, and did so on behalf of our entire organization. This annual award recognizes members of the financial community who have demonstrated a commitment to advancing and supporting women in capital markets.

We continue to make progress on our three-year Employment Equity Plan and initiatives. In November 2015, we introduced Work Flexibility guidelines to benefit all employees while continuing to respect individual needs and circumstances. These guidelines provide clarity to both managers and employees on the types of arrangements the organization supports and demonstrates CPPIB's belief in an engaged and productive workforce.

We are on track with the implementation of most of the Canadian employment equity recommendations; however, we recognize there are still gaps in the representation of females, aboriginals and persons with disabilities. We will continue to monitor the implementation of the CPPIB Employment Equity Plan, which aims to remove employment barriers for all current and potential employees.

CULTURE

CPPIB is proud of its corporate culture, which is underscored by a critical purpose to help Canadians build security in retirement, guided by Guiding Principles of Integrity, Partnership and High Performance. We are committed to preserving our strong corporate culture across all global offices while still respecting local differences.

Our Guiding Principles are reinforced through the hiring and onboarding processes and embedded through our many programs and initiatives. Furthermore, employees are regularly reminded of how we are expected to conduct business when discussing other important topics such as compliance activities, the Code of Conduct, and information security. Once a year, every employee attends a *Living our Guiding Principles* session, moderated by senior leaders. This shared experience of scenario-based learning, serves to refresh and deepen employees' understanding of our values.

Through our annual survey, employees have the opportunity to share feedback about their experience at CPPIB. The overall response rate to the recent survey in January 2016 was an impressive 86%. Managers will review the results of the survey with their teams and identify where they can take action so that everyone contributes to making CPPIB an even better place to work.

SENIOR APPOINTMENTS

We continue to demonstrate our ability to attract top talent with the addition of two Senior Managing Directors to our Senior Management Team in 2015. Patrice Walch-Watson joined as Senior Managing Director, General Counsel & Corporate Secretary, leading the critical legal function supporting our investments and other operations, such as compliance.

Mary Sullivan joined as Senior Managing Director & Chief Talent Officer and is leading the global Human Resources team, including talent acquisition, organizational development, human resources and employee relations, operations and analytics and total rewards.

Furthering Operational Capabilities

Our operational capabilities aim to support the growth and globalization of CPPIB's investment programs. During fiscal 2016, we continued to advance our processes and controls with a view to achieving economies of scale in support of the unique requirements of our investment programs and enhanced investment framework.

This year, we continued to advance our multi-year trading process initiative, which is establishing an integrated, straight-through trade life cycle process for publicly traded securities that is scalable to support increasing transaction volumes and complexity. We began to streamline and automate administrative elements of trade execution, to reduce transaction processing time and costs and lower operational risk. In fiscal 2017, we will deliver additional functionality that will further leverage the new trading architecture to realize further efficiency benefits.

We continued to evolve our technology operating model to better meet the needs of the investment and core services departments and add greater value and efficiency to our organization, while reducing costs and operational risk. During fiscal 2016, we also established a new Information Technology (IT) business management function with a focus on more proactively managing IT budgets and our workforce, and enhancing metrics to monitor IT risks and performance.

During the year we launched a multi-year initiative to renew critical financial reporting tools and processes. In fiscal 2016, we completed the design of a new target operating model for financial accounting and reporting, articulating key processes, systems and data flows designed to allow for more timely and meaningful analysis. We also developed the corresponding roadmap outlining the steps and milestones to achieve this target state in a phased approach over the next several years.

Portfolio reporting and analytics continued to evolve to support portfolio management and governance. We implemented processes to measure and analyze Fund performance and composition based on the criteria set out in the enhanced investment framework along with revised monthly and quarterly reporting to provide the Board and management with the information they need to govern the investment activity in accordance with the framework. We continue to improve our analysis of operating expenses, transaction costs and management fees and plan to develop additional metrics in fiscal 2017.

In fiscal 2016, we advanced our capabilities to respond to larger and higher impact disruption events through the creation of a Crisis Management Framework and Team. We also continued to enhance our business recovery capabilities, particularly with IT disaster recovery. These advancements together with ongoing training and awareness programs at all levels across our organization will ensure that we can conduct our most important business activities in the event that our computing facilities or office premises are inaccessible due to a power failure or other event.

Sustainable Investing

Our Sustainable Investing group is made up of six individuals with expertise in environmental, social and governance (ESG) matters, yet as described below, it preoccupies all of our investment professionals in the course of their work. We believe that considering ESG factors in our investment decisions and asset management activities will lead to better long-term investment performance across the CPP Fund. A company's approach to ESG often serves as a good indicator of the quality of the business and its management and board oversight, and how it will perform over the long term.

The Sustainable Investing group is focused on two core functions:

> **ESG Integration** – Sustainable Investing works with investment teams in Public Market Investments, Investment Partnerships, Private Investments and Real Estate Investments to ensure that ESG risks and opportunities are incorporated into our investment decision-making and asset management activities, as standard practice. Given CPPIB's mandate to pursue maximum investment returns without undue risk of loss, we integrate ESG factors into our investment analysis alongside other investment considerations, rather than screening investments or, conversely, targeting investments, based on ESG factors alone. Sustainable Investing facilitates ESG integration alongside investment teams across CPPIB to establish and refine ESG-related investment processes, and by acting as an internal ESG domain expert resource providing analysis and advice. Each asset class and geography presents unique ESG risks and opportunities and, therefore, we employ a tailored approach to how we consider ESG factors in both our investment selection and asset management activities.

> **Engagement** – Sustainable Investing supports our role as an active, engaged owner and works to enhance long-term performance of companies in which we invest by engaging, either individually or collaboratively with other investors. We encourage companies to provide better disclosure and adopt better practices on ESG factors that we believe are material to the long-term performance of the company. We pursue the full spectrum of engagement that ranges from thoughtful exercise of our proxy voting rights to direct discussions with the Board Chairperson. Sustainable Investing actively engages with companies and stakeholders through a variety of means, including through engagement platforms such as the United Nations-supported Principles for Responsible Investment (PRI) initiative, the Canadian Coalition for Good Governance and Hermes Equity Ownership Services. Engagement activity is directed at companies that present material ESG risks and opportunities based on research on the company, industry and region, along with industry standards and global best practices on ESG factors. Rather than solely voting with our feet and excluding companies from our investment portfolio based on ESG criteria, we work to promote positive change by working with companies on ESG issues that we believe are material to our investments. Sustainable Investing has four engagement focus areas, namely climate change, water, extractive industries (mining and oil & gas) and executive compensation. We fully exercise our rights as shareholders, including proxy voting, and provide public disclosure of our Proxy Voting Principles and Guidelines that are updated annually. We also publicly disclose our proxy voting intentions in advance of shareholder meetings.

Eric Wetlaufer, Senior Managing Director & Global Head of Public Market Investments, was elected to the PRI Advisory Board in 2012 for a three-year term. He had an instrumental role in shaping its governance structure and setting its strategy. His term ended in December 2015. Mark Wiseman, our President & CEO, sits on the board of the Canadian Coalition for Good Governance and is the Chair of its Public Policy Committee. Stephanie Leaist, Managing Director, Head of Sustainable Investing, sits on the Advisory Council of Hermes Equity Ownership Services, a global collaborative engagement platform and the Public Policy Committee of the Canadian Coalition for Good Governance.

We recognize that climate change has the potential to significantly impact our investments in the longer term. As an investor with a long horizon, CPPIB has the ability to act as a patient provider of capital and to work with the companies that we invest in to bring about change. We encourage companies to avoid the pitfalls of short-termism, and to provide better disclosure regarding risks and opportunities related to climate change. We believe that engaging with companies on this topic and, often in collaboration with other investors, pressing for improvement will help achieve enduring value. For example, in fiscal 2016, we both led and participated in collaborative engagements alongside other global investors through which we pressed large greenhouse gas emitters in oil & gas, utilities, and other sectors for improved disclosure related to climate change risks. While better disclosure helps investors make better decisions, in our experience it is often also a catalyst for corporate change. We also co-filed shareholder resolutions related to climate change for inclusion at the 2016 annual shareholder meetings of Rio Tinto plc and Glencore plc. The resolutions seek deeper disclosure on five areas of climate change risk and opportunity management: ongoing operational emissions management; asset portfolio resilience; low carbon energy research, development and investment strategies; strategic key performance indicators and executive incentives; and public policy initiatives. We continue to support the annual Climate Change Information Request that CDP (formerly the Carbon Disclosure Project) sends to more than 5,700 publicly traded companies on behalf of investors. During the fiscal year, we supported 47 shareholder proposals related to climate change at companies in our portfolio.

The approach and activities of our Sustainable Investing and investment teams are further described in our *2015 Report on Sustainable Investing*, which is available on our website.

Accountability

CPPIB is accountable to Parliament and to the federal and provincial finance ministers who serve as the joint stewards of the CPP. We report to Parliament through the federal finance minister, who tables our annual report in the House of Commons. We file quarterly financial statements with the federal and provincial finance ministers and publish them on our website.

In addition, our Chairperson and CEO hold public meetings every two years in the provinces that participate in the CPP. These meetings offer Canadians and stakeholder groups the opportunity to ask questions and learn more about CPPIB. Our next public meetings will be held on June 6, 2016. We are also committed to timely and continuous disclosure of significant investments and events.

Every three years, we provide information to the Office of the Chief Actuary of Canada for its evaluation of the CPP. The Chief Actuary is expected to release an updated report in late calendar 2016, reflecting the period ended December 31, 2015. We also provide any information the federal and provincial finance ministers request for their periodic reviews of the CPP.

As required for all Crown corporations, every six years we undergo an external Special Examination of our records, systems and practices. Our Board of Directors appoints an external examiner to conduct this Special Examination. The most recent Special Examination completed in early 2016 resulted in a clean opinion. A copy of the Special Examination report is available on our website. The next Special Examination will be in 2022.

All public reports issued by CPPIB are subject to review and approval by the Audit Committee of our Board of Directors, which then recommends their approval to the full Board. This includes the Financial Statements and Annual Report.

CPPIB seeks to meet or exceed both legislated requirements and industry norms in maintaining high standards of conduct and business practice, and our commitment to ethical conduct. Our comprehensive governance and accountability framework includes measures designed to preserve the public trust.

One of these measures is our Code of Conduct for Directors and employees. This Code, which is available on our website, obligates everyone at CPPIB to act as whistle-blowers if they become aware of a suspected breach. This can be done confidentially to an external conduct review advisor who is not part of management or the Board of Directors. The Honourable Frank Iacobucci was appointed to this position in fiscal 2006. He is a former justice of the Supreme Court of Canada, former member of the Ontario Securities Commission and author of five major books on business law. Mr. Iacobucci submits a report and meets in person with the Board at least once a year to discuss his activities.

We have also adopted internal standards and policies to ensure we act responsibly at all times as a major capital markets participant.

DISCLOSURE

We believe in transparency as the foundation of public trust and CPPIB is committed to keeping stakeholders well informed. Our disclosure policy reflects the level of information that will help inform CPP contributors and beneficiaries about how we are managing their CPP money. This policy is designed to foster a better understanding of what drives performance and sustainability of the Fund over time. Our disclosure includes the quarterly release of investment results and the Annual Report, which contain extensive information about Fund performance and investment activities.

We strive for consistent disclosure at the organizational level and within investment programs, recognizing that each program has unique legal, competitive and practical requirements. We are also committed to timely and continuous disclosure of significant investments and dispositions as well as material events.

Our website contains comprehensive information about how we operate. This includes details of our investments and partners. It also provides access to CPPIB's governing legislation and regulations, by-laws, governance manual and policies. These policies include the investment statements that guide us in managing the long-term CPP Fund Investment Portfolio and the short-term Cash for Benefits portfolio. We also maintain alternative digital channels to communicate new developments.

CPPIB exceeds its statutory disclosure requirements, and we are committed to reviewing our disclosure policies and practices on an ongoing basis to ensure that they keep pace with the evolution of the organization, and the needs of Canadians.

Financial Review

This Annual Report contains forward-looking statements reflecting management's objectives, outlook and expectations as at May 12, 2016.

These statements involve risks and uncertainties. Therefore, our future investment activities may vary from those outlined herein.

The following information provides analysis of the operations and financial position of the Canada Pension Plan Investment Board and should be read in conjunction with the Financial Statements and accompanying notes for the year ending March 31, 2016. The Financial Statements have been prepared in accordance with International Financial Reporting Standards.

Management's Discussion & Analysis

Financial Performance

Fiscal 2016 presented a challenging investment environment as global equity indexes fell broadly, reflecting a negative turn in sentiment as investors digested the disorderly deflation of China's stock market bubble, the continued slide in crude oil prices and the U.S. Federal Reserve's first interest rate increase in more than nine years.

Despite this challenging environment, the CPP Fund earned a moderate investment gain demonstrating the benefits of a resilient, well-diversified global portfolio.

The chart below provides a more detailed view of the Fund's asset weightings, by asset category, as discussed in the Total Portfolio Approach section on page 31.

ASSET MIX

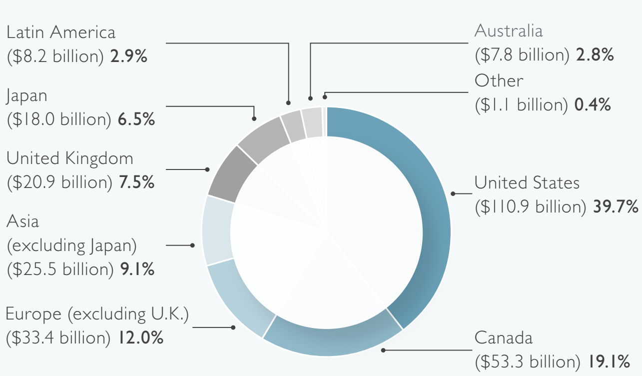
	As at March 31, 2016		As at March 31, 2015	
ASSET CLASS	($ billions)	(%)	($ billions)	(%)
CANADIAN EQUITIES	**15.0**	**5.4%**	**19.5**	**7.3%**
Public	11.9	4.3%	16.5	6.2%
Private	3.1	1.1%	3.0	1.1%
FOREIGN DEVELOPED MARKET EQUITIES	**113.5**	**40.6%**	**98.0**	**37.0%**
Public	64.1	23.0%	56.3	21.2%
Private	49.4	17.6%	41.7	15.8%
EMERGING MARKET EQUITIES	**17.6**	**6.3%**	**15.5**	**5.9%**
Public	11.9	4.3%	11.0	4.2%
Private	5.7	2.0%	4.5	1.7%
FIXED INCOME	**75.0**	**26.9%**	**86.3**	**32.6%**
Non-marketable bonds	24.8	8.9%	25.8	9.8%
Marketable bonds	41.4	14.8%	34.4	13.0%
Other debt	20.9	7.5%	17.2	6.5%
Money markets and debt financing	(12.1)	-4.3%	8.9	3.3%
REAL ASSETS	**58.0**	**20.8%**	**45.5**	**17.2%**
Real estate	36.7	13.2%	30.3	11.5%
Infrastructure	21.3	7.6%	15.2	5.7%
INVESTMENT PORTFOLIO[1]	**279.1**	**100.0%**	**264.8**	**100.0%**

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

The charts below illustrate the global diversification of our portfolio, by region or country and by currency exposures. Canadian assets represented 19.1% of the portfolio at the end of fiscal 2016, and totalled $53.3 billion. Foreign assets represented 80.9% and totalled $225.8 billion. Foreign currency exposures represented 81.8% and totalled $228.3 billion. Currency diversification represents the currency of our investments whereas global diversification represents the geographic exposure of our investments.

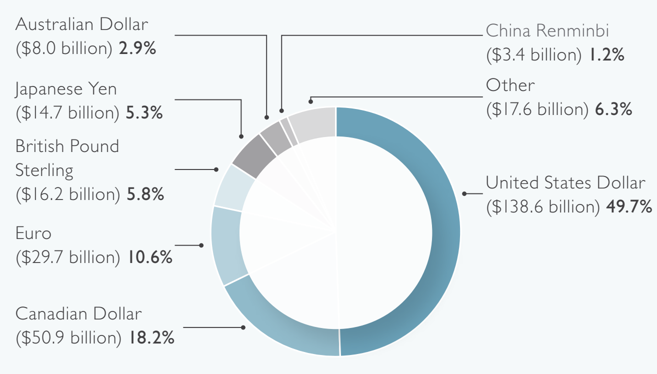
GLOBAL DIVERSIFICATION

As at March 31, 2016



CURRENCY DIVERSIFICATION

As at March 31, 2016



PORTFOLIO RETURNS[1]

ASSET CLASS[2]	**Fiscal 2016**	Fiscal 2015
Canadian public equities	**-6.4%**	8.9%
Canadian private equities	**-4.2%**	10.1%
Public foreign developed market equities	**-2.8%**	23.0%
Private foreign developed market equities	**8.6%**	30.2%
Public emerging market equities	**-8.7%**	24.2%
Private emerging market equities	**17.0%**	46.8%
Bonds and money market securities	**2.4%**	8.8%
Non-marketable bonds	**-0.2%**	15.4%
Foreign sovereign bonds	**5.6%**	–
Other debt	**7.9%**	18.7%
Real estate	**12.3%**	14.1%
Infrastructure	**9.3%**	16.5%
Investment Portfolio[3]	**3.7%**	18.7%

1 Before CPPIB operating expenses.

2 Investment results by asset class are reported on an unhedged Canadian dollar basis. Results are calculated on a time-weighted basis.

3 The total Fund return in fiscal 2016 includes a gain of $374 million from currency management activities and a $1.2 billion gain from absolute return strategies, which are not attributed to an asset class.

		Fiscal 2016		Fiscal 2015
	%	**$ billions**	%	$ billions
TOTAL FUND RETURNS[1,2,3]				
1-year return	**3.4**	**9.1**	18.3	40.6
5-year return	**10.6**	**105.6**	12.3	111.7
10-year return	**6.8**	**125.6**	8.0	129.5

1 Commencing in fiscal 2007, the rate of return reflects the performance of the Investment Portfolio, which excludes the Cash for Benefits portfolio.

2 Percentage returns are annualized, dollar figures are cumulative.

3 Net of CPPIB operating expenses.

TOTAL FUND PERFORMANCE

The CPP Fund ended its fiscal year on March 31, 2016, with net assets of $278.9 billion, an increase of $14.3 billion from the prior year. This increase consisted of $9.1 billion in net investment income after all CPPIB costs and $5.2 billion in net CPP contributions.

The portfolio delivered a gross return of 3.7% for fiscal 2016 or 3.4% on a net basis, after all CPPIB costs. The Fund's return in fiscal 2016 reflects gains earned by each of our investment departments as well as the impact of the weakening Canadian dollar. While global equity markets suffered losses over the past year, our active programs, including Public Market Investments, Investment Partnerships, Private Investments and Real Estate Investments, each contributed positive returns before foreign exchange rates are taken into account

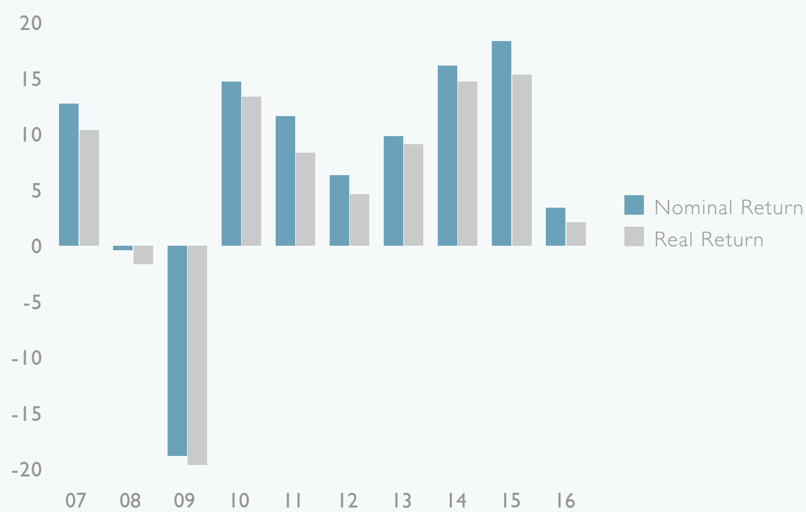
Despite a rally in the fourth quarter of the fiscal year, the Canadian dollar finished the year weaker against all major currencies, with the exception of the British pound, which translated into a currency gain of $5.2 billion for the Fund on its non-Canadian investments. The slide in crude oil prices, the Bank of Canada's accommodative monetary policy stance and a challenging macroeconomic environment continued to weigh on the Canadian dollar this year. The CPP Fund is a global portfolio that holds assets denominated in many foreign currencies, and we generally do not hedge these widely diversified currency exposures back to the Canadian dollar. Our currency hedging policy is explained on page 27. When the Canadian dollar weakens as it did this past year, the Fund will benefit from currency gains. Similarly, when the Canadian dollar strengthens, the Fund will experience currency losses, such as the loss of $10.1 billion experienced in fiscal 2010. The Fund's largest foreign currency exposure is to the U.S. dollar, which strengthened by 2.1% or $972 million, against the Canadian dollar in fiscal 2016. The Fund has significant exposure to the euro, which rose 8.4%, and to the British pound, which fell 1.1%. While currency exchange rate fluctuations may have a significant impact on our results in any given quarter or year, we do not expect them to have a significant impact on the Fund's long-term performance, which is our primary focus. As such, we do not maintain a hedging program.

The gains earned by our active investment programs were partially reduced by losses in the Fund's balancing portfolio (see page 51). This is managed against broad market indexes, and reflected the decline in global equity markets over the period. A number of factors weighed on investor sentiment this year including the deflation of China's stock market bubble, the U.S. Federal Reserve's first interest rate increase in more than nine years, as well as volatility in energy markets. The Chinese market led the move downward this fiscal year falling by 19.2%. Other major markets that experienced significant declines included the German DAX, which declined by 16.7% and the Japanese Nikkei 225, which fell 11.1%. The Canadian S&P/TSX Composite also fell by 6.6%. The U.S. S&P 500 was the only major market that advanced during the fiscal year with a slight gain of 1.8%, all in local currency terms.

The Fund's fixed income portfolio realized a small gain due to the continued low interest rate environment. While the U.S. Federal Reserve raised its target interest rate by 25 basis points in December, the impact of that decision on U.S. Treasury returns was not material over the course of the fiscal year, as the market had already priced in a significant likelihood of an interest rate hike over the next twelve months. U.S. Treasuries returned 2.3% for the year in local currency terms. Moving in the opposite direction to the Federal Reserve, the Bank of Canada decreased its target rate by 25 basis points in July. Canadian government bonds gained 0.8% due to the resulting decline in market rates. The market's perception of the Bank of Canada's monetary policy path was more uncertain as the Bank continued to respond to the evolving economic scenario resulting from the plunge in energy prices and the rate cut was not priced into the market.

As an investor with an exceptionally long time horizon, we believe that evaluating performance over five- and especially 10-year periods provides a much more meaningful assessment than for any single year. For the five-year period ending March 31, 2016, the CPP Fund generated an annualized nominal return of 10.6% after deducting all CPPIB costs. For the 10-year period, the Fund generated an annualized nominal return of 6.8% after all expenses. In the 26th Actuarial Report on the CPP, the Chief Actuary of Canada assumes a long-term prospective real rate of return of 4.0%, after all CPPIB costs and adjusting for inflation, in determining the sustainability of the CPP. The CPP Fund generated net real returns of 9.1% and 5.1% for the five- and 10-year periods, comfortably exceeding the Chief Actuary's assumption over the same 10-year period.

RATE OF RETURN (NET)
For the year ended March 31 (%)



REFERENCE PORTFOLIO RETURNS

The Reference Portfolio is a two-asset portfolio comprising public market global equities and nominal bonds issued by Canadian governments, each represented by broad market indexes. As such, it provides a clear benchmark for long-term total portfolio returns at a comparable level of risk. See page 28 for more information.

ASSET CLASS	Benchmark	**2016 Return (%)**	2015 Return (%)
Equity	S&P Global Equity LargeMidCap Index[1]	**-1.9%**	19.7%
Fixed Income	FTSE TMX Canada All Government Bond Index	**0.8%**	12.0%
Total CPP Reference Portfolio		**-1.0%**	17.0%

1 Net of tax, unhedged.

PERFORMANCE AGAINST BENCHMARKS

The CPP Fund earned a net return of 3.4% and net investment income of $9.1 billion in fiscal 2016 after deducting all costs, outperforming the Reference Portfolio's loss of 1.0% by 4.4%. The Reference Portfolio's loss reflected the decline in global equity markets for the period, with currency gains reducing its overall decline. We measure the difference between the Fund's performance and that of the Reference Portfolio in dollar terms, or dollar value-added (DVA). The Investment Portfolio return was $12.1 billion above the Reference Portfolio's return, or $11.2 billion after deducting all costs from the Investment Portfolio and CPPIB's operations.

Both the CPP Fund and the Reference Portfolio benefited from the weakening Canadian dollar in fiscal 2016, so currency was not a significant contributor to the CPP Fund's DVA outperformance. The Fund's relative strength compared to the Reference Portfolio was driven by the Fund's diversification into private equity and debt markets, real estate and other real assets that were more resilient in fiscal 2016 than the broad public asset class indexes that comprise the Reference Portfolio. Additionally, our active investment approach yielded relative value as each investment department outperformed their market-based benchmarks, demonstrating the strength and breadth of our global platform.

Consistent with our long-term time horizon we track absolute and value-added performance over rolling five-year periods. This aligns with the measurement period of our new compensation framework, as described on page 74. Previously we tracked rolling four-year periods to be consistent with the previous compensation framework. While it does not necessarily represent a full market cycle, the five-year period provides a reasonable basis for assessing longer-term performance over multiple such periods.

On a longer-term basis, Reference Portfolio and net value-added returns have been as follows:

	%	Fiscal 2016 $ billions
REFERENCE PORTFOLIO RETURNS[1]		
1-year	-1.0%	(2.1)
5-year	9.1%	89.2
Since inception[2]	6.0%	108.4

1 Percentage returns are annualized, dollar figures are cumulative.
2 CPP Reference Portfolio inception date: April 1, 2006.

	Fiscal 2016 $ billions
NET VALUE-ADDED RETURNS[1,2]	
1-year	11.2
5-year	16.4
Since inception[3]	17.1

1 Relative to CPP Reference Portfolio. Figures are cumulative.
2 Net of CPPIB operating expenses.
3 CPP Reference Portfolio inception date: April 1, 2006.

Many of our investment programs, such as our investments in real estate, infrastructure and private equity, are long term in nature. With patient management, they are producing the longer-term results that we believe reflect the benefits of our strategy. Reported private asset returns tend to be less volatile than comparable public market returns and there is typically a valuation lag between public and private markets. This can lead to significant volatility in annual DVA of private assets relative to public asset benchmarks. In periods where we see sharp public market losses, we would expect the Fund to outperform the Reference Portfolio due to the high proportion of private assets in our portfolio, just as we would expect little or even negative DVA in periods of sharp public market gains. This public/private difference is a further reason why it is essential to measure performance over a long-term period.

Given our exceptionally long investment horizon, we track cumulative value-added returns since the April 1, 2006 (fiscal 2007) inception of the Reference Portfolio. Cumulative value-added over the past 10 years totals $17.1 billion, after all costs. This is net of operating costs allocated to the investment departments and also governance costs that are not attributable to specific departments. $11.2 billion of the total value added is attributable to fiscal 2016.

CASH FOR BENEFITS PORTFOLIO

We have been responsible since 2004 for the short-term cash management program that supports monthly benefit payments made by the CPP. This Cash for Benefits portfolio is segregated from the long-term Investment Portfolio and invested only in liquid money market instruments. The primary objective is to ensure the CPP can meet benefit payment obligations on any business day.

A secondary objective is to match or exceed the benchmark return of the FTSE TMX Canada 91-day Treasury Bill Index. The portfolio earned 0.7% or $8.6 million for fiscal 2016 versus 0.5% for the index. Over the course of the year, this short-term portfolio had average balances of approximately $1.1 billion.

MANAGING TOTAL COSTS

BUILDING CPPIB TODAY AND FOR THE FUTURE

CPPIB's objective is to maximize returns without undue risk of loss. This mandate guides all decisions, whether it is creating a new investment program, investing in technology systems, or opening a new office. We remain vigilant in managing the costs we incur as we continue to build an organization designed to realize our public purpose of building and managing the Fund over the long term.

In 2006, CPPIB adopted an active management strategy in order to create value-building growth, generating investment returns that will exceed passive management over the long run (see page 23 for more information on active management). This decision necessarily requires expenditures associated with the operations of a sophisticated investment organization. In order to add value, we need to build and maintain the organizational capabilities and expertise to do so.

Central to our active management strategy is to operate as a truly global investment organization, with local talent in key markets that can access and evaluate attractive investment opportunities and closely monitor our assets to increase returns and reduce risk. While maintaining facilities in key international markets has a cost, there is greater value by enhancing our competitiveness and access to investment opportunities, partners and talent. This enables us to shape and aggressively pursue such opportunities instead of reacting to market developments.

An active management strategy also requires CPPIB to compete against other, larger investment firms, asset managers, insurance companies, sovereign wealth funds and banks around the world for the best assets. This requires CPPIB to have a team of highly skilled professionals that have the experience and ability to generate returns above passive alternatives. We currently have over 25 distinct investment programs that demand different skills, strategies, all with the single goal of generating added value.

The Chief Actuary projects the CPP Fund will grow to over $500 billion by 2030. Given this expected growth, we need to develop the capacity to deploy capital prudently to maximize returns, which requires CPPIB to invest today for the growth of tomorrow.

We are committed to continually updating CPP Fund contributors and beneficiaries on our results. We report both total Fund returns and we benchmark our strategy against a portfolio of public market indexes to measure our investment returns after all costs associated with active management. We have been and remain committed to continually evolving our expense disclosure to build an understanding of our strategic decisions.

GROWTH OF CPPIB

	Fiscal 2016	Ten years ago (before active management)
Assets under management	$ 278.9 billion	$ 98.0 billion
% foreign investments	80.9%	35.7%
Total employees	>1,200	164
Number of offices	Seven	One
Number of investment programs	>25	Six
Number of external partners	219	62

COST GOVERNANCE FRAMEWORK

Our cost governance framework starts with transparency and ensures there is strong oversight on all aspects of the CPPIB organization. Our framework includes expense management policies and authorities, as well as monthly expense reporting to senior management and quarterly reporting to the Board of Directors to ensure that growth is pursued in a responsible and cost-effective manner consistent with the Board-approved business plan and operating expense budget. In addition, our employee travel and expense policy ensures that the expenses incurred by employees are reasonable and appropriate to the needs of our business. Oversight also includes regular reviews by the Internal Audit group.

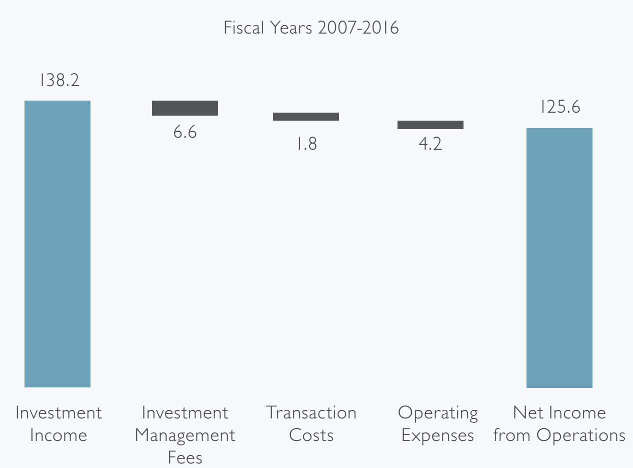
FISCAL 2016 TOTAL COSTS

To generate the $9.1 billion of net income from operations after all costs, CPPIB incurred total costs of $2,643 million for fiscal 2016.

This consisted of $876 million for operating expenses, $1,330 million for investment management fees and $437 million for transaction costs. In comparison, total costs for fiscal 2015 were $2,330 million, which comprised $803 million for operating expenses, $1,254 million for investment management fees and $273 million for transaction costs.

Since inception of our active management strategy CPPIB has provided $125.6 billion in net investment income after all CPPIB costs to the Fund and provided $17.1 billion in dollar-value added, after all costs, compared to what a passive portfolio might have provided over the same time period.

CUMULATIVE NET INCOME FROM OPERATIONS
$ billions



This level of total costs reflects the resources required to maintain and further develop CPPIB's infrastructure, processes, systems and personnel to support the organization's international footprint, which today consists of seven offices.

OPERATING EXPENSES

Operating expenses reflect the direct costs incurred to manage the CPP Fund. Operating expenses were $876 million this year, representing 32.0 cents for every $100 of invested assets, compared to $803 million in fiscal 2015 or 33.9 cents.

Total operating expenses increased to $876 million year-over-year in large part due to higher personnel and general operating expenses, such as premises costs. These costs reflect our continuing effort to increase our global competitiveness and access to the most attractive investments around the world. Also contributing to the increase in operating expenses is the continued weakness of the Canadian dollar exchange rate relative to the currencies of the countries where we operate. Our international operations today account for approximately 30% of CPPIB total operating expenses. Canadian operations are also directly impacted by foreign exchange fluctuations.

Total personnel expenses were $594 million in fiscal 2016 reflecting an increase of $36 million versus the prior year. Employee-based compensation increased due to higher staff levels both in Canada and internationally to support growth and expansion, as well as the impact of the weakening Canadian dollar. Approximately 34% of our personnel expenses are denominated in foreign currencies and that percentage is expected to increase in the coming years as we continue to hire specialized talent and skills in our international offices. This international growth will be primarily investment-related professionals who typically come at a higher cost than the core services staff who are primarily centralized in our Toronto office location.

General operating expenses of $231 million were also higher by $47 million on a year-over-year basis largely due to higher premises costs driven by the need for additional facilities to accommodate our growing staffing levels and international expansion, as well as increased technology costs and higher market data and investment research subscription costs reflected in operational business services.

Continuing to build internal investment expertise and capabilities where CPPIB has comparative advantages not only makes good business sense from economic and competitive perspectives, but it is also in the CPP Fund's best interest. Infrastructure investing is a case in point. We estimate that the total costs for an externally managed $15 billion of committed capital on average would range from $600 million to $700 million per year. By contrast, our fully costed internal management of our $21 billion infrastructure portfolio amounted to approximately $65 million.

INVESTMENT MANAGEMENT FEES

Given our broadly diversified portfolio, we seek exposure to a wide range of asset classes and active strategies but in some cases it would not be practical nor cost-efficient to build a dedicated in-house team. We use external managers to round out our portfolio diversification, which requires CPPIB to seek out external managers with the expertise to deliver strong returns in these asset classes.

To that end, the Investment Partnerships (IP) department invests in funds through external managers, for which it incurs both management and performance-based fees. Management fees are typically charged as a percentage of the amount committed to the fund. A performance-based fee is earned by a manager when the return of the vehicle it manages exceeds a pre-determined benchmark. If an external fund underperforms its benchmark, performance fees will not be paid out. In total, these fees will vary from year to year given the continued growth of commitments to our external managers and variations in realized investment returns.

The amounts referred to in this section include management fees paid to hedge funds and private equity funds, as well as performance fees paid to hedge funds.

Investment management fees paid to external fund managers offer the Fund access to scalable investment strategies that are expected to offer attractive, sustainable results on a risk-adjusted basis; with value-added that has low correlation to that of our internal investment programs. In addition, the relationships we build with external managers often generate other valuable investment opportunities.

Total investment management fees paid to external asset managers amounted to $1,330 million in fiscal 2016 compared to $1,254 million in fiscal 2015. The $76 million increase in investment management fees is due in part to the continued growth in the level of commitments and the average level of assets with external managers.

TRANSACTION COSTS

Transaction costs for fiscal 2016 totalled $437 million compared to $273 million in the prior year, an increase of $164 million over the prior year. This increase corresponded with the significant increase in business activity. This year, we completed 10 global transactions valued at over $1 billion each involving complex due diligence and negotiations, as investment departments worked diligently to deploy capital. Examples of these large transactions include: Antares Capital, Petco and Informatica.

Transaction costs include a variety of non-recurring expenses including due diligence consulting services, as well as legal and tax advisory fees required to support the acquisition and dispositions of private market assets or, in the case of public markets, commissions paid when trading securities.

Given the nature of these costs, they will vary from year to year according to the number, size and complexity of our investing activities in any given period. These costs are expected to increase over time as we continue to increase our private asset holdings and dispositions, as well as our public markets trading activities in both developed and emerging markets given the expected growth in the Fund.

Notes 8 and 9 to the Financial Statements provide additional total cost information on pages 124–125.

Performance of Investment Departments

The following section provides details about the assets, activities and performance of each investment department. A description of each department's responsibilities is found on pages 35 to 40. We conduct all our investment activity in accordance with the Statement of Investment Objectives, Policies, Return Expectations and Risk Management (the Investment Statement) approved by our Board of Directors and the Policy on Sustainable Investing discussed on page 42. These and other Board policies are available on our website, www.cppib.com.

The table below shows the year-end composition of net investment assets:

YEAR-END COMPOSITION OF NET INVESTMENTS BY DEPARTMENT AND ASSET CLASS

As at March 31, 2016 $ billions	Public Market[1] Investments	Investment Partnerships	Private Investments	Real Estate Investments	Total
Equities	79.5	44.2	22.4	–	146.1
Fixed Income	35.9	22.4	12.6	4.1	75.0
Real Assets	–	–	21.3	36.7	58.0
Total	115.4	66.6	56.3	40.8	279.1

1 Public Market Investments include $114.5 billion of assets managed on behalf of the Investment Planning Committee. Of the $114.5 billion, $112.3 billion represents assets in the balancing portfolio and other total portfolio management activities. The remaining $2.2 billion represent other active IPC strategies.

This year, we successfully carried out a wide range of investment programs, expanded our internal capabilities internationally and further broadened our global reach in pursuit of our long-term objectives. We have offices in Toronto, Hong Kong, London, New York, São Paulo, and added Luxembourg and Mumbai in fiscal 2016. We believe that a strong local presence in key markets is critical to accessing the most attractive investment opportunities around the world and ensuring diligent asset management.

In fiscal 2016, we concluded 60 transactions across all of our investment programs, each with a transaction value of over $200 million. We made these sizeable and complex transactions in 12 countries – evidence of our deep internal capabilities and wide global reach.

The chart below shows the contributions of each investment department to net investment income, before operating expenses.

NET INVESTMENT INCOME BY INVESTMENT DEPARTMENT

As at March 31, 2016	$ millions
Public Market Investments	611
Investment Partnerships	2,829
Private Investments	3,494
Real Estate Investments	4,205
Total Before IPC Portfolio	11,139
IPC Portfolio	-1,132
Total	10,007

INVESTMENT PLANNING COMMITTEE

The largest component of the total IPC portfolio is the balancing portfolio, described on page 35. Primarily made up of public equity holdings, it experienced losses of $1,373 million driven by widespread declines in equity markets. The active component of the IPC portfolio earned a net gain of $11 million, including gains of $246 million from efficiencies in the management of index-based portfolios, offset by losses on China A-shares and on the strategic tilt to shorten overall fixed income duration. The latter is maintained to reduce exposure to a rise in government bond yields, which in fact fell slightly during this fiscal year. Other total portfolio management activities generated a gain of $230 million.

Public Market Investments
At A Glance

NET INVESTMENT INCOME

$0.6 billion

IMPLIED ASSETS UNDER MANAGEMENT

$39.2 billion

KEY FOCUS THIS YEAR

> Scaling PMI's investment activities from a bottom-up perspective.

> Expanding depth of existing programs.

> Expanding international capabilities.

SUMMARY

At the end of fiscal 2016, implied assets under management (AUM) of $39.2 billion are actively managed by internal teams. See page 25 for an explanation of implied AUM.

The distribution and development of PMI's implied AUM is shown below at the current and prior year ends, reflecting substantial overall growth this year. Changes in implied AUM were primarily driven by Relationship Investments funding new and follow-on investments, and GCS-F adding positions to their Global Best Ideas portfolio which is designed to maximize allocation of risk and capital in corporate securities with the highest forecast risk-adjusted return. GTAA's implied AUM also grew, reflecting a planned increase in active risk in fiscal 2016.

PMI IMPLIED ASSETS UNDER MANAGEMENT (AUM) FOR ACTIVE PROGRAMS (IN $ BILLIONS)

PMI Group	**March 31, 2016**	March 31, 2015[1]
Global Corporate Securities – Fundamental	**7.8**	3.9
Global Corporate Securities – Quantitative	**8.5**	10.0
Global Tactical Asset Allocation	**3.4**	1.8
Relationship Investments	**7.5**	4.1
Short Horizon Alpha	**11.4**	14.9
PMI Common	**0.6**	0.7
Total	**39.2**	35.4

To calculate the size of PMI's activities on a comparable basis, we compute their implied AUM in the following ways: For investments in externally managed funds, we use the reported net asset values. For internal long/short securities-based programs, we use the value of the long side of the program. For other strategies, we estimate the asset amount using a risk-based approach.

1 Certain comparative figures have been recalculated to be consistent with the current year's presentation.

The following chart shows the combined value-added generated by PMI's active investment programs in fiscal 2016. We report returns only in dollar amounts, as many of the activities are conducted on a market-neutral or long/short basis for which there is no generally accepted and appropriate underlying asset base for measuring returns in percentage terms.

PUBLIC MARKET INVESTMENTS – ACTIVE	Fiscal 2016 $ billions	Fiscal 2015 $ billions
CONTRIBUTION TO PORTFOLIO VALUE-ADDED[1]		
1-year	0.8	2.0
5-year[3]	5.0	4.9
Since inception[2,3]	5.5	4.7

1 Alpha value-added only, before CPPIB operating expenses.
2 CPP Reference Portfolio inception date: April 1, 2006.
3 External Portfolio Management and Thematic Investing were transferred to Investment Partnerships starting in fiscal 2016.

PMI produced strong results again this year, both in absolute returns and value-added relative to benchmarks. This was amid volatile global markets that continued to be impacted by divergent central bank policies, with the U.S. central bank increasing rates for the first time since 2006, and further downward pressure on oil prices. While not all investment groups produced positive results, overall performance was strong due to the diversity and underlying soundness of the approaches employed by our active programs. And, in fact, we do not expect all investment groups to move in the same direction in any given year. We remain confident in their collective ability to generate and sustain significant value creation over the longer term.

FISCAL 2016 ACTIVITIES

PMI's primary focus this year was on scaling our investment activities from a bottom-up perspective and strengthening our focus on governance. Emphasis was placed on expanding the depth of existing programs while limiting new ones. Supporting these initiatives, PMI reinforced its global reach by growing our capabilities in London and Hong Kong through a combination of new hires and international assignments. PMI currently has a total of 11 personnel in London and 13 in Hong Kong.

In fiscal 2016, we continued our collaboration across investment groups both within PMI and across CPPIB, particularly by sharing analytical and execution capabilities. In addition, PMI played a critical role in operationalizing CPPIB's enterprise-wide multi-year business plan. To facilitate a greater focus on total Fund return, CPPIB is giving greater consideration to managing Fund-wide exposure to equity, macro and credit factors. Several PMI groups contributed to this effort in the year. In addition, a new liquidity management group was launched, with partnership from Treasury Services and TPM, to develop new processes to better coordinate and optimize Fund liquidity. More details about CPPIB's liquidity and capital resources are on page 70.

Below is a summary of activities this year within PMI's groups:

GLOBAL CAPITAL MARKETS (GCM)

In fiscal 2016, GCM continued to expand and improve execution capabilities by adding new counterparties, electronic connections and liquidity venues. GCM also operationalized the capability to trade A-shares through the HK-Shanghai Stock Connect platform. In partnership with Information Technology, the build out of the segregated trade floor was completed. The segregated trade floor provides a robust and stable IT platform in Toronto that has high availability and stability.

GLOBAL CORPORATE SECURITIES – FUNDAMENTAL INVESTING (GCS-F)

In fiscal 2016, GCS-F significantly grew active gross exposure, including considerable growth outside of North America. The team conducted in-depth thematic research on structural change taking place in areas such as self-driving automobiles, the use of sweeteners in food products, demographic trends in usage of mobile devices and structural changes in natural resources to determine potential future investment opportunities. GCS-F also participated in its first convertible bond offering in a privately held opportunity through a joint initiative with RI, and in a Chinese IPO as an anchor investor.

Positive performance by GCS-F was driven by strong security selection, particularly within the consumer, information technology and energy sectors. The positive performance in the energy sector is noteworthy and reinforces the benefit of being long and short securities within a market neutral strategy.

GLOBAL CORPORATE SECURITIES – QUANTITATIVE INVESTING (GCS-Q)

In fiscal 2016, GCS-Q developed, approved and adopted a new metric for evaluating long-horizon signals, completed the migration of core quant strategies to a new production process, and made considerable progress towards a single, generalized framework for forecasting, which brought together previously distinct strategy-specific approaches. In addition, GCS-Q built a cross-departmental team with TPM and launched a pilot program to apply equity factor investing at the total Fund level.

Positive performance by GCS-Q was observed in all three factor categories: value, sentiment and quality. Sentiment was particularly strong in the first half of the fiscal year and value was a strong second half contributor. The quality category was mixed throughout the year.

GLOBAL TACTICAL ASSET ALLOCATION (GTAA)

GTAA increased the breadth and scalability of their programs, including launching a new Global Options Program, which uses options to manage macroeconomic risk and adding new assets to existing programs. In fiscal 2016, GTAA assumed responsibility for strategic tilts at the total portfolio level. In principle, strategic tilts involve inclining the overall exposure of the total Fund toward broad asset classes or factors. Strategic tilting processes and capabilities enable the Fund to implement strategic shifts in asset and factor allocations in anticipation of short- to mid-term market conditions. The first step in this effort is to provide a clear definition and rationale for strategic tilting at CPPIB. GTAA has also been enhancing its Intrinsic Valuation Model, a proprietary, long-run valuation model for valuing asset classes, which will be used as one input to guide future strategic tilting decisions.

With a focus on longer-horizon value investments, current year underperformance by GTAA was primarily driven by the Global Fixed Income program. This program takes active positions across liquid developed bond markets, while remaining broadly neutral to common changes in global yields. The largest detractor was a short position in Japanese 10-year bonds (JGBs) versus a long view on U.S. Treasuries.

RELATIONSHIP INVESTMENTS (RI)

RI continued to scale its investments with increased deal size and regional and sector diversification to manage risk. The group's hedging construct was migrated to an aggregated hedge basket to minimize risk and unintended factor exposures. This also improved efficiency in the process of selecting and managing short exposures. In fiscal 2016, RI completed several transactions. Highlights include:

> Invested US$500 million in the common equity of Postal Savings Bank of China, one of the largest retail banks in China;

> Acquired a US$267 million stake in Enstar Group Ltd., a global leader in acquiring and managing closed blocks of property and casualty insurance. Enstar also underwrites specialty insurance lines through its active underwriting businesses. RI subsequently invested an additional US$111 million through another share purchase;

> Purchased £142 million in common shares of Entertainment One Ltd., a leading international independent entertainment company that specializes in the acquisition, production and distribution of film and television content. RI subsequently increased their stake by £36 million through a rights offering and £16 million through open market share purchases; and

> Completed a follow-on investment of US$150 million in Markit Group Ltd., a London-based global provider of financial information services.

RI's strong performance arose from a portfolio approach where industry and geographic diversification, and a preference to invest in low-beta companies, delivered positive returns in volatile equity markets. In addition, our ongoing support facilitated accretive acquisition activity by many of our companies, while our board involvement aimed to add value and advance our partners' strategies. In all instances, we focus on long-run stable returns and high-quality companies, which typically imply outperformance in down markets and slight underperformance in rapidly rising markets.

SHORT HORIZON ALPHA (SHA)

SHA continued to build efficiencies and synergies in portfolio design and risk management through the implementation of a new cross asset risk management system. The platform can generate specific scenario analyses to optimize SHA's aggregate risk profile and ensure portfolio diversification. In addition, a new structured finance investment platform was added, enhancing the ability to analyze structured finance securities and underlying collateral/risk properties. The group increased the depth and breadth of its strategies, initiating a volatility swap-based dispersion program and investigating dislocation opportunities in credit ETFs, which may be incorporated into a broader systematic index program.

Overall, SHA's results were negative for the year. The environment for Quantitative Relative Value, including Commodity Trading Advisor and FX strategies, was very challenging this year given the market's range-bound nature leading to losses in these areas. Although credit markets performed poorly for the year, SHA's Credit Relative Value strategy was able to produce positive results.

LOOKING AHEAD

Building on the progress made in fiscal 2016, PMI groups will continue to support CPPIB's total return approach, advancing top down strategic tilting, equity factor investing and cash and liquidity management capabilities. In particular, we will focus our efforts on:

> Expanding our global presence, including enhanced trading coverage to support international teams;

> Continuing to increase breadth and depth of programs (asset classes, data sets, etc.); and

> Facilitating greater communication across disciplines to leverage the benefits of bespoke research.

Investment Partnerships
At A Glance

NET INVESTMENT INCOME

$2.8 billion

NET ASSETS

$66.6 billion

PERCENTAGE OF TOTAL FUND

23.9%

KEY FOCUS THIS YEAR

> Continuing to build strong relationships with external managers.

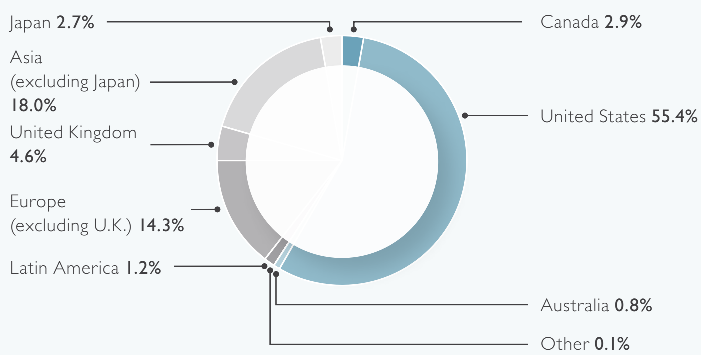
> Proactive sourcing efforts to gain access to attractive fund managers, secondary transactions and co-investments.

SUMMARY

Investment Partnerships (IP) assets grew from $63.0 billion at the end of fiscal 2015 to $66.6 billion at the end of fiscal 2016, representing approximately 23.9% of the total portfolio. This growth represents $2.8 billion of revaluations of current investments and currency gains, and net new investments of $0.8 billion. As at March 31, 2016, IP maintains over 150 relationships across both our public and private funds. The growth of our portfolio was mainly driven by a combination of investment and foreign exchange gains. The IP team also grew from 87 to 101 members, across Toronto, London and Hong Kong.

CPPIB created the IP department in early 2015 by combining five existing teams: Funds; Secondaries & Co-Investments; Private Equity Asia; External Portfolio Management; and Thematic Investing. Fiscal 2016 was the first full year of operation, during which we established our departmental structure and processes. We started to reap the benefits of sharing experience and relationships across the public and private investment teams within IP.

INVESTMENT PARTNERSHIPS – GEOGRAPHIC DIVERSIFICATION



The following chart shows the combined value-added generated by IP's active investment programs in fiscal 2016. We report performance for IP as a whole only in dollar amounts, as many of the activities are conducted on a long/short or partially funded basis for which there is no generally accepted and appropriate underlying asset base for measuring returns in percentage terms.

INVESTMENT PARTNERSHIPS	Fiscal 2016 $ billions
RETURNS	
1-year[1]	2.8
1-year benchmark	1.8

INVESTMENT PARTNERSHIPS	Fiscal 2016 $ billions
CONTRIBUTION TO PORTFOLIO VALUE-ADDED[1,2,3,4]	
1-year	1.0

1 Before CPPIB operating expenses.
2 Alpha value-added only.
3 CPP Reference Portfolio inception date: April 1, 2006.
4 Investment Partnerships is newly created by combining External Portfolio Management, Thematic Investing, and Funds, Secondaries & Co-Investments. If the historical results were reallocated, the 5-year alpha value-added would be $0.5 billion and the 10-year alpha value-added would be $1.7 billion.

IP contributed $1.0 billion to total portfolio value-added in fiscal 2016 due in large part to strong performance earned by the Funds, Secondaries & Co-Investments (FSC) group. FSC earned $0.9 billion in value-added performance led by the Private Equity Asia team's 12.6% net return. Value-added performance generated by External Portfolio Management and Thematic Investing was modest.

FISCAL 2016 ACTIVITIES

In fiscal 2016, the department updated each of its investment teams' strategies to optimize the benefit to CPPIB, in the context of CPPIB's Strategic Portfolio as described on page 30, which drives how we invest the Fund.

IP's primary focus was also to continue building strong relationships with its external managers and increase its collaboration with other CPPIB groups, such as Direct Private Equity. IP's investing activities faced public market volatility, triggered by fears over China's economy and uncertainty about Federal Reserve policy, as well as increased competition for quality assets, resulting in high valuations. Nevertheless, IP continued its proactive sourcing efforts to gain access to attractive fund managers, secondary transactions and co-investments.

Activities in fiscal 2016 for each IP group are described below.

EXTERNAL PORTFOLIO MANAGEMENT (EPM)

In fiscal 2016, the public markets had a volatile year, when unanticipated economic events rattled markets and led to declines and losses for many funds, as well as closures. Our Asian funds as a group performed better than funds in Europe and North America in what was the most volatile year for Chinese equities in a decade.

In this environment, EPM experienced a much wider dispersion of performance across strategies than has been seen in recent years. Our China-focused fundamental equity managers substantially outperformed in turbulent markets, and our quantitative equity managers continued to produce strong absolute returns. However, our engagement portfolio was a significant detractor, largely due to a handful of idiosyncratic events related to key holdings.

EPM continued to scale its portfolio by making additional investments in high-conviction managers, and improved portfolio transparency and alignment with our partners. EPM's implied assets under management declined to $30.5 billion from $30.8 billion last year, and active risk increased by 1% from $586 million to $589 million.

We added five new mandates, increased funding to 11 existing mandates and redeemed seven mandates. Allocations were made primarily in quantitative equity, discretionary macro and fundamental equity strategies. The portfolio now includes 57 managers, down from 58 at the end of fiscal 2015. Overall, they direct 78 mandates with increasingly balanced global market coverage.

We built on our partnership model by enhancing our Managed Account Platform, our capability to co-invest alongside our managers and expanding our coverage of emerging managers.

In January 2016, the People's Bank of China approved CPPIB's CIBM (China interbank bond market) license application. This approval gives CPPIB access to China's onshore interbank bond market via our US$1.2-billion QFII quota. The China interbank bond market is currently around US$6 trillion and it makes up 94% of the onshore bond market in China.

THEMATIC INVESTING (TI)

In fiscal 2016, TI experienced significant growth in both personnel and the assets it manages, and expanded its geographic focus to include countries outside of North America. TI conducted research and launched investment strategies related to evolving demographics. The group's focus on demographics includes analyzing how the age distribution of the population and incomes influence consumption patterns in a number of the world's largest economies. TI initiated research on innovations that it expects will disrupt traditional industries. TI increased its headcount from seven to nine people and its assets under management from approximately $500 million to $1.7 billion. Driven in part by TI's scaling activity, this group's performance was in line with the broader market benchmark, which resulted in flat performance.

FUNDS, SECONDARIES & CO-INVESTMENTS (FSC)

FSC currently manages more than $60 billion in total exposure and maintains relationships with more than 100 general partners globally in pursuit of investments that will outperform public equity benchmarks. In fiscal 2016, FSC increased its portfolio by $2.7 billion to a total $35.8 billion in carrying value, primarily due to foreign exchange gains driven by the U.S. dollar appreciating against the Canadian dollar, and $2.3 billion in investment gains across a number of funds. Returns for FSC are net of all fees paid to external fund managers.

FUNDS

The Funds team currently has relationships with 77 fund managers with $42 billion of total exposure (up 7.6% from fiscal 2015). The group's portfolio value decreased to $22.4 billion in 167 funds at year-end 2016, from $22.5 billion in 164 funds last year. Fundraising activity by private equity firms remained steady in fiscal 2016. In this environment, the Funds team made a total of $6.8 billion of commitments, including four commitments to its top managers, as well as introduced five new managers to its portfolio. This is consistent with the team strategy to diversify its portfolio. In fiscal 2016, we deployed $4.2 billion, received $6.5 billion back from asset realizations from our fund managers, and generated a 9.6% net return. The pipeline of new fund commitments remains strong and the team expects to continue making additional commitments to both new and existing private equity manager relationships.

SECONDARIES & CO-INVESTMENTS (S&C)

S&C completed its most active year since the inception of the program in 2006 and generated an 8.8% net return in fiscal 2016. The growth of the portfolio from $6.7 billion to $7.9 billion in total exposure this year is attributable to both an expansion of S&C's strategy and continued strength in the secondaries market. This growth was supported by $2.9 billion in new investments, including $2.1 billion in five secondary transactions and $0.8 billion in 11 co-investments alongside our private equity manager relationships. This was offset by $2.1 billion in distributions. Of particular note, S&C completed a $1.8 billion purchase of an LP secondary portfolio, comprised of LP interests managed by 10 different GPs. The purchase added three new manager relationships to the FSC portfolio.

S&C revised its strategy to reflect the inherent competitive advantages derived from being one of the largest primary fund investors in the world and to expand its addressable opportunity set in order to further grow its portfolio and achieve attractive risk adjusted returns. S&C has increased the number of funds proactively monitored to capture a greater portion of the LP secondaries market and to be able to execute with the necessary speed in a competitive market. S&C also increased the maximum equity investment size for co-investments to $275 million to capture attractive investment opportunities.

PRIVATE EQUITY ASIA (PE ASIA)

PE Asia grew its portfolio from $7.7 billion to $10.8 billion in total exposure in fiscal 2016. The team made a total of $2.0 billion in commitments to six funds, including five new relationships. They closed six direct investments for $1.0 billion, offset by $0.9 billion in distributions across the portfolio. This is a result of continued growth in the Asia private equity market and our local presence, giving us larger deal opportunities in the region. This is consistent with CPPIB's strategic priorities to increase exposure to both emerging markets and the private equity asset class. PE Asia generated a 12.6% net return in fiscal 2016.

The team continues to focus on building a diversified portfolio, taking into account the various challenges of each regional market. For instance, the opportunity set in the private equity market in India has improved, and we have seen an increase in deal activity in Korea, whereas China experienced a slowdown due to volatile capital markets.

We announced the sale of our investment in Key Safety Systems (KSS) alongside our partner Fountainvest. The sale is expected to generate 2.5x multiple of capital (MoC) with proceeds of US$182 million to CPPIB, in less than two years. The transaction is subject to customary closing conditions and is expected to close in Q2 calendar 2016.

LOOKING AHEAD

In fiscal 2017, IP will continue to broaden its relationships with external managers to expand its existing programs and to create further opportunities for other CPPIB investment strategies.

IP will also expand the number of themes that it covers while narrowing its investment focus on selected areas within those themes that it expects will have the most significant impact.

Private Investments
At A Glance

FISCAL 2016 RETURN

7.6%

NET INVESTMENT INCOME

$3.5 billion

NET ASSETS

$56.3 billion

PERCENTAGE OF TOTAL FUND

20.2%

KEY FOCUS THIS YEAR

- Building scale through investments in platform companies.
- Executing on opportune exits and other monetization activities.

SUMMARY

Private Investments assets grew substantially from $40.5 billion at the end of fiscal 2015 to $56.3 billion at the end of fiscal 2016. This growth was driven by new investment activities totalling $20.8 billion, the largest annual deployment of capital since the portfolio's inception, partially offset by dispositions totalling $7.4 billion. PI's assets represent approximately 20.2% of the CPPIB Fund. This figure excludes investments made in private companies by the Funds, Secondaries and Co-Investments group, which is now part of the Investment Partnerships department. As shown below, PI's investments are widely diversified by sector and geographic location.

The first table below summarizes aggregated returns in absolute terms with rates of return calculated on an unhedged time-weighted basis. The second table shows dollars of value-added relative to the corresponding investments had they earned the returns on relevant public benchmark indexes.

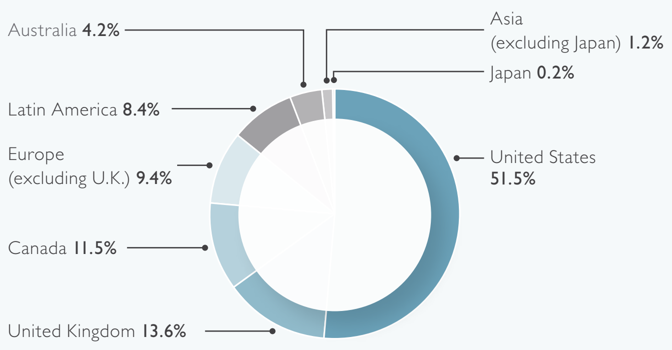
Fiscal 2016 was a strong year for the Private Investments department. This was due to a combination of strong income flows from our direct equity and debt investments, several full or partial realizations, and foreign exchange gains. Despite negative impacts from commodity price declines and volatility in the equity and credit markets, results in most programs outpaced corresponding public benchmark indexes. Since inception, the PI portfolio has generated net investment income of $45.8 billion.[4,5]

PRIVATE INVESTMENTS	**Fiscal 2016** %	Fiscal 2015 %
RETURNS[5]		
1-year excluding foreign currency impact[1]	**6.1**	17.8
1-year[1]	**7.6**	25.6
1-year benchmark	**7.0**	24.6

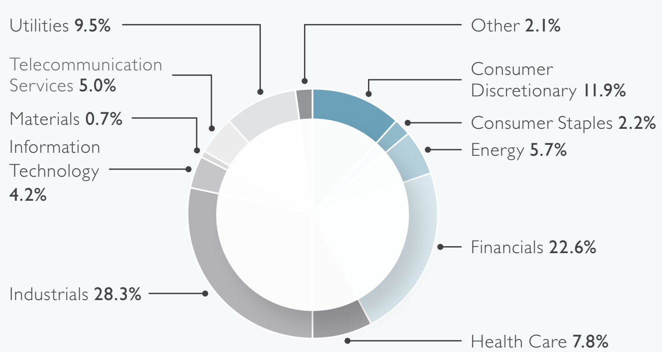
PRIVATE INVESTMENTS	**Fiscal 2016** **$ billions**	Fiscal 2015 $ billions
CONTRIBUTION TO PORTFOLIO VALUE-ADDED[1, 2, 3]		
1-year	**0.7**	0.9
5-year[5]	**0.8**	1.4
Since inception[4,5]	**1.8**	1.1

1 Before CPPIB operating expenses.
2 Alpha value-added only.
3 Foreign currency fluctuations have no impact on departmental value-added. See page 27 for more details.
4 CPP Reference Portfolio inception date: April 1, 2006.
5 Funds, Secondaries & Co-Investments were transferred to Investment Partnerships starting in fiscal 2016.

PRIVATE INVESTMENTS – GEOGRAPHIC DIVERSIFICATION
As at March 31, 2016



PRIVATE INVESTMENTS BY SECTOR
As at March 31, 2016



FISCAL 2016 ACTIVITIES

The private asset markets continued to be dominated by high asset valuations and intense competition for quality assets. These conditions put pressure on our investment teams to source new investment opportunities with attractive risk-adjusted returns. Amid this market environment, PI is focused on finding additional ways to scale its investment activities. The key to broadening our investment opportunities and building scale is to invest in what we call platforms. A platform investment generally differs from an asset investment in that our interest in a platform includes partnership with the management team that increases our ability to manage assets and source deals. Over the past two years, PI has invested in platforms such as Wilton Re and Agricultural Company of America (AgCoA), allowing us to achieve scale by leveraging one, or more, of the phases of a transaction lifecycle more efficiently than through a traditional direct investment model. Ownership in platforms provides us with expertise and relationships we do not currently possess, and improved access to markets and products that are aligned with our strategy and complementary to our existing direct investment programs.

With this approach in mind, our Principal Credit Investments (PCI) and Direct Private Equity (DPE) groups worked collaboratively on a milestone platform acquisition for a 100% equity interest in Antares Capital from General Electric. In August 2015, PI closed the US$12 billion transaction with an equity investment of US$3.9 billion. This investment builds upon CPPIB's existing PCI platform by providing large-scale access to the U.S. middle market, an attractive but difficult market to access. With Antares, CPPIB acquired a high-quality loan book consisting of over 400 credits and gained access to a 300-person team that can source, underwrite, administer and monitor new loans.

The strength of asset valuations in fiscal 2016 encouraged sponsors to opportunistically explore exits and other monetization activities. Our DPE group sought to monetize some of its assets including a partial realization on our investment in Suddenlink Communications. The sale by CPPIB and BC Partners of a 70% stake in Suddenlink to Altice generated approximately US$960 million of cash proceeds and a vendor note of US$200 million for CPPIB.

Energy markets continued to face significant volatility this year. As expected, the commodity price dislocation negatively impacted valuations in the sector, including companies within our portfolio. During a difficult period in the energy sector, the Natural Resources group pursued two new investment opportunities while supporting its portfolio companies through the market volatility.

The credit markets weakened in fiscal 2016 with increased volatility, driven by significant declines in commodity prices, general global growth concerns and turbulence in China. Despite these market conditions, our PCI group was able to deploy $12.7 billion of capital on attractive terms. The group was able to execute on a number of private placements during this period, benefiting the portfolio through higher levels of creditor influence and improved investment economics.

During the year, PI continued to expand its geographic footprint by seeking investments in key emerging markets. Our Infrastructure group established a presence in our São Paulo office to gain local access to opportunities in Latin America. In China, our PCI group committed US$250 million to an onshore fund manager focused on acquiring non-performing loan portfolios in the area. The group also made its first Latin American fund investment, helping PI gain further exposure in the region.

Following year-end, through a wholly owned subsidiary of CPPIB, we signed an agreement to purchase 40% of Glencore Agricultural Products (Glencore Agri) from Glencore plc for US$2.5 billion. Glencore Agri is a globally integrated grain and oilseed business with high-quality port, logistics, storage and processing assets in Canada, Australia, South America and Europe. The transaction, which is expected to close in the second half of calendar 2016, complements our existing portfolio of agriculture assets, bringing global exposure, scale and diversification.

Activities in fiscal 2016 for each PI group are described below.

DIRECT PRIVATE EQUITY

Direct Private Equity (DPE) assessed and closed several new investment opportunities alongside strategic and GP partners in the U.S. and Europe in fiscal 2016. At year-end, we held 30 direct investments valued at $16.6 billion compared with 30 valued at $15.8 billion one year earlier. The growth in the portfolio was driven primarily by valuation and foreign exchange gains. New investments totalled approximately $2.9 billion for the year.

This year, in addition to the Antares acquisition which was completed jointly with Principal Credit Investments, DPE successfully executed several major transactions:

> Jointly acquired Petco Animal Supplies, Inc. alongside CVC Capital Partners for approximately US$4.6 billion. Petco is a leading omni-channel specialty retailer of premium pet food, supplies and services.

> In connection with the sale of our interest in Suddenlink to Altice, we exercised our option to participate pro rata in the Cablevision acquisition and funded 12% of the acquisition for approximately US$400 million. Cablevision is the fifth largest cable company in the U.S.

Following year-end, DPE signed an agreement with Cinven to jointly acquire Hotelbeds Group (Hotelbeds) for a total enterprise value of €1.165 billion. Hotelbeds is the largest independent business-to-business bedbank globally, offering hotel rooms to the travel industry from its inventory of 75,000 hotels in over 180 countries. The transaction is subject to customary regulatory approvals.

NATURAL RESOURCES

At year end, the Natural Resources portfolio consisted of nine direct investments valued at $1.4 billion compared with $1.5 billion a year earlier. The portfolio contraction was the result of negative valuation adjustments outweighing net capital deployments.

During the fiscal year, the Natural Resources group navigated a volatile and challenged energy market with oil and natural gas prices declining significantly. While many of the companies in our oil and gas portfolio exceeded operational expectations, lower commodity prices and infrastructure constraints caused declines in value.

Notable transactions this year included:

> Signed an agreement with Wolf Infrastructure Inc., in collaboration with Infrastructure, to establish a midstream energy infrastructure investment vehicle focused on opportunities in Western Canada. The vehicle's goal is to initially invest more than $1 billion in the sector.

> Signed an agreement through Crestone Peak Resources, a jointly formed entity with The Broe Group, to acquire all of the Denver Julesburg Basin oil and gas assets for a total consideration of approximately US$900 million. CPPIB owns a 95% interest in Crestone Peak Resources. The transaction is expected to close in the second quarter of calendar 2016.

PRINCIPAL CREDIT INVESTMENTS

At year end, after sales, maturities and revaluations of holdings, Principal Credit Investments (PCI) assets totalled $17.0 billion, up from $8.0 billion at the end of fiscal 2015. The growth was primarily due to new investments totalling $12.7 billion, partially offset by $4.0 billion in returned capital from dispositions.

In fiscal 2016, the credit markets experienced volatility tied to several geopolitical and economic headlines from around the world. Despite these volatile market conditions, PCI exercised discipline and leveraged existing relationships to find larger and more tailored situations where the group was better able to obtain appropriate structure and terms. The group was also uniquely positioned to deploy additional capital in the secondary market in order to take advantage of the sell-off that was occurring. In total, PCI was able to close 38 new investments in 14 countries, funding approximately $12.7 billion. While the portfolio experienced write-downs on its commodity investments, representing 17.0% of the portfolio at the start of the fiscal year, these short-term losses were offset by opportunistic sell-downs of high quality credits and exits through refinancing, which occurred in the earlier half of the year.

The credit portfolio has maintained its geographic balance, with 76.8% in North America, 19.2% in Europe, 2.4% in Asia Pacific and now 1.6% in Latin America. The Europe and North America teams have been increasingly active in the secondary market, with the Hong Kong and New York offices ramping up on primary transactions.

In addition to the Antares investment, completed jointly with DPE, other notable PCI transactions this fiscal year include:

> Committed €480 million in the Mandatory Convertible Notes as part of TDR's acquisition of LeasePlan Corporation N.V., the largest vehicle leasing and fleet company in the world.

> Invested US$650 million in the Senior Secured Term Loan of Marina District Finance Company, Inc., which operates the Borgata Hotel Casino & Spa in Atlantic City, New Jersey.

> Committed US$375 million to the First Lien Term Loan of Caliber Home Loans, a U.S.-based residential mortgage originator and servicer owned by Lone Star.

PCI, through the Intellectual Property (IP) team, continues to invest in such assets as patents, trademarks and copyrights. This fiscal year the group closed two major royalty investments, one within the technology sector acquiring a minority stake in a joint patent licensing program for digital television and computer display monitor from Technicolor S.A. and Sony for approximately US$169 million, and another in health care with the acquisition of royalties on four commercialized diabetes-related products from Bristol-Myers Squibb. To date, the group has deployed $2.1 billion in IP investments.

INFRASTRUCTURE

At year-end, the Infrastructure portfolio grew to $21.3 billion compared to $15.2 billion in fiscal 2015. The growth was driven by $5.0 billion in new investment activities and $1.5 billion arising from investment revaluations.

The Infrastructure portfolio remains geographically well-diversified, with 77.1% in developed markets, such as North America, Western Europe and Australia, and select developing markets 22.9%, principally in Latin America.

Competition for high-quality infrastructure assets remains intense. Since Infrastructure established a direct investing platform a decade ago, new sources of capital have continued to enter the infrastructure market. In fiscal 2016, as markets experienced volatility tied to several geopolitical and economic conditions, investor appetite for lower-risk infrastructure assets pushed valuations higher. With relatively few assets up for sale, easy access to abundant and low-cost debt financing, and a growing number of institutional investors capable of deploying significant amounts of equity, the deals that did materialize were priced high.

This year, the Infrastructure group continued its focus on well-established brownfield infrastructure assets, while evaluating opportunities in new sectors, including greenfield and renewable energy, and in new geographies. During the year, the group worked alongside a number of other CPPIB investment teams, including Natural Resources, PCI and Relationship Investments, to pursue a range of new transactions.

In March 2016, CPPIB, together with a consortium of global investors, including Global Infrastructure Partners, signed a conditional agreement to acquire the rail business of Asciano Limited, a leading Australian publicly listed rail and ports logistics company. CPPIB's investment would be approximately A$1.7 billion, out of a total equity consideration of A$9.05 billion. Under the same transaction, Asciano's ports and related logistics business would be acquired by a group of investors led by Brookfield Infrastructure Partners and Qube Holdings Limited. The transaction is subject to regulatory approvals and a shareholder vote, and is scheduled to close later in 2016. In support of the Asciano acquisition, CPPIB also conditionally agreed to invest an additional A$300 million for a 9.9% interest in Qube.

In addition to the Wolf Infrastructure platform alongside Natural Resources, the Infrastructure group announced and closed several major transactions:

> Completed an additional investment of £250 million in Associated British Ports (ABP), bringing CPPIB's ownership to 33.88% for a total of £1.6 billion. ABP is the U.K.'s leading ports group, owning and operating 21 ports with a diverse cargo base, long-term contracts and a broad mix of blue chip customers.

> Acquired Skyway Concession Company LLC (SCC) for a total consideration of US$2.9 billion alongside OMERS and Ontario Teachers' Pension Plan. CPPIB invested approximately US$560 million for its 33.33% stake. SCC manages, operates and maintains the 7.8 mile Chicago Skyway toll road under a concession agreement, which runs until 2104.

> Acquired an additional 8% interest in Transportadora de Gas del Perú S.A. (TgP), the largest transporter of natural gas and natural gas liquids in Peru, for approximately US$180 million. This follow-on investment increases CPPIB's equity stake in TgP to 44.8%.

> Acquired, alongside PCI, a 24.5% interest in the equity and existing term loan of Pocahontas Parkway, an 8.8-mile tolled highway located seven miles south of Richmond, Virginia.

PORTFOLIO VALUE CREATION

Portfolio Value Creation (PVC) supports deal teams globally across the entire investment lifecycle. This year, PVC grew its capabilities to support effective governance and management of the directly invested portfolio, and to match CPPIB's growing move into platform investments, such as Antares Capital. PVC completed a cross-departmental initiative in collaboration with an external advisor to document guidelines for governing our assets, and rolled out a training program for investment professionals and third-party directors to implement governance best practices at CPPIB portfolio companies. We enhanced the monitoring of portfolio companies with an increased focus on downturn risks, including reputation risks, while continuing to oversee financial performance, operational efficiencies and compliance with environmental, social and governance (ESG) guidelines. PVC also assisted deal teams in defining and executing commercial due diligence. We identified several opportunities to create additional value and supported management in executing projects to realize value-added returns.

LOOKING AHEAD

Over the past 10 years, DPE has evolved its partnership model from an initial focus on minority syndicated co-investments to the current focus on co-sponsoring and opportunistically leading transactions. Going forward, DPE will continue to leverage CPPIB's comparative advantages of scale, certainty of assets and long-term investment horizon to undertake co-sponsorships and co-lead investments. With increased competition on transactions, DPE will also continue to evaluate strategic investments that allow us to pursue long-term, sizeable investments in large, mature businesses, including platforms alongside General Partners and other like-minded partners.

Natural Resources will focus on deploying capital into the North American upstream and midstream sectors, which continue to be challenged by commodity prices. In the absence of a significant price improvement, there should be an increase in M&A activity as companies are challenged to fund drilling programs and service debt.

PCI will remain focused on building the group's direct investing capabilities. In the near term, the group expects an increased number of opportunities in both emerging and developed markets. General GDP trends in emerging markets will require more demand for credit to support overall growth. With further regulation impacting the global banking system particularly in developed economies, the need for capital providers such as CPPIB will increase.

Infrastructure will continue to expand its investment program by building capabilities in new markets and deepening expertise in existing markets. There remains a large global funding shortage for infrastructure. Combined with other economic pressures, the demand for unique capital providers like CPPIB, with its comparative advantages, remains stronger than ever.

Real Estate Investments
At A Glance

FISCAL 2016 RETURN

11.8%

NET INVESTMENT INCOME

$4.2 billion

NET ASSETS

$40.8 billion

PERCENTAGE OF TOTAL FUND

14.6%

KEY FOCUS THIS YEAR

> Leveraging relationships with existing global partners to generate off-market deal flow.

> Acquiring strategic interests in high-quality operating companies to build scale.

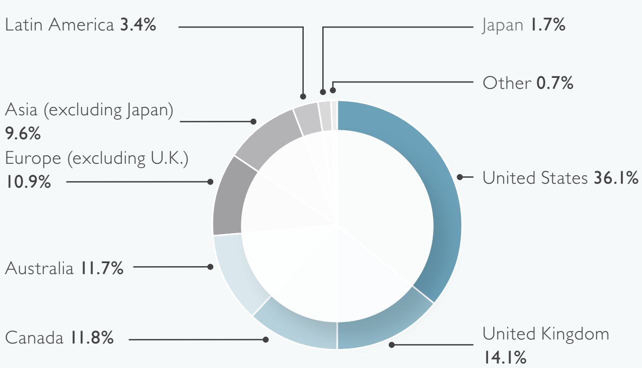
SUMMARY

The Real Estate Investment (REI) portfolio, including both equity and debt investments, increased from $34.1 billion at the end of fiscal 2015 to a current $40.8 billion, representing a net increase of $6.7 billion. The change in portfolio value was the net result of several factors: (i) new investment activity totalling $7.7 billion, (ii) asset dispositions and return of capital of $3.3 billion and (iii) changes in valuation and foreign exchange movement during the year totalling $2.3 billion. We also have an additional $7.1 billion of outstanding commitments, comprised mainly of undrawn commitments to development programs that will be funded as these projects are built over the next several years.

The REI portfolio represents 14.6% of the Fund, managed by 77 professionals located across six offices globally. Our geographic footprint spans five continents and consists of 142 investments totalling 142.5 million square feet in gross leasable area (at share) managed by 64 partners. Including third-party mortgage financing, the gross asset value of our portfolio totals $51.0 billion.

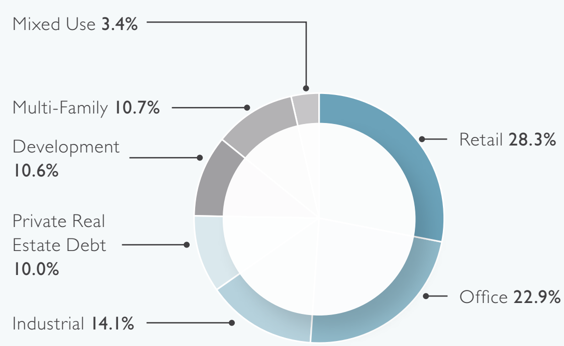
REAL ESTATE INVESTMENTS – GLOBAL DIVERSIFICATION

As at March 31, 2016



REAL ESTATE INVESTMENTS BY SECTOR DIVERSIFICATION

As at March 31, 2016



The above charts provide a summary of our real estate holdings by geography and property sector.

The two tables below show REI's performance in absolute terms and relative to its benchmarks. The first table summarizes the absolute returns on all assets (equity values after mortgage liabilities), with rates of return calculated on a time-weighted basis. Assets include properties under development, which are carried at cost until completed and stabilized. To compare our performance with the benchmarks, returns are net of mortgage financing costs as well as transaction costs, land transfer taxes, external manager fees and other significant expenses related to the growth of the portfolio. The second table shows the dollars of value-add generated by the department compared to our performance benchmarks. We use distinct benchmarks for our real estate debt and equity programs: our debt investments are benchmarked to public corporate debt indexes, while our equity investments are benchmarked to the Investment Property Databank (IPD) indexes. IPD is a third-party private real estate index provider and our equity investments are benchmarked to its corresponding country and sector level indexes. If a local IPD index is not available, a global composite index is used. For comparability, the applicable benchmark returns are adjusted for leverage and unavoidable external expenses not included in the IPD indexes. In fiscal 2017, REI will adopt a different set of global benchmarks and other metrics to measure its relative performance in alignment with the benchmark changes across all the investment departments, as described on page 34.

REAL ESTATE INVESTMENTS	Fiscal 2016 %	Fiscal 2015 %
RETURNS		
1-year excluding foreign currency impact[1]	10.2	10.4
1-year[1]	11.8	14.6
1-year benchmark	11.9	15.1

REAL ESTATE INVESTMENTS	Fiscal 2016 $ billions	Fiscal 2015 $ billions
CONTRIBUTION TO PORTFOLIO VALUE-ADDED[1, 2, 3]		
1-year	0.1	(0.0)
5-year	0.2	0.3
Since inception[4]	0.5	0.5

1 Before CPPIB operating expenses.

2 Alpha value-added only.

3 Foreign currency fluctuations have no impact on departmental value-added. See page 27 for more details.

4 CPP Reference Portfolio inception date: April 1, 2006.

The REI portfolio posted a return of 11.8%, which essentially matched the benchmark in fiscal 2016. Overall, our core investments performed broadly in line with the benchmark this year. In addition, as our development programs grow and mature, the profits from newly completed and stabilized assets are beginning to offset the performance drag from assets under development where their values are carried at cost until stabilization.

FISCAL 2016 ACTIVITIES

Below is a summary of activities for the Equity Programs and Private Real Estate Debt groups.

EQUITY PROGRAMS

Fiscal 2016 marked another year of growth for the real estate equity programs, which at the end of the year totalled $36.7 billion, an increase of 21% from fiscal 2015. The equity programs represent 90% of the overall real estate portfolio. The increase consisted of (i) $5.9 billion in new investment activity, (ii) valuation increases mainly due to improved market conditions and foreign exchange of $2.3 billion as noted earlier offset by $1.8 billion in return of capital from dispositions.

The commercial real estate market is now beginning its 7th year of expansion and continues to deliver outsized returns relative to other asset classes. The recent volatility in global equity markets during the latter part of fiscal 2015 provided a stark contrast to the steady returns registered by many core commercial real estate markets globally.

While strong capital markets have benefited our existing real estate portfolio from a valuation perspective, it has made growing our portfolio through new investments increasingly challenging. While we remained active in reviewing potential transactions during the year, many opportunities were deemed to be unattractive from a return-risk perspective as assets remain expensive. As a result, growth from net new investment activity in the equity program was more measured towards the end of fiscal 2016 compared to previous years.

Portfolio growth through new investment activity was sourced primarily from three general areas, which we believe continue to deliver long-term value to the CPP Fund: (i) leveraging our relationships with existing joint-venture partners, (ii) undertaking strategic investments in operating platforms to secure future deal flow and (iii) growing our geographic and sector focus to enhance portfolio returns.

Fiscal 2016 was yet another year where our established relationships with operating partners through joint ventures continue to generate attractive off-market deal flow. These transactions, while small in capital invested individually, provide scale over time as part of a larger portfolio. Many of these ventures have grown to become some of our largest holdings, reaching many markets around the world. A prime example of this has been our strategic joint ventures with global logistics operator, the Goodman Group, where we now have six ventures focused on the co-ownership of high-quality logistics and warehouse space in four countries. This year we were able to expand our venture with Goodman to the U.K. as well as significantly grow our existing venture in China through the Goodman China Logistics Holdings partnership. Likewise, we were able to expand our relationship with Global Logistics Properties (GLP) to the U.S. and grow our program with them in Japan.

In recent years we have begun to focus on acquiring strategic stakes in high-quality real estate operating companies in order to strengthen our relationship with highly experienced operators and secure opportunities for future co-operation and investment. In fiscal 2016, we added a fourth company to our platform strategy by acquiring a 46.1% interest in Unibail-Rodamco, one of the leading shopping centre owners and operators in Germany, for €394 million. In addition, we committed a further €366 million in support of Unibail-Rodamco's investment strategies. Our existing operating platform investments have also generated attractive investment opportunities for us this year. In May, we participated in a €600 million rights offering by Nordic Shopping Centre Citycon OYJ, to fund the acquisition of Sektor Gruppen, one of the largest shopping centre companies in Norway. This transaction solidifies Citycon's position as the largest, pure-play publicly listed retail real estate company focused on Northern Europe. Our wholly owned U.K. student housing operating platform Liberty Living also acquired a portfolio of five student accommodation residences in August totalling £333 million. This portfolio complements Liberty Living's existing operating footprint in the U.K. and brings greater scale and operating efficiencies to the platform. Finally in May, we increased our stake in Brazilian shopping centre operator, Aliansce Shopping Centres, to 29% through a $26 million follow-on investment.

Our global investment capabilities were strengthened following the official opening of our office in India in October of this year. The team, which has been overseeing our India investment program, was relocated from London to our new office in Mumbai and now comprises four professionals. We expect this presence will bolster our local relationship building and deal sourcing capabilities in India. The Mumbai office represents the sixth global location where we have staffed real estate investment professionals locally. The REI team across all our international offices now total 77 professionals.

Our expertise in North and South East Asia has grown significantly through our five-year presence in Hong Kong. In fiscal 2016, we entered into our first real estate investment in the retail sector in South Korea, through a 50%/50% joint venture with GIC and committed KRW 63 billion ($72 million) to acquire a 1.26-million-square-foot department store in Seoul.

Our presence in the U.S. has also allowed us to expand our sector focus to select real estate sectors beyond the traditional core sectors of office, retail, multi-family and industrial properties. This year we made a number of commercial property investments focused on the U.S. health care and student accommodation industries. These include a joint venture with Welltower Inc. to hold a portfolio of eight medical office buildings in Southern California for an equity investment of approximately US$150 million, and a student housing joint venture with GIC and The Scion Group LLC to acquire University House Communities Group, Inc. to hold a 47.5% interest in the asset. These new property sectors are each supported by long-term secular trends that are less impacted by general economic volatility. Their markets are often less competitive, providing for opportunities to earn attractive returns relative to the more traditional core property types over the long term.

In keeping with our cautious view towards rising asset values, we continue to capitalize on the current pricing environment by actively seeking to exit select investments. In fiscal 2016, we received proceeds and return of capital from six investments and a number of non-core asset sales totalling $1.8 billion, realizing gains of $752 million, exiting one manager relationship.

In addition to the above-mentioned investments, other highlights this year include:

AMERICAS

> Invested US$350 million to acquire a 10.6% interest in a diversified portfolio of logistics properties in the U.S., comprising 721 assets totalling 115 million square feet. The portfolio is managed by Global Logistic Properties, an existing partner of CPPIB. This transaction represents our second strategic investment in the U.S. industrial sector.

> Acquired a 60% ownership interest in Minto High Park Village, a 750-unit multi-family rental property in Toronto, from Minto Properties Inc. for approximately $105 million. This is our first entry into the Canadian multi-family sector with a well-experienced residential developer and operator in Canada.

EUROPE

> Acquired a 50% interest in Puerto Venecia, a 1.3-million-square-foot regional shopping centre located in Zaragoza, Spain. The centre is jointly owned with Intu Properties plc, an existing operating partner.

> Invested £175 million to acquire a 50% interest in Grand Central Shopping Centre, a 435,000-square-foot shopping centre located in Birmingham, U.K. The property is jointly held with Hammerson, the operating partner who also owns and manages the adjacent Bullring Centre in which CPPIB has an interest.

ASIA

> Committed US$1 billion of additional equity to the Goodman China Logistics Partnership, established with Goodman Group in 2009 to own and develop logistics assets in Mainland China. To date, CPPIB has committed US$2.6 billion to the partnership, which has now invested in 45 development and stabilized projects.

> Formed a joint venture with Pavilion Group to invest in Pavilion Damansara Heights, a 10-million-square-foot mixed-use development project located in Kuala Lumpur, Malaysia. CPPIB holds a 49% interest for an equity commitment of approximately MYR 485 million (C$170 million). This is our first entry into Malaysia.

The following summarizes the major dispositions in fiscal 2016:

> Sold three non-core assets in our U.S. office portfolio for total net proceeds of US$149 million. The divestment allows us to reposition our office portfolio in the U.S.

> Divested three office assets in the U.K. for total net proceeds of $456 million. The disposition is consistent with our investment strategy in the U.K. office market.

> Sold three assets within our global Goodman industrial partnerships for total net proceeds of $210 million. The divestments rebalance the concentration of CPPIB's industrial portfolios in China, Australia and the U.S.

> In addition to the above, we exited two fund investments including Henderson Shopping Centre Fund and Hürth Park, for a total net proceeds of $362 million. The disposition of fund investments is consistent with our continued focus to invest in joint ventures with experienced operating partners.

PRIVATE REAL ESTATE DEBT (PRED)

The PRED program, which represents 10.0% of REI's global real estate portfolio, was very active this fiscal year, capitalizing on its advantages of a strong reputation in the Americas and growing presence in Europe. The PRED team is based in our Toronto and London offices and oversees a loan portfolio totalling $4.1 billion compared to $3.8 billion last year. The increase primarily resulted from $1.8 billion in new investment activity offset by $1.5 billion in return of capital from loan repayments. To date, our investment activity has focused primarily on Western Europe and North America, though this geographical focus continues to expand over time to take better advantage of the Equity team's established presence globally.

PRED surpassed yet another milestone this year by exceeding the loan originations record achieved last year, investing in 12 new loans totalling $1.8 billion in fiscal 2016. The group focuses on situations that offer access to high-quality collateral and where its real estate knowledge and ability to absorb large transactions will be rewarded by the market. Among several notable transactions this year was a US$526 million construction-to-permanent loan secured by the 1.4 million-square-foot Lincoln Square Expansion, a mixed-use development project located in Bellevue, Washington. The borrower's financing request required a highly customized solution as construction-to-permanent loans of this scale are very rare in the marketplace. This loan underscores PRED's ability to provide large scale and innovative solutions on transactions that are supported by high-quality assets. Towards the end of the fiscal year, the group also committed US$720 million to acquire and fund two vehicles managed by LoanCore Capital, a leading commercial real estate finance company in the U.S. This platform investment is consistent with PRED's strategy to enhance its origination capabilities in the U.S. middle market.

In addition to our origination efforts, the team also oversaw the successful repayment of $1.5 billion of loans previously made. All of the repayments were received on or ahead of schedule and a number of them also delivered attractive prepayment premiums to PRED, which enhanced our returns. Its loan portfolio remains in good standing with no defaults.

LOOKING AHEAD

Real estate is a cyclical business and given the current pricing environment, we believe the global markets are entering into the latter stages of the current cycle. The recent and much anticipated rise in interest rates by the U.S. Federal Reserve likely marks the beginning of a new phase of the cycle, characterized by greater emphasis on income growth and more modest capital appreciation, resulting in a return to more normalized, lower absolute returns going forward. We expect this challenging investment environment to continue to test our resolve as patient and disciplined investors. During this transitional period, we remain focused on selectively placing our capital in opportunities that will generate strong risk-adjusted returns for the CPP Fund over the long term.

Fiscal 2017 Objectives for CPPIB

CPPIB's enduring objective is to create value-building growth for multiple generations of contributors and beneficiaries. Building on this, the corporate objectives for fiscal 2017 are a continuation of those pursued in fiscal 2016:

1. Continuing to implement our enhanced investment framework.
2. Developing talent with a focus on increasing diversity, early career hiring and building future leaders from within our organization.
3. Expanding our global investment activities to build a diversified investment portfolio aligned with the long-term vision for geographic composition indicated by the Strategic Portfolio.
4. Completing the straight-through trade life cycle process for publicly traded securities, which will be scalable to support CPPIB's future asset levels and investing activities.
5. Scaling our investment programs aligned with the long-term vision for asset class exposure indicated by the Strategic Portfolio.

Enterprise Risk Management

CPPIB's activities expose us to a broad range of risks in addition to investment risks. All risks are managed within an Enterprise Risk Management (ERM) framework with the goal of ensuring that the risks we take are commensurate with and rewarded by long-term benefits.

RISK ENVIRONMENT

The environment in which we operate evolves and may impact our risk profile and development of risk management practices. We closely monitored a number of developments this past year with a view to assessing their potential impact on our operations over time.

> Many economic and geopolitical forces are driving volatility in capital markets. Among these are the intervention by Chinese authorities in equity and currency markets, slow economic growth, low commodity prices and the weakness of the Canadian dollar. As an investor in China, the energy industry and the broader market, our short-term results have been, and may continue to be, impacted.

> Abundant capital continues to support high valuations for real estate and private equity assets as investors increase their allocation to alternative assets to diversify away from public markets expecting to enhance returns. We remain disciplined on pricing; asset deployment is contingent on favourable market conditions.

> Regulators have been concerned about systemic risk and the expanding influence of institutional investors. The OECD continues to move ahead with global anti-tax avoidance initiatives. As a large, global investor, CPPIB needs to monitor these and other regulatory and tax developments to understand how they may affect us.

> Developing and executing complex, active investment strategies requires talented and specialized investment professionals. CPPIB's success is dependent on our ability to recruit and retain the best people in these highly competitive, global labour markets.

> For many organizations, cyber security has become a top priority. We must constantly monitor the risk landscape to ensure our information is protected.

> Climate change is an increasingly important factor in long-term investing. The related risks and opportunities for CPPIB are discussed in the Sustainable Investing section on page 42 along with other Environmental, Social and Governance Factors.

ENHANCING OUR RISK MANAGEMENT PRACTICES

Effective risk management combined with our comparative advantages, puts us in a position to capitalize on opportunities in situations when others cannot. During fiscal 2016, we made a number of enhancements to our risk management practices:

> Implemented a modified Risk/Return Accountability Framework (as described on page 33) and advanced development of new investment risk measures;

> Enhanced our processes for stress testing and assessing risk for private assets;

> Conducted a review of our processes for governing and managing our private investments;

> Added legal and compliance professionals, and enhanced our compliance management processes and systems; and

> Continued refinement of our processes for managing risks related to corruption, tax, trading, information security and other factors.

Our ERM framework is based on a strong governance structure, having a risk-aware culture, risk policies, defined risk appetite and risk limits; processes for identifying, assessing, mitigating, monitoring and reporting all key existing and emerging risks; and control practices with independent assurance that these practices are working properly. We define a key risk as one that could have a significant impact on our ability to execute our mandate.

RISK GOVERNANCE

Risk governance at CPPIB is the accountability of the Board, management and their respective committees. The Board of Directors oversees our efforts to achieve a "maximum rate of return, without undue risk of loss" in accordance with CPPIB's mandate. To this end, the Board is responsible for the oversight of enterprise risks, ensuring that management has identified key risks and established appropriate strategies to manage them. Risk appetite is established for each key risk and risk category. Board committees have risk-related responsibilities as follows (and as further described on page 87):

> The Investment Committee establishes CPPIB's investment policies, and approves and monitors investment activities and risk levels. It also reviews the approach to investment risk management;

> The Audit Committee oversees financial reporting, tax, information systems and technology and associated risks, external and internal audit, and internal control policies and practices;

> The Human Resources and Compensation Committee is responsible for oversight of risks related to our employees and employment practices. The HRCC reviews and recommends the compensation framework, reviews organizational structure, and ensures a succession planning program is in place; and

> The Governance Committee ensures that CPPIB follows appropriate governance best practices and monitors application of the Code of Conduct and conflict of interest guidelines.

The President & CEO, by way of delegation from the Board of Directors, is accountable for all risks beyond those matters specifically reserved for the Board or Board committees. The responsibility for risk management is further distributed throughout the organization starting with the Senior Management Team (SMT).

The SMT ensures that strategic and business planning, and risk management are integrated. Through the business planning process, the SMT ensures that plans align with our overall strategy and risk appetite and that adequate resources and processes are in place to identify and effectively manage key risks. The leaders of each department are responsible for appropriately managing the risks assumed within their areas of responsibility.

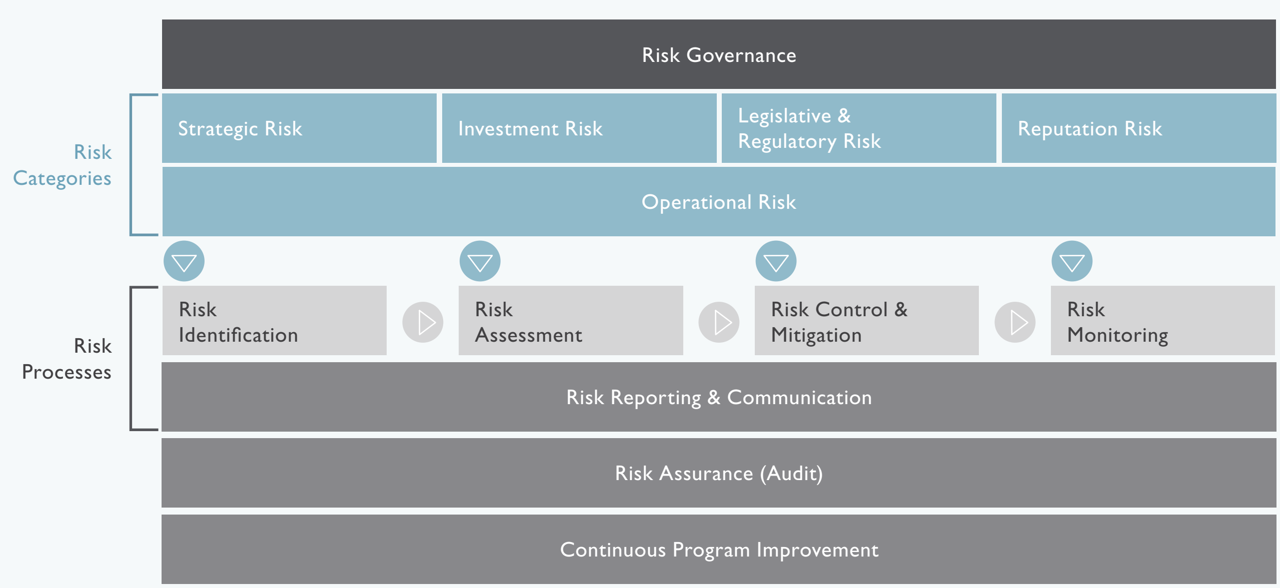
The Chief Operations Officer (COO) oversees the ERM framework for CPPIB.

The Chief Financial Officer (CFO) is accountable for the Investment Risk group which measures, monitors and reports investment risks independently from the investment departments. The Internal Audit department plays an important role as it provides independent assurance that controls and mitigants are properly designed and operating effectively.

Management's risk-related responsibilities, including those of the Investment Planning Committee (IPC), are described further on page 35.

The diagram below depicts CPPIB's ERM Framework.

ERM FRAMEWORK



The following sections describe each of our five principal risk categories and risk management strategies:

Strategic Risk: This is the risk that CPPIB will make inappropriate strategic choices or be unable to successfully execute selected strategies or adapt to changes in the external business, political or socioeconomic environment over the long term. Managing strategic risk effectively is critical to achieving our mandate.

A number of important processes control and mitigate strategic risks:

> Board discussion and review of our overall strategy is conducted at least annually;

> Detailed business planning, that takes into account our strategy and longer-term objectives, is carried out by each department and reviewed by the President & CEO, leading to an annual business plan approved by management and the Board;

> Strategies are prepared for each investment program to ensure alignment with CPPIB's overall strategy and comparative advantages;

> Quarterly reviews of the portfolio and associated investment risks are completed, in the context of capital market and emerging economic conditions; and

> Quarterly reporting and discussion of our progress, challenges and risks related to achieving the approved business plan are conducted by both management and the Board.

Investment Risk: This is the risk of loss due to participation in investment markets. It includes market risk (including currency, interest rate, equity price, commodity price and credit spread risk), credit risk (including counterparty risk) and liquidity risk, in both internally and externally managed portfolios. It is managed and monitored in accordance with the Risk Policy approved annually by the Board of Directors.

We have risk committees to oversee our investment risk exposures. The Investment Committee of the Board receives regular reporting on our assets, investment income, investment returns, risk measures and stress testing results. Management's Investment Planning Committee reviews the risks in the portfolio at least monthly through commentaries prepared by TPM and the Investment Risk group.

Additional information related to our investment risk exposures and risk measurement and management processes is included in note 5 to our Financial Statements on page 118.

Legislative and Regulatory Risk: This is the risk of loss due to actual or proposed changes to and/or non-compliance with applicable laws, regulations, rules and mandatory industry practices, including those defined in the CPPIB Act. Failure to comply could result in financial penalties or portfolio losses and damage to our reputation.

Our compliance program is designed to promote adherence to regulatory obligations worldwide, and to help ensure awareness of the laws and regulations that affect us and the risks associated with failing to comply. We monitor emerging legal and regulatory issues as well as proposed regulatory changes, and take a constructive role in these developments when appropriate. Input is regularly sought from external legal counsel to keep us informed on emerging issues.

Our Tax group plays a key role to support decision-making, advising on tax risk management and evaluating overall tax practices. We review key tax risk issues both as part of transaction due diligence and at the total Fund level.

Operational Risk: This is the risk of loss due to actions of people, or inadequate or failed internal processes or systems as a result of either internal or external factors. Operational risk encompasses a broad range of risks, including those associated with:

> Human resource management and employment practices;

> Employee misconduct including breaches of the Code of Conduct, fraud, and unauthorized trading;

> Ability to recover from business interruptions and disasters;

> Transaction processing, operations and project execution;

> Data, models, user-developed applications and information security; and

> Accuracy of financial reporting.

Exposures can take the form of direct financial losses, indirect financial losses appearing as operating inefficiencies, regulatory sanctions or penalties, or damage to our reputation. Operational risk can also directly impact our ability to manage other key risks.

Each member of the Senior Management Team bears primary accountability for managing operational risks within their department. We manage operational risk through internal controls that are subject to internal audit reviews. We also conduct an annual review as part of the CEO/CFO certification of internal control over financial reporting. The Finance, Analytics and Risk department, and the Operations and Technology department maintain formal protocols for implementing new investment products and technologies, managing data, models and user-developed applications, ensuring information security, and establishing continuity plans for potential business interruptions. Also, we purchase property and casualty insurance, as well as director and officer liability coverage.

Reputation Risk: This is the risk of loss of credibility due to internal or external factors and is often related to, or results from, other categories of risk. This risk can arise from our internal business practices or those of our business partners or the companies in which we are investors. Business partners include third parties hired to perform some of our administrative functions as well as investment organizations with whom we have a contractual arrangement. A loss of reputation could impact our position as a partner, investor and employer of choice and impede our ability to execute our strategy.

The responsibility for managing reputation risk extends to every employee and Director. This is clearly detailed and communicated through our Code of Conduct and our Guiding Principles of Integrity, Partnership and High Performance, which apply to all employees and all business activities. The Code of Conduct, as an example, requires all employees and Directors to disclose any personal trading or business interests that might lead to a real, potential or perceived conflict of interest.

Our Issues Management Framework, which is overseen by the Senior Managing Director & Global Head of Public Affairs and Communications, has several dimensions related to reputation management. We require that reputation risk assessments be part of the investment decision-making process through the Reputation Risk Framework protocol, and business strategy development and execution. Our Issues Management Executive Committee has a mandate to address any significant issues as they arise. There are protocols for escalation and management of reputation risks and issues for our existing portfolio companies. Additionally, we continue to proactively build our reputation and brand with key stakeholders globally to support our business objectives and mitigate risk.

Liquidity and Capital Resources

Sources of liquidity for CPPIB include investment income, net cash flows from the CPP, a large inventory of liquid fixed income and equity securities traded in an active market. It also includes the ability to raise funds through the issuance of commercial paper and medium-term notes, and finance securities under repurchase agreements. Our debt issuance programs, when combined with other sources of funding, provide flexibility in meeting cash requirements from our investment activities and operations, which may not match cyclical cash flows from the CPP.

Our cash requirements include cash for investments, operating expenses, interest and principal on borrowings, and payments to the CPP. We maintain a portfolio of unencumbered liquid securities to ensure coverage of all expected cash outflows in both normal and stressed market conditions.

In 2009, we established, and unconditionally and irrevocably guaranteed, a Canadian commercial paper program, followed by a U.S. program in 2012 (together, the CP Program). The CP Program provides for the issuance of unsecured commercial paper notes (the CP Notes) on a private placement basis. The issuer of the CP Notes is CPPIB Capital Inc. (CPPIB Capital), a wholly owned subsidiary. At March 31, 2016, we had C$13.4 billion of CP Notes outstanding.

In 2015, we established, and unconditionally and irrevocably guaranteed, a Canadian medium-term note program (the Canadian MTN Program) by way of a Canadian shelf prospectus under which CPPIB Capital can issue, from time to time, unsecured senior notes (the CMTN Notes) on a private placement basis. At March 31, 2016, we had C$2.2 billion CMTN Notes outstanding.

We are currently authorized to issue various forms of unsecured indebtedness with up to $25 billion aggregate principal amount of debt outstanding at any one time (including the CP Notes and the CMTN Notes), with up to $15 billion aggregate principal amount of such debt outstanding at any one time with a term (initial or remaining) of less than one year.

As the breadth of investment and funding activities continue to grow, and following the establishment of the Canadian MTN Program, we established a Cash and Liquidity Group within Global Capital Markets. This group works in partnership with Treasury Services and Total Portfolio Management to coordinate and optimize funding and liquidity.

Organizational Accountability

CEO/CFO CERTIFICATION

During the year, we completed an evaluation of internal control over financial reporting and disclosure controls and procedures, using the framework and criteria set out in the Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations. CPPIB is not required by law or regulation to perform this annual evaluation. We do so voluntarily as part of our commitment to strong corporate governance and accountability.

The CEO and CFO are responsible for establishing and maintaining internal control over financial reporting to provide reasonable assurance that it is reliable and conforms with International Financial Reporting Standards (IFRS). They are also responsible for the design of disclosure controls and procedures that provide reasonable assurance that all material information is gathered and reported to management on a timely basis.

No changes were made in our internal control over financial reporting, disclosure controls or procedures that have affected, or are reasonably likely to materially affect, our reporting.

Based on the results of management's evaluation, the CEO and CFO have concluded that internal control over financial reporting and the disclosure controls and procedures are properly designed and operated effectively throughout the year.

ACCOUNTING POLICIES AND CRITICAL ESTIMATES

Our significant accounting policies are summarized in notes 1 and 2 to the annual Consolidated Financial Statements and are important in understanding and interpreting our reported financial results and financial condition. Certain of these accounting policies require management to make assumptions and estimates that affect the reported amounts of assets, liabilities, income and expenses. We have established procedures to ensure accounting policies are applied consistently and processes for changing methodologies are well-controlled.

Management's most critical accounting estimates are with regard to the determination of fair value for investments and investment liabilities. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement and therefore incorporates those factors that market participants would consider when pricing an investment or investment liability.

Quoted market prices are used to measure the fair value for investments traded in an active market, such as public equities and marketable bonds.

Where the market for an investment is not active, such as for private equity, infrastructure, private real estate, private debt and over-the-counter derivatives, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. These techniques include the use of recent arm's-length transactions, the current fair value of another investment that is substantially the same, discounted cash-flow analysis, pricing models and other accepted industry valuation methods. Management engages independent appraisers to assist in the review or preparation of investment valuations. Regardless of the technique used, judgment is required to estimate fair value for investments, which are not traded on an active market. Our valuation methodologies for investments and investment liabilities are summarized in note 2 to the annual Consolidated Financial Statements.

Report of the Human Resources and Compensation Committee

As the Chair of the Human Resources Committee (HRCC), I am pleased to share with you our approach to assessing performance, and determining the compensation for CPPIB's employees.

The underlying principles of CPPIB's compensation framework is to deliver the long-term business strategy by focusing on:

- Attracting and retaining top investment and management expertise;
- Paying for performance; and
- Aligning the interests of employees with contributors and beneficiaries over the very long term.

FISCAL 2016 PERFORMANCE HIGHLIGHTS

A key underpinning of our compensation programs is the performance of the total Fund and that of our major investment departments. Despite a challenging investment environment, the Fund generated a moderate gain, demonstrating the benefits of a resilient, highly diversified global portfolio. The one year total Fund net return was 3.4% impacted by significant market headwinds at the start of calendar 2016, while the five-year annualized net return was 10.6%. Fiscal 2016 was also a record year for delivering dollar value-add (DVA) above the Reference Portfolio's return. The total Fund net DVA in fiscal 2016 was C$11.2 billion and the cumulative five-year net value-add amounted to C$16.4 billion.

NEW COMPENSATION PROGRAM

The CPPIB multi-year business plan aims to realign our investment approach to place a significantly greater emphasis on delivering total return. We believe this greater focus on total return will result in better returns for the Fund in the long term and greater alignment with the interests of the millions of pension contributors and beneficiaries. While DVA remains an important and valuable component of total return, we will also place significant weight on absolute return of the Fund. Accordingly, our compensation structure needed to be re-aligned with this shift in our investment framework. As a result, in fiscal 2015, an in-depth review of our overall compensation framework was launched. Fiscal 2016 marked an important year for CPPIB as it was the first full year of the new compensation program.

The new incentive structure has been designed to increasingly align with our investment objectives and enhance alignment with the total Fund total return objectives and long-term dollar value-add, each weighted equally and measured over a five-year retrospective period. The new structure also rewards group and department performance, based on an informed judgment assessment of both qualitative and quantitative objectives, as determined during the annual business planning process. Lastly, the new structure measures and rewards individual performance, based on the expectations of the role and the achievement of personal objectives, as defined at the start of each fiscal year.

Our new program also provides competitive pay levels relative to our defined talent market in all regions that we operate, and provides a clear and simple framework that is transparent to CPPIB employees and to our key stakeholders.

Significant analysis was performed to ensure that the costs under the new program would be essentially the same as under the old structure, relative to the value and performance delivered and excluding annual increases related to inflation.

As part of this redesign, there has been a rebalancing of the salary and incentive components of compensation to better align with broader market practice and the desired risk management characteristics of the new framework.

FISCAL 2016 CEO PAY DECISIONS

CPPIB's total Fund performance over the last five years has been very strong and has resulted in a total Fund multiplier of 1.82. The Board assessed Mr. Wiseman against his corporate goals and deemed that all these were substantially achieved and set the multiplier at 1.48. Against his individual objectives, the Board determined a multiplier of 1.35 for fiscal 2016. The weighted average of these three factors resulted in an overall incentive multiplier for Mr. Wiseman of 1.53.

Ultimately, the Board awarded Mr. Wiseman a total direct compensation (salary + in year award + deferred award) of $4,487,600 for fiscal 2016. Further details on CEO compensation are included in the following Compensation Discussion and Analysis.

OTHER ACTIVITIES OF THE HRCC

The HRCC also adopted specific objectives designed to focus on strategic priorities in fiscal 2016 and fiscal 2017. In conjunction with the Chairperson, the HRCC ensured that a comprehensive plan was developed to ensure the successful transition of the organization to new leadership under Mark Machin. The HRCC continues to drive the succession planning for all executive positions in the organization. Please refer to page 73 for specific HRCC activities undertaken in fiscal 2016.

In conclusion, under the new compensation structure, the HRCC is satisfied that the compensation paid for fiscal 2016 is appropriate and that our decisions with respect to the department/group and individual performance factors of compensation reflect our assessment of the Senior Management Team's performance relative to the pre-established objectives for fiscal 2016, and are appropriately aligned with the interests of contributors and beneficiaries.

Karen Sheriff
Chair, Human Resources and Compensation Committee

The Role and Structure of the Committee

The Human Resources and Compensation Committee (HRCC) helps the Board of Directors with human resources matters, including talent management and compensation.

The HRCC is composed entirely of Directors who are knowledgeable about human resources and executive compensation issues. All HRCC members also serve on the Investment Committee. They have a strong appreciation of the link between compensation and risk management.

The committee members for the fiscal 2016 year were:

Ian Bourne
Pierre Choquette
Tahira Hassan (joined January 1, 2016)
Nancy Hopkins
Douglas W. Mahaffy
Karen Sheriff, Chair
Kathleen Taylor
D. Murray Wallace

The HRCC held seven meetings during fiscal 2016. The Chairperson of the Board of Directors, although not an HRCC member, attended all meetings. The CEO, the COO and the Senior Managing Director & Chief Talent Officer also attended portions of the meetings at the HRCC's request. Below is a list of the HRCC's activities in fiscal 2016:

Evaluation of the President:

> Review and recommend the CEO's performance objectives and performance evaluation process for Board approval.

> Review significant outside commitments of the CEO.

Compensation of Officer and non-Officer employees:

> Review, approve and recommend for Board approval, salary increases and incentive compensation payouts for officers and employees.

> Review of executive compensation trends as provided by the HRCC's external compensation advisor.

> Review officers' compensation, including requesting and reviewing a report from the HRCC's external compensation advisor on the compensation of officers relative to other large Canadian pension funds and investment management companies.

> Oversee the disclosure of Directors' and officers' compensation and the compensation framework in the Annual Report.

> Review and recommend the benchmark and incentive compensation curve for the CPP Fund for Board approval.

Talent Management and Development:

> Review succession planning and talent management programs.

Employee pension and benefits plans:

> Receive the Annual Report of the Pension Committee and review and approve pension plan documents.

> Review non-material changes to employee benefit plans and Human Resources policies.

Committee Terms of Reference review:

> Review and recommend for Board approval HRCC Terms of Reference and review performance against Terms of Reference.

The HRCC uses the services of Hugessen Consulting Inc. to provide independent advice, information and guidance on human resources and executive compensation issues. Hugessen cannot provide any services to management without the committee's prior approval. Hugessen received $220,000 for its services to the HRCC in fiscal 2016 and $322,000 in fiscal 2015. It provided no additional services to management.

You can find out more about the HRCC's mandate in the Terms of Reference section posted on the CPPIB website.

Compensation Discussion and Analysis

This Compensation Discussion and Analysis summarizes the foundational principles of our compensation framework, reviews the elements of our new compensation program and provides the details on the performance results and remuneration paid to our Named Executive Officers (NEOs) for the fiscal year ended March 31, 2016 including:

> Chief Executive Officer (CEO) – Mark Wiseman

> Chief Financial Officer (CFO) – Benita Warmbold

> SMD & Head of International, President, CPPIB Asia Inc. – Mark Machin

> SMD & Global Head of Public Market Investments – Eric Wetlaufer

> SMD & Global Head of Real Estate Investments – Graeme Eadie

> SMD & Chief Investment Strategist – Ed Cass

PRINCIPLES OF OUR COMPENSATION FRAMEWORK

Our compensation framework continues to rest on three key principles, including:

> Attracting and retaining top investment and management expertise;

> Paying for performance; and

> Aligning the interests of employees with contributors and beneficiaries over the very long term.

Our compensation program is a key factor in attracting the talent and investment experience we need to manage a global active portfolio of $278.9 billion. In our search for the best employees, we compete with the largest investment managers, securities dealers and banks in Canada and around the world. As the Fund is one of the largest of its type globally, we require people with significant experience in investment management, investment research, portfolio design, risk management, and investment operations. A competitive compensation package is essential to attract and retain this talent to effectively execute CPPIB's mandate to maximize the rate of return without undue risk of loss.

RISK MANAGEMENT

Our compensation program also continues to reflect our responsibility to the public and all of CPPIB's beneficiaries. Our incentives are aligned with our long-term investment strategy and mandate, and consider our target return and risk appetite.

Key risk mitigating features in our compensation program include:

> Significant Pay at Risk – a significant portion of compensation for senior management and employees is variable and deferred; the deferred portion fluctuates with the Fund's performance over time;

> Long-term horizon Measurement – CPPIB tracks performance over multiple years aligned with the long-term nature of the investment mandate;

> Maximum Payouts – there is a cap on the incentive multipliers;

> Robust Benchmark Investment Return Targets – benchmarks used to calculate value-added and returns reflect an appropriate balance of risk and return aligned with the Board approved investment strategy;

> Board Approved Risk Limits – the target rates of return consider the Board-approved overall and specific risk limits; and

> Claw backs – the Board can claw back or adjust all forms of incentive compensation.

Annually the HRCC reviews the programs and in our 2016 review confirmed that the compensation framework meets or exceeds the Principles for Sound Compensation Practices established by the Financial Stability Board and endorsed by the G20 nations.

Financial Stability Board Principles	CPPIB compensation framework
Based on long-term performance	Based on investment performance over up to five-year periods
Discourage short-term risk-taking	Five-year results discourage short-term decisions Total amount of risk is governed by the Board of Directors Where appropriate, benchmarks adjust for the degree of risk taken
Increased oversight powers of compensation committees	The HRCC and the Board of Directors make all decisions about the compensation framework

KEY CHANGES TO OUR COMPENSATION FRAMEWORK

In fiscal year 2015, significant work was done to refine our compensation program, in particular to align with our new investment framework and multi-year business plan.

In designing the new program, we took into account the environment in which the CPPIB operates, its mission, and the strategy it has chosen to execute. CPPIB is a relatively young organization, but one that is meant to endure for a very long time. As a result, a large element of management's focus currently is on:

> attracting talent;

> growing the organization globally;

> establishing investment programs and processes that can be scaled;

> delivering strong performance;

> improving the efficiency of technology, operations and risk management; and

> establishing a strong culture with uncompromising standards of integrity.

The compensation program considers these important priorities and reflects them in the performance standards and criteria selected. It also considers the public responsibility involved in managing the retirement assets of 19 million contributors and beneficiaries by ensuring risk is considered appropriately. Further, we believe it is important not only *what* gets accomplished, but also *how* it is accomplished. Our compensation plan redesign takes into account the CPPIB Guiding Principles.

Our process incorporated advice and guidance from three professional consulting firms, including Willis Towers Watson and McLagan working with management, and Hugessen Consulting Inc. supporting the Board.

As an initial step, we reviewed comprehensive research on the best practices in incentive design among sovereign wealth funds around the world. In addition to researching best practices in the market, we adhered to the following design principles in the development of our new compensation structure:

Our incentive design research resulted in the following key changes:

> **Enhanced Focus on Total Fund Performance** – increased the weight on total Fund performance, and modified the way it is measured to include absolute total Fund return in addition to dollar value-added. This emphasis on total Fund allows for a closer tie between compensation and the interests of our beneficiaries and contributors.

> **Longer Performance Horizon to Align with our Investment Mandate** – lengthened the time period over which we measure total Fund performance to better reflect our long-term perspective. This longer performance horizon has the added benefit of improving measurement accuracy and reduces volatility.

> **Measures Both Quantitative and Qualitative Outcomes** – as our investment strategy and the approach to executing on our mandate evolves, it is important to consider both quantity and quality when measuring investment performance and other priority objectives.

> **Improved Alignment of Pay Mix to Market Practice** – better reflects market trends by aligning the mix of fixed and variable compensation, as well as short-term and long-term compensation.

> **Established a Consistent Framework for all Employees** – All employees have the same weight on total Fund performance, department and group performance, and individual performance creating a consistent platform for rewarding all employees.

> **Simplified the Incentive Program** – the Short-Term Incentive Plan (STIP) and Long-Term Incentive Plan (LTIP) were replaced by a single Incentive Award, with a required deferral over the following three years. The annual incentive award is split into two components:

a. **In-year portion:** akin to the STIP in prior years

b. **Deferred portion:** a mandatory deferral (akin to the LTIP in prior years), which is designed to reward senior eligible participants for actively contributing to the long-term investment performance of the total Fund.

Aligned with our Investment Objectives	> Maximize return to the total Fund within agreed risk parameters > Supports CPPIB's Guiding Principles
Market Competitive	> Enables CPPIB to attract and retain the right people
Right Time Horizon	> Strong alignment to our long-term investment horizon for performance measurement and for pay-outs
Simple	> Clear and simple framework transparent to key stakeholders and prospective employees > Yields increased stability and consistency of performance payouts
Enables Application of Informed Judgment	> Ability to recognize the distinction of each asset class, strategic and operational objectives, and market conditions
Differentiation Based on Individual Performance	> Ability to distinctly differentiate based on individual performance

Following the incentive design research, competitive benchmarking was completed for over 230 jobs across the organization to ensure compensation levels were competitive and aligned with CPPIB's market for talent. Specialists from Willis Towers Watson and McLagan compared our compensation framework and levels to various peer organizations reflecting the markets in which we compete for talent. CPPIB operates within the global investment management industry, and competes on a global basis to attract and retain employees in Toronto and its offices in Hong Kong, London, Luxembourg, Mumbai, New York and São Paulo. Accordingly, we reviewed competitive pay information for Canadian pension funds and broader investment management organizations as well as those in other major markets in which we operate (e.g., United States, United Kingdom, and Hong Kong).

The HRCC also reviewed competitive pay levels for each position on the Senior Management Team, including the Named Executive Officers (NEOs) relative to a significant market sample and data from proprietary consultant surveys. Specifically for the Senior Management Team and NEOs, compensation was benchmarked against the following sources of data:

> Large Canadian public pension funds: Caisse de dépôt et placement du Québec (CDPQ), Ontario Teachers' Pension Plan (OTPP), bcIMC, AIMCo, OMERS, PSPIB.

> Canadian publicly traded investment asset managers: IGM Financial, CI Financial, AGF Management, Fiera Sceptre, Guardian Capital, Sprott Inc., Gluskin Sheff & Associates.

> Select compensation surveys: Towers Watson Investment Management Compensation survey, McLagan Investment Management Survey (Canada and Hong Kong) and McLagan Private Equity survey.

> McLagan "Competitive Composite", which is composed of 1) the Top Canadian Funds and 2) the broad labour market in Canada and the U.S. (for investment roles only).

One main driver of the compensation redesign was to reduce the overall volatility of the compensation system. At the same time, we were working within the parameters of two key design constraints, which were:

> Preserving the average earning opportunity for employees, for a similar level of performance, in order to remain competitive in the markets in which we operate and

> Deliver a new compensation program that is cost neutral to the organization.

As a result of our incentive design research, competitive benchmarking and overall redesign constraints, the HRCC made one-time adjustments to base salary and incentive targets for employees, including the Senior Management Team (SMT) and NEOs.

COMPENSATION ELEMENTS

BASE SALARY

Employees receive a base salary for fulfilling their core job responsibilities. Salaries reflect skill level, ability and performance. We use annual compensation surveys from compensation consulting firms to ensure that we remain competitive within our talent market. We review salaries annually at the end of each fiscal year. Any changes to Senior Management Team compensation, including the NEOs' salaries require Board approval.

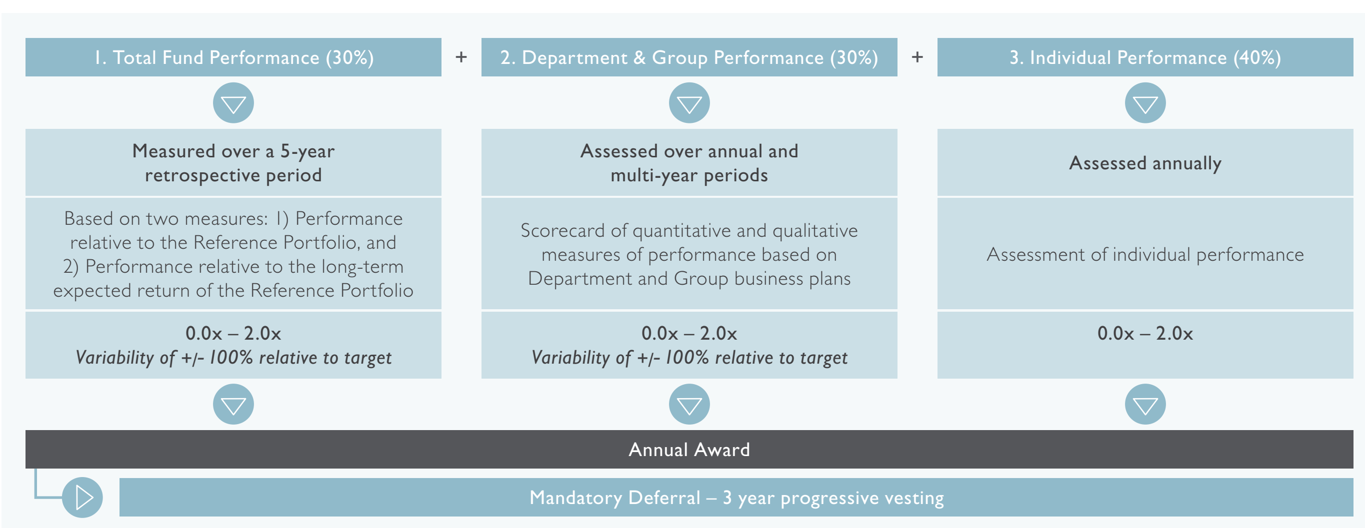
INCENTIVE COMPENSATION PLAN (FORMERLY STIP AND LTIP)

Our current incentive structure is now a plan where the annual incentive target represents both the short-term and long-term awards (total incentive) combined. The actual Annual Incentive Award is adjusted on the basis of performance and then split into the In-Year Award and the Deferred Award at year end. The performance assessment is based on three factors: 1) Total Fund performance, 2) Group and Department performance, and 3) Individual performance. Each performance factor contributes a fixed percentage or weight to the total incentive pay.

Employees may earn up to two times (maximum) the target amount for each performance factor, depending on performance relative to predetermined objectives.

This structure applies to all employees across the organization regardless of department, group, seniority or geographic location.

Below is an illustration of the current incentive plan:



The three performance factors are specifically described below:

1. *Total Fund performance* – This performance factor includes equally weighted measures of both dollar value-add and total Fund returns, each measured over a five-year period.
2. *Department and group performance* – Departments and Groups play an important role in contributing to and maximizing performance *of the total Fund*. This performance factor takes both quality and quantity into account. It measures performance against the objectives defined for each department and group, including value-add, during the annual business planning process. Performance may be measured over the year or over several years, depending on the objective and performance measurement.
3. *Individual performance* – This performance factor is assessed annually for each employee, based on the specific objectives identified at the beginning of the year, performance relative to the expectations of the job and demonstration of CPPIB's Guiding Principles of Integrity, Partnership and High Performance.

Incentive targets have been set according to the job level as informed by the competitive review, historical targets and payouts. At the end of each fiscal year, employees are eligible to receive an incentive award according to the following formula:

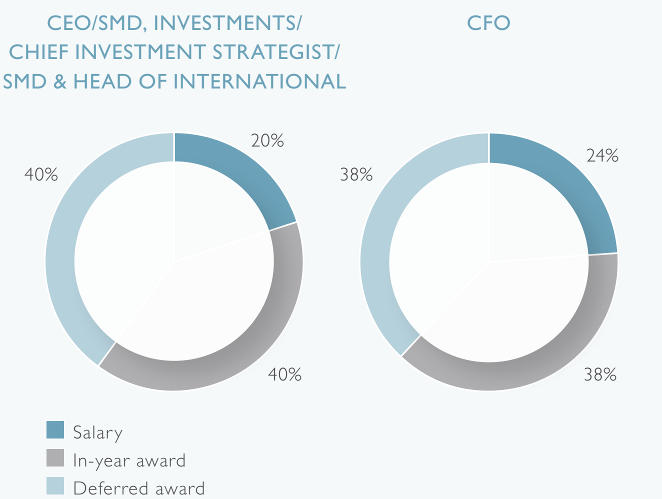
Base salary × Incentive target × Performance multiplier = Annual award

Following an assessment of performance and approval by the HRCC, employees receive a cash payout. To align with the long-term focus of the CPP Fund, senior employees must defer a portion of their annual incentive award. All deferred awards are notionally invested in the Fund and fluctuate with the total Fund returns over time. The deferred portion vests and pays out in equal instalments over a three-year period following the fiscal year for which an award is received. Employees forfeit the incentive award and any unvested deferred awards if they resign during the fiscal year.

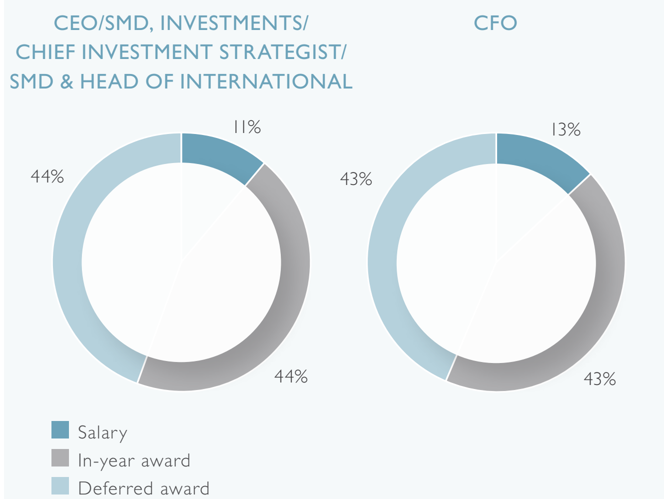
PAY MIX

The mix of in-year-cash and deferred compensation varies by role and level, with higher deferral targets for more senior professionals. The charts below illustrate the mix of salary, in-year-cash, and deferred incentive for fiscal 2016 for the NEOs:

TARGET AWARDS



MAXIMUM AWARDS



VOLUNTARY DEFERRAL INCENTIVE PLAN (VDIP)

Where allowed under local tax law, employees may defer some or all of their in-year award in a given year. The deferred portion is treated as if it were invested. The employee can choose to make this nominal investment either entirely in the CPP Fund, or in both the CPP Fund and up to a maximum of 50% in the CPP Fund's Private Investments portfolio. The deferred amounts thus fluctuate in value over the three-year deferral period. The VDIP provides another way to align employee interests with Fund performance.

LONG-TERM INCENTIVE PLAN (LTIP)

We discontinued the Long-Term Incentive Plan as part of the incentive redesign in 2015. Existing unvested LTIP awards were converted using a 2x single year multiplier for fiscal 2016 to fiscal 2018, aligned with historical performance and payout levels. The cliff-vesting schedule continues to apply to these awards, as per the terms of the plan. Residual payments were paid out in fiscal 2016, and eligible employees will continue to receive payments at the end of fiscal 2017 and fiscal 2018. The unvested balances will continue to earn the net total Fund rate of return during the vesting period.

SUPPLEMENTAL RESTRICTED FUND UNITS (SRFU)

SRFUs are a notional investment whose value fluctuates with CPP Total Fund performance. SRFUs with multi-year vesting schedules can assist in attracting new employees as they help ease in the compensation of new hires during their transition to CPPIB, such as replacing forfeited compensation from their previous employer.

CLAWBACK AND FORFEITURE PROVISION

The Board of Directors has the authority to interpret, change and discontinue the compensation plans at its discretion. In addition, the Board may reduce incentive awards or require employees to forfeit them if:

> financial results are restated and the Board considers the award is therefore excessive. The Board can also require employees to forfeit unvested incentive compensation awards. This provision applies to those at the Managing Director level and above.

> the incentive award was granted in error.

> an employee is guilty of misconduct.

The employee may also have to forfeit unvested incentive awards.

PENSION

CPPIB provides its employees and executives the opportunity to participate in defined contribution retirement plans. These have relatively lower and more predictable costs than the more generous defined benefit plans offered by other organizations in the large pension fund and investment management industry.

All Canada-based employees are eligible to participate in our registered and supplementary defined contribution pension plans. Eligible earnings for both pension plans consist of:

> base salary, plus

> the portion of the incentive paid in a given year (to a maximum of 50% of base salary).

Until December 31, 2015, employees contributed 3% of their annual eligible earnings to the registered pension plan. CPPIB contributed 6% to the maximum allowed under the Income Tax Act (Canada). Effective January 1, 2016, the contribution levels changed. Employees now contribute 4.5% of annual eligible earnings, and CPPIB contributes 4.5% to the maximum allowed under the Income Tax Act (Canada). For the supplementary pension plan, employees earn contribution credits equal to 9% of eligible earnings over the maximum for the registered pension plan. The supplementary plan is an unfunded plan. It grows at the same rate as the investment choices available under the registered plan.

Employees based outside Canada are eligible to participate in local pension plans that vary based on local regulations and market practices.

BENEFITS AND OTHER COMPENSATION

Our benefits programs are comparable to those provided by similar organizations in our industry. They include life insurance, disability benefits, health and dental benefits, time-off policies, a fitness reimbursement and an Employee-Family Assistance Program. Perquisites are limited to paid parking for the Senior Management Team members.

FISCAL 2016 RESULTS: PERFORMANCE OUTCOMES AND COMPENSATION DECISIONS

This section describes the performance measures and results upon which compensation decisions were made for the NEOs for fiscal 2016.

ANNUAL NON-FINANCIAL OBJECTIVES

Management establishes non-financial organizational goals in the business plan each fiscal year. The Board of Directors approves these goals. You will find the non-financial organizational goals of fiscal 2016 in the table below. We then align annual individual objectives for officers and employees to these organizational objectives. The Board reviews progress against organizational objectives on a quarterly basis and at year-end ensuring a pay-for-performance approach to evaluation. Based on the Board's assessment, management achieved the organizational objectives for fiscal 2016.

TABLE 1: FISCAL 2016 NON-FINANCIAL GOALS

Implement and operationalize new Risk/Return Accountability Framework
Implement changes to Incentive Compensation program
Implement foundational components of the Keystone solution
Enhance compliance practices
Scaling our investment activities: top-down
Scaling our investment activities: bottom-up
Expanding our global presence
Building capacity and capabilities
Build talent and reinforce culture

TOTAL FUND PERFORMANCE

We measure Total Fund performance over a five-year period using two equally weighted criteria:

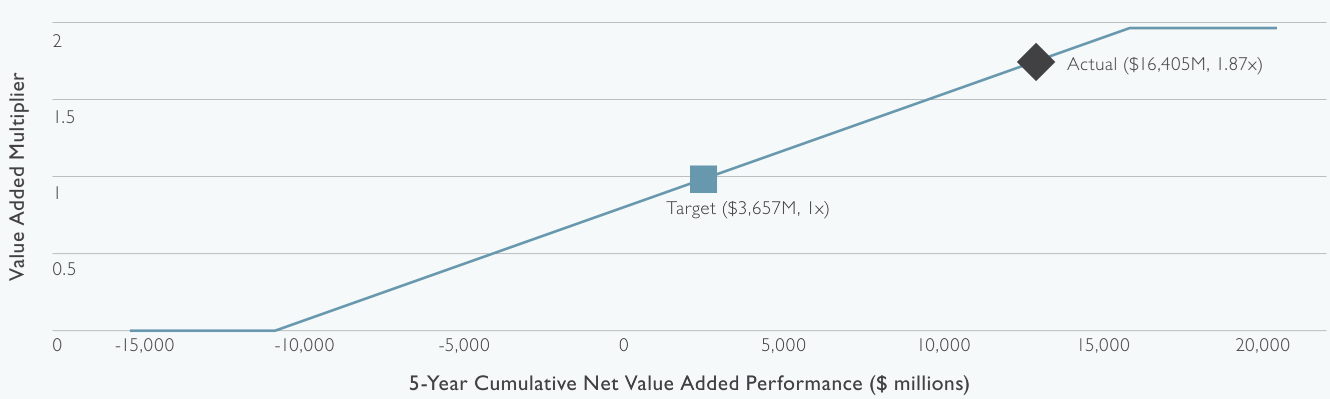
1) Absolute total return of the Fund and

2) Value add relative return of the Fund compared to the Reference Portfolio.

For compensation payout purposes, the performance realized on each of these two measures, over a rolling five-year performance period, maps to a multiplier. On the absolute performance, a target return of 6% will result in a target multiplier of 1x. On the relative performance, a five-year cumulative target DVA of C$3.7 billion must be reached to achieve a relative performance multiplier of 1x. DVA targets are reviewed annually by the Board. The graphs below map the fiscal 2016 target and actual Fund performance.

ABSOLUTE PERFORMANCE COMPONENT

RELATIVE PERFORMANCE COMPONENT



Total Fund performance is measured over the five fiscal years beginning April 1, 2011 and ending March 31, 2016. The absolute and relative performance of the Fund in fiscal 2016 resulted in an equally weighted total Fund multiplier of 1.82.

TABLE 2: CPP FUND PERFORMANCE, FISCAL 2012 TO 2016 AND CUMULATIVE RESULTS

	Absolute Performance				Relative Performance				
Fiscal year	CPP Fund Gross Return ($ billion)	CPP Fund Net Return ($ billion)	CPP Fund Net Return %	Total Fund absolute multiplier	Reference Portfolio Return ($ billion)	CPP Gross Value-add ($ billion)	CPP Net Value-add ($ billion)	Total Fund Value-added multiplier	Total Fund multiplier
2012	9.9	9.5	6.30		6.8	3.1	2.7		
2013	16.7	16.2	9.81		16.5	0.2	-0.3		
2014	30.7	30.1	16.12		30.2	0.5	-0.1		
2015	41.4	40.6	18.31		37.8	3.6	2.8		
2016	10.0	9.1	3.37		-2.1	12.1	11.2		
Cumulative $/ Annualized % – 5 year	108.8	105.6	10.64	1.77	89.2	19.6	16.4	1.87	**1.82**
Cumulative $/ Annualized – since inception	129.6	125.4	6.83		108.4	21.3	17.0		

FORMER LONG TERM INCENTIVE PLAN (LTIP) PAYOUTS

For the purpose of calculating LTIP payout, the total Fund's cumulative four-year net rate of return was 57.4%, which is an average annualized return of 11.75%, since the beginning of fiscal 2013.

DEPARTMENT PERFORMANCE

We have summarized investment department performance for fiscal 2016 in table 3 below.

TABLE 3: FISCAL 2016 INVESTMENT DEPARTMENT PERFORMANCE

	Fiscal 2016 performance
Public Market Investments	Exceeded target
Real Estate Investments	Exceeded target
Private Market Investments	Exceeded target
Investment Partnerships	Met target

A more detailed description of the total Fund and investment department performance can be found in the Management's Discussion and Analysis section of the Annual Report.

COMPENSATION DISCLOSURE

CPPIB strives to conform with leading practices for compensation disclosure for a public pension fund. As a result we disclose information on compensation for key management personnel as a group. We also disclose individual compensation figures for the CEO, the CFO, and the next four highest-paid Senior Management Team members.

COMPENSATION OF KEY MANAGEMENT PERSONNEL

We define key management personnel as the Senior Management Team and the Board of Directors. For more information on Director compensation, please refer to the Governance Practices section of the Annual Report. The total compensation expense for key management personnel for fiscal 2016 is $31.2 million, down 20% from $39 million for fiscal 2015. See note 9 of the Financial Statements for more information.

COMPENSATION OF THE CEO

The CEO participates in the same incentive compensation plan as all employees at CPPIB. At the start of each fiscal year, the Board and the CEO agree on organizational and individual objectives for the CEO. At year-end, the HRCC evaluates the CEO's performance against those objectives and presents its evaluation to the Board for review and approval. As well, each Director completes an annual evaluation of the CEO's performance with respect to his key areas of responsibility. These evaluations are summarized and presented to the Board of Directors. These sources of evaluation are then used to determine the organizational performance multiplier and individual performance multiplier of the CEO's incentive award for the fiscal year. They are also used to set his base salary for the upcoming fiscal year.

Mr. Wiseman's personal objectives for fiscal 2016 included:

> Provide strategic direction for all CPPIB investment activities, ensure all investments are consistent with CPPIB's multi-year strategy and the advancement towards the Strategic Portfolio

> Lead strategy review for each investment group

> Ensure the development and continuity of Leadership and Talent

> Continued development of CPPIB's unique culture

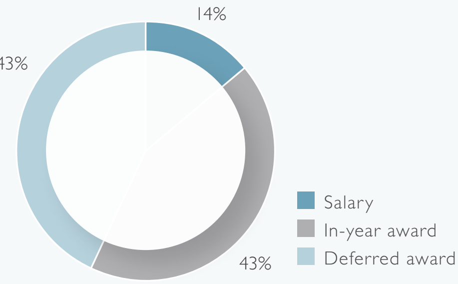
All of these key goals were achieved.

The Board of Directors awarded Mr. Wiseman a total incentive award of $3,857,600 for fiscal 2016. The table below shows the performance components of the CEO's Total Direct Compensation.

The table shows a summary of the CEO Total Direct Compensation for fiscal 2016.

	F2016 target ($)	F2016 actual ($)
Base salary (A)	**630,000**	**630,000**
Total Fund	756,000	1,378,000
Group/Department	756,000	1,118,800
Individual	1,008,000	1,360,800
Total Incentive Award (B)	**2,520,000**	**3,857,600**
In-year award	1,260,000	1,928,800
Deferred award	1,260,000	1,928,800
Total direct compensation (A) + (B)	**3,150,000**	**4,487,600**

ACTUAL PAY MIX



The CEO's residual LTIP payments will be paid out as described on page 82. Please refer to Table 5: Summary Total Compensation.

COMPENSATION FOR THE NAMED EXECUTIVE OFFICERS

The incentive awards for the Senior Management Team reflect the same total Fund, Group/Department and Individual performance factors as for all other employees. Residual LTIP payments are paid as described on page 82. Please refer to Table 5: Summary Total Compensation.

Table 4 below shows the total direct compensation in fiscal 2016 for each NEO.

TABLE 4: SUMMARY FISCAL 2016 TOTAL DIRECT COMPENSATION

	Base Salary ($) (A)	Total Fund ($)	Group/ Department/ Individual ($)	Total Incentive Award ($) (B)	In-year award ($)	Deferred award ($)	Total direct compensation ($) (A) + (B)
Benita Warmbold SMD & CFO	387,500	688,600	1,198,800	1,887,400	943,700	943,700	2,274,900
All amounts reported are in HKD[1]							
Mark Machin SMD and Head of International, President CPPIB Asia Inc.	4,800,000	10,499,400	18,950,400	29,449,800	14,724,900	14,724,900	34,249,800
Eric Wetlaufer SMD & Global Head Public Market Investments	460,000	1,006,200	1,779,200	2,785,400	1,392,700	1,392,700	3,245,400
Graeme M. Eadie SMD & Global Head Real Estate Investments	450,000	984,400	1,812,600	2,797,000	1,398,500	1,398,500	3,247,000
Ed Cass SMD & Chief Investment Strategist	430,000	940,600	1,697,600	2,638,200	1,319,100	1,319,100	3,068,200

1 The one year average exchange rate from HKD:CAD for the period of April 1, 2015 to March 31, 2016 is 0.169049. (Source: Bank of Canada).

As the following Summary Earnings table shows, total compensation for the named executive officers is $20.5 million, up 5% from $19.5 million in fiscal 2015.

Table 5 shows total compensation over the past three fiscal years for the named executive officers.

TABLE 5: SUMMARY TOTAL COMPENSATION

NAME AND POSITION	Year	Salary[1] ($) A	In-year award ($) B	Deferred awards[2] ($) C	Pension value ($) D	All Other Compensation[3] ($) E	Total compensation (with Deferred Award) ($) A+B+C+D+E	Payment under former LTIP[4] ($): LTIP payout ($) F	Payment under former LTIP[4] ($): Total compensation (with LTIP payout) ($) A+B+D+E+F
Mark D. Wiseman[5]	**2016**	**630,000**	**1,928,800**	**1,928,800**	**73,483**	**14,155**	**4,575,238**	**981,600**	**3,628,038**
President and CEO	2015	515,000	1,875,400		61,125	13,945		1,219,900	3,685,370
	2014	505,000	1,812,300		59,955	14,148		1,248,100	3,639,503
Benita Warmbold[5]	**2016**	**387,500**	**943,700**	**943,700**	**42,230**	**11,641**	**2,328,771**	**661,000**	**2,046,071**
SMD & CFO	2015	347,500	915,600		38,535	9,009		960,600	2,271,244
	2014	340,000	895,500		37,723	10,515		999,500	2,283,238
All amounts reported are in HKD[6]									
Mark Machin[7]	**2016**	**4,800,000**	**14,724,900**	**14,724,900**	**432,000**	**1,492,609**	**36,174,409**	**6,810,800**	**28,260,309**
SMD and Head of	2015	3,850,000	10,047,000		346,500	1,310,578		5,334,100	20,888,178
International,	2014	3,500,000	7,674,200		315,812	1,184,548		8,721,500	21,396,060
President CPPIB Asia Inc.									
Eric Wetlaufer[8]	**2016**	**460,000**	**1,392,700**	**1,392,700**	**51,363**	**29,090**	**3,325,852**	**1,680,600**	**3,613,752**
SMD & Global Head Public	2015	375,000	1,451,300		42,247	19,911		1,677,900	3,566,359
Market Investments	2014	367,500	1,480,100		41,436	16,274		1,087,100	2,992,410
Graeme M. Eadie[5]	**2016**	**450,000**	**1,398,500**	**1,398,500**	**50,068**	**8,748**	**3,305,816**	**1,397,700**	**3,305,016**
SMD & Global Head Real	2015	367,500	1,422,200		41,235	10,312		1,631,200	3,472,447
Estate Investments	2014	360,000	1,449,900		40,423	10,515		1,491,400	3,352,239
Ed Cass[5]	**2016**	**430,000**	**1,319,100**	**1,319,100**	**47,456**	**6,819**	**3,122,475**	**1,360,100**	**3,163,475**
SMD & Chief Investment	2015	350,000	1,362,400		38,822	6,538		1,243,400	3,001,160
Strategist	2014	336,900	1,029,100		37,310	6,742		1,253,000	2,663,052

1 One-time adjustments were made to F16 salaries as a result of the compensation structure redesign. Refer to the 'Key changes to our compensation framework' section in the CD&A for further information.

2 The F16 deferred award represents the award value at the time of the award. The award fluctuates with the performance of the total Fund over the vesting period.

3 All other compensation includes life insurance, disability benefits, health and dental benefits, and fitness reimbursement as well as comprehensive health assessment conducted at a private medical clinic. Perquisites are limited to paid parking for officers. Mr. Machin receives a housing allowance in accordance with local market practice.

4 The LTIP was discontinued as part of the incentive plan redesign in fiscal 2015. Residual payments were paid out in fiscal 2016, and eligible employees will continue to receive payments at the end of fiscal 2017 and fiscal 2018.

5 NEO elected to defer all or part of the fiscal 2016 In-year award into the Voluntary Deferred Incentive Plan (VDIP).

6 The one year average exchange rate from HKD:CAD for the period of April 1, 2015 to March 31, 2016 is 0.169049. (Source: Bank of Canada).

7 Mr. Machin joined CPPIB on March 19, 2012. As per his employment agreement, Mr. Machin received a fiscal 2013 SRFU grant of HKD 13,600,000, which vested over 2 years; 50% vested at the end of fiscal 2013 and 50% at the end of fiscal 2014. Mr. Machin also received a fiscal 2013 SLTIP (Supplemental Long Term Incentive Plan) grant of HKD 3,400,000, which vested at the end of fiscal year 2015. These amounts are reported under LTIP payout.

8 Mr. Wetlaufer joined CPPIB on June 27, 2011. As per his employment agreement, Mr. Wetlaufer's fiscal 2012 SRFU grant of $1,400,000 vested over two years, 50% paid out at the end of fiscal 2012 and 50% at the end of fiscal 2013. Mr. Wetlaufer also received an SLTIP (Supplemental Long Term Incentive Plan) grant of $350,000 in fiscal year 2012, which vested at the end of fiscal year 2014.

DEFERRED COMPENSATION AND ESTIMATED FUTURE PAYOUTS

NEO's must defer a portion of the incentive award. The deferred portion vests and pays out in equal installments over a three-year period following the fiscal year for which the award is given. All deferred awards fluctuate in value with the net Total Fund rate of return during the vesting period. Table 6 shows the outstanding deferred portion of incentive awards and former LTIP awards and future payouts for each named executive officer.

TABLE 6: DEFERRED AWARDS AND ESTIMATED FUTURE PAYOUTS

Name	Type of Award[1]	Year of Award	Award Value[2] ($)	Maximum Value at Time of Grant[3] ($)	Estimated future payouts at time of vesting[4] ($) 2017	2018	2019
Mark D. Wiseman	Deferred Award	**2016**	**1,928,800**	**1,928,800**	**642,900**	**642,900**	**643,000**
President & CEO	LTIP	2015	515,000	1,545,000		1,516,800	
	LTIP	2014	505,000	1,515,000	1,356,200		
Benita Warmbold	Deferred Award	**2016**	**943,700**	**943,700**	**314,600**	**314,600**	**314,500**
SMD & CFO	LTIP	2015	347,500	1,042,500		1,023,500	
	LTIP	2014	340,000	1,020,000	913,100		
All amounts reported are in HKD[5]							
Mark Machin[6]	Deferred Award	**2016**	**14,724,900**	**14,724,900**	**4,908,300**	**4,908,300**	**4,908,300**
SMD & Head of International,	LTIP	2015	5,775,000	10,500,000		17,008,700	
President CPPIB Asia Inc.	LTIP	2014	3,500,000	17,325,000	9,399,300		
Eric Wetlaufer	Deferred Award	**2016**	**1,392,700**	**1,392,700**	**464,200**	**464,200**	**464,300**
SMD & Global Head	LTIP	2015	375,000	1,125,000		1,265,300	
Public Market Investments	LTIP	2014	367,500	1,102,500	1,493,200		
Graeme Eadie	Deferred Award	**2016**	**1,398,500**	**1,398,500**	**466,200**	**466,200**	**466,100**
SMD & Global Head	LTIP	2015	367,500	1,102,500		1,206,800	
Real Estate Investments	LTIP	2014	360,000	1,080,000	1,543,200		
Ed Cass[7]	Deferred Award	**2016**	**1,319,100**	**1,319,100**	**439,700**	**439,700**	**439,700**
SMD & Chief Investment	LTIP	2015	350,000	1,050,000		1,030,800	
Strategist	LTIP	2014	423,200	1,269,600	1,693,800		

1 The Long Term Incentive Plan (LTIP) was retired in Fiscal 2016. Unvested LTIP awards continue to vest as per the established vesting schedule.

2 Represents the target value at the time of grant.

3 Represents the maximum value payable at the end of the four-year vesting period, excluding the CPP Fund's cumulative rate of return over the four-year vesting period. See LTIP section for details.

4 Estimated LTIP payouts are valued at a multiplier of 2x and net return of 0% on the CPP Fund for fiscal 2017 and 2018.

5 The one year average exchange rate from HKD:CAD for the period of April 1, 2015 to March 31, 2016 is 0.169049. (Source: Bank of Canada).

6 Mr. Machin received an ELTIP Grant of HKD 1,925,000 in fiscal 2015, which vests in fiscal 2018.

7 Mr. Cass received an ELTIP Grant of CAD 120,000 in fiscal 2014, which vests in fiscal 2017.

VOLUNTARY DEFERRAL INCENTIVE PLAN (VDIP)

Employees may choose to participate in the Voluntary Deferral Incentive Plan (VDIP) by January 31 of the fiscal year in which they earn the incentive. The incentive is then paid out at the end of a three-year deferral period.

The VDIP was previously called the Deferred Short-Term Incentive Plan (DSTIP). Table 7 shows the VDIP election amounts and estimated future payouts for each named executive officer who chose to participate in the plan. The future value of the payouts is estimated as at March 31, 2016. It is based on actual CPP Fund and Private Investment portfolio rates of return for fiscal 2014, 2015 and 2016. We assume no growth in future years.

TABLE 7: VDIP ELECTION AND ESTIMATED PAYOUT

Name	Year of Election	Amount Deferred[1] ($)	Estimated future payouts at the end of fiscal years ($) 2017	2018	2019
Mark D. Wiseman	2016	1,928,800			1,928,800
President & CEO	2015	1,875,400		1,938,601	
	2014	1,812,300	2,223,696		
Benita Warmbold	2016	707,800			707,800
SMD and CFO	2015	915,600		946,456	
	2014	895,500	1,098,780		
Graeme Eadie	2016	349,600			349,600
SMD & Global Head	2015	711,100		735,064	
Real Estate Investments	2014	–	–		
Ed Cass	2016	1,319,100			1,319,100
SMD & Chief Investment	2015	1,362,400		1,408,313	
Strategist	2014	1,029,100	1,262,708		

1 Represents the original amount deferred.

PENSION PLANS

As described earlier, all Canada-based employees participate in the regular and supplementary defined contribution pension plans.

The table below shows the contributions and investment earnings for the named executive officers under both plans. The total unfunded liability for the Canada-based named executive officers, as at March 31, 2016, is $1,142,372 (2015 – $982,482).

TABLE 8: PENSION PLAN CONTRIBUTIONS

NAME	Plan Type	Accumulated value at Start of Year ($)	Compensatory ($) Employer Contributions ($)	Compensatory ($) Investments Earnings ($)	Non-compensatory ($)[1]	Balance at End of Year ($)
Mark Wiseman	Registered	328,228	16,470		-13,896	330,802
President and CEO	Supplementary	395,213	57,013	-31,023		421,202
Benita Warmbold	Registered	241,972	16,215		5,016	263,203
SMD & CFO	Supplementary	156,755	26,015	-6,107		176,662
All amounts reported are in HKD[2]						
Mark Machin	Mandatory[3]	99,130	18,000	*see note 5*	18,000	135,130
SMD and Head of International, President CPPIB Asia Inc.	Voluntary[4]	909,371	414,000	*see note 5*		1,323,371
Eric Wetlaufer	Registered	126,309	16,604		5,600	148,513
SMD & Global Head Public Market Investments	Supplementary	75,779	34,759	499		111,037
Graeme Eadie	Registered	329,917	16,602		830	347,349
SMD & Global Head Real Estate Investments	Supplementary	203,288	33,467	1,267		238,021
Ed Cass	Registered	251,080	16,632		-3,302	264,410
SMD & Chief Investment Strategist	Supplementary	177,683	30,825	-13,058		195,450

1 Represents employee contributions and investment earnings in the registered pension plan.

2 The one year average exchange rate from HKD:CAD for the period of April 1, 2015 to March 31, 2016 is 0.169049. (Source: Bank of Canada).

3 Mr. Machin participates in the Mandatory Provident Fund (MPF) for Hong Kong, which has an employee and employer contribution of 5% towards relevant income capped at HKD 30,000 of monthly earning.

4 CPPIB provides an employer pension contribution of 5% towards relevant income above the HKD 30,000 monthly earnings ceiling.

5 Investment earnings are not disclosed by the pension administrator.

TERMINATION AND RETIREMENT ARRANGEMENTS

In the event of termination without cause, severance pay for the NEO's is set at:

> 12 months of base salary and the target In-Year Award, plus

> an additional month of salary and one-twelfth of the In-Year Portion of the target incentive award for each year of service.

Severance pay is capped at 24 months for the CEO and Graeme Eadie, and 18 months for the other NEOs. The NEO forfeits any deferred portion of the incentive awards as well as former LTIP awards. insured benefits, such as health, dental and life coverage, continue during the severance period.

In the case of termination with cause, the employee forfeits all incentives and benefits. There is no change-of-control provisions in the employment arrangements.

In the event of resignation and in consideration of adherence to a one-year non-compete and non-hire agreement, certain named executive officers receive a prorated payment of the LTIP grant which would have vested at the end of the fiscal year of resignation, payable one year after resignation. All other incentives and benefits are forfeited.

NEOs are generally entitled to retire from the organization and receive certain benefits, provided they have reached the age of 55 and have worked with CPPIB for 10 years.

Upon retirement, employees continue to receive the ongoing deferral payments owed to them under the Incentive Plan, unless they have opted out. The normal payment cycle applies and payments are subject to the same conditions. Retirees also receive LTIP payouts prorated for the time worked during the performance period. These are paid shortly after the regular vesting dates. All benefits stop on the date an employee retires.

Table 9 shows the payments that would be made, as of March 31, 2016, to the named executive officers if they retire or are terminated without cause.

TABLE 9: POTENTIAL TERMINATION AND RETIREMENT PAYMENTS[1]

Name	Completed years of service	Severance[2]	Retirement treatment of unvested awards[3, 4, 5]
Mark Wiseman President & CEO	10	3,465,000	2,418,400
Benita Warmbold SMD & CFO	7	1,525,781	1,511,100
All amounts reported are in HKD[6] Mark Machin SMD & Head of International President, CPPIB Asia Inc.	4	19,200,000	20,462,200
Eric Wetlaufer SMD & Global Head Public Market Investments	4	1,840,000	2,216,800
Graeme Eadie SMD & Global Head Real Estate Investments	10	2,700,000	2,227,000
Ed Cass SMD & Chief Investment Strategist	8	1,935,000	2,225,400

1 Excludes incentive compensation payouts for the current fiscal year, which are included in Table 5: Summary Total Compensation. Termination and retirement payments are estimated as of March 31, 2016. Actual payments are pro-rated based on time worked in the performance period.

2 Excludes the value of insured benefits, such as health, dental and life insurance, continued during the severance period.

3 Upon retirement, payout of the unvested awards will be subject to the following conditions:
- Performance is measured at the end of the vesting period;
- Payout is prorated based on length of service within the vesting period; and
- Payment is made at the end of the vesting period

4 The unvested awards are estimated based on actual investment performance for fiscal 2014–2016, an annual multiplier of 2x for fiscal 2016–2018 and a net return of 0% on the CPP Fund for future years.

5 Also includes any unvested ELTIP grants.

6 The one year average exchange rate from HKD:CAD for the period of April 1, 2015 to March 31, 2016 is 0.169049. (Source: Bank of Canada).

Letter from the Chair of the Governance Committee

Governance is important to CPPIB. We believe good governance is integral to CPPIB's successful long-term performance. It also helps ensure compliance with the laws and standards that apply to us and the ethical conduct that is central to how CPPIB does business. CPPIB strives to meet rigorous standards of corporate governance, following what we view to be global best practices for our industry and the companies in which we invest.

Good governance starts with our Board of Directors. The Governance Committee of the Board regularly reviews our corporate governance practices to ensure they meet industry and stakeholder expectations, and address changing regulatory requirements and evolving global best practices. The Committee also works to ensure the Board's effectiveness through such responsibilities as Board evaluation and succession planning, reviewing criteria and qualifications for new Directors and ongoing Director development programs. Importantly, the Committee also monitors the application of the Code of Conduct across CPPIB and approves the Proxy Voting Principles and Guidelines.

The Committee members for fiscal 2016 were: Ian A. Bourne (Chair), Robert L. Brooks, Pierre Choquette, Michael Goldberg, Tahira Hassan, and Heather Munroe-Blum.

FISCAL 2016 REPORT ON ACTIVITIES

In the last year the Governance Committee continued its work on managing the Board renewal. In fiscal 2016, the terms of five of our longest tenured Directors were scheduled to end. Good practice is to avoid multiple Directors leaving the Board in the same year where possible, particularly the longest tenured members. To this end, the Committee has been developing a succession plan to strike the right balance between renewal and continuity and with the intent to introduce the first non-resident Directors to the Board, the Committee focused on a comprehensive search for strong candidates from around the globe.

The Committee undertook an in-depth and extensive review of Director compensation with the assistance of two external consulting firms in fiscal 2016. Our objective was to identify a contemporary approach to Director compensation that would support strong governance performance and the recruitment and retention of outstanding directors both now and going forward, and recognizing and upholding the public mandate of CPPIB. The review was guided by CPPIB's Directors' Compensation Philosophy and related pay principles, as described on page 91. The changes will be phased in over two fiscal years (2017 and 2018).

Looking ahead, the Governance Committee remains committed to implementing global best practices in corporate governance for CPPIB.

Ian A. Bourne
Chair, Governance Committee

Governance Practices of the Board of Directors

This section sets out certain key governance practices of the Board of Directors. More extensive governance information is posted on our website.

DUTIES, OBJECTIVES AND MANDATE OF THE BOARD OF DIRECTORS

An important responsibility of the Board is to preserve and enhance a governance model in which CPPIB operates at arm's length from governments with an investment-only mandate.

The Board is also responsible for the stewardship of CPPIB. This includes overseeing the Chief Executive Officer and Enterprise Risk Management.

Directors are required to act honestly and in good faith with a view to the best interests of CPPIB. They must exercise the care, diligence and skill that a reasonably prudent person would apply in comparable circumstances. They must employ any expertise or skill they possess in carrying out their duties.

Among other duties, the Directors appoint the CEO and annually review his or her performance; set compensation policies and approve Senior Management compensation; determine with management the organization's strategic direction; review and approve investment policies, standards and procedures; approve investment risk targets and limits; review and approve the annual business plan and budget; appoint the external auditor; establish procedures to identify and resolve conflicts of interest; establish and monitor compliance with a Code of Conduct for Directors and employees; assess the performance of the Board itself, including an annual Chairperson and peer review; establish other policies relating to such matters as authorities, procurement, travel and expenses; and review and approve material disclosures such as quarterly and annual Financial Statements and the Annual Report. In addition, the Directors approve the parameters for the retention of external investment managers and large investment transactions and regularly review the Investment Portfolio and the results of investment decisions. A detailed description of the activities of the Board committees is set out below.

An important part of the carefully designed governance structure that balances independence with accountability is that investment professionals are accountable to an independent Board of Directors operating at arm's length from governments with an investment-only mandate. This mandate is to be undertaken without regard to political, regional, social or economic development considerations or any other non-investment objectives.

CPPIB's Code of Conduct provides that Board members shall not participate in any political activity that could be incompatible with their duties, affect their ability to carry out their duties in a politically impartial fashion or cast doubt on the integrity, objectivity or impartiality of the organization. Directors, like officers and employees, have a duty under the Code of Conduct to immediately report any attempted political interference with respect to investments, procurement, hiring or any other decisions. No such reports have been made. The Code of Conduct also establishes a process for identifying, minimizing and resolving financial conflicts of interest so that Directors, officers and employees can discharge their responsibilities effectively while maintaining their integrity and, in the case of Directors, recognize when they may have a systemic conflict of interest.

COMPOSITION, MANDATES AND ACTIVITIES OF BOARD COMMITTEES

The Board has four committees: Investment, Audit, Human Resources and Compensation, and Governance. Membership is shown in the Board Attendance chart on page 92.

The Investment Committee oversees CPPIB's core business, which is making investment decisions within the context of a Board-approved framework. The Committee reviews and recommends to the Board investment policies and it reviews, approves and monitors the long-term investment strategy. The Committee also reviews portfolio risk tolerances, approves the engagement of external investment managers in accordance with the governing statute, and approves large investment transactions. All members of the Board serve on the Investment Committee.

The Audit Committee oversees management controls and financial reporting. This includes recommending for Board approval the Financial Statements and Management's Discussion and Analysis, and overseeing the external and internal audit functions. Oversight also involves the appointment of the internal auditor and recommending the external auditor for appointment by the full Board. The Audit Committee reviews information systems and internal control policies and practices. It oversees the Internal Audit function and financial aspects of the employee pension plans, and advises the Board in connection with the statutorily mandated Special Examination every six years to review CPPIB's records, systems and practices that is conducted by an external auditor appointed by the Board of Directors, upon the recommendation of the Audit Committee. In fiscal 2016, a Special Examination was completed by Deloitte with a clean opinion. In its report, Deloitte concluded that there were no significant deficiencies in the systems and practices examined during the period covered by the examination. A copy of the Special Examination report and the Special Examiner's report are available on CPPIB's website. The Audit Committee regularly meets separately with each of the external and internal auditors, without management present, and with the CEO and CFO.

The Human Resources and Compensation Committee (HRCC) administers the performance evaluation process for the CEO and senior leadership, reviews and recommends the compensation framework, reviews organizational structure and oversees succession planning. It also oversees employee benefits and human resources policies as well as the employee pension plans. The role of the HRCC is further outlined in the Compensation Discussion and Analysis beginning on page 74.

The Governance Committee ensures that CPPIB follows appropriate governance best practices. The Governance Committee monitors the application of the Code of Conduct and recommends amendments. It makes recommendations to the Board to improve the Board's effectiveness, oversees Board succession planning, the design of Director orientation and ongoing Director education programs, reviews criteria and qualifications for new Directors, recommends Director compensation, and establishes, recommends and is involved in performance evaluation processes for the Chairperson, individual Directors, Board committees and the full Board.

At every regularly scheduled meeting, the Board of Directors and all committees have in camera sessions without members of management present. As noted above, the Audit Committee also meets privately with each of the internal and external auditors. In addition, the Board meets alone with the President & CEO at every regularly scheduled Board meeting.

We believe that diversity is crucial to ensuring an effective Board of Directors with various perspectives and qualifications. Gender diversity is one important element. There are currently five women who serve as Directors, including Heather Munroe-Blum who is the Chairperson. This total represents approximately 40% of total Board members.

DECISIONS REQUIRING PRIOR BOARD APPROVAL

Management's discretion in making operational and investment decisions is described in Board or Board committee-approved policies, including a detailed policy dealing exclusively with authorities. In particular, Board approval is required for the strategic direction of the organization and for the annual business plan and budget. Annual and incentive-based compensation for officers, as well as their appointments, also require Board approval.

ENSURING BOARD EFFECTIVENESS

MANAGING PRUDENT BOARD RENEWAL

The *Canada Pension Plan Investment Board Act* requires that each Director is appointed for a term of up to three years. Each Director may be reappointed for one or more additional terms. Good practice is to avoid multiple Directors, particularly the longest tenured ones, leaving the Board in the same year.

In 2016, the terms of five of CPPIB's longest serving Directors were due to expire. In order to ensure good governance practices and keeping our oversight role in mind, the Board has developed a plan for a smooth transition as these Directors leave the Board.

The Board is also working with CPPIB's stewards to establish a prudent rhythm of turnover in perpetuity. Renewal will continue to contribute to the Board's effectiveness as it carries out its duties, yet it must be staged over a prudent and effective course.

BOARD APPOINTMENT PROCESS

Directors are appointed by the federal Governor in Council on the recommendation of the federal finance minister, following the minister's consultation with the finance ministers of the participating provinces and assisted by an external nominating committee with private sector involvement.

The Director appointment process is designed to ensure that the Board has Directors with proven financial ability or relevant work experience such that CPPIB will be able to effectively achieve its objectives. The Governance Committee regularly reviews and updates both desirable and actual competencies of the Board to ensure that appointment and reappointment decisions are made with a view to having a Board fully capable of providing the effective oversight necessary for CPPIB to achieve its statutory objects. The Board has determined that the governance, functional and industry experience of the Board currently provides for such effective oversight of CPPIB's activities. Details of the competencies analysis of the Board, as at March 31, 2016, are set out in the table on page 89.

As part of the Director appointment process, CPPIB retains and manages executive search firms to source qualified candidates for consideration. In that connection, the competencies analysis described above is used to set search qualifications to guide the search. In addition to the competencies analysis, an important consideration in ensuring a qualified Board of Directors is diversity, including gender. Once finalized, the names of qualified candidates are forwarded to the external nominating committee, which considers them and submits names of recommended candidates to the federal finance minister.

Biographies of the CPPIB Board of Directors are on pages 94 and 95. They provide details of each Director's background, business and financial experience.

	Functional Experience								Industry Experience						
Name	Governance Experience	C-Level Experience	Investment Expertise	Risk Assessment	P&L Ownership (Non-CEO)	Business Building	Public Policy	International Operations	Asset Management	Banking/ I-Banking	Insurance	Professional Services	Industrial Other	Academia	Government
Heather Munroe-Blum (Chairperson)	×	×		×			×	×		×				×	
Ian Bourne	×	×		×		×		×					×		
Robert Brooks	×		×	×	×			×	×	×					
Pierre Choquette	×	×			×			×					×		
Michael Goldberg	×		×	×	×		×	×						×	
Tahira Hassan	×			×	×	×		×					×		
Nancy Hopkins	×						×					×			
Douglas Mahaffy	×	×	×		×			×	×						
Karen Sheriff	×	×			×	×							×		
Kathleen Taylor	×	×	×			×		×		×			×		
Murray Wallace	×	×			×		×				×				×
Jo Mark Zurel	×	×		×		×		×					×		

BOARD MEMBER ORIENTATION AND DEVELOPMENT

The Board has an established process for orientation of new Directors. This has included a comprehensive, full-day session with discussion of the background, history and mandate of CPPIB as well as its strategy, business planning process and current corporate and departmental business plans. It involves advance provision to each new Director of background material and intensive interaction with management during the orientation process. Directors attend supplemental orientation sessions to further deepen their knowledge of the organization, as desired.

Professional development for all Directors is a key focus for the Board because of the evolving nature of a Director's responsibilities and the unique nature of CPPIB. Management provides ongoing presentations focused on our business, emerging global issues and corporate governance practices. Special development seminars outside the regular meeting context feature both external and internal experts.

Directors are encouraged to participate in relevant external programs. A key education component for the Board is to develop an in-depth understanding of the geographic regions in which CPPIB invests. Last year, several Directors visited select international offices and gained valuable insights related to risk awareness for those regions which enhanced the Board's knowledge of the various challenges and implications of deploying capital outside North America. Given CPPIB's scale and the growth of Fund assets, the Board will continue to engage in these types of education programs as a central part of the Board's governance responsibility.

A COMMITMENT TO ACCOUNTABILITY

PROCEDURES FOR THE ASSESSMENT OF BOARD PERFORMANCE

The Board has an established annual process for evaluating its own performance and that of its committees, the Chairperson and each Director. All assessments are currently conducted through confidential questionnaires. Summaries of the results of the Board and committee evaluations are reviewed by the full Board and provide a basis for improvement plans. The confidential annual Chairperson review is led by the Chair of the Governance Committee who, subject to the direction of the Board, provides feedback to the Chairperson. The feedback is also relevant to the issue of reappointment of the Chairperson when his or her term expires. The confidential annual peer review is led by the Chairperson and designed to assist each Director in identifying self-development initiatives and assist in providing the external nominating committee with guidance on individual reappointments. After receipt of relevant questionnaire feedback, the Chairperson meets formally with each Director. The Board considers improvements to this process annually.

To ensure independence among Directors, the Board of Directors also follows leading practices by monitoring interlocking relationships. This includes Board and committee interlocks. We currently have one Board interlock whereby Heather Munroe-Blum and Kathleen Taylor both serve on the Board of Royal Bank of Canada. We have determined that this relationship does not impair the exercise of independent judgment of the Directors.

BOARD EXPECTATIONS OF MANAGEMENT

The Board expects Management to comply with the *Canada Pension Plan Investment Board Act* and regulations and all policies approved by the Board and to otherwise act in accordance with applicable law. Management develops, with involvement from the Board, the strategic direction of the organization in response to its growing asset management responsibilities and the outlook for capital markets. The strategy incorporates risk management policies and controls, as well as monitoring and reporting mechanisms. Management is also expected to sustain and promote a culture of high integrity, which appropriately manages any conflicts of interest, and to adhere to a stringent Code of Conduct.

Management is charged with developing benchmarks that objectively measure the performance of the markets, asset classes and programs in which CPP assets are invested. The Board approves benchmarks at the total Fund level. These benchmarks assist the Board in evaluating management's investment performance and structuring performance-based compensation incentives.

Management is expected to disclose all material activities to the Board and public on a full and timely basis. This includes new investments, the engagement of operational and investment partners, quarterly and annual financial results, and developments that may affect CPPIB's reputation.

DIRECTORS' COMPENSATION

The Governance Committee of the Board is responsible for making recommendations with respect to Directors' compensation which consists of an annual retainer, meeting fees and travel time allowances. Directors' compensation is reviewed at least every two years and changes, if any, are recommended to the Board.

While prior changes to Directors' compensation have resulted in modest adjustments in annual retainer and meeting fees, the Board's Director and Chairperson compensation framework has remained largely unchanged since CPPIB's first Board of Directors was established in 1999. Since that time, CPPIB has grown from a small organization managing $12 million in assets to a complex global investment organization with more than 1,266 employees across seven offices globally, managing $278.9 billion in assets. This evolution will continue as CPPIB builds an organization capable of managing a fund that is expected to grow to more than half a trillion dollars by 2030. This further anticipated growth will continue to significantly affect governance needs today and over the long term.

Effectively overseeing CPPIB on behalf of 19 million contributors and beneficiaries demands, and increasingly more so, a board comprised of highly qualified directors who bring the appropriate culture, the relevant business, international and investment experience and who will commit the considerable time and attention required.

With a view to supporting the best long-term interests of the organization to fulfil its mandate on behalf of beneficiaries, the Board undertook an in-depth and extensive review of Directors' compensation in fiscal 2016 with the assistance of an external consulting firm, Hugessen Consulting, with secondary validation by Towers Watson. The Board's objective was to identify a contemporary approach to Directors' compensation that would support strong governance performance and the recruitment and retention of outstanding directors both now and going forward, while upholding at the same time, the public mandate of CPPIB. The review was guided by CPPIB's Directors' Compensation Philosophy, as outlined on the following page.

DIRECTORS' COMPENSATION PHILOSOPHY

Safeguarding the interests of CPP contributors and beneficiaries requires professional directors with the capabilities to ensure the effective stewardship and oversight of CPPIB. The Board maintains a compensation approach compatible with leading governance performance, the recruitment and retention of directors with extensive international experience and expertise in business, finance or investments, and reflects considerable time demands. An equitable balance between CPPIB's commercial activities and public purpose promotes the selection of individuals who will reinforce the organization's unique culture.

CPPIB DIRECTORS' COMPENSATION PAY PRINCIPLES

I. Pay Neutrality

Compensation alone should not attract or detract desirable candidates.
In reviewing the compensation of CPPIB Directors, the Board's objective must be to set a reasonable "threshold" level of compensation, which neutralizes compensation such that it is not a significant favourable or unfavourable influence on the decision of a candidate in joining the CPPIB Board.

II. Public Purpose

Canadian governments established CPPIB with a purpose to serve millions of contributors to the compulsory CPP program; Directors' compensation should reflect a purpose distinct from other commercial organizations oriented to profits and stock price.
While Directors' compensation should reflect the reality that both the workload and time commitment of a CPPIB Directorship, and the expertise and experience required, are comparable to private sector directorships, the total pay opportunity for CPPIB Directors should reflect our public purpose.

III. Time Commitment

The compensation structure should recognize the differential in time commitment among Directors.
The Board must contemplate and design a compensation structure that takes into account the fact that the CPPIB Board is a true 'working board' with significant time and travel requirements. Directors are expected to be continuously engaged on organizational matters well beyond preparing for, and participating in, frequent Board and Committee meetings. The structure should recognize the incremental time, travel and meeting commitments expected of each Director, Committee Chairs and the unique role of the Board Chairperson.

IV. Relative Benchmark

CPPIB is a complex global investment management organization and is correctly considered a peer relative to other major financial institutions and large companies globally.
There is a highly competitive global market for top director talent and the Board must consider how candidates perceive the value proposition of being a CPPIB Director to recruit and retain top governance talent. For compensation benchmarking purposes, the Board should consider alternative directorship opportunities available to these candidates in three target talent markets: (1) pension funds and smaller Canadian asset managers; (2) TSX 100 Boards and larger Canadian asset managers; and (3) TSX 20 & U.S./U.K. asset managers and multi-nationals.

V. Appropriate Discount to Benchmark

A full market based level of compensation is not appropriate given CPPIB's public purpose as described in Principle II.
Upon review of the relative target talent markets for benchmarking purposes, an approximate 20% discount was applied.

Based on the review of Directors' compensation against these principles, the Board approved a new compensation structure to ensure CPPIB remains able to recruit and retain highly qualified directors, from both Canada and around the world, who have the breadth of skills and business and investment expertise to effectively oversee an increasingly global and complex organization and steward it over the long term. This structure will ensure that Directors are competitively compensated for their responsibilities, while remaining mindful that whilst operating to high business standards and consequences, the organization is publicly purposed.

The following changes to Directors' Compensation are effective April 1, 2016.

DIRECTOR COMPENSATION

		Current	Year One (F2017)	Year Two (F2018)
Annual Retainers				
Chairperson[1]		$ 160,000	$ 195,000	$ 230,000
Director		$ 35,000	$ 50,000	$ 65,000
Committee chair, additional retainer		$ 12,500	$ 15,000	$ 15,000
Meeting Fees	$250–$1,000 *based on distance travelled*			
In-person meeting fee		$ 1,500	$ 1,750	$ 2,000
Telephone meeting fee[2]		$ 750	$ 875	$ 1,000
Travel Time Reimbursement Per Meeting				
One way travel is 1 – 3.5 hours			$ 500	$ 500
One-way travel is greater than 3.5 up to 6.5 hours or crossing an international border			$ 1,500	$ 1,500
One-way travel is greater than 6.5 hours			$ 2,500	$ 2,500

1 In the case of the Board Chairperson, compensation will continue to be a flat annual fee, recognizing the difference in the role of the Board Chairperson versus individual directors. The Board Chairperson will however be eligible for travel time reimbursement for regularly scheduled meetings and meeting fees in the event the Chairperson serves on an ad hoc committee.

2 When the meeting is intended to be done by telephone and generally covers one or two topics.

BOARD ATTENDANCE

There were six regularly scheduled Board and Investment Committee meetings in fiscal 2016. In addition, there were five regularly scheduled Audit Committee meetings, six regularly scheduled HRCC meetings, and six regularly scheduled Governance Committee meetings. The Investment Committee is composed of the full Board. In addition, there were a number of special Board or Committee meetings held to address specific issues or approvals, some of which were scheduled at times where all Directors were not able to attend given pre-existing commitments. The table below shows the number of meetings that each Director attended in fiscal 2016 relative to the number of meetings he or she could have attended.

DIRECTOR	Board Meeting[1]	Investment Committee[2]	Audit Committee[3]	Governance Committee[4]	Human Resources and Compensation Committee (HRCC)[5]
Heather Munroe-Blum, Chairperson	10/10	15/15	–	7/7	–
Ian Bourne, Chair of Governance Committee[7]	8/10	13/15	1/1	7/7	6/7
Robert Brooks	10/10	14/15	6/6	7/7	–
Pierre Choquette[6]	9/10	14/15	2/2	5/7	4/5
Michael Goldberg	10/10	13/15	6/6	7/7	–
Tahira Hassan[8]	8/10	12/15	–	5/7	1/1
Nancy Hopkins	10/10	14/15	6/6	–	7/7
Douglas Mahaffy	10/10	10/15	–	–	7/7
Karen Sheriff, Chair of HRCC[7]	10/10	15/15	1/1	–	7/7
Kathleen Taylor	8/10	15/15	6/6	–	6/7
Murray Wallace	10/10	14/15	6/6	–	6/7
Jo Mark Zurel, Chair of Audit Committee	10/10	14/15	6/6	–	–

1 Six in-person and four teleconference meetings.

2 Six in-person and nine teleconference meetings.

3 Five in-person meetings and one teleconference meeting.

4 Six in-person and one teleconference meetings.

5 Six in-person and one teleconference meetings.

6 Joined the Audit Committee and left the HRCC effective January 1, 2016.

7 Attended Audit Committee by invitation.

8 Joined the HRCC effective January 1, 2016. Attendance at a number of meetings was not possible given pre-existing commitments in place prior to becoming a Director.

During fiscal 2016, there were two ad hoc Director candidate search committees and the ad hoc CEO succession committee. Membership of the committee formed to address domestic Director appointments consisted of Mr. Bourne, Dr. Munroe-Blum, Ms. Hassan and Mr. Choquette. Membership of the committee formed to address international Director appointments consisted of Mr. Bourne, Dr. Munroe-Blum, Mr. Mahaffy and Ms. Taylor. The purpose of each committee was to interview potential candidates and recommend candidates to the external nominating committee. All members of the Board served on the ad hoc CEO succession committee. The purpose of this committee was to conduct a comprehensive search process to identify a successor CEO, considering both external and internal candidates.

DIRECTOR COMPENSATION FOR FISCAL 2016

Based on the attendance and fee schedules, individual compensation for each of the Directors for fiscal 2016 was as follows:

DIRECTOR	Annual Retainer ($)	Board and Committee Meeting Fees[1] ($)	Travel Fees ($)	Total Remuneration ($)
Heather Munroe-Blum, Chairperson	160,000	–	–	160,000
Ian Bourne, Chair of Governance Committee	47,500	60,750	7,000	115,250
Robert Brooks	35,000	49,500	–	84,500
Pierre Choquette	35,000	47,250	–	82,250
Michael Goldberg	35,000	48,750	6,000	89,750
Tahira Hassan	35,000	38,250	–	73,250
Nancy Hopkins	35,000	48,750	6,000	89,750
Douglas Mahaffy	35,000	45,750	–	80,750
Karen Sheriff, Chair of HRCC	47,500	45,000	–	92,500
Kathleen Taylor	35,000	55,500	–	90,500
Murray Wallace	35,000	48,750	–	83,750
Jo Mark Zurel, Chair of Audit Committee	47,500	44,250	7,000	98,750
Total	582,500	532,500	26,000	1,141,000

1 These meeting fees include attendance at ad hoc committee meetings. There were three ad hoc committees of the Board of Directors in fiscal 2016, with one ad hoc committee having a subcommittee: an ad hoc committee for the international director search, an ad hoc committee for the domestic director search and an ad hoc committee for CEO succession with a subcommittee. There were four in-person and three teleconference meetings of the ad hoc committee for the international director search. There were two in-person meetings of the ad hoc committee for the domestic director search. There were six teleconference meetings of the ad hoc committee for CEO succession and four teleconference meetings of its subcommittee.

A CULTURE OF INTEGRITY AND ETHICAL CONDUCT

CONFLICT OF INTEREST PROCEDURES

Conflicts of interest were anticipated in CPPIB's legislation as a result of the need to recruit Directors with financial and investment experience and to engage employees with financial expertise. Our Code of Conduct was established to manage and, where possible, eliminate such conflicts. Stringent procedures under the Code are designed to ensure that Directors and employees act in the best interests of the organization. They are required to disclose any personal or business interests that might lead to a real, potential or perceived conflict of interest. Any involvement in relevant decision-making is prohibited should those circumstances arise. Further, Directors are expected to resign from the Board if they take on executive responsibilities with an organization whose objectives and mandates may be, or might reasonably be perceived to be, in conflict with CPPIB's objectives and mandate.

Our policy is that non-audit services provided by the external auditor must be approved by the Audit Committee. Firms that perform any internal or external audit services must also affirm that the provision of non-audit services does not impair their independence.

CODE OF CONDUCT

The Code of Conduct can be found on our website. It is designed to help create a corporate culture of trust, honesty and integrity. It deals with such matters as relations with suppliers, personal investments and confidentiality of proprietary information. For example, the Code of Conduct establishes strict pre-clearance procedures for personal trading in securities. It also sets out strict limits on the acceptance by Directors and employees of entertainment, gifts or special treatment that could create or appear to create a favoured position for actual or potential contractors or suppliers.

As part of the hiring process, new recruits are required to read and agree to comply with the Code of Conduct and related personal trading guidelines. Together, these set a high standard for conflict of interest and ethical conduct. Directors and employees must reconfirm their compliance semi-annually and employees must complete an online module to confirm their understanding of the Code and ability to apply it in day-to-day decisions and actions.

For the third year, CPPIB held sessions for all employees on the same day across all offices to renew their commitment to the Guiding Principles of Integrity, Partnership and High Performance. These sessions will continue to be held annually to maintain the focus on this cornerstone of our culture.

When the Board hires or conducts annual performance reviews of the CEO, it considers the individual's leadership in promoting ethical conduct and championing a culture of Integrity, Partnership and High Performance. These factors are also relevant in the hiring and reviews of all employees.

To augment the Code of Conduct, the Board of Directors decided in 2003 to appoint an external conduct review advisor. This individual, currently the Honourable Frank Iacobucci, is available to discuss Code of Conduct issues with Directors, employees and relevant third parties on a confidential basis.

Board of Directors

HEATHER MUNROE-BLUM, O.C., O.Q., PhD., F.R.S.C., CHAIRPERSON[1*, 2]
Corporate Director and Public Policy Scholar | Montreal, Quebec | Director since March 2010 | Appointed Chair effective October 2014.
Served for over a decade as Principal and Vice-Chancellor (President) of McGill University. Former Vice-President (Research and International Relations) of the University of Toronto. Current Director of the Royal Bank of Canada (Chair of Corporate Governance), CGI Group and the Gairdner Foundation (Vice-Chair). Served on the boards of Four Seasons Hotels, Alcan, Yellow Media Inc., and Hydro One (Ontario), among others. Member of the President's Council of the New York Academy of Sciences, the Board of Stanford University's Center for Advanced Study in the Behavioral Sciences (CASBS), and the Trilateral Commission. Recipient of numerous domestic and international honorary degrees and awards of distinction. Is an Officer of the Order of Canada, Officer of the Order of Quebec, and, a Specially Elected Fellow of the Royal Society of Canada.

Building on a distinguished career of clinical, academic and scientific achievements, qualifications include more than 25 years of senior leadership experience concentrated in higher education, public policy, and research and development; has extensive board experience as a director on executive, human resources and compensation, governance, investment, finance and risk committees in the-not-for-profit and private sectors.

IAN A. BOURNE [1, 2*, 4]
Corporate Director | Calgary, Alberta | Director since April 2007.
Chair of Ballard Power Systems Inc., Director of Hydro One Limited, Wajax Corporation, and the Canadian Public Accountability Board. Former Chair of SNC-Lavalin Group Inc. and former Director of Canadian Oil Sands Limited. Retired Executive Vice-President and Chief Financial Officer of TransAlta Corporation, a power generation company, and President of TransAlta Power L.P. Over 35 years of experience in senior finance roles at TransAlta, General Electric and Canada Post Corporation. Former Director of TransAlta Power L.P. Qualifications include expertise in finance in major corporations, corporate governance and international experience in Paris and London.

ROBERT L. BROOKS [1, 2, 3]
Corporate Director | Toronto, Ontario | Director since January 2009.
Former Vice-Chair and Group Treasurer of the Bank of Nova Scotia, the culmination of a 40-year career with the bank serving in a succession of senior investment banking, finance and treasury roles. Director of Integrated Asset Management Corp. Director of Hamilton Capital Partners Inc. Former Director of numerous Scotiabank subsidiaries including Scotia Discount Brokerage, Inc., Scotia Life Insurance Company, ScotiaMcLeod, Inc. and Scotia Cassels Investment Counsel Ltd. Qualifications include more than 40 years of financial industry experience as a bank executive dealing with finance, risk management, pension fund asset mix, investment strategies, treasury functions and international operations.

Membership as at March 31, 2016
1 Investment Committee
2 Governance Committee
3 Audit Committee
4 Human Resources and Compensation Committee
5 At the time of appointment
* Indicates Chair position

PIERRE CHOQUETTE [1, 2, 3]
Corporate Director | Vancouver, British Columbia[5] | Director since February 2008.
CEO and director of Methanex Corporation from 1994 to 2004, and Chair from 2002 until 2012. As Chief Executive Officer of Methanex, credited with globalizing the company's asset base. Former President and Chief Operating Officer of Novacorp International and former President of Polysar Inc. Former Chair of Gennum Corporation. Former Director of Credit Lyonnais (Canada), Echo Bay Mines (U.S.), Stelco, Inc., TELUS Corporation, and Terasen, Inc. Qualifications include 25 years of senior management experience concentrated in the natural gas and chemical industries, international experience in Belgium and Switzerland, and extensive board experience, including chairing human resources and governance committees and serving on the full range of board committees.

MICHAEL GOLDBERG [1, 2, 3]
Economist, Ph.D. | Vancouver, British Columbia | Director since February 2008.
Scholar in Residence at the Asia Pacific Foundation of Canada, Senior Fellow, Institute of Asian Research, UBC, and Professor and Dean Emeritus of the University of British Columbia's Sauder School of Business, and former Associate Vice President – International, totalling 37 years on the UBC faculty. Former Chief Academic Officer, Universitas 21 Global, an online graduate school initiated by Universitas 21, an international network of 12 research-intensive universities. Former member of the Deposit Insurance Advisory Committee to the federal Minister of Finance. Co-chair and member of the B.C. Workers' Compensation Board Investment Committee. Chair of the Board, Surrey City Development Corporation. Former Director of Geovic Mining Corporation and Chair of the Human Resources and Compensation Committee. Director of Resource Works, a non-profit society to promote understanding of natural resources in the B.C. economy. Chair and Director of Vankic China Investment. Advisor to the CBD Global Equity Fund. Former Director of China Enterprises Limited, Redekop Properties Ltd., Vancouver Land Corporation, Catamaran Ferries International Inc., Imperial Parking Limited and Lend Lease Global Properties Fund, a Luxembourg-based global real estate fund. Ph.D. (Economics) from the University of California at Berkeley. Qualifications include expertise in global real estate investments and urban infrastructure and experience on boards as a director serving on audit and compensation committees.

TAHIRA HASSAN [1, 2, 4]
Corporate Director | Toronto, Ontario | Director since February 2015.
Non-executive Director of Brambles Limited. Director of Ontario Shores Centre for Mental Health Sciences. Former Senior Vice-President at Nestlé SA with extensive experience in transformative change including mergers & acquisitions. Held executive positions such as Global Business Head for Nescafé Ready-to-Drink, Head of Global Supply Chain and President of Ice Cream in Canada. Served on several international management and joint venture boards. Past member of the Dean's advisory council of the Laurier School of Business & Economics at Wilfrid Laurier University. Certified Management Accountant of Canada. Fellow of the Chartered Institute of Management Accountants in the United Kingdom. Qualifications include more than 36 years of international business and board expertise, in countries such as the United Kingdom, Switzerland and Pakistan, in addition to Canada.

NANCY HOPKINS [1, 3, 4]
Lawyer | Saskatoon, Saskatchewan | Director since September 2008.
Partner with the law firm McDougall Gauley LLP, specializing in business law and corporate governance. Received ICD.D designation in 2016. Director of GrowthWorks Commercialization Fund Inc., chairing the Audit Committee. Former Chair of the Saskatoon Airport Authority, former Chair of the Board of Governors of the University of Saskatchewan, former Chair of SGI Canada, a Saskatchewan Crown corporation, former Chair of the Saskatchewan Police Commission, and former Director of Cameco Corporation. Appointed Queen's Counsel in 1992. Qualifications include more than 30 years of legal experience with expertise in taxation, governance and information technology, experience in government interface and as a director in multiple stakeholder organizations.

DOUGLAS W. MAHAFFY [1, 4]
Corporate Director | Toronto, Ontario | Director since October 2009.
Retired Chairman and Chief Executive Officer of McLean Budden Ltd., an institutional money management firm. Former Managing Director and Head of Investment Banking (Ontario) of Merrill Lynch Canada Inc., and former Senior Vice-President, Finance and Chief Financial Officer of Hudson's Bay Company. Current Director at Methanex Corporation and former Director at Stelco Inc. and Woodward's Ltd. Current Chairman at Drumlane Capital, a personally owned investment firm. Member of the Investment Committee at Sunnybrook Health Sciences Centre. Qualifications include more than 40 years of investment industry, general management, and mergers and acquisitions experience.

KAREN SHERIFF [1, 4*]
Corporate Executive | Halifax, Nova Scotia[5] | Director since October 2012.
President and Chief Executive Officer of Q9 Networks since January 2015. Previously President and CEO of Bell Aliant; Chief Operating Officer, Bell Aliant; President of Small and Medium Business, Bell Canada; Chief Marketing Officer, Bell Canada; Senior Vice President of Product Management and Development, Bell Canada. Prior to joining Bell, held a variety of assignments with Ameritech and United Airlines. Director of Q9. Past director of Bell Aliant Inc., Bell Aliant Regional Communications Inc., Bell Aliant Preferred Equity Inc. Aliant Inc. and Teknion Corporation. Director of WestJet Airlines Ltd. Current Chair of the Board of Trustees of the Gardiner Museum of Ceramic Art and past member of the New Brunswick Business Council. Named one of Canada's top 25 Women of Influence for 2013 by Women of Influence Inc. In 2012, named Woman of the Year by Canadian Women in Communications (CWC). Named one of Atlantic Canada's Top 50 CEOs (Atlantic Business Magazine). Recognized as one of Canada's Top 100 Most Powerful Women three times and named to the Women's Executive Network Top 100 Women Hall of Fame. Qualifications include extensive senior management experience and expertise in strategic-priority setting of major corporations, including oversight of Bell Aliant's conversion back to a corporation from one of the largest income trusts in Canada and leading Bell Aliant's corporate transformation and industry leading fibre-to-the-home (FTTH) network build, the first of its kind in Canada.

KATHLEEN TAYLOR, BA (Hons), JD, MBA [1, 3, 4]
Global Executive, Corporate Director | Toronto, Ontario| Director since October 2013.
Chair of the Board of the Royal Bank of Canada and Board member since 2001. Director of ADECCO SA since April 2015, Director of Air Canada since May 2016. Former President and Chief Executive Officer of Four Seasons Hotels and Resorts with over 24 years of international business experience. Prior to joining Four Seasons practiced corporate securities and competition law at Goodmans, LLP and spent a year on secondment at the Ontario Securities Commission. Also, Chair of the Board of the Hospital for Sick Children Foundation and a member of the Hospital's Board of Trustees. Recipient of an Honourary Doctorate of Laws from York University (2014) and the Cornell University Hospitality Innovator Award (2012). Named the first woman Corporate Hotelier of the World by Hotels Magazine (2011) and was inducted to the Canadian Marketing Hall of Legends (2010). Recipient of the Inaugural Medal for Career Achievement from Hennick Centre for Business and Law (2010), and the Schulich School of Business Award for Outstanding Executive Leadership (2001).

D. MURRAY WALLACE [1, 3, 4]
Fellow, Institute of Chartered Accountants of Ontario | London, Ontario | Director since April 2007.
Executive Chairman of Financial Horizons Group an MGA in the life insurance industry, since August 1, 2014. Former Chief Executive Officer of Granite Global Solutions Inc., an insurance services company and former President of Axia NetMedia Corporation. Director of Axia NetMedia Corporation. Former Director of Terravest Income Fund, Critical Outcome Technologies Inc., Western Surety Ltd., Ontario Hydro, London Insurance Group, IPSCO Inc., Crown Life Insurance Co. and Queen's University School of Business (Advisory Committee), among others. Former Deputy Minister of Finance and Deputy Minister to the Premier for the Government of Saskatchewan. Qualifications include expertise as a chartered accountant, senior-level financial experience from five years as President of Avco Financial Services Canada Ltd. and eight years in executive roles with companies in the Trilon Financial Group, experience in public pension plan management and interface with government.

JO MARK ZUREL [1, 3*]
Chartered Professional Accountant, Corporate Director | St. John's, Newfoundland and Labrador | Director since October 2012.
President/Owner of Stonebridge Capital Inc., a private investment company that invests in a variety of businesses, including Atlantic Canadian start-up and high-growth companies. From 1998 to 2006 served as Senior Vice-President and Chief Financial Officer of CHC Helicopter Corporation. Director of Highland Copper, Chair of Newfoundland Power, Director of Major Drilling Group International Inc., Director of Propel ICT and Director of Fortis Inc.. Current and recent volunteer activities include Chair of the Atlantic Provinces Economic Council, Chair of the St. John's Board of Trade, Chair of Junior Achievement of Newfoundland and Labrador, and Chair of a Red Cross Capital Campaign. In 2015, Jo Mark and his wife were named the Outstanding Philanthropists for Newfoundland and Labrador. Honoured as one of Canada's Top 40 under 40 in 2000. Qualifications include extensive investment industry and corporate director experience including as an active angel investor and as Director of the Institute of Corporate Directors (ICD) and member of the founding executive of the ICD's Newfoundland and Labrador affiliate.

Management's Responsibility for Financial Reporting

The Financial Statements of Canada Pension Plan Investment Board (CPP Investment Board) have been prepared by management and approved by the Board of Directors. Management is responsible for the integrity and reliability of the Financial Statements and the financial information contained within the Annual Report.

The Financial Statements have been prepared in accordance with International Financial Reporting Standards. The Financial Statements include certain amounts based on management's judgments and best estimates where deemed appropriate. The significant accounting policies used are disclosed in note 1 to the Financial Statements. The financial information presented throughout the Annual Report is consistent with the Financial Statements.

CPP Investment Board develops and maintains systems of internal control and supporting procedures. The systems of internal control are designed to provide reasonable assurance that assets are safeguarded; that transactions are properly recorded, authorized and are in accordance with the *Canada Pension Plan Investment Board Act*, the accompanying regulations, the by-laws and investment policies of CPP Investment Board; and that there are no material misstatements in the Financial Statements or the financial information contained within the Annual Report. The internal control over financial reporting and disclosure controls and procedures are tested for both design and operational effectiveness as part of our CEO/CFO certification process as described on page 70 of Management's Discussion and Analysis in the 2016 Annual Report.

The internal control framework includes a strong corporate governance structure, an enterprise risk management framework that identifies, monitors and reports on key risks facing the organization, code of conduct and conflict of interest procedures, and other policies, management authorities and procedures that guide decision-making. The controls also include the establishment of an organization structure that provides a well-defined division of responsibilities and accountability, the selection and training of qualified staff, and the communication of policies, management authorities and procedures throughout the organization. The systems of internal control are further supported by a compliance management system to monitor CPP Investment Board's compliance with legislation, policies, management authorities and procedures and by internal and external auditors who review and evaluate internal controls in accordance with their respective annual audit plans approved by the Audit Committee.

The Audit Committee assists the Board of Directors in discharging its responsibility to approve the annual Financial Statements. The Audit Committee, consisting of five independent directors, meets regularly with management and the internal and external auditors to discuss the scope and findings of audits and other work they may be requested to perform from time to time, to review financial information and to discuss the adequacy of internal controls. The Audit Committee reviews and approves the annual Financial Statements and recommends them to the Board of Directors for approval.

CPP Investment Board's external auditor, Deloitte LLP, has conducted an independent examination of the Financial Statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as it considers necessary to express an opinion in its Independent Auditor's Report. The external auditor has full and unrestricted access to management and the Audit Committee to discuss any findings related to the integrity and reliability of CPP Investment Board's financial reporting and the adequacy of internal control systems.

M. Wiseman

Mark D. Wiseman
President and Chief Executive Officer

Benita M. Warmbold
Senior Managing Director and Chief Financial Officer

Toronto, Ontario
May 12, 2016

Investment Certificate

The *Canada Pension Plan Investment Board Act* (the Act) requires that a certificate be signed by a director on behalf of the Board of Directors, stating that the investments of CPP Investment Board held during the year were in accordance with the Act and CPP Investment Board's investment policies, standards and procedures. Accordingly, the Investment Certificate follows.

The investments of CPP Investment Board, held during the year ended March 31, 2016, were in accordance with the Act and CPP Investment Board's investment policies, standards and procedures.

Jo Mark Zurel
Chair of the Audit Committee on behalf of the Board of Directors

Toronto, Ontario
May 12, 2016

Independent Auditor's Report

To the Board of Directors
Canada Pension Plan Investment Board

We have audited the accompanying Consolidated Financial Statements of Canada Pension Plan Investment Board, which comprise the Consolidated Balance Sheet as at March 31, 2016, and the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Net Assets and Consolidated Statement of Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Consolidated Financial Statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Consolidated Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Consolidated Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Consolidated Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Consolidated Financial Statements present fairly, in all material respects, the financial position of CPP Investment Board as at March 31, 2016, and its financial performance, changes in its net assets and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Further, in our opinion, the transactions of CPP Investment Board that have come to our attention during our audit of the Consolidated Financial Statements have, in all significant respects, been in accordance with the *Canada Pension Plan Investment Board Act* (the Act) and the by-laws, as the case may be.

Further, in our opinion, the record of investments kept by CPP Investment Board's management pursuant to paragraph 39(1)(c) of the Act fairly presents, in all material respects, the information required by the Act.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

May 12, 2016

Consolidated Balance Sheet

(CAD millions)	As at March 31, 2016	As at March 31, 2015
Assets		
Investments (note 2)	$ 345,319	$ 318,481
Amounts receivable from pending trades	2,627	2,908
Premises and equipment	356	340
Other assets	113	89
Total assets	348,415	321,818
Liabilities		
Investment liabilities (note 2)	65,379	50,547
Amounts payable from pending trades	3,431	6,087
Accounts payable and accrued liabilities	664	561
Total liabilities	69,474	57,195
Net assets	$ 278,941	$ 264,623
Net assets, represented by:		
Share capital (note 6)	$ –	$ –
Accumulated net income from operations	145,436	136,305
Accumulated net transfers from the Canada Pension Plan (note 7)	133,505	128,318
Net assets	$ 278,941	$ 264,623

The accompanying notes are an integral part of these Consolidated Financial Statements.

On behalf of the Board of Directors

Heather Munroe-Blum
Chairperson

Jo Mark Zurel
Chair of the Audit Committee

Consolidated Statement of Comprehensive Income

	For the years ended	
(CAD millions)	**March 31, 2016**	March 31,2015
Net investment income (note 8)		
Investment income	**$ 11,774**	$ 42,968
Investment management fees	**(1,330)**	(1,254)
Transaction costs	**(437)**	(273)
	$ 10,007	$ 41,441
Operating expenses (note 9)		
Personnel costs	**594**	558
General operating expenses	**231**	184
Professional services	**51**	61
	876	803
Net income from operations	**$ 9,131**	$ 40,638

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Changes in Net Assets

(CAD millions)	Number of shares outstanding	Share capital	Accumulated net transfers from the Canada Pension Plan	Accumulated net income from operations	Total net assets
As at April 1, 2014	10	$ –	$ 123,425	$ 95,667	$ 219,092
Total net income for the year		–	–	40,638	40,638
Canada Pension Plan transfers (note 7):					
Transfers from the Canada Pension Plan		–	36,023	–	36,023
Transfers to the Canada Pension Plan		–	(31,130)	–	(31,130)
Balance at March 31, 2015	10	$ –	$ 128,318	$ 136,305	$ 264,623
As at April 1, 2015	**10**	**$ –**	**$ 128,318**	**$ 136,305**	**$ 264,623**
Total net income for the year			**–**	**9,131**	**9,131**
Canada Pension Plan transfers (note 7):					
Transfers from the Canada Pension Plan		**–**	**38,406**	**–**	**38,406**
Transfers to the Canada Pension Plan		**–**	**(33,219)**	**–**	**(33,219)**
Balance at March 31, 2016	**10**	**$ –**	**$ 133,505**	**$ 145,436**	**$ 278,941**

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Statement of Cash Flows

	For the years ended	
(CAD millions)	**March 31, 2016**	March 31, 2015
Cash flows from operating activities		
Net income from operations	**$ 9,131**	$ 40,638
Adjustments for non-cash items:		
Amortization of premises and equipment	**30**	25
Effect of exchange rate changes on cash and cash equivalents	**18**	2
Unrealized (gains) losses on debt financing liabilities	**(1,011)**	235
Adjustments for net changes in operating assets and liabilities:		
(Increase) in investments	**(29,434)**	(72,408)
(Increase) decrease in pending trades receivable	**281**	(657)
(Increase) in other assets	**(22)**	(23)
Increase in investment-related liabilities	**9,219**	19,426
Increase in debt financing liabilities	**6,610**	64
Increase (decrease) in pending trades payable	**(2,656)**	4,108
Increase in accounts payable and accrued liabilities	**103**	176
Net cash flows (used in) operating activities	**(7,731)**	(8,414)
Cash flows from financing activities		
Transfers from the Canada Pension Plan	**38,406**	36,023
Transfers to the Canada Pension Plan	**(33,219)**	(31,130)
Net cash flows provided by financing activities	**5,187**	4,893
Cash flows from investing activities		
Dispositions of equipment	**3**	–
Acquisitions of premises and equipment	**(42)**	(45)
Net cash flows (used in) investing activities	**(39)**	(45)
Net (decrease) in cash and cash equivalents	**(2,583)**	(3,566)
Effect of exchange rate changes on cash and cash equivalents	**(18)**	(2)
Cash and cash equivalents at the beginning of the year	**8,195**	11,763
Cash and cash equivalents at the end of the year	**5,594**	8,195
Cash and cash equivalents at the end of the year are comprised of:		
Cash held for operating purposes[1]	**60**	59
Cash and cash equivalents held for investment purposes[2]	**5,534**	8,136
Total	**$ 5,594**	$ 8,195

1 Presented as a component of Other assets on the Consolidated Balance Sheet.

2 Presented as a component of Investments on the Consolidated Balance Sheet and Money market securities on the Consolidated Schedule of Investment Portfolio.

The accompanying notes are an integral part of these Consolidated Financial Statements.

Consolidated Schedule of Investment Portfolio

The schedule below provides information on CPP Investment Board's investment assets and investment liabilities:

(CAD millions)	As at March 31, 2016	As at March 31, 2015[2]
Equities (note 2a)		
Canada		
Public equities	$ 4,413	$ 6,197
Private equities	2,687	2,601
	7,100	8,798
Foreign developed markets		
Public equities	64,461	76,018
Private equities	49,019	40,022
	113,480	116,040
Emerging markets		
Public equities	12,612	11,307
Private equities	5,341	3,267
	17,953	14,574
Total equities	138,533	139,412
Fixed income (note 2b)		
Bonds	73,061	65,642
Other debt	26,144	21,024
Money market securities	16,732	17,740
Total fixed income	115,937	104,406
Absolute return strategies[1] (note 2c)	17,034	16,185
Real assets (note 2d)		
Real estate	35,857	29,656
Infrastructure	20,373	15,013
Total real assets	56,230	44,669
Investment receivables		
Securities purchased under reverse repurchase agreements (note 2e)	12,199	10,817
Accrued interest	1,161	928
Derivative receivables (note 3)	4,060	1,882
Dividends receivable	165	182
Total investment receivables	17,585	13,809
Total investments	$ 345,319	$ 318,481
Investment liabilities		
Securities sold under repurchase agreements (note 2e)	(19,926)	(15,779)
Securities sold short (note 2a and 2b)	(27,371)	(22,385)
Debt financing liabilities (note 2g)	(15,568)	(9,955)
Derivative liabilities (note 3)	(2,514)	(2,428)
Total investment liabilities	(65,379)	(50,547)
Amounts receivable from pending trades	2,627	2,908
Amounts payable from pending trades	(3,431)	(6,087)
Net investments	$ 279,136	$ 264,755

1 Includes only investments in funds.

2 Certain figures have been reclassified to conform to current year's financial statement presentation (see note 14).

The accompanying notes are an integral part of these Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

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CORPORATE INFORMATION

Canada Pension Plan Investment Board (CPP Investment Board) was established in December 1997 pursuant to the *Canada Pension Plan Investment Board Act* (the Act). CPP Investment Board is a federal Crown corporation, all of the shares of which are owned by Her Majesty the Queen in right of Canada. CPP Investment Board is responsible for assisting the Canada Pension Plan (the CPP) in meeting its obligations to contributors and beneficiaries under the *Canada Pension Plan*. It is responsible for managing amounts that are transferred to it under Section 108.1 of the *Canada Pension Plan* in the best interests of CPP beneficiaries and contributors. CPP Investment Board received its first funds for investing purposes from the CPP in March 1999. CPP Investment Board's assets are to be invested in accordance with the Act, the regulations and the investment policies with a view to achieving a maximum rate of return without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day.

CPP Investment Board is exempt from Part I tax under paragraphs 149(1)(d) and 149(1)(d.2) of the *Income Tax Act (Canada)* on the basis that all of the shares of CPP Investment Board are owned by Her Majesty the Queen in right of Canada or by a corporation whose shares are owned by Her Majesty the Queen in right of Canada, respectively.

The Consolidated Financial Statements provide information on the net assets managed by CPP Investment Board and do not include the assets and liabilities of the CPP.

CPP Investment Board's registered office is at One Queen Street East, Toronto, Ontario, Canada.

The Consolidated Financial Statements were approved by the Board of Directors and authorized for issue on May 12, 2016.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) BASIS OF PRESENTATION

These Consolidated Financial Statements present the financial position and results of operations of CPP Investment Board in accordance with IFRS.

CPP Investment Board qualifies as an investment entity as it meets the following definition of an investment entity outlined in IFRS 10, *Consolidated Financial Statements* (IFRS 10):

> Obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services. In the case of CPP Investment Board, we have one investor (CPP), but we invest the funds for a wide group of investors being the beneficiaries of the CPP.

> Commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.

> Measures and evaluates the performance of substantially all of its investments on a fair value basis.

No significant judgments or assumptions were made in determining that CPP Investment Board meets the definition of an investment entity as defined in IFRS 10.

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation (see note 14).

STATEMENT OF COMPLIANCE

The Consolidated Financial Statements of CPP Investment Board have been prepared in accordance with IFRS as issued by the International Accounting Standards Board and the requirements of the Act and the regulations of CPP Investment Board.

B) SUBSIDIARIES

CPP Investment Board is required to report the results of operations in accordance with IFRS 10. As a consequence, the Consolidated Financial Statements represent the results of operations of CPP Investment Board and its wholly-owned subsidiaries that were created to provide investment-related services to support its operations. Operating subsidiaries of this nature include those that provide investment advisory services or subsidiaries that were created to provide financing to CPP Investment Board.

Subsidiaries that were created to structure and hold investments are investment holding companies and are not consolidated in these Consolidated Financial Statements but instead are measured and reported at fair value. Fair value for unconsolidated investment holding companies is based on the fair value of the underlying investments and investment liabilities held by the investment holding company together with its accumulated net income from operations. The determination of the fair value of the underlying investments and investment liabilities are based on the valuation techniques and related inputs outlined in note 2.

C) FINANCIAL INSTRUMENTS

(i) CLASSIFICATION

CPP Investment Board classifies its financial assets and financial liabilities, in accordance with IFRS 9, *Financial Instruments,* as follows:

FINANCIAL ASSETS CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets are either classified at fair value through profit or loss or at amortized cost. The classification depends on (a) the business model for managing the financial assets and (b) the cash flow characteristics of the financial assets. All financial assets through profit or loss are classified at fair value on the basis that they are part of a portfolio of financial assets which are managed and whose performance is evaluated on a fair value basis in accordance with investment strategies and risk management of the CPP Investment Board. Financial assets classified at fair value through profit or loss include investments other than accrued interest, dividends receivable and amounts receivable from pending trades, which are carried at amortized cost.

FINANCIAL LIABILITIES CLASSIFIED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities are either classified at fair value through profit or loss or at amortized cost. The classification depends on (a) whether the financial liability meets the definition of held for trading or (b) upon initial recognition the financial liability is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

> It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;

> On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking; or

> It is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial liabilities are classified at fair value through profit or loss on the basis that they meet the definition of held for trading. Financial liabilities classified at fair value through profit or loss include securities sold under repurchase agreements, securities sold short, debt financing liabilities and derivative liabilities. Amounts payable from pending trades, accounts payable and accrued liabilities are carried at amortized cost.

(ii) RECOGNITION

CPP Investment Board recognizes a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument. Investments, investment receivables and investment liabilities are recorded on a trade date basis.

(iii) DERECOGNITION

Financial assets are derecognized when the contractual rights to receive the cash flows from the financial asset expire or where CPP Investment Board has transferred the financial asset and substantially all the risks and rewards of the asset or no longer retains control over the asset.

CPP Investment Board derecognizes a financial liability when the obligation under the liability is discharged, cancelled or expires.

(iv) INITIAL MEASUREMENT

Financial assets and financial liabilities are measured on initial recognition at fair value.

(v) SUBSEQUENT MEASUREMENT

After initial measurement, financial assets and financial liabilities classified at fair value through profit or loss are measured at fair value. Subsequent changes in the fair value of those financial assets and financial liabilities are recorded as a net gain (loss) on investments and included in investment income (see note 8). Interest income and dividend income from such financial instruments are also included in investment income (see note 8).

D) VALUATION OF INVESTMENTS AND INVESTMENT LIABILITIES

Investments and investment liabilities are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In an active market, fair value is best evidenced by an independent quoted market price. In the absence of an active market, fair value is determined by valuation techniques that make maximum use of inputs observed from markets. See note 2 for more details about the determination of fair value.

E) INCOME RECOGNITION

Income from investments includes realized gains and losses from investments, changes in unrealized gains and losses on investments, dividend income and interest income. Dividend income is recognized on the ex-dividend date, which is when CPP Investment Board's right to receive the dividend has been established. Interest income is recognized using the effective interest rate method.

F) OFFSETTING FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated Financial Statements if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

G) TRANSACTION COSTS

Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment. Transaction costs are expensed as incurred and included in net investment income (see note 8).

H) INVESTMENT MANAGEMENT FEES

Investment management fees, which include hedge fund performance fees, are paid to investment managers for externally managed investments. Investment management fees are expensed as incurred and included in net investment income (see note 8).

I) CASH EQUIVALENTS

Cash equivalents consist of short-term deposits with a maturity of 90 days or less.

J) SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS AND SOLD UNDER REPURCHASE AGREEMENTS

Securities purchased under reverse repurchase agreements represent the purchase of securities effected with a simultaneous agreement to sell them back at a specified price at a specified future date and are accounted for as an investment receivable. These securities are not recognized as an investment of CPP Investment Board. The fair value of securities to be resold under these reverse repurchase agreements is monitored and additional collateral is obtained, when appropriate, to protect against credit exposure (see note 10). In the event of counterparty default, CPP Investment Board has the right to liquidate the collateral held.

Securities sold under repurchase agreements are accounted for as collateralized borrowing because they represent the sale of securities with a simultaneous agreement to buy them back at a specified price at a specified future date. The securities sold continue to be recognized as an investment of CPP Investment Board with any changes in fair value recorded as net gain (loss) on investments and included in investment income (see note 8).

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements is included in investment income (see note 8).

K) SECURITIES SOLD SHORT

Securities sold short represent securities that are sold, but not owned, by CPP Investment Board. CPP Investment Board has an obligation to cover these short positions, which are accounted for as an investment liability based on the fair value of the securities sold. Collateral is pledged to the counterparty, when appropriate (see note 10). Interest and dividend expense on securities sold short are included in investment income (see note 8).

L) FUNCTIONAL AND PRESENTATION CURRENCY

CPP Investment Board's functional and presentation currency is the Canadian dollar, which is the currency of the primary economic environment in which it operates. CPP Investment Board's performance is evaluated and its liquidity is managed in Canadian dollars. Therefore, the Canadian dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

M) FOREIGN CURRENCY TRANSLATION

Transactions, including purchases and sales of investments, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction. Investments and monetary assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate at each balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss are included in investment income in the Consolidated Statement of Comprehensive Income.

N) CANADA PENSION PLAN TRANSFERS

Net amounts from the CPP are recorded as received.

O) USE OF ESTIMATES, JUDGMENTS AND ASSUMPTIONS

The preparation of the Consolidated Financial Statements requires management to make estimates, judgments and assumptions that affect the amounts recognized for assets and liabilities, principally the valuation of financial instruments which are not actively traded. Uncertainty about these estimates, judgments and assumptions could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities affected in the future.

2. FAIR VALUE DETERMINATION

CPP Investment Board manages the following types of investments and investment liabilities and determines fair value as follows:

A) EQUITIES

(i) Public equity investments are made directly or through funds, including hedge funds. As at March 31, 2016, public equities included fund investments with a fair value of $7,807 million (March 31, 2015 – $8,541 million).

Fair value for publicly traded equities, including equity short positions, is based on quoted market prices. Fair value for fund investments is generally based on the net asset value as reported by the external administrators or managers of the funds.

(ii) Private equity investments are generally made directly or through ownership in limited partnership funds. As at March 31, 2016, private equities included direct investments with a fair value of $25,161 million (March 31, 2015 – $15,124 million).

The fair value for investments held directly is primarily determined using earnings multiples of comparable publicly traded companies or discounted cash flows. Significant inputs for these valuation methods include company specific earnings before interest, taxes, depreciation and amortization (EBITDA), earnings multiples of comparable publicly traded companies, projected cash flows and discount rates using current market yields of instruments with similar characteristics. Recent market transactions, where available, are also used. In the case of investments held through a limited partnership fund, fair value is generally determined based on relevant information reported by the general partner using similar accepted industry valuation methods.

B) FIXED INCOME

(i) Bonds consist of non-marketable and marketable bonds.

The non-marketable bonds issued by the provinces prior to 1998 have rollover provisions attached to them. In lieu of exercising its statutory rollover right, agreements between CPP Investment Board and the provinces permit each province to repay the bond and concurrently cause CPP Investment Board to purchase a replacement bond or bonds in a total principal amount not exceeding the principal amount of the maturing security for a term of not less than five years and not more than 30 years, at the prevailing yield existing at the time for that province. Such replacement bonds contain rollover provisions that permit the issuer, at its option, to roll over the bond for successive terms of not less than five years and subject in all cases to the maximum 30 years outside the maturity date. The replacement bonds are also redeemable before maturity at the option of the issuers.

Fair value for non-marketable Canadian provincial government bonds is calculated using discounted cash flows based on current market yields of instruments with similar characteristics.

In the case of marketable bonds, including bond short positions, fair value is based on quoted prices or calculated using discounted cash flow based on benchmark yield curves and credit spreads pertaining to the issuer.

(ii) Other debt consists of investments in direct private debt, asset-backed securities, intellectual property, royalties, distressed mortgage funds, private debt funds and hedge funds.

Fair value for direct investments in private debt and asset-backed securities is based on quoted market prices or broker quotes or recent market transactions, if available. Where the market price is not available, fair value is calculated using discounted cash flows based on significant inputs such as projected cash flows and discount rates using current market yields of instruments with similar characteristics.

In the case of intellectual property investments and royalty investments, fair value is primarily determined using discounted cash flows based on projected cash flows and discount rates using current market yields of instruments with similar characteristics.

Fair value for fund investments is generally based on the net asset value as reported by the external administrators or managers of the funds.

(iii) Money market securities consist of cash, term deposits, treasury bills, commercial paper and floating rate notes. Fair value is determined using cost, which, together with accrued interest income, approximates fair value due to the short-term or floating rate nature of these securities.

C) ABSOLUTE RETURN STRATEGIES

Absolute return strategies consist of investments in hedge funds and internally managed portfolios whose objective is to generate positive returns regardless of market conditions, that is, returns with a low correlation to broad market indices. The underlying securities of the funds and the internally managed portfolios could include, but are not limited to, equities, fixed income securities and derivatives. Fair value for fund investments is generally based on the net asset value as reported by the external administrators or managers of the funds.

D) REAL ASSETS

(i) CPP Investment Board obtains exposure to real estate through direct investments in privately held real estate and real estate funds. Private real estate investments are managed by investment managers primarily through co-ownership arrangements.

Fair value for private real estate investments is primarily determined using discounted cash flows based on various factors such as net operating income, discount rate and terminal capitalization rate.

Fair value for real estate funds are generally based on the net asset value as reported by the external managers of the funds.

(ii) Infrastructure investments are generally made directly, but can also occur through limited partnership funds.

Fair value for infrastructure investments is primarily determined using discounted cash flows based on significant inputs including projected cash flows and discount rates.

E) SECURITIES PURCHASED UNDER REVERSE REPURCHASE AGREEMENTS AND SOLD UNDER REPURCHASE AGREEMENTS

Reverse repurchase and repurchase agreements are carried at the amounts at which the securities were initially acquired or sold, which, together with accrued interest income or expense, approximates fair value due to the short-term nature of these securities.

F) DERIVATIVE CONTRACTS

A derivative contract is a financial contract, the value of which is derived from the value of underlying assets, indices, interest rates, currency exchange rates or other market-based factors. Derivatives are transacted through regulated exchanges or negotiated in over-the-counter markets.

Notional amounts of derivative contracts represent the contractual amounts to which a rate or price is applied for computing the cash flows to be exchanged. The notional amounts are used to determine the gains/losses and fair value of the contracts. They are not recorded as assets or liabilities on the Consolidated Balance Sheet. Notional amounts do not necessarily represent the amount of potential market risk or credit risk arising from a derivative contract.

The fair value of these contracts is reported as derivative receivables and derivative liabilities on the Consolidated Schedule of Investment Portfolio.

Fair value for exchange-traded derivatives, which includes futures, options and warrants, is based on quoted market prices. Fair value for over-the-counter derivatives, which includes swaps, options, forward contracts and warrants, is determined based on valuation techniques such as option pricing models, discounted cash flows and consensus pricing from independent brokers and/or third-party vendors. Inputs used in these valuation techniques can include, but are not limited to, spot prices, price volatilities, currency exchange rates, interest rate curves and credit spreads. In determining fair value, consideration is also given to the credit risk of the counterparty.

CPP Investment Board uses derivatives to generate value-added investment returns and to manage or adjust exposures to interest rate, currency, credit and other market risks without directly purchasing or selling the underlying instrument.

G) DEBT FINANCING LIABILITIES

Debt financing liabilities consist of commercial paper payable and term debt. Commercial paper payable is recorded at the amount originally issued, which, together with accrued interest expense, approximates fair value due to the short-term nature of these liabilities. Fair value for term debt is based on quoted market prices.

H) UNCONSOLIDATED SUBSIDIARIES

CPP Investment Board consolidates those subsidiaries that provide investment-related services to support its investment operations. All other subsidiaries are not consolidated but rather measured at fair value (see note 1b). Fair value for unconsolidated investment holding companies is based on the fair value of the underlying investments and investment liabilities held by the investment holding company together with its accumulated net income from operations. The determination of the fair value of the underlying investments and investment liabilities are based on the valuation techniques and related inputs outlined in note 2a to g.

Investments in unconsolidated subsidiaries include 259 wholly-owned subsidiaries (March 31, 2015 – 201) incorporated to hold investments primarily in private equities, debt, real estate and infrastructure. The 259 wholly-owned subsidiaries are incorporated as follows, 125 in Canada (March 31, 2015 – 108), 41 in the United Kingdom (March 31, 2015 – 5), 29 in the British Virgin Islands (March 31, 2015 – 30), 21 in the United States (March 31, 2015 – 17), 17 in Australia (March 31, 2015 – 17) and 26 in other jurisdictions (March 31, 2015 – 24). Unconsolidated subsidiaries, that are not wholly-owned but controlled, typically include those that were acquired by CPP Investment Board or indirectly acquired through its investment holding companies.

For investment holding companies it established, CPP Investment Board provides financial or other support to fund their day-to-day operations and investment activities under loan agreements or shareholder's resolutions as needed.

3. DERIVATIVE INSTRUMENTS

A) TYPE OF DERIVATIVE INSTRUMENTS

CPP Investment Board uses the following types of derivative instruments:

FUTURES AND FORWARDS

Futures are standardized contracts transacted on an exchange, whereas forwards are customized over-the-counter contracts negotiated between counterparties. Futures contracts may be cash-settled or require physical delivery of the underlying asset. Examples of futures and forwards are described below:

Equity futures are contractual obligations to purchase or sell a specified quantity of an equity index, a basket of stocks, or a single stock at a predetermined price and date in the future.

Foreign exchange forwards are contractual obligations negotiated between counterparties to either purchase or sell a specified amount of foreign currencies at a predetermined price and date in the future.

Interest rate futures and forwards, including bond futures, are contractual obligations to purchase or sell a specified amount of an interest rate sensitive financial instrument(s) or index at a predetermined price and date in the future.

Commodity futures are contractual obligations to purchase or sell a specified quantity of a commodity, such as precious metals and energy related products at a predetermined price and date in the future.

SWAPS

Swaps are over-the counter contracts between two parties to exchange a series of cash flows. Examples of swaps are described below:

Equity-based swaps include equity swaps, volatility swaps and variance swaps. Equity swaps are contracts where one counterparty agrees to pay or receive from the other, cash flows based on changes in the value of an equity index, a basket of stocks, or a single stock in exchange for a return based on a fixed or floating interest rate or the return on another instrument. Volatility and variance swaps are contracts where cash flows are exchanged based on the realized volatility or variance of an equity index, a basket of stocks, or a single stock compared to the fixed strike level specified in the contract, respectively.

Interest rate-related swaps include bond swaps, interest rate swaps and cross-currency interest rate swaps. Bond swaps are contracts in which counterparties exchange the return on a bond, or group of such instruments, for the return on a fixed or floating interest rate or the return on another instrument. Interest rate swaps are contracts where counterparties exchange cash flows based on different interest rates applied to a notional amount in a single currency, with no exchange of a notional amount. Cross-currency interest rate swaps involve the exchange of both interest and notional amounts in two different currencies.

Credit default swaps are contracts that provide credit protection against a specified credit event such as the default or bankruptcy of the underlying financial instrument (referenced asset). The purchaser (buyer) pays a premium to the writer (seller) in return for payment, which is contingent on a credit event affecting the referenced asset.

CPP Investment Board purchases (buys) and writes (sells) credit default swaps. Credit default swaps require the writer to compensate counterparties for the decline in value of an underlying financial instrument (referenced asset) as a result of the occurrence of a specified credit event. The notional amount represents the maximum amount payable to these counterparties under these written credit default swap contracts.

OPTIONS AND WARRANTS

Options are contractual agreements where the seller (writer) gives the purchaser the right, but not the obligation, to buy or sell a specified amount of an equity, currency, interest rate, credit, commodity or other financial instrument at or before a specified future date at a predetermined price. The purchaser pays a premium to the seller for this right. Options can be transacted in standardized amounts on regulated exchanges or customized in over-the-counter markets.

CPP Investment Board purchases (buys) and writes (sells) options. Call or put options may require the writer to sell or purchase the underlying asset at any time at a fixed date or within a fixed future period. Due to the nature of these contracts, CPP Investment Board cannot make a reasonable estimate of the potential maximum amount of future payments.

Warrants are transacted both over-the-counter and through exchanges where the issuer gives the purchaser the right, but not the obligation, to buy a specified quantity of stock of the issuer at or before a specified future date at a predetermined price.

B) DERIVATIVE-RELATED RISK

The following are primary risks associated with derivatives:

MARKET RISK

Derivatives generate positive or negative value, as the value of underlying assets, indices, interest rates, currency exchange rates or other market-based factors change such that the previously contracted terms of the derivative transactions have become more or less favourable than what can be negotiated under current market conditions for contracts with the same terms and remaining period to expiry. The potential for derivatives to increase or decrease in value as a result of the foregoing factors is generally referred to as market risk.

The derivative-related market risk is a component of the total portfolio market risk, which is managed through the Risk/Return Accountability Framework described in note 5.

CREDIT RISK

Credit risk is the risk of a financial loss that occurs as a result of the failure of a counterparty to meet its obligations to CPP Investment Board. The maximum exposure to credit risk is represented by the positive fair value of the derivative instrument and is normally a small fraction of the contract's notional amount. Negotiated over-the-counter derivatives generally present greater credit exposure than exchange-traded contracts. Credit risk on exchange-traded contracts is limited because these transactions are executed on regulated exchanges, each of which is associated with a well-capitalized clearing house that assumes the obligation of the writer of a contract and guarantees their performance.

CPP Investment Board limits credit risk on over-the-counter contracts through a variety of means, including dealing only with authorized counterparties that meet the minimum credit rating and limiting the maximum exposures to any individual counterparty, and the use of master netting agreements and collateral as discussed in note 5c.

C) FAIR VALUE OF DERIVATIVE CONTRACTS

The fair value of derivative contracts is as follows:

FAIR VALUE OF DERIVATIVE CONTRACTS

	As at March 31, 2016		As at March 31, 2015	
(CAD millions)	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Equity contracts				
Futures	$ –	$ –	$ –	$ –
Swaps	1,292	(730)	885	(738)
Options:				
Exchange-traded – purchased	8	–	–	–
Exchange-traded – written	–	–	–	(2)
Over-the-counter – purchased	2	–	7	–
Over-the-counter – written	–	(2)	–	–
Warrants	2	–	–	–
Total equity contracts	1,304	(732)	892	(740)
Foreign exchange contracts				
Forwards	2,353	(793)	382	(828)
Options:				
Over-the-counter – purchased	24	–	2	–
Over-the-counter – written	–	(6)	–	(2)
Total foreign exchange contracts	2,377	(799)	384	(830)
Interest rate contracts				
Futures	–	–	–	–
Forwards	–	–	–	–
Swaps	341	(404)	219	(318)
Total interest rate contracts	341	(404)	219	(318)
Credit contracts				
Purchased credit default swaps	86	(485)	18	(513)
Written credit default swaps	454	(73)	394	(21)
Options:				
Over-the-counter – purchased	13	–	–	–
Over-the-counter – written	–	(16)	–	–
Total credit contracts	553	(574)	412	(534)
Commodity contracts				
Futures	9	(5)	5	(2)
Options:				
Exchange-traded – purchased	–	–	–	–
Exchange-traded – written	–	–	–	(4)
Total commodity contracts	9	(5)	5	(6)
Subtotal	4,584	(2,514)	1,912	(2,428)
Less: Cash collateral received under derivative contracts	(524)	–	(30)	–
Total	$ 4,060	$ (2,514)	$ 1,882	$ (2,428)

D) NOTIONAL AMOUNT OF DERIVATIVES BY TERMS TO MATURITY

The terms to maturity of the notional amounts for derivative contracts is as follows:

NOTIONAL AMOUNT OF DERIVATIVES BY TERMS TO MATURITY

	Terms to maturity					
	As at March 31, 2016					As at March 31, 2015
(CAD millions)	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Total
Equity contracts						
Futures	$ 2,071	$ –	$ –	$ –	$ 2,071	$ 1,905
Swaps	49,297	34,412	–	–	83,709	80,265
Options:						
Exchange-traded – purchased	–	48	–	–	48	3
Exchange-traded – written	–	–	–	–	–	260
Over-the-counter – purchased	9	126	–	–	135	124
Over-the-counter – written	21	53	–	–	74	–
Warrants	–	36	41	–	77	74
Total equity contracts	51,398	34,675	41	–	86,114	82,631
Foreign exchange contracts						
Forwards	82,768	–	–	–	82,768	68,138
Options:						
Over-the-counter – purchased	415	–	–	–	415	178
Over-the-counter – written	361	–	–	–	361	209
Total foreign exchange contracts	83,544	–	–	–	83,544	68,525
Interest rate contracts						
Futures	45,209	27,155	–	–	72,364	5,700
Forwards	3,537	–	–	–	3,537	–
Swaps	8,538	14,149	6,243	1,157	30,087	15,093
Total interest rate contracts	57,284	41,304	6,243	1,157	105,988	20,793
Credit contracts						
Purchased credit default swaps	526	30,390	898	–	31,814	17,977
Written credit default swaps	302	31,193	184	–	31,679	15,782
Options:						
Over-the-counter – purchased	2,140	–	–	–	2,140	317
Over-the-counter – written	1,842	–	–	–	1,842	–
Total credit contracts	4,810	61,583	1,082	–	67,475	34,076
Commodity contracts						
Futures	2,805	–	–	–	2,805	1,817
Options:						
Exchange-traded – purchased	4	–	–	–	4	–
Exchange-traded – written	5	–	–	–	5	262
Total commodity contracts	2,814	–	–	–	2,814	2,079
Total	$ 199,850	$ 137,562	$ 7,366	$ 1,157	$ 345,935	$ 208,104

4. FAIR VALUE MEASUREMENT

A) FAIR VALUE HIERARCHY

The following shows investments and investment liabilities recognized at fair value, analyzed between those whose fair value is based on:

> Quoted prices in active markets for identical assets or liabilities (Level 1);

> Those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2); and

> Those with inputs for the asset or liability that are not based on observable market data (non-observable inputs) (Level 3).

FAIR VALUE HIERARCHY

	As at March 31, 2016			
(CAD millions)	Level 1	Level 2	Level 3	Total
INVESTMENTS				
EQUITIES				
Canada				
Public equities	$ 4,413	$ –	$ –	$ 4,413
Private equities	–	–	2,687	2,687
	4,413	–	2,687	7,100
Foreign developed markets				
Public equities[1]	57,808	6,653	–	64,461
Private equities	–	–	49,019	49,019
	57,808	6,653	49,019	113,480
Emerging markets				
Public equities[1]	10,683	1,759	170	12,612
Private equities	–	–	5,341	5,341
	10,683	1,759	5,511	17,953
TOTAL EQUITIES	72,904	8,412	57,217	138,533
FIXED INCOME				
Bonds	44,749	28,312	–	73,061
Other debt	–	8,110	18,034	26,144
Money market securities	–	16,732	–	16,732
TOTAL FIXED INCOME	44,749	53,154	18,034	115,937
ABSOLUTE RETURN STRATEGIES[1]	–	15,720	1,314	17,034
REAL ASSETS				
Real estate	–	–	35,857	35,857
Infrastructure	–	–	20,373	20,373
TOTAL REAL ASSETS	–	–	56,230	56,230
INVESTMENT RECEIVABLES				
Securities purchased under reverse repurchase agreements	–	12,199	–	12,199
Accrued interest	–	1,161	–	1,161
Derivative receivables	17	4,041	2	4,060
Dividends receivable	–	165	–	165
TOTAL INVESTMENT RECEIVABLES	17	17,566	2	17,585
TOTAL INVESTMENTS	$ 117,670	$ 94,852	$ 132,797	$ 345,319
INVESTMENT LIABILITIES				
Securities sold under repurchase agreements	–	(19,926)	–	(19,926)
Securities sold short	(27,371)	–	–	(27,371)
Debt financing liabilities	(2,148)	(13,420)	–	(15,568)
Derivative liabilities	(4)	(2,510)	–	(2,514)
TOTAL INVESTMENT LIABILITIES	(29,523)	(35,856)	–	(65,379)
Amounts receivable from pending trades	–	2,627	–	2,627
Amounts payable from pending trades	–	(3,431)	–	(3,431)
NET INVESTMENTS	$ 88,147	$ 58,192	$ 132,797	$ 279,136

	As at March 31, 2015[2]			
(CAD millions)	Level 1	Level 2	Level 3	Total
INVESTMENTS				
EQUITIES				
Canada				
Public equities	$ 6,197	$ –	$ –	$ 6,197
Private equities	–	–	2,601	2,601
	6,197	–	2,601	8,798
Foreign developed markets				
Public equities[1]	69,124	6,894	–	76,018
Private equities	–	385	39,637	40,022
	69,124	7,279	39,637	116,040
Emerging markets				
Public equities[1]	9,572	1,735	–	11,307
Private equities	–	–	3,267	3,267
	9,572	1,735	3,267	14,574
TOTAL EQUITIES	84,893	9,014	45,505	139,412
FIXED INCOME				
Bonds	36,040	29,602	–	65,642
Other debt	–	7,712	13,312	21,024
Money market securities	–	17,740	–	17,740
TOTAL FIXED INCOME	36,040	55,054	13,312	104,406
ABSOLUTE RETURN STRATEGIES[1]	–	14,987	1,198	16,185
REAL ASSETS				
Real estate	–	–	29,656	29,656
Infrastructure	–	–	15,013	15,013
TOTAL REAL ASSETS	–	–	44,669	44,669
INVESTMENT RECEIVABLES				
Securities purchased under reverse repurchase agreements	–	10,817	–	10,817
Accrued interest	–	928	–	928
Derivative receivables	5	1,877	–	1,882
Dividends receivable	–	182	–	182
TOTAL INVESTMENT RECEIVABLES	5	13,804	–	13,809
TOTAL INVESTMENTS	$ 120,938	$ 92,859	$ 104,684	$ 318,481
INVESTMENT LIABILITIES				
Securities sold under repurchase agreements	–	(15,779)	–	(15,779)
Securities sold short	(22,385)	–	–	(22,385)
Debt financing liabilities	–	(9,955)	–	(9,955)
Derivative liabilities	(8)	(2,420)	–	(2,428)
TOTAL INVESTMENT LIABILITIES	(22,393)	(28,154)	–	(50,547)
Amounts receivable from pending trades	–	2,908	–	2,908
Amounts payable from pending trades	–	(6,087)	–	(6,087)
NET INVESTMENTS	$ 98,545	$ 61,526	$ 104,684	$ 264,755

1 Includes investments in funds.

2 Certain figures have been reclassified to conform to current year's financial statement presentation (see note 14).

B) TRANSFERS BETWEEN LEVEL 1 AND LEVEL 2

During the year ended March 31, 2016, there were $775 million of transfers from Level 1 to Level 2 (March 31, 2015 – $88 million) and $46 million of transfers from Level 2 to Level 1 (March 31, 2015 – $393 million). Transfers between Level 1 and Level 2 depend on the availability of quoted market prices in active markets and valuations using inputs other than quoted prices that are observable. These transfers are deemed to occur at the end of period values.

C) LEVEL 3 RECONCILIATION

The following presents the reconciliations for investments included in Level 3 of the fair value hierarchy for the year ended March 31, 2016:

RECONCILIATION OF CHANGES IN FAIR VALUE FOR LEVEL 3 INVESTMENTS

	For the year ended March 31, 2016							
(CAD millions)	Fair value as at April 1, 2015	Gain (loss) included in net investment income (loss)[1]	Purchases	Sales[2]	Transfers into level 3[3]	Transfers out of level 3[3]	Fair value as at March 31, 2016	Change in unrealized gains (losses) on investments still held at March 31, 2016[1,4]
INVESTMENTS								
EQUITIES								
Canada								
Private equities	$ 2,601	$ (261)	$ 652	$ (305)	$ –	$ –	$ 2,687	$ (392)
	2,601	(261)	652	(305)	–	–	2,687	(392)
Foreign developed markets								
Private equities	39,637	3,762	15,753	(10,381)	266	(18)	49,019	(1,569)
	39,637	3,762	15,753	(10,381)	266	(18)	49,019	(1,569)
Emerging markets								
Public equities	–	–	–	–	170	–	170	–
Private equities	3,267	841	1,934	(701)	–	–	5,341	430
	3,267	841	1,934	(701)	170	–	5,511	430
TOTAL EQUITIES	45,505	4,342	18,339	(11,387)	436	(18)	57,217	(1,531)
FIXED INCOME								
Other debt	13,312	(365)	9,443	(4,479)	123	–	18,034	(176)
TOTAL FIXED INCOME	13,312	(365)	9,443	(4,479)	123	–	18,034	(176)
ABSOLUTE RETURN STRATEGIES	1,198	89	50	(6)	–	(17)	1,314	89
REAL ASSETS								
Real estate	29,656	2,964	5,534	(2,297)	–	–	35,857	2,446
Infrastructure	15,013	920	5,018	(578)	–	–	20,373	660
TOTAL REAL ASSETS	44,669	3,884	10,552	(2,875)	–	–	56,230	3,106
INVESTMENT RECEIVABLES								
Derivative receivables	–	(4)	6	–	–	–	2	(4)
TOTAL INVESTMENT RECEIVABLES	–	(4)	6	–	–	–	2	(4)
TOTAL	$ 104,684	$ 7,946	$ 38,390	$ (18,747)	$ 559	$ (35)	$ 132,797	$ 1,484

	For the year ended March 31, 2015							
(CAD millions)	Fair value as at April 1, 2014	Gain (loss) included in net investment income (loss)[1]	Purchases	Sales[2]	Transfers into level 3[3]	Transfers out of level 3[3]	Fair value as at March 31, 2015	Change in unrealized gains (losses) on investments still held at March 31, 2015[1,4]
INVESTMENTS								
EQUITIES								
Canada								
Private equities	$ 2,447	$ 149	$ 208	$ (203)	$ –	$ –	$ 2,601	$ 44
	2,447	149	208	(203)	–	–	2,601	44
Foreign developed markets								
Private equities	30,605	8,964	8,613	(7,339)	38	(1,244)	39,637	3,670
	30,605	8,964	8,613	(7,339)	38	(1,244)	39,637	3,670
Emerging markets								
Public equities	–	–	–	–	–	–	–	–
Private equities	2,759	1,266	795	(599)	–	(954)	3,267	554
	2,759	1,266	795	(599)	–	(954)	3,267	554
TOTAL EQUITIES	35,811	10,379	9,616	(8,141)	38	(2,198)	45,505	4,268
FIXED INCOME								
Other debt	9,323	862	5,785	(2,113)	–	(545)	13,312	731
TOTAL FIXED INCOME	9,323	862	5,785	(2,113)	–	(545)	13,312	731
ABSOLUTE RETURN STRATEGIES	1,468	272	16	(2)	–	(556)	1,198	273
REAL ASSETS								
Real estate	23,543	2,725	4,449	(2,474)	1,472	(59)	29,656	2,436
Infrastructure	12,852	1,513	991	(343)	–	–	15,013	1,492
TOTAL REAL ASSETS	36,395	4,238	5,440	(2,817)	1,472	(59)	44,669	3,928
INVESTMENT RECEIVABLES								
Derivative receivables	13	(9)	–	(4)	–	–	–	(3)
TOTAL INVESTMENT RECEIVABLES	13	(9)	–	(4)	–	–	–	(3)
TOTAL	$ 83,010	$ 15,742	$ 20,857	$ (13,077)	$ 1,510	$ (3,358)	$ 104,684	$ 9,197

1 Presented as a component of investment income (see note 8).

2 Includes return of capital.

3 Transfers into and out of Level 3 are deemed to occur at the end of year values.

4 Includes the entire change in fair value for the year for those investments that were transferred into Level 3 during the year, and excludes the entire change in fair value for the year for those investments that were transferred out of Level 3 during the year.

During the years ended March 31, 2016 and March 31, 2015, transfers into and out of Level 3 were primarily due to changes in the availability of market observable inputs used to determine fair value.

D) LEVEL 3 – SIGNIFICANT UNOBSERVABLE INPUTS

The following presents fair values of the investments categorized within Level 3 of the fair value hierarchy, valuation techniques used to determine their fair values, ranges and weighted averages of unobservable inputs:

VALUATION TECHNIQUES AND INPUTS USED IN THE FAIR VALUE MEASUREMENT OF LEVEL 3 INVESTMENTS

	As at March 31, 2016				
(CAD millions)	Fair value	Primary valuation techniques used	Significant unobservable inputs	Range of input values[3]	Weighted average[3]
Public equities					
Fund investments[2]	$ 170	Net asset value provided by Investment Manager	–	–	–
Private equities					
Direct[1,2]	$ 25,162	Earnings multiples of comparable companies	EBITDA multiple	6.8X–13.2X	10.7X
		Discounted cash flow	Discount rate	9.5%–23.4%	11.9%
Fund investments[2]	31,885	Net asset value provided by Investment Manager	–	–	–
Other debt					
Direct private debt[1]	9,062	Discounted cash flow	Discount rate	6.7%–36.6%	12.1%
Asset-backed securities[2]	7,071	Valuation model by third-party pricing vendor	–	–	–
Fund investments[2]	1,901	Net asset value provided by Investment Manager	–	–	–
Absolute return strategies					
Fund investments[2]	1,314	Net asset value provided by Investment Manager	–	–	–
Real estate					
Direct[1,2]	23,472	Discounted cash flow	Discount rate	3.6%–14.8%	6.4%
			Terminal capitalization rate	3.5%–9.5%	5.3%
	8,389	Net asset value provided by Investment Manager	–	–	–
Fund investments[2]	3,996	Net asset value provided by Investment Manager	–	–	–
Infrastructure					
Direct[1]	20,335	Discounted cash flow	Discount rate	7.5%–15.8%	10.1%
Fund investments[2]	38	Net asset value provided by Investment Manager	–	–	–
Derivative receivables					
Warrants	2	Option model	Market volatility	30.0%	30.0%
Total	$ 132,797				

As at March 31, 2015

(CAD millions)		Fair value	Primary valuation techniques used	Significant unobservable inputs	Range of input values[3]	Weighted average[3]
Private equities						
Direct[1,2]	$	14,728	Earnings multiples of comparable companies	EBITDA multiple	8.6X–13.5X	10.6X
			Discounted cash flows	Discount rate	7.7%–23.4%	10.5%
Fund investments[2]		30,777	Net asset value provided by Investment Manager	–	–	–
Other debt						
Direct private debt[1]		6,232	Discounted cash flow	Discount rate	6.4%-30.4%	12.6%
Asset-backed securities[2]		5,342	Broker quotes	–	–	–
Fund investments[2]		1,738	Net asset value provided by Investment Manager	–	–	–
Absolute return strategies						
Fund investments[2]		1,198	Net asset value provided by Investment Manager	–	–	–
Real estate						
Direct[1,2]		19,776	Discounted cash flow	Discount rate	3.8%–13.5%	6.6%
				Terminal capitalization rate	3.9%–9.5%	5.4%
		5,274	Net asset value provided by Investment Manager	–	–	–
Fund investments[2]		4,606	Net asset value provided by Investment Manager	–	–	–
Infrastructure						
Direct[1]		14,956	Discounted cash flow	Discount rate	7.7%–12.1%	10.3%
Fund investments[2]		57	Net asset value provided by Investment Manager	–	–	–
Derivative receivables						
Warrants		–	Option model	Market volatility	–	–
Total	$	104,684				

1 May include certain recently acquired investments held at cost, which approximates fair value.

2 In certain cases, external valuations are prepared by a third-party and hence, valuation information is not available.

3 The range of input values represents the highest and lowest inputs used to value the investments in a particular asset class. The weighted average of the input values is calculated based on the relative fair values of the investments within the asset class. The diversity of investments reported within each asset class, such as the geographic location and industry sector of the investments, may result in certain ranges of inputs being wide and unevenly distributed across the range.

Significant increases (decreases) in any of the above unobservable inputs would result in a significantly higher or lower fair value measurement. The interrelationship of significant unobservable inputs and fair value measurement for the most significant key inputs identified in the table above are as follows:

> An increase (decrease) in the EBITDA multiple will result in a higher (lower) fair value.

> An increase (decrease) in the discount rate and terminal capitalization rate will result in a lower (higher) fair value.

The fair value of these direct investments classified within Level 3 of the fair value hierarchy above are based on accepted industry valuation methods that may include the use of estimates made by management, appraisers or both where significant judgment is required. By using valuation methods based on reasonable alternative assumptions, different fair values could result. Management has determined that the potential impact on fair values using these reasonable alternative assumptions would not be significant.

5. INVESTMENT RISK MANAGEMENT

CPP Investment Board and its unconsolidated investment holding companies manage the investment portfolio on behalf of the Canada Pension Plan (CPP Investment Portfolio). The CPP Investment Portfolio is exposed to a variety of financial risks. These risks include market risk, credit risk and liquidity risk. CPP Investment Board utilizes a total portfolio approach to risk management which considers all of the investment activities taken together, including those made through its unconsolidated investment holding companies. In the discussion that follows, any references to the investment activities and exposures to risk of CPP Investment Board also include those of its unconsolidated investment holding companies.

CPP Investment Board manages and mitigates financial risks through the Risk/Return Accountability Framework that is contained within the Risk Policy approved by the Board of Directors at least once every fiscal year. This policy contains risk limits and risk management provisions that govern investment decisions. It has been designed to achieve the mandate of CPP Investment Board, which is to invest its assets with a view to achieving a maximum rate of return, without undue risk of loss, having regard to the factors that may affect the funding of the CPP and the ability of the CPP to meet its financial obligations on any given business day.

Effective April 1, 2015, changes were made to the Risk/Return Accountability Framework. Upper and Lower Absolute Risk Limits and the Absolute Risk Operating Range are included within the Risk/Return Accountability Framework, and these govern the amount of total investment risk that CPP Investment Board can take in the long term CPP Investment Portfolio.

CPP Investment Board monitors the absolute risk, the possible loss of value expressed in absolute dollar or percentage terms, in the CPP Investment Portfolio daily and reports risk exposures to the Board of Directors on at least a quarterly basis. Financial risk management, as well as the latest Risk/Return Accountability Framework, is discussed in greater detail on page 33 of the 2016 Annual Report.

A) MARKET RISK

Market risk (including currency risk, interest rate risk and other price risk) is the risk that the fair value or future cash flows of an investment or investment liability will fluctuate because of changes in market prices and rates. As discussed previously, CPP Investment Board manages market risk through the Risk/Return Accountability Framework. This includes investing across a wide spectrum of asset classes and investment strategies to earn a diversified set of risk premiums at the total fund level, based on risk limits established in the risk policies. In addition, derivatives are used, where appropriate, to manage certain risk exposures.

Market risk is comprised of the following:

CURRENCY RISK

The CPP Investment Portfolio is exposed to currency risk through holdings of investments or investment liabilities in various currencies. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value or future cash flows of these investments and investment liabilities.

In Canadian dollars, the net underlying currency exposures, after allocating foreign currency derivatives are as follows:

CURRENCY RISK EXPOSURES

	As at March 31, 2016		As at March 31, 2015	
(CAD millions)	Net exposure	% of total	Net exposure	% of total
Currency				
United States dollar	$ 138,624	61%	$ 116,292	59%
Euro	29,697	13	30,955	16
British pound sterling	16,245	7	12,595	6
Japanese yen	14,692	6	11,879	6
Australian dollar	8,026	4	6,499	3
Chinese yuan	3,356	1	2,614	1
Hong Kong dollar	2,592	1	2,425	1
Chilean peso	2,042	1	1,855	1
Swiss franc	2,020	1	2,045	1
South Korean won	1,886	1	1,792	1
Indian rupee	1,821	1	1,344	1
Brazilian real	1,309	1	1,404	1
Other	5,960	2	5,657	3
Total	$ 228,270	100%	$ 197,356	100%

INTEREST RATE RISK

Interest rate risk is the risk that the fair value or future cash flows of an investment or investment-related liability will fluctuate because of changes in market interest rates. The CPP Investment Portfolio is exposed to interest rate risk primarily through holdings of fixed income securities, certain investment liabilities and interest rate derivative instruments.

The terms to maturity of investments exposed to interest rate risk as at March 31, 2016 are as follows:

INVESTMENTS TERMS TO MATURITY

	Terms to maturity							
	As at March 31, 2016						As at March 31, 2015	
(CAD millions)	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Average effective yield	Total	Average effective yield
Non-marketable bonds								
Canadian provincial government	$ 352	$ 4,037	$ 7,907	$ 12,154	$ 24,450	2.7%	$ 25,538	2.5%
Marketable bonds								
Government of Canada	–	3,292	1,675	1,420	6,387	1.4	4,949	1.7
Canadian provincial government	–	1,980	1,462	2,130	5,572	2.6	15,009	2.4
Canadian government corporations	–	599	663	721	1,983	2.3	4,886	2.1
Foreign government	–	18,441	7,633	4,733	30,807	1.6	11,196	1.6
Corporate bonds	677	2,576	415	194	3,862	2.2	4,064	1.7
Other debt								
Private debt[1]	121	5,411	2,927	334	8,793	10.6	6,231	10.1
Real estate private debt[1]	1,220	773	1,474	–	3,467	6.8	3,228	5.7
Asset-backed securities	13	890	3,213	2,955	7,071	1.7	5,380	1.0
Securities purchased under reverse repurchase agreements	12,199	–	–	–	12,199	0.0	10,817	0.3
Total	$ 14,582	$ 37,999	$ 27,369	$ 24,641	$ 104,591	2.5%	$ 91,298	2.4%

1 Represents direct investments.

OTHER PRICE RISK

Other price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices arising primarily from equity price risk, commodity price risk and credit spread risk, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market.

In addition to the above, the CPP Investment Portfolio is indirectly exposed to market risk on the underlying securities of fund investments.

B) VALUE AT RISK

CPP Investment Board primarily uses a Value at Risk (VaR) methodology to monitor market risk exposure and credit risk exposure (see note 5c below) in the CPP Investment Portfolio. VaR is a statistical technique that is used to estimate the potential loss in value of an investment as a result of movements in market rates and prices over a specified time period and for a specified confidence level.

VaR is valid under normal market conditions and does not specifically consider losses arising from severe market events. It also assumes that historical market data is a sound basis for estimating potential future losses. If future market conditions and interrelationships of interest rates, foreign exchange rates and other market prices differ significantly from those of the past, then the actual losses could materially differ from those estimated.

The VaR measure provides an estimate of a single value in a distribution of potential losses that CPP Investment Portfolio could experience. It is not an estimate of the worst-case scenario.

Market VaR calculated by CPP Investment Board is estimated using a historical simulation method, evaluated at a 90% confidence level and scaled to a one-year holding period. The significant assumptions used in this method are the incorporation of the most recent 10 years of weekly market returns and the use of public market proxies to represent investment returns on those investments that are valued with inputs based on non-observable market data (e.g. those for private real estate and private equities), both of which assumptions are reasonable for estimating VaR.

Credit VaR is estimated using a Monte Carlo simulation with a sufficient number of scenarios to simulate low probability credit events over a one-year investment horizon. Significant assumptions under this method include using a statistical process to determine asset correlations and using empirically-based default and loss rates.

Effective April 1, 2015, the Risk/Return Accountability Framework began to govern investment risk using total risk in absolute terms, instead of active risk relative to CPP Reference Portfolio. In order to estimate Total Absolute Risk, both Market and Credit VaR are estimated using a similar confidence level and combined using an appropriate correlation factor approved by the Investment Planning Committee (IPC).

Risk is expressed using annual VaR, at a 90% confidence level, which indicates that one year in 10 the portfolio can be expected to lose at least the following amounts:

VALUE AT RISK

	As at March 31, 2016		As at March 31, 2015	
(CAD millions)	VaR	% of CPP Investment Portfolio[2]	VaR	% of CPP Investment Portfolio[2]
CPP Reference Portfolio Total Absolute Risk[1,3]	$ 29,990	10.8%	$ 23,435	8.9%
CPP Investment Portfolio Total Absolute Risk[1,2,3]	$ 31,338	11.2%	$ 26,296	10.0%
CPP Investment Portfolio Absolute Market Risk[1,2]	$ 30,610	11.0%	$ –	–%
CPP Investment Portfolio Absolute Credit Risk[1,2]	$ 1,756	0.6%	$ –	–%

1 Effective April 1, 2015, the Board-approved Risk Policy began to govern investment risk using absolute risk, instead of active risk relative to the CPP Reference Portfolio. This change in methodology is being reported prospectively.

2 Excludes certain assets where the market risk exposure is not monitored using VaR, such as the assets of the Cash for Benefits Portfolio, which is a separately managed short-term cash management program designed to facilitate monthly benefit payments by CPP.

3 Market and Credit Risk are combined using an assumed positive correlation under normal market conditions.

C) CREDIT RISK

Credit risk is the risk of financial loss due to a counterparty failing to meet its contractual obligations, or a reduction in the value of the assets due to a decline in the credit quality of the borrower, counterparty, guarantor or the assets (collateral) supporting the credit exposure. The CPP Investment Portfolio's most significant exposure to credit risk is through its investment in debt securities and over-the-counter derivatives. The carrying amounts of these investments as presented in the Consolidated Schedule of Investment Portfolio represent the maximum credit risk exposure at the Balance Sheet date.

The IPC of CPP Investment Board, chaired by the Chief Investment Strategist, is accountable for monitoring and managing the total portfolio strategic risk exposures and providing strategic direction to the investment departments. Credit risk measurement and reporting are performed by experienced risk managers within the Investment Risk group (IR). IR monitors board-approved exposure limits, provides detailed analysis of single-name and sector exposures, and oversees the credit risk inherent in certain fund investments. Credit VaR is the common measure of credit risk across all investment strategies. IR works closely with the investment departments to provide an evaluation of the credit risk created by significant transactions. Detailed reports of credit risk and counterparty exposures are provided weekly to management and monthly to members of the IPC.

CPP Investment Board manages credit risk by setting overall credit exposure limits within categories that include credit rating, region and institution type. The Board of Directors approves the credit exposure limits in the Risk Policy at least once every fiscal year. Counterparties are assigned a credit rating as determined through an internal credit rating process or by recognized credit rating agencies, where applicable. Credit exposure to any single counterparty is limited to a maximum amount as specified in the investment policies. The IPC has also established single-name sub-limits within the credit exposure limits to mitigate risks arising from concentrated exposures to financial institution counterparties. IR measures and monitors credit exposure daily for compliance to approved credit limits and reports to the IPC at least monthly, or more frequently as necessary.

The fair value of debt securities and over-the-counter derivatives exposed to credit risk, by credit rating category and without taking account of any collateral held or other credit enhancements are as follows:

CREDIT RISK EXPOSURES

As at March 31, 2016							
(CAD millions)	Bonds[1]	Money market securities[1]	Reverse repurchase agreements[1]	Over-the-counter derivatives	Other[1,2]	Total	% of total
Credit rating							
AAA	$ 14,887	$ 75	$ –	$ –	$ 4,954	$ 19,916	16%
AA	29,700	3,859	696	325	974	35,554	28
A	26,392	9,951	2,403	3,111	1,418	43,275	35
BBB	1,838	37	9,100	1,145	926	13,046	11
BB	673	–	–	–	3,904	4,577	4
B	94	–	–	–	5,397	5,491	4
CCC/D	–	–	–	–	1,930	1,930	2
Total	**$ 73,584**	**$ 13,922**	**$ 12,199**	**$ 4,581**	**$ 19,503**	**$ 123,789**	**100%**

As at March 31, 2015							
(CAD millions)	Bonds[1]	Money market securities[1]	Reverse repurchase agreements[1]	Over-the-counter derivatives	Other[1,2]	Total	% of total
Credit rating							
AAA	$ 21,442	$ 99	$ –	$ –	$ 2,625	$ 24,166	22%
AA	31,280	2,107	1,467	74	1,779	36,707	33
A	10,809	13,591	8,331	1,422	1,468	35,621	33
BBB	1,905	56	1,019	433	647	4,060	4
BB	709	–	–	–	2,947	3,656	3
B	98	–	–	–	4,173	4,271	4
CCC/D	–	–	–	–	1,335	1,335	1
Total	$ 66,243	$ 15,853	$ 10,817	$ 1,929	$ 14,974	$ 109,816	100%

1 Includes accrued interest.
2 Includes direct investments in private debt and asset-backed securities.

In addition to the above, the CPP Investment Portfolio is indirectly exposed to credit risk on the underlying securities of fund investments.

FINANCIAL INSTRUMENTS – RIGHTS OF OFFSET

Certain financial assets and financial liabilities have conditional offset rights in the event of default, insolvency or bankruptcy, which will mitigate credit risk exposures. Given that the rights of offset are conditional, they do not qualify for netting on the Consolidated Balance Sheet.

For securities purchased under reverse repurchase agreements, securities sold under repurchase agreements and over-the-counter derivatives, collateral is collected from or pledged to counterparties to manage credit exposure. In addition, in the event of default, amounts with a specific counterparty are settled on a net basis under master netting or similar arrangements, such as the Global Master Repurchase Agreement and the International Swaps and Derivatives Association Netting Agreements.

The following presents the effect of conditional master netting and similar arrangements:

RIGHTS OF OFFSET

As at March 31, 2016						
				Less: Amounts subject to master netting or similar arrangements but not presented net		
(CAD millions)	Gross amounts subject to netting arrangements	Less: Amounts offset in Consolidated Financial Statements	Net amount presented in the Consolidated Schedule of Investment Portfolio	Subject to agreements	Securities and cash collateral[1]	Net exposure
Securities purchased under reverse repurchase agreements	$ 12,199	$ –	$ 12,199	$ (9,391)	$ (2,808)	$ –
Derivative receivables	4,584	(524)	4,060	(2,301)	(1,129)	630
Total investment receivables	$ 16,783	$ (524)	$ 16,259	$ (11,692)	$ (3,937)	$ 630
Securities sold under repurchase agreements	$ (19,926)	$ –	$ (19,926)	$ 9,391	$ 10,535	$ –
Derivative liabilities	(2,514)	–	(2,514)	2,301	50	(163)
Total investment payables	$ (22,440)	$ –	$ (22,440)	$ 11,692	$ 10,585	$ (163)

As at March 31, 2015						
				Less: Amounts subject to master netting or similar arrangements but not presented net		
(CAD millions)	Gross amounts subject to netting arrangements	Less: Amounts offset in Consolidated Financial Statements	Net amount presented in the Consolidated Schedule of Investment Portfolio	Subject to agreements	Securities and cash collateral[1]	Net exposure
Securities purchased under reverse repurchase agreements	$ 10,817	$ –	$ 10,817	$ (8,996)	$ (1,821)	$ –
Derivative receivables	1,912	(30)	1,882	(1,703)	(3)	176
Total investment receivables	$ 12,729	$ (30)	$ 12,699	$ (10,699)	$ (1,824)	$ 176
Securities sold under repurchase agreements	$ (15,779)	$ –	$ (15,779)	$ 8,996	$ 6,783	$ –
Derivative liabilities	(2,428)	–	(2,428)	1,703	266	(459)
Total investment payables	$ (18,207)	$ –	$ (18,207)	$ 10,699	$ 7,049	$ (459)

1 Securities and cash collateral exclude over-collateralization and collateral in transit. Refer to note 10 for the total amount of collateral.

D) LIQUIDITY RISK

Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost-effective manner to meet investment commitments and investment liabilities as they come due. CPP Investment Board supplements its management of liquidity risk through its ability to raise funds through the issuance of commercial paper and term debt and transacting in securities sold under repurchase agreements.

CPP Investment Board also maintains $1.5 billion (March 31, 2015 – $1.5 billion) of unsecured credit facilities to meet potential liquidity requirements. As at March 31, 2016, the total amount drawn on the credit facilities is $nil (March 31, 2015 – $nil).

CPP Investment Board also has the ability to readily dispose of certain investments that are traded in an active market. These include a liquid portfolio of publicly traded equities, money market securities and marketable bonds.

CPP Investment Board is also exposed to liquidity risk through its responsibility for providing cash management services to the CPP (see note 7). In order to manage liquidity risk associated with this short-term cash management program, certain assets are segregated and managed separately. Liquidity risk is also managed by investing these assets in liquid money market instruments with the primary objective of ensuring that the CPP has the necessary liquidity to meet benefit payment obligations on any business day.

The terms to maturity of investment liabilities as at March 31, 2016 are as follows:

INVESTMENT LIABILITIES TERMS TO MATURITY

	Terms to maturity									
	As at March 31, 2016							As at March 31, 2015		
(CAD millions)	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Fair value	Weighted average interest rate	Total	Fair value	Weighted average interest rate
Securities sold under										
repurchase agreements	**$ 19,919**	**$ –**	**$ –**	**$ –**	**$ 19,919**	**$ 19,926**	**0.5%**	$ 15,780	$ 15,779	0.5%
Securities sold short[1,2]	**27,371**	**–**	**–**	**–**	**27,371**	**27,371**	**n/a**	22,385	22,385	n/a
Debt financing liabilities										
Commercial paper payable	**13,425**	**–**	**–**	**–**	**13,425**	**13,409**	**0.7**	9,959	9,955	0.3
Term debt	**–**	**2,149**	**–**	**–**	**2,149**	**2,159**	**1.2**	–	–	–
Total	**$ 60,715**	**$ 2,149**	**$ –**	**$ –**	**$ 62,864**	**$ 62,865**	**n/a**	$ 48,124	$ 48,119	n/a

1 Considered repayable within one year based on the earliest period in which the counterparty could request payment under certain conditions.

2 Includes equities sold short for which the average interest rate is not applicable.

6. SHARE CAPITAL

The issued and authorized share capital of CPP Investment Board is $100 divided into 10 shares with a par value of $10 each. The shares are owned by Her Majesty the Queen in right of Canada.

7. CANADA PENSION PLAN TRANSFERS

Pursuant to Section 108.1 of the *Canada Pension Plan*, the Act and an administrative agreement between Her Majesty the Queen in right of Canada and CPP Investment Board, amounts not required to meet specified obligations of the CPP are transferred weekly to CPP Investment Board. The funds originate from employer and employee contributions to the CPP.

CPP Investment Board is also responsible for providing cash management services to the CPP, including the periodic return, on at least a monthly basis, of funds required to meet CPP benefits and expenses.

The accumulated transfers from the CPP since inception are as follows:

CANADA PENSION PLAN TRANSFERS

(CAD millions)	**As at March 31, 2016**	As at March 31, 2015
Accumulated transfers from the Canada Pension Plan	**$ 416,091**	$ 377,685
Accumulated transfers to the Canada Pension Plan	**(282,586)**	(249,367)
Accumulated net transfers from the Canada Pension Plan	**$ 133,505**	$ 128,318

8. NET INVESTMENT INCOME

Net investment income is reported net of transaction costs and investment management fees, and is grouped by asset class based on the risk/return characteristics of the investment strategies of the underlying portfolios.

NET INVESTMENT INCOME

	For the year ended March 31, 2016			
(CAD millions)	Investment income (loss)[1]	Investment management fees[2]	Transaction costs	Net investment income (loss)
EQUITIES				
Canada	$ (1,143)	$ (7)	$ (36)	$ (1,186)
Foreign developed markets	2,794	(445)	(203)	2,146
Emerging markets	62	(217)	(9)	(164)
	1,713	(669)	(248)	796
FIXED INCOME				
Bonds and money market securities[3]	2,921	(419)	(75)	2,427
Other debt	1,253	(110)	(20)	1,123
	4,174	(529)	(95)	3,550
REAL ASSETS				
Real estate	4,123	(131)	(48)	3,944
Infrastructure	1,764	(1)	(46)	1,717
	5,887	(132)	(94)	5,661
TOTAL	$ 11,774	$ (1,330)	$ (437)	$ 10,007

	For the year ended March 31, 2015			
(CAD millions)	Investment income (loss)[1]	Investment management fees[2]	Transaction costs	Net investment income (loss)
EQUITIES				
Canada	$ 1,770	$ (12)	$ (12)	$ 1,746
Foreign developed markets	20,959	(448)	(41)	20,470
Emerging markets	3,605	(121)	(7)	3,477
	26,334	(581)	(60)	25,693
FIXED INCOME				
Bonds and money market securities[3]	7,935	(467)	(62)	7,406
Other debt	2,710	(114)	(9)	2,587
	10,645	(581)	(71)	9,993
REAL ASSETS				
Real estate	3,782	(90)	(97)	3,595
Infrastructure	2,207	(2)	(45)	2,160
	5,989	(92)	(142)	5,755
TOTAL	$ 42,968	$ (1,254)	$ (273)	$ 41,441

1 Includes realized gains and losses from investments, changes in unrealized gains and losses on investments, interest income, dividends, private real estate operating income (net of interest expense), interest expense on the debt financing liabilities and other investment-related income and expenses.

2 Includes hedge fund performance fees of $395 million (March 31, 2015 – $482 million).

3 Includes debt financing liabilities and absolute return strategies, which consist of investment in funds and internally managed portfolios.

9. OPERATING EXPENSES

A) COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of CPP Investment Board, consisting of the Senior Management Team and the Board of Directors.

Compensation of key management personnel of CPP Investment Board is as follows:

	For the years ended	
(CAD millions)	**March 31, 2016**	March 31, 2015
Short-term employee compensation and benefits[1]	**$ 20**	$ 16
Other long-term compensation and benefits[1]	**11**	23
Total	**$ 31**	$ 39

1 Compensation is discussed in greater detail on page 74 of the 2016 Annual Report.

B) GENERAL OPERATING EXPENSES

General operating expenses consist of the following:

	For the years ended	
(CAD millions)	**March 31, 2016**	March 31, 2015
Operational business services	**$ 104**	$ 89
Premises	**39**	28
Amortization of premises and equipment	**30**	25
Custodial fees	**26**	20
Travel and accommodation	**15**	12
Communications	**5**	4
Directors' remuneration	**1**	1
Other	**11**	5
Total	**$ 231**	$ 184

C) PROFESSIONAL SERVICES

Professional services consist of the following:

	For the years ended	
(CAD millions)	**March 31, 2016**	March 31, 2015
Consulting	**$ 39**	$ 50
Legal and tax services	**8**	9
External audit and audit-related services[1]	**4**	2
Total	**$ 51**	$ 61

1 Includes fees paid to the external auditor of CPP Investment Board for audit services of $2.4 million (2015 – $1.7 million), audit-related services of $0.3 million (2015 – $0.3 million), and the Special Examination carried out pursuant to the Act of $1.3 million (2015 – $nil).

NOTES

10. COLLATERAL

Collateral transactions are conducted to support investment activities under terms and conditions that are common and customary to collateral arrangements. The net fair value of collateral held and pledged are as follows:

COLLATERAL HELD AND PLEDGED

(CAD millions)	As at March 31, 2016	As at March 31, 2015
Assets held as collateral on:		
Reverse repurchase agreements[1]	$ 10,289	$ 10,812
Over-the-counter derivative transactions[1]	1,653	33
Other debt[1]	887	1,195
Assets pledged as collateral on:		
Repurchase agreements	(18,858)	(15,792)
Securities sold short	(23,508)	(14,938)
Over-the-counter derivative transactions	(50)	(266)
Debt on private real estate properties	(3,624)	(3,266)
Total	$ (33,211)	$ (22,222)

1 The fair value of the collateral held that may be sold or repledged as at March 31, 2016 is $12,302 million (March 31, 2015 – $12,009 million). The fair value of collateral sold or repledged as at March 31, 2016 is $7,900 million (March 31, 2015 – $10,368 million).

11. COMMITMENTS

CPP Investment Board has entered into commitments related to the funding of investments. These commitments are generally payable on demand based on the funding needs of the investment subject to the terms and conditions of each agreement. As at March 31, 2016, the commitments totalled $34.7 billion (March 31, 2015 – $30.7 billion).

As at March 31, 2016, CPP Investment Board made lease and other commitments, which require future annual payments as follows:

LEASE AND OTHER COMMITMENTS

(CAD millions)	As at March 31, 2016	As at March 31, 2015
Within one year	$ 34	$ 36
After one year but not more than five years	115	114
More than five years	67	40
Total	$ 216	$ 190

12. RELATED PARTY TRANSACTIONS

Related parties of CPP Investment Board include unconsolidated subsidiaries (see note 1b), joint ventures and associates, and all related party investments are measured at fair value. Investments in joint ventures are those arrangements where CPP Investment Board has joint control. An associate is an entity which CPP Investment Board has the ability to exercise significant influence over decision-making.

Related party transactions consist of investments and investment income primarily in private equities, debt, real estate and infrastructure and are presented in detail in the Consolidated Schedule of Investment Portfolio. Related party transactions are measured at fair value and will therefore have the same impact on net assets and net investment income as those investment transactions with unrelated parties.

Related party transactions with consolidated subsidiaries are eliminated upon consolidation.

13. GUARANTEES

A) GUARANTEES

As part of certain investment transactions, CPP Investment Board agreed to guarantee, as at March 31, 2016, up to $2.5 billion (March 31, 2015 – $1.9 billion) to other counterparties in the event certain investee entities default under the terms of loan and other related agreements.

B) INDEMNIFICATIONS

CPP Investment Board provides indemnifications to its officers, directors, certain others and, in certain circumstances, to various counterparties and other entities. CPP Investment Board may be required to compensate these indemnified parties for costs incurred as a result of various contingencies such as changes in laws, regulations and litigation claims. The contingent nature of these indemnification agreements prevents CPP Investment Board from making a reasonable estimate of the maximum potential payments CPP Investment Board could be required to make. To date, CPP Investment Board has not received any claims nor made any payments pursuant to such indemnifications.

14. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation. In the Consolidated Schedule of Investment Portfolio, CPP Investment Board's investments were previously grouped by asset class based on the risk/return characteristics of the investment strategies of the underlying portfolios. As at March 31, 2016, the investments are no longer classified based on investment strategies, but based on the nature of the investments. The reclassification of comparative figures resulted in an increase of $2,123 million in equities, as well as a decrease of $1,404 million in fixed income and $719 million in real assets. The reclassifications are within the Consolidated Schedule of Investment Portfolio and have no impact to the Consolidated Balance Sheet, Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Net Assets and Consolidated Statement of Cash Flows.

Certain comparatives figures in note 4 have also been reclassified to be consistent with the changes.

Ten-Year Review

For the year ended March 31 ($ billions)	**2016**	2015	2014	2013	2012	2011	2010	2009	2008	2007
CHANGE IN NET ASSETS										
Income[1]										
Investment income	**10.0**	41.4	30.7	16.7	9.9	15.5	16.2	(23.6)	(0.3)	13.1
Operating expenses	**(0.9)**	(0.8)	(0.6)	(0.5)	(0.4)	(0.3)	(0.2)	(0.2)	(0.1)	(0.1)
Net contributions	**5.2**	4.9	5.7	5.5	3.9	5.4	6.1	6.6	6.5	5.6
Increase in net assets	**14.3**	45.5	35.8	21.7	13.4	20.6	22.1	(17.2)	6.1	18.6

As at March 31 ($ billions)	**2016**	2015	2014	2013	2012	2011	2010	2009	2008	2007
EQUITIES										
Canada	**15.0**	19.5	18.6	15.3	14.2	21.0	18.5	15.6	28.9	29.2
Foreign developed markets	**113.5**	98.0	75.6	64.0	56.7	50.8	46.2	40.4	47.5	46.1
Emerging market	**17.6**	15.5	12.6	12.4	10.6	7.6	6.5	4.6	0.7	–
FIXED INCOME										
Non-marketable bonds	**24.8**	25.8	23.4	24.4	23.6	21.8	22.7	23.2	23.8	24.9
Marketable bonds	**41.4**	34.4	31.0	28.5	21.2	19.7	17.1	9.3	11.1	8.1
Other debt	**20.9**	17.2	11.4	8.6	8.8	6.1	3.5	1.8	1.1	–
Money market securities[2]	**3.5**	18.8	17.4	8.7	2.5	2.3	1.7	(0.8)	–	0.4
Debt financing liabilities	**(15.6)**	(9.9)	(9.7)	(9.5)	(2.4)	(1.4)	(1.3)	–	–	–
REAL ASSETS										
Real estate[3]	**36.7**	30.3	25.5	19.9	17.1	10.9	7.0	6.9	6.9	5.7
Infrastructure	**21.3**	15.2	13.3	11.2	9.5	9.5	5.8	4.6	2.8	2.2
INVESTMENT PORTFOLIO[4]	**279.1**	264.8	219.1	183.5	161.8	148.3	127.7	105.6	122.8	116.6
PERFORMANCE (%)										
Annual rate of return (net of operating expenses)[5]	**3.4%**	18.3%	16.1%	9.8%	6.3%	11.6%	14.7%	-18.8%	-0.4%	12.7%

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 $160.6 billion in investment income net of operating expenses, which is comprised of $145.4 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, totalling -$0.2 billion for fiscal 2016. As a result, total assets will differ from the net assets figure of $278.9 billion.

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

Management Team (as at March 31, 2016)

Mark Wiseman
President & Chief Executive Officer
until June 12, 2016

Edwin Cass
Senior Managing Director
& Chief Investment Strategist

Graeme Eadie
Senior Managing Director
& Global Head of Real Estate Investments

Mark Jenkins
Senior Managing Director
& Global Head of Private Investments

Pierre Lavallée
Senior Managing Director
& Global Head of Investment Partnerships

Michel Leduc
Senior Managing Director
& Global Head of Public Affairs and Communications

Mark Machin
Senior Managing Director & Head of International
President, CPPIB Asia Inc.
Appointed President & CEO, effective June 13, 2016

Mary Sullivan
Senior Managing Director & Chief Talent Officer

Patrice Walch-Watson
Senior Managing Director,
General Counsel & Corporate Secretary

Benita Warmbold
Senior Managing Director
& Chief Financial Officer

Eric Wetlaufer
Senior Managing Director
& Global Head of Public Market Investments

Nick Zelenczuk
Senior Managing Director
& Chief Operations Officer

Mona Akiki
Managing Director, Human Resources

David Allen
Managing Director, Principal Credit Investments

Lisa Baiton
Managing Director, Head of Public Affairs

Peter Ballon
Managing Director,
Head of Real Estate Investments Americas

Susan Bellingham
Managing Director, Head of Business Planning
& Enterprise Risk Management

Alain Carrier
Managing Director, Head of Europe

Kevin Cunningham
Managing Director, Head of Global Capital Markets

Andrew Darling
Managing Director, Program Head,
Investment Framework and
Compensation Structure

Avik Dey
Managing Director, Head of Natural Resources

Kristina Fanjoy
Managing Director, Head of Tax

Jim Fasano
Managing Director, Head of Funds,
Secondaries & Co-Investments

Shane Feeney
Managing Director, Head of Direct Private Equity

John Graham
Managing Director, Head of Portfolio Investments
and Business Management

Martin Healey
Managing Director, Head of Private Real Estate Debt

Bruce Hogg
Managing Director, Head of Infrastructure Americas

Cressida Hogg
Managing Director, Head of Infrastructure

Bill Holland
Managing Director, Head of Investment Systems

James Hughes
Managing Director, Head of Investment Risk

Jim Hwang
Managing Director, Head of Portfolio Management

Kathy Jenkins
Managing Director, Head of Corporate Finance and
Investment Governance

Jennifer Kerr
Managing Director, Head of Funds

Malcolm Khan
Managing Director, Head of Investment Operations

Suyi Kim
Managing Director, Head of Private Equity Asia

Neil King
Managing Director, Infrastructure

Scott Lawrence
Managing Director,
Head of Relationship Investments

Stephanie Leaist
Managing Director, Head of Sustainable Investing

Rosemary Li-Houpt
Managing Director, Head of Talent Acquisition

James Logush
Managing Director, Global Capital Markets

Alistair McGiven
Managing Director,
Head of Global Tactical Asset Allocation

Derek Miners
Managing Director, Head of Treasury Services

Paul Mullins
Managing Director, Head of Portfolio Value Creation

Basant Nanda
Managing Director,
Head of Information Technology

Deb Orida
Managing Director, Relationship Investments

Andrea Orlandi
Managing Director,
Head of Real Estate Investments Europe

Jimmy Phua
Managing Director,
Head of Real Estate Investments Asia

Chris Pinkney
Managing Director, Short Horizon Alpha

Kathy Rohacek
Managing Director,
Head of Organizational Development

Chris Roper
Managing Director, Head of Short Horizon Alpha
& Cash and Liquidity Group

Mark Roth
Managing Director, Head of Business Management

Karen Rowe
Managing Director, Head of Investment Finance

Barry Rowland
Managing Director, Head of Internal Audit

Geoffrey Rubin
Managing Director,
Head of Portfolio Construction & Research

Sandip Sahota
Managing Director, Head of Data Management

Ryan Selwood
Managing Director, Direct Private Equity

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Managing Director, Private Real Estate Debt

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Rodolfo Spielmann
Managing Director, Head of Latin America

Cheryl Swan
Managing Director,
Head of Treasury, Performance & Reporting

Scott Taylor
Managing Director, External Portfolio Management

Adam Vigna
Managing Director,
Head of Principal Credit Investments

Jay Vyas
Managing Director, Head of Quantitative Investing

Poul Winslow
Managing Director, Head of Thematic Investing
& External Portfolio Management

Michael Woolhouse
Managing Director,
Head of Secondaries & Co-Investments

David Yuen
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CPP INVESTMENT BOARD

CPP Investment Board

2016 Annual Report

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